THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Brainhole Technology Limited, you should at once hand this circular to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

BRAINHOLE
TECHNOLOGY

BRAINHOLE TECHNOLOGY LIMITED
脑洞科技有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2203)

MAJOR TRANSACTIONS IN RELATION TO (1) DISPOSALS OF LISTED SECURITIES; (2) FURTHER ACQUISITIONS OF LISTED SECURITIES; AND (3) FURTHER DISPOSALS OF LISTED SECURITIES

Capitalised terms used on this cover page shall have the same meanings as those defined in the section headed “Definitions” in this circular, unless the context requires otherwise.

A letter from the Board is set out on pages 5 to 44 of this circular.

This circular is being despatched to the Shareholders for information only. The transactions being the subject matter of this circular have been approved by the written approval pursuant to Rule 14.44 of the Listing Rules.

24 May 2024

CONTENTS

In this circular, the following expressions have the meanings set out below unless the context otherwise requires:

"April Further Acquisition of Super Micro Shares"	further acquisition of 740 Super Micro Shares by the Company as disclosed in the announcement dated 2 April 2024
"Board"	the board of directors of the Company
"Company"	Brainhole Technology Limited, a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange (stock code: 2203)
"connected person"	has the meaning ascribed to it under the Listing Rules
"Director(s)"	the director(s) of the Company
"February 15 Further Disposal of NVIDIA Shares"	further disposal of 880 NVIDIA Shares by the Company as disclosed in the announcement dated 30 April 2024
"February 16 Further Disposal of NVIDIA Shares"	further disposal of 2,650 NVIDIA Shares by the Company as disclosed in the announcement dated 30 April 2024
"February 22 Further Acquisition of NVIDIA Shares"	further acquisition of 840 NVIDIA Shares by the Company as disclosed in the announcement dated 30 April 2024
"February Disposal of Super Micro Shares"	disposal of 1,490 Super Micro Shares by the Company as disclosed in the announcement dated 30 April 2024
"February Further Acquisition of Super Micro Shares"	further acquisition of 1,920 Super Micro Shares by the Company as disclosed in the announcement dated 30 April 2024
"Further Acquisition of NVIDIA Shares"	further acquisition of 1,910 NVIDIA Shares by the Company as disclosed in the announcement dated 25 January 2024
"Further Acquisition of Super Micro Shares"	further acquisition of 1,960 Super Micro Shares by the Company as disclosed in the announcement dated 31 January 2024
"Further Disposal of NVIDIA Shares"	further disposal of 1,430 NVIDIA Shares by the Company as disclosed in the announcement dated 31 January 2024

"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	means the Hong Kong Special Administrative Region of the PRC
"Independent Third Party(ies)"	third party(ies) independent of and not connected with the Company and its connected persons and is not acting in concert (as defined in the Codes on Takeovers and Mergers and Share Buy-backs) with any of the connected persons of the Company or any of their respective associates (as defined under the Listing Rules)
"Latest Practicable Date"	14 May 2024, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"March Disposal of NVIDIA Shares"	disposal of 870 NVIDIA Shares by the Company as disclosed in the announcement dated 30 April 2024
"March Further Disposal of Super Micro Shares"	further disposal of 780 Super Micro Shares by the Company as disclosed in the announcement dated 30 April 2024
"Nasdaq"	National Association of Securities Dealers Automated Quotations Stock Market
"NVIDIA"	NVIDIA Corporation, a Delaware corporation whose common stocks are listed on Nasdaq (trading symbol: NVDA)
"NVIDIA Group"	NVIDIA and its subsidiaries
"NVIDIA Share(s)"	Common stock(s) of NVIDIA
"PRC"	the People's Republic of China

"Previous Acquisitions of NVIDIA Shares"	the series of acquisitions of an aggregate of 7,560 NVIDIA Shares by the Company during the period from 4 August 2023 (after trading hours of the Stock Exchange) and 9 January 2024 (after trading hours of the Stock Exchange) respectively, as set out in the relevant Previous Announcements
"Previous Acquisitions of Super Micro Shares"	the series of acquisitions of an aggregate of 10,550 Super Micro Shares by the Company during the period from 15 August 2023 (after trading hours of the Stock Exchange) and up to (and inclusive of) 24 January 2024 (after trading hours of the Stock Exchange) as set out in the relevant Previous Announcements
"Previous Announcements"	the announcements of the Company dated 7 August 2023, 10 August 2023, 16 August 2023, 17 August 2023, 25 August 2023, 19 September 2023, 5 December 2023, 15 December 2023, 20 December 2023, 28 December 2023, 10 January 2024, 24 January 2024, 25 January 2024, 28 February 2024, 2 April 2024 and 30 April 2024 in relation to, inter alia, the Previous Acquisitions of NVIDIA Shares, the Previous Acquisitions of Super Micro Shares, the Previous Disposals of NVIDIA Shares, the Previous Disposals of Super Micro Shares, February 15 Further Disposal of NVIDIA Shares, February 16 Further Disposal of NVIDIA Shares, February 22 Further Acquisition of NVIDIA Shares, February Further Acquisition of Super Micro Shares, February Disposal of Super Micro Shares, March Disposal of NVIDIA Shares, March Further Disposal of Super Micro Shares and April Further Acquisition of Super Micro Shares
"Previous Disposals of NVIDIA Shares"	the series of disposals of an aggregate of 3,530 NVIDIA Shares by the Company during the period from 4 December 2023 (after trading hours of the Stock Exchange) and 19 December 2023 (after trading hours of the Stock Exchange) respectively, as set out in the relevant Previous Announcements
"Previous Disposals of Super Micro Shares"	the series of disposals of an aggregate of 6,620 Super Micro Shares by the Company during the period from 18 September 2023 (after trading hours of the Stock Exchange) and up to (and inclusive of) 27 December 2023 (after trading hours of the Stock Exchange) as set out in the relevant Previous Announcements

"RMB"	Renminbi, the lawful currency of the PRC
"SEC"	The U.S. Securities and Exchange Commission
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
"Shareholder(s)"	shareholder(s) of the Company
"Share(s)"	ordinary share(s) in the issued share capital of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Super Micro"	Super Micro Computer, Inc., a Delaware corporation whose common stocks are listed on Nasdaq (trading symbol: SMCI)
"Super Micro Group"	Super Micro and its subsidiaries
"Super Micro Share(s)"	Common stock(s) of Super Micro
"United States"	the United States of America
"US$"	United States dollars, the lawful currency of the United States
"%"	per cent.

Certain figures set out in this circular have been subject to rounding adjustments. Accordingly, figures shown as the currency conversion or percentage equivalents may not be an arithmetic sum of such figures.

BRAINHOLE TECHNOLOGY

BRAINHOLE TECHNOLOGY LIMITED
脑洞科技有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2203)

Executive Directors:
Mr. Zhang Liang Johnson *(Chairman)*
Ms. Wan Duo

Independent Non-executive Directors:
Mr. Xu Liang
Mr. Chen Johnson Xi
Ms. Zhang Yibo

Registered office:
Cricket Square
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P.O. Box 2681
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Cayman Islands

Principal place of business in Hong Kong:
Suites 1801–03, 18/F
One Taikoo Place
979 King's Road
Quarry Bay
Hong Kong

24 May 2024

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTIONS IN RELATION TO
(1) DISPOSALS OF LISTED SECURITIES;
(2) FURTHER ACQUISITIONS OF LISTED SECURITIES;
AND
(3) FURTHER DISPOSALS OF LISTED SECURITIES

INTRODUCTION

Reference is made to the announcements of the Company dated 25 January 2024, 31 January 2024, 28 February 2024, 2 April 2024 and 30 April 2024, in relation to the Further Acquisition of NVIDIA Shares, the Further Acquisition of Super Micro Shares, the Further Disposal of NVIDIA Shares, the February 15 Further Disposal of NVIDIA Shares, the February 16 Further Disposal of NVIDIA Shares, the February 22 Further Acquisition of NVIDIA Shares, the March Disposal of NVIDIA Shares, the February Further Acquisition of Super Micro Shares, the February Disposal of Super Micro Shares, the March Further Disposal of Super Micro Shares and the April Further Acquisition of Super Micro Shares respectively.

The purpose of this circular is to provide you with (i) the details of the Further Acquisition of NVIDIA Shares, the Further Acquisition of Super Micro Shares, the Further Disposal of NVIDIA Shares, the February 15 Further Disposal of NVIDIA Shares, the February 16 Further Disposal of NVIDIA Shares, the February 22 Further Acquisition of NVIDIA Shares, the March Disposal of NVIDIA Shares, the February Further Acquisition of Super Micro Shares, the February Disposal of Super Micro Shares, the March Further Disposal of Super Micro Shares and the April Further Acquisition of Super Micro Shares; and (ii) further information required to be disclosed under the Listing Rules.

FURTHER ACQUISITION OF NVIDIA SHARES

On 24 January 2024 (after trading hours of the Stock Exchange), further to:

(i) the Previous Acquisitions of NVIDIA Shares at an aggregate consideration of approximately US$3.5 million (equivalent to approximately HK$26.6 million) as disclosed in the relevant Previous Announcements, comprising:

(a) the acquisition of 1,730 NVIDIA Shares through the open market at an aggregate consideration of approximately US$0.8 million (equivalent to approximately HK$6.0 million) (excluding transaction costs) on 4 August 2023 (after trading hours of the Stock Exchange);

(b) the acquisition of 1,780 NVIDIA Shares through the open market at an aggregate consideration of approximately US$0.8 million (equivalent to approximately HK$6.0 million) (excluding transaction costs) on 9 August 2023 (after trading hours of the Stock Exchange);

(c) the acquisition of 1,140 NVIDIA Shares through the open market at an aggregate consideration of approximately US$0.5 million (equivalent to approximately HK$4.0 million) (excluding transaction costs) on 15 August 2023 (after trading hours of the Stock Exchange);

(d) the acquisition of 2,020 NVIDIA Shares through the open market at an aggregate consideration of approximately US$0.9 million (equivalent to approximately HK$7.0 million) (excluding transaction costs) on 16 August 2023 (after trading hours of the Stock Exchange);

(e) the acquisition of 890 NVIDIA Shares through the open market at an aggregate consideration of approximately US$0.5 million (equivalent to approximately HK$3.6 million) (excluding transaction costs) on 9 January 2024 (after trading hours of the Stock Exchange), and

(ii) the Previous Disposals of NVIDIA Shares at an aggregate consideration of approximately US$1.7 million (equivalent to approximately HK$13.0 million) as disclosed in the relevant Previous Announcements (which the total carrying amount is approximately US$1.6 million (equivalent to approximately HK$12.2 million) (excluding transaction costs)), comprising:

(a) the disposal of 1,970 NVIDIA Shares through the open market at an aggregate consideration of approximately US$0.9 million (equivalent to approximately HK$7.0 million) (excluding transaction costs) (which the carrying amount of approximately US$0.9 million (equivalent to approximately HK$6.8 million) (excluding transaction costs)) on 4 December 2023 (after trading hours of the Stock Exchange), which are receivable in cash on settlement; and

(b) the disposal of 1,560 NVIDIA Shares through the open market at an aggregate consideration of approximately US$0.8 million (equivalent to approximately HK$6.0 million) (excluding transaction costs) (which the carrying amount of approximately US$0.7 million (equivalent to approximately HK$5.4 million) (excluding transaction costs)) on 19 December 2023 (after trading hours of the Stock Exchange), which are receivable in cash on settlement,

the Company has further acquired of an aggregate of 1,910 NVIDIA Shares through the open market at an aggregate consideration of approximately US$1.1 million (equivalent to approximately HK$8.9 million) (excluding transaction costs). The average price (excluding transaction costs) for the acquisition of each NVIDIA Share was approximately US$601.61 (equivalent to approximately HK$4,680.50). The aggregate consideration of approximately US$1.1 million (equivalent to approximately HK$8.9 million) (excluding transaction costs) was financed by the Group's existing internal financial resources. The total consideration, being the net amount of the remaining NVIDIA Shares held by the Company following the completion of all transactions respectively contemplated under (i) the Previous Acquisitions of NVIDIA Shares; (ii) the Previous Disposals of NVIDIA Shares; and (iii) the Further Acquisition of NVIDIA Shares is approximately US$3.0 million (equivalent to approximately HK$23.3 million).

As the Further Acquisition of NVIDIA Shares was conducted in the open market, the identities of the counterparties of the acquired NVIDIA Shares cannot be ascertained. To the best knowledge, information and belief of the Directors and having made all reasonable enquiries, the counterparties and the ultimate beneficial owner(s) of the counterparties of the acquired NVIDIA Shares are Independent Third Parties.

FURTHER ACQUISITION OF SUPER MICRO SHARES

On 30 January 2024 (after trading hours of the Stock Exchange), further to:

(i) the Previous Acquisitions of Super Micro Shares at an aggregate consideration of approximately US$3.3 million (equivalent to approximately HK$25.8 million) as disclosed in the relevant Previous Announcements, comprising:

(a) the acquisition of 5,230 Super Micro Shares through the open market at an aggregate consideration of approximately US$1.4 million (equivalent to approximately HK$11.0 million) (excluding transaction costs) on 15 August 2023 (after trading hours of the Stock Exchange);

(b) the acquisition of 2,770 Super Micro Shares through the open market at an aggregate consideration of approximately US$0.8 million (equivalent to approximately HK$5.9 million) (excluding transaction costs) on 24 August 2023 (after trading hours of the Stock Exchange);

(c) the acquisition of 1,460 Super Micro Shares through the open market at an aggregate consideration of approximately US$0.6 million (equivalent to approximately HK$5.0 million) (excluding transaction costs) on 23 January 2024 (after trading hours of the Stock Exchange);

(d) the acquisition of 1,090 Super Micro Shares through the open market at an aggregate consideration of approximately US$0.5 million (equivalent to approximately HK$3.9 million) (excluding transaction costs) on 24 January 2024 (after trading hours of the Stock Exchange), and

(ii) the Previous Disposals of Super Micro Shares at an aggregate consideration of approximately US$1.9 million (equivalent to approximately HK$14.0 million) as disclosed in the relevant Previous Announcements (which the total carrying amount is approximately US$1.8 million (equivalent to approximately HK$14.0 million) (excluding transaction costs)), comprising:

(a) the disposal of 3,160 Super Micro Shares through the open market at an aggregate consideration of approximately US$0.8 million (equivalent to approximately HK$6.0 million) (excluding transaction costs) (which the carrying amount is approximately US$0.9 million (equivalent to approximately HK$6.7 million) (excluding transaction costs)) on 18 September 2023 (after trading hours of the Stock Exchange), which is receivable in cash on settlement;

(b) the disposal of 1,340 Super Micro Shares through the open market at an aggregate consideration of approximately US$0.4 million (equivalent to approximately HK$3.0 million) (excluding transaction costs) (which the carrying amount is approximately US$0.4 million (equivalent to approximately HK$2.8 million) (excluding transaction costs)) on 14 December 2023 (after trading hours of the Stock Exchange), which is receivable in cash on settlement;

(c) the disposal of 810 Super Micro Shares through the open market at an aggregate consideration of approximately US$0.3 million (equivalent to approximately HK$2.0 million) (excluding transaction costs) (which the carrying amount is approximately US$0.2 million (equivalent to approximately HK$1.7 million) (excluding transaction costs)) on 19 December 2023 (after trading hours of the Stock Exchange), which is receivable in cash on settlement; and

(d) the disposal of 1,310 Super Micro Shares through the open market at an aggregate consideration of approximately US$0.4 million (equivalent to approximately HK$3.0 million) (excluding transaction costs) (which the carrying amount is approximately US$0.3 million (equivalent to approximately HK$2.8 million) (excluding transaction costs)) on 27 December 2023 (after trading hours of the Stock Exchange), which is receivable in cash on settlement,

the Company has further acquired an aggregate of 1,960 Super Micro Shares through the open market at an aggregate consideration of approximately US$1.0 million (equivalent to approximately HK$8.0 million) (excluding transaction costs). The average price (excluding transaction costs) for the further acquisition of each Super Micro Share was approximately US$523.00 (equivalent to approximately HK$4,068.94). The aggregate consideration of approximately US$1.0 million (equivalent to approximately HK$8.0 million) (excluding transaction costs) was financed by the Group's existing internal financial resources. Hence, the total consideration for the aggregate, being the net amount of the remaining Super Micro Shares held by the Company following the completion of all transactions contemplated under (i) the Previous Acquisitions of Super Micro Shares, (ii) the Previous Disposals of Super Micro Shares and (iii) the Further Acquisition of Super Micro Shares, is approximately US$2.5 million (equivalent to approximately HK$19.8 million).

As the Further Acquisition of Super Micro Shares was conducted in the open market, the identities of the counterparties of the acquired Super Micro Shares cannot be ascertained. To the best knowledge, information and belief of the Directors and having made all reasonable enquiries, the counterparties and the ultimate beneficial owner(s) of the counterparties of the acquired Super Micro Shares are Independent Third Parties.

FURTHER DISPOSAL OF NVIDIA SHARES

On 30 January 2024 (after trading hours of the Stock Exchange), further to:

(i) the Previous Acquisitions of NVIDIA Shares at an aggregate consideration of approximately US$3.5 million (equivalent to approximately HK$26.6 million) as disclosed in the relevant Previous Announcements and the paragraph headed "FURTHER ACQUISITION OF NVIDIA SHARES" on pages 6 to 7 of this circular;

(ii) the Previous Disposals of NVIDIA Shares at an aggregate consideration of approximately US$1.7 million (equivalent to approximately HK$13.0 million) (which the total carrying amount is approximately US$1.6 million (equivalent to approximately HK$12.2 million) (excluding transaction costs)) as disclosed in the relevant Previous Announcements and the paragraph headed "FURTHER ACQUISITION OF NVIDIA SHARES" on pages 6 to 7 of this circular;

(iii) the Further Acquisition of NVIDIA Shares at an aggregate consideration of approximately US$1.1 million (equivalent to approximately HK$8.9 million) (excluding transaction costs) as disclosed in the announcement dated 25 January 2024 and the paragraph headed "FURTHER ACQUISITION OF NVIDIA SHARES" on pages 6 to 7 of this circular,

the Company has further disposed of an aggregate of 1,430 NVIDIA Shares through the open market at an aggregate consideration of approximately US$0.9 million (equivalent to approximately HK$7.0 million) (excluding transaction costs) (which the carrying amount of approximately US$0.7 million (equivalent to approximately HK$5.6 million)), which are receivable in cash on settlement. The average price (excluding transaction costs) for the disposal of each NVIDIA Share was approximately US$628.34 (equivalent to approximately HK$4,888.52). Hence, the total consideration for the aggregate, being the net amount of the remaining NVIDIA Shares held by the Company following the completion of all transactions contemplated under (i) the Previous Acquisitions of NVIDIA Shares, (ii) the Previous Disposals of NVIDIA Shares, (iii) the Further Acquisition of NVIDIA Shares and (iv) the Further Disposal of NVIDIA Shares is approximately US$2.3 million (equivalent to approximately HK$17.7 million).

As the Further Disposal of NVIDIA Shares was conducted in the open market, the identities of the counterparties of the disposed NVIDIA Shares cannot be ascertained. To the best knowledge, information and belief of the Directors and having made all reasonable enquiries, the counterparties and the ultimate beneficial owner(s) of the counterparties of the disposed NVIDIA Shares are Independent Third Parties.

FEBRUARY 15 FURTHER DISPOSAL OF NVIDIA SHARES

On 15 February 2024 (after trading hours of the Stock Exchange), further to:

(i) the Previous Acquisitions of NVIDIA Shares at an aggregate consideration of approximately US$3.5 million (equivalent to approximately HK$26.6 million) as disclosed in the relevant Previous Announcements and the paragraph headed "FURTHER ACQUISITION OF NVIDIA SHARES" on pages 6 to 7 of this circular;

(ii) the Previous Disposals of NVIDIA Shares at an aggregate consideration of approximately US$1.7 million (equivalent to approximately HK$13.0 million) (which the total carrying amount is approximately US$1.6 million (equivalent to approximately HK$12.2 million) (excluding transaction costs)) as disclosed in the relevant Previous Announcements and the paragraph headed "FURTHER ACQUISITION OF NVIDIA SHARES" on pages 6 to 7 of this circular;

(iii) the Further Acquisition of NVIDIA Shares at an aggregate consideration of approximately US$1.1 million (equivalent to approximately HK$8.9 million) (excluding transaction costs) as disclosed in the announcement dated 25 January 2024 and the paragraph headed "FURTHER ACQUISITION OF NVIDIA SHARES" on pages 6 to 7 of this circular; and

(iv) the Further Disposal of NVIDIA Shares at an aggregate consideration of approximately US$0.9 million (equivalent to approximately HK$7.0 million) (excluding transaction costs) as disclosed in the relevant Previous Announcements and the paragraph headed "FURTHER DISPOSAL OF NVIDIA SHARES" on page 10 of this circular,

the Company has further disposed of an aggregate of 880 NVIDIA Shares through the open market at an aggregate consideration of approximately US$0.6 million (equivalent to approximately HK$5.0 million) (excluding transaction costs) (which the carrying amount of approximately US$0.4 million (equivalent to approximately HK$3.5 million)), which are receivable in cash on settlement. The average price (excluding transaction costs) for the disposal of each NVIDIA Share was approximately US$728.10 (equivalent to approximately HK$5,664.62). Hence, the total consideration for the aggregate, being the net amount of the remaining NVIDIA Shares held by the Company following the completion of all transactions contemplated under (i) the Previous Acquisitions of NVIDIA Shares, (ii) the Previous Disposals of NVIDIA Shares, (iii) the Further Acquisition of NVIDIA Shares, (iv) the Further Disposal of NVIDIA Shares and (v) the February 15 Further Disposal of NVIDIA Shares is approximately US$1.8 million (equivalent to approximately HK$14.2 million).

As the February 15 Further Disposal of NVIDIA Shares was conducted in the open market, the identities of the counterparties of the disposed NVIDIA Shares cannot be ascertained. To the best knowledge, information and belief of the Directors and having made all reasonable enquiries, the counterparties and the ultimate beneficial owner(s) of the counterparties of the disposed NVIDIA Shares are Independent Third Parties.

FEBRUARY 16 FURTHER DISPOSAL OF NVIDIA SHARES

On 16 February 2024 (after trading hours of the Stock Exchange), further to:

(i) the Previous Acquisitions of NVIDIA Shares at an aggregate consideration of approximately US$3.5 million (equivalent to approximately HK$26.6 million) as disclosed in the relevant Previous Announcements and the paragraph headed "FURTHER ACQUISITION OF NVIDIA SHARES" on pages 6 to 7 of this circular;

(ii) the Previous Disposals of NVIDIA Shares at an aggregate consideration of approximately US$1.7 million (equivalent to approximately HK$13.0 million) (which the total carrying amount is approximately US$1.6 million (equivalent to approximately HK$12.2 million) (excluding transaction costs)) as disclosed in the relevant Previous Announcements and the paragraph headed "FURTHER ACQUISITION OF NVIDIA SHARES" on pages 6 to 7 of this circular;

(iii) the Further Acquisition of NVIDIA Shares at an aggregate consideration of approximately US$1.1 million (equivalent to approximately HK$8.9 million) (excluding transaction costs) as disclosed in the announcement dated 25 January 2024 and the paragraph headed "FURTHER ACQUISITION OF NVIDIA SHARES" on pages 6 to 7 of this circular;

(iv) the Further Disposal of NVIDIA Shares at an aggregate consideration of approximately US$0.9 million (equivalent to approximately HK$7.0 million) (excluding transaction costs) as disclosed in the relevant Previous Announcements and the paragraph headed "FURTHER DISPOSAL OF NVIDIA SHARES" on page 10 of this circular; and

(v) the February 15 Further Disposal of NVIDIA Shares at an aggregate consideration of approximately US$0.6 million (equivalent to approximately HK$5.0 million) (excluding transaction costs) as disclosed in the relevant Previous Announcements and the paragraph headed "FEBRUARY 15 FURTHER DISPOSAL OF NVIDIA SHARES" on pages 11 to 12 of this circular, the Company has further disposed of an aggregate of 2,650 NVIDIA Shares through the open market at an aggregate consideration of approximately US$1.9 million (equivalent to approximately HK$15.0 million) (excluding transaction costs), which are receivable in cash on settlement. The average price (excluding transaction costs) for the disposal of each NVIDIA Share was approximately US$727.04 (equivalent to approximately HK$5,656.37). Hence, the total consideration for the aggregate, being the net amount of the remaining NVIDIA Shares held by the Company following the completion of all transactions contemplated under (i) the Previous Acquisitions of NVIDIA Shares, (ii) the Previous Disposals of NVIDIA Shares, (iii) the Further Acquisition of NVIDIA Shares, (iv) the Further Disposal of NVIDIA Shares, (v) the February 15 Further Disposal of NVIDIA Shares and (vi) the February 16 Further Disposal of NVIDIA Shares is approximately US$0.5 million (equivalent to approximately HK$3.8 million).

As the February 16 Further Disposal of NVIDIA Shares was conducted in the open market, the identities of the counterparties of the disposed NVIDIA Shares cannot be ascertained. To the best knowledge, information and belief of the Directors and having made all reasonable enquiries, the counterparties and the ultimate beneficial owner(s) of the counterparties of the disposed NVIDIA Shares are Independent Third Parties.

FEBRUARY 22 FURTHER ACQUISITION OF NVIDIA SHARES

On 22 February 2024, further to:

(i) the Previous Acquisitions of NVIDIA Shares at an aggregate consideration of approximately US$3.5 million (equivalent to approximately HK$26.6 million) as disclosed in the relevant Previous Announcements and the paragraph headed "FURTHER ACQUISITION OF NVIDIA SHARES" on pages 6 to 7 of this circular;

(ii) the Previous Disposals of NVIDIA Shares at an aggregate consideration of approximately US$1.7 million (equivalent to approximately HK$13.0 million) (which the total carrying amount is approximately US$1.6 million (equivalent to approximately HK$12.2 million) (excluding transaction costs)) as disclosed in the relevant Previous Announcements and the paragraph headed "FURTHER ACQUISITION OF NVIDIA SHARES" on pages 6 to 7 of this circular;

(iii) the Further Acquisition of NVIDIA Shares at an aggregate consideration of approximately US$1.1 million (equivalent to approximately HK$8.9 million) (excluding transaction costs) as disclosed in the announcement dated 25 January 2024 and the paragraph headed "FURTHER ACQUISITION OF NVIDIA SHARES" on pages 6 to 7 of this circular;

(iv) the Further Disposal of NVIDIA Shares at an aggregate consideration of approximately US$0.9 million (equivalent to approximately HK$7.0 million) (excluding transaction costs) as disclosed in the relevant Previous Announcements and the paragraph headed "FURTHER DISPOSAL OF NVIDIA SHARES" on page 10 of this circular;

(v) the February 15 Further Disposal of NVIDIA Shares at an aggregate consideration of approximately US$0.6 million (equivalent to approximately HK$5.0 million) (excluding transaction costs) as disclosed in the relevant Previous Announcements and the paragraph headed "FEBRUARY 15 FURTHER DISPOSAL OF NVIDIA SHARES" on pages 11 to 12 of this circular; and

(vi) the February 16 Further Disposal of NVIDIA Shares at an aggregate consideration of approximately US$1.9 million (equivalent to approximately HK$15.0 million) (excluding transaction costs) (which the carrying amount of approximately US$1.3 million (equivalent to approximately HK$10.4 million)) as disclosed in the relevant Previous Announcements and the paragraph headed "FEBRUARY 16 FURTHER DISPOSAL OF NVIDIA SHARES" on pages 12 to 13 of this circular,

the Company has further acquired an aggregate of 840 NVIDIA Shares through the open market at an aggregate consideration of approximately US$0.6 million (equivalent to approximately HK$5.0 million) (excluding transaction costs). The average price (excluding transaction costs) for the further acquisition of each NVIDIA Share was approximately US$761.00 (equivalent to approximately HK$5,920.58). The aggregate consideration of approximately US$0.6 million (equivalent to approximately HK$5.0 million) (excluding transaction costs) was financed by the Group's existing internal financial resources. Hence, the total consideration for the aggregate, being the net amount of the remaining NVIDIA Shares held by the Company following the completion of all transactions contemplated under (i) the Previous Acquisitions of NVIDIA Shares, (ii) the Previous Disposals of NVIDIA Shares, (iii) the Further Acquisition of NVIDIA Shares, (iv) the Further Disposal of NVIDIA Shares, (v) the February 15 Further Disposal of NVIDIA Shares, (vi) the February 16 Further Disposal of NVIDIA Shares and (vii) the February 22 Further Disposal of NVIDIA Shares is approximately US$1.1 million (equivalent to approximately HK$8.8 million).

As the February 22 Further Acquisition of NVIDIA Shares was conducted in the open market, the identities of the counterparties of the acquired NVIDIA Shares cannot be ascertained. To the best knowledge, information and belief of the Directors and having made all reasonable enquiries, the counterparties and the ultimate beneficial owner(s) of the counterparties of the acquired NVIDIA Shares are Independent Third Parties.

For the avoidance of doubt, the Company had already complied with the discloseable transaction requirements in respect of this transaction as disclosed in the relevant Previous Announcements.

FEBRUARY FURTHER ACQUISITION OF SUPER MICRO SHARES

On 22 February 2024, further to:

(i) the Previous Acquisitions of Super Micro Shares at an aggregate consideration of approximately US$3.3 million (equivalent to approximately HK$25.8 million) as disclosed in the relevant Previous Announcements and the paragraph headed "FURTHER ACQUISITION OF SUPER MICRO SHARES" on pages 8 to 9 of this circular;

(ii) the Previous Disposals of Super Micro Shares at an aggregate consideration of approximately US$1.9 million (equivalent to approximately HK$14.0 million) (which the total carrying amount is approximately US$1.8 million (equivalent to approximately HK$14.0 million) (excluding transaction costs)) as disclosed in the relevant Previous Announcements and the paragraph headed "FURTHER ACQUISITION OF SUPER MICRO SHARES" on pages 8 to 9 of this circular;

(iii) the Further Acquisition of Super Micro Shares at an aggregate consideration of approximately US$1.0 million (equivalent to approximately HK$8.0 million) (excluding transaction costs) as disclosed in the announcement dated 31 January 2024 and the paragraph headed "FURTHER ACQUISITION OF SUPER MICRO SHARES" on pages 8 to 9 of this circular; and

(iv) the further disposal of 1,020 Super Micro Shares through the open market at an aggregate consideration of approximately US$1.0 million (equivalent to approximately HK$7.0 million) (excluding transaction costs) on 16 February 2024 (after trading hours of the Stock Exchange) (for further details of this transaction, please refer to the circular of the Company dated 20 March 2024),

the Company has further acquired an aggregate of 1,920 Super Micro Shares through the open market at an aggregate consideration of approximately US$1.7 million (equivalent to approximately HK$12.9 million) (excluding transaction costs). The average price (excluding transaction costs) for the further acquisition of each Super Micro Share was approximately US$866.00 (equivalent to approximately HK$6,734.54). The aggregate consideration of approximately US$1.7 million (equivalent to approximately HK$12.9 million) (excluding transaction costs) was financed by the Group's existing internal financial resources. Hence, the total consideration for the aggregate, being the net amount of the remaining Super Micro Shares held by the Company following the completion of all transactions contemplated under (i) the Previous Acquisitions of Super Micro Shares, (ii) the Previous Disposals of Super Micro Shares, (iii) the Further Acquisition of Super Micro Shares and (iv) the February Further Acquisition of Super Micro Shares, is approximately US$3.8 million (equivalent to approximately HK$29.4 million).

As the February Further Acquisition of Super Micro Shares was conducted in the open market, the identities of the counterparties of the acquired Super Micro Shares cannot be ascertained. To the best knowledge, information and belief of the Directors and having made all reasonable enquiries, the counterparties and the ultimate beneficial owner(s) of the counterparties of the acquired Super Micro Shares are Independent Third Parties.

FEBRUARY DISPOSAL OF SUPER MICRO SHARES

On 29 February 2024 (after trading hours of the Stock Exchange), further to:

(i) the Previous Acquisitions of Super Micro Shares at an aggregate consideration of approximately US$3.3 million (equivalent to approximately HK$25.8 million) as disclosed in the relevant Previous Announcements and the paragraph headed "FURTHER ACQUISITION OF SUPER MICRO SHARES" on pages 8 to 9 of this circular;

(ii) the Previous Disposals of Super Micro Shares at an aggregate consideration of approximately US$1.9 million (equivalent to approximately HK$14.0 million) (which the total carrying amount is approximately US$1.8 million (equivalent to approximately HK$14.0 million) (excluding transaction costs)) as disclosed in the relevant Previous Announcements and the paragraph headed "FURTHER ACQUISITION OF SUPER MICRO SHARES" on pages 8 to 9 of this circular;

(iii) the Further Acquisition of Super Micro Shares at an aggregate consideration of approximately US$1.0 million (equivalent to approximately HK$8.0 million) (excluding transaction costs) as disclosed in the announcement dated 31 January 2024 and the paragraph headed "FURTHER ACQUISITION OF SUPER MICRO SHARES" on pages 8 to 9 of this circular;

(iv) the further disposal of 1,020 Super Micro Shares through the open market at an aggregate consideration of approximately US$1.0 million (equivalent to approximately HK$7.0 million) (excluding transaction costs) on 16 February 2024 (after trading hours of the Stock Exchange) (for further details of this transaction, please refer to the circular of the Company dated 20 March 2024); and

(v) the February Further Acquisition of Super Micro Shares at an aggregate consideration of approximately US$1.7 million (equivalent to approximately HK$12.9 million) (excluding transaction costs) as disclosed in the announcement dated 30 April 2024 and the paragraph headed "FEBRUARY FURTHER ACQUISITION OF SUPER MICRO SHARES" on pages 14 to 15 of this circular, the Company has disposed of an aggregate of 1,490 Super Micro through the open market at an aggregate consideration of approximately US$1.3 million (equivalent to approximately HK$9.9 million) (excluding transaction costs) (which the carrying amount of approximately US$0.8 million (equivalent to approximately HK$6.4 million)), which are receivable in cash on settlement. The average price (excluding transaction costs) for the disposal of each Super Micro Share was approximately US$856.98 (equivalent to approximately HK$6,667.30). Hence, the total consideration for the aggregate, being the net amount of the remaining Super Micro Shares held by the Company following the completion of all transactions contemplated under (i) the Previous Acquisitions of Super Micro Shares, (ii) the Previous Disposals of Super Micro Shares, (iii) the Further Acquisition of Super Micro Shares, (iv) the February Further Acquisition of Super Micro Shares and (v) the February Disposal of Super Micro Shares is approximately US$2.9 million (equivalent to approximately HK$22.9 million).

As the February Disposal of Super Micro Shares was conducted in the open market, the identities of the counterparties of the disposed Super Micro Shares cannot be ascertained. To the best knowledge, information and belief of the Directors and having made all reasonable enquiries, the counterparties and the ultimate beneficial owner(s) of the counterparties of the disposed Super Micro Shares are Independent Third Parties.

MARCH FURTHER DISPOSAL OF SUPER MICRO SHARES

On 6 March 2024 (after trading hours of the Stock Exchange), further to:

(i) the Previous Acquisitions of Super Micro Shares at an aggregate consideration of approximately US$3.3 million (equivalent to approximately HK$25.8 million) as disclosed in the relevant Previous Announcements and the paragraph headed "FURTHER ACQUISITION OF SUPER MICRO SHARES" on pages 8 to 9 of this circular;

(ii) the Previous Disposals of Super Micro Shares at an aggregate consideration of approximately US$1.9 million (equivalent to approximately HK$14.0 million) (which the total carrying amount is approximately US$1.8 million (equivalent to approximately HK$14.0 million) (excluding transaction costs)) as disclosed in the relevant Previous Announcements and the paragraph headed "FURTHER ACQUISITION OF SUPER MICRO SHARES" on pages 8 to 9 of this circular;

(iii) the Further Acquisition of Super Micro Shares at an aggregate consideration of approximately US$1.0 million (equivalent to approximately HK$8.0 million) (excluding transaction costs) as disclosed in the announcement dated 31 January 2024 and the paragraph headed "FURTHER ACQUISITION OF SUPER MICRO SHARES" on pages 8 to 9 of this circular;

(iv) the further disposal of 1,020 Super Micro Shares through the open market at an aggregate consideration of approximately US$1.0 million (equivalent to approximately HK$7.0 million) (excluding transaction costs) on 16 February 2024 (after trading hours of the Stock Exchange) (for further details of this transaction, please refer to the circular of the Company dated 20 March 2024);

(v) the February Further Acquisition of Super Micro Shares at an aggregate consideration of approximately US$1.7 million (equivalent to approximately HK$12.9 million) (excluding transaction costs) as disclosed in the announcement dated 30 April 2024 and the paragraph headed "FEBRUARY FURTHER ACQUISITION OF SUPER MICRO SHARES" on pages 14 to 15 of this circular; and

(vi) the February Disposal of Super Micro Shares at an aggregate consideration of approximately US$1.3 million (equivalent to approximately HK$9.9 million) (excluding transaction costs) as disclosed in the announcement dated 30 April 2024 and the paragraph headed "FEBRUARY DISPOSAL OF SUPER MICRO SHARES" on pages 15 to 16 of this circular,

the Company has disposed of an aggregate of 780 Super Micro through the open market at an aggregate consideration of approximately US$0.9 million (equivalent to approximately HK$6.9 million) (excluding transaction costs) (which the carrying amount of approximately US$0.4 million (equivalent to approximately HK$3.4 million)), which are receivable in cash on settlement. The average price (excluding transaction costs) for the disposal of each Super Micro Share was approximately US$1,144.29 (equivalent to approximately HK$8,902.54). Hence, the total consideration for the aggregate, being the net amount of the remaining Super Micro Shares held by the Company following the completion of all transactions contemplated under (i) the Previous Acquisitions of Super Micro Shares, (ii) the Previous Disposals of Super Micro Shares, (iii) the Further Acquisition of Super Micro Shares, (iv) the February Further Acquisition of Super Micro Shares, (v) the February Disposal of Super Micro Shares and (vi) the March Further Disposal of Super Micro Shares is approximately US$2.5 million (equivalent to approximately HK$19.5 million).

As the March Further Disposal of Super Micro Shares was conducted in the open market, the identities of the counterparties of the disposed Super Micro Shares cannot be ascertained. To the best knowledge, information and belief of the Directors and having made all reasonable enquiries, the counterparties and the ultimate beneficial owner(s) of the counterparties of the disposed Super Micro Shares are Independent Third Parties.

MARCH DISPOSAL OF NVIDIA SHARES

On 6 March 2024, further to:

(i) the Previous Acquisitions of NVIDIA Shares at an aggregate consideration of approximately US$3.5 million (equivalent to approximately HK$26.6 million) as disclosed in the relevant Previous Announcements and the paragraph headed "FURTHER ACQUISITION OF NVIDIA SHARES" on pages 6 to 7 of this circular;

(ii) the Previous Disposals of NVIDIA Shares at an aggregate consideration of approximately US$1.7 million (equivalent to approximately HK$13.0 million) (which the total carrying amount is approximately US$1.6 million (equivalent to approximately HK$12.2 million) (excluding transaction costs)) as disclosed in the relevant Previous Announcements and the paragraph headed "FURTHER ACQUISITION OF NVIDIA SHARES" on pages 6 to 7 of this circular;

(iii) the Further Acquisition of NVIDIA Shares at an aggregate consideration of approximately US$1.1 million (equivalent to approximately HK$8.9 million) (excluding transaction costs) as disclosed in the announcement dated 25 January 2024 and the paragraph headed "FURTHER ACQUISITION OF NVIDIA SHARES" on pages 6 to 7 of this circular;

(iv) the Further Disposal of NVIDIA Shares at an aggregate consideration of approximately US$0.9 million (equivalent to approximately HK$7.0 million) (excluding transaction costs) as disclosed in the relevant Previous Announcements and the paragraph headed "FURTHER DISPOSAL OF NVIDIA SHARES" on page 10 of this circular;

(v) the February 15 Further Disposal of NVIDIA Shares at an aggregate consideration of approximately US$0.6 million (equivalent to approximately HK$5.0 million) (excluding transaction costs) as disclosed in the relevant Previous Announcements and the paragraph headed "FEBRUARY 15 FURTHER DISPOSAL OF NVIDIA SHARES" on pages 11 to 12 of this circular;

(vi) the February 16 Further Disposal of NVIDIA Shares at an aggregate consideration of approximately US$1.9 million (equivalent to approximately HK$15.0 million) (excluding transaction costs) (which the carrying amount of approximately US$1.3 million (equivalent to approximately HK$10.4 million)) as disclosed in the relevant Previous Announcements and the paragraph headed "FEBRUARY 16 FURTHER DISPOSAL OF NVIDIA SHARES" on pages 12 to 13 of this circular; and

(vii) the February 22 Further Acquisition of NVIDIA Shares at an aggregate consideration of approximately US$0.6 million (equivalent to approximately HK$5.0 million) (excluding transaction costs) as disclosed in the relevant Previous Announcements and the paragraph headed "FEBRUARY 22 FURTHER ACQUISITION OF NVIDIA SHARES" on pages 13 to 14 of this circular, the Company has disposed of an aggregate of 870 NVIDIA Shares through the open market at an aggregate consideration of approximately US$0.8 million (equivalent to approximately HK$6.0 million) (excluding transaction costs) (which the carrying amount of approximately US$0.5 million (equivalent to approximately HK$4.2 million)), which are receivable in cash on settlement. The average price (excluding transaction costs) for the disposal of each NVIDIA Share was approximately US$882.00 (equivalent to approximately HK$6,861.96). Hence, the total consideration for the aggregate, being the net amount of the remaining NVIDIA Shares held by the Company following the completion of all transactions contemplated under (i) the Previous Acquisitions of NVIDIA Shares, (ii) the Previous Disposals of NVIDIA Shares, (iii) the Further Acquisition of NVIDIA Shares, (iv) the Further Disposal of NVIDIA Shares, (v) the February 15 Further Disposal of NVIDIA Shares, (vi) the February 16 Further Disposal of NVIDIA Shares, (vii) the February 22 Further Disposal of NVIDIA Shares and (viii) the March Disposal of NVIDIA Shares is approximately US$0.6 million (equivalent to approximately HK$4.6 million).

As the March Disposal of NVIDIA Shares was conducted in the open market, the identities of the counterparties of the disposed NVIDIA Shares cannot be ascertained. To the best knowledge, information and belief of the Directors and having made all reasonable enquiries, the counterparties and the ultimate beneficial owner(s) of the counterparties of the disposed NVIDIA Shares are Independent Third Parties.

For the avoidance of doubt, the Company had already complied with the discloseable transaction requirements in respect of this transaction as disclosed in the relevant Previous Announcements.

As at the Latest Practicable Date, following the completion of all transactions contemplated under:

(i) the Previous Acquisitions of NVIDIA Shares;

(ii) the Previous Disposals of NVIDIA Shares;

(iii) the Further Acquisition of NVIDIA Shares;

(iv) the Further Disposal of NVIDIA Shares;

(v) the February 15 Further Disposal of NVIDIA Shares (for further details of this transaction, please refer to the announcement of the Company dated 30 April 2024);

(vi) the February 16 Further Disposal of NVIDIA Shares (for further details of this transaction, please refer to the announcement of the Company dated 30 April 2024);

(vii) the February 22 Further Acquisition of NVIDIA Shares (for further details of this transaction, please refer to the announcement of the Company dated 30 April 2024); and

(viii) the March Disposal of NVIDIA Shares (for further details of this transaction, please refer to the announcement of the Company dated 30 April 2024),

the Company is interested in 950 NVIDIA Shares (representing approximately 0.000% of the total issued share capital of NVIDIA). The Company had already complied with the discloseable transaction requirements in respect of the acquisitions and disposals of NVIDIA Shares as disclosed in the relevant Previous Announcements and the balance of such acquisitions and disposals which were conducted within a 12-month period from the Previous Acquisitions of NVIDIA Shares, the Previous Disposals of NVIDIA Shares, the Further Acquisition of NVIDIA Shares, the Further Disposal of NVIDIA Shares, the February 15 Further Disposal of NVIDIA Shares and the February 22 Further Acquisition of NVIDIA Shares were aggregated with the March Disposal of NVIDIA Shares.

APRIL FURTHER ACQUISITION OF SUPER MICRO SHARES

On 1 April 2024, further to:

(i) the Previous Acquisitions of Super Micro Shares at an aggregate consideration of approximately US$3.3 million (equivalent to approximately HK$25.8 million) as disclosed in the relevant Previous Announcements and the paragraph headed "FURTHER ACQUISITION OF SUPER MICRO SHARES" on pages 8 to 9 of this circular;

(ii) the Previous Disposals of Super Micro Shares at an aggregate consideration of approximately US$1.9 million (equivalent to approximately HK$14.0 million) (which the total carrying amount is approximately US$1.8 million (equivalent to approximately HK$14.0 million) (excluding transaction costs)) as disclosed in the relevant Previous Announcements and the paragraph headed "FURTHER ACQUISITION OF SUPER MICRO SHARES" on pages 8 to 9 of this circular;

(iii) the Further Acquisition of Super Micro Shares at an aggregate consideration of approximately US$1.0 million (equivalent to approximately HK$8.0 million) (excluding transaction costs) as disclosed in the announcement dated 31 January 2024 and the paragraph headed "FURTHER ACQUISITION OF SUPER MICRO SHARES" on pages 8 to 9 of this circular;

(iv) the further disposal of 1,020 Super Micro Shares through the open market at an aggregate consideration of approximately US$1.0 million (equivalent to approximately HK$7.0 million) (excluding transaction costs) on 16 February 2024 (after trading hours of the Stock Exchange) (for further details of this transaction, please refer to the circular of the Company dated 20 March 2024);

(v) the February Further Acquisition of Super Micro Shares at an aggregate consideration of approximately US$1.7 million (equivalent to approximately HK$12.9 million) (excluding transaction costs) as disclosed in the announcement dated 30 April 2024 and the paragraph headed "FEBRUARY FURTHER ACQUISITION OF SUPER MICRO SHARES" on pages 14 to 15 of this circular;

(vi) the February Disposal of Super Micro Shares at an aggregate consideration of approximately US$1.3 million (equivalent to approximately HK$9.9 million) (excluding transaction costs) as disclosed in the announcement dated 30 April 2024 and the paragraph headed "FEBRUARY DISPOSAL OF SUPER MICRO SHARES" on pages 15 to 16 of this circular; and

(vii) the March Further Disposal of Super Micro Shares at an aggregate consideration of approximately US$0.9 million (equivalent to approximately HK$6.9 million) (excluding transaction costs) (for further details of this transaction, please refer to the announcement of the Company dated 30 April 2024 and the paragraph headed "MARCH FURTHER DISPOSAL OF SUPER MICRO SHARES" on pages 16 to 17 of this circular),

the Company has further acquired an aggregate of 740 Super Micro Shares through the open market at an aggregate consideration of approximately US$0.8 million (equivalent to approximately HK$6.0 million) (excluding transaction costs). The average price (excluding transaction costs) for the further acquisition of each Super Micro Share was approximately US$1,040.00 (equivalent to approximately HK$8,090.98). The aggregate consideration of approximately US$0.8 million (equivalent to approximately HK$6.0 million) (excluding transaction costs) was financed by the Group's existing internal financial resources. Hence, the total consideration for the aggregate, being the net amount of the remaining Super Micro Shares held by the Company following the completion of all transactions contemplated under (i) the Previous Acquisitions of Super Micro Shares, (ii) the Previous Disposals of Super Micro Shares, (iii) the Further Acquisition of Super Micro Shares and (iv) the April Further Acquisition of Super Micro Shares, is approximately US$3.3 million (equivalent to approximately HK$25.5 million).

As the April Further Acquisition of Super Micro Shares was conducted in the open market, the identities of the counterparties of the acquired Super Micro Shares cannot be ascertained. To the best knowledge, information and belief of the Directors and having made all reasonable enquiries, the counterparties and the ultimate beneficial owner(s) of the counterparties of the acquired Super Micro Shares are Independent Third Parties.

As at the Latest Practicable Date, following the completion of all transactions contemplated under:

(i) the Previous Acquisitions of Super Micro Shares;

(ii) the Previous Disposals of Super Micro Shares;

(iii) the Further Acquisition of Super Micro Shares;

(iv) the further disposal of 1,020 Super Micro Shares through the open market at an aggregate consideration of approximately US$1.0 million (equivalent to approximately HK$7.0 million) (excluding transaction costs) on 16 February 2024 (after trading hours of the Stock Exchange) (for further details of this transaction, please refer to the circular of the Company dated 20 March 2024);

(v) the February Further Acquisition of Super Micro Shares through the open market at an aggregate consideration of approximately US$1.6 million (equivalent to approximately HK$12.9 million) (excluding transaction costs) (for further details of this transaction, please refer to the announcement of the Company dated 30 April 2024);

(vi) the February Further Disposal of Super Micro Shares through the open market at an aggregate consideration of approximately US$1.3 million (equivalent to approximately HK$10.0 million) (excluding transaction costs) (for further details of this transaction, please refer to the announcement of the Company dated 30 April 2024);

(vii) the March Further Disposal of Super Micro Shares through the open market at an aggregate consideration of approximately US$0.9 million (equivalent to approximately HK$6.9 million) (excluding transaction costs) (for further details of this transaction, please refer to the announcement of the Company dated 30 April 2024); and

(viii) the April Further Acquisition of Super Micro Shares,

the Company is interested in 5,260 Super Micro Shares (representing approximately 0.010% of the total issued share capital of Super Micro). The Company had already complied with the discloseable transaction requirements in respect of the acquisitions and disposals of Super Micro Shares as disclosed in the relevant Previous Announcements and the balance of such acquisitions and disposals which were conducted within a 12-month period from the Previous Acquisitions of Super Micro Shares, the Previous Disposals of Super Micro Shares, the Further Acquisition of Super Micro Shares, the further disposal of 1,020 Super Micro Shares on 16 February 2024 (after trading hours of the Stock Exchange), the February Further Acquisition of Super Micro Shares, the February Further Disposal of Super Micro Shares and the March Further Disposal of Super Micro Shares were aggregated with the April Further Acquisition of Super Micro Shares.

INFORMATION ON THE COMPANY

The Company is an investment holding company and the Group is principally engaged in the manufacture and trading of electronic and electrical parts and components. The Group operates its business through three segments: (i) The Manufacturing segment is engaged in the sale of electronics and electrical parts and components produced by the Company. The products manufactured by the Company are mainly applied in smart consumer electronic devices; (ii) The Broadband Infrastructure and Smart Domain segment is engaged in the provision of broadband infrastructure construction services, broadband promotion services, and smart domain solutions; and (iii) The Trading segment is engaged in the trading of electronic and electrical parts and components sourced from third party suppliers.

INFORMATION ON NVIDIA AND SUPER MICRO

NVIDIA

NVIDIA is a Delaware corporation and a software and fabless company which designs graphics processing units (GPUs), application programming interface (APIs) for data science and high-performance computing as well as system on a chip units (SoCs) for the mobile computing and automotive market. NVIDIA is a dominant supplier of artificial intelligence hardware and software. Its professional line of GPUs are used in workstations for applications in such fields as architecture, engineering and construction, media and entertainment, automotive, scientific research, and manufacturing design. In addition to GPU manufacturing, NVIDIA provides an API called CUDA that allows the creation of massively parallel programs which utilize GPUs.

The following financial information is extracted from the published documents of the NVIDIA Group:

	For the year ended 30 January 2022 (audited)		**For the year ended 29 January 2023** (audited)		**For the year ended 31 January 2024** (audited)	
	US$'000	*HK$'000*	*US$'000*	*HK$'000*	*US$'000*	*HK$'000*
Revenue	26,914,000	209,391,000	26,974,000	209,858,000	60,922,000	473,973,000
Income before tax	9,941,000	77,340,980	4,181,000	32,528,180	33,818,000	263,104,000
Net income	9,752,000	75,871,000	4,368,000	33,398,000	29,760,000	231,533,000

Based on NVIDIA's published documents, the NVIDIA Group has an audited consolidated net assets value of approximately US$26.6 billion (equivalent to approximately HK$207.0 billion) as at 30 January 2022, approximately US$22.1 billion (equivalent to approximately HK$171.9 billion) as at 29 January 2023 and approximately US$42,978 million (equivalent to approximately HK$334,369 million) as at 28 January 2024.

Super Micro

Super Micro is a Delaware corporation and a Silicon Valley-based provider of accelerated compute platforms that are application-optimized high-performance and high-efficiency server and storage systems for various markets, including enterprise data centers, cloud computing, artificial intelligence, 5G and edge computing. Super Micro's solutions include complete servers, storage systems, modular blade servers, blades, workstations, complete rack scale plug and play solutions delivering pre-defined and pre-tested full rack scale solutions, networking devices, server sub-systems, system management and security software.

The following financial information is extracted from the published documents of the Super Micro Group:

	For the year ended 30 June 2021 (audited)		For the year ended 30 June 2022 (audited)		For the year ended 30 June 2023 (audited)	
	US$'000	*HK$'000*	*US$'000*	*HK$'000*	*US$'000*	*HK$'000*
Net sales	3,557,422	27,676,743	5,196,099	40,425,650	7,123,482	55,420,690
Income before income tax provision	118,628	922,926	336,833	2,620,561	754,297	5,868,431
Net income	111,865	870,310	285,163	2,218,568	639,998	4,979,184

Based on Super Micro's published documents, the Super Micro Group has an audited consolidated net assets value of approximately US$1,096 million (equivalent to approximately HK$8,527 million) as at 30 June 2021, approximately US$1,426 million (equivalent to approximately HK$11,094 million) as at 30 June 2022 and US$1,972 million (equivalent to approximately HK$15,342 million) as at 30 June 2023.

Based on Super Micro's published documents, the Super Micro Group has an unaudited consolidated net asset value of approximately US$3,077 million (equivalent to approximately HK$23,939 million) as at 31 December 2023.

FINANCIAL EFFECT OF (I) THE FURTHER ACQUISITION OF NVIDIA SHARES; (II) THE FURTHER ACQUISITION OF SUPER MICRO SHARES; (III) THE FURTHER DISPOSAL OF NVIDIA SHARES; (IV) THE FEBRUARY 15 FURTHER DISPOSAL OF NVIDIA SHARES; (V) THE FEBRUARY 16 FURTHER DISPOSAL OF NVIDIA SHARES; (VI) THE FEBRUARY DISPOSAL OF SUPER MICRO SHARES; (VII) THE FEBRUARY FURTHER ACQUISITION OF SUPER MICRO SHARES; (VIII) THE MARCH FURTHER DISPOSAL OF SUPER MICRO SHARES; AND (IX) THE APRIL FURTHER ACQUISITION OF SUPER MICRO SHARES

Further Acquisition of NVIDIA Shares

The total consideration for the aggregate of all transactions respectively contemplated under (i) the Previous Acquisitions of NVIDIA Shares; (ii) the Previous Disposals of NVIDIA Shares; and (iii) the Further Acquisition of NVIDIA Shares is approximately US$3.0 million (equivalent to approximately HK$23.3 million).

The Further Acquisition of NVIDIA Shares was accounted for as financial assets at fair value through profit or loss in the consolidated financial statements of the Group. The Further Acquisition of NVIDIA Shares was initially recognised at fair value in the consolidated statement of financial position of the Group. Any fair value gain or loss arising from the Further Acquisition of NVIDIA Shares will be recognised in the consolidated statement of profit and loss of the Group at the end of each reporting period.

As the Further Acquisition of NVIDIA Shares was financed by internally generated funds, the assets and liabilities of the Group are expected to remain unchanged.

Save as disclosed above, there will be no immediate material effect on the earnings and assets and liabilities of the Group associated with the Further Acquisition of NVIDIA Shares.

Further Acquisition of Super Micro Shares

The total consideration for the aggregate of all transactions respectively contemplated under (i) the Previous Acquisitions of Super Micro Shares; (ii) the Previous Disposals of Super Micro Shares; and (iii) the Further Acquisition of Super Micro Shares is approximately US$2.5 million (equivalent to approximately HK$19.8 million).

The Further Acquisition of Super Micro Shares was accounted for as financial assets at fair value through profit or loss in the consolidated financial statements of the Group. The Further Acquisition of Super Micro Shares was initially recognised at fair value in the consolidated statement of financial position of the Group. Any fair value gain or loss arising from the Further Acquisition of Super Micro Shares will be recognised in the consolidated statement of profit and loss of the Group at the end of each reporting period.

As the Further Acquisition of Super Micro Shares was financed by internally generated funds, the assets and liabilities of the Group are expected to remain unchanged.

Save as disclosed above, there will be no immediate material effect on the earnings and assets and liabilities of the Group associated with the Further Acquisition of Super Micro Shares.

Further Disposal of NVIDIA Shares

Upon completion of the Further Disposal of NVIDIA Shares, the Group expects to recognise a gain on the Further Disposal of NVIDIA Shares (before taxation) of approximately US$0.2 million (equivalent to approximately HK$1.4 million, which is the difference between the aggregate consideration for the Further Disposal of NVIDIA Shares of approximately US$0.9 million (equivalent to approximately HK$7.0 million) and the carrying amount of approximately US$0.7 million (equivalent to approximately HK$5.6 million) of the disposed NVIDIA Shares, which is classified as financial assets at fair value through profit or loss in the consolidated financial statement of the Group.

Upon completion of the Further Disposal of NVIDIA Shares, the total assets of the Group would have increased by HK$1.4 million due to the recognition of the gain on the Further Disposal of NVIDIA Shares minus the associated transaction costs, whereas the total liabilities of the Group would have remained unchanged.

February 15 Further Disposal of NVIDIA Shares

Upon completion of the February 15 Further Disposal of NVIDIA Shares, the Group expects to recognise a gain on the February 15 Further Disposal of NVIDIA Shares (before taxation) of approximately US$0.2 million (equivalent to approximately HK$1.5 million, which is the difference between the aggregate consideration for the February 15 Further Disposal of NVIDIA Shares of approximately US$0.6 million (equivalent to approximately HK$5.0 million) and the carrying amount of approximately US$0.4 million (equivalent to approximately HK$3.5 million) of the disposed NVIDIA Shares, which is classified as financial assets at fair value through profit or loss in the consolidated financial statement of the Group.

Upon completion of the February 15 Further Disposal of NVIDIA Shares, the total assets of the Group would have increased by HK$1.5 million due to the recognition of the gain on the February 15 Further Disposal of NVIDIA Shares minus the associated transaction costs, whereas the total liabilities of the Group would have remained unchanged.

February 16 Further Disposal of NVIDIA Shares

Upon completion of the February 16 Further Disposal of NVIDIA Shares, the Group expects to recognise a gain on the February 16 Further Disposal of NVIDIA Shares (before taxation) of approximately US$0.6 million (equivalent to approximately HK$4.6 million, which is the difference between the aggregate consideration for the February 16 Further Disposal of NVIDIA Shares of approximately US$1.9 million (equivalent to approximately HK$15.0 million) and the carrying amount of approximately US$1.3 million (equivalent to approximately HK$10.4 million) of the disposed NVIDIA Shares, which is classified as financial assets at fair value through profit or loss in the consolidated financial statement of the Group.

Upon completion of the February 16 Further Disposal of NVIDIA Shares, the total assets of the Group would have increased by HK$4.6 million due to the recognition of the gain on the February 16 Further Disposal of NVIDIA Shares minus the associated transaction costs, whereas the total liabilities of the Group would have remained unchanged.

February Further Acquisition of Super Micro Shares

The total consideration for the aggregate of all transactions contemplated under (i) the Previous Acquisitions of Super Micro Shares, (ii) the Previous Disposals of Super Micro Shares, (iii) the Further Acquisition of Super Micro Shares and (iv) the February Further Acquisition of Super Micro Shares, is approximately US$3.8 million (equivalent to approximately HK$29.4 million).

The February Further Acquisition of Super Micro Shares was accounted for as financial assets at fair value through profit or loss in the consolidated financial statements of the Group. The February Further Acquisition of Super Micro Shares was initially recognised at fair value in the consolidated statement of financial position of the Group. Any fair value gain or loss arising from the February Further Acquisition of Super Micro Shares will be recognised in the consolidated statement of profit and loss of the Group at the end of each reporting period.

As the February Further Acquisition of Super Micro Shares was financed by internally generated funds, the assets and liabilities of the Group are expected to remain unchanged.

Save as disclosed above, there will be no immediate material effect on the earnings and assets and liabilities of the Group associated with the February Further Acquisition of Super Micro Shares.

February Disposal of Super Micro Shares

Upon completion of the February Disposal of Super Micro Shares, the Group expects to recognise a gain on the February Disposal of Super Micro Shares (before taxation) of approximately US$0.4 million (equivalent to approximately HK$3.5 million, which is the difference between the aggregate consideration for the February Disposal of Super Micro Shares of approximately US$1.3 million (equivalent to approximately HK$9.9 million) and the carrying amount of approximately US$0.8 million (equivalent to approximately HK$6.4 million) of the disposed Super Micro Shares, which is classified as financial assets at fair value through profit or loss in the consolidated financial statement of the Group.

Upon completion of the February Disposal of Super Micro Shares, the total assets of the Group would have increased by HK$3.5 million due to the recognition of the gain on the February Disposal of Super Micro Shares minus the associated transaction costs, whereas the total liabilities of the Group would have remained unchanged.

March Further Disposal of Super Micro Shares

Upon completion of the March Further Disposal of Super Micro Shares, the Group expects to recognise a gain on the March Further Disposal of Super Micro Shares (before taxation) of approximately US$0.5 million (equivalent to approximately HK$3.6 million, which is the difference between the aggregate consideration for the March Further Disposal of Super Micro Shares of approximately US$0.9 million (equivalent to approximately HK$7.0 million) and the carrying amount of approximately US$0.4 million (equivalent to approximately HK$3.4 million) of the disposed Super Micro Shares, which is classified as financial assets at fair value through profit or loss in the consolidated financial statement of the Group.

Upon completion of the March Further Disposal of Super Micro Shares, the total assets of the Group would have increased by HK$3.6 million due to the recognition of the gain on the March Further Disposal of Super Micro Shares minus the associated transaction costs, whereas the total liabilities of the Group would have remained unchanged.

April Further Acquisition of Super Micro Shares

The total consideration for the aggregate of all transactions respectively contemplated under (i) the Previous Acquisitions of Super Micro Shares; (ii) the Previous Disposals of Super Micro Shares; (iii) the Further Acquisition of Super Micro Shares and (iv) the April Further Acquisition of Super Micro Shares is approximately US$3.3 million (equivalent to approximately HK$25.5 million).

The April Further Acquisition of Super Micro Shares was accounted for as financial assets at fair value through profit or loss in the consolidated financial statements of the Group. The April Further Acquisition of Super Micro Shares was initially recognised at fair value in the consolidated statement of financial position of the Group. Any fair value gain or loss arising from the April Further Acquisition of Super Micro Shares will be recognised in the consolidated statement of profit and loss of the Group at the end of each reporting period.

As the April Further Acquisition of Super Micro Shares was financed by internally generated funds, the assets and liabilities of the Group are expected to remain unchanged.

Save as disclosed above, there will be no immediate material effect on the earnings and assets and liabilities of the Group associated with the April Further Acquisition of Super Micro Shares.

It should be noted that the above financial effects of (i) the Further Acquisition of NVIDIA Shares; (ii) the Further Acquisition of Super Micro Shares; and (iii) the Further Disposal of NVIDIA Shares are for illustrative purposes only. The actual impact of (i) the Further Acquisition of NVIDIA Shares; (ii) the Further Acquisition of Super Micro Shares; (iii) the Further Disposal of NVIDIA Shares; (iv) the February 15 Further Disposal of NVIDIA Shares; (v) the February 16 Further Disposal of NVIDIA Shares; (vi) the February Disposal of Super Micro Shares; (vii) the February Further Acquisition of Super Micro Shares; (viii) the March Further Disposal of Super Micro Shares; and (ix) the April Further Acquisition of Super Micro Shares to be recognised by the Group will be subject to final audit by the Company's auditors.

REASONS FOR AND BENEFITS OF (I) THE FURTHER ACQUISITION OF NVIDIA SHARES; (II) THE FURTHER ACQUISITION OF SUPER MICRO SHARES; (III) THE FEBRUARY FURTHER ACQUISITION OF SUPER MICRO SHARES; AND (IV) THE APRIL FURTHER ACQUISITION OF SUPER MICRO SHARES

The Group is principally engaged in the manufacturing and trading of semiconductors, broadband infrastructure construction and the provision of integrated solution for smart domain application (including smart home, smart campus and smart communities).

The Group believes that technological innovation is an important engine for future economic development, and it can also drive the emerging applications in the smart living sector. The Group always hopes to leverage our own advantages in the field of smart technology to actively diversify the investments in the field of innovative technologies, in order to facilitate the technological development and create greater value for the Shareholders.

NVIDIA is a leading manufacturer of high-end GPUs in the United States. Super Micro is an information technology company in United States. As set out in the Previous Announcements, the Board holds positive views towards the financial performance and future prospect of NVIDIA and Super Micro. At the relevant times, the Group considered that Further Acquisition of NVIDIA Shares, the Further Acquisition of Super Micro Shares, the February Further Acquisition of Super Micro Shares and the April Further Acquisition of Super Micro Shares could increase our holdings in these attractive investments and to further expand its investment portfolio with quality assets, which would enhance investment return for the Group.

As the Further Acquisition of NVIDIA Shares, the Further Acquisition of Super Micro Shares, the February Further Acquisition of Super Micro Shares and the April Further Acquisition of Super Micro Shares were made in the open market at prevailing market prices, the Directors (including the independent non-executive Directors) are of the view that the terms of the Further Acquisition of NVIDIA Shares, the Further Acquisition of Super Micro Shares, the February Further Acquisition of Super Micro Shares and the April Further Acquisition of Super Micro Shares are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

REASONS FOR AND BENEFITS OF (I) THE FURTHER DISPOSAL OF NVIDIA SHARES; (II) THE FEBRUARY 15 FURTHER DISPOSAL OF NVIDIA SHARES; (III) THE FEBRUARY 16 FURTHER DISPOSAL OF NVIDIA SHARES; (IV) THE FEBRUARY DISPOSAL OF SUPER MICRO SHARES; AND (V)THE MARCH FURTHER DISPOSAL OF SUPER MICRO SHARES

Further Disposal of NVIDIA Shares

As a result of the Further Disposal of NVIDIA Shares, the Group is expected to recognise a gain of approximately US$0.2 million (equivalent to approximately HK$1.4 million) being the difference between the consideration received from the Further Disposal of NVIDIA Shares and the acquisition cost of disposed NVIDIA Shares. The Group considers that the Further Disposal of NVIDIA Shares represents an opportunity to allow the Group to realise the investment in NVIDIA so as to enhance the operational efficiency of the assets of the Group. The Group has applied all the proceeds from the Further Disposal of NVIDIA Shares of approximately US$0.9 million (equivalent to approximately HK$7.0 million) for the consideration for the Further Acquisition of Super Micro Shares.

As the Further Disposal of NVIDIA Shares was made in the open market at prevailing market price, the Directors (including the independent non-executive Directors) are of the view that the terms of the Further Disposal of NVIDIA Shares are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

February 15 Further Disposal of NVIDIA Shares

As a result of the February 15 Further Disposal of NVIDIA Shares, the Group is expected to recognise a gain of approximately US$0.2 million (equivalent to approximately HK$1.5 million) being the difference between the consideration received from the February 15 Further Disposal of NVIDIA Shares and the acquisition cost of disposed NVIDIA Shares. The Group considers that the February 15 Further Disposal of NVIDIA Shares represents an opportunity to allow the Group to realise the investment in NVIDIA so as to enhance the operational efficiency of the assets of the Group. The Group has applied all the proceeds from the February 15 Further Disposal of NVIDIA Shares of approximately US$0.6 million (equivalent to approximately HK$5.0 million) for general working capital of the Group or other appropriate investment opportunities as and when appropriate.

As the February 15 Further Disposal of NVIDIA Shares was made in the open market at prevailing market price, the Directors (including the independent non-executive Directors) are of the view that the terms of the February 15 Further Disposal of NVIDIA Shares are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

February 16 Further Disposal of NVIDIA Shares

As a result of the February 16 Further Disposal of NVIDIA Shares, the Group is expected to recognise a gain of approximately US$0.6 million (equivalent to approximately HK$4.6 million) being the difference between the consideration received from the February 16 Further Disposal of NVIDIA Shares and the acquisition cost of disposed NVIDIA Shares. The Group considers that the February 16 Further Disposal of NVIDIA Shares represents an opportunity to allow the Group to realise the investment in NVIDIA so as to enhance the operational efficiency of the assets of the Group. The Group has applied all the proceeds from the February 16 Further Disposal of NVIDIA Shares of approximately US$1.9 million (equivalent to approximately HK$15.0 million) for general working capital of the Group or other appropriate investment opportunities as and when appropriate.

As the February 16 Further Disposal of NVIDIA Shares was made in the open market at prevailing market price, the Directors (including the independent non-executive Directors) are of the view that the terms of the February 16 Further Disposal of NVIDIA Shares are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

February Disposal of Super Micro Shares

As a result of the February Disposal of Super Micro Shares, the Group is expected to recognise a gain of approximately US$0.4 million (equivalent to approximately HK$3.5 million) being the difference between the consideration received from the February Disposal of Super Micro Shares and the acquisition cost of disposed Super Micro Shares. The Group considers that the February Disposal of Super Micro Shares represents an opportunity to allow the Group to realise the investment in Super Micro so as to enhance the operational efficiency of the assets of the Group. The Group has applied all the proceeds from the February Disposal of Super Micro Shares of approximately US$1.3 million (equivalent to approximately HK$9.9 million) for general working capital of the Group or other appropriate investment opportunities as and when appropriate.

As the February Disposal of Super Micro Shares was made in the open market at prevailing market price, the Directors (including the independent non-executive Directors) are of the view that the terms of the February Disposal of Super Micro Shares are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

March Further Disposal of Super Micro Shares

As a result of the March Further Disposal of Super Micro Shares, the Group is expected to recognise a gain of approximately US$0.5 million (equivalent to approximately HK$3.6 million) being the difference between the consideration received from the March Further Disposal of Super Micro Shares and the acquisition cost of disposed Super Micro Shares. The Group considers that the March Further Disposal of Super Micro Shares represents an opportunity to allow the Group to realise the investment in Super Micro so as to enhance the operational efficiency of the assets of the Group. The Group has applied all the proceeds from the March Further Disposal of Super Micro Shares of approximately US$0.9 million (equivalent to approximately HK$7.0 million) for general working capital of the Group or other appropriate investment opportunities as and when appropriate.

As the March Further Disposal of Super Micro Shares was made in the open market at prevailing market price, the Directors (including the independent non-executive Directors) are of the view that the terms of the March Further Disposal of Super Micro Shares are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

Further Acquisition of NVIDIA Shares

Pursuant to Rule 14.22 and Rule 14.23 of the Listing Rules for the purpose of classification of the transactions, as the Previous Acquisitions of NVIDIA Shares, the Previous Disposals of NVIDIA Shares and the Further Acquisition of NVIDIA Shares involve the acquisitions and disposals of NVIDIA Shares within a 12-month period, all transactions respectively contemplated thereunder are considered and are aggregated as one transaction at a total consideration of approximately US$3.0 million (equivalent to approximately HK$23.3 million).

The Further Acquisition of NVIDIA Shares, on a standalone basis, constitutes a discloseable transaction since one or more of the applicable percentage ratios (as defined under the Listing Rules) are more than 5% but all of such ratios are less than 25%.

As the highest applicable percentage ratio under Rule 14.07 of the Listing Rules in respect of the Further Acquisition of NVIDIA Shares, when aggregated with the Previous Acquisitions of NVIDIA Shares and the Previous Disposals of NVIDIA Shares by the Company in the preceding 12-month period, exceeds 25% but is less than 100%, the Further Acquisition of NVIDIA Shares constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and will be subject to reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

Further Acquisition of Super Micro Shares

Pursuant to Rule 14.22 and Rule 14.23 of the Listing Rules for the purpose of classification of the transactions, as the Previous Acquisitions of Super Micro Shares, the Previous Disposals of Super Micro Shares and the Further Acquisition of Super Micro Shares involve the acquisitions and disposals of Super Micro Shares within a 12-month period, all transactions respectively contemplated thereunder are considered and are aggregated as one transaction at a total consideration of approximately US$2.5 million (equivalent to approximately HK$19.8 million).

The Further Acquisition of Super Micro Shares, on a standalone basis, constitutes a discloseable transaction since one or more of the applicable percentage ratios (as defined under the Listing Rules) are more than 5% but all of such ratios are less than 25%.

As the highest applicable percentage ratio under Rule 14.07 of the Listing Rules in respect of the Further Acquisition of Super Micro Shares, when aggregated with the Previous Acquisitions of Super Micro Shares and the Previous Disposals of Super Micro Shares by the Company in the preceding 12-month period, exceeds 25% but is less than 100%, the Further Acquisition of Super Micro Shares constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and will be subject to reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

Further Disposal of NVIDIA Shares

Pursuant to Rule 14.22 and Rule 14.23 of the Listing Rules for the purpose of classification of the transactions, as the Previous Acquisitions of NVIDIA Shares, the Previous Disposals of NVIDIA Shares, the Further Acquisition of NVIDIA Shares and the Further Disposal of NVIDIA Shares involve the acquisitions and disposals of NVIDIA Shares within a 12-month period, all transactions respectively contemplated thereunder are considered and are aggregated as one transaction at a total consideration of approximately US$2.3 million (equivalent to approximately HK$17.7 million).

The Further Disposal of NVIDIA Shares, on a standalone basis, constitutes a discloseable transaction since one or more of the applicable percentage ratios (as defined under the Listing Rules) are more than 5% but all of such ratios are less than 25%.

As the highest applicable percentage ratio under Rule 14.07 of the Listing Rules in respect of the Further Disposal of NVIDIA Shares, when aggregated with the Previous Acquisitions of NVIDIA Shares, the Previous Disposals of NVIDIA Shares and the Further Acquisition of NVIDIA Shares by the Company in the preceding 12-month period, exceeds 25% but is less than 75%, the Further Disposal of NVIDIA Shares constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and will be subject to reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

February 15 Further Disposal of NVIDIA Shares

Pursuant to Rule 14.22 and Rule 14.23 of the Listing Rules for the purpose of classification of the transactions, as (i) the Previous Acquisitions of NVIDIA Shares, (ii) the Previous Disposals of NVIDIA Shares, (iii) the Further Acquisition of NVIDIA Shares, (iv) the Further Disposal of NVIDIA Shares and (v) the February 15 Further Disposal of NVIDIA Shares involve acquisitions and disposals of NVIDIA Shares within a 12-month period, all transactions respectively contemplated thereunder are considered and are aggregated as one transaction at a total consideration of approximately US$1.8 million (equivalent to approximately HK$14.2 million).

The February 15 Further Disposal of NVIDIA Shares, on a standalone basis, constitutes a discloseable transaction since one or more of the applicable percentage ratios (as defined under the Listing Rules) are more than 5% but all of such ratios are less than 25%.

As the highest applicable percentage ratio under Rule 14.07 of the Listing Rules in respect of the February 15 Further Acquisition of NVIDIA Shares when aggregated with the Previous Acquisitions of NVIDIA Shares, the Previous Disposals of NVIDIA Shares, the Further Acquisition of NVIDIA Shares and the Further Disposal of NVIDIA Shares by the Company in the preceding 12-month period, exceed 25% but all are less than 100%, the February 15 Further Acquisition of NVIDIA Shares constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and will be subject to reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

February 16 Further Disposal of NVIDIA Shares

Pursuant to Rule 14.22 and Rule 14.23 of the Listing Rules for the purpose of classification of the transactions, as (i) the Previous Acquisitions of NVIDIA Shares, (ii) the Previous Disposals of NVIDIA Shares, (iii) the Further Acquisition of NVIDIA Shares, (iv) the Further Disposal of NVIDIA Shares, (v) the February 15 Further Disposal of NVIDIA Shares and (vi) the February 16 Further Disposal of NVIDIA Shares involve acquisitions and disposals of NVIDIA Shares within a 12-month period, all transactions respectively contemplated thereunder are considered and are aggregated as one transaction at a total consideration of approximately US$0.5 million (equivalent to approximately HK$3.8 million).

As the highest applicable percentage ratio under Rule 14.07 of the Listing Rules in respect of the February 16 Further Acquisition of NVIDIA Shares (standing alone) and when aggregated with the Previous Acquisitions of NVIDIA Shares, the Previous Disposals of NVIDIA Shares, the Further Acquisition of NVIDIA Shares and the February 15 Further Disposal of NVIDIA Shares by the Company in the preceding 12-month period, exceed 25% but all are less than 100%, the February 16 Further Acquisition of NVIDIA Shares constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and will be subject to reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

February 22 Further Acquisition of NVIDIA Shares

As one or more of the applicable percentage ratios for the February 22 Further Acquisition of NVIDIA Shares, when aggregated or on a standalone basis exceeded 5% but all are less than 25%, such transaction constituted discloseable transaction of the Company and was subject to the announcement and reporting requirements under Chapter 14 of the Listing Rules.

February Further Acquisition of Super Micro Shares

Pursuant to Rule 14.22 and Rule 14.23 of the Listing Rules for the purpose of classification of the transactions, as (i) the Previous Acquisitions of Super Micro Shares, (ii) the Previous Disposals of Super Micro Shares, (iii) the Further Acquisition of Super Micro Shares and (iv) the February Further Acquisition of Super Micro Shares involve acquisitions and disposals of Super Micro Shares within a 12-month period, all transactions respectively contemplated thereunder are considered and are aggregated as one transaction at a total consideration of approximately US$3.8 million (equivalent to approximately HK$29.4 million).

As the highest applicable percentage ratio under Rule 14.07 of the Listing Rules in respect of the February Further Acquisition of Super Micro Shares (standing alone) and when aggregated with the Previous Acquisitions of Super Micro Shares, the Previous Disposals of Super Micro Shares and the Further Acquisition of Super Micro Shares by the Company in the preceding 12-month period, exceed 25% but all are less than 100%, the February Further Acquisition of Super Micro Shares constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and will be subject to reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

February Disposal of Super Micro Shares

Pursuant to Rule 14.22 and Rule 14.23 of the Listing Rules for the purpose of classification of the transactions, as (i) the Previous Acquisitions of Super Micro Shares, (ii) the Previous Disposals of Super Micro Shares, (iii) the Further Acquisition of Super Micro Shares, (iv) the February Further Acquisition of Super Micro Shares and (v) the February Disposal of Super Micro Shares involve acquisitions and disposals of Super Micro Shares within a 12-month period, all transactions respectively contemplated thereunder are considered and are aggregated as one transaction at a total consideration of approximately US$2.9 million (equivalent to approximately HK$22.9 million).

The February Disposal of Super Micro Shares, on a standalone basis, constitutes a discloseable transaction since one or more of the applicable percentage ratios (as defined under the Listing Rules) are more than 5% but all of such ratios are less than 25%.

As the highest applicable percentage ratio under Rule 14.07 of the Listing Rules in respect of the February Disposal of Super Micro Shares when aggregated with the Previous Acquisitions of Super Micro Shares, the Previous Disposals of Super Micro Shares, the Further Acquisition of Super Micro Shares and the February Further Acquisition of Super Micro Shares by the Company in the preceding 12-month period, exceed 25% but all are less than 100%, the February Disposal of Super Micro Shares constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and will be subject to reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

March Further Disposal of Super Micro Shares

Pursuant to Rule 14.22 and Rule 14.23 of the Listing Rules for the purpose of classification of the transactions, as (i) the Previous Acquisitions of Super Micro Shares, (ii) the Previous Disposals of Super Micro Shares, (iii) the Further Acquisition of Super Micro Shares, (iv) the February Further Acquisition of Super Micro Shares, (v) the February Disposal of Super Micro Shares and (vi) the March Further Disposal of Super Micro Shares involve acquisitions and disposals of Super Micro Shares within a 12-month period, all transactions respectively contemplated thereunder are considered and are aggregated as one transaction at a total consideration of approximately US$2.5 million (equivalent to approximately HK$19.5 million).

The March Further Disposal of Super Micro Shares, on a standalone basis, constitutes a discloseable transaction since one or more of the applicable percentage ratios (as defined under the Listing Rules) are more than 5% but all of such ratios are less than 25%.

As the highest applicable percentage ratio under Rule 14.07 of the Listing Rules in respect of the March Further Disposal of Super Micro Shares when aggregated with the Previous Acquisitions of Super Micro Shares, the Previous Disposals of Super Micro Shares, the Further Acquisition of Super Micro Shares, the February Further Acquisition of Super Micro Shares and the February Disposal of Super Micro Shares by the Company in the preceding 12-month period, exceed 25% but all are less than 100%, the March Further Disposal of Super Micro Shares constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and will be subject to reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

March Disposal of NVIDIA Shares

As one or more of the applicable percentage ratios for the March Disposal of NVIDIA Shares, when aggregated or on a standalone basis exceeded 5% but all are less than 25%, such transaction constituted discloseable transaction of the Company and was subject to the announcement and reporting requirements under Chapter 14 of the Listing Rules.

April Further Acquisition of Super Micro Shares

Pursuant to Rule 14.22 and Rule 14.23 of the Listing Rules for the purpose of classification of the transactions, as the Previous Acquisitions of Super Micro Shares, the Previous Disposals of Super Micro Shares, the Further Acquisition of Super Micro Shares and the April Further Acquisition of Super Micro Shares involve acquisitions and disposals of Super Micro Shares within a 12-month period, all transactions respectively contemplated thereunder are considered and are aggregated as one transaction at a total consideration of approximately US$3.3 million (equivalent to approximately HK$25.5 million).

The April Further Acquisition of Super Micro Shares, on a standalone basis, constitutes a discloseable transaction since one or more of the applicable percentage ratios (as defined under the Listing Rules) are more than 5% but all of such ratios are less than 25%.

As the highest applicable percentage ratio under Rule 14.07 of the Listing Rules in respect of the April Further Acquisition of Super Micro Shares, when aggregated with the Previous Acquisitions of Super Micro Shares, the Previous Disposals of Super Micro Shares, the Further Acquisition of Super Micro Shares, the February Further Acquisition of Super Micro Shares, the February Disposal of Super Micro Shares and the March Further Disposal of Super Micro Shares by the Company in the preceding 12-month period, exceeds 25% but is less than 100%, the April Further Acquisition of Super Micro Shares constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and will be subject to reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

WAIVER FROM STRICT COMPLIANCE WITH THE REQUIREMENTS UNDER THE LISTING RULES

Waiver from strict compliance with Rule 14.67(6)(a)(i) and Rule 14.67(7) of the Listing Rules

Pursuant to Rules 14.67(6)(a)(i) and 14.67(7) of the Listing Rules, the Company is required to include in this circular an accountant's report on each of NVIDIA and Super Micro which is prepared in accordance with Chapter 4 of the Listing Rules and a discussion and analysis on results of each of NVIDIA and Super Micro covering all those matters set out in paragraph 32 of Appendix D2 to the Listing Rules for the period reported in such accountant's report.

As the Company considers that the strict compliance with Rules 14.67(6)(a)(i) and 14.67(7) of the Listing Rules would be unduly burdensome, the Company has applied for waiver from strict compliance of the aforesaid Listing Rules on the following grounds:

(a) The Further Acquisition of NVIDIA Shares, the Further Acquisition of Super Micro Shares and the April Acquisition of Super Micro Shares are part of the Group's strategic investments business, and the Group may make appropriate investment opportunities as and when appropriate, including but not limited to acquisition(s) and disposal(s) of listed equity securities. Subsequent to each of the Further Acquisition of NVIDIA Shares, the Further Acquisition of Super Micro Shares and the April Acquisition of Super Micro Shares, the percentage of NVIDIA Shares and Super Micro Shares held by the Company would be approximately 0.000% and 0.010% respectively. The Company also does not have any board seats in both NVIDIA and Super Micro. The Company's minority interest in both NVIDIA and Super Micro is minimal and insignificant to exert any form of control over both NVIDIA and Super Micro.

(b) NVIDIA and Super Micro, both being listed companies incorporated in the United States, have their financial results prepared in accordance with accounting principles generally accepted in the United States as contained in the Financial Accounting Standards Board Accounting Standards Codification (the "**U.S. GAAP**"). Both NVIDIA and Super Micro had been publishing financial information to the market on a regular basis to enable investors to assess their activities and financial position. Both NVIDIA and Super Micro are listed on Nasdaq and its financial disclosures are subject to supervision by the relevant regulatory authorities.

(c) Following the Further Acquisition of NVIDIA Shares, the Further Acquisition of Super Micro Shares and the April Acquisition of Super Micro Shares, both NVIDIA and Super Micro will not become a subsidiary or an associate of the Company and the financial results of NVIDIA and/or Super Micro will not be consolidated in the financial statements of the Group nor be equity accounted for in the Group's consolidated financial statements as an associate. Requiring the Company to arrange for an accountants' report on each of NVIDIA and Super Micro will be out of proportion to the size of the Further Acquisition of NVIDIA Shares, the Further Acquisition of Super Micro Shares and the April Acquisition of Super Micro Shares in terms of time and costs involved.

(d) As each of the Further Acquisition of NVIDIA Shares, the Further Acquisition of Super Micro Shares and the April Acquisition of Super Micro Shares was a transaction made in the open market, NVIDIA and/or Super Micro was not obliged to assist the Company to prepare the accountants' report or a discussion and analysis of results on it for the Further Acquisition of NVIDIA Shares, the Further Acquisition of Super Micro Shares and the April Acquisition of Super Micro Shares. In addition, the Company does not have access to NVIDIA's or Super Micro's books and records to prepare the accountants' report on it in accordance with the Listing Rules.

(e) The preparation of the accountants' report under Rule 14.67(a)(i) of the Listing Rules for inclusion in the circular would require converting the financial information of NVIDIA and Super Micro based on the Hong Kong Financial Reporting Standards. Even assuming NVIDIA and/or Super Micro is prepared to provide extensive access to its accounting records and provide explanations in relation to the same, the Company considers that it would be unduly onerous to require the Company to set out an accountants' report of NVIDIA and/or Super Micro in its circular as the auditors of the Company would have to carry out audit procedures on NVIDIA and/or Super Micro, which would not provide meaningful information to the Shareholders given the above.

(f) NVIDIA and Super Micro, both being a listed company incorporated in the United States, are required to publish its audited financial statements, on a regular basis, for each financial year, on their websites. The said financial statements of NVIDIA and Super Micro were audited by PricewaterhouseCoopers LLP and Deloitte & Touche LLP respectively and were prepared based on the U.S. GAAP. Such SEC filings have been published by NVIDIA and Super Micro as required and can be easily obtained by the Shareholders and will enable them and potential investors to make a properly informed assessment of NVIDIA and/or Super Micro. Further, NVIDIA and Super Micro would publish its unaudited quarterly results on their websites. The unaudited quarterly results were prepared based on the U.S. GAAP, and such information is publicly available.

(g) The Company's reporting accountant to this circular considers that the accounting standards under U.S. GAAP and the accounting policies of the Company, i.e. Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, are materially consistent.

(h) As stated in the reasons set out in points (d) and (f) above, the Company could not access the books and records of NVIDIA and/or Super Micro and NVIDIA and/or Super Micro was not prepared to disclose any additional financial information. Thus, the Company were not able to prepare the discussion and analysis of results of NVIDIA and/or Super Micro for the incorporation into this circular. In addition, the Company could not express any view as to the truth, accuracy or completeness on the discussion and analysis of the results of NVIDIA and/or Super Micro as stated in its published information.

In light of the above, the Company considers that strict compliance with requirements under Rules 14.67(6)(a)(i) and 14.67(7) of the Listing Rules would be unduly burdensome and impractical, and a relaxation of such requirements would unlikely result in undue risks to the Shareholders and potential investors of the Company.

Alternative disclosures

The Company has included the following information in this circular as alternative disclosures to an accountants' report required under Rule 14.67(6)(a)(i) of the Listing Rules and a management discussion and analysis required under Rule 14.67(7) of the Listing Rules:

(a) the annual audited consolidated financial statements of NVIDIA for the year ended 31 January 2021 as extracted from the published documents of NVIDIA, which is set out on page II-2 to II-40 in Appendix II to this circular;

(b) the annual audited consolidated financial statements of NVIDIA for the year ended 30 January 2022 as extracted from the published documents of NVIDIA, which is set out on page II-41 to II-76 in Appendix II to this circular;

(c) the annual audited consolidated financial statements of NVIDIA for the year ended 29 January 2023 as extracted from the published documents of NVIDIA, which is set out on page II-77 to II-107 in Appendix II to this circular;

(d) the unaudited consolidated financial statements of NVIDIA for the nine months ended 29 October 2023 as extracted from the published documents of NVIDIA, which is set out on page II-108 to II-170 in Appendix II to this circular;

(e) the management discussion and analysis of the results of operations of NVIDIA for the three financial years ended 31 January 2021, 30 January 2022 and 29 January 2023 and the nine months ended 29 October 2023 as extracted from the published documents of NVIDIA, which are set out on pages III-1 to III-54 in Appendix III to this circular;

(f) the annual audited consolidated financial statements of Super Micro for the year ended 30 June 2021 as extracted from the published documents of Super Micro, which is set out on page IV-2 to IV-44 in Appendix IV to this circular;

(g) the annual audited consolidated financial statements of Super Micro for the year ended 30 June 2022 as extracted from the published documents of Super Micro, which is set out on page IV-45 to IV-86 in Appendix IV to this circular;

(h) the annual audited consolidated financial statements of Super Micro for the year ended 30 June 2023 as extracted from the published documents of Super Micro, which is set out on page IV-87 to IV-135 in Appendix IV to this circular;

(i) the unaudited consolidated financial statements of Super Micro for the six months ended 31 December 2023 as extracted from the published documents of Super Micro, which is set out on page IV-136 to IV-166 in Appendix IV to this circular; and

(j) the management discussion and analysis of the results of operations of Super Micro for the three financial years ended 30 June 2023 and the six months ended 31 December 2023 as extracted from the published documents of Super Micro, which are set out on pages V-1 to V-52 in Appendix V to this circular.

Based on the information provided by the Company and the alternative disclosures above, the Stock Exchange granted the waiver from strict compliance with Rules 14.67(6)(a)(i) and 14.67(7) under the Listing Rules.

REMEDIAL ACTIONS

The Company would like to express deep regret for its inadvertent and unintentional overlook of the requirements of the Listing Rules. To prevent similar incidence in the future, the Company has reviewed its internal control measures and procedures and has implemented the following remedial actions with immediate effect:

(i) the Company had reviewed transactions conducted and checked whether it is necessary for the Company to comply with any requirements under the Listing Rules. Save as disclosed in the announcement dated 30 April 2024, the Company did not discover other transaction which would be required to comply with the requirements under the Listing Rules;

(ii) the Company had retained extra finance staffs to consult and assist in carrying out compliance matters of the Group relating to the Listing Rules;

(iii) the Company will provide further guidance material and training, in particular, regarding how to define a transaction and proper calculation methodology of the percentage ratios relating to notifiable transactions under the Listing Rules for the Directors, senior management and the finance staffs of the Group in order to strengthen and reinforce their existing knowledge with respect to notifiable transactions;

(iv) the Company will also arrange regular training on regulatory compliance matters relating to notifiable transactions to the Directors, senior management and responsible staff to ensure that they fully understand the requirements of the Listing Rules;

(v) the Company shall, as and when appropriate and necessary, consult external legal advisers and/or other professional adviser before entering into possible notifiable transaction or when notifiable transactions are being contemplated so as to ensure that the Directors' apprehension and interpretation of the Listing Rules are correct and the Group timely complies with the relevant requirements under the Listing Rules; and

(vi) the Company will discuss, review and strengthen its internal control and compliance system to identify any weakness and consider further remedial actions to address them.

Going forward, the Company will continue to comply with the management procedures of its investments on the investment or wealth management products and make sure disclosure in a timely manner to ensure full compliance with the Listing Rules.

WRITTEN SHAREHOLDER'S APPROVAL

Pursuant to Rule 14.44 of the Listing Rules, shareholders' approval may be obtained by written shareholders' approval in lieu of convening a general meeting if (a) no shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of each of the Further Acquisition of NVIDIA Shares, the Further Acquisition of Super Micro Shares, the Further Disposal of NVIDIA Shares, the February 15 Further Disposal of NVIDIA Shares, the February 16 Further Disposal of NVIDIA Shares, the February Further Acquisition of Super Micro Shares, the February Disposal of Super Micro Shares, the March Further Disposal of Super Micro Shares and the April Further Acquisition of Super Micro Shares; and (b) written approval has been obtained from a shareholder or a closely allied group of shareholders who together hold more than 50% of the issued share capital of the Company giving the right to attend and vote at general meetings to approve each of the Further Acquisition of NVIDIA Shares, the Further Acquisition of Super Micro Shares, the Further Disposal of NVIDIA Shares, the February 15 Further Disposal of NVIDIA Shares, the February 16 Further Disposal of NVIDIA Shares, the February Further Acquisition of Super Micro Shares, the February Disposal of Super Micro Shares, the March Further Disposal of Super Micro Shares and the April Further Acquisition of Super Micro Shares.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholder has any material interest in each of the Further Acquisition of NVIDIA Shares, the Further Acquisition of Super Micro Shares, the Further Disposal of NVIDIA Shares, the February 15 Further Disposal of NVIDIA Shares, the February 16 Further Disposal of NVIDIA Shares, the February Further Acquisition of Super Micro Shares, the February Disposal of Super Micro Shares, the March Further Disposal of Super Micro Shares and the April Further Acquisition of Super Micro Shares. Thus, if the Company were to convene a general meeting to approve each of the Further Acquisition of NVIDIA Shares, the Further Acquisition of Super Micro Shares, the Further Disposal of NVIDIA Shares, the February 15 Further Disposal of NVIDIA Shares, the February 16 Further Disposal of NVIDIA Shares, the February Further Acquisition of Super Micro Shares, the February Disposal of Super Micro Shares, the March Further Disposal of Super Micro Shares and the April Further Acquisition of Super Micro Shares, no Shareholder is required to abstain from voting on the resolutions in relation to the Further Acquisition of NVIDIA Shares, the Further Acquisition of Super Micro Shares, the Further Disposal of NVIDIA Shares, the February 15 Further Disposal of NVIDIA Shares, the February 16 Further Disposal of NVIDIA Shares, the February Further Acquisition of Super Micro Shares, the February Disposal of Super Micro Shares, the March Further Disposal of Super Micro Shares and the April Further Acquisition of Super Micro Shares. As such, each of the Further Acquisition of NVIDIA Shares, the Further Acquisition of Super Micro Shares, the Further Disposal of NVIDIA Shares, the February 15 Further Disposal of NVIDIA Shares, the February 16 Further Disposal of NVIDIA Shares, the February Further Acquisition of Super Micro Shares, the February Disposal of Super Micro Shares, the March Further Disposal of Super Micro Shares and the April Further Acquisition of Super Micro Shares may be approved by written Shareholder's approval in accordance with Rule 14.44 of the Listing Rules.

In relation to written approval in lieu of holding a general meeting in respect of each of the Further Acquisition of NVIDIA Shares, the Further Acquisition of Super Micro Shares, the Further Disposal of NVIDIA Shares, the February 15 Further Disposal of NVIDIA Shares, the February 16 Further Disposal of NVIDIA Shares, the February Further Acquisition of Super Micro Shares, the February Disposal of Super Micro Shares, the March Further Disposal of Super Micro Shares and the April Further Acquisition of Super Micro Shares, the Company obtained shareholder's approval from Yoho Bravo Limited which holds 599,658,000 shares (representing approximately 74.96% of the total issued share capital of the Company as at the date of the written approval by Yoho Bravo Limited and the Latest Practicable Date respectively) pursuant to Rule 14.44 of the Listing Rules. As a result, no extraordinary general meeting will be convened to consider each of the Further Acquisition of NVIDIA Shares, the Further Acquisition of Super Micro Shares, the Further Disposal of NVIDIA Shares, the February 15 Further Disposal of NVIDIA Shares, the February 16 Further Disposal of NVIDIA Shares, the February Further Acquisition of Super Micro Shares, the February Disposal of Super Micro Shares, the March Further Disposal of Super Micro Shares and the April Further Acquisition of Super Micro Shares.

RECOMMENDATION

The Directors (including the independent non-executive Directors) consider that the Further Acquisition of NVIDIA Shares, the Further Acquisition of Super Micro Shares, the Further Disposal of NVIDIA Shares, the February 15 Further Disposal of NVIDIA Shares, the February 16 Further Disposal of NVIDIA Shares, the February Further Acquisition of Super Micro Shares, the February Disposal of Super Micro Shares, the March Further Disposal of Super Micro Shares and the April Further Acquisition of Super Micro Shares are on normal commercial terms, which is fair and reasonable and in the interests of the Company and its Shareholders as a whole. The Directors would recommend the Shareholders to vote in favour of the Further Acquisition of NVIDIA Share, the Further Acquisition of Super Micro Shares, the Further Disposal of NVIDIA Shares, the February 15 Further Disposal of NVIDIA Shares, the February 16 Further Disposal of NVIDIA Shares, the February Further Acquisition of Super Micro Shares, the February Disposal of Super Micro Shares, the March Further Disposal of Super Micro Shares and the April Further Acquisition of Super Micro Shares if a physical meeting were to be held.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

By Order of the Board
Brainhole Technology Limited
Zhang Liang Johnson
Chairman and Executive Director

1. FINANCIAL INFORMATION OF THE GROUP

Details of the financial information of the Company for the three years ended 31 December 2021, 2022 and 2023 have been published and are available on the website of the Stock Exchange (www.hkex.com.hk) and the website of the Company (http://www.brainholetechnology.com) respectively:

- the annual report of the Company for the year ended 31 December 2021 (pages 84 to 169) published on 28 April 2022, available on:

  https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0428/2022042800574.pdf

- the annual report of the Company for the year ended 31 December 2022 (pages 81 to 169) published on 26 April 2023, available on:

  https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0426/2023042600894.pdf

- the annual report of the Company for the year ended 31 December 2023 (pages 83 to 173) published on 29 April 2024, available on:

  https://www1.hkexnews.hk/listedco/listconews/sehk/2024/0429/2024042902560.pdf

2. STATEMENT OF INDEBTEDNESS OF THE GROUP

At the close of business on 31 March 2024, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this Circular, the Group had outstanding indebtedness as follows:

	31 March 2024
	HK$'000
Lease liabilities	4,907
Loan from immediate holding company	Nil
Loans from related companies	49,590
Loan from ultimate controlling party	110,743

As at 31 March 2024, all the loan from immediate holding company, loans from related companies and loan from ultimate controlling party of the Group disclosed above are unsecured and unguaranteed.

Save as disclosed above, the Group did not, as of the close of business on 31 March 2024, have any debt securities issued and outstanding, or authorised or otherwise created but unissued, any other term loans, any other borrowings or indebtedness in the nature of borrowings including bank overdrafts and liabilities under acceptance (other than normal trade bills) or acceptance credits or hire purchase commitments, any other mortgages and charges or any guarantees or any finance lease commitments or material contingent liabilities.

3. WORKING CAPITAL STATEMENT OF THE GROUP

The Directors, after due and careful consideration, are of the opinion that, taking into account the financial resources available to the Group, including internally generated funds and the available facilities, and the impact of the Further Acquisition of NVIDIA Shares, the Further Acquisition of Super Micro Shares, the Further Disposal of NVIDIA Shares, the February 15 Further Disposal of NVIDIA Shares, the February 16 Further Disposal of NVIDIA Shares, the February Further Acquisition of Super Micro Shares, the February Disposal of Super Micro Shares, the March Further Disposal of Super Micro Shares and the April Further Acquisition of Super Micro Shares, the Group will have sufficient working capital for its business for at least 12 months from the date of this circular.

The Company has obtained the relevant confirmation as required under Rule 14.66 (12) of the Listing Rules.

4. MATERIAL ADVERSE CHANGE

At the Latest Practicable Date and to the best knowledge of the Directors, there was no material adverse change in the financial or trading position of the Group since 31 December 2023 (being the date to which the latest published audited financial statements of the Group were made up).

5. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group is principally engaged in the manufacturing and trading of semiconductors, broadband infrastructure construction and the provision of integrated solution for smart domain application (including smart home, smart campus and smart communities). The Group believes that technological innovation is an important engine for future economic development, and it can also drive the emerging applications in the smart living sector. The Group aims to leverage our own advantages in the field of smart technology to capture investment opportunities and actively diversify the investments in the field of innovative technologies, in order to create greater value for the Shareholders.

Since 2022, the Group commenced the strategic investments business which engages in trading of cryptocurrencies and listed equity securities. In particular to the listed equity securities, the investment portfolio mainly comprises leading technology companies and high quality large companies listed in the United States and Hong Kong. As stated in the paragraphs headed "REASONS FOR AND BENEFITS OF (I) THE FURTHER ACQUISITION OF NVIDIA SHARES; (II) THE FURTHER ACQUISITION OF SUPER MICRO SHARES; (III) THE FEBRUARY FURTHER ACQUISITION OF SUPER MICRO SHARES; AND (IV) THE APRIL FURTHER ACQUISITION OF SUPER MICRO SHARES" and "REASONS FOR AND BENEFITS OF (I) THE FURTHER DISPOSAL OF NVIDIA SHARES; (II) THE FEBRUARY 15 FURTHER DISPOSAL OF NVIDIA SHARES; (III) THE FEBRUARY 16 FURTHER DISPOSAL OF NVIDIA SHARES; (IV) THE FEBRUARY DISPOSAL OF SUPER MICRO SHARES; AND (V) THE MARCH FURTHER DISPOSAL OF SUPER MICRO SHARES" in the section headed "LETTER FROM THE BOARD", the Group considers that the Further Acquisition of NVIDIA Shares, the Further Acquisition of Super Micro Shares, the Further Disposal of NVIDIA Shares, the February 15 Further Disposal of NVIDIA Shares, the February 16 Further Disposal of NVIDIA Shares, the February Further Acquisition of Super Micro Shares, the February Disposal of Super Micro Shares, the March Further Disposal of Super Micro Shares and the April Further Acquisition of Super Micro Shares represent opportunities to allow the Group to reallocate the resources and investment portfolio. The Group will closely monitor and assess the performance of these listed equity securities and make timely and appropriate adjustments on the investment portfolio to enhance the returns for the Group and realise the investments as and when appropriate.

FINANCIAL INFORMATION OF NVIDIA FOR EACH OF THE THREE YEARS ENDED 31 JANUARY 2021, 30 JANUARY 2022 AND 29 JANUARY 2023 AND THE NINE MONTHS ENDED 29 OCTOBER 2023

For the purpose of this section only, unless the context requires otherwise, references to the "Company" are to NVIDIA, and references to "we", "us" and "our" shall be construed accordingly.

The following is an extract of the audited consolidated financial statements of NVIDIA for the three years ended 31 January 2021, 30 January 2022 and 29 January 2023 and the unaudited consolidated financial statements of NVIDIA for the nine months ended 29 October 2023, which were prepared in accordance with the U.S. GAAP, as extracted from the respective annual reports/third quarterly report of NVIDIA for the three years ended 31 January 2021, 30 January 2022 and 29 January 2023 and the nine months ended 29 October 2023. These financial statements were issued in English and the Chinese translated version is provided for information purposes only. In case of discrepancies between the two versions, the English version shall prevail.

The annual reports/third quarter results and consolidated financial statements of NVIDIA for the three years ended 31 January 2021, 30 January 2022 and 29 January 2023 and the nine months ended 29 October 2023 are available at the website of the SEC (https://www.sec.gov/).

The Directors wish to emphasise that the extracts reproduced below are not prepared for incorporation into this circular and the Company has not participated in their preparation. As such, the Directors do not express any view as to their truth, accuracy or completeness, and the Shareholders and investors should exercise caution and should not place undue reliance on such information.

A. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF NVIDIA FOR THE YEAR ENDED 31 JANUARY 2021

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULE

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of NVIDIA Corporation

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of NVIDIA Corporation and its subsidiaries (the "Company") as of January 31, 2021 and January 26, 2020, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended January 31, 2021, including the related notes and financial statement schedule listed in the index appearing under Item 15(a)(2) (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of January 31, 2021, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of January 31, 2021 and January 26, 2020, and the results of its operations and its cash flows for each of the three years in the period ended January 31, 2021 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 31, 2021, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

Change in Accounting Principle

As discussed in Note 3 to the consolidated financial statements, the Company changed the manner in which it accounts for leases in fiscal year 2020.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that (i) relate to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Acquisition of Mellanox Technologies Ltd.- Valuation of Developed Technology and In-process Research and Development Intangible Assets Acquired

As described in Note 2 to the consolidated financial statements, in fiscal year 2021 the Company completed the acquisition of Mellanox Technologies Ltd. for consideration of approximately $7.13 billion, of which $1,640 million of developed technology and $630 million of in-process research and development intangible assets were recorded. The fair values of developed technology and in-process research and development intangible assets were determined using the multi-period excess earnings method. As disclosed by management, management applied significant judgment in estimating the fair value of the intangible assets acquired, which involved the use of certain estimates and assumptions, including future economic and market conditions, revenue growth, the technology migration curve, and risk-adjusted discount rates.

The principal considerations for our determination that performing procedures relating to the valuation of the developed technology and in-process research and development intangible assets acquired in the acquisition of Mellanox Technologies Ltd. is a critical audit matter are (i) the high degree of auditor judgment and subjectivity in applying procedures relating to the fair value measurement of developed technology and in-process research and development intangible assets acquired due to the significant judgment by management when developing the estimate, (ii) significant audit effort in evaluating management's assumptions relating to the estimate, such as revenue growth and the technology migration curve, and (iii) the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the acquisition accounting, including controls over management's valuation of the intangible assets and controls over development of the assumptions related to the revenue growth and the technology migration curve. These procedures also included, among others, reading the purchase agreement and testing management's process for estimating the fair value of the developed technology and in-process research and development intangible assets acquired. Testing management's process included evaluating the appropriateness of the valuation method and the reasonableness of management's assumptions related to the revenue growth and the technology migration curve for the intangible assets acquired, and using professionals with specialized skill and knowledge to assist with the evaluation. Evaluating the reasonableness of the revenue growth involved considering the past performance of the acquired business as well as economic and industry forecasts. The technology migration curve was evaluated by considering the revenue attribution between existing technology and in-process research and development based on the assessment of the separation of forecasted future revenue between developed products and new generation products and the technology carryover rate.

Valuation of Inventories - Provisions for Excess or Obsolete Inventories

As described in Note 1 to the consolidated financial statements, the Company charges cost of sales for inventory provisions to write-down inventory to the lower of cost or net realizable value or for obsolete or excess inventory. Most of the Company's inventory provisions relate to excess quantities of products, based on the Company's inventory levels and future product purchase commitments compared to assumptions about future demand and market conditions. As disclosed by management, the inventory provisions developed include assumptions about future demand and market conditions. As of January 31, 2021, the Company's consolidated inventories balance was $1,826 million.

The principal considerations for our determination that performing procedures relating to the valuation of inventories, specifically the provisions for excess or obsolete inventories, is a critical audit matter are the significant judgments by management when developing provisions for excess or obsolete inventories, including developing assumptions related to future demand and market conditions. This in turn led to significant auditor judgment, subjectivity, and effort in performing procedures and evaluating management's assumptions related to future demand and market conditions.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's provisions for excess or obsolete inventories, including controls over management's assumptions related to future demand and market conditions. These procedures also included, among others, testing management's process for developing the provisions for excess or obsolete inventories; evaluating the appropriateness of management's approach; testing the completeness, accuracy, and relevance of underlying data used in the approach; and evaluating the reasonableness of management's assumptions related to future demand and market conditions. Evaluating management's assumptions related to future demand and market conditions involved evaluating whether the assumptions used by management were reasonable considering (i) current and past results, including historical product life cycle, (ii) the consistency with external market and industry data, (iii) changes in technology, and (iv) comparing prior period estimates to actual results of the same period.

/s/ PricewaterhouseCoopers LLP

San Jose, California

February 26, 2021

We have served as the Company's auditor since 2004.

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

	Year Ended		
	January 31, 2021	**January 26, 2020**	**January 27, 2019**
Revenue	$ 16,675	$ 10,918	$ 11,716
Cost of revenue	6,279	4,150	4,545
Gross profit	10,396	6,768	7,171
Operating expenses			
Research and development	3,924	2,829	2,376
Sales, general and administrative	1,940	1,093	991
Total operating expenses	5,864	3,922	3,367
Income from operations	4,532	2,846	3,804
Interest income	57	178	136
Interest expense	(184)	(52)	(58)
Other, net	4	(2)	14
Other income (expense), net	(123)	124	92
Income before income tax	4,409	2,970	3,896
Income tax expense (benefit)	77	174	(245)
Net income	$ 4,332	$ 2,796	$ 4,141
Net income per share:			
Basic	$ 7.02	$ 4.59	$ 6.81
Diluted	$ 6.90	$ 4.52	$ 6.63
Weighted average shares used in per share computation:			
Basic	617	609	608
Diluted	628	618	625

See accompanying notes to the consolidated financial statements.

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

	Year Ended		
	January 31, 2021	January 26, 2020	January 27, 2019
Net income	$ 4,332	$ 2,796	$ 4,141
Other comprehensive income, net of tax			
Available-for-sale debt securities:			
Net unrealized gain	2	8	10
Reclassification adjustments for net realized gain (loss) included in net income	(2)	—	1
Net change in unrealized gain	—	8	11
Cash flow hedges:			
Net unrealized gain	9	10	6
Reclassification adjustments for net realized gain (loss) included in net income	9	(5)	(11)
Net change in unrealized gain (loss)	18	5	(5)
Other comprehensive income, net of tax	18	13	6
Total comprehensive income	$ 4,350	$ 2,809	$ 4,147

See accompanying notes to the consolidated financial statements.

NVIDIA CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In millions, except par value)

	January 31, 2021	January 26, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	$ 847	$ 10,896
Marketable securities	10,714	1
Accounts receivable, net	2,429	1,657
Inventories	1,826	979
Prepaid expenses and other current assets	239	157
Total current assets	16,055	13,690
Property and equipment, net	2,149	1,674
Operating lease assets	707	618
Goodwill	4,193	618
Intangible assets, net	2,737	49
Deferred income tax assets	806	548
Other assets	2,144	118
Total assets	$ 28,791	$ 17,315
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,201	$ 687
Accrued and other current liabilities	1,725	1,097
Short-term debt	999	—
Total current liabilities	3,925	1,784
Long-term debt	5,964	1,991
Long-term operating lease liabilities	634	561
Other long-term liabilities	1,375	775
Total liabilities	11,898	5,111
Commitments and contingencies - see Note 13		
Shareholders' equity:		
Preferred stock, $0.001 par value; 2 shares authorized; none issued	—	—
Common stock, $0.001 par value; 2,000 shares authorized; 965 shares issued and 620 outstanding as of January 31, 2021; 955 shares issued and 612 outstanding as of January 26, 2020	1	1
Additional paid-in capital	8,721	7,045
Treasury stock, at cost (345 shares in 2021 and 342 shares in 2020)	(10,756)	(9,814)
Accumulated other comprehensive income	19	1
Retained earnings	18,908	14,971
Total shareholders' equity	16,893	12,204
Total liabilities and shareholders' equity	$ 28,791	$ 17,315

See accompanying notes to the consolidated financial statements.

NVIDIA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In millions, except per share data)	Common Stock Outstanding Shares	Common Stock Outstanding Amount	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Shareholders' Equity
Balances, January 28, 2018	606	$ 1	$ 5,351	$ (6,650)	$ (18)	$ 8,787	$ 7,471
Retained earnings adjustment due to adoption of an accounting standard related to income tax consequences of an intra-entity transfer of an asset	—	—	—	—	—	8	8
Other comprehensive income	—	—	—	—	6	—	6
Net income	—	—	—	—	—	4,141	4,141
Convertible debt conversion	1	—	—	—	—	—	—
Issuance of common stock from stock plans	13	—	137	—	—	—	137
Tax withholding related to vesting of restricted stock units	(4)	—	—	(1,032)	—	—	(1,032)
Share repurchase	(9)	—	—	(1,579)	—	—	(1,579)
Exercise of convertible note hedges	(1)	—	2	(2)	—	—	—
Cash dividends declared and paid ($0.610 per common share)	—	—	—	—	—	(371)	(371)
Stock-based compensation	—	—	561	—	—	—	561
Balances, January 27, 2019	606	1	6,051	(9,263)	(12)	12,565	9,342
Other comprehensive income	—	—	—	—	13	—	13
Net income	—	—	—	—	—	2,796	2,796
Issuance of common stock from stock plans	9	—	149	—	—	—	149
Tax withholding related to vesting of restricted stock units	(3)	—	—	(551)	—	—	(551)
Cash dividends declared and paid ($0.640 per common share)	—	—	—	—	—	(390)	(390)
Stock-based compensation	—	—	845	—	—	—	845
Balances, January 26, 2020	612	1	7,045	(9,814)	1	14,971	12,204
Other comprehensive income	—	—	—	—	18	—	18
Net income	—	—	—	—	—	4,332	4,332
Issuance of common stock from stock plans	11	—	194	—	—	—	194
Tax withholding related to vesting of restricted stock units	(3)	—	—	(942)	—	—	(942)
Cash dividends declared and paid ($0.640 per common share)	—	—	—	—	—	(395)	(395)
Fair value of partially vested equity awards assumed in connection with acquisitions	—	—	86	—	—	—	86
Stock-based compensation	—	—	1,396	—	—	—	1,396
Balances, January 31, 2021	620	$ 1	$ 8,721	$ (10,756)	$ 19	$ 18,908	$ 16,893

See accompanying notes to the consolidated financial statements.

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

	Year Ended		
	January 31, 2021	January 26, 2020	January 27, 2019
Cash flows from operating activities:			
Net income	$ 4,332	$ 2,796	$ 4,141
Adjustments to reconcile net income to net cash provided by operating activities:			
Stock-based compensation expense	1,397	844	557
Depreciation and amortization	1,098	381	262
Deferred income taxes	(282)	18	(315)
Other	(20)	5	(45)
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	(550)	(233)	(149)
Inventories	(524)	597	(776)
Prepaid expenses and other assets	(394)	77	(55)
Accounts payable	363	194	(135)
Accrued and other current liabilities	239	54	256
Other long-term liabilities	163	28	2
Net cash provided by operating activities	5,822	4,761	3,743
Cash flows from investing activities:			
Proceeds from maturities of marketable securities	8,792	4,744	7,232
Proceeds from sales of marketable securities	527	3,365	428
Purchases of marketable securities	(19,308)	(1,461)	(11,148)
Acquisitions, net of cash acquired	(8,524)	(4)	—
Purchases related to property and equipment and intangible assets	(1,128)	(489)	(600)
Investments and other, net	(34)	(10)	(9)
Net cash provided by (used in) investing activities	(19,675)	6,145	(4,097)
Cash flows from financing activities:			
Issuance of debt, net of issuance costs	4,968	—	—
Proceeds related to employee stock plans	194	149	137
Payments related to tax on restricted stock units	(942)	(551)	(1,032)
Dividends paid	(395)	(390)	(371)
Principal payments on property and equipment	(17)	—	—
Payments related to repurchases of common stock	—	—	(1,579)
Repayment of Convertible Notes	—	—	(16)
Other	(4)	—	(5)
Net cash provided by (used in) financing activities	3,804	(792)	(2,866)
Change in cash and cash equivalents	(10,049)	10,114	(3,220)
Cash and cash equivalents at beginning of period	10,896	782	4,002
Cash and cash equivalents at end of period	$ 847	$ 10,896	$ 782
Supplemental disclosures of cash flow information:			
Cash paid for income taxes, net	$ 249	$ 176	$ 61
Cash paid for interest	$ 138	$ 54	$ 55

See accompanying notes to the consolidated financial statements.

NVIDIA CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Organization and Summary of Significant Accounting Policies

Our Company

Headquartered in Santa Clara, California, NVIDIA was incorporated in California in April 1993 and reincorporated in Delaware in April 1998.

All references to "NVIDIA," "we," "us," "our" or the "Company" mean NVIDIA Corporation and its subsidiaries.

Fiscal Year

We operate on a 52- or 53-week year, ending on the last Sunday in January. Fiscal year 2021 is a 53-week year. Fiscal years 2020 and 2019 were both 52-week years.

Reclassifications

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

Principles of Consolidation

Our consolidated financial statements include the accounts of NVIDIA Corporation and our wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ materially from our estimates. On an on-going basis, we evaluate our estimates, including those related to revenue recognition, cash equivalents and marketable securities, accounts receivable, inventories, income taxes, goodwill, stock-based compensation, litigation, investigation and settlement costs, restructuring and other charges, and other contingencies. The inputs into our judgments and estimates consider the economic implications of COVID-19. These estimates are based on historical facts and various other assumptions that we believe are reasonable.

Revenue Recognition

We derive our revenue from product sales, including hardware and systems, license and development arrangements, and software licensing. We determine revenue recognition through the following steps: (1) identification of the contract with a customer; (2) identification of the performance obligations in the contract; (3) determination of the transaction price; (4) allocation of the transaction price to the performance obligations in the contract (where revenue is allocated on a relative standalone selling price basis by maximizing the use of observable inputs to determine the standalone selling price for each performance obligation); and (5) recognition of revenue when, or as, we satisfy a performance obligation.

Product Sales Revenue

Revenue from product sales is recognized upon transfer of control of promised products to customers in an amount that reflects the consideration we expect to receive in exchange for those products. Certain products are sold along with support or extended warranty. Support and extended warranty revenue are recognized ratably over the service period, or as services are performed. Revenue is recognized net of allowances for returns, customer programs and any taxes collected from customers.

For products sold with a right of return, we 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 fiscal period are anticipated to exceed historical return rates, we may determine that additional sales return allowances are required to properly reflect our estimated exposure for product returns.

Our customer programs involve rebates, which are designed to serve as sales incentives to resellers of our products in various target markets, and marketing development funds, or MDFs, which represent monies paid to our partners that are earmarked for market segment development and are designed to support our partners' activities while also promoting NVIDIA products. We account for customer programs as a reduction to revenue and accrue for potential rebates and MDFs based on the amount we expect to be claimed by customers.

NVIDIA CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

License and Development Arrangements

Our license and development arrangements with customers typically require significant customization of our intellectual property components. As a result, we recognize the revenue from the license and the revenue from the development services as a single performance obligation over the period in which the development services are performed. We measure progress to completion based on actual cost incurred to date as a percentage of the estimated total cost required to complete each project. If a loss on an arrangement becomes probable during a period, we record a provision for such loss in that period.

Software Licensing

Our software licenses provide our customers with a right to use the software when it is made available to the customer. Customers may purchase either perpetual licenses or subscriptions to licenses, which differ mainly in the duration over which the customer benefits from the software. Software licenses are frequently sold along with post-contract customer support, or PCS. Revenue from software licenses is recognized up front when the software is made available to the customer. PCS revenue is recognized ratably over the service period, or as services are performed.

Product Warranties

We generally offer a limited warranty to end-users that ranges from one to three years for products in order to repair or replace products for any manufacturing defects or hardware component failures. 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. We also accrue for known warranty and indemnification issues if a loss is probable and can be reasonably estimated.

Stock-based Compensation

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, and performance stock units that are based on our corporate financial performance targets, or PSUs. We use a Monte Carlo simulation on the date of grant to estimate the fair value of performance stock units that are based on market conditions, or market-based PSUs. The compensation expense for RSUs and market-based PSUs is recognized using a straight-line attribution method over the requisite employee service period while compensation expense for PSUs is recognized using an accelerated amortization model. We estimate the fair value of shares to be issued under our employee stock purchase plan, or ESPP, using the Black-Scholes model at the commencement of an offering period in March and September of each year. Stock-based compensation for our ESPP is expensed using an accelerated amortization model. Additionally, we estimate forfeitures annually based on historical experience and revise the estimates of forfeiture in subsequent periods if actual forfeitures differ from those estimates.

Litigation, Investigation and Settlement Costs

From time to time, we are involved in legal actions and/or investigations by regulatory bodies. There are many uncertainties associated with any litigation or investigation, and we cannot be certain that these actions or other third-party claims against us will be resolved without litigation, fines and/or substantial settlement payments. 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.

Foreign Currency Remeasurement

We use the United States dollar as our functional currency for all of our subsidiaries. Foreign currency monetary assets and liabilities are remeasured into United States dollars at end-of-period exchange rates. Non-monetary assets and liabilities such as property and equipment, and equity are remeasured at historical exchange rates. Revenue and expenses are remeasured at average exchange rates in effect during each period, except for those expenses related to the previously noted balance sheet amounts, which are remeasured at historical exchange rates. Gains or losses from foreign currency remeasurement are included in other income or expense in our Consolidated Statements of Income and to date have not been significant.

NVIDIA CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

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.

Our calculation of 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 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 31, 2021, we had a valuation allowance of $728 million related to state and certain foreign deferred tax assets that management determined are not likely to be realized due to jurisdictional projections of future taxable income, tax attributes usage limitation by certain jurisdictions, 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 assets as an income tax benefit during the period.

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.

Net Income Per Share

Basic net income per share is computed using the weighted average number of common shares outstanding during the period. Diluted net income per share is computed using the weighted average number of common and potentially dilutive shares outstanding during the period, using the treasury stock method. Under the treasury stock method, the effect of equity awards outstanding is not included in the computation of diluted net income per share for periods when their effect is anti-dilutive.

Cash and Cash Equivalents and Marketable Securities

We consider all highly liquid investments that are readily convertible into cash and have an original maturity of three months or less at the time of purchase to be cash equivalents. Marketable securities consist of highly liquid debt investments with maturities of greater than three months when purchased. We currently classify our investments as current based on the nature of the investments and their availability for use in current operations.

We generally classify our cash equivalents and marketable securities related to debt securities at the date of acquisition as available-for-sale. These available-for-sale debt securities are reported at fair value with the related unrealized gains and losses included in accumulated other comprehensive income or loss, a component of shareholders' equity, net of tax. The fair value of interest-bearing debt securities includes accrued interest. Realized gains and losses on the sale of marketable securities are determined using the specific-identification method and recorded in the other income (expense), net, section of our Consolidated Statements of Income.

All of our available-for-sale debt investments are subject to a periodic impairment review. If the estimated fair value of an available-for-sale debt securities is less than its amortized cost basis, we determine if the difference, if any, is caused by expected credit losses and write-down the amortized cost basis of the securities if it is more likely than not we will be required or we intend to sell the securities before recovery of its amortized cost basis. Allowances for credit losses and write-downs are recognized in other income (expense), net section of our Consolidated Statements of Income.

Fair Value of Financial Instruments

The carrying value of cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair values due to their relatively short maturities as of January 31, 2021 and January 26, 2020. Marketable securities are comprised of available-for-sale securities that are reported at fair value with the related unrealized gains or losses

NVIDIA CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

included in accumulated other comprehensive income or loss, a component of shareholders' equity, net of tax. Fair value of the marketable securities is determined based on quoted market prices. Derivative instruments are recognized as either assets or liabilities and are measured at fair value. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. For derivative instruments designated as fair value hedges, the gains or losses are recognized in earnings in the periods of change together with the offsetting losses or gains on the hedged items attributed to the risk being hedged. For derivative instruments designated as cash-flow hedges, the effective portion of the gains or losses on the derivatives is initially reported as a component of other comprehensive income or loss and is subsequently recognized in earnings when the hedged exposure is recognized in earnings. For derivative instruments not designated for hedge accounting, changes in fair value are recognized in earnings.

Concentration of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash equivalents, marketable securities, and accounts receivable. Our investment policy requires the purchase of highly-rated fixed income securities, the diversification of investment type and credit exposures, and includes certain limits on our portfolio duration. We perform ongoing credit evaluations of our customers' financial condition and maintain an allowance for potential credit losses. This allowance consists of an amount identified for specific customers and an amount based on overall estimated exposure. Our overall estimated exposure excludes amounts covered by credit insurance and letters of credit.

Accounts Receivable

We maintain an allowance for doubtful accounts receivable for expected losses resulting from the inability of our customers to make required payments. We determine this allowance by identifying amounts for specific customer issues as well as amounts based on overall estimated exposure. 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.

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, and shipping costs, as well as the cost of purchased memory products and other component parts. We charge cost of sales for inventory provisions to write-down our inventory to the lower of cost or net realizable value or for obsolete or excess inventory. Most of our inventory provisions relate to excess quantities of products, based on our inventory levels and future product purchase commitments compared to assumptions about future demand and market conditions. Once inventory has been written-off or written-down, it creates a new cost basis for the inventory that is not subsequently written-up.

Property and Equipment

Property and equipment are stated at cost. Depreciation of property and equipment is computed using the straight-line method based on the estimated useful lives of the assets, generally three to five years. Once an asset is identified for retirement or disposition, the related cost and accumulated depreciation or amortization are removed, and a gain or loss is recorded. The estimated useful lives of our buildings are up to thirty years. Depreciation expense includes the amortization of assets recorded under finance leases. Leasehold improvements and assets recorded under finance leases are amortized over the shorter of the expected lease term or the estimated useful life of the asset.

Leases

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

Operating lease assets and liabilities are recognized based on the present value of the remaining lease payments discounted using our incremental borrowing rate. Operating lease assets also include initial direct costs incurred and prepaid lease payments, minus any lease incentives. Our lease terms include options to extend or terminate the lease

NVIDIA CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

when it is reasonably certain that we will exercise that option. Lease expense is recognized on a straight-line basis over the lease term.

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

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. For the purposes of completing our impairment test, we perform either a qualitative or a quantitative analysis on a reporting unit basis.

Qualitative factors include industry and market considerations, overall financial performance, and other relevant events and factors affecting the reporting units.

Our quantitative impairment test considers both the income approach and the market approach to estimate a reporting unit's fair value. The income and market valuation approaches consider a number of factors that include, but are not limited to, prospective financial information, growth rates, residual values, discount rates and comparable multiples from publicly traded companies in our industry and require us to make certain assumptions and estimates regarding industry economic factors and the future profitability of our business.

Intangible Assets and Other Long-Lived Assets

Intangible assets primarily represent acquired intangible assets including developed technology, in-process research and development, or IPR&D, and customer relationships, as well as rights acquired under technology licenses, patents, and acquired intellectual property. We currently amortize our intangible assets with finite lives over periods ranging from two to twenty years using a method that reflects the pattern in which the economic benefits of the intangible asset are consumed or otherwise used up or, if that pattern cannot be reliably determined, using a straight-line amortization method. We initially capitalize the fair value of IPR&D as an intangible asset with an indefinite life. When IPR&D projects are completed, we reclassify the IPR&D as an amortizable purchased intangible asset and amortize over the asset's estimated useful life.

Long-lived assets, such as property and equipment and intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. Recoverability of assets or asset groups to be held and used is measured by a comparison of the carrying amount of an asset or asset group to estimated undiscounted future cash flows expected to be generated by the asset or asset group. If the carrying amount of an asset or asset group exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset or asset group exceeds the estimated fair value of the asset or asset group. Fair value is determined based on the estimated discounted future cash flows expected to be generated by the asset or asset group. Assets and liabilities to be disposed of would be separately presented in the Consolidated Balance Sheet and the assets would be reported at the lower of the carrying amount or fair value less costs to sell, and would no longer be depreciated.

Business Combination

We allocate the fair value of the purchase price of an acquisition to the tangible assets acquired, liabilities assumed, and intangible assets acquired, including IPR&D, based on their estimated fair values. The excess of the fair value of the purchase price over the fair values of these net tangible and intangible assets acquired is recorded as goodwill. Management's estimates of fair value are based upon assumptions believed to be reasonable, but our estimates and assumptions are inherently uncertain and subject to refinement. The estimates and assumptions used in valuing intangible assets include, but are not limited to, the amount and timing of projected future cash flows, discount rate used to determine the present value of these cash flows and asset lives. These estimates are inherently uncertain and, therefore, actual results may differ from the estimates made. As a result, during the measurement period of up to one year from the acquisition date, we may record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the fair value of the purchase price of an acquisition, whichever comes first, any subsequent adjustments are recorded to our Consolidated Statements of Income.

Acquisition-related expenses are recognized separately from the business combination and expensed as incurred.

NVIDIA CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Investment in Non-Affiliated Entities

Non-marketable equity investments in privately-held companies are recorded at fair value on a non-recurring basis only if an impairment or observable price adjustment occurs in the period with changes in fair value recorded through net income. These investments are valued using observable and unobservable inputs or data in an inactive market and the valuation requires our judgment due to the absence of market prices and inherent lack of liquidity. The estimated fair value is based on quantitative and qualitative factors including subsequent financing activities by the investee.

Adoption of New and Recently Issued Accounting Pronouncements

Recently Adopted Accounting Pronouncement

In June 2016, the Financial Accounting Standards Board issued a new accounting standard to replace the existing incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates for accounts receivable and other financial instruments, including available-for-sale debt securities. We adopted the standard in the first quarter of fiscal year 2021 and the impact of the adoption was not material to our consolidated financial statements.

Note 2 - Business Combination

Pending Acquisition of Arm Limited

On September 13, 2020, we entered into a Purchase Agreement with Arm and SoftBank for us to acquire, from SoftBank all allotted and issued ordinary shares of Arm in a transaction valued at $40 billion. We paid $2 billion in Signing Consideration and will pay upon closing of the acquisition $10 billion in cash and issue to SoftBank 44.3 million shares of our common stock with an aggregate value of $21.5 billion. The transaction includes a potential earn out, which is contingent on the achievement of certain financial performance targets by Arm during the fiscal year ending March 31, 2022. If the financial targets are achieved, SoftBank can elect to receive either up to an additional $5 billion in cash or up to an additional 10.3 million shares of our common stock. We will issue up to $1.5 billion in restricted stock units to Arm employees after closing. The $2 billion paid upon signing was allocated between advanced consideration for the acquisition of $1.36 billion and the prepayment of intellectual property licenses from Arm of $0.17 billion and royalties of $0.47 billion, both with a 20-year term. The closing of the acquisition is subject to customary closing conditions, including receipt of specified governmental and regulatory consents and approvals and expiration of any related mandatory waiting period, and Arm's implementation of the reorganization and distribution of Arm's IoT Services Group and certain other assets and liabilities. We are engaged with regulators in the United States, the United Kingdom, the European Union, China and other jurisdictions. If the Purchase Agreement is terminated under certain circumstances, we will be refunded $1.25 billion of the Signing Consideration. The $2 billion payment upon signing was allocated on a fair value basis and any refund of the Signing Consideration will use stated values in the Purchase Agreement. We believe the closing of the acquisition will likely occur in the first quarter of calendar year 2022.

Acquisition of Mellanox Technologies, Ltd.

On April 27, 2020, we completed the acquisition of all outstanding shares of Mellanox for a total purchase consideration of $7.13 billion. Mellanox is a supplier of high-performance interconnect products for computing, storage and communications applications. We acquired Mellanox to optimize data center workloads to scale across the entire computing, networking, and storage stack.

NVIDIA CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Purchase Price Allocation

The aggregate purchase consideration has been allocated as follows (in millions):

Purchase Price		
Cash paid for outstanding Mellanox ordinary shares (1)	$	7,033
Cash for Mellanox equity awards (2)		16
Total cash consideration		7,049
Fair value of Mellanox equity awards assumed by NVIDIA (3)		85
Total purchase consideration	$	7,134
Allocation		
Cash and cash equivalents	$	115
Marketable securities		699
Accounts receivable, net		216
Inventories		320
Prepaid expenses and other assets		179
Property and equipment, net		144
Goodwill		3,431
Intangible assets		2,970
Accounts payable		(136)
Accrued and other current liabilities		(236)
Income tax liability		(191)
Deferred income tax liability		(258)
Other long-term liabilities		(119)
	$	7,134

(1) Represents the cash consideration of $125.00 per share paid to Mellanox shareholders for approximately 56 million shares of outstanding Mellanox ordinary shares.
(2) Represents the cash consideration for the settlement of approximately 249 thousand Mellanox stock options held by employees and non-employee directors of Mellanox.
(3) Represents the fair value of Mellanox's stock-based compensation awards attributable to pre-combination services.

We allocated the purchase price to tangible and identified intangible assets acquired and liabilities assumed based on the estimated fair values.

The goodwill is primarily attributable to the planned growth in the combined business of NVIDIA and Mellanox. Goodwill is not amortized to earnings, but instead is reviewed for impairment at least annually, absent any interim indicators of impairment. Goodwill recognized in the acquisition is not expected to be deductible for foreign tax purposes. Goodwill arising from the Mellanox acquisition has been allocated to the Compute and Networking segment. Refer to Note 17 – Segment Information for further details on segments.

The operating results of Mellanox have been included in our consolidated financial statements for fiscal year 2021 since the acquisition date of April 27, 2020. Revenue attributable to Mellanox was approximately 10% for fiscal year 2021. There is not a practical way to determine net income attributable to Mellanox due to integration. Acquisition-related costs attributable to Mellanox of $28 million were included in selling, general and administrative expense for fiscal year 2021.

NVIDIA CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Intangible Assets

The estimated fair value and useful life of the acquired intangible assets are as follows:

	Fair Value	Useful Lives
	(In millions)	
Developed technology (1)	$ 1,640	5 years
Customer relationships (2)	440	3 years
Order backlog (3)	190	Based on actual shipments
Trade names (4)	70	5 years
Total identified finite-lived intangible assets	2,340	
IPR&D (5)	630	N/A
Total identified intangible assets	$ 2,970	

(1) The fair value of developed technology was identified using the Multi-Period Excess Earnings Method.
(2) Customer relationships represent the fair value of the existing relationships using the With and Without Method.
(3) Order backlog represents primarily the fair value of purchase arrangements with customers using the Multi-Period Excess Earnings Method. The intangible asset was fully amortized as of January 31, 2021.
(4) Trade names primarily relate to Mellanox trade names and fair value was determined by applying the Relief-from-Royalty Method under the income approach.
(5) The fair value of IPR&D was determined using the Multi-Period Excess Earnings Method.

The fair value of the finite-lived intangible assets will be amortized over the estimated useful lives based on the pattern in which the economic benefits are expected to be received to cost of revenue and operating expenses.

Mellanox had an IPR&D project associated with the next generation interconnect product that had not yet reached technological feasibility as of the acquisition date. Accordingly, we recorded an indefinite-lived intangible asset of $630 million for the fair value of this project, which will initially not be amortized. Instead, the project will be tested for impairment annually and whenever events or changes in circumstances indicate that the project may be impaired or may have reached technological feasibility. Once the project reaches technological feasibility, we will begin to amortize the intangible asset over its estimated useful life.

Supplemental Unaudited Pro Forma Information

The following unaudited pro forma financial information summarizes the combined results of operations for NVIDIA and Mellanox as if the companies were combined as of the beginning of fiscal year 2020:

	Pro Forma Year Ended	
	January 31, 2021	January 26, 2020
	(In millions)	
Revenue	$ 17,104	$ 12,250
Net income	$ 4,757	$ 2,114

The unaudited pro forma information includes adjustments related to amortization of acquired intangible assets, adjustments to stock-based compensation expense, fair value of acquired inventory, and transaction costs. The unaudited pro forma information presented above is for informational purposes only and is not necessarily indicative of our consolidated results of operations of the combined business had the acquisition actually occurred at the beginning of fiscal year 2020 or of the results of our future operations of the combined businesses.

The pro forma results reflect the inventory step-up expense of $161 million in the fiscal year 2020 and were excluded from the pro forma results for fiscal year 2021. There were no other material nonrecurring adjustments.

NVIDIA CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Note 3 - Leases

On January 28, 2019, we adopted the new lease accounting standard using the optional transition method.

Our lease obligations primarily consist of operating leases for our headquarters complex, domestic and international office facilities, and data center space, with lease periods expiring between fiscal years 2022 and 2035.

Future minimum lease payments under our non-cancelable operating leases as of January 31, 2021, are as follows:

		Operating Lease Obligations
		(In millions)
Fiscal Year:		
2022	$	152
2023		135
2024		115
2025		94
2026		86
2027 and thereafter		288
Total		870
Less imputed interest		115
Present value of net future minimum lease payments		755
Less short-term operating lease liabilities		121
Long-term operating lease liabilities	$	634

Operating lease expense for fiscal years 2021, 2020, and 2019 was $145 million, $114 million, $80 million, respectively. Short-term and variable lease expenses for fiscal years 2021 and 2020 were not significant.

Other information related to leases was as follows:

	Year Ended			
	January 31, 2021		January 26, 2020	
	(In millions)			
Supplemental cash flows information				
Operating cash flows used for operating leases	$	141	$	103
Operating lease assets obtained in exchange for lease obligations (1)	$	200	$	238

(1) Fiscal year 2021 includes $80 million of operating lease assets addition due to a business combination.

As of January 31, 2021, our operating leases had a weighted average remaining lease term of 7.6 years and a weighted average discount rate of 2.87%. As of January 26, 2020, our operating leases had a weighted average remaining lease term of 8.3 years and a weighted average discount rate of 3.45%.

Note 4 - Stock-Based Compensation

Our stock-based compensation expense is associated with restricted stock units, or RSUs, performance stock units that are based on our corporate financial performance targets, or PSUs, performance stock units that are based on market conditions, or market-based PSUs, and our ESPP.

NVIDIA CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Our Consolidated Statements of Income include stock-based compensation expense, net of amounts allocated to inventory, as follows:

	Year Ended		
	January 31, 2021	January 26, 2020	January 27, 2019
	(In millions)		
Cost of revenue	$ 88	$ 39	$ 27
Research and development	860	540	336
Sales, general and administrative	449	265	194
Total	$ 1,397	$ 844	$ 557

Stock-based compensation capitalized in inventories was not significant during fiscal years 2021, 2020, and 2019.

The following is a summary of equity awards granted under our equity incentive plans:

	Year Ended		
	January 31, 2021	January 26, 2020	January 27, 2019
	(In millions, except per share data)		
RSUs, PSUs and Market-based PSUs			
Awards granted	9	7	4
Estimated total grant-date fair value	$ 2,764	$ 1,282	$ 1,109
Weighted average grant-date fair value per share	$ 307.25	$ 184.47	$ 258.26
ESPP			
Shares purchased	1	1	1
Weighted average price per share	$ 139.19	$ 148.76	$ 107.48
Weighted average grant-date fair value per share	$ 67.65	$ 64.87	$ 38.51

As of January 31, 2021, there was $3.17 billion of aggregate unearned stock-based compensation expense, net of forfeitures. This amount is expected to be recognized over a weighted average period of 2.5 years for RSUs, PSUs, and market-based PSUs, and 0.9 years for ESPP.

The fair value of shares issued under our ESPP have been estimated with the following assumptions:

	Year Ended		
	January 31, 2021	January 26, 2020	January 27, 2019
	(Using the Black-Scholes model)		
ESPP			
Weighted average expected life (in years)	0.1-2.0	0.1-2.0	0.1-2.0
Risk-free interest rate	0.1%-1.6%	1.5%-2.6%	1.6%-2.8%
Volatility	26%-89%	30%-82%	24%-75%
Dividend yield	0.1%-0.3%	0.3%-0.4%	0.3%-0.4%

For ESPP shares, the expected term represents the average term from the first day of the offering period to the purchase date. The risk-free interest rate assumption used to value ESPP shares is based upon observed interest rates on Treasury bills appropriate for the expected term. Our expected stock price volatility assumption for ESPP is estimated using historical volatility. For awards granted, we use the dividend yield at grant date. Our RSU, PSU, and market-based PSU awards are not eligible for cash dividends prior to vesting; therefore, the fair values of RSUs, PSUs, and market-based PSUs are discounted for the dividend yield.

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

Equity Incentive Program

We grant or have granted stock options, RSUs, PSUs, market-based PSUs, and stock purchase rights under the following equity incentive plans. In addition, in connection with our acquisitions of various companies, we have assumed the stock-based awards granted under their stock incentive plans and substituted them with our RSUs.

Amended and Restated 2007 Equity Incentive Plan

In 2007, our shareholders approved the NVIDIA Corporation 2007 Equity Incentive Plan, as most recently amended and restated, the 2007 Plan.

The 2007 Plan authorizes the issuance of incentive stock options, non-statutory stock options, restricted stock, restricted stock units, stock appreciation rights, performance stock awards, performance cash awards, and other stock-based awards to employees, directors and consultants. Only our employees may receive incentive stock options. As of January 31, 2021, up to 244 million shares of our common stock could be issued pursuant to stock awards granted under the 2007 Plan, of which 2 million shares were issuable upon the exercise of outstanding stock options. All options are fully vested, the last of which will expire by May 2024 if not exercised. Currently, we grant RSUs, PSUs and market-based PSUs under the 2007 Plan, under which, as of January 31, 2021, there were 37 million shares available for future issuance.

Subject to certain exceptions, RSUs and PSUs granted to employees either vest (A) over a four-year period, subject to continued service, with 25% vesting on a pre-determined date that is close to the anniversary of the date of grant and 6.25% vesting quarterly thereafter, or (B) over a three-year period, subject to continued service, with 40% vesting on a pre-determined date that is close to the anniversary of the date of grant and 7.5% vesting quarterly thereafter. Market-based PSUs vest 100% on approximately the three-year anniversary of the date of grant. However, the number of shares subject to both PSUs and market-based PSUs that are eligible to vest is generally determined by the Compensation Committee based on achievement of pre-determined criteria.

Amended and Restated 2012 Employee Stock Purchase Plan

In 2012, our shareholders approved the 2012 Employee Stock Purchase Plan, as most recently amended and restated, the 2012 Plan.

Employees who participate may have up to 10% of their earnings withheld to the purchase of shares of common stock. Starting in March 2021, employees who participate may have up to 15% of their earnings withheld to purchase shares of common stock. The Board may decrease this percentage at its discretion. Each offering period is approximately 24 months, which is generally divided into four purchase periods of six months. The price of common stock purchased under our 2012 Plan will be equal to 85% of the lower of the fair market value of the common stock on the commencement date of each offering period and the fair market value on each purchase date within the offering. As of January 31, 2021, we had 60 million shares reserved for future issuance under the 2012 Plan.

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Equity Award Activity

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

	RSUs, PSUs and Market-based PSUs Outstanding	
	Number of Shares	Weighted Average Grant-Date Fair Value
	(In millions, except years and per share data)	
Balances, January 26, 2020	14	$ 176.72
Granted	9	$ 307.25
Vested restricted stock	(7)	$ 159.35
Canceled and forfeited	(1)	$ 193.83
Balances, January 31, 2021	15	$ 264.69
Vested and expected to vest after January 31, 2021	14	$ 264.13

As of January 31, 2021 and January 26, 2020, there were 37 million and 29 million shares, respectively, of common stock reserved for future issuance under our equity incentive plans.

As of January 31, 2021, the total intrinsic value of options currently exercisable and outstanding was $1.20 billion, with an average exercise price of $14.40 per share and an average remaining term of 1.7 years. The total intrinsic value of options exercised was $521 million, $84 million, and $180 million for fiscal years 2021, 2020, and 2019, respectively. Upon the exercise of an option, we issue new shares of stock.

The total fair value of RSUs and PSUs, as of their respective vesting dates, during the years ended January 31, 2021, January 26, 2020, and January 27, 2019, was $2.67 billion, $1.45 billion, and $2.62 billion, respectively.

Note 5 - Net Income Per Share

The following is a reconciliation of the denominator of the basic and diluted net income per share computations for the periods presented:

	Year Ended		
	January 31, 2021	January 26, 2020	January 27, 2019
	(In millions, except per share data)		
Numerator:			
Net income	$ 4,332	$ 2,796	$ 4,141
Denominator:			
Basic weighted average shares	617	609	608
Dilutive impact of outstanding equity awards	11	9	17
Diluted weighted average shares	628	618	625
Net income per share:			
Basic (1)	$ 7.02	$ 4.59	$ 6.81
Diluted (2)	$ 6.90	$ 4.52	$ 6.63
Equity awards excluded from diluted net income per share because their effect would have been anti-dilutive	3	11	5

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

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

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Note 6 - Goodwill

We changed our reportable segments to "Graphics" and "Compute & Networking" starting with the first quarter of fiscal year 2021, as discussed in Note 17 of these Notes to the Consolidated Financial Statements. As a result, our reporting units also changed, and we reassigned the goodwill balance to the new reporting units based on their relative fair values. Comparative periods presented reflect this change. We determined there was no goodwill impairment immediately prior to the reorganization. As of January 31, 2021, the total carrying amount of goodwill was $4.19 billion and the amount of goodwill allocated to our Graphics and Compute & Networking reporting units was $347 million and $3.85 billion, respectively. As of January 26, 2020, the total carrying amount of goodwill was $618 million and the amount of goodwill allocated to our Graphics and Compute & Networking reporting units was $347 million and $271 million, respectively. Goodwill increased by $3.57 billion in fiscal year 2021 due to goodwill of $3.43 billion arising from the Mellanox acquisition, and goodwill of $143 million from other acquisition activities, all of which were allocated to the Compute & Networking reporting unit. During the fourth quarters of fiscal years 2021, 2020, and 2019, we completed our annual impairment tests and concluded that goodwill was not impaired in any of these years.

Note 7 - Amortizable Intangible Assets

The components of our amortizable intangible assets are as follows:

	January 31, 2021			January 26, 2020		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
		(In millions)			*(In millions)*	
Acquisition-related intangible assets (1)	$ 3,280	$ (774)	$ 2,506	$ 195	$ (192)	$ 3
Patents and licensed technology	706	(475)	231	520	(474)	46
Total intangible assets	$ 3,986	$ (1,249)	$ 2,737	$ 715	$ (666)	$ 49

(1) As of January 31, 2021, acquisition-related intangible assets include the fair value of a Mellanox IPR&D project of $630 million, which has not been amortized. Once the project reaches technological feasibility, we will begin to amortize the intangible asset over its estimated useful life. Refer to Note 2 of these Notes to the Consolidated Financial Statements for further details.

Amortization expense associated with intangible assets for fiscal years 2021, 2020, and 2019 was $612 million, $25 million, and $29 million, respectively. Future amortization expense related to the net carrying amount of intangible assets as of January 31, 2021 is estimated to be $548 million in fiscal year 2022, $545 million in fiscal year 2023, $423 million in fiscal year 2024, $367 million in fiscal year 2025, $97 million in fiscal year 2026, and $757 million in fiscal year 2027 and thereafter.

Note 8 - Cash Equivalents and Marketable Securities

Our cash equivalents and marketable securities related to debt securities are classified as “available-for-sale” debt securities.

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The following is a summary of cash equivalents and marketable securities as of January 31, 2021 and January 26, 2020:

	January 31, 2021					
					Reported as	
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value	Cash Equivalents	Marketable Securities
	(In millions)					
Corporate debt securities	$ 4,442	$ 2	$ —	$ 4,444	$ 234	$ 4,210
Debt securities issued by United States government agencies	2,975	1	—	2,976	28	2,948
Debt securities issued by the United States Treasury	2,846	—	—	2,846	25	2,821
Certificates of deposit	705	—	—	705	37	668
Money market funds	313	—	—	313	313	—
Foreign government bonds	67	—	—	67		67
Total	$ 11,348	$ 3	$ —	$ 11,351	$ 637	$ 10,714

	January 26, 2020					
					Reported as	
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value	Cash Equivalents	Marketable Securities
	(In millions)					
Money market funds	$ 7,507	$ —	$ —	$ 7,507	$ 7,507	$ —
Debt securities issued by the United States Treasury	1,358	—	—	1,358	1,358	—
Debt securities issued by United States government agencies	1,096	—	—	1,096	1,096	—
Corporate debt securities	592	—	—	592	592	—
Foreign government bonds	200	—	—	200	200	—
Certificates of deposit	27	—	—	27	27	—
Asset-backed securities	1	—	—	1	—	1
Total	$ 10,781	$ —	$ —	$ 10,781	$ 10,780	$ 1

Net realized gains and unrealized gains and losses were not significant for all periods presented.

The amortized cost and estimated fair value of cash equivalents and marketable securities as of January 31, 2021 and January 26, 2020 are shown below by contractual maturity.

	January 31, 2021		January 26, 2020	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(In millions)			
Less than one year	$ 10,782	$ 10,783	$ 10,781	$ 10,781
Due in 1 - 5 years	566	568	—	—
Total	$ 11,348	$ 11,351	$ 10,781	$ 10,781

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Note 9 - Fair Value of Financial Assets and Liabilities

The fair values of our financial assets and liabilities are determined using quoted market prices of identical assets or quoted market prices of similar assets from active markets. We review fair value hierarchy classification on a quarterly basis.

	Pricing Category	Fair Value at January 31, 2021		Fair Value at January 26, 2020	
		(In millions)			
Assets					
Cash equivalents and marketable securities:					
Money market funds	Level 1	$	313	$	7,507
Corporate debt securities	Level 2	$	4,444	$	592
Debt securities issued by United States government agencies	Level 2	$	2,976	$	1,096
Debt securities issued by the United States Treasury	Level 2	$	2,846	$	1,358
Certificates of deposit	Level 2	$	705	$	27
Foreign government bonds	Level 2	$	67	$	200
Asset-backed securities	Level 2	$	—	$	1
Other asset:					
Investment in non-affiliated entities (1)	Level 3	$	144	$	77
Liabilities					
2.20% Notes Due 2021 (2)	Level 2	$	1,011	$	1,006
3.20% Notes Due 2026 (2)	Level 2	$	1,124	$	1,065
2.85% Notes Due 2030 (2)	Level 2	$	1,654	$	—
3.50% Notes Due 2040 (2)	Level 2	$	1,152	$	—
3.50% Notes Due 2050 (2)	Level 2	$	2,308	$	—
3.70% Notes Due 2060 (2)	Level 2	$	602	$	—

(1) Investment in private non-affiliated entities is recorded at fair value on a non-recurring basis only if an impairment or observable price adjustment occurs in the period with changes in fair value recorded through net income. The amount recorded as of January 31, 2021 has not been significant.

(2) These liabilities are carried on our Consolidated Balance Sheets at their original issuance value, net of unamortized debt discount and issuance costs, and are not marked to fair value each period. Refer to Note 12 of these Notes to the Consolidated Financial Statements for additional information.

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Note 10 - Balance Sheet Components

Certain balance sheet components are as follows:

	January 31, 2021	January 26, 2020
	(In millions)	
Inventories:		
Raw materials	$ 632	$ 249
Work in-process	457	265
Finished goods	737	465
Total inventories	$ 1,826	$ 979

	January 31, 2021	January 26, 2020	Estimated Useful Life
	(In millions)		(In years)
Property and Equipment:			
Land	$ 218	$ 218	(A)
Building	341	340	25-30
Test equipment	782	532	3-5
Computer equipment and software	1,187	908	3-5
Leasehold improvements	385	293	(B)
Office furniture and equipment	86	74	5
Construction in process	558	320	(C)
Total property and equipment, gross	3,557	2,685	
Accumulated depreciation and amortization	(1,408)	(1,011)	
Total property and equipment, net	$ 2,149	$ 1,674	

(A) Land is a non-depreciable asset.

(B) Leasehold improvements and finance leases are amortized based on the lesser of either the asset's estimated useful life or the expected lease term.

(C) Construction in process represents assets that are not available for their intended use as of the balance sheet date.

Depreciation expense for fiscal years 2021, 2020, and 2019 was $486 million, $355 million, and $233 million, respectively.

Accumulated amortization of leasehold improvements and finance leases was $223 million and $216 million as of January 31, 2021 and January 26, 2020, respectively.

	January 31, 2021	January 26, 2020
Other assets:	(In millions)	
Advanced consideration for acquisition	$ 1,357	$ —
Prepaid royalties	440	1
Investment in non-affiliated entities	144	77
Deposits	136	8
Other	67	32
Total other assets	$ 2,144	$ 118

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	January 31, 2021	January 26, 2020
	(In millions)	
Accrued and Other Current Liabilities:		
Customer program accruals	$ 630	$ 462
Accrued payroll and related expenses	297	185
Deferred revenue (1)	288	141
Licenses and royalties	128	66
Operating leases	121	91
Coupon interest on debt obligations	74	20
Taxes payable	61	61
Product warranty and return provisions	39	24
Professional service fees	26	18
Other	61	29
Total accrued and other current liabilities	$ 1,725	$ 1,097

(1) Deferred revenue primarily includes customer advances and deferrals related to license and development arrangements and PCS.

	January 31, 2021	January 26, 2020
	(In millions)	
Other Long-Term Liabilities:		
Income tax payable (1)	$ 836	$ 528
Deferred income tax	241	29
Deferred revenue (2)	163	60
Licenses payable	56	110
Employee benefits	33	22
Other	46	26
Total other long-term liabilities	$ 1,375	$ 775

(1) As of January 31, 2021, income tax payable represents the long-term portion of the one-time transition tax payable of $284 million, long-term portion of the unrecognized tax benefits of $352 million, related interest and penalties of $43 million, and other foreign long-term tax payable of $157 million.
(2) Deferred revenue primarily includes deferrals related to PCS.

Deferred Revenue

The following table shows the changes in deferred revenue during fiscal years 2021 and 2020.

	January 31, 2021	January 26, 2020
	(In millions)	
Balance at beginning of period	$ 201	$ 138
Deferred revenue added during the period	536	334
Addition due to business combinations	75	—
Revenue recognized during the period	(361)	(271)
Balance at end of period	$ 451	$ 201

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Revenue related to remaining performance obligations represents the remaining contracted license, development arrangements and PCS that has not been recognized. This includes related deferred revenue currently recorded and amounts that will be invoiced in future periods. As of January 31, 2021, the amount of our remaining performance that has not been recognized as revenue was $683 million, of which we expect to recognize approximately 44% as revenue over the next twelve months and the remainder thereafter. This amount excludes the value of remaining performance obligations for contracts with an original expected length of one year or less.

Note 11 - Derivative Financial Instruments

We enter into foreign currency forward contracts to mitigate the impact of foreign currency exchange rate movements on our operating expenses. These contracts are designated as cash flow hedges for hedge accounting treatment. Gains or losses on the contracts are recorded in accumulated other comprehensive income or loss and reclassified to operating expense when the related operating expenses are recognized in earnings or ineffectiveness should occur. The fair value of the contracts was not significant as of January 31, 2021 and January 26, 2020.

We enter into foreign currency forward contracts to mitigate the impact of foreign currency movements on monetary assets and liabilities that are denominated in currencies other than U.S. dollar. These forward contracts were not designated for hedge accounting treatment. Therefore, the change in fair value of these contracts is recorded in other income or expense and offsets the change in fair value of the hedged foreign currency denominated monetary assets and liabilities, which is also recorded in other income or expense.

The table below presents the notional value of our foreign currency forward contracts outstanding as of January 31, 2021 and January 26, 2020:

	January 31, 2021	January 26, 2020
	(In millions)	
Designated as cash flow hedges	$ 840	$ 428
Not designated for hedge accounting	$ 441	$ 287

As of January 31, 2021, all designated foreign currency forward contracts mature within eighteen months. The expected realized gains and losses deferred into accumulated other comprehensive income (loss) related to foreign currency forward contracts within the next twelve months was not significant.

During fiscal years 2021 and 2020, the impact of derivative financial instruments designated for hedge accounting treatment on other comprehensive income or loss was not significant and all such instruments were determined to be highly effective. Therefore, there were no gains or losses associated with ineffectiveness.

Note 12 - Debt

Long-Term Debt

In March 2020, we issued $1.50 billion of the 2.85% Notes Due 2030, $1.00 billion of the 3.50% Notes Due 2040, $2.00 billion of the 3.50% Notes Due 2050, and $500 million of the 3.70% Notes Due 2060, or collectively, the March 2020 Notes. Interest on the March 2020 Notes is payable on April 1 and October 1 of each year, beginning on October 1, 2020. Upon 30 days' notice to holders of the Notes, we may redeem the Notes for cash prior to maturity, at redemption prices that include accrued and unpaid interest, if any, and a make-whole premium. However, no make-whole premium will be paid for redemptions of the Notes Due 2030 on or after January 1, 2030, the Notes Due 2040 on or after October 1, 2039, the Notes Due 2050 on or after October 1, 2049, or the Notes Due 2060 on or after October 1, 2059. The net proceeds from the March 2020 Notes were $4.97 billion, after deducting debt discount and issuance costs.

In September 2016, we issued $1.00 billion of the 2.20% Notes Due 2021, and $1.00 billion of the 3.20% Notes Due 2026, or collectively, the September 2016 Notes. Interest on the September 2016 Notes is payable on March 16 and September 16 of each year. Upon 30 days' notice to holders of the Notes, we may redeem the Notes for cash prior to maturity, at redemption prices that include accrued and unpaid interest, if any, and a make-whole premium. However, no make-whole premium will be paid for redemptions of the Notes Due 2021 on or after August 16, 2021, or for redemptions of the Notes Due 2026 on or after June 16, 2026. The net proceeds from the September 2016 Notes were $1.98 billion, after deducting debt discount and issuance costs.

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Both the September 2016 Notes and the March 2020 Notes, or collectively, the Notes, are our unsecured senior obligations and rank equally in right of payment with all existing and future unsecured and unsubordinated indebtedness. The Notes are structurally subordinated to the liabilities of our subsidiaries and are effectively subordinated to any secured indebtedness to the extent of the value of the assets securing such indebtedness. All existing and future liabilities of our subsidiaries will be effectively senior to the Notes.

The carrying value of the Notes and the associated interest rates were as follows:

	Expected Remaining Term (years)	Effective Interest Rate	January 31, 2021	January 26, 2020
			(In millions)	
2.20% Notes Due 2021	0.6	2.38%	$ 1,000	$ 1,000
3.20% Notes Due 2026	5.6	3.31%	1,000	1,000
2.85% Notes Due 2030	9.2	2.93%	1,500	—
3.50% Notes Due 2040	19.2	3.54%	1,000	—
3.50% Notes Due 2050	29.2	3.54%	2,000	—
3.70% Notes Due 2060	39.2	3.73%	500	—
Unamortized debt discount and issuance costs			(37)	(9)
Net carrying amount			6,963	1,991
Less short-term portion			(999)	—
Total long-term portion			$ 5,964	$ 1,991

As of January 31, 2021, we were in compliance with the required covenants under the Notes.

Credit Facilities

We have a Credit Agreement under which we may borrow up to $575 million for general corporate purposes and can obtain revolving loan commitments up to $425 million. As of January 31, 2021, we had not borrowed any amounts and were in compliance with the required covenants under this agreement. The Credit Agreement expires October 2021.

We have a $575 million commercial paper program to support general corporate purposes. As of January 31, 2021, we had not issued any commercial paper.

Note 13 - Commitments and Contingencies

Purchase Obligations

As of January 31, 2021, we had outstanding inventory purchase obligations totaling $2.54 billion, which are expected to occur over the next 12 months, and other purchase obligations totaling $317 million, which are primarily expected to occur over the next 18 months.

Accrual for Product Warranty Liabilities

The estimated amount of product warranty liabilities was $22 million and $15 million as of January 31, 2021 and January 26, 2020, respectively.

In connection with certain agreements that we have entered in the past, we have provided indemnities to cover the indemnified party for matters such as tax, product, and employee liabilities. We have included intellectual property indemnification provisions in our technology related agreements with third parties. Maximum potential future payments cannot be estimated because many of these agreements do not have a maximum stated liability. We have not recorded any liability for such indemnifications.

Litigation

Securities Class Action and Derivative Lawsuits

The plaintiffs in the putative securities class action lawsuit, captioned 4:18-cv-07669-HSG, initially filed on December 21, 2018 in the United States District Court for the Northern District of California, and titled In Re NVIDIA Corporation

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Securities Litigation, filed an amended complaint on May 13, 2020. The amended complaint asserts that NVIDIA and certain NVIDIA executives violated Section 10(b) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and SEC Rule 10b-5, by making materially false or misleading statements related to channel inventory and the impact of cryptocurrency mining on GPU demand between May 10, 2017 and November 14, 2018. Plaintiffs also allege that the NVIDIA executives who they named as defendants violated Section 20(a) of the Exchange Act. Plaintiffs seek class certification, an award of unspecified compensatory damages, an award of reasonable costs and expenses, including attorneys' fees and expert fees, and further relief as the Court may deem just and proper. On June 29, 2020, NVIDIA moved to dismiss the amended complaint on the basis that plaintiffs failed to state any claims for violations of the securities laws by NVIDIA or the individual defendants. As of September 14, 2020, the motion was fully briefed but the Court has not yet issued a decision.

The putative derivative lawsuit pending in the United States District Court for the Northern District of California, captioned 4:19-cv-00341-HSG, initially filed January 18, 2019 and titled In re NVIDIA Corporation Consolidated Derivative Litigation, remains stayed pending resolution of NVIDIA's motion to dismiss the complaint in the In Re NVIDIA Corporation Securities Litigation action. The lawsuit asserts claims for breach of fiduciary duty, unjust enrichment, waste of corporate assets, and violations of Sections 14(a), 10(b), and 20(a) of the Exchange Act based on the dissemination of allegedly false and misleading statements related to channel inventory and the impact of cryptocurrency mining on GPU demand. The plaintiffs are seeking unspecified damages and other relief, including reforms and improvements to NVIDIA's corporate governance and internal procedures.

The putative derivative actions initially filed September 24, 2019 and pending in the United States District Court for the District of Delaware, Lipchitz v. Huang, et al. (Case No. 1:19-cv-01795-UNA) and Nelson v. Huang, et. al. (Case No. 1:19-cv-01798- UNA), remain stayed pending resolution of NVIDIA's motion to dismiss the complaint in the In Re NVIDIA Corporation Securities Litigation action. The lawsuits assert claims for breach of fiduciary duty, unjust enrichment, insider trading, misappropriation of information, corporate waste and violations of Sections 14(a), 10(b), and 20(a) of the Exchange Act based on the dissemination of allegedly false, and misleading statements related to channel inventory and the impact of cryptocurrency mining on GPU demand. The plaintiffs seek unspecified damages and other relief, including disgorgement of profits from the sale of NVIDIA stock and unspecified corporate governance measures.

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

Accounting for Loss Contingencies

As of January 31, 2021, we have not recorded any accrual for contingent liabilities associated with the legal proceedings described above based on our belief that liabilities, while possible, are not probable. Further, except as specifically described above, any possible loss or range of loss in these matters cannot be reasonably estimated at this time. We are engaged in legal actions not described above arising in the ordinary course of business and, while there can be no assurance of favorable outcomes, we believe that the ultimate outcome of these actions will not have a material adverse effect on our operating results, liquidity or financial position.

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Note 14 - Income Taxes

The income tax expense (benefit) applicable to income before income taxes consists of the following:

	Year Ended		
	January 31, 2021	January 26, 2020	January 27, 2019
		(In millions)	
Current income taxes:			
Federal	$ 197	$ 65	$ 1
State	1	4	—
Foreign	161	87	69
Total current	359	156	70
Deferred taxes:			
Federal	(246)	2	(315)
Foreign	(36)	16	—
Total deferred	(282)	18	(315)
Income tax expense (benefit)	$ 77	$ 174	$ (245)

Income before income tax consists of the following:

	Year Ended		
	January 31, 2021	January 26, 2020	January 27, 2019
		(In millions)	
Domestic	$ 1,437	$ 620	$ 1,843
Foreign	2,972	2,350	2,053
Income before income tax	$ 4,409	$ 2,970	$ 3,896

The income tax expense (benefit) differs from the amount computed by applying the U.S. federal statutory rate of 21% to income before income taxes as follows:

	Year Ended		
	January 31, 2021	January 26, 2020	January 27, 2019
		(In millions)	
Tax expense computed at federal statutory rate	$ 926	$ 624	$ 818
Expense (benefit) resulting from:			
State income taxes, net of federal tax effect	10	12	23
Foreign tax rate differential	(561)	(301)	(412)
U.S. federal R&D tax credit	(173)	(110)	(141)
Stock-based compensation	(136)	(60)	(191)
Tax Cuts and Jobs Act of 2017	—	—	(368)
Other	11	9	26
Income tax expense (benefit)	$ 77	$ 174	$ (245)

NVIDIA CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

The tax effect of temporary differences that gives rise to significant portions of the deferred tax assets and liabilities are presented below:

	January 31, 2021	January 26, 2020
	(In millions)	
Deferred tax assets:		
GILTI deferred tax assets	$ 709	$ 428
Research and other tax credit carryforwards	650	605
Operating lease liabilities	120	114
Net operating loss carryforwards	100	62
Accruals and reserves, not currently deductible for tax purposes	59	39
Stock-based compensation	36	28
Property, equipment and intangible assets	32	12
Gross deferred tax assets	1,706	1,288
Less valuation allowance	(728)	(621)
Total deferred tax assets	978	667
Deferred tax liabilities:		
Acquired intangibles	(191)	(1)
Unremitted earnings of foreign subsidiaries	(111)	(40)
Operating lease assets	(111)	(107)
Gross deferred tax liabilities	(413)	(148)
Net deferred tax asset (1)	$ 565	$ 519

(1) Net deferred tax asset includes long-term deferred tax assets of $806 million and $548 million and long-term deferred tax liabilities of $241 million and $29 million for fiscal years 2021 and 2020, respectively. Long-term deferred tax liabilities are included in other long-term liabilities on our Consolidated Balance Sheets.

We recognized an income tax expense of $77 million and $174 million for fiscal years 2021 and 2020, respectively, and income tax benefit of $245 million for fiscal year 2019. Our annual effective tax rate was 1.7%, 5.9%, and (6.3)% for fiscal years 2021, 2020, and 2019, respectively. The decrease in our effective tax rate in fiscal year 2021 as compared to fiscal year 2020 was primarily due to a decrease in the proportional amount of earnings subject to United States tax and an increase of tax benefits from stock-based compensation. The increase in our effective tax rate in fiscal year 2021 and fiscal year 2020 as compared to fiscal year 2019 was primarily due to an absence of tax benefits related to the enactment of the TCJA and a decrease of tax benefits from stock-based compensation.

Our effective tax rate for fiscal years 2021, 2020, and 2019 was lower than the U.S. federal statutory rate of 21% due primarily to income earned in jurisdictions, including the British Virgin Islands, Israel and Hong Kong, where the tax rate was lower than the U.S. federal statutory tax rate, recognition of U.S. federal research tax credits, excess tax benefits related to stock-based compensation, and the finalization of the enactment-date income tax effects of the TCJA in 2019.

During the second quarter of fiscal year 2021, we completed the acquisition of Mellanox. As a result of the acquisition, we recorded $256 million of net deferred tax liabilities primarily on the excess of book basis over the tax basis of the acquired intangible assets and undistributed earnings in certain foreign subsidiaries. We also recorded $153 million of long-term tax liabilities related to tax basis differences in Mellanox. The net deferred tax liabilities and long-term tax liabilities are based upon certain assumptions underlying our purchase price allocation. As a result of the acquisition, as of January 31, 2021, we intend to indefinitely reinvest approximately $1.16 billion of cumulative undistributed earnings held by Mellanox non-U.S. subsidiaries. We have not provided the amount of unrecognized deferred tax liabilities for temporary differences related to investments in Mellanox non-U.S. subsidiaries as the determination of such amount is not practicable.

As of January 31, 2021 and January 26, 2020, we had a valuation allowance of $728 million and $621 million, respectively, related to state and certain foreign deferred tax assets that management determined not likely to be realized due, in part, to jurisdictional projections of future taxable income. To the extent realization of the deferred tax

NVIDIA CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

assets becomes more-likely-than-not, we would recognize such deferred tax asset as an income tax benefit during the period.

As of January 31, 2021, we had federal, state and foreign net operating loss carryforwards of $333 million, $308 million and $344 million, respectively. The federal and state carryforwards will begin to expire in fiscal year 2023 and 2022, respectively. The foreign net operating loss carryforwards of $344 million may be carried forward indefinitely. As of January 31, 2021, we had federal research tax credit carryforwards of $238 million that will begin to expire in fiscal year 2035. We have state research tax credit carryforwards of $987 million, of which $944 million is attributable to the State of California and may be carried over indefinitely, and $43 million is attributable to various other states and will begin to expire in fiscal year 2022. Our tax attributes, net operating loss and tax credit carryforwards, remain subject to audit and may be adjusted for changes or modification in tax laws, other authoritative interpretations thereof, or other facts and circumstances. Utilization of federal, state, and foreign net operating losses and tax credit carryforwards may also be subject to limitations due to ownership changes and other limitations provided by the Internal Revenue Code and similar state and foreign tax provisions. If any such limitations apply, the federal, state, or foreign net operating loss and tax credit carryforwards, as applicable, may expire or be denied before utilization.

As of January 31, 2021, we had $776 million of gross unrecognized tax benefits, of which $606 million would affect our effective tax rate if recognized. However, $132 million of the unrecognized tax benefits were related to state income tax positions taken, that, if recognized, would be in the form of a carryforward deferred tax asset that would likely attract a full valuation allowance. The $606 million of unrecognized tax benefits as of January 31, 2021 consisted of $352 million recorded in non-current income taxes payable, $5 million recorded in current income taxes payable, and $249 million reflected as a reduction to the related deferred tax assets.

A reconciliation of gross unrecognized tax benefits is as follows:

	January 31, 2021	January 26, 2020	January 27, 2019
		(In millions)	
Balance at beginning of period	$ 583	$ 477	$ 447
Increases in tax positions for current year	158	104	129
Increases in tax positions for prior years (1)	60	7	52
Decreases in tax positions for prior years	(11)	—	(141)
Settlements	(5)	—	—
Lapse in statute of limitations	(9)	(5)	(10)
Balance at end of period	$ 776	$ 583	$ 477

(1) The fiscal year 2021 balance represents prior year gross unrecognized tax benefits recorded as a result of the Mellanox acquisition.

We classify an unrecognized tax benefit as a current liability, or amount refundable, to the extent that we anticipate payment or receipt of cash for income taxes within one year. The amount is classified as a long-term liability, or reduction of long-term deferred tax assets or amount refundable if we anticipate payment or receipt of cash for income taxes during a period beyond a year.

Our policy is to include interest and penalties related to unrecognized tax benefits as a component of income tax expense. As of January 31, 2021, January 26, 2020, and January 27, 2019, we had accrued $44 million, $31 million, and $21 million, respectively, for the payment of interest and penalties related to unrecognized tax benefits, which is not included as a component of our unrecognized tax benefits. As of January 31, 2021, unrecognized tax benefits of $352 million and the related interest and penalties of $43 million are included in non-current income taxes payable, and unrecognized tax benefits of $5 million and the related interest and penalties of $1 million are included in current income taxes payable.

While we believe that we have adequately provided for all tax positions, amounts asserted by tax authorities could be greater or less than our accrued position. Accordingly, our provisions on federal, state and foreign tax-related matters to be recorded in the future may change as revised estimates are made or the underlying matters are settled or otherwise resolved. As of January 31, 2021, we do not believe that our estimates, as otherwise provided for, on such tax positions will significantly increase or decrease within the next twelve months.

NVIDIA CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

We are subject to taxation by taxing authorities both in the United States and other countries. As of January 31, 2021, the significant tax jurisdictions that may be subject to examination include the United States, Hong Kong, Taiwan, China, United Kingdom, Germany, Israel, and India for fiscal years 2005 through 2020. As of January 31, 2021, the significant tax jurisdictions for which we are currently under examination include the United States, United Kingdom, Germany, Israel and India, for fiscal years 2005 through 2019.

Note 15 - Shareholders' Equity

Capital Return Program

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

Through January 31, 2021, we have repurchased an aggregate of 260 million shares under our share repurchase program for a total cost of $7.08 billion. All shares delivered from these repurchases have been placed into treasury stock. As of January 31, 2021, we are authorized, subject to certain specifications, to repurchase shares of our common stock up to $7.24 billion through December 2022.

During fiscal year 2021, we paid $395 million in cash dividends to our shareholders.

Note 16 - Employee Retirement Plans

We provide tax-qualified defined contribution plans to eligible employees in the U.S. and certain other countries. Our contribution expense for fiscal years 2021, 2020, and 2019 was $120 million, $76 million, and $70 million, respectively.

Note 17 - Segment Information

Our Chief Executive Officer, who is considered to be our chief operating decision maker, or CODM, reviews financial information presented on an operating segment basis for purposes of making decisions and assessing financial performance. In the prior fiscal year, we had reported two operating segments: GPU and Tegra Processor. During the first quarter of fiscal year 2021, we changed our operating segments to be consistent with the revised manner in which our CODM reviews our financial performance and allocates resources. The two new operating segments are "Graphics" and "Compute & Networking". Comparative periods presented reflect this change. Our operating segments are equivalent to our reportable segments.

Our Graphics segment includes GeForce GPUs for gaming and PCs, the GeForce NOW game streaming service and related infrastructure, and solutions for gaming platforms; Quadro/NVIDIA RTX GPUs for enterprise design; GRID software for cloud-based visual and virtual computing; and automotive platforms for infotainment systems. Our Compute & Networking segment includes Data Center platforms and systems for AI, HPC, and accelerated computing; Mellanox networking and interconnect solutions; automotive AI Cockpit, autonomous driving development agreements, and autonomous vehicle solutions; and Jetson for robotics and other embedded platforms.

Operating results by segment include costs or expenses that are directly attributable to each segment, and costs or expenses that are leveraged across our unified architecture and therefore allocated between our two segments.

The "All Other" category includes the expenses that our CODM does not assign to either Graphics or Compute & Networking for purposes of making operating decisions or assessing financial performance. The expenses include stock-based compensation expense, corporate infrastructure and support costs, acquisition-related costs, legal settlement costs, and other non-recurring charges and benefits that our CODM deems to be enterprise in nature.

Our CODM does not review any information regarding total assets on a reportable segment basis. Depreciation and amortization expense directly attributable to each reportable segment is included in operating results for each segment. However, the CODM does not evaluate depreciation and amortization expense by operating segment and, therefore, it is not separately presented. There is no intersegment revenue. The accounting policies for segment reporting are the same as for our consolidated financial statements. The table below presents details of our reportable segments and the "All Other" category.

NVIDIA CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

	Graphics	Compute & Networking	All Other	Consolidated
		(In millions)		
Year Ended January 31, 2021:				
Revenue	$ 9,834	$ 6,841	$ —	$ 16,675
Operating income (loss)	$ 4,612	$ 2,548	$ (2,628)	$ 4,532
Year Ended January 26, 2020:				
Revenue	$ 7,639	$ 3,279	$ —	$ 10,918
Operating income (loss)	$ 3,267	$ 751	$ (1,172)	$ 2,846
Year Ended January 27, 2019:				
Revenue	$ 8,159	$ 3,557	$ —	$ 11,716
Operating income (loss)	$ 3,417	$ 1,251	$ (864)	$ 3,804

	Year Ended		
	January 31, 2021	January 26, 2020	January 27, 2019
		(In millions)	
Reconciling items included in "All Other" category:			
Stock-based compensation expense	$ (1,397)	$ (844)	$ (557)
Acquisition-related intangible asset amortization	(591)	(6)	(6)
Unallocated cost of revenue and operating expenses	(357)	(283)	(261)
Acquisition-related inventory step-up charge	(161)	—	—
Acquisition-related and other costs	(84)	(25)	4
IP-related costs	(38)	(14)	(35)
Legal settlement costs	—	—	(9)
Total	$ (2,628)	$ (1,172)	$ (864)

Revenue by geographic region is allocated to individual countries based on the location to which the products are initially billed even if our customers' revenue is attributable to end customers that are located in a different location. The following table summarizes information pertaining to our revenue from customers based on the invoicing address by geographic regions:

	Year Ended		
	January 31, 2021	January 26, 2020	January 27, 2019
Revenue:		*(In millions)*	
Taiwan	$ 4,531	$ 3,025	$ 3,360
China (including Hong Kong)	3,886	2,731	2,801
United States	3,214	886	1,506
Other Asia Pacific	3,093	2,685	2,368
Europe	1,118	992	914
Other countries	833	599	767
Total revenue	$ 16,675	$ 10,918	$ 11,716

NVIDIA CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

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

	Year Ended		
	January 31, 2021	January 26, 2020	January 27, 2019
Revenue:		*(In millions)*	
Gaming	$ 7,759	$ 5,518	$ 6,246
Professional Visualization	1,053	1,212	1,130
Data Center	6,696	2,983	2,932
Automotive	536	700	641
OEM & Other	631	505	767
Total revenue	$ 16,675	$ 10,918	$ 11,716

The following table presents summarized information for long-lived assets by geographic region. Long-lived assets consist of property and equipment and exclude other assets, operating lease assets, goodwill, and intangible assets.

	January 31, 2021	January 26, 2020
Long-lived assets:	*(In millions)*	
United States	$ 1,643	$ 1,451
Taiwan	183	114
Israel	147	—
China (including Hong Kong)	71	28
India	64	51
Europe	34	28
Other countries	7	2
Total long-lived assets	$ 2,149	$ 1,674

No customer represented 10% or more of total revenue for fiscal years 2021 and 2019. One customer represented 11% of our total revenue for fiscal year 2020 and was attributable primarily to the Graphics segment.

One customer represented 16% and 21% of our accounts receivable balance as of January 31, 2021 and January 26, 2020, respectively.

NVIDIA CORPORATION AND SUBSIDIARIES
SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS

Description	Balance at Beginning of Period	Additions		Deductions		Balance at End of Period
		(In millions)				
Fiscal year 2021						
Allowance for doubtful accounts	$ 2	$ 2	(1)	$ —	(1)	$ 4
Sales return allowance	$ 9	$ 30	(2)	$ (22)	(4)	$ 17
Deferred tax valuation allowance	$ 621	$ 107	(3)	$ —		$ 728
Fiscal year 2020						
Allowance for doubtful accounts	$ 2	$ —	(1)	$ —	(1)	$ 2
Sales return allowance	$ 8	$ 18	(2)	$ (17)	(4)	$ 9
Deferred tax valuation allowance	$ 562	$ 59	(3)	$ —		$ 621
Fiscal year 2019						
Allowance for doubtful accounts	$ 4	$ —	(1)	$ (2)	(1)	$ 2
Sales return allowance	$ 9	$ 21	(2)	$ (22)	(4)	$ 8
Deferred tax valuation allowance	$ 469	$ 93	(3)	$ —		$ 562

(1) Additions represent allowance for doubtful accounts charged to expense and deductions represent amounts recorded as reduction to expense upon reassessment of allowance for doubtful accounts at period end.

(2) Represents allowance for sales returns estimated at the time revenue is recognized primarily based on historical return rates and is charged as a reduction to revenue.

(3) Represents change in valuation allowance primarily related to state and certain foreign deferred tax assets that management has determined not likely to be realized due, in part, to projections of future taxable income of the respective jurisdictions. 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.

(4) Represents sales returns.

EXHIBIT INDEX

Exhibit No.	Exhibit Description	Incorporated by Reference Schedule/ Form	File Number	Exhibit	Filing Date
2.1	Agreement and Plan of Merger, dated March 10, 2019, by and among NVIDIA Corporation, NVIDIA International Holdings Inc., Mellanox Technologies Ltd. and Teal Barvaz Ltd.	8-K	0-23985	2.1	3/11/2019
2.2^	Share Purchase Agreement, dated September 13, 2020, by and among NVIDIA, NVIDIA Holdings, Arm, SoftBank, and Vision Fund	8-K	0-23985	2.1	9/14/2020
3.1	Amended and Restated Certificate of Incorporation	S-8	333-74905	4.1	3/23/1999
3.2	Certificate of Amendment of Amended and Restated Certificate of Incorporation	10-Q	0-23985	3.1	8/21/2008
3.3	Certificate of Amendment of Amended and Restated Certificate of Incorporation	8-K	0-23985	3.1	5/24/2011
3.4	Bylaws of NVIDIA Corporation, Amended and Restated as of November 29, 2016	8-K	0-23985	3.1	12/1/2016
4.1	Reference is made to Exhibits 3.1, 3.2, 3.3 and 3.4				
4.2	Specimen Stock Certificate	S-1/A	333-47495	4.2	4/24/1998
4.3	Indenture, dated as of September 16, 2016, by and between the Company and Wells Fargo Bank, National Association, as Trustee	8-K	0-23985	4.1	9/16/2016
4.4	Officers' Certificate, dated as of September 16, 2016	8-K	0-23985	4.2	9/16/2016
4.5	Form of 2021 Note	8-K	0-23985	Annex A to Exhibit 4.2	9/16/2016
4.6	Form of 2026 Note	8-K	0-23985	Annex B to Exhibit 4.2	9/16/2016
4.7*	Description of Securities				
4.8	Officers' Certificate, dated as of March 31, 2020	8-K	0-23985	4.2	3/31/2020
4.9	Form of 2030 Note	8-K	0-23985	Annex A-1 to Exhibit 4.2	3/31/2020
4.10	Form of 2040 Note	8-K	0-23985	Annex B-1 to Exhibit 4.2	3/31/2020
4.11	Form of 2050 Note	8-K	0-23985	Annex C-1 to Exhibit 4.2	3/31/2020
4.12	Form of 2060 Note	8-K	0-23985	Annex D-1 to Exhibit 4.2	3/31/2020
10.1	Form of Indemnity Agreement between NVIDIA Corporation and each of its directors and officers	8-K	0-23985	10.1	3/7/2006
10.2+	Amended and Restated 2007 Equity Incentive Plan	8-K	0-23985	10.1	6/15/2020
10.3+	2007 Equity Incentive Plan - Non-Statutory Stock Option (Annual Grant - Board Service (2011))	10-Q	0-23985	10.41	5/27/2011
10.4+	2007 Equity Incentive Plan - Non-Statutory Stock Option (Initial Grant - Board Service (2011))	8-K	0-23985	10.1	12/14/2011
10.5+	Amended and Restated 2007 Equity Incentive Plan - Non-Employee Director Stock Option Grant (2012 Annual Board Retainer)	10-Q	0-23985	10.4	5/23/2012
10.6+	2007 Equity Incentive Plan - Non Statutory Stock Option	8-K	0-23985	10.20	9/13/2010

10.7+	2007 Equity Incentive Plan - Incentive Stock Option	8-K	0-23985	10.21	9/13/2010
10.8+	Amended and Restated 2007 Equity Incentive Plan - Non Statutory Stock Option	10-Q	0-23985	10.1	8/22/2012
10.9+	Amended and Restated 2007 Equity Incentive Plan - Incentive Stock Option	10-Q	0-23985	10.2	8/22/2012
10.10+	Amended and Restated 2007 Equity Incentive Plan - Non-Employee Director Restricted Stock Unit (with deferral option)	10-Q	0-23985	10.3	5/23/2012
10.11+	Amended and Restated 2007 Equity Incentive Plan - Non Statutory Stock Option (Initial Grant - Board Service)	8-K	0-23985	10.1	7/23/2013
10.12+	Amended and Restated 2007 Equity Incentive Plan - Non-Employee Director Deferred Restricted Stock Unit Grant Notice and Deferred Restricted Stock Unit Agreement (2015)	10-K	0-23985	10.25	3/12/2015
10.13+	Amended and Restated 2007 Equity Incentive Plan - Non-Employee Director Deferred Restricted Stock Unit Grant Notice and Deferred Restricted Stock Unit Agreement (2016)	10-K	0-23985	10.26	3/12/2015
10.14+	Amended and Restated 2007 Equity Incentive Plan - Non-Employee Director Restricted Stock Unit Grant Notice and Restricted Stock Unit Agreement (2016)	10-K	0-23985	10.27	3/12/2015
10.15+	Amended and Restated 2007 Equity Incentive Plan - Restricted Stock Unit Grant Notice and Restricted Stock Unit Agreement & Performance-Based Restricted Stock Unit Grant Notice and Performance-Based Restricted Stock Unit Agreement (2015)	10-Q	0-23985	10.2	5/20/2015
10.16+	Amended and Restated 2007 Equity Incentive Plan - Restricted Stock Unit Grant Notice and Restricted Stock Unit Agreement & Performance-Based Restricted Stock Unit Grant Notice and Performance-Based Restricted Stock Unit Agreement (2018)	10-Q	0-23985	10.2	5/22/2018
10.17+	Amended and Restated 2007 Equity Incentive Plan - Global Restricted Stock Unit Grant Notice and Global Restricted Stock Unit Agreement (2019)	10-K	0-23985	10.19	2/21/2019
10.18+	Amended and Restated 2007 Equity Incentive Plan - Global Performance-Based Restricted Stock Unit Grant Notice and Performance-Based Restricted Stock Unit Agreement (2019)	8-K	0-23985	10.1	3/11/2019
10.19+	Amended and Restated 2007 Equity Incentive Plan – Global Restricted Stock Unit Grant Notice and Global Restricted Stock Unit Agreement (2020)	10-Q	0-23985	10.2	5/21/2020
10.20+	Amended and Restated 2012 Employee Stock Purchase Plan	8-K	0-23985	10.2	6/15/2020
10.21+	Fiscal Year 2020 Variable Compensation Plan	8-K	0-23985	10.1	3/11/2019
10.22+	Fiscal Year 2021 Variable Compensation Plan	8-K	0-23985	10.1	3/10/2020
10.23+	Offer Letter between NVIDIA Corporation and Colette Kress, dated September 13, 2013	8-K	0-23985	10.1	9/16/2013
10.24+	Offer Letter between NVIDIA Corporation and Tim Teter, dated December 16, 2016	8-K	0-23985	10.1	1/19/2017
10.25+	Offer Letter between NVIDIA Corporation and Donald Robertson, dated May 21, 2019	8-K	0-23985	10.1	6/17/2019

10.26	Credit Agreement, dated as of October 7, 2016 by and among NVIDIA Corporation, Wells Fargo Bank, National Association, as administrative agent, and the lenders party thereto	8-K	0-23985	1.1	10/13/2016
10.27	Form of Commercial Paper Dealer Agreement between NVIDIA Corporation, as Issuer, and the Dealer party thereto	8-K	0-23985	10.1	12/15/2017
21.1*	List of Registrant's Subsidiaries				
23.1*	Consent of PricewaterhouseCoopers LLP				
24.1*	Power of Attorney (included in signature page)				
31.1*	Certification of Chief Executive Officer as required by Rule 13a-14(a) of the Securities Exchange Act of 1934				
31.2*	Certification of Chief Financial Officer as required by Rule 13a-14(a) of the Securities Exchange Act of 1934				
32.1#*	Certification of Chief Executive Officer as required by Rule 13a-14(b) of the Securities Exchange Act of 1934				
32.2#*	Certification of Chief Financial Officer as required by Rule 13a-14(b) of the Securities Exchange Act of 1934				
101.INS*	XBRL Instance Document				
101.SCH*	XBRL Taxonomy Extension Schema Document				
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document				
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document				
101.LAB*	XBRL Taxonomy Extension Labels Linkbase Document				
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document				
104	XBRL Taxonomy Extension Presentation Linkbase Document				

* Filed herewith.

+ Management contract or compensatory plan or arrangement.

In accordance with Item 601(b)(32)(ii) of Regulation S-K and SEC Release Nos. 33-8238 and 34-47986, Final Rule: Management's Reports on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports, the certifications furnished in Exhibits 32.1 and 32.2 hereto are deemed to accompany this Annual Report on Form 10-K and will not be deemed "filed" for purpose of Section 18 of the Exchange Act. Such certifications will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.

^ Certain exhibits and schedules have been omitted in accordance with Regulation S-K Item 601(a)(5).

Copies of above exhibits not contained herein are available to any shareholder upon written request to:
Investor Relations: NVIDIA Corporation, 2788 San Tomas Expressway, Santa Clara, CA 95051

ITEM 16. FORM 10-K SUMMARY

Not Applicable.

B. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF NVIDIA FOR THE YEAR ENDED 30 JANUARY 2022

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of NVIDIA Corporation

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of NVIDIA Corporation and its subsidiaries (the "Company") as of January 30, 2022 and January 31, 2021, and the related consolidated statements of income, of comprehensive income, of shareholders' equity and of cash flows for each of the three years in the period ended January 30, 2022, including the related notes and financial statement schedule listed in the index appearing under Item 15(a)(2) (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of January 30, 2022, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of January 30, 2022 and January 31, 2021, and the results of its operations and its cash flows for each of the three years in the period ended January 30, 2022 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 30, 2022, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Valuation of Inventories - Provisions for Excess or Obsolete Inventories

As described in Note 1 to the consolidated financial statements, the Company charges cost of sales for inventory provisions to write-down inventory to the lower of cost or net realizable value or for obsolete or excess inventory. Most of the Company's inventory provisions relate to excess quantities of products, based on the Company's inventory levels and future product purchase commitments compared to assumptions about future demand and market conditions. As of January 30, 2022, the Company's consolidated inventories balance was $2,605 million.

The principal considerations for our determination that performing procedures relating to the valuation of inventories, specifically the provisions for excess or obsolete inventories, is a critical audit matter are the significant judgment by management when developing provisions for excess or obsolete inventories, including developing assumptions related to future demand and market conditions. This in turn led to significant auditor judgment, subjectivity, and effort in performing procedures and evaluating management's assumptions related to future demand and market conditions.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's provisions for excess or obsolete inventories, including controls over management's assumptions related to future demand and market conditions. These procedures also included, among others, testing management's process for developing the provisions for excess or obsolete inventories; evaluating the appropriateness of management's approach; testing the completeness and accuracy of underlying data used in the approach; and evaluating the reasonableness of management's assumptions related to future demand and market conditions. Evaluating management's assumptions related to future demand and market conditions involved evaluating whether the assumptions used by management were reasonable considering (i) current and past results, including historical product life cycle, (ii) the consistency with external market and industry data, (iii) changes in technology, and (iv) comparing prior period estimates to actual results of the same period.

/s/ PricewaterhouseCoopers LLP
San Jose, California
March 17, 2022

We have served as the Company's auditor since 2004.

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

	Year Ended		
	January 30, 2022	January 31, 2021	January 26, 2020
Revenue	$ 26,914	$ 16,675	$ 10,918
Cost of revenue	9,439	6,279	4,150
Gross profit	17,475	10,396	6,768
Operating expenses			
Research and development	5,268	3,924	2,829
Sales, general and administrative	2,166	1,940	1,093
Total operating expenses	7,434	5,864	3,922
Income from operations	10,041	4,532	2,846
Interest income	29	57	178
Interest expense	(236)	(184)	(52)
Other, net	107	4	(2)
Other income (expense), net	(100)	(123)	124
Income before income tax	9,941	4,409	2,970
Income tax expense	189	77	174
Net income	$ 9,752	$ 4,332	$ 2,796
Net income per share:			
Basic	$ 3.91	$ 1.76	$ 1.15
Diluted	$ 3.85	$ 1.73	$ 1.13
Weighted average shares used in per share computation:			
Basic	2,496	2,467	2,439
Diluted	2,535	2,510	2,472

See accompanying notes to the consolidated financial statements.

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

	Year Ended		
	January 30, 2022	January 31, 2021	January 26, 2020
Net income	$ 9,752	$ 4,332	$ 2,796
Other comprehensive income (loss), net of tax			
Available-for-sale debt securities:			
Net unrealized gain (loss)	(16)	2	8
Reclassification adjustments for net realized gain (loss) included in net income	—	(2)	—
Net change in unrealized gain (loss)	(16)	—	8
Cash flow hedges:			
Net unrealized gain (loss)	(43)	9	10
Reclassification adjustments for net realized gain (loss) included in net income	29	9	(5)
Net change in unrealized gain (loss)	(14)	18	5
Other comprehensive income (loss), net of tax	(30)	18	13
Total comprehensive income	$ 9,722	$ 4,350	$ 2,809

See accompanying notes to the consolidated financial statements.

NVIDIA CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In millions, except par value)

	January 30, 2022	January 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,990	$ 847
Marketable securities	19,218	10,714
Accounts receivable, net	4,650	2,429
Inventories	2,605	1,826
Prepaid expenses and other current assets	366	239
Total current assets	28,829	16,055
Property and equipment, net	2,778	2,149
Operating lease assets	829	707
Goodwill	4,349	4,193
Intangible assets, net	2,339	2,737
Deferred income tax assets	1,222	806
Other assets	3,841	2,144
Total assets	$ 44,187	$ 28,791
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,783	$ 1,149
Accrued and other current liabilities	2,552	1,777
Short-term debt	—	999
Total current liabilities	4,335	3,925
Long-term debt	10,946	5,964
Long-term operating lease liabilities	741	634
Other long-term liabilities	1,553	1,375
Total liabilities	17,575	11,898
Commitments and contingencies - see Note 13		
Shareholders' equity:		
Preferred stock, $0.001 par value; 2 shares authorized; none issued	—	—
Common stock, $0.001 par value; 4,000 shares authorized; 2,506 shares issued and outstanding as of January 30, 2022; 3,859 shares issued and 2,479 outstanding as of January 31, 2021	3	3
Additional paid-in capital	10,385	8,719
Treasury stock, at cost (None as of January 30, 2022 and 1,380 shares as of January 31, 2021)	—	(10,756)
Accumulated other comprehensive income (loss)	(11)	19
Retained earnings	16,235	18,908
Total shareholders' equity	26,612	16,893
Total liabilities and shareholders' equity	$ 44,187	$ 28,791

See accompanying notes to the consolidated financial statements.

NVIDIA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In millions, except per share data)	Common Stock Outstanding Shares	Common Stock Outstanding Amount	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Shareholders' Equity
Balances, January 27, 2019	2,423	$ 3	$ 6,049	$ (9,263)	$ (12)	$ 12,565	$ 9,342
Net income	—	—	—	—	—	2,796	2,796
Other comprehensive income	—	—	—	—	13	—	13
Issuance of common stock from stock plans	39	—	149	—	—	—	149
Tax withholding related to vesting of restricted stock units	(12)	—	—	(551)	—	—	(551)
Cash dividends declared and paid ($0.16 per common share)	—	—	—	—	—	(390)	(390)
Stock-based compensation	—	—	845	—	—	—	845
Balances, January 26, 2020	2,450	3	7,043	(9,814)	1	14,971	12,204
Net income	—	—	—	—	—	4,332	4,332
Other comprehensive income	—	—	—	—	18	—	18
Issuance of common stock from stock plans	40	—	194	—	—	—	194
Tax withholding related to vesting of restricted stock units	(11)	—	—	(942)	—	—	(942)
Cash dividends declared and paid ($0.16 per common share)	—	—	—	—	—	(395)	(395)
Fair value of partially vested equity awards assumed in connection with acquisitions	—	—	86	—	—	—	86
Stock-based compensation	—	—	1,396	—	—	—	1,396
Balances, January 31, 2021	2,479	3	8,719	(10,756)	19	18,908	16,893
Net income	—	—	—	—	—	9,752	9,752
Other comprehensive loss	—	—	—	—	(30)	—	(30)
Issuance of common stock from stock plans	35	—	281	—	—	—	281
Tax withholding related to vesting of restricted stock units	(8)	—	(614)	(1,290)	—	—	(1,904)
Cash dividends declared and paid ($0.16 per common share)	—	—	—	—	—	(399)	(399)
Fair value of partially vested equity awards assumed in connection with acquisitions	—	—	18	—	—	—	18
Stock-based compensation	—	—	2,001	—	—	—	2,001
Retirement of Treasury Stock	—	—	(20)	12,046	—	(12,026)	—
Balances, January 30, 2022	2,506	$ 3	$ 10,385	$ —	$ (11)	$ 16,235	$ 26,612

See accompanying notes to the consolidated financial statements.

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

	Year Ended		
	January 30, 2022	January 31, 2021	January 26, 2020
Cash flows from operating activities:			
Net income	$ 9,752	$ 4,332	$ 2,796
Adjustments to reconcile net income to net cash provided by operating activities:			
Stock-based compensation expense	2,004	1,397	844
Depreciation and amortization	1,174	1,098	381
Deferred income taxes	(406)	(282)	18
(Gains) losses on investments in non-affiliates, net	(100)	—	1
Other	47	(20)	4
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	(2,215)	(550)	(233)
Inventories	(774)	(524)	597
Prepaid expenses and other assets	(1,715)	(394)	77
Accounts payable	568	312	194
Accrued and other current liabilities	581	290	54
Other long-term liabilities	192	163	28
Net cash provided by operating activities	9,108	5,822	4,761
Cash flows from investing activities:			
Proceeds from maturities of marketable securities	15,197	8,792	4,744
Proceeds from sales of marketable securities	1,023	527	3,365
Purchases of marketable securities	(24,787)	(19,308)	(1,461)
Purchases related to property and equipment and intangible assets	(976)	(1,128)	(489)
Acquisitions, net of cash acquired	(263)	(8,524)	(4)
Investments and other, net	(24)	(34)	(10)
Net cash provided by (used in) investing activities	(9,830)	(19,675)	6,145
Cash flows from financing activities:			
Issuance of debt, net of issuance costs	4,977	4,968	—
Proceeds related to employee stock plans	281	194	149
Payments related to tax on restricted stock units	(1,904)	(942)	(551)
Repayment of debt	(1,000)	—	—
Dividends paid	(399)	(395)	(390)
Principal payments on property and equipment	(83)	(17)	—
Other	(7)	(4)	—
Net cash provided by (used in) financing activities	1,865	3,804	(792)
Change in cash and cash equivalents	1,143	(10,049)	10,114
Cash and cash equivalents at beginning of period	847	10,896	782
Cash and cash equivalents at end of period	$ 1,990	$ 847	$ 10,896
Supplemental disclosures of cash flow information:			
Cash paid for income taxes, net	$ 396	$ 249	$ 176
Cash paid for interest	$ 246	$ 138	$ 54

See accompanying notes to the consolidated financial statements.

NVIDIA CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Organization and Summary of Significant Accounting Policies

Our Company

Headquartered in Santa Clara, California, NVIDIA was incorporated in California in April 1993 and reincorporated in Delaware in April 1998.

All references to "NVIDIA," "we," "us," "our" or the "Company" mean NVIDIA Corporation and its subsidiaries.

On July 19, 2021, we executed a four-for-one stock split of our common stock. All share, equity award, and per share amounts and related shareholders' equity balances presented herein have been retroactively adjusted to reflect the Stock Split.

Fiscal Year

We operate on a 52- or 53-week year, ending on the last Sunday in January. Fiscal years 2022 and 2020 were both 52-week years. Fiscal year 2021 was a 53-week year.

Reclassifications

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

Principles of Consolidation

Our consolidated financial statements include the accounts of NVIDIA Corporation and our wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ materially from our estimates. On an on-going basis, we evaluate our estimates, including those related to revenue recognition, cash equivalents and marketable securities, accounts receivable, inventories, income taxes, goodwill, stock-based compensation, litigation, investigation and settlement costs, restructuring and other charges, and other contingencies. The inputs into our judgments and estimates consider the economic implications of COVID-19. These estimates are based on historical facts and various other assumptions that we believe are reasonable.

Revenue Recognition

We derive our revenue from product sales, including hardware and systems, license and development arrangements, software licensing, and cloud services. We determine revenue recognition through the following steps: (1) identification of the contract with a customer; (2) identification of the performance obligations in the contract; (3) determination of the transaction price; (4) allocation of the transaction price to the performance obligations in the contract (where revenue is allocated on a relative standalone selling price basis by maximizing the use of observable inputs to determine the standalone selling price for each performance obligation); and (5) recognition of revenue when, or as, we satisfy a performance obligation.

Product Sales Revenue

Revenue from product sales is recognized upon transfer of control of products to customers in an amount that reflects the consideration we expect to receive in exchange for those products. Certain products are sold with support or an extended warranty for the incorporated system, hardware, and/or software. Support and extended warranty revenue are recognized ratably over the service period, or as services are performed. Revenue is recognized net of allowances for returns, customer programs and any taxes collected from customers.

For products sold with a right of return, we 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 fiscal period are anticipated to exceed historical return rates, we may determine that additional sales return allowances are required to properly reflect our estimated exposure for product returns.

NVIDIA CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Our customer programs involve rebates, which are designed to serve as sales incentives to resellers of our products in various target markets, and marketing development funds, or MDFs, which represent monies paid to our partners that are earmarked for market segment development and are designed to support our partners' activities while also promoting NVIDIA products. We account for customer programs as a reduction to revenue and accrue for potential rebates and MDFs based on the amount we expect to be claimed by customers.

License and Development Arrangements

Our license and development arrangements with customers typically require significant customization of our IP components. As a result, we recognize the revenue from the license and the revenue from the development services as a single performance obligation over the period in which the development services are performed. We measure progress to completion based on actual cost incurred to date as a percentage of the estimated total cost required to complete each project. If a loss on an arrangement becomes probable during a period, we record a provision for such loss in that period.

Software Licensing

Our software licenses provide our customers with a right to use the software when it is made available to the customer. Customers may purchase either perpetual licenses or subscriptions to licenses, which differ mainly in the duration over which the customer benefits from the software. Software licenses are frequently sold along with the right to receive, on a when-and-if available basis, future unspecified software updates and upgrades. Revenue from software licenses is recognized up front when the software is made available to the customer. Software support revenue is recognized ratably over the service period, or as services are performed.

Cloud Services

Cloud services, which allow customers to use hosted software over the contract period without taking possession of the software, are provided on a subscription basis or a combination of subscription plus usage. Revenue related to subscription-based cloud services is recognized ratably over the contract period. Revenue related to cloud services based on usage is recognized as usage occurs.

Product Warranties

We generally offer a limited warranty to end-users that ranges from one to three years for products in order to repair or replace products for any manufacturing defects or hardware component failures. 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. We also accrue for known warranty and indemnification issues if a loss is probable and can be reasonably estimated.

Stock-based Compensation

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, and performance stock units that are based on our corporate financial performance targets, or PSUs. We use a Monte Carlo simulation on the date of grant to estimate the fair value of performance stock units that are based on market conditions, or market-based PSUs. The compensation expense for RSUs and market-based PSUs is recognized using a straight-line attribution method over the requisite employee service period while compensation expense for PSUs is recognized using an accelerated amortization model. We estimate the fair value of shares to be issued under our employee stock purchase plan, or ESPP, using the Black-Scholes model at the commencement of an offering period in March and September of each year. Stock-based compensation for our ESPP is expensed using an accelerated amortization model. Additionally, we estimate forfeitures at least annually based on historical experience and revise the estimates of forfeiture in subsequent periods if actual forfeitures differ from those estimates.

Litigation, Investigation and Settlement Costs

We currently, are, and will likely continue to be subject to claims, litigation, and other actions, including potential regulatory proceedings, involving patent and other intellectual property matters, taxes, labor and employment, competition and antitrust, commercial disputes, goods and services offered by us and by third parties, and other matters. There are many uncertainties associated with any litigation or investigation, and we cannot be certain that these actions or other third-party claims against us will be resolved without litigation, fines and/or substantial

NVIDIA CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

settlement payments or judgements. 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.

Foreign Currency Remeasurement

We use the United States dollar as our functional currency for all of our subsidiaries. Foreign currency monetary assets and liabilities are remeasured into United States dollars at end-of-period exchange rates. Non-monetary assets and liabilities such as property and equipment and equity are remeasured at historical exchange rates. Revenue and expenses are remeasured at exchange rates in effect during each period, except for those expenses related to non-monetary balance sheet amounts, which are remeasured at historical exchange rates. Gains or losses from foreign currency remeasurement are included in earnings in our Consolidated Statements of Income and to date have not been significant.

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.

Our calculation of 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 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 30, 2022, we had a valuation allowance of $907 million related to state and certain other deferred tax assets that management determined are not likely to be realized due to jurisdictional projections of future taxable income, tax attributes usage limitation by certain jurisdictions, 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 assets as an income tax benefit during the period.

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.

Net Income Per Share

Basic net income per share is computed using the weighted average number of common shares outstanding during the period. Diluted net income per share is computed using the weighted average number of common and potentially dilutive shares outstanding during the period, using the treasury stock method. Under the treasury stock method, the effect of equity awards outstanding is not included in the computation of diluted net income per share for periods when their effect is anti-dilutive.

Cash and Cash Equivalents and Marketable Securities

We consider all highly liquid investments that are readily convertible into cash and have an original maturity of three months or less at the time of purchase to be cash equivalents. Marketable securities consist of highly liquid debt investments with maturities of greater than three months when purchased. We currently classify our investments as current based on the nature of the investments and their availability for use in current operations.

We classify our cash equivalents and marketable securities related to debt securities at the date of acquisition as available-for-sale. These available-for-sale debt securities are reported at fair value with the related unrealized gains and losses included in accumulated other comprehensive income or loss, a component of shareholders' equity, net of

NVIDIA CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

tax. The fair value of interest-bearing debt securities includes accrued interest. Realized gains and losses on the sale of marketable securities are determined using the specific-identification method and recorded in the other income (expense), net, section of our Consolidated Statements of Income.

All of our available-for-sale debt investments are subject to a periodic impairment review. If the estimated fair value of available-for-sale debt securities is less than its amortized cost basis, we determine if the difference, if any, is caused by expected credit losses and write-down the amortized cost basis of the securities if it is more likely than not we will be required or we intend to sell the securities before recovery of its amortized cost basis. Allowances for credit losses and write-downs are recognized in the other income (expense), net section of our Consolidated Statements of Income.

Fair Value of Financial Instruments

The carrying value of cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair values due to their relatively short maturities as of January 30, 2022 and January 31, 2021. Marketable securities are comprised of available-for-sale securities that are reported at fair value with the related unrealized gains or losses included in accumulated other comprehensive income or loss, a component of shareholders' equity, net of tax. Fair value of the marketable securities is determined based on quoted market prices. Derivative instruments are recognized as either assets or liabilities and are measured at fair value. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. For derivative instruments designated as fair value hedges, the gains or losses are recognized in earnings in the periods of change together with the offsetting losses or gains on the hedged items attributed to the risk being hedged. For derivative instruments designated as cash-flow hedges, the effective portion of the gains or losses on the derivatives is initially reported as a component of other comprehensive income or loss and is subsequently recognized in earnings when the hedged exposure is recognized in earnings. For derivative instruments not designated for hedge accounting, changes in fair value are recognized in earnings.

Concentration of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash equivalents, marketable securities, and accounts receivable. Our investment policy requires the purchase of highly-rated fixed income securities, the diversification of investment type and credit exposures, and includes certain limits on our portfolio duration. We perform ongoing credit evaluations of our customers' financial condition and maintain an allowance for potential credit losses. This allowance consists of an amount identified for specific customers and an amount based on overall estimated exposure. Our overall estimated exposure excludes amounts covered by credit insurance and letters of credit.

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, including wafer fabrication, assembly, testing and packaging, manufacturing support costs, including labor and overhead associated with such purchases, final test yield fallout, and shipping costs, as well as the cost of purchased memory products and other component parts. We charge cost of sales for inventory provisions to write-down our inventory to the lower of cost or net realizable value or for obsolete or excess inventory. Most of our inventory provisions relate to excess quantities of products, based on our inventory levels and future product purchase commitments compared to assumptions about future demand and market conditions. Once inventory has been written-off or written-down, it creates a new cost basis for the inventory that is not subsequently written-up. We record a liability for noncancelable purchase commitments with suppliers for quantities in excess of our future demand forecasts consistent with our valuation of obsolete or excess inventory.

Property and Equipment

Property and equipment are stated at cost. Depreciation of property and equipment is computed using the straight-line method based on the estimated useful lives of the assets, generally three to five years. Once an asset is identified for retirement or disposition, the related cost and accumulated depreciation or amortization are removed, and a gain or loss is recorded. The estimated useful lives of our buildings are up to thirty years. Depreciation expense includes the amortization of assets recorded under finance leases. Leasehold improvements and assets recorded under finance leases are amortized over the shorter of the expected lease term or the estimated useful life of the asset.

NVIDIA CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Leases

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

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

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

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. For the purposes of completing our impairment test, we perform either a qualitative or a quantitative analysis on a reporting unit basis.

Qualitative factors include industry and market considerations, overall financial performance, and other relevant events and factors affecting the reporting units.

Our quantitative impairment test considers both the income approach and the market approach to estimate a reporting unit's fair value. The income and market valuation approaches consider a number of factors that include, but are not limited to, prospective financial information, growth rates, residual values, discount rates and comparable multiples from publicly traded companies in our industry and require us to make certain assumptions and estimates regarding industry economic factors and the future profitability of our business.

Intangible Assets and Other Long-Lived Assets

Intangible assets primarily represent acquired intangible assets including developed technology, in-process research and development, or IPR&D, and customer relationships, as well as rights acquired under technology licenses, patents, and acquired IP. We currently amortize our intangible assets with finite lives over periods ranging from one to twenty years using a method that reflects the pattern in which the economic benefits of the intangible asset are consumed or otherwise used up or, if that pattern cannot be reliably determined, using a straight-line amortization method. We initially capitalize the fair value of IPR&D as an intangible asset with an indefinite life. When IPR&D projects are completed, we reclassify the IPR&D as an amortizable purchased intangible asset and amortize over the asset's estimated useful life.

Long-lived assets, such as property and equipment and intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. Recoverability of assets or asset groups to be held and used is measured by a comparison of the carrying amount of an asset or asset group to estimated undiscounted future cash flows expected to be generated by the asset or asset group. If the carrying amount of an asset or asset group exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset or asset group exceeds the estimated fair value of the asset or asset group. Fair value is determined based on the estimated discounted future cash flows expected to be generated by the asset or asset group. Assets and liabilities to be disposed of would be separately presented in the Consolidated Balance Sheet and the assets would be reported at the lower of the carrying amount or fair value less costs to sell, and would no longer be depreciated.

Business Combination

We allocate the fair value of the purchase price of an acquisition to the tangible assets acquired, liabilities assumed, and intangible assets acquired, including IPR&D, based on their estimated fair values. The excess of the fair value of the purchase price over the fair values of these net tangible and intangible assets acquired is recorded as goodwill. Management's estimates of fair value are based upon assumptions believed to be reasonable, but our estimates and assumptions are inherently uncertain and subject to refinement. The estimates and assumptions used in valuing intangible assets include, but are not limited to, the amount and timing of projected future cash flows, discount rate used

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to determine the present value of these cash flows and asset lives. These estimates are inherently uncertain and, therefore, actual results may differ from the estimates made. As a result, during the measurement period of up to one year from the acquisition date, we may record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the fair value of the purchase price of an acquisition, whichever comes first, any subsequent adjustments are recorded to our Consolidated Statements of Income.

Acquisition-related expenses are recognized separately from the business combination and expensed as incurred.

Investment in Non-Affiliated Entities

Non-marketable equity investments in privately-held companies are recorded at fair value on a non-recurring basis only if an impairment or observable price adjustment occurs in the period with changes in fair value recorded through net income. These investments are valued using observable and unobservable inputs or data in an inactive market and the valuation requires our judgment due to the absence of market prices and inherent lack of liquidity. The estimated fair value is based on quantitative and qualitative factors including subsequent financing activities by the investee.

Marketable equity investments in publicly-held companies are recorded at fair value with the related unrealized and realized gains and losses recognized in other income (expense), net.

Adoption of New and Recently Issued Accounting Pronouncements

Recently Adopted Accounting Pronouncement

In October 2021, the Financial Accounting Standards Board issued a new accounting standard to require that an acquirer recognize and measure contract assets and liabilities acquired in a business combination in accordance with Accounting Standards Codification 606, Revenue from Contracts with Customers. We early adopted this accounting standard in the third quarter of fiscal year 2022 and the impact was immaterial.

Note 2 - Business Combination

Termination of the Arm Share Purchase Agreement

On February 8, 2022, NVIDIA and SoftBank announced the termination of the Share Purchase Agreement whereby NVIDIA would have acquired Arm from SoftBank. The parties agreed to terminate because of significant regulatory challenges preventing the completion of the transaction. We intend to record in operating expenses a $1.36 billion charge in the first quarter of fiscal year 2023 reflecting the write-off of the prepayment provided at signing in September 2020.

Acquisition of Mellanox Technologies, Ltd.

In April 2020, we completed the acquisition of all outstanding shares of Mellanox for a total purchase consideration of $7.13 billion. Mellanox is a supplier of high-performance interconnect products for computing, storage and communications applications. We acquired Mellanox to optimize data center workloads to scale across the entire computing, networking, and storage stack.

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Purchase Price Allocation

The aggregate purchase consideration has been allocated as follows (in millions):

Purchase Price		
Cash paid for outstanding Mellanox ordinary shares (1)	$	7,033
Cash for Mellanox equity awards (2)		16
Total cash consideration		7,049
Fair value of Mellanox equity awards assumed by NVIDIA (3)		85
Total purchase consideration	$	7,134
Allocation		
Cash and cash equivalents	$	115
Marketable securities		699
Accounts receivable, net		216
Inventories		320
Prepaid expenses and other assets		179
Property and equipment, net		144
Goodwill		3,431
Intangible assets		2,970
Accounts payable		(136)
Accrued and other current liabilities		(236)
Income tax liability		(191)
Deferred income tax liability		(258)
Other long-term liabilities		(119)
	$	7,134

(1) Represents the cash consideration of $125.00 per share paid to Mellanox shareholders for approximately 56 million shares of outstanding Mellanox ordinary shares.
(2) Represents the cash consideration for the settlement of approximately 249 thousand Mellanox stock options held by employees and non-employee directors of Mellanox.
(3) Represents the fair value of Mellanox's stock-based compensation awards attributable to pre-combination services.

We allocated the purchase price to tangible and identified intangible assets acquired and liabilities assumed based on the estimated fair values.

The goodwill is primarily attributable to the planned growth in the combined business of NVIDIA and Mellanox. Goodwill is not amortized to earnings, but instead is reviewed for impairment at least annually, absent any interim indicators of impairment. Goodwill recognized in the acquisition is not expected to be deductible for foreign tax purposes. Goodwill arising from the Mellanox acquisition has been allocated to the Compute and Networking segment. Refer to Note 17 – Segment Information for further details on segments.

The operating results of Mellanox have been included in our consolidated financial statements for fiscal year 2021 since the acquisition date of April 27, 2020. Revenue attributable to Mellanox was approximately 10% for fiscal year 2021. There is not a practical way to determine net income attributable to Mellanox due to integration. Acquisition-related costs attributable to Mellanox of $28 million were included in selling, general and administrative expense for fiscal year 2021.

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Intangible Assets

The estimated fair value and useful life of the acquired intangible assets at the time of the acquisition are as follows:

	Fair Value	Useful Lives
	(In millions)	
Developed technology (1)	$ 1,640	5 years
Customer relationships (2)	440	3 years
Order backlog (3)	190	Based on actual shipments
Trade names (4)	70	5 years
Total identified finite-lived intangible assets	2,340	
IPR&D (5)	630	N/A
Total identified intangible assets	$ 2,970	

(1) The fair value of developed technology was identified using the Multi-Period Excess Earnings Method.
(2) Customer relationships represent the fair value of the existing relationships using the With and Without Method.
(3) Order backlog represents primarily the fair value of purchase arrangements with customers using the Multi-Period Excess Earnings Method. The intangible asset was fully amortized as of January 31, 2021.
(4) Trade names primarily relate to Mellanox trade names and fair value was determined by applying the Relief-from-Royalty Method under the income approach.
(5) The fair value of IPR&D was determined using the Multi-Period Excess Earnings Method.

The fair value of the finite-lived intangible assets will be amortized over the estimated useful lives based on the pattern in which the economic benefits are expected to be received to cost of revenue and operating expenses.

Mellanox has an IPR&D project associated with the next generation interconnect product that had not yet reached technological feasibility as of the acquisition date. Accordingly, we recorded an indefinite-lived intangible asset of $630 million for the fair value of this project, which was initially not amortized. Instead, the project is tested for impairment annually and whenever events or changes in circumstances indicate that the project may be impaired or may have reached technological feasibility. Once and if the project reaches technological feasibility, we will begin to amortize the intangible asset over its estimated useful life.

Supplemental Unaudited Pro Forma Information

The following unaudited pro forma financial information summarizes the combined results of operations for NVIDIA and Mellanox as if the companies were combined as of the beginning of fiscal year 2020:

	Pro Forma	
	Year Ended	
	January 31, 2021	January 26, 2020
	(In millions)	
Revenue	$ 17,104	$ 12,250
Net income	$ 4,757	$ 2,114

The unaudited pro forma information includes adjustments related to amortization of acquired intangible assets, adjustments to stock-based compensation expense, fair value of acquired inventory, and transaction costs. The unaudited pro forma information presented above is for informational purposes only and is not necessarily indicative of our consolidated results of operations of the combined business had the acquisition actually occurred at the beginning of fiscal year 2020 or of the results of our future operations of the combined businesses.

The pro forma results reflect the inventory step-up expense of $161 million in the fiscal year 2020 and were excluded from the pro forma results for fiscal year 2021. There were no other material nonrecurring adjustments.

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Note 3 - Leases

Our lease obligations primarily consist of operating leases for our headquarters complex, domestic and international office facilities, and data center space, with lease periods expiring between fiscal years 2023 and 2035.

Future minimum lease payments under our non-cancelable operating leases as of January 30, 2022, are as follows:

	Operating Lease Obligations
	(In millions)
Fiscal Year:	
2023	$ 176
2024	162
2025	136
2026	124
2027	114
2028 and thereafter	288
Total	1,000
Less imputed interest	115
Present value of net future minimum lease payments	885
Less short-term operating lease liabilities	144
Long-term operating lease liabilities	$ 741

In addition to our existing operating lease obligations, we have operating leases that are expected to commence within fiscal year 2023 with lease terms of 7 years for $169 million.

Operating lease expense for fiscal years 2022, 2021, and 2020 was $168 million, $145 million, $114 million, respectively. Short-term and variable lease expenses for fiscal years 2022, 2021, and 2020 were not significant.

Other information related to leases was as follows:

	Year Ended		
	January 30, 2022	January 31, 2021	January 26, 2020
		(In millions)	
Supplemental cash flows information			
Operating cash flows used for operating leases	$ 154	$ 141	$ 103
Operating lease assets obtained in exchange for lease obligations (1)	$ 266	$ 200	$ 238

(1) Fiscal year 2021 includes $80 million of operating lease assets addition due to Mellanox.

As of January 30, 2022, our operating leases had a weighted average remaining lease term of 7.1 years and a weighted average discount rate of 2.51%. As of January 31, 2021, our operating leases had a weighted average remaining lease term of 7.6 years and a weighted average discount rate of 2.87%.

Note 4 - Stock-Based Compensation

Our stock-based compensation expense is associated with restricted stock units, or RSUs, performance stock units that are based on our corporate financial performance targets, or PSUs, performance stock units that are based on market conditions, or market-based PSUs, and our ESPP.

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Our Consolidated Statements of Income include stock-based compensation expense, net of amounts allocated to inventory, as follows:

	Year Ended		
	January 30, 2022	January 31, 2021	January 26, 2020
		(In millions)	
Cost of revenue	$ 141	$ 88	$ 39
Research and development	1,298	860	540
Sales, general and administrative	565	449	265
Total	$ 2,004	$ 1,397	$ 844

Stock-based compensation capitalized in inventories was not significant during fiscal years 2022, 2021, and 2020.

The following is a summary of equity awards granted under our equity incentive plans:

	Year Ended		
	January 30, 2022	January 31, 2021	January 26, 2020
		(In millions, except per share data)	
RSUs, PSUs and Market-based PSUs			
Awards granted	18	36	28
Estimated total grant-date fair value	$ 3,492	$ 2,764	$ 1,282
Weighted average grant-date fair value per share	$ 190.69	$ 76.81	$ 46.12
ESPP			
Shares purchased	5	4	4
Weighted average price per share	$ 56.36	$ 34.80	$ 37.19
Weighted average grant-date fair value per share	$ 23.24	$ 16.91	$ 16.22

As of January 30, 2022, there was $4.87 billion of aggregate unearned stock-based compensation expense, net of forfeitures. This amount is expected to be recognized over a weighted average period of 2.4 years for RSUs, PSUs, and market-based PSUs, and 0.9 years for ESPP.

The fair value of shares issued under our ESPP have been estimated with the following assumptions:

	Year Ended		
	January 30, 2022	January 31, 2021	January 26, 2020
		(Using the Black-Scholes model)	
ESPP			
Weighted average expected life (in years)	0.1-2.0	0.1-2.0	0.1-2.0
Risk-free interest rate	—%-0.5%	0.1%-1.6%	1.5%-2.6%
Volatility	20%-58%	26%-89%	30%-82%
Dividend yield	0.1%	0.1%-0.3%	0.3%-0.4%

For ESPP shares, the expected term represents the average term from the first day of the offering period to the purchase date. The risk-free interest rate assumption used to value ESPP shares is based upon observed interest rates on Treasury bills appropriate for the expected term. Our expected stock price volatility assumption for ESPP is estimated using historical volatility. For awards granted, we use the dividend yield at grant date. Our RSU, PSU, and market-based PSU awards are not eligible for cash dividends prior to vesting; therefore, the fair values of RSUs, PSUs, and market-based PSUs are discounted for the dividend yield.

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

Equity Incentive Program

We grant or have granted stock options, RSUs, PSUs, market-based PSUs, and stock purchase rights under the following equity incentive plans. In addition, in connection with our acquisitions of various companies, we have assumed certain stock-based awards granted under their stock incentive plans and converted them into our RSUs.

Amended and Restated 2007 Equity Incentive Plan

In 2007, our shareholders approved the NVIDIA Corporation 2007 Equity Incentive Plan, as most recently amended and restated, or the 2007 Plan.

The 2007 Plan authorizes the issuance of incentive stock options, non-statutory stock options, restricted stock, restricted stock units, stock appreciation rights, performance stock awards, performance cash awards, and other stock-based awards to employees, directors and consultants. Only our employees may receive incentive stock options. As of January 30, 2022, up to 50 million shares of our common stock could be issued pursuant to stock awards granted under the 2007 Plan, of which 6 million shares were issuable upon the exercise of outstanding stock options. All options are fully vested, the last of which will expire by December 2023 if not exercised. Currently, we grant RSUs, PSUs and market-based PSUs under the 2007 Plan, under which, as of January 30, 2022, there were 131 million shares available for future grants.

Subject to certain exceptions, RSUs granted to employees either vest (A) over a four-year period, subject to continued service, with 25% vesting on a pre-determined date that is close to the anniversary of the date of grant and 6.25% vesting quarterly thereafter, or (B) over a three-year period, subject to continued service, with 40% vesting on a pre-determined date that is close to the anniversary of the date of grant and 7.5% vesting quarterly thereafter. PSUs vest over a four-year period, subject to continued service, with 25% vesting on a pre-determined date that is close to the anniversary of the date of grant and 6.25% vesting quarterly thereafter. Market-based PSUs vest 100% on approximately the three-year anniversary of the date of grant. However, the number of shares subject to both PSUs and market-based PSUs that are eligible to vest is generally determined by the Compensation Committee based on achievement of pre-determined criteria.

Amended and Restated 2012 Employee Stock Purchase Plan

In 2012, our shareholders approved the NVIDIA Corporation 2012 Employee Stock Purchase Plan, as most recently amended and restated, or the 2012 Plan.

Employees who participate in the 2012 Plan may have up to 15% of their earnings withheld to purchase shares of common stock. The Board may decrease this percentage at its discretion. Each offering period is approximately 24 months, which is generally divided into four purchase periods of six months. The price of common stock purchased under our 2012 Plan will be equal to 85% of the lower of the fair market value of the common stock on the commencement date of each offering period or the fair market value of the common stock on each purchase date within the offering. As of January 30, 2022, we had 233 million shares reserved for future issuance under the 2012 Plan.

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Equity Award Activity

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

	RSUs, PSUs and Market-based PSUs Outstanding	
	Number of Shares	Weighted Average Grant-Date Fair Value
	(In millions, except per share data)	
Balances, January 31, 2021	59	$ 66.17
Granted	18	$ 190.69
Vested restricted stock	(29)	$ 66.67
Canceled and forfeited	(2)	$ 86.47
Balances, January 30, 2022	46	$ 114.19
Vested and expected to vest after January 30, 2022	46	$ 113.84

As of January 30, 2022 and January 31, 2021, there were 131 million and 148 million shares, respectively, of common stock available for future grants under our equity incentive plans.

As of January 30, 2022, the total intrinsic value of options currently exercisable and outstanding was $1.38 billion, with an average exercise price of $3.55 per share and an average remaining term of 1.1 years. The total intrinsic value of options exercised was $741 million, $521 million, and $84 million for fiscal years 2022, 2021, and 2020, respectively. Upon the exercise of an option, we issue new shares of stock.

The total fair value of RSUs and PSUs, as of their respective vesting dates, during the years ended January 30, 2022, January 31, 2021, and January 26, 2020, was $5.56 billion, $2.67 billion, and $1.45 billion, respectively.

Note 5 - Net Income Per Share

The following is a reconciliation of the denominator of the basic and diluted net income per share computations for the periods presented:

	Year Ended		
	January 30, 2022	January 31, 2021	January 26, 2020
	(In millions, except per share data)		
Numerator:			
Net income	$ 9,752	$ 4,332	$ 2,796
Denominator:			
Basic weighted average shares	2,496	2,467	2,439
Dilutive impact of outstanding equity awards	39	43	33
Diluted weighted average shares	2,535	2,510	2,472
Net income per share:			
Basic (1)	$ 3.91	$ 1.76	$ 1.15
Diluted (2)	$ 3.85	$ 1.73	$ 1.13
Equity awards excluded from diluted net income per share because their effect would have been anti-dilutive	21	12	44

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

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

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Note 6 - Goodwill

As of January 30, 2022, the total carrying amount of goodwill was $4.35 billion, consisting of goodwill balances allocated to our Graphics and Compute & Networking reporting units of $361 million and $3.99 billion, respectively. As of January 31, 2021, the total carrying amount of goodwill was $4.19 billion, consisting of goodwill balances allocated to our Graphics and Compute & Networking reporting units of $347 million and $3.85 billion, respectively. Goodwill increased by $156 million in fiscal year 2022 from acquisitions. We assigned $143 million of the increase in goodwill to our Compute & Networking segment and assigned $13 million of the increase to our Graphics segment. During the fourth quarters of fiscal years 2022, 2021, and 2020, we completed our annual impairment tests and concluded that goodwill was not impaired in any of these years.

Note 7 - Amortizable Intangible Assets

The components of our amortizable intangible assets are as follows:

	January 30, 2022			January 31, 2021		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
		(In millions)			*(In millions)*	
Acquisition-related intangible assets (1)	$ 3,418	$ (1,304)	$ 2,114	$ 3,280	$ (774)	$ 2,506
Patents and licensed technology	717	(492)	225	706	(475)	231
Total intangible assets	$ 4,135	$ (1,796)	$ 2,339	$ 3,986	$ (1,249)	$ 2,737

(1) As of January 30, 2022, acquisition-related intangible assets include the fair value of a Mellanox in-process research and development project of $630 million, which has not yet commenced amortization.

Amortization expense associated with intangible assets for fiscal years 2022, 2021, and 2020 was $563 million, $612 million, and $25 million, respectively. Future amortization expense related to the net carrying amount of intangible assets, excluding in-process research and development, as of January 30, 2022 is estimated to be $585 million in fiscal year 2023, $461 million in fiscal year 2024, $405 million in fiscal year 2025, $121 million in fiscal year 2026, $16 million in fiscal year 2027, and $121 million in fiscal year 2028 and thereafter.

Note 8 - Cash Equivalents and Marketable Securities

Our cash equivalents and marketable securities related to debt securities are classified as "available-for-sale" debt securities.

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The following is a summary of cash equivalents and marketable securities as of January 30, 2022 and January 31, 2021:

	January 30, 2022					
					Reported as	
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value	Cash Equivalents	Marketable Securities
	(In millions)					
Corporate debt securities	$ 9,977	$ —	$ (3)	$ 9,974	$ 1,102	$ 8,872
Debt securities issued by the United States Treasury	7,314	—	(14)	7,300	—	7,300
Debt securities issued by United States government agencies	1,612	—	—	1,612	256	1,356
Certificates of deposit	1,561	—	—	1,561	21	1,540
Money market funds	316	—	—	316	316	—
Foreign government bonds	150	—	—	150	—	150
Total	$ 20,930	$ —	$ (17)	$ 20,913	$ 1,695	$ 19,218

	January 31, 2021					
					Reported as	
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value	Cash Equivalents	Marketable Securities
	(In millions)					
Corporate debt securities	$ 4,442	$ 2	$ —	$ 4,444	$ 234	$ 4,210
Debt securities issued by United States government agencies	2,975	1	—	2,976	28	2,948
Debt securities issued by the United States Treasury	2,846	—	—	2,846	25	2,821
Certificates of deposit	705	—	—	705	37	668
Money market funds	313	—	—	313	313	—
Foreign government bonds	67	—	—	67	—	67
Total	$ 11,348	$ 3	$ —	$ 11,351	$ 637	$ 10,714

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The following table provides the breakdown of unrealized losses as of January 30, 2022, aggregated by investment category and length of time that individual securities have been in a continuous loss position:

	Less than 12 Months		12 Months or Greater		Total	
	Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss
			(In millions)			
Corporate debt securities	$ 2,445	$ (3)	$ 19	$ —	$ 2,464	$ (3)
Debt securities issued by the United States Treasury	5,292	(14)	—	—	5,292	(14)
Total	$ 7,737	$ (17)	$ 19	$ —	$ 7,756	$ (17)

Net realized gains and unrealized gains and losses were not significant for all periods presented.

The amortized cost and estimated fair value of cash equivalents and marketable securities as of January 30, 2022 and January 31, 2021 are shown below by contractual maturity.

	January 30, 2022		January 31, 2021	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
		(In millions)		
Less than one year	$ 16,346	$ 16,343	$ 10,782	$ 10,783
Due in 1 - 5 years	4,584	4,570	566	568
Total	$ 20,930	$ 20,913	$ 11,348	$ 11,351

Note 9 - Fair Value of Financial Assets and Liabilities

The fair values of our financial assets and liabilities are determined using quoted market prices of identical assets or quoted market prices of similar assets from active markets. We review fair value hierarchy classification on a quarterly basis.

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	Pricing Category	Fair Value at January 30, 2022	Fair Value at January 31, 2021
		(In millions)	
Assets			
Cash equivalents and marketable securities:			
Money market funds	Level 1	$ 316	$ 313
Corporate debt securities	Level 2	$ 9,974	$ 4,444
Debt securities issued by the United States Treasury	Level 2	$ 7,300	$ 2,846
Debt securities issued by United States government agencies	Level 2	$ 1,612	$ 2,976
Certificates of deposit	Level 2	$ 1,561	$ 705
Foreign government bonds	Level 2	$ 150	$ 67
Other assets (Investment in non-affiliated entities):			
Publicly-held equity securities (1)	Level 1	$ 58	$ —
Privately-held equity securities	Level 3	$ 208	$ 144
Liabilities (2)			
2.20% Notes Due 2021	Level 2	$ —	$ 1,011
0.309% Notes Due 2023	Level 2	$ 1,236	$ —
0.584% Notes Due 2024	Level 2	$ 1,224	$ —
3.20% Notes Due 2026	Level 2	$ 1,055	$ 1,124
1.55% Notes Due 2028	Level 2	$ 1,200	$ —
2.85% Notes Due 2030	Level 2	$ 1,542	$ 1,654
2.00% Notes Due 2031	Level 2	$ 1,200	$ —
3.50% Notes Due 2040	Level 2	$ 1,066	$ 1,152
3.50% Notes Due 2050	Level 2	$ 2,147	$ 2,308
3.70% Notes Due 2060	Level 2	$ 551	$ 602

(1) Unrealized gains of $48 million from an investment in a publicly-traded equity security were recorded in other income (expense), net, in fiscal year 2022.

(2) These liabilities are carried on our Consolidated Balance Sheets at their original issuance value, net of unamortized debt discount and issuance costs.

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Note 10 - Balance Sheet Components

Certain balance sheet components are as follows:

	January 30, 2022	January 31, 2021
	(In millions)	
Inventories:		
Raw materials	$ 791	$ 632
Work in-process	692	457
Finished goods	1,122	737
Total inventories	$ 2,605	$ 1,826

	January 30, 2022	January 31, 2021	Estimated Useful Life
	(In millions)		*(In years)*
Property and Equipment:			
Land	$ 218	$ 218	(A)
Buildings, leasehold improvements, and furniture	874	796	(B)
Equipment, compute hardware, and software	2,852	1,985	3-5
Construction in process	737	558	(C)
Total property and equipment, gross	4,681	3,557	
Accumulated depreciation and amortization	(1,903)	(1,408)	
Total property and equipment, net	$ 2,778	$ 2,149	

(A) Land is a non-depreciable asset.

(B) The estimated useful lives of our buildings are up to thirty years. Leasehold improvements and finance leases are amortized based on the lesser of either the asset's estimated useful life or the expected lease term.

(C) Construction in process represents assets that are not available for their intended use as of the balance sheet date.

Depreciation expense for fiscal years 2022, 2021, and 2020 was $611 million, $486 million, and $355 million, respectively.

Accumulated amortization of leasehold improvements and finance leases was $265 million and $223 million as of January 30, 2022 and January 31, 2021, respectively.

Property, equipment and intangible assets acquired by assuming related liabilities during fiscal years 2022, 2021, and 2020 were $258 million, $157 million, and $212 million, respectively.

	January 30, 2022	January 31, 2021
Other assets:	*(In millions)*	
Prepaid supply agreements	$ 1,747	$ —
Advanced consideration for acquisition (1)	1,357	1,357
Prepaid royalties	409	440
Investment in non-affiliated entities	266	144
Other	62	203
Total other assets	$ 3,841	$ 2,144

(1) Refer to Note 2 - Business Combination for further details on the Arm acquisition.

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	January 30, 2022	January 31, 2021
	(In millions)	
Accrued and Other Current Liabilities:		
Customer program accruals	$ 1,000	$ 630
Accrued payroll and related expenses	409	297
Deferred revenue (1)	300	288
Excess inventory purchase obligations	196	52
Other	647	510
Total accrued and other current liabilities	$ 2,552	$ 1,777

(1) Deferred revenue primarily includes customer advances and deferrals related to license and development arrangements, support for hardware and software, and cloud services.

	January 30, 2022	January 31, 2021
	(In millions)	
Other Long-Term Liabilities:		
Income tax payable (1)	$ 980	$ 836
Deferred income tax	245	241
Deferred revenue (2)	202	163
Other	126	135
Total other long-term liabilities	$ 1,553	$ 1,375

(1) As of January 30, 2022, income tax payable represents the long-term portion of the one-time transition tax payable of $251 million, long-term portion of the unrecognized tax benefits of $670 million, and related interest and penalties of $59 million.
(2) Deferred revenue primarily includes deferrals related to support for hardware and software.

Deferred Revenue

The following table shows the changes in deferred revenue during fiscal years 2022 and 2021.

	January 30, 2022	January 31, 2021
	(In millions)	
Balance at beginning of period	$ 451	$ 201
Deferred revenue added during the period	821	536
Addition due to business combinations	8	75
Revenue recognized during the period	(778)	(361)
Balance at end of period	$ 502	$ 451

Revenue related to remaining performance obligations represents the contracted license and development arrangements and support for hardware and software. This includes deferred revenue currently recorded and amounts that will be invoiced in future periods. As of January 30, 2022, $624 million of revenue related to performance obligations had not been recognized, of which we expect to recognize approximately 49% over the next twelve months and the remainder thereafter. This excludes revenue related to performance obligations for contracts with a length of one year or less.

NVIDIA CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Note 11 - Derivative Financial Instruments

We enter into foreign currency forward contracts to mitigate the impact of foreign currency exchange rate movements on our operating expenses. These contracts are designated as cash flow hedges for hedge accounting treatment. Gains or losses on the contracts are recorded in accumulated other comprehensive income or loss and reclassified to operating expense when the related operating expenses are recognized in earnings or ineffectiveness should occur. The fair value of the contracts was not significant as of January 30, 2022 and January 31, 2021.

We enter into foreign currency forward contracts to mitigate the impact of foreign currency movements on monetary assets and liabilities that are denominated in currencies other than U.S. dollar. These forward contracts were not designated for hedge accounting treatment. Therefore, the change in fair value of these contracts is recorded in other income or expense and offsets the change in fair value of the hedged foreign currency denominated monetary assets and liabilities, which is also recorded in other income or expense.

The table below presents the notional value of our foreign currency forward contracts outstanding as of January 30, 2022 and January 31, 2021:

	January 30, 2022	January 31, 2021
	(In millions)	
Designated as cash flow hedges	$ 1,023	$ 840
Non-designated hedges	$ 408	$ 441

As of January 30, 2022, all designated foreign currency forward contracts mature within eighteen months. The expected realized gains and losses deferred into accumulated other comprehensive income (loss) related to foreign currency forward contracts within the next twelve months was not significant.

During fiscal years 2022 and 2021, the impact of derivative financial instruments designated for hedge accounting treatment on other comprehensive income or loss was not significant and all such instruments were determined to be highly effective.

Note 12 - Debt

Long-Term Debt

In June 2021, March 2020, and September 2016, we issued a total of $5.00 billion, $5.00 billion, and $2.00 billion aggregate principal of senior notes, respectively. The net proceeds from these offerings were $4.98 billion, $4.97 billion, and $1.98 billion, respectively, after deducting debt discount and issuance costs.

On August 16, 2021, we repaid the $1.00 billion of 2.20% Notes Due 2021.

All of our notes are unsecured senior obligations. All existing and future liabilities of our subsidiaries will be effectively senior to the notes. Our notes pay interest semi-annually. We may redeem each of our notes prior to maturity, subject to a make-whole premium as defined in the applicable form of note.

NVIDIA CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

The carrying value of the Notes, the calendar year of maturity, and the associated interest rates were as follows:

	Expected Remaining Term (years)	Effective Interest Rate	January 30, 2022	January 31, 2021
			(In millions)	
2.20% Notes Due 2021	—	2.38%	$ —	$ 1,000
0.309% Notes Due 2023	1.4	0.41%	1,250	—
0.584% Notes Due 2024	2.4	0.66%	1,250	—
3.20% Notes Due 2026	4.6	3.31%	1,000	1,000
1.55% Notes Due 2028	6.4	1.64%	1,250	—
2.85% Notes Due 2030	8.2	2.93%	1,500	1,500
2.00% Notes Due 2031	9.4	2.09%	1,250	—
3.50% Notes Due 2040	18.2	3.54%	1,000	1,000
3.50% Notes Due 2050	28.2	3.54%	2,000	2,000
3.70% Notes Due 2060	38.2	3.73%	500	500
Unamortized debt discount and issuance costs			(54)	(37)
Net carrying amount			10,946	6,963
Less short-term portion			—	(999)
Total long-term portion			$ 10,946	$ 5,964

As of January 30, 2022, we were in compliance with the required covenants under the Notes.

Commercial Paper

We have a $575 million commercial paper program to support general corporate purposes. As of January 30, 2022, we had not issued any commercial paper.

Note 13 - Commitments and Contingencies

Purchase Obligations

Our purchase obligations primarily include our commitments to purchase components used to manufacture our products, including long-term supply agreements, certain software and technology licenses, other goods and services and long-lived assets.

We have entered into several long-term supply agreements, under which we have made advance payments and have $1.58 billion remaining unpaid. As of January 30, 2022, we had outstanding inventory purchase and long-term supply obligations totaling $9.00 billion, inclusive of the $1.58 billion, and other purchase obligations totaling $1.30 billion.

Total future unconditional purchase commitments as of January 30, 2022, are as follows:

	Commitments
	(In millions)
Fiscal Year:	
2023	$ 9,302
2024	765
2025	201
2026	28
Total	$ 10,296

NVIDIA CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

In March 2022, we entered into a supply agreement with payments of $670 million to be paid over nine years.

Accrual for Product Warranty Liabilities

The estimated amount of product warranty liabilities was $46 million and $22 million as of January 30, 2022 and January 31, 2021, respectively.

In connection with certain agreements that we have entered in the past, we have provided indemnities for matters such as tax, product, and employee liabilities. We have included IP indemnification provisions in our technology related agreements with third parties. Maximum potential future payments cannot be estimated because many of these agreements do not have a maximum stated liability. We have not recorded any liability for such indemnifications.

Litigation

Securities Class Action and Derivative Lawsuits

The plaintiffs in the putative securities class action lawsuit, captioned 4:18-cv-07669-HSG, initially filed on December 21, 2018 in the United States District Court for the Northern District of California, and titled *In Re NVIDIA Corporation Securities Litigation*, filed an amended complaint on May 13, 2020. The amended complaint asserted that NVIDIA and certain NVIDIA executives violated Section 10(b) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and SEC Rule 10b-5, by making materially false or misleading statements related to channel inventory and the impact of cryptocurrency mining on GPU demand between May 10, 2017 and November 14, 2018. Plaintiffs also alleged that the NVIDIA executives who they named as defendants violated Section 20(a) of the Exchange Act. Plaintiffs sought class certification, an award of unspecified compensatory damages, an award of reasonable costs and expenses, including attorneys' fees and expert fees, and further relief as the Court may deem just and proper. On March 2, 2021, the district court granted NVIDIA's motion to dismiss the complaint without leave to amend, entered judgment in favor of NVIDIA and closed the case. On March 30, 2021, plaintiffs filed an appeal from judgment in the United States Court of Appeals for the Ninth Circuit, case number 21-15604. Oral argument is scheduled for May 10, 2022.

The putative derivative lawsuit pending in the United States District Court for the Northern District of California, captioned 4:19-cv-00341-HSG, initially filed January 18, 2019 and titled *In re NVIDIA Corporation Consolidated Derivative Litigation*, was stayed pending resolution of the plaintiffs' appeal in the In Re NVIDIA Corporation Securities Litigation action. On February 22, 2022, the court administratively closed the case, but stated that it would reopen the case once the appeal in the *In Re NVIDIA Corporation Securities Litigation* action is resolved. The lawsuit asserts claims, purportedly on behalf of us, against certain officers and directors of the Company for breach of fiduciary duty, unjust enrichment, waste of corporate assets, and violations of Sections 14(a), 10(b), and 20(a) of the Exchange Act based on the dissemination of allegedly false and misleading statements related to channel inventory and the impact of cryptocurrency mining on GPU demand. The plaintiffs are seeking unspecified damages and other relief, including reforms and improvements to NVIDIA's corporate governance and internal procedures.

The putative derivative actions initially filed September 24, 2019 and pending in the United States District Court for the District of Delaware, *Lipchitz v. Huang, et al.* (Case No. 1:19-cv-01795-UNA) and *Nelson v. Huang, et. al.* (Case No. 1:19-cv-01798- UNA), remain stayed pending resolution of the plaintiffs' appeal in the In Re NVIDIA Corporation Securities Litigation action. The lawsuits assert claims, purportedly on behalf of us, against certain officers and directors of the Company for breach of fiduciary duty, unjust enrichment, insider trading, misappropriation of information, corporate waste and violations of Sections 14(a), 10(b), and 20(a) of the Exchange Act based on the dissemination of allegedly false, and misleading statements related to channel inventory and the impact of cryptocurrency mining on GPU demand. The plaintiffs seek unspecified damages and other relief, including disgorgement of profits from the sale of NVIDIA stock and unspecified corporate governance measures.

Accounting for Loss Contingencies

As of January 30, 2022, we have not recorded any accrual for contingent liabilities associated with the legal proceedings described above based on our belief that liabilities, while possible, are not probable. Further, except as specifically described above, any possible loss or range of loss in these matters cannot be reasonably estimated at this time. We are engaged in legal actions not described above arising in the ordinary course of business and, while there can be no assurance of favorable outcomes, we believe that the ultimate outcome of these actions will not have a material adverse effect on our operating results, liquidity or financial position.

NVIDIA CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Note 14 - Income Taxes

The income tax expense (benefit) applicable to income before income taxes consists of the following:

	Year Ended		
	January 30, 2022	January 31, 2021	January 26, 2020
		(In millions)	
Current income taxes:			
Federal	$ 482	$ 197	$ 65
State	42	1	4
Foreign	71	161	87
Total current	595	359	156
Deferred taxes:			
Federal	(420)	(246)	2
Foreign	14	(36)	16
Total deferred	(406)	(282)	18
Income tax expense	$ 189	$ 77	$ 174

Income before income tax consists of the following:

	Year Ended		
	January 30, 2022	January 31, 2021	January 26, 2020
		(In millions)	
Domestic (1)	$ 8,446	$ 1,437	$ 620
Foreign	1,495	2,972	2,350
Income before income tax	$ 9,941	$ 4,409	$ 2,970

(1) Fiscal year 2022 domestic income before income tax increased as compared to fiscal years 2021 and 2020 due to the Domestication in the second quarter of fiscal year 2022.

NVIDIA CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

The income tax expense (benefit) differs from the amount computed by applying the U.S. federal statutory rate of 21% to income before income taxes as follows:

	Year Ended		
	January 30, 2022	January 31, 2021	January 26, 2020
	(In millions)		
Tax expense computed at federal statutory rate	$ 2,088	$ 926	$ 624
Expense (benefit) resulting from:			
State income taxes, net of federal tax effect	42	10	12
Foreign-derived intangible income	(520)	—	—
Foreign tax rate differential	(497)	(561)	(301)
Stock-based compensation	(337)	(136)	(60)
U.S. federal R&D tax credit	(289)	(173)	(110)
IP domestication	(244)	—	—
Other	(54)	11	9
Income tax expense	$ 189	$ 77	$ 174

The tax effect of temporary differences that gives rise to significant portions of the deferred tax assets and liabilities are presented below:

	January 30, 2022	January 31, 2021
	(In millions)	
Deferred tax assets:		
Research and other tax credit carryforwards	$ 798	$ 650
Property, equipment and intangible assets	530	32
GILTI deferred tax assets	378	709
Accruals and reserves, not currently deductible for tax purposes	258	59
Operating lease liabilities	125	120
Net operating loss carryforwards	118	100
Stock-based compensation	86	36
Other deferred tax assets	22	—
Gross deferred tax assets	2,315	1,706
Less valuation allowance	(907)	(728)
Total deferred tax assets	1,408	978
Deferred tax liabilities:		
Acquired intangibles	(169)	(191)
Unremitted earnings of foreign subsidiaries	(150)	(111)
Operating lease assets	(113)	(111)
Gross deferred tax liabilities	(432)	(413)
Net deferred tax asset (1)	$ 976	$ 565

(1) Net deferred tax asset includes long-term deferred tax assets of $1.22 billion and $806 million and long-term deferred tax liabilities of $245 million and $241 million for fiscal years 2022 and 2021, respectively. Long-term deferred tax liabilities are included in other long-term liabilities on our Consolidated Balance Sheets.

We recognized income tax expense of $189 million, $77 million, and $174 million for fiscal years 2022, 2021, and 2020 respectively. Our annual effective tax rate was 1.9%, 1.7%, and 5.9% for fiscal years 2022, 2021, and 2020, respectively. The increase in our effective tax rate in fiscal year 2022 as compared to fiscal year 2021 was primarily due to an

NVIDIA CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

increase in the amount of earnings subject to U.S. tax, and a decreased impact of tax benefits from the U.S. federal research tax credit, partially offset by the benefit of the foreign-derived intangible income deduction and the discrete benefit of the Domestication. The decrease in our effective tax rate in fiscal year 2021 as compared to fiscal year 2020 was primarily due to a decrease in the proportional amount of earnings subject to United States tax and an increase of tax benefits from stock-based compensation.

On June 28, 2021, we simplified our corporate structure by repatriating the economic rights of certain non-U.S. IP to the United States via domestication of a foreign subsidiary, or the Domestication. The Domestication more closely aligns our corporate structure to our operating structure in accordance with the Organization for Economic Cooperation and Development's Base Erosion and Profit Shifting conclusions and changes to U.S. and European tax laws. The impact of the Domestication, which is regarded as a change in tax status, resulted in a discrete benefit primarily from re-valuing certain deferred tax assets, net of deferred tax liabilities, of $244 million in fiscal year 2022.

Our effective tax rate for fiscal year 2022 was lower than the U.S. federal statutory rate of 21% due to tax benefits from the foreign-derived intangible income deduction, income earned in jurisdictions, including the British Virgin Islands and Israel, that are subject to taxes lower than the U.S. federal statutory tax rate, excess tax benefits related to stock-based compensation, recognition of U.S. federal research tax credits and the one-time benefits of the Domestication.

Our effective tax rates for fiscal years 2021 and 2020 were lower than the U.S. federal statutory rate of 21% due primarily to income earned in jurisdictions, including the British Virgin Islands, Israel and Hong Kong, where the tax rate was lower than the U.S. federal statutory tax rate, recognition of U.S. federal research tax credits, and excess tax benefits related to stock-based compensation.

During the second quarter of fiscal year 2021, we completed the acquisition of Mellanox. As a result of the acquisition, we recorded $256 million of net deferred tax liabilities primarily on the excess of book basis over the tax basis of the acquired intangible assets and undistributed earnings in certain foreign subsidiaries. We also recorded $153 million of long-term tax liabilities related to tax basis differences in Mellanox.

As of January 30, 2022, we intend to indefinitely reinvest approximately $1.05 billion and $232 million of cumulative undistributed earnings held by certain subsidiaries in Israel and the United Kingdom, respectively. We have not provided the amount of unrecognized deferred tax liabilities for temporary differences related to these investments as the determination of such amount is not practicable.

As of January 30, 2022 and January 31, 2021, we had a valuation allowance of $907 million and $728 million, respectively, related to state and certain other deferred tax assets that management determined not likely to be realized due, in part, to jurisdictional projections of future taxable income. To the extent realization of the deferred tax assets becomes more-likely-than-not, we would recognize such deferred tax assets as income tax benefits during the period.

As of January 30, 2022, we had federal, state and foreign net operating loss carryforwards of $397 million, $345 million and $341 million, respectively. The federal and state carryforwards will begin to expire in fiscal year 2023. The foreign net operating loss carryforwards of $341 million may be carried forward indefinitely. As of January 30, 2022, we had federal research tax credit carryforwards of $102 million that will begin to expire in fiscal year 2042. We have state research tax credit carryforwards of $1.24 billion, of which $1.18 billion is attributable to the State of California and may be carried over indefinitely, and $55 million is attributable to various other states and will begin to expire in fiscal year 2023. Our tax attributes, net operating loss and tax credit carryforwards, remain subject to audit and may be adjusted for changes or modification in tax laws, other authoritative interpretations thereof, or other facts and circumstances. Utilization of federal, state, and foreign net operating losses and tax credit carryforwards may also be subject to limitations due to ownership changes and other limitations provided by the Internal Revenue Code and similar state and foreign tax provisions. If any such limitations apply, the federal, state, or foreign net operating loss and tax credit carryforwards, as applicable, may expire or be denied before utilization.

As of January 30, 2022, we had $1.01 billion of gross unrecognized tax benefits, of which $808 million would affect our effective tax rate if recognized. However, $181 million of the unrecognized tax benefits were related to state income tax positions taken, that, if recognized, would be in the form of a carryforward deferred tax asset that would likely attract a full valuation allowance. The $808 million of net unrecognized tax benefits as of January 30, 2022 consisted of $670 million recorded in non-current income taxes payable and $138 million reflected as a net reduction to the deferred tax assets.

NVIDIA CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

A reconciliation of gross unrecognized tax benefits is as follows:

	January 30, 2022	January 31, 2021	January 26, 2020
		(In millions)	
Balance at beginning of period	$ 776	$ 583	$ 477
Increases in tax positions for current year	246	158	104
Increases in tax positions for prior years (1)	14	60	7
Decreases in tax positions for prior years	(4)	(11)	—
Settlements	(8)	(5)	—
Lapse in statute of limitations	(11)	(9)	(5)
Balance at end of period	$ 1,013	$ 776	$ 583

(1) The fiscal year 2021 balance represents prior year gross unrecognized tax benefits recorded as a result of the Mellanox acquisition.

We classify an unrecognized tax benefit as a current liability, or amount refundable, to the extent that we anticipate payment or receipt of cash for income taxes within one year. The amount is classified as a long-term liability, or reduction of long-term deferred tax assets or amount refundable, if we anticipate payment or receipt of cash for income taxes during a period beyond a year.

We include interest and penalties related to unrecognized tax benefits as a component of income tax expense. As of January 30, 2022, January 31, 2021, and January 26, 2020, we had accrued $59 million, $44 million, and $31 million, respectively, for the payment of interest and penalties related to unrecognized tax benefits, which is not included as a component of our unrecognized tax benefits. As of January 30, 2022, unrecognized tax benefits of $670 million and the related interest and penalties of $59 million are included in non-current income taxes payable.

While we believe that we have adequately provided for all tax positions, amounts asserted by tax authorities could be greater or less than our accrued position. Accordingly, our provisions on federal, state and foreign tax-related matters to be recorded in the future may change as revised estimates are made or the underlying matters are settled or otherwise resolved. As of January 30, 2022, we do not believe that our estimates, as otherwise provided for, on such tax positions will significantly increase or decrease within the next twelve months.

We are subject to taxation by taxing authorities both in the United States and other countries. As of January 30, 2022, the significant tax jurisdictions that may be subject to examination include China, Germany, Hong Kong, India, Israel, Taiwan, United Kingdom, and the United States for fiscal years 2005 through 2021. As of January 30, 2022, the significant tax jurisdictions for which we are currently under examination include Germany, India, Israel, and the United States for fiscal years 2005 through 2019.

Note 15 - Shareholders' Equity

Capital Return Program

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

Through January 30, 2022, we have repurchased an aggregate of 1.04 billion shares under our share repurchase program for a total cost of $7.08 billion. As of January 30, 2022, we have a remaining authorization, subject to certain specifications, to repurchase shares of our common stock up to $7.24 billion through December 2022. From January 31, 2022 through March 17, 2022, we repurchased 7.7 million shares of our common stock for $1.75 billion.

During fiscal years 2022, 2021, and 2020, we paid $399 million, $395 million, and $390 million in cash dividends to our shareholders, respectively.

During the fourth quarter of fiscal year 2022, our Board of Directors approved the retirement of our existing 349 million treasury shares. These shares assumed the status of authorized and unissued shares upon retirement. The excess of repurchase price over par value was allocated between additional paid-in capital and retained earnings, resulting in a reduction in additional paid-in capital by $20 million and retained earnings by $12.0 billion. Any future repurchased shares will assume the status of authorized and unissued shares.

NVIDIA CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Note 16 - Employee Retirement Plans

We provide tax-qualified defined contribution plans to eligible employees in the U.S. and certain other countries. Our contribution expense for fiscal years 2022, 2021, and 2020 was $168 million, $120 million, and $76 million, respectively.

Note 17 - Segment Information

Our Chief Executive Officer, who is considered to be our chief operating decision maker, or CODM, reviews financial information presented on an operating segment basis for purposes of making decisions and assessing financial performance.

Our Graphics segment includes GeForce GPUs for gaming and PCs, the GeForce NOW game streaming service and related infrastructure, and solutions for gaming platforms; Quadro/NVIDIA RTX GPUs for enterprise workstation graphics; vGPU software for cloud-based visual and virtual computing; automotive platforms for infotainment systems; and Omniverse software for building 3D designs and virtual worlds.

Our Compute & Networking segment includes Data Center platforms and systems for AI, HPC, and accelerated computing; Mellanox networking and interconnect solutions; automotive AI Cockpit, autonomous driving development agreements, and autonomous vehicle solutions; CMP; Jetson for robotics and other embedded platforms; and NVIDIA AI Enterprise and other software.

Operating results by segment include costs or expenses that are directly attributable to each segment, and costs or expenses that are leveraged across our unified architecture and therefore allocated between our two segments.

The "All Other" category includes the expenses that our CODM does not assign to either Graphics or Compute & Networking for purposes of making operating decisions or assessing financial performance. The expenses include stock-based compensation expense, corporate infrastructure and support costs, acquisition-related costs, IP-related costs, and other non-recurring charges and benefits that our CODM deems to be enterprise in nature.

Our CODM does not review any information regarding total assets on a reportable segment basis. Depreciation and amortization expense directly attributable to each reportable segment is included in operating results for each segment. However, the CODM does not evaluate depreciation and amortization expense by operating segment and, therefore, it is not separately presented. There is no intersegment revenue. The accounting policies for segment reporting are the same as for our consolidated financial statements. The table below presents details of our reportable segments and the "All Other" category.

	Graphics	Compute & Networking	All Other	Consolidated
		(In millions)		
Year Ended January 30, 2022:				
Revenue	$ 15,868	$ 11,046	$ —	$ 26,914
Operating income (loss)	$ 8,492	$ 4,598	$ (3,049)	$ 10,041
Year Ended January 31, 2021:				
Revenue	$ 9,834	$ 6,841	$ —	$ 16,675
Operating income (loss)	$ 4,612	$ 2,548	$ (2,628)	$ 4,532
Year Ended January 26, 2020:				
Revenue	$ 7,639	$ 3,279	$ —	$ 10,918
Operating income (loss)	$ 3,267	$ 751	$ (1,172)	$ 2,846

NVIDIA CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

	Year Ended		
	January 30, 2022	January 31, 2021	January 26, 2020
		(In millions)	
Reconciling items included in "All Other" category:			
Stock-based compensation expense	$ (2,004)	$ (1,397)	$ (844)
Acquisition-related intangible asset amortization, inventory step-up charge, and other costs	(636)	(836)	(31)
Unallocated cost of revenue and operating expenses	(399)	(357)	(283)
IP-related costs	(10)	(38)	(14)
Total	$ (3,049)	$ (2,628)	$ (1,172)

Revenue by geographic region is allocated to individual countries based on the location to which the products are initially billed even if our customers' revenue is attributable to end customers that are located in a different location. The following table summarizes information pertaining to our revenue from customers based on the invoicing address by geographic regions:

	Year Ended		
	January 30, 2022	January 31, 2021	January 26, 2020
Revenue:		*(In millions)*	
Taiwan	$ 8,544	$ 4,531	$ 3,025
China (including Hong Kong)	7,111	3,886	2,731
United States	4,349	3,214	886
Other countries	6,910	5,044	4,276
Total revenue	$ 26,914	$ 16,675	$ 10,918

No customer represented 10% or more of total revenue for fiscal years 2022 and 2021. One customer represented 11% of our total revenue for fiscal year 2020 and was attributable primarily to the Graphics segment.

Two customers represented 22% of our accounts receivable balance as of January 30, 2022. One customer represented 16% of our accounts receivable balance as of January 31, 2021.

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

	Year Ended		
	January 30, 2022	January 31, 2021	January 26, 2020
Revenue:		*(In millions)*	
Gaming	$ 12,462	$ 7,759	$ 5,518
Data Center	10,613	6,696	2,983
Professional Visualization	2,111	1,053	1,212
Automotive	566	536	700
OEM & Other	1,162	631	505
Total revenue	$ 26,914	$ 16,675	$ 10,918

NVIDIA CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

The following table presents summarized information for long-lived assets by country. Long-lived assets consist of property and equipment and exclude other assets, operating lease assets, goodwill, and intangible assets.

	January 30, 2022	January 31, 2021
Long-lived assets:	*(In millions)*	
United States	$ 2,023	$ 1,643
Taiwan	379	183
Israel	185	147
Other countries	191	176
Total long-lived assets	$ 2,778	$ 2,149

NVIDIA CORPORATION AND SUBSIDIARIES
SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS

Description	Balance at Beginning of Period	Additions		Deductions		Balance at End of Period
			(In millions)			
Fiscal year 2022						
Allowance for doubtful accounts	$ 4	$ —	(1)	$ —	(1)	$ 4
Sales return allowance	$ 17	$ 19	(2)	$ (23)	(4)	$ 13
Deferred tax valuation allowance	$ 728	$ 179	(3)	$ —		$ 907
Fiscal year 2021						
Allowance for doubtful accounts	$ 2	$ 2	(1)	$ —	(1)	$ 4
Sales return allowance	$ 9	$ 30	(2)	$ (22)	(4)	$ 17
Deferred tax valuation allowance	$ 621	$ 107	(3)	$ —		$ 728
Fiscal year 2020						
Allowance for doubtful accounts	$ 2	$ —	(1)	$ —	(1)	$ 2
Sales return allowance	$ 8	$ 18	(2)	$ (17)	(4)	$ 9
Deferred tax valuation allowance	$ 562	$ 59	(3)	$ —		$ 621

(1) Additions represent either expense or acquired balances and deductions represent write-offs.

(2) Additions represent estimated product returns charged as a reduction to revenue or an acquired balance.

(3) Additional valuation allowance on deferred tax assets not likely to be realized. 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.

(4) Represents sales returns.

C. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF NVIDIA FOR THE YEAR ENDED 29 JANUARY 2023

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of NVIDIA Corporation

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of NVIDIA Corporation and its subsidiaries (the "Company") as of January 29, 2023 and January 30, 2022, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended January 29, 2023, including the related notes and financial statement schedule listed in the index appearing under Item 15(a)(2) (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of January 29, 2023, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of January 29, 2023 and January 30, 2022, and the results of its operations and its cash flows for each of the three years in the period ended January 29, 2023 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 29, 2023, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Valuation of Inventories - Provisions for Excess or Obsolete Inventories and Excess Product Purchase Commitments

As described in Notes 1, 10 and 13 to the consolidated financial statements, the Company charges cost of sales for inventory provisions to write-down inventory for excess or obsolete inventory and for excess product purchase commitments. Most of the Company's inventory provisions relate to excess quantities of products, based on the Company's inventory levels and future product purchase commitments compared to assumptions about future demand and market conditions. As of January 29, 2023, the Company's consolidated inventories balance was $5,159 million and the Company's consolidated outstanding inventory purchase and long-term supply obligations balance was $4,920 million, of which a significant portion relates to inventory purchase obligations.

The principal considerations for our determination that performing procedures relating to the valuation of inventories, specifically the provisions for excess or obsolete inventories and excess product purchase commitments, is a critical audit matter are the significant judgment by management when developing provisions for excess or obsolete inventories and excess product purchase commitments, including developing assumptions related to future demand and market conditions. This in turn led to significant auditor judgment, subjectivity, and effort in performing procedures and evaluating management's assumptions related to future demand and market conditions.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's provisions for excess or obsolete inventories and excess product purchase commitments, including controls over management's assumptions related to future demand and market conditions. These procedures also included, among others, testing management's process for developing the provisions for excess or obsolete inventories and excess product purchase commitments; evaluating the appropriateness of management's approach; testing the completeness and accuracy of underlying data used in the approach; and evaluating the reasonableness of management's assumptions related to future demand and market conditions. Evaluating management's assumptions related to future demand and market conditions involved evaluating whether the assumptions used by management were reasonable considering (i) current and past results, including historical product life cycle, (ii) the consistency with external market and industry data, and (iii) changes in technology.

/s/ PricewaterhouseCoopers LLP
San Jose, California
February 24, 2023

We have served as the Company's auditor since 2004.

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

	Year Ended		
	January 29, 2023	January 30, 2022	January 31, 2021
Revenue	$ 26,974	$ 26,914	$ 16,675
Cost of revenue	11,618	9,439	6,279
Gross profit	15,356	17,475	10,396
Operating expenses			
Research and development	7,339	5,268	3,924
Sales, general and administrative	2,440	2,166	1,940
Acquisition termination cost	1,353	—	—
Total operating expenses	11,132	7,434	5,864
Income from operations	4,224	10,041	4,532
Interest income	267	29	57
Interest expense	(262)	(236)	(184)
Other, net	(48)	107	4
Other income (expense), net	(43)	(100)	(123)
Income before income tax	4,181	9,941	4,409
Income tax expense (benefit)	(187)	189	77
Net income	$ 4,368	$ 9,752	$ 4,332
Net income per share:			
Basic	$ 1.76	$ 3.91	$ 1.76
Diluted	$ 1.74	$ 3.85	$ 1.73
Weighted average shares used in per share computation:			
Basic	2,487	2,496	2,467
Diluted	2,507	2,535	2,510

See accompanying notes to the consolidated financial statements.

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

	Year Ended		
	January 29, 2023	January 30, 2022	January 31, 2021
Net income	$ 4,368	$ 9,752	$ 4,332
Other comprehensive income (loss), net of tax			
Available-for-sale debt securities:			
Net unrealized gain (loss)	(31)	(16)	2
Reclassification adjustments for net realized gain (loss) included in net income	1	—	(2)
Net change in unrealized loss	(30)	(16)	—
Cash flow hedges:			
Net unrealized gain (loss)	47	(43)	9
Reclassification adjustments for net realized gain (loss) included in net income	(49)	29	9
Net change in unrealized gain (loss)	(2)	(14)	18
Other comprehensive income (loss), net of tax	(32)	(30)	18
Total comprehensive income	$ 4,336	$ 9,722	$ 4,350

See accompanying notes to the consolidated financial statements.

NVIDIA CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In millions, except par value)

	January 29, 2023	January 30, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,389	$ 1,990
Marketable securities	9,907	19,218
Accounts receivable, net	3,827	4,650
Inventories	5,159	2,605
Prepaid expenses and other current assets	791	366
Total current assets	23,073	28,829
Property and equipment, net	3,807	2,778
Operating lease assets	1,038	829
Goodwill	4,372	4,349
Intangible assets, net	1,676	2,339
Deferred income tax assets	3,396	1,222
Other assets	3,820	3,841
Total assets	$ 41,182	$ 44,187
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,193	$ 1,783
Accrued and other current liabilities	4,120	2,552
Short-term debt	1,250	—
Total current liabilities	6,563	4,335
Long-term debt	9,703	10,946
Long-term operating lease liabilities	902	741
Other long-term liabilities	1,913	1,553
Total liabilities	19,081	17,575
Commitments and contingencies - see Note 13		
Shareholders' equity:		
Preferred stock, $0.001 par value; 2 shares authorized; none issued	—	—
Common stock, $0.001 par value; 8,000 shares authorized; 2,466 shares issued and outstanding as of January 29, 2023; 2,506 shares issued and outstanding as of January 30, 2022	2	3
Additional paid-in capital	11,971	10,385
Accumulated other comprehensive loss	(43)	(11)
Retained earnings	10,171	16,235
Total shareholders' equity	22,101	26,612
Total liabilities and shareholders' equity	$ 41,182	$ 44,187

See accompanying notes to the consolidated financial statements.

NVIDIA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In millions, except per share data)	Common Stock Outstanding Shares	Common Stock Outstanding Amount	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Shareholders' Equity
Balances, January 26, 2020	2,450	$ 3	$ 7,043	$ (9,814)	$ 1	$ 14,971	$ 12,204
Net income	—	—	—	—	—	4,332	4,332
Other comprehensive income	—	—	—	—	18	—	18
Issuance of common stock from stock plans	40	—	194	—	—	—	194
Tax withholding related to vesting of restricted stock units	(11)	—	—	(942)	—	—	(942)
Cash dividends declared and paid ($0.16 per common share)	—	—	—	—	—	(395)	(395)
Fair value of partially vested equity awards assumed in connection with acquisitions	—	—	86	—	—	—	86
Stock-based compensation	—	—	1,396	—	—	—	1,396
Balances, January 31, 2021	2,479	3	8,719	(10,756)	19	18,908	16,893
Net income	—	—	—	—	—	9,752	9,752
Other comprehensive loss	—	—	—	—	(30)	—	(30)
Issuance of common stock from stock plans	35	—	281	—	—	—	281
Tax withholding related to vesting of restricted stock units	(8)	—	(614)	(1,290)	—	—	(1,904)
Cash dividends declared and paid ($0.16 per common share)	—	—	—	—	—	(399)	(399)
Fair value of partially vested equity awards assumed in connection with acquisitions	—	—	18	—	—	—	18
Stock-based compensation	—	—	2,001	—	—	—	2,001
Retirement of Treasury Stock	—	—	(20)	12,046	—	(12,026)	—
Balances, January 30, 2022	2,506	3	10,385	—	(11)	16,235	26,612
Net income	—	—	—	—	—	4,368	4,368
Other comprehensive loss	—	—	—	—	(32)	—	(32)
Issuance of common stock from stock plans	31	—	355	—	—	—	355
Tax withholding related to vesting of restricted stock units	(8)	—	(1,475)	—	—	—	(1,475)
Shares repurchased	(63)	(1)	(4)	—	—	(10,034)	(10,039)
Cash dividends declared and paid ($0.16 per common share)	—	—	—	—	—	(398)	(398)
Stock-based compensation	—	—	2,710	—	—	—	2,710
Balances, January 29, 2023	2,466	$ 2	$ 11,971	$ —	$ (43)	$ 10,171	$ 22,101

See accompanying notes to the consolidated financial statements.

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

	Year Ended		
	January 29, 2023	January 30, 2022	January 31, 2021
Cash flows from operating activities:			
Net income	$ 4,368	$ 9,752	$ 4,332
Adjustments to reconcile net income to net cash provided by operating activities:			
Stock-based compensation expense	2,709	2,004	1,397
Depreciation and amortization	1,544	1,174	1,098
Acquisition termination cost	1,353	—	—
Losses (gains) on investments in non-affiliates, net	45	(100)	—
Deferred income taxes	(2,164)	(406)	(282)
Other	(7)	47	(20)
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	822	(2,215)	(550)
Inventories	(2,554)	(774)	(524)
Prepaid expenses and other assets	(1,517)	(1,715)	(394)
Accounts payable	(551)	568	312
Accrued and other current liabilities	1,341	581	290
Other long-term liabilities	252	192	163
Net cash provided by operating activities	5,641	9,108	5,822
Cash flows from investing activities:			
Proceeds from maturities of marketable securities	19,425	15,197	8,792
Proceeds from sales of marketable securities	1,806	1,023	527
Purchases of marketable securities	(11,897)	(24,787)	(19,308)
Purchases related to property and equipment and intangible assets	(1,833)	(976)	(1,128)
Acquisitions, net of cash acquired	(49)	(263)	(8,524)
Investments and other, net	(77)	(24)	(34)
Net cash provided by (used in) investing activities	7,375	(9,830)	(19,675)
Cash flows from financing activities:			
Proceeds related to employee stock plans	355	281	194
Payments related to repurchases of common stock	(10,039)	—	—
Payments related to tax on restricted stock units	(1,475)	(1,904)	(942)
Dividends paid	(398)	(399)	(395)
Principal payments on property and equipment	(58)	(83)	(17)
Issuance of debt, net of issuance costs	—	4,977	4,968
Repayment of debt	—	(1,000)	—
Other	(2)	(7)	(4)
Net cash provided by (used in) financing activities	(11,617)	1,865	3,804
Change in cash and cash equivalents	1,399	1,143	(10,049)
Cash and cash equivalents at beginning of period	1,990	847	10,896
Cash and cash equivalents at end of period	$ 3,389	$ 1,990	$ 847
Supplemental disclosures of cash flow information:			
Cash paid for income taxes, net	$ 1,404	$ 396	$ 249
Cash paid for interest	$ 254	$ 246	$ 138

See accompanying notes to the consolidated financial statements.

NVIDIA CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Organization and Summary of Significant Accounting Policies

Our Company

Headquartered in Santa Clara, California, NVIDIA was incorporated in California in April 1993 and reincorporated in Delaware in April 1998.

All references to "NVIDIA," "we," "us," "our" or the "Company" mean NVIDIA Corporation and its subsidiaries.

Fiscal Year

We operate on a 52- or 53-week year, ending on the last Sunday in January. Fiscal years 2023 and 2022 were both 52-week years. Fiscal year 2021 was a 53-week year.

Reclassifications

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

Prior period intangible asset gross carrying amount and accumulated amortization in Note 7 have been adjusted to write off immaterial fully amortized intangible assets as of January 30, 2022.

Principles of Consolidation

Our consolidated financial statements include the accounts of NVIDIA Corporation and our wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ materially from our estimates. On an on-going basis, we evaluate our estimates, including those related to revenue recognition, cash equivalents and marketable securities, accounts receivable, inventories, income taxes, goodwill, stock-based compensation, litigation, investigation and settlement costs, restructuring and other charges, and other contingencies. The inputs into our judgments and estimates consider the economic implications of COVID-19. These estimates are based on historical facts and various other assumptions that we believe are reasonable.

In February 2023, we completed an assessment of the useful lives of our property, plant, and equipment. Based on advances in technology and usage rate, we increased the estimated useful life of a majority of the server, storage, and network equipment from three to a range of four to five years, and assembly and test equipment from five to seven years. This change in accounting estimate became effective at the beginning of fiscal year 2024. Based on the carrying amounts of a majority of our server, storage, network, and assembly and test equipment, net in use as of the end of fiscal year 2023, it is estimated this change will increase our fiscal year 2024 operating income by $133 million as a result of the reduction in depreciation expense.

Revenue Recognition

We derive our revenue from product sales, including hardware and systems, license and development arrangements, software licensing, and cloud services. We determine revenue recognition through the following steps: (1) identification of the contract with a customer; (2) identification of the performance obligations in the contract; (3) determination of the transaction price; (4) allocation of the transaction price to the performance obligations in the contract (where revenue is allocated on a relative standalone selling price basis by maximizing the use of observable inputs to determine the standalone selling price for each performance obligation); and (5) recognition of revenue when, or as, we satisfy a performance obligation.

Product Sales Revenue

Revenue from product sales is recognized upon transfer of control of products to customers in an amount that reflects the consideration we expect to receive in exchange for those products. Certain products are sold with support or an extended warranty for the incorporated system, hardware, and/or software. Support and extended warranty revenue are recognized ratably over the service period, or as services are performed. Revenue is recognized net of allowances for returns, customer programs and any taxes collected from customers.

For products sold with a right of return, we 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

NVIDIA CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

product returns for a fiscal period are anticipated to exceed historical return rates, we may determine that additional sales return allowances are required to properly reflect our estimated exposure for product returns.

Our customer programs involve rebates, which are designed to serve as sales incentives to resellers of our products in various target markets, and marketing development funds, or MDFs, which represent monies paid to our partners that are earmarked for market segment development and are designed to support our partners' activities while also promoting NVIDIA products. We account for customer programs as a reduction to revenue and accrue for potential rebates and MDFs based on the amount we expect to be claimed by customers.

License and Development Arrangements

Our license and development arrangements with customers typically require significant customization of our IP components. As a result, we recognize the revenue from the license and the revenue from the development services as a single performance obligation over the period in which the development services are performed. We measure progress to completion based on actual cost incurred to date as a percentage of the estimated total cost required to complete each project. If a loss on an arrangement becomes probable during a period, we record a provision for such loss in that period.

Software Licensing

Our software licenses provide our customers with a right to use the software when it is made available to the customer. Customers may purchase either perpetual licenses or subscriptions to licenses, which differ mainly in the duration over which the customer benefits from the software. Software licenses are frequently sold along with the right to receive, on a when-and-if available basis, future unspecified software updates and upgrades. Revenue from software licenses is recognized up front when the software is made available to the customer. Software support revenue is recognized ratably over the service period, or as services are performed.

Cloud Services

Cloud services, which allow customers to use hosted software and hardware infrastructure without taking possession of the software or hardware, are provided on a subscription basis or a combination of subscription plus usage. Revenue related to subscription-based cloud services is recognized ratably over the contract period. Revenue related to cloud services based on usage is recognized as usage occurs.

Product Warranties

We generally offer a limited warranty to end-users that ranges from one to three years for products in order to repair or replace products for any manufacturing defects or hardware component failures. 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. We also accrue for known warranty and indemnification issues if a loss is probable and can be reasonably estimated.

Stock-based Compensation

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, and performance stock units that are based on our corporate financial performance targets, or PSUs. We use a Monte Carlo simulation on the date of grant to estimate the fair value of performance stock units that are based on market conditions, or market-based PSUs. The compensation expense for RSUs and market-based PSUs is recognized using a straight-line attribution method over the requisite employee service period while compensation expense for PSUs is recognized using an accelerated amortization model. We estimate the fair value of shares to be issued under our employee stock purchase plan, or ESPP, using the Black-Scholes model at the commencement of an offering period in March and September of each year. Stock-based compensation for our ESPP is expensed using an accelerated amortization model. Additionally, we estimate forfeitures at least annually based on historical experience and revise the estimates of forfeiture in subsequent periods if actual forfeitures differ from those estimates.

Litigation, Investigation and Settlement Costs

We currently, are, and will likely continue to be subject to claims, litigation, and other actions, including potential regulatory proceedings, involving patent and other intellectual property matters, taxes, labor and employment, competition and antitrust, commercial disputes, goods and services offered by us and by third parties, and other matters. There are many uncertainties associated with any litigation or investigation, and we cannot be certain that these actions or other third-party claims against us will be resolved without litigation, fines and/or substantial settlement payments or judgments. 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.

NVIDIA CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Foreign Currency Remeasurement

We use the United States dollar as our functional currency for our subsidiaries. Foreign currency monetary assets and liabilities are remeasured into United States dollars at end-of-period exchange rates. Non-monetary assets and liabilities such as property and equipment and equity are remeasured at historical exchange rates. Revenue and expenses are remeasured at exchange rates in effect during each period, except for those expenses related to non-monetary balance sheet amounts, which are remeasured at historical exchange rates. Gains or losses from foreign currency remeasurement are included in earnings in our Consolidated Statements of Income and to date have not been significant.

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.

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

As of January 29, 2023, we had a valuation allowance of $1.48 billion related to capital loss carryforwards, state, and certain other deferred tax assets that management determined are not likely to be realized due to jurisdictional projections of future taxable income, including capital gains, tax attributes usage limitation by certain jurisdictions, 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 assets as an income tax benefit during the period.

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.

Net Income Per Share

Basic net income per share is computed using the weighted average number of common shares outstanding during the period. Diluted net income per share is computed using the weighted average number of common and potentially dilutive shares outstanding during the period, using the treasury stock method. Under the treasury stock method, the effect of equity awards outstanding is not included in the computation of diluted net income per share for periods when their effect is anti-dilutive.

Cash and Cash Equivalents and Marketable Securities

We consider all highly liquid investments that are readily convertible into cash and have an original maturity of three months or less at the time of purchase to be cash equivalents. Marketable securities consist of highly liquid debt investments with maturities of greater than three months when purchased. We currently classify our investments as current based on the nature of the investments and their availability for use in current operations.

We classify our cash equivalents and marketable securities related to debt securities at the date of acquisition as available-for-sale. These available-for-sale debt securities are reported at fair value with the related unrealized gains and losses included in accumulated other comprehensive income or loss, a component of shareholders' equity, net of tax. The fair value of interest-bearing debt securities includes accrued interest. Realized gains and losses on the sale of marketable securities are determined using the specific-identification method and recorded in the other income (expense), net, section of our Consolidated Statements of Income.

Available-for-sale debt investments are subject to a periodic impairment review. If the estimated fair value of available-for-sale debt securities is less than its amortized cost basis, we determine if the difference, if any, is caused by expected credit losses and write-down the amortized cost basis of the securities if it is more likely than not we will be required or we intend to sell the securities before recovery of its amortized cost basis. Allowances for credit losses and write-downs are recognized in the other income (expense), net section of our Consolidated Statements of Income.

NVIDIA CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Fair Value of Financial Instruments

The carrying value of cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair values due to their relatively short maturities as of January 29, 2023 and January 30, 2022. Marketable securities are comprised of available-for-sale securities that are reported at fair value with the related unrealized gains or losses included in accumulated other comprehensive income or loss, a component of shareholders' equity, net of tax. Fair value of the marketable securities is determined based on quoted market prices. Derivative instruments are recognized as either assets or liabilities and are measured at fair value. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. For derivative instruments designated as fair value hedges, the gains or losses are recognized in earnings in the periods of change together with the offsetting losses or gains on the hedged items attributed to the risk being hedged. For derivative instruments designated as cash-flow hedges, the effective portion of the gains or losses on the derivatives is initially reported as a component of other comprehensive income or loss and is subsequently recognized in earnings when the hedged exposure is recognized in earnings. For derivative instruments not designated for hedge accounting, changes in fair value are recognized in earnings.

Concentration of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash equivalents, marketable securities, and accounts receivable. Our investment policy requires the purchase of highly-rated fixed income securities, the diversification of investment type and credit exposures, and includes certain limits on our portfolio duration. We perform ongoing credit evaluations of our customers' financial condition and maintain an allowance for potential credit losses. This allowance consists of an amount identified for specific customers and an amount based on overall estimated exposure. Our overall estimated exposure excludes amounts covered by credit insurance and letters of credit.

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, including wafer fabrication, assembly, testing and packaging, manufacturing support costs, including labor and overhead associated with such purchases, final test yield fallout, and shipping costs, as well as the cost of purchased memory products and other component parts. We charge cost of sales for inventory provisions to write-down our inventory to the lower of cost or net realizable value or for obsolete or excess inventory, and for excess product purchase commitments. Most of our inventory provisions relate to excess quantities of products, based on our inventory levels and future product purchase commitments compared to assumptions about future demand and market conditions. Once inventory has been written-off or written-down, it creates a new cost basis for the inventory that is not subsequently written-up. We record a liability for noncancelable purchase commitments with suppliers for quantities in excess of our future demand forecasts consistent with our valuation of obsolete or excess inventory.

Property and Equipment

Property and equipment are stated at cost. Depreciation of property and equipment is computed using the straight-line method based on the estimated useful lives of the assets, generally three to five years. Once an asset is identified for retirement or disposition, the related cost and accumulated depreciation or amortization are removed, and a gain or loss is recorded. The estimated useful lives of our buildings are up to thirty years. Depreciation expense includes the amortization of assets recorded under finance leases. Leasehold improvements and assets recorded under finance leases are amortized over the shorter of the expected lease term or the estimated useful life of the asset.

Leases

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

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

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

NVIDIA CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

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. For the purposes of completing our impairment test, we perform either a qualitative or a quantitative analysis on a reporting unit basis.

Qualitative factors include industry and market considerations, overall financial performance, and other relevant events and factors affecting the reporting units.

The quantitative impairment test considers both the income approach and the market approach to estimate a reporting unit's fair value. The income and market valuation approaches consider factors that include, but are not limited to, prospective financial information, growth rates, residual values, discount rates and comparable multiples from publicly traded companies in our industry and require us to make certain assumptions and estimates regarding industry economic factors and the future profitability of our business.

Intangible Assets and Other Long-Lived Assets

Intangible assets primarily represent acquired intangible assets including developed technology, in-process research and development, or IPR&D, and customer relationships, as well as rights acquired under technology licenses, patents, and acquired IP. We currently amortize our intangible assets with finite lives over periods ranging from one to twenty years using a method that reflects the pattern in which the economic benefits of the intangible asset are consumed or otherwise used up or, if that pattern cannot be reliably determined, using a straight-line amortization method. We initially capitalize the fair value of IPR&D as an intangible asset with an indefinite life. When IPR&D projects are completed, we reclassify the IPR&D as an amortizable purchased intangible asset and amortize over the asset's estimated useful life.

Long-lived assets, such as property and equipment and intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. Recoverability of assets or asset groups to be held and used is measured by a comparison of the carrying amount of an asset or asset group to estimated undiscounted future cash flows expected to be generated by the asset or asset group. If the carrying amount of an asset or asset group exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset or asset group exceeds the estimated fair value of the asset or asset group. Fair value is determined based on the estimated discounted future cash flows expected to be generated by the asset or asset group. Assets and liabilities to be disposed of would be separately presented in the Consolidated Balance Sheet and the assets would be reported at the lower of the carrying amount or fair value less costs to sell, and would no longer be depreciated.

Business Combination

We allocate the fair value of the purchase price of an acquisition to the tangible assets acquired, liabilities assumed, and intangible assets acquired, including IPR&D, based on their estimated fair values. The excess of the fair value of the purchase price over the fair values of these net tangible and intangible assets acquired is recorded as goodwill. Management's estimates of fair value are based upon assumptions believed to be reasonable, but our estimates and assumptions are inherently uncertain and subject to refinement. The estimates and assumptions used in valuing intangible assets include, but are not limited to, the amount and timing of projected future cash flows, discount rate used to determine the present value of these cash flows and asset lives. These estimates are inherently uncertain and, therefore, actual results may differ from the estimates made. As a result, during the measurement period of up to one year from the acquisition date, we may record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the fair value of the purchase price of an acquisition, whichever comes first, any subsequent adjustments are recorded to our Consolidated Statements of Income.

Acquisition-related expenses are recognized separately from the business combination and expensed as incurred.

Investment in Non-Affiliated Entities

Non-marketable equity investments in privately-held companies are recorded at fair value on a non-recurring basis only if an impairment or observable price adjustment occurs in the period with changes in fair value recorded through net income. These investments are valued using observable and unobservable inputs or data in an inactive market and the valuation requires our judgment due to the absence of market prices and inherent lack of liquidity. The estimated fair value is based on quantitative and qualitative factors including subsequent financing activities by the investee.

Marketable equity investments in publicly-held companies are recorded at fair value with the related unrealized and realized gains and losses recognized in other income (expense), net.

NVIDIA CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Note 2 - Business Combination

Termination of the Arm Share Purchase Agreement

In February 2022, NVIDIA and SoftBank announced the termination of the Share Purchase Agreement whereby NVIDIA would have acquired Arm from SoftBank. The parties agreed to terminate due to significant regulatory challenges preventing the completion of the transaction. We recorded an acquisition termination cost of $1.35 billion in fiscal year 2023 reflecting the write-off of the prepayment provided at signing.

Acquisition of Mellanox Technologies, Ltd.

In April 2020, we completed the acquisition of all outstanding shares of Mellanox for a total purchase consideration of $7.13 billion.

Purchase Price Allocation

The aggregate purchase consideration has been allocated as follows (in millions):

Purchase Price		
Cash paid for outstanding Mellanox ordinary shares (1)	$	7,033
Cash for Mellanox equity awards (2)		16
Total cash consideration		7,049
Fair value of Mellanox equity awards assumed by NVIDIA (3)		85
Total purchase consideration	$	7,134
Allocation		
Cash and cash equivalents	$	115
Marketable securities		699
Accounts receivable, net		216
Inventories		320
Prepaid expenses and other assets		179
Property and equipment, net		144
Goodwill		3,431
Intangible assets		2,970
Accounts payable		(136)
Accrued and other current liabilities		(236)
Income tax liability		(191)
Deferred income tax liability		(258)
Other long-term liabilities		(119)
	$	7,134

(1) Represents the cash consideration of $125.00 per share paid to Mellanox shareholders for approximately 56 million shares of outstanding Mellanox ordinary shares.
(2) Represents the cash consideration for the settlement of approximately 249 thousand Mellanox stock options held by employees and non-employee directors of Mellanox.
(3) Represents the fair value of Mellanox's stock-based compensation awards attributable to pre-combination services.

We allocated the purchase price to tangible and identified intangible assets acquired and liabilities assumed based on the estimated fair values.

The goodwill is primarily attributable to the planned growth in the combined business of NVIDIA and Mellanox. Goodwill is not amortized to earnings, but instead is reviewed for impairment at least annually, absent any interim indicators of impairment. Goodwill recognized in the acquisition is not expected to be deductible for foreign tax purposes. Goodwill arising from the Mellanox acquisition has been allocated to the Compute and Networking segment. Refer to Note 17 – Segment Information for further details on segments.

The operating results of Mellanox have been included in our consolidated financial statements for fiscal year 2021 since the acquisition date of April 27, 2020. Revenue attributable to Mellanox was approximately 10% for fiscal year 2021. There is not a practical way to determine net income attributable to Mellanox due to integration. Acquisition-related costs attributable to Mellanox of $28 million were included in selling, general and administrative expense for fiscal year 2021.

NVIDIA CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Intangible Assets

The estimated fair value and useful life of the acquired intangible assets at the time of the acquisition are as follows:

	Fair Value	Useful Lives
	(In millions)	
Developed technology (1)	$ 1,640	5 years
Customer relationships (2)	440	3 years
Order backlog (3)	190	Based on actual shipments
Trade names (4)	70	5 years
Total identified finite-lived intangible assets	2,340	
IPR&D (5)	630	N/A
Total identified intangible assets	$ 2,970	

(1) The fair value of developed technology was identified using the Multi-Period Excess Earnings Method.
(2) Customer relationships represent the fair value of the existing relationships using the With and Without Method.
(3) Order backlog represents primarily the fair value of purchase arrangements with customers using the Multi-Period Excess Earnings Method. The intangible asset was fully amortized as of January 31, 2021.
(4) Trade names primarily relate to Mellanox trade names and fair value was determined by applying the Relief-from-Royalty Method under the income approach.
(5) The fair value of IPR&D was determined using the Multi-Period Excess Earnings Method.

The fair value of the finite-lived intangible assets will be amortized over the estimated useful lives based on the pattern in which the economic benefits are expected to be received to cost of revenue and operating expenses.

Mellanox had an IPR&D project associated with the next generation interconnect product that had not yet reached technological feasibility as of the acquisition date. Accordingly, we recorded an indefinite-lived intangible asset of $630 million for the fair value of this project, which was initially not amortized. In fiscal year 2023, we commenced amortization of the IPR&D intangible asset.

Supplemental Unaudited Pro Forma Information

The following unaudited pro forma financial information summarizes the combined results of operations for NVIDIA and Mellanox as if the companies were combined as of the beginning of fiscal year 2020:

	Pro Forma Year Ended January 31, 2021
	(In millions)
Revenue	$ 17,104
Net income	$ 4,757

The unaudited pro forma information presented above includes adjustments related to amortization of acquired intangible assets, adjustments to stock-based compensation expense, fair value of acquired inventory, and transaction costs. The unaudited pro forma information is for informational purposes only and is not necessarily indicative of our consolidated results of operations of the combined business had the acquisition actually occurred at the beginning of fiscal year 2020 or of the results of our future operations of the combined businesses.

The pro forma results for fiscal year 2021 excluded the inventory step-up expense of $161 million. There were no other material nonrecurring adjustments.

Note 3 - Leases

Our lease obligations primarily consist of operating leases for our headquarters complex, domestic and international office facilities, and data center space, with lease periods expiring between fiscal years 2024 and 2035.

NVIDIA CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Future minimum lease payments under our non-cancelable operating leases as of January 29, 2023, are as follows:

	Operating Lease Obligations
	(In millions)
Fiscal Year:	
2024	$ 220
2025	198
2026	180
2027	166
2028	144
2029 and thereafter	323
Total	1,231
Less imputed interest	153
Present value of net future minimum lease payments	1,078
Less short-term operating lease liabilities	176
Long-term operating lease liabilities	$ 902

In addition to above, we have operating leases, primarily for our data centers, that are expected to commence within fiscal years 2024 and 2025 with lease terms of 2 to 8 years for $463 million.

Operating lease expense for fiscal years 2023, 2022, and 2021 was $193 million, $168 million, $145 million, respectively. Short-term and variable lease expenses for fiscal years 2023, 2022, and 2021 were not significant.

Other information related to leases was as follows:

	Year Ended		
	January 29, 2023	January 30, 2022	January 31, 2021
		(In millions)	
Supplemental cash flows information			
Operating cash flows used for operating leases	$ 184	$ 154	$ 141
Operating lease assets obtained in exchange for lease obligations	$ 358	$ 266	$ 200

As of January 29, 2023, our operating leases had a weighted average remaining lease term of 6.8 years and a weighted average discount rate of 3.21%. As of January 30, 2022, our operating leases had a weighted average remaining lease term of 7.1 years and a weighted average discount rate of 2.51%.

Note 4 - Stock-Based Compensation

Our stock-based compensation expense is associated with restricted stock units, or RSUs, performance stock units that are based on our corporate financial performance targets, or PSUs, performance stock units that are based on market conditions, or market-based PSUs, and our ESPP.

Our Consolidated Statements of Income include stock-based compensation expense, net of amounts allocated to inventory, as follows:

	Year Ended		
	January 29, 2023	January 30, 2022	January 31, 2021
		(In millions)	
Cost of revenue	$ 138	$ 141	$ 88
Research and development	1,892	1,298	860
Sales, general and administrative	680	565	449
Total	$ 2,710	$ 2,004	$ 1,397

Stock-based compensation capitalized in inventories was not significant during fiscal years 2023, 2022, and 2021.

NVIDIA CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

The following is a summary of equity awards granted under our equity incentive plans:

	Year Ended		
	January 29, 2023	January 30, 2022	January 31, 2021
	(In millions, except per share data)		
RSUs, PSUs and Market-based PSUs			
Awards granted	25	18	36
Estimated total grant-date fair value	$ 4,505	$ 3,492	$ 2,764
Weighted average grant-date fair value per share	$ 183.72	$ 190.69	$ 76.81
ESPP			
Shares purchased	3	5	4
Weighted average price per share	$ 122.54	$ 56.36	$ 34.80
Weighted average grant-date fair value per share	$ 51.87	$ 23.24	$ 16.91

As of January 29, 2023, there was $6.56 billion of aggregate unearned stock-based compensation expense. This amount is expected to be recognized over a weighted average period of 2.6 years for RSUs, PSUs, and market-based PSUs, and 1.0 year for ESPP.

The fair value of shares issued under our ESPP have been estimated with the following assumptions:

	Year Ended		
	January 29, 2023	January 30, 2022	January 31, 2021
	(Using the Black-Scholes model)		
ESPP			
Weighted average expected life (in years)	0.1-2.0	0.1-2.0	0.1-2.0
Risk-free interest rate	—%-4.6%	—%-0.5%	0.1%-1.6%
Volatility	43%-72%	20%-58%	26%-89%
Dividend yield	0.1%	0.1%	0.1%-0.3%

For ESPP shares, the expected term represents the average term from the first day of the offering period to the purchase date. The risk-free interest rate assumption used to value ESPP shares is based upon observed interest rates on Treasury bills appropriate for the expected term. Our expected stock price volatility assumption for ESPP is estimated using historical volatility. For awards granted, we use the dividend yield at grant date. Our RSU, PSU, and market-based PSU awards are not eligible for cash dividends prior to vesting; therefore, the fair values of RSUs, PSUs, and market-based PSUs are discounted for the dividend yield.

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

Equity Incentive Program

We grant or have granted stock options, RSUs, PSUs, market-based PSUs, and stock purchase rights under the following equity incentive plans. In addition, in connection with our acquisitions of various companies, we have assumed certain stock-based awards granted under their stock incentive plans and converted them into our RSUs.

Amended and Restated 2007 Equity Incentive Plan

In 2007, our shareholders approved the NVIDIA Corporation 2007 Equity Incentive Plan, as most recently amended and restated, or the 2007 Plan.

The 2007 Plan authorizes the issuance of incentive stock options, non-statutory stock options, restricted stock, restricted stock units, stock appreciation rights, performance stock awards, performance cash awards, and other stock-based awards to employees, directors and consultants. Only our employees may receive incentive stock options. As of January 29, 2023, up to 47 million shares of our common stock could be issued pursuant to stock awards granted under the 2007 Plan, of which 2 million shares were issuable upon the exercise of outstanding stock options. All options are fully vested, the last of which will expire by December 2023 if not exercised. Currently, we grant RSUs, PSUs and market-based PSUs under the 2007 Plan, under which, as of January 29, 2023, there were 160 million shares available for future grants.

NVIDIA CORPORATION AND SUBSIDIARIES
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Subject to certain exceptions, RSUs granted to employees vest (A) over a four-year period, subject to continued service, with 25% vesting on a pre-determined date that is close to the anniversary of the date of grant and 6.25% vesting quarterly thereafter, (B) over a three-year period, subject to continued service, with 40% vesting on a pre-determined date that is close to the anniversary of the date of grant and 7.5% vesting quarterly thereafter, or (C) over a four-year period, subject to continued service, with 6.25% vesting quarterly. PSUs vest over a four-year period, subject to continued service, with 25% vesting on a pre-determined date that is close to the anniversary of the date of grant and 6.25% vesting quarterly thereafter. Market-based PSUs vest 100% on approximately the three-year anniversary of the date of grant. However, the number of shares subject to both PSUs and market-based PSUs that are eligible to vest is generally determined by the Compensation Committee based on achievement of pre-determined criteria.

Amended and Restated 2012 Employee Stock Purchase Plan

In 2012, our shareholders approved the NVIDIA Corporation 2012 Employee Stock Purchase Plan, as most recently amended and restated, or the 2012 Plan.

Employees who participate in the 2012 Plan may have up to 15% of their earnings withheld to purchase shares of common stock. The Board may decrease this percentage at its discretion. Each offering period is approximately 24 months, which is generally divided into four purchase periods of six months. The price of common stock purchased under our 2012 Plan will be equal to 85% of the lower of the fair market value of the common stock on the commencement date of each offering period or the fair market value of the common stock on each purchase date within the offering. As of January 29, 2023, we had 230 million shares reserved for future issuance under the 2012 Plan.

Equity Award Activity

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

	RSUs, PSUs and Market-based PSUs Outstanding	
	Number of Shares	Weighted Average Grant-Date Fair Value
	(In millions, except per share data)	
Balances, January 30, 2022	46	$ 114.19
Granted	25	$ 183.72
Vested restricted stock	(24)	$ 100.06
Canceled and forfeited	(2)	$ 141.17
Balances, January 29, 2023	45	$ 158.45
Vested and expected to vest after January 29, 2023	45	$ 158.35

As of January 29, 2023 and January 30, 2022, there were 160 million and 131 million shares, respectively, of common stock available for future grants under our equity incentive plans.

As of January 29, 2023, the total intrinsic value of options currently exercisable and outstanding was $410 million, with an average exercise price of $3.79 per share and an average remaining term of 0.5 years. The total intrinsic value of options exercised was $642 million, $741 million, and $521 million for fiscal years 2023, 2022, and 2021, respectively. Upon the exercise of an option, we issue a new share of stock.

The total fair value of RSUs and PSUs, as of their respective vesting dates, during the years ended January 29, 2023, January 30, 2022, and January 31, 2021, was $4.27 billion, $5.56 billion, and $2.67 billion, respectively.

NVIDIA CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Note 5 - Net Income Per Share

The following is a reconciliation of the denominator of the basic and diluted net income per share computations for the periods presented:

	Year Ended		
	January 29, 2023	January 30, 2022	January 31, 2021
	(In millions, except per share data)		
Numerator:			
Net income	$ 4,368	$ 9,752	$ 4,332
Denominator:			
Basic weighted average shares	2,487	2,496	2,467
Dilutive impact of outstanding equity awards	20	39	43
Diluted weighted average shares	2,507	2,535	2,510
Net income per share:			
Basic (1)	$ 1.76	$ 3.91	$ 1.76
Diluted (2)	$ 1.74	$ 3.85	$ 1.73
Equity awards excluded from diluted net income per share because their effect would have been anti-dilutive	40	21	12

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

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

Note 6 - Goodwill

As of January 29, 2023, the total carrying amount of goodwill was $4.37 billion, consisting of goodwill balances allocated to our Compute & Networking and Graphics reporting units of $4.00 billion and $370 million, respectively. As of January 30, 2022, the total carrying amount of goodwill was $4.35 billion, consisting of goodwill balances allocated to our Compute & Networking and Graphics reporting units of $3.99 billion and $361 million, respectively. Goodwill increased by $23 million in fiscal year 2023 from acquisitions. We assigned $14 million of the increase in goodwill to our Compute & Networking segment and assigned $9 million of the increase to our Graphics segment. During the fourth quarters of fiscal years 2023, 2022, and 2021, we completed our annual qualitative impairment tests and concluded that goodwill was not impaired in any of these years.

Note 7 - Amortizable Intangible Assets

The components of our amortizable intangible assets are as follows:

	January 29, 2023			January 30, 2022		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(In millions)					
Acquisition-related intangible assets (1)	$ 3,093	$ (1,614)	$ 1,479	$ 3,061	$ (947)	$ 2,114
Patents and licensed technology	446	(249)	197	446	(221)	225
Total intangible assets	$ 3,539	$ (1,863)	$ 1,676	$ 3,507	$ (1,168)	$ 2,339

(1) During the first quarter of fiscal year 2023, we commenced amortization of a $630 million in-process research and development intangible asset related to our acquisition of Mellanox.

Amortization expense associated with intangible assets for fiscal years 2023, 2022, and 2021 was $699 million, $563 million, and $612 million, respectively. Future amortization expense related to the net carrying amount of intangible assets as of January 29, 2023 is estimated to be $602 million in fiscal year 2024, $541 million in fiscal year 2025, $247 million in fiscal year 2026, $142 million in fiscal year 2027, $35 million in fiscal year 2028, and $109 million in fiscal year 2029 and thereafter.

Note 8 - Cash Equivalents and Marketable Securities

Our cash equivalents and marketable securities related to debt securities are classified as “available-for-sale” debt securities.

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The following is a summary of cash equivalents and marketable securities as of January 29, 2023 and January 30, 2022:

	January 29, 2023					
					Reported as	
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value	Cash Equivalents	Marketable Securities
	(In millions)					
Corporate debt securities	$ 4,809	$ —	$ (12)	$ 4,797	$ 1,087	$ 3,710
Debt securities issued by the United States Treasury	4,185	1	(44)	4,142	—	4,142
Debt securities issued by United States government agencies	1,836	—	(2)	1,834	50	1,784
Money market funds	1,777	—	—	1,777	1,777	—
Certificates of deposit	365	—	—	365	134	231
Foreign government bonds	140	—	—	140	100	40
Total	$ 13,112	$ 1	$ (58)	$ 13,055	$ 3,148	$ 9,907

	January 30, 2022					
					Reported as	
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value	Cash Equivalents	Marketable Securities
	(In millions)					
Corporate debt securities	$ 9,977	$ —	$ (3)	$ 9,974	$ 1,102	$ 8,872
Debt securities issued by the United States Treasury	7,314	—	(14)	7,300	—	7,300
Debt securities issued by United States government agencies	1,612	—	—	1,612	256	1,356
Certificates of deposit	1,561	—	—	1,561	21	1,540
Money market funds	316	—	—	316	316	—
Foreign government bonds	150	—	—	150	—	150
Total	$ 20,930	$ —	$ (17)	$ 20,913	$ 1,695	$ 19,218

The following tables provide the breakdown of unrealized losses as of January 29, 2023 and January 30, 2022, aggregated by investment category and length of time that individual securities have been in a continuous loss position:

	January 29, 2023					
	Less than 12 Months		12 Months or Greater		Total	
	Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss
	(In millions)					
Debt securities issued by the United States Treasury	$ 2,444	$ (21)	$ 1,172	$ (23)	$ 3,616	$ (44)
Corporate debt securities	1,188	(7)	696	(5)	1,884	(12)
Debt securities issued by United States government agencies	1,307	(2)	—	—	1,307	(2)
Total	$ 4,939	$ (30)	$ 1,868	$ (28)	$ 6,807	$ (58)

	January 30, 2022					
	Less than 12 Months		12 Months or Greater		Total	
	Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss
	(In millions)					
Debt securities issued by the United States Treasury	$ 5,292	$ (14)	$ —	$ —	$ 5,292	$ (14)
Corporate debt securities	2,445	(3)	19	—	2,464	(3)
Total	$ 7,737	$ (17)	$ 19	$ —	$ 7,756	$ (17)

The gross unrealized losses are related to fixed income securities, driven primarily by changes in interest rates. Net realized gains and losses were not significant for all periods presented.

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The amortized cost and estimated fair value of cash equivalents and marketable securities as of January 29, 2023 and January 30, 2022 are shown below by contractual maturity.

	January 29, 2023		January 30, 2022	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(In millions)			
Less than one year	$ 9,738	$ 9,708	$ 16,346	$ 16,343
Due in 1 - 5 years	3,374	3,347	4,584	4,570
Total	$ 13,112	$ 13,055	$ 20,930	$ 20,913

Note 9 - Fair Value of Financial Assets and Liabilities

The fair values of our financial assets and liabilities are determined using quoted market prices of identical assets or quoted market prices of similar assets from active markets. We review fair value hierarchy classification on a quarterly basis.

	Pricing Category	Fair Value at January 29, 2023	Fair Value at January 30, 2022
		(In millions)	
Assets			
Cash equivalents and marketable securities:			
Money market funds	Level 1	$ 1,777	$ 316
Corporate debt securities	Level 2	$ 4,797	$ 9,974
Debt securities issued by the United States Treasury	Level 2	$ 4,142	$ 7,300
Debt securities issued by United States government agencies	Level 2	$ 1,834	$ 1,612
Certificates of deposit	Level 2	$ 365	$ 1,561
Foreign government bonds	Level 2	$ 140	$ 150
Other assets (Investment in non-affiliated entities):			
Publicly-held equity securities (1)	Level 1	$ 11	$ 58
Privately-held equity securities	Level 3	$ 288	$ 208
Liabilities (2)			
0.309% Notes Due 2023	Level 2	$ 1,230	$ 1,236
0.584% Notes Due 2024	Level 2	$ 1,185	$ 1,224
3.20% Notes Due 2026	Level 2	$ 966	$ 1,055
1.55% Notes Due 2028	Level 2	$ 1,099	$ 1,200
2.85% Notes Due 2030	Level 2	$ 1,364	$ 1,542
2.00% Notes Due 2031	Level 2	$ 1,044	$ 1,200
3.50% Notes Due 2040	Level 2	$ 870	$ 1,066
3.50% Notes Due 2050	Level 2	$ 1,637	$ 2,147
3.70% Notes Due 2060	Level 2	$ 410	$ 551

(1) Unrealized losses of $61 million from investments in publicly-traded equity securities were recorded in other income (expense), net, in fiscal year 2023. Unrealized gains of $48 million from an investment in a publicly-traded equity security were recorded in other income (expense), net, in fiscal year 2022.

(2) These liabilities are carried on our Consolidated Balance Sheets at their original issuance value, net of unamortized debt discount and issuance costs.

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Note 10 - Balance Sheet Components

Certain balance sheet components are as follows:

	January 29, 2023	January 30, 2022
	(In millions)	
Inventories (1):		
Raw materials	$ 2,430	$ 791
Work in-process	466	692
Finished goods	2,263	1,122
Total inventories	$ 5,159	$ 2,605

(1) In fiscal years 2023 and 2022, we recorded an inventory reserve expense of approximately $1.04 billion and $173 million in cost of revenue, respectively.

	January 29, 2023	January 30, 2022	Estimated Useful Life
	(In millions)		*(In years)*
Property and Equipment:			
Land	$ 218	$ 218	(A)
Buildings, leasehold improvements, and furniture	1,598	874	(B)
Equipment, compute hardware, and software	4,303	2,852	3-5
Construction in process	382	737	(C)
Total property and equipment, gross	6,501	4,681	
Accumulated depreciation and amortization	(2,694)	(1,903)	
Total property and equipment, net	$ 3,807	$ 2,778	

(A) Land is a non-depreciable asset.

(B) The estimated useful lives of our buildings are up to thirty years. Leasehold improvements and finance leases are amortized based on the lesser of either the asset's estimated useful life or the expected lease term.

(C) Construction in process represents assets that are not available for their intended use as of the balance sheet date.

Depreciation expense for fiscal years 2023, 2022, and 2021 was $844 million, $611 million, and $486 million, respectively.

Accumulated amortization of leasehold improvements and finance leases was $327 million and $265 million as of January 29, 2023 and January 30, 2022, respectively.

Property, equipment and intangible assets acquired by assuming related liabilities during fiscal years 2023, 2022, and 2021 were $374 million, $258 million, and $157 million, respectively.

	January 29, 2023	January 30, 2022
Other assets:	*(In millions)*	
Prepaid supply agreements	$ 2,989	$ 1,747
Prepaid royalties	387	409
Investment in non-affiliated entities	299	266
Advanced consideration for acquisition (1)	—	1,353
Other	145	66
Total other assets	$ 3,820	$ 3,841

(1) Refer to Note 2 - Business Combination for further details on the Arm acquisition.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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	January 29, 2023	January 30, 2022
	(In millions)	
Accrued and Other Current Liabilities:		
Customer program accruals	$ 1,196	$ 1,000
Excess inventory purchase obligations (1)	954	196
Accrued payroll and related expenses	530	409
Taxes payable	467	132
Deferred revenue (2)	354	300
Operating leases	176	144
Other	443	371
Total accrued and other current liabilities	$ 4,120	$ 2,552

(1) In fiscal years 2023 and 2022, we recorded an expense of approximately $1.13 billion and $181 million, respectively, in cost of revenue for inventory purchase obligations in excess of our current demand projections, and cancellation and underutilization penalties.

(2) Deferred revenue primarily includes customer advances and deferrals related to license and development arrangements, support for hardware and software, and cloud services.

	January 29, 2023	January 30, 2022
	(In millions)	
Other Long-Term Liabilities:		
Income tax payable (1)	$ 1,204	$ 980
Deferred income tax	247	245
Deferred revenue (2)	218	202
Licenses payable	181	77
Other	63	49
Total other long-term liabilities	$ 1,913	$ 1,553

(1) Income tax payable is comprised of the long-term portion of the one-time transition tax payable, unrecognized tax benefits, and related interest and penalties.
(2) Deferred revenue primarily includes deferrals related to support for hardware and software.

Deferred Revenue

The following table shows the changes in deferred revenue during fiscal years 2023 and 2022.

	January 29, 2023	January 30, 2022
	(In millions)	
Balance at beginning of period	$ 502	$ 451
Deferred revenue added during the period	830	821
Addition due to business combinations	—	8
Revenue recognized during the period	(760)	(778)
Balance at end of period	$ 572	$ 502

Revenue related to remaining performance obligations represents the contracted license and development arrangements and support for hardware and software. This includes deferred revenue currently recorded and amounts that will be invoiced in future periods. As of January 29, 2023, $652 million of revenue related to performance obligations had not been recognized, of which we expect to recognize approximately 47% over the next twelve months and the remainder thereafter. This excludes revenue related to performance obligations for contracts with a length of one year or less.

Note 11 - Derivative Financial Instruments

We enter into foreign currency forward contracts to mitigate the impact of foreign currency exchange rate movements on our operating expenses. These contracts are designated as cash flow hedges for hedge accounting treatment. Gains or losses on the contracts are recorded in accumulated other comprehensive income or loss and reclassified to operating expense when the related operating expenses are recognized in earnings or ineffectiveness should occur. The fair value of the contracts was not significant as of January 29, 2023 and January 30, 2022.

NVIDIA CORPORATION AND SUBSIDIARIES
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We enter into foreign currency forward contracts to mitigate the impact of foreign currency movements on monetary assets and liabilities that are denominated in currencies other than U.S. dollar. These forward contracts were not designated for hedge accounting treatment. Therefore, the change in fair value of these contracts is recorded in other income or expense and offsets the change in fair value of the hedged foreign currency denominated monetary assets and liabilities, which is also recorded in other income or expense.

The table below presents the notional value of our foreign currency forward contracts outstanding as of January 29, 2023 and January 30, 2022:

	January 29, 2023	January 30, 2022
	(In millions)	
Designated as cash flow hedges	$ 1,128	$ 1,023
Non-designated hedges	$ 366	$ 408

As of January 29, 2023, all designated foreign currency forward contracts mature within eighteen months. The expected realized gains and losses deferred into accumulated other comprehensive income (loss) related to foreign currency forward contracts within the next twelve months was not significant.

During fiscal years 2023 and 2022, the impact of derivative financial instruments designated for hedge accounting treatment on other comprehensive income or loss was not significant and all such instruments were determined to be highly effective.

Note 12 - Debt

Long-Term Debt

In June 2021, March 2020, and September 2016, we issued a total of $5.00 billion, $5.00 billion, and $2.00 billion aggregate principal of senior notes, respectively. The net proceeds from these offerings were $4.98 billion, $4.97 billion, and $1.98 billion, respectively, after deducting debt discount and issuance costs.

In fiscal year 2022, we repaid the $1.00 billion of 2.20% Notes Due 2021.

The carrying value of the Notes, the calendar year of maturity, and the associated interest rates were as follows:

	Expected Remaining Term (years)	Effective Interest Rate	January 29, 2023	January 30, 2022
			(In millions)	
0.309% Notes Due 2023	0.4	0.41%	$ 1,250	$ 1,250
0.584% Notes Due 2024	1.4	0.66%	1,250	1,250
3.20% Notes Due 2026	3.6	3.31%	1,000	1,000
1.55% Notes Due 2028	5.4	1.64%	1,250	1,250
2.85% Notes Due 2030	7.2	2.93%	1,500	1,500
2.00% Notes Due 2031	8.4	2.09%	1,250	1,250
3.50% Notes Due 2040	17.2	3.54%	1,000	1,000
3.50% Notes Due 2050	27.2	3.54%	2,000	2,000
3.70% Notes Due 2060	37.2	3.73%	500	500
Unamortized debt discount and issuance costs			(47)	(54)
Net carrying amount			10,953	10,946
Less short-term portion			(1,250)	—
Total long-term portion			$ 9,703	$ 10,946

All our notes are unsecured senior obligations. All existing and future liabilities of our subsidiaries will be effectively senior to the notes. Our notes pay interest semi-annually. We may redeem each of our notes prior to maturity, subject to a make-whole premium as defined in the applicable form of note.

As of January 29, 2023, we were in compliance with the required covenants, which are non-financial in nature, under the Notes.

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Commercial Paper

We have a $575 million commercial paper program to support general corporate purposes. As of January 29, 2023, we had not issued any commercial paper.

Note 13 - Commitments and Contingencies

Purchase Obligations

Our purchase obligations reflect our commitments to purchase components used to manufacture our products, including long-term supply agreements, certain software and technology licenses, other goods and services and long-lived assets.

We have entered into several long-term supply agreements, under which we have made advance payments and have $810 million remaining unpaid. As of January 29, 2023, we had outstanding inventory purchase and long-term supply obligations totaling $4.92 billion, inclusive of the $810 million. Under our manufacturing relationships with our foundry suppliers, subcontractors and contract manufacturers, cancellation of outstanding purchase commitments is generally allowed but may result in the payment of costs incurred through the date of cancellation. Other non-inventory purchase obligations of $3.14 billion include $2.23 billion of multi-year cloud service agreements.

Total future purchase commitments as of January 29, 2023, are as follows:

	Commitments
	(In millions)
Fiscal Year:	
2024	$ 5,230
2025	983
2026	679
2027	622
2028	296
2029 and thereafter	253
Total	$ 8,063

Accrual for Product Warranty Liabilities

The estimated amount of product warranty liabilities was $82 million and $46 million as of January 29, 2023 and January 30, 2022, respectively. The estimated product returns and estimated product warranty activity consisted of the following:

	Year Ended		
	January 29, 2023	January 30, 2022	January 31, 2021
		(In millions)	
Balance at beginning of period	$ 46	$ 22	$ 15
Additions	145	40	28
Utilization	(109)	(16)	(21)
Balance at end of period	$ 82	$ 46	$ 22

In the second quarter of fiscal year 2023, we recorded $122 million in product warranty liabilities primarily related to a defect identified in a third-party component embedded in certain Data Center products. In the third quarter of fiscal year 2023, we recognized a warranty-related benefit of approximately $70 million in cost of revenue due to favorable product recovery.

In connection with certain agreements that we have entered in the past, we have provided indemnities for matters such as tax, product, and employee liabilities. We have included intellectual property indemnification provisions in our technology-related agreements with third parties. Maximum potential future payments cannot be estimated because many of these agreements do not have a maximum stated liability. We have not recorded any liability in our Consolidated Financial Statements for such indemnifications.

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Litigation

Securities Class Action and Derivative Lawsuits

The plaintiffs in the putative securities class action lawsuit, captioned 4:18-cv-07669-HSG, initially filed on December 21, 2018 in the United States District Court for the Northern District of California, and titled In Re NVIDIA Corporation Securities Litigation, filed an amended complaint on May 13, 2020. The amended complaint asserted that NVIDIA and certain NVIDIA executives violated Section 10(b) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and SEC Rule 10b-5, by making materially false or misleading statements related to channel inventory and the impact of cryptocurrency mining on GPU demand between May 10, 2017 and November 14, 2018. Plaintiffs also alleged that the NVIDIA executives who they named as defendants violated Section 20(a) of the Exchange Act. Plaintiffs sought class certification, an award of unspecified compensatory damages, an award of reasonable costs and expenses, including attorneys' fees and expert fees, and further relief as the Court may deem just and proper. On March 2, 2021, the district court granted NVIDIA's motion to dismiss the complaint without leave to amend, entered judgment in favor of NVIDIA and closed the case. On March 30, 2021, plaintiffs filed an appeal from judgment in the United States Court of Appeals for the Ninth Circuit, case number 21-15604. Oral argument on the appeal was held on May 10, 2022.

The putative derivative lawsuit pending in the United States District Court for the Northern District of California, captioned 4:19-cv-00341-HSG, initially filed January 18, 2019 and titled In re NVIDIA Corporation Consolidated Derivative Litigation, was stayed pending resolution of the plaintiffs' appeal in the In Re NVIDIA Corporation Securities Litigation action. On February 22, 2022, the court administratively closed the case, but stated that it would reopen the case once the appeal in the In Re NVIDIA Corporation Securities Litigation action is resolved. The lawsuit asserts claims, purportedly on behalf of us, against certain officers and directors of the Company for breach of fiduciary duty, unjust enrichment, waste of corporate assets, and violations of Sections 14(a), 10(b), and 20(a) of the Exchange Act based on the dissemination of allegedly false and misleading statements related to channel inventory and the impact of cryptocurrency mining on GPU demand. The plaintiffs are seeking unspecified damages and other relief, including reforms and improvements to NVIDIA's corporate governance and internal procedures.

The putative derivative actions initially filed September 24, 2019 and pending in the United States District Court for the District of Delaware, Lipchitz v. Huang, et al. (Case No. 1:19-cv-01795-UNA) and Nelson v. Huang, et. al. (Case No. 1:19-cv-01798- UNA), remain stayed pending resolution of the plaintiffs' appeal in the In Re NVIDIA Corporation Securities Litigation action. The lawsuits assert claims, purportedly on behalf of us, against certain officers and directors of the Company for breach of fiduciary duty, unjust enrichment, insider trading, misappropriation of information, corporate waste and violations of Sections 14(a), 10(b), and 20(a) of the Exchange Act based on the dissemination of allegedly false, and misleading statements related to channel inventory and the impact of cryptocurrency mining on GPU demand. The plaintiffs seek unspecified damages and other relief, including disgorgement of profits from the sale of NVIDIA stock and unspecified corporate governance measures.

Accounting for Loss Contingencies

As of January 29, 2023, we have not recorded any accrual for contingent liabilities associated with the legal proceedings described above based on our belief that liabilities, while possible, are not probable. Further, except as specifically described above, any possible loss or range of loss in these matters cannot be reasonably estimated at this time. We are engaged in legal actions not described above arising in the ordinary course of business and, while there can be no assurance of favorable outcomes, we believe that the ultimate outcome of these actions will not have a material adverse effect on our operating results, liquidity or financial position.

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Note 14 - Income Taxes

The income tax expense (benefit) applicable to income before income taxes consists of the following:

	Year Ended		
	January 29, 2023	January 30, 2022	January 31, 2021
		(In millions)	
Current income taxes:			
Federal	$ 1,703	$ 482	$ 197
State	46	42	1
Foreign	228	71	161
Total current	1,977	595	359
Deferred taxes:			
Federal	(2,165)	(420)	(246)
Foreign	1	14	(36)
Total deferred	(2,164)	(406)	(282)
Income tax expense (benefit)	$ (187)	$ 189	$ 77

Income before income tax consists of the following:

	Year Ended		
	January 29, 2023	January 30, 2022	January 31, 2021
		(In millions)	
U.S.	$ 3,477	$ 8,446	$ 1,437
Foreign	704	1,495	2,972
Income before income tax	$ 4,181	$ 9,941	$ 4,409

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The income tax expense (benefit) differs from the amount computed by applying the U.S. federal statutory rate of 21% to income before income taxes as follows:

	Year Ended					
	January 29, 2023		January 30, 2022		January 31, 2021	
	(In millions, except percentages)					
Tax expense computed at federal statutory rate	$ 878	21.0 %	$ 2,088	21.0 %	$ 926	21.0 %
Expense (benefit) resulting from:						
Acquisition termination cost	261	6.2 %	—	— %	—	— %
State income taxes, net of federal tax effect	50	1.2 %	42	0.4 %	10	0.2 %
Foreign-derived intangible income	(739)	(17.7)%	(520)	(5.2)%	—	— %
Stock-based compensation	(309)	(7.4)%	(337)	(3.4)%	(136)	(3.1)%
U.S. federal research and development tax credit	(278)	(6.6)%	(289)	(2.9)%	(173)	(3.9)%
Foreign tax rate differential	(83)	(2.0)%	(497)	(5.0)%	(561)	(12.7)%
IP domestication	—	— %	(244)	(2.5)%	—	— %
Other	33	0.8 %	(54)	(0.5)%	11	0.2 %
Income tax expense (benefit)	$ (187)	(4.5)%	$ 189	1.9 %	$ 77	1.7 %

The tax effect of temporary differences that gives rise to significant portions of the deferred tax assets and liabilities are presented below:

	January 29, 2023	January 30, 2022
	(In millions)	
Deferred tax assets:		
Capitalized research and development expenditure (1)	$ 1,859	$ 508
Research and other tax credit carryforwards	951	798
GILTI deferred tax assets	800	378
Accruals and reserves, not currently deductible for tax purposes	686	258
Net operating loss and capital loss carryforwards	409	118
Operating lease liabilities	193	125
Stock-based compensation	99	86
Property, equipment and intangible assets	66	22
Other deferred tax assets	91	22
Gross deferred tax assets	5,154	2,315
Less valuation allowance	(1,484)	(907)
Total deferred tax assets	3,670	1,408
Deferred tax liabilities:		
Unremitted earnings of foreign subsidiaries	(228)	(150)
Operating lease assets	(179)	(113)
Acquired intangibles	(115)	(169)
Gross deferred tax liabilities	(522)	(432)
Net deferred tax asset (2)	$ 3,148	$ 976

(1) Capitalized research and development deferred tax assets were previously included in Property, equipment and intangible assets.
(2) Net deferred tax asset includes long-term deferred tax assets of $3.40 billion and $1.22 billion and long-term deferred tax liabilities of $247 million and $245 million for fiscal years 2023 and 2022, respectively. Long-term deferred tax liabilities are included in other long-term liabilities on our Consolidated Balance Sheets.

As of January 29, 2023, we intend to indefinitely reinvest approximately $1.05 billion and $245 million of cumulative undistributed earnings held by certain subsidiaries in Israel and the United Kingdom, respectively. We have not provided the amount of unrecognized deferred tax liabilities for temporary differences related to these investments as the determination of such amount is not practicable.

As of January 29, 2023 and January 30, 2022, we had a valuation allowance of $1.48 billion and $907 million, respectively, related to capital loss carryforwards, state, and certain other deferred tax assets that management determined not likely to be realized due, in part, to jurisdictional projections of future taxable income, including capital gains. To the extent realization of the deferred tax assets becomes more-likely-than-not, we would recognize such deferred tax assets as income tax benefits during the period.

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As of January 29, 2023, we had U.S. federal, state and foreign net operating loss carryforwards of $363 million, $329 million and $329 million, respectively. The federal and state carryforwards will begin to expire in fiscal years 2026 and 2024, respectively. The foreign net operating loss carryforwards of $329 million may be carried forward indefinitely. As of January 29, 2023, we had federal research tax credit carryforwards of $26 million, before the impact of uncertain tax positions, that will begin to expire in fiscal year 2024. We have state research tax credit carryforwards of $1.49 billion, before the impact of uncertain tax positions. $1.41 billion is attributable to the State of California and may be carried over indefinitely and $83 million is attributable to various other states and will begin to expire in fiscal year 2024. As of January 29, 2023, we had federal capital loss carryforwards of $1.38 billion that will begin to expire in fiscal year 2024.

Our tax attributes remain subject to audit and may be adjusted for changes or modification in tax laws, other authoritative interpretations thereof, or other facts and circumstances. Utilization of tax attributes may also be subject to limitations due to ownership changes and other limitations provided by the Internal Revenue Code and similar state and foreign tax provisions. If any such limitations apply, the tax attributes may expire or be denied before utilization.

A reconciliation of gross unrecognized tax benefits is as follows:

	January 29, 2023	January 30, 2022	January 31, 2021
		(In millions)	
Balance at beginning of period	$ 1,013	$ 776	$ 583
Increases in tax positions for current year	268	246	158
Increases in tax positions for prior years	1	14	60
Decreases in tax positions for prior years	(15)	(4)	(11)
Settlements	(9)	(8)	(5)
Lapse in statute of limitations	(20)	(11)	(9)
Balance at end of period	$ 1,238	$ 1,013	$ 776

Included in the balance of unrecognized tax benefits as of January 29, 2023 are $770 million of tax benefits that would affect our effective tax rate if recognized.

We classify an unrecognized tax benefit as a current liability, or amount refundable, to the extent that we anticipate payment or receipt of cash for income taxes within one year. The amount is classified as a long-term liability, or reduction of long-term amount refundable, if we anticipate payment or receipt of cash for income taxes during a period beyond a year.

We include interest and penalties related to unrecognized tax benefits as a component of income tax expense. We recognized net interest and penalties related to unrecognized tax benefits in income tax expense line of our consolidated statements of income of $33 million, $14 million, and $7 million during fiscal years 2023, 2022 and 2021, respectively. As of January 29, 2023 and January 30, 2022, we have accrued $95 million and $59 million, respectively, for the payment of interest and penalties related to unrecognized tax benefits, which is not included as a component of our gross unrecognized tax benefits.

While we believe that we have adequately provided for all tax positions, amounts asserted by tax authorities could be greater or less than our accrued position. Accordingly, our provisions on federal, state and foreign tax-related matters to be recorded in the future may change as revised estimates are made or the underlying matters are settled or otherwise resolved. As of January 29, 2023, we have not identified any positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within the next twelve months.

We are subject to taxation by taxing authorities both in the United States and other countries. As of January 29, 2023, the significant tax jurisdictions that may be subject to examination include China, Germany, Hong Kong, India, Israel, Taiwan, United Kingdom, and the United States for fiscal years 2005 through 2022. As of January 29, 2023, the significant tax jurisdictions for which we are currently under examination include Germany, India, Israel, and the United States for fiscal years 2005 through 2022.

Note 15 - Shareholders' Equity

Capital Return Program

During fiscal year 2023, we repurchased 63 million shares for $10.04 billion. Since the inception of our share repurchase program through January 29, 2023, we have repurchased an aggregate of 1.10 billion shares under our share repurchase program for a total cost of $17.12 billion. As of January 29, 2023, we were authorized, subject to certain specifications, to repurchase an additional $7.23 billion of shares through December 2023.

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During fiscal years 2023, 2022, and 2021, we paid $398 million, $399 million, and $395 million in cash dividends to our shareholders, respectively. Our cash dividend program and the payment of future cash dividends under that program are subject to our Board of Directors' continuing determination that the dividend program and the declaration of dividends thereunder are in the best interests of our shareholders.

In fiscal year 2022, we retired our existing 349 million treasury shares. These shares assumed the status of authorized and unissued shares upon retirement. The excess of repurchase price over par value was allocated between additional paid-in capital and retained earnings, resulting in a reduction in additional paid-in capital by $20 million and retained earnings by $12.0 billion. Any future repurchased shares will assume the status of authorized and unissued shares.

Note 16 - Employee Retirement Plans

We provide tax-qualified defined contribution plans to eligible employees in the U.S. and certain other countries. Our contribution expense for fiscal years 2023, 2022, and 2021 was $227 million, $168 million, and $120 million, respectively.

Note 17 - Segment Information

Our Chief Executive Officer, who is considered to be our chief operating decision maker, or CODM, reviews financial information presented on an operating segment basis for purposes of making decisions and assessing financial performance.

The Compute & Networking segment includes our Data Center accelerated computing platform; networking; automotive AI Cockpit, autonomous driving development agreements, and autonomous vehicle solutions; electric vehicle computing platforms; Jetson for robotics and other embedded platforms; and NVIDIA AI Enterprise and other software; and CMP.

The Graphics segment includes GeForce GPUs for gaming and PCs, the GeForce NOW game streaming service and related infrastructure, and solutions for gaming platforms; Quadro/NVIDIA RTX GPUs for enterprise workstation graphics; vGPU software for cloud-based visual and virtual computing; automotive platforms for infotainment systems; and Omniverse Enterprise software for building and operating metaverse and 3D internet applications.

Operating results by segment include costs or expenses that are directly attributable to each segment, and costs or expenses that are leveraged across our unified architecture and therefore allocated between our two segments.

The "All Other" category includes the expenses that our CODM does not assign to either Compute & Networking or Graphics for purposes of making operating decisions or assessing financial performance. The expenses include stock-based compensation expense, acquisition-related and other costs, corporate infrastructure and support costs, restructuring costs, acquisition termination cost, IP-related and legal settlement costs, contributions, and other non-recurring charges and benefits that our CODM deems to be enterprise in nature.

Our CODM does not review any information regarding total assets on a reportable segment basis. Depreciation and amortization expense directly attributable to each reportable segment is included in operating results for each segment. However, the CODM does not evaluate depreciation and amortization expense by operating segment and, therefore, it is not separately presented. There is no intersegment revenue. The accounting policies for segment reporting are the same as for our consolidated financial statements. The table below presents details of our reportable segments and the "All Other" category.

	Compute & Networking	Graphics	All Other	Consolidated
		(In millions)		
Year Ended January 29, 2023:				
Revenue	$ 15,068	$ 11,906	$ —	$ 26,974
Operating income (loss)	$ 5,083	$ 4,552	$ (5,411)	$ 4,224
Year Ended January 30, 2022:				
Revenue	$ 11,046	$ 15,868	$ —	$ 26,914
Operating income (loss)	$ 4,598	$ 8,492	$ (3,049)	$ 10,041
Year Ended January 31, 2021:				
Revenue	$ 6,841	$ 9,834	$ —	$ 16,675
Operating income (loss)	$ 2,548	$ 4,612	$ (2,628)	$ 4,532

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	Year Ended		
	January 29, 2023	January 30, 2022	January 31, 2021
	(In millions)		
Reconciling items included in "All Other" category:			
Stock-based compensation expense	$ (2,710)	$ (2,004)	$ (1,397)
Acquisition termination cost	(1,353)	—	—
Acquisition-related and other costs	(674)	(636)	(836)
Unallocated cost of revenue and operating expenses	(595)	(399)	(357)
Restructuring costs and other	(54)	—	—
IP-related and legal settlement costs	(23)	(10)	(38)
Contributions	(2)	—	—
Total	$ (5,411)	$ (3,049)	$ (2,628)

Revenue by geographic region is allocated to individual countries based on the billing location of the customer. End customer location may be different than our customer's billing location. The following table summarizes information pertaining to our revenue from customers based on the invoicing address by geographic regions:

	Year Ended		
	January 29, 2023	January 30, 2022	January 31, 2021
Revenue:	(In millions)		
United States	$ 8,292	$ 4,349	$ 3,214
Taiwan	6,986	8,544	4,531
China (including Hong Kong)	5,785	7,111	3,886
Other countries	5,911	6,910	5,044
Total revenue	$ 26,974	$ 26,914	$ 16,675

No customer represented 10% or more of total revenue for fiscal years 2023, 2022 and 2021.

Two customers accounted for 14% and 11% of our accounts receivable balance as of January 29, 2023. Two customers each accounted for 11% of our accounts receivable balance as of January 30, 2022.

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

	Year Ended		
	January 29, 2023	January 30, 2022	January 31, 2021
Revenue:	(In millions)		
Data Center	$ 15,005	$ 10,613	$ 6,696
Gaming	9,067	12,462	7,759
Professional Visualization	1,544	2,111	1,053
Automotive	903	566	536
OEM & Other	455	1,162	631
Total revenue	$ 26,974	$ 26,914	$ 16,675

The following table presents summarized information for long-lived assets by country. Long-lived assets consist of property and equipment and exclude other assets, operating lease assets, goodwill, and intangible assets.

	January 29, 2023	January 30, 2022
Long-lived assets:	(In millions)	
United States	$ 2,587	$ 2,023
Taiwan	702	379
Israel	283	185
Other countries	235	191
Total long-lived assets	$ 3,807	$ 2,778

NVIDIA CORPORATION AND SUBSIDIARIES
SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS

Description	Balance at Beginning of Period	Additions		Deductions		Balance at End of Period
			(In millions)			
Fiscal year 2023						
Allowance for doubtful accounts	$ 4	$ —	(1)	$ —	(1)	$ 4
Sales return allowance	$ 13	$ 104	(2)	$ (91)	(4)	$ 26
Deferred tax valuation allowance	$ 907	$ 577	(3)	$ —		$ 1,484
Fiscal year 2022						
Allowance for doubtful accounts	$ 4	$ —	(1)	$ —	(1)	$ 4
Sales return allowance	$ 17	$ 19	(2)	$ (23)	(4)	$ 13
Deferred tax valuation allowance	$ 728	$ 179	(3)	$ —		$ 907
Fiscal year 2021						
Allowance for doubtful accounts	$ 2	$ 2	(1)	$ —	(1)	$ 4
Sales return allowance	$ 9	$ 30	(2)	$ (22)	(4)	$ 17
Deferred tax valuation allowance	$ 621	$ 107	(3)	$ —		$ 728

(1) Additions represent either expense or acquired balances and deductions represent write-offs.

(2) Additions represent estimated product returns charged as a reduction to revenue or an acquired balance.

(3) Additional valuation allowance on deferred tax assets not likely to be realized. Fiscal year 2023 includes additional valuation allowance on capital loss carryforwards, state, and certain other deferred tax assets. 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.

(4) Represents sales returns.

D. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF NVIDIA FOR THE NINE MONTHS ENDED 29 OCTOBER 2023

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

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

	Three Months Ended		Nine Months Ended	
	October 29, 2023	October 30, 2022	October 29, 2023	October 30, 2022
Revenue	$ 18,120	$ 5,931	$ 38,819	$ 20,923
Cost of revenue	4,720	2,754	11,309	9,400
Gross profit	13,400	3,177	27,510	11,523
Operating expenses				
Research and development	2,294	1,945	6,210	5,387
Sales, general and administrative	689	631	1,942	1,815
Acquisition termination cost	—	—	—	1,353
Total operating expenses	2,983	2,576	8,152	8,555
Operating income	10,417	601	19,358	2,968
Interest income	234	88	572	152
Interest expense	(63)	(65)	(194)	(198)
Other, net	(66)	(11)	(24)	(29)
Other income (expense), net	105	12	354	(75)
Income before income tax	10,522	613	19,712	2,893
Income tax expense (benefit)	1,279	(67)	2,237	(61)
Net income	$ 9,243	$ 680	$ 17,475	$ 2,954
Net income per share:				
Basic	$ 3.75	$ 0.27	$ 7.07	$ 1.18
Diluted	$ 3.71	$ 0.27	$ 7.01	$ 1.17
Weighted average shares used in per share computation:				
Basic	2,468	2,483	2,470	2,495
Diluted	2,494	2,499	2,494	2,517

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended		Nine Months Ended	
	October 29, 2023	October 30, 2022	October 29, 2023	October 30, 2022
Net income	$ 9,243	$ 680	$ 17,475	$ 2,954
Other comprehensive loss, net of tax				
Available-for-sale securities:				
Net change in unrealized gain (loss)	—	(18)	7	(53)
Reclassification adjustments for net realized gain included in net income	—	—	—	1
Net change in unrealized gain (loss)	—	(18)	7	(52)
Cash flow hedges:				
Net change in unrealized loss	(23)	(14)	(14)	(44)
Reclassification adjustments for net realized loss included in net income	(14)	(1)	(38)	(16)
Net change in unrealized loss	(37)	(15)	(52)	(60)
Other comprehensive loss, net of tax	(37)	(33)	(45)	(112)
Total comprehensive income	$ 9,206	$ 647	$ 17,430	$ 2,842

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	October 29, 2023	January 29, 2023
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,519	$ 3,389
Marketable securities	12,762	9,907
Accounts receivable, net	8,309	3,827
Inventories	4,779	5,159
Prepaid expenses and other current assets	1,289	791
Total current assets	32,658	23,073
Property and equipment, net	3,844	3,807
Operating lease assets	1,316	1,038
Goodwill	4,430	4,372
Intangible assets, net	1,251	1,676
Deferred income tax assets	5,982	3,396
Other assets	4,667	3,820
Total assets	$ 54,148	$ 41,182
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,380	$ 1,193
Accrued and other current liabilities	5,472	4,120
Short-term debt	1,249	1,250
Total current liabilities	9,101	6,563
Long-term debt	8,457	9,703
Long-term operating lease liabilities	1,091	902
Other long-term liabilities	2,234	1,913
Total liabilities	20,883	19,081
Commitments and contingencies - see Note 13		
Shareholders' equity:		
Preferred stock	—	—
Common stock	2	2
Additional paid-in capital	12,991	11,971
Accumulated other comprehensive loss	(88)	(43)
Retained earnings	20,360	10,171
Total shareholders' equity	33,265	22,101
Total liabilities and shareholders' equity	$ 54,148	$ 41,182

See accompanying Notes to Condensed Consolidated Financial Statements.

NVIDIA CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED OCTOBER 29, 2023 AND OCTOBER 30, 2022
(Unaudited)

	Common Stock Outstanding		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Shareholders' Equity
(In millions, except per share data)	Shares	Amount				
Balances, July 30, 2023	2,469	$ 2	$ 12,629	$ (51)	$ 14,921	$ 27,501
Net income	—	—	—	—	9,243	9,243
Other comprehensive loss	—	—	—	(37)	—	(37)
Issuance of common stock from stock plans	7	—	157	—	—	157
Tax withholding related to vesting of restricted stock units	(2)	—	(764)	—	—	(764)
Shares repurchased	(8)	—	(14)	—	(3,705)	(3,719)
Cash dividends declared and paid ($0.04 per common share)	—	—	—	—	(99)	(99)
Stock-based compensation	—	—	983	—	—	983
Balances, October 29, 2023	2,466	$ 2	$ 12,991	$ (88)	$ 20,360	$ 33,265
Balances, July 31, 2022	2,489	$ 2	$ 10,968	$ (90)	$ 12,971	$ 23,851
Net income	—	—	—	—	680	680
Other comprehensive loss	—	—	—	(33)	—	(33)
Issuance of common stock from stock plans	9	—	143	—	—	143
Tax withholding related to vesting of restricted stock units	(2)	—	(294)	—	—	(294)
Shares repurchased	(28)	—	(1)	—	(3,646)	(3,647)
Cash dividends declared and paid ($0.04 per common share)	—	—	—	—	(100)	(100)
Stock-based compensation	—	—	749	—	—	749
Balances, October 30, 2022	2,468	$ 2	$ 11,565	$ (123)	$ 9,905	$ 21,349

See accompanying Notes to Condensed Consolidated Financial Statements.

NVIDIA CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED OCTOBER 29, 2023 AND OCTOBER 30, 2022
(Unaudited)

	Common Stock Outstanding		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Shareholders' Equity
(In millions, except per share data)	Shares	Amount				
Balances, January 29, 2023	2,466	$ 2	$ 11,971	$ (43)	$ 10,171	$ 22,101
Net income	—	—	—	—	17,475	17,475
Other comprehensive loss	—	—	—	(45)	—	(45)
Issuance of common stock from stock plans	21	—	403	—	—	403
Tax withholding related to vesting of restricted stock units	(5)	—	(1,942)	—	—	(1,942)
Shares repurchased	(16)	—	(15)	—	(6,990)	(7,005)
Cash dividends declared and paid ($0.12 per common share)	—	—	—	—	(296)	(296)
Stock-based compensation	—	—	2,574	—	—	2,574
Balances, October 29, 2023	2,466	$ 2	$ 12,991	$ (88)	$ 20,360	$ 33,265
Balances, January 30, 2022	2,506	$ 3	$ 10,385	$ (11)	$ 16,235	$ 26,612
Net income	—	—	—	—	2,954	2,954
Other comprehensive loss	—	—	—	(112)	—	(112)
Issuance of common stock from stock plans	24	—	349	—	—	349
Tax withholding related to vesting of restricted stock units	(6)	—	(1,131)	—	—	(1,131)
Shares repurchased	(56)	(1)	(3)	—	(8,984)	(8,988)
Cash dividends declared and paid ($0.12 per common share)	—	—	—	—	(300)	(300)
Stock-based compensation	—	—	1,965	—	—	1,965
Balances, October 30, 2022	2,468	$ 2	$ 11,565	$ (123)	$ 9,905	$ 21,349

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended	
	October 29, 2023	October 30, 2022
Cash flows from operating activities:		
Net income	$ 17,475	$ 2,954
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation expense	2,555	1,971
Depreciation and amortization	1,121	1,118
Losses on investments in non-affiliates	24	35
Deferred income taxes	(2,411)	(1,517)
Acquisition termination cost	—	1,353
Other	(170)	(27)
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(4,482)	(258)
Inventories	405	(1,848)
Prepaid expenses and other assets	(337)	(1,307)
Accounts payable	1,250	(358)
Accrued and other current liabilities	953	1,175
Other long-term liabilities	208	102
Net cash provided by operating activities	16,591	3,393
Cash flows from investing activities:		
Proceeds from maturities of marketable securities	8,001	16,792
Proceeds from sales of marketable securities	—	1,806
Purchases of marketable securities	(10,688)	(9,764)
Purchases related to property and equipment and intangible assets	(815)	(1,324)
Acquisitions, net of cash acquired	(83)	(49)
Investments in non-affiliates and other, net	(872)	(83)
Net cash provided by (used in) investing activities	(4,457)	7,378
Cash flows from financing activities:		
Proceeds related to employee stock plans	403	349
Payments related to repurchases of common stock	(6,874)	(8,826)
Repayment of debt	(1,250)	—
Payments related to tax on restricted stock units	(1,942)	(1,131)
Dividends paid	(296)	(300)
Principal payments on property and equipment and intangible assets	(44)	(54)
Other	(1)	1
Net cash used in financing activities	(10,004)	(9,961)
Change in cash, cash equivalents, and restricted cash	2,130	810
Cash, cash equivalents, and restricted cash at beginning of period	3,389	1,990
Cash, cash equivalents, and restricted cash at end of period	$ 5,519	$ 2,800
Supplemental disclosure of cash flow information:		
Cash paid for income taxes, net	$ 4,676	$ 1,372

See accompanying Notes to Condensed Consolidated Financial Statements.

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

Note 1 - Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP, for interim financial information and with the instructions to Form 10-Q and Article 10 of Securities and Exchange Commission, or SEC, Regulation S-X. The January 29, 2023 consolidated balance sheet was derived from our audited consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended January 29, 2023, as filed with the SEC, but does not include all disclosures required by U.S. GAAP. In the opinion of management, all adjustments, consisting only of normal recurring adjustments considered necessary for a fair statement of results of operations and financial position, have been included. The results for the interim periods presented are not necessarily indicative of the results expected for any future period. The following information should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended January 29, 2023.

Significant Accounting Policies

There have been no material changes to our significant accounting policies disclosed in Note 1 - Organization and Summary of Significant Accounting Policies, of the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended January 29, 2023.

Fiscal Year

We operate on a 52- or 53-week year, ending on the last Sunday in January. Fiscal years 2024 and 2023 are both 52-week years. The third quarters of fiscal years 2024 and 2023 were both 13-week quarters.

Reclassifications

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

Principles of Consolidation

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

Use of Estimates

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

In February 2023, we completed an assessment of the useful lives of our property, plant, and equipment. Based on advances in technology and usage rate, we increased the estimated useful life of a majority of our server, storage, and network equipment from three to a range of four to five years, and our assembly and test equipment from five to seven years. This change in accounting estimate became effective at the beginning of fiscal year 2024. Based on the carrying amounts of a majority of our server, storage, network, and assembly and test equipment, net, in use as of the end of fiscal year 2023, the estimated effect of this change for the three months ended October 29, 2023 was a benefit of $17 million and $24 million for cost of revenue and operating expenses, respectively, which resulted in an increase in operating income of $41 million and net income of $36 million after tax, or $0.01 per both basic and diluted share. The estimated effect of this change for the first nine months of fiscal year 2024 was a benefit of $24 million and $83 million

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

for cost of revenue and operating expenses, respectively, which resulted in an increase in operating income of $107 million and net income of $91 million after tax, or $0.04 per both basic and diluted share.

Note 2 - Business Combination

Termination of the Arm Share Purchase Agreement

In February 2022, NVIDIA and SoftBank Group Corp, or SoftBank, announced the termination of the Share Purchase Agreement whereby NVIDIA would have acquired Arm Limited, or Arm, from SoftBank. The parties agreed to terminate due to significant regulatory challenges preventing the completion of the transaction. We recorded an acquisition termination cost of $1.35 billion in fiscal year 2023 reflecting the write-off of the prepayment provided at signing.

Note 3 - Leases

Our lease obligations primarily consist of operating leases for our headquarters complex, domestic and international office facilities, and data center space, with lease periods expiring between fiscal years 2024 and 2035.

Future minimum lease payments under our non-cancelable operating leases as of October 29, 2023 are as follows:

	Operating Lease Obligations
	(In millions)
Fiscal Year:	
2024 (excluding first nine months of fiscal year 2024)	$ 84
2025	269
2026	248
2027	233
2028	220
2029 and thereafter	454
Total	1,508
Less imputed interest	187
Present value of net future minimum lease payments	1,321
Less short-term operating lease liabilities	230
Long-term operating lease liabilities	$ 1,091

In addition, we have operating leases, primarily for our data centers, that are expected to commence between the fourth quarter of fiscal year 2024 and fiscal year 2025 with lease terms of 3 to 10 years for $924 million.

Operating lease expenses were $69 million and $49 million for the third quarter of fiscal years 2024 and 2023, respectively, and $195 million and $139 million for the first nine months of fiscal years 2024 and 2023, respectively. Short-term and variable lease expenses for the third quarter and first nine months of fiscal years 2024 and 2023 were not significant.

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

Other information related to leases was as follows:

	Nine Months Ended	
	October 29, 2023	October 30, 2022
	(In millions)	
Supplemental cash flows information		
Operating cash flows used for operating leases	$ 200	$ 134
Operating lease assets obtained in exchange for lease obligations	$ 439	$ 213

As of October 29, 2023, our operating leases had a weighted average remaining lease term of 6.3 years and a weighted average discount rate of 3.64%. As of January 29, 2023, our operating leases had a weighted average remaining lease term of 6.8 years and a weighted average discount rate of 3.21%.

Note 4 - Stock-Based Compensation

Our stock-based compensation expense is associated with restricted stock units, or RSUs, performance stock units that are based on our corporate financial performance targets, or PSUs, performance stock units that are based on market conditions, or market-based PSUs, and our employee stock purchase plan, or ESPP.

Our Condensed Consolidated Statements of Income include stock-based compensation expense, net of amounts allocated to inventory, as follows:

	Three Months Ended		Nine Months Ended	
	October 29, 2023	October 30, 2022	October 29, 2023	October 30, 2022
	(In millions)			
Cost of revenue	$ 38	$ 32	$ 96	$ 108
Research and development	701	530	1,826	1,365
Sales, general and administrative	240	183	633	498
Total	$ 979	$ 745	$ 2,555	$ 1,971

Equity Award Activity

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

	RSUs, PSUs, and Market-based PSUs Outstanding	
	Number of Shares	Weighted Average Grant-Date Fair Value Per Share
	(In millions, except per share data)	
Balances, January 29, 2023	45	$ 158.45
Granted	13	$ 364.52
Vested	(16)	$ 141.02
Canceled and forfeited	(1)	$ 201.49
Balances, October 29, 2023	41	$ 230.11

As of October 29, 2023, there was $9.03 billion of aggregate unearned stock-based compensation expense. This amount is expected to be recognized over a weighted average period of 2.6 years for RSUs, PSUs, and market-based PSUs, and 11 months for ESPP.

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

Note 5 – Net Income Per Share

The following is a reconciliation of the denominator of the basic and diluted net income per share computations for the periods presented:

	Three Months Ended		Nine Months Ended	
	October 29, 2023	October 30, 2022	October 29, 2023	October 30, 2022
	(In millions, except per share data)			
Numerator:				
Net income	$ 9,243	$ 680	$ 17,475	$ 2,954
Denominator:				
Basic weighted average shares	2,468	2,483	2,470	2,495
Dilutive impact of outstanding equity awards	26	16	24	22
Diluted weighted average shares	2,494	2,499	2,494	2,517
Net income per share:				
Basic (1)	$ 3.75	$ 0.27	$ 7.07	$ 1.18
Diluted (2)	$ 3.71	$ 0.27	$ 7.01	$ 1.17
Equity awards excluded from diluted net income per share because their effect would have been anti-dilutive	1	36	14	29

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

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

Diluted net income per share is computed using the weighted average number of common and potentially dilutive shares outstanding during the period, using the treasury stock method. Any anti-dilutive effect of equity awards outstanding is not included in the computation of diluted net income per share.

Note 6 – Income Taxes

Income tax was an expense of $1.28 billion and $2.24 billion for the third quarter and first nine months of fiscal year 2024, respectively, and a benefit of $67 million and $61 million for the third quarter and first nine months of fiscal year 2023, respectively. Income tax as a percentage of income before income tax was an expense of 12.2% and 11.3% for the third quarter and first nine months of fiscal year 2024, respectively, and a benefit of 10.9% and 2.1% for the third quarter and first nine months of fiscal year 2023, respectively.

During the third quarter of fiscal year 2024, the Internal Revenue Service, or IRS, audit of our federal income tax returns for fiscal years 2018 and 2019 was resolved. We recognized a non-cash net benefit of $145 million, related to this IRS audit resolution, for effectively settled positions. This benefit consists of a reduction in unrecognized tax benefits of $236 million and related accrued interest of $17 million, net of federal benefit partially offset by additional cash tax payments and reductions in tax attribute carryforwards of $108 million.

The effective tax rate increased due to a decreased impact of tax benefits from the foreign-derived intangible income deduction, stock-based compensation, and the U.S. federal research tax credit, relative to the increase in income before income tax. The increase in the effective tax rate was partially offset by a benefit due to the IRS audit resolution.

Our effective tax rates for the first nine months of fiscal years 2024 and 2023 were lower than the U.S. federal statutory rate of 21% due to tax benefits from the foreign-derived intangible income deduction, stock-based compensation and the U.S. federal research tax credit. Our effective tax rate for the first nine months of fiscal year 2024 was additionally benefited by the IRS audit resolution.

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

Other than the IRS audit resolution, for the first nine months of fiscal year 2024, there were no material changes to our tax years that remain subject to examination by major tax jurisdictions. Additionally, there have been no other material changes to our unrecognized tax benefits and any related interest or penalties since the fiscal year ended January 29, 2023.

While we believe that we have adequately provided for all uncertain tax positions, or tax positions where we believe it is not more-likely-than-not that the position will be sustained upon review, amounts asserted by tax authorities could be greater or less than our accrued position. Accordingly, our provisions on federal, state and foreign tax related matters to be recorded in the future may change as revised estimates are made or the underlying matters are settled or otherwise resolved with the respective tax authorities. As of October 29, 2023, we do not believe that our estimates, as otherwise provided for, on such tax positions will significantly increase or decrease within the next 12 months.

Note 7 - Cash Equivalents and Marketable Securities

Our cash equivalents and marketable securities related to debt securities are classified as "available-for-sale" debt securities.

The following is a summary of cash equivalents and marketable securities:

	October 29, 2023					
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value	Reported as	
					Cash Equivalents	Marketable Securities
	(In millions)					
Corporate debt securities	$ 6,937	$ 1	$ (20)	$ 6,918	$ 1,714	$ 5,204
Debt securities issued by the U.S. Treasury	5,075	1	(24)	5,052	—	5,052
Money market funds	3,190	—	—	3,190	3,190	—
Debt securities issued by U.S. government agencies	2,316	—	(5)	2,311	100	2,211
Certificates of deposit	418	—	—	418	198	220
Foreign government bonds	175	—	—	175	100	75
Total	$ 18,111	$ 2	$ (49)	$ 18,064	$ 5,302	$ 12,762

	January 29, 2023					
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value	Reported as	
					Cash Equivalents	Marketable Securities
	(In millions)					
Corporate debt securities	$ 4,809	$ —	$ (12)	$ 4,797	$ 1,087	$ 3,710
Debt securities issued by the U.S. Treasury	4,185	1	(44)	4,142	—	4,142
Debt securities issued by U.S. government agencies	1,836	—	(2)	1,834	50	1,784
Money market funds	1,777	—	—	1,777	1,777	—
Certificates of deposit	365	—	—	365	134	231
Foreign government bonds	140	—	—	140	100	40
Total	$ 13,112	$ 1	$ (58)	$ 13,055	$ 3,148	$ 9,907

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

The following tables provide the breakdown of unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous loss position:

	October 29, 2023					
	Less than 12 Months		12 Months or Greater		Total	
	Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss
	(In millions)					
Corporate debt securities	$ 2,773	$ (16)	$ 852	$ (4)	$ 3,625	$ (20)
Debt securities issued by the U.S. Treasury	2,098	(12)	1,371	(12)	3,469	(24)
Debt securities issued by U.S. government agencies	1,447	(5)	—	—	1,447	(5)
Total	$ 6,318	$ (33)	$ 2,223	$ (16)	$ 8,541	$ (49)

	January 29, 2023					
	Less than 12 Months		12 Months or Greater		Total	
	Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss
	(In millions)					
Debt securities issued by the U.S. Treasury	$ 2,444	$ (21)	$ 1,172	$ (23)	$ 3,616	$ (44)
Corporate debt securities	1,188	(7)	696	(5)	1,884	(12)
Debt securities issued by U.S. government agencies	1,307	(2)	—	—	1,307	(2)
Total	$ 4,939	$ (30)	$ 1,868	$ (28)	$ 6,807	$ (58)

The gross unrealized losses are related to fixed income securities, driven primarily by changes in interest rates. Net realized gains and losses were not significant for all periods presented.

The amortized cost and estimated fair value of cash equivalents and marketable securities are shown below by contractual maturity.

	October 29, 2023		January 29, 2023	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(In millions)			
Less than one year	$ 11,405	$ 11,388	$ 9,738	$ 9,708
Due in 1 - 5 years	6,706	6,676	3,374	3,347
Total	$ 18,111	$ 18,064	$ 13,112	$ 13,055

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

Note 8 – Fair Value of Financial Assets and Liabilities

The fair values of our financial assets and liabilities are determined using quoted market prices of identical assets or quoted market prices of similar assets from active markets. We review fair value hierarchy classification on a quarterly basis.

		Fair Value at			
	Pricing Category	October 29, 2023		January 29, 2023	
		(In millions)			
Assets					
Cash equivalents and marketable securities:					
Money market funds	Level 1	$	3,190	$	1,777
Corporate debt securities	Level 2	$	6,918	$	4,797
Debt securities issued by the U.S. Treasury	Level 2	$	5,052	$	4,142
Debt securities issued by U.S. government agencies	Level 2	$	2,311	$	1,834
Certificates of deposit	Level 2	$	418	$	365
Foreign government bonds	Level 2	$	175	$	140
Other assets (Investments in non-affiliated entities):					
Publicly-held equity securities	Level 1	$	153	$	11
Privately-held equity securities	Level 3	$	1,019	$	288
Liabilities (1)					
0.309% Notes Due 2023	Level 2	$	—	$	1,230
0.584% Notes Due 2024	Level 2	$	1,212	$	1,185
3.20% Notes Due 2026	Level 2	$	945	$	966
1.55% Notes Due 2028	Level 2	$	1,060	$	1,099
2.85% Notes Due 2030	Level 2	$	1,289	$	1,364
2.00% Notes Due 2031	Level 2	$	981	$	1,044
3.50% Notes Due 2040	Level 2	$	756	$	870
3.50% Notes Due 2050	Level 2	$	1,388	$	1,637
3.70% Notes Due 2060	Level 2	$	342	$	410

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

NVIDIA CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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Note 9 - Amortizable Intangible Assets and Goodwill

The components of our amortizable intangible assets are as follows:

	October 29, 2023			January 29, 2023		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
			(In millions)			
Acquisition-related intangible assets	$ 2,642	$ (1,584)	$ 1,058	$ 3,093	$ (1,614)	$ 1,479
Patents and licensed technology	450	(257)	193	446	(249)	197
Total intangible assets	$ 3,092	$ (1,841)	$ 1,251	$ 3,539	$ (1,863)	$ 1,676

Amortization expense associated with intangible assets was $144 million and $471 million for the third quarter and first nine months of fiscal year 2024, respectively, and $181 million and $518 million for the third quarter and first nine months of fiscal year 2023, respectively.

The following table outlines the estimated future amortization expense related to the net carrying amount of intangible assets as of October 29, 2023:

	Future Amortization Expense
	(In millions)
Fiscal Year:	
2024 (excluding first nine months of fiscal year 2024)	$ 143
2025	554
2026	259
2027	149
2028	37
2029 and thereafter	109
Total	$ 1,251

In the first nine months of fiscal year 2024, goodwill increased by $58 million from an acquisition, and was assigned to our Compute & Networking segment.

Note 10 - Balance Sheet Components

Two customers each accounted for 11% of our accounts receivable balance as of October 29, 2023. Two customers accounted for 14% and 11% of our accounts receivable balance as of January 29, 2023.

Certain balance sheet components are as follows:

	October 29, 2023	January 29, 2023
Inventories (1):	*(In millions)*	
Raw materials	$ 1,663	$ 2,430
Work in-process	1,338	466
Finished goods	1,778	2,263
Total inventories	$ 4,779	$ 5,159

NVIDIA CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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(1) During the third quarter of fiscal years 2024 and 2023, we recorded an inventory provision of approximately $208 million and $354 million, respectively, in cost of revenue.

	October 29, 2023	January 29, 2023
Other Assets:	(In millions)	
Prepaid supply and capacity agreements (1)	$ 2,927	$ 2,989
Investments in non-affiliated entities	1,172	299
Prepaid royalties	369	387
Prepaid cloud services	60	23
Other	139	122
Total other assets	$ 4,667	$ 3,820

(1) As of October 29, 2023 and January 29, 2023, there were an additional $743 million and $458 million of short-term prepaid supply and capacity agreements included in Prepaid expenses and other current assets, respectively.

	October 29, 2023	January 29, 2023
Accrued and Other Current Liabilities:	(In millions)	
Customer program accruals	$ 1,771	$ 1,196
Excess inventory purchase obligations (1)	1,280	954
Accrued payroll and related expenses	516	530
Deferred revenue (2)	513	354
Taxes payable	420	467
Product warranty and return provisions	299	108
Operating leases	230	176
Licenses and royalties	150	149
Unsettled share repurchases	117	—
Other	176	186
Total accrued and other current liabilities	$ 5,472	$ 4,120

(1) During the third quarter of fiscal years 2024 and 2023, we recorded an expense of approximately $473 million and $348 million, respectively, in cost of revenue for inventory purchase obligations in excess of our current demand projections, supplier charges and for penalties related to cancellations and underutilization.
(2) Deferred revenue primarily includes customer advances and deferrals related to license and development arrangements, support for hardware and software, and cloud services.

	October 29, 2023	January 29, 2023
Other Long-Term Liabilities:	(In millions)	
Income tax payable (1)	$ 1,206	$ 1,204
Deferred revenue (2)	425	218
Deferred income tax	424	247
Licenses payable	113	181
Other	66	63
Total other long-term liabilities	$ 2,234	$ 1,913

(1) Income tax payable is comprised of the long-term portion of the one-time transition tax payable, unrecognized tax benefits, and related interest and penalties.
(2) Deferred revenue primarily includes deferrals related to support for hardware and software.

NVIDIA CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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Deferred Revenue

The following table shows the changes in deferred revenue during the first nine months of fiscal years 2024 and 2023:

	October 29, 2023	October 30, 2022
	(In millions)	
Balance at beginning of period	$ 572	$ 502
Deferred revenue additions during the period	1,269	577
Revenue recognized during the period	(903)	(528)
Balance at end of period	$ 938	$ 551

Revenue allocated to remaining performance obligations, which includes deferred revenue and amounts that will be invoiced and recognized as revenue in future periods, was $896 million as of October 29, 2023. We expect to recognize approximately 42% of this revenue over the next twelve months and the remainder thereafter. This excludes revenue related to performance obligations for contracts with a length of one year or less.

Note 11 - Derivative Financial Instruments

We enter into foreign currency forward contracts to mitigate the impact of foreign currency exchange rate movements on our operating expenses. These contracts are designated as cash flow hedges for hedge accounting treatment. Gains or losses on the contracts are recorded in accumulated other comprehensive income or loss and reclassified to operating expense when the related operating expenses are recognized in earnings or ineffectiveness should occur.

We also enter into foreign currency forward contracts to mitigate the impact of foreign currency movements on monetary assets and liabilities that are denominated in currencies other than the U.S. dollar. These forward contracts were not designated for hedge accounting treatment. Therefore, the change in fair value of these contracts is recorded in other income or expense and offsets the change in fair value of the hedged foreign currency denominated monetary assets and liabilities, which is also recorded in other income or expense.

The table below presents the notional value of our foreign currency forward contracts outstanding:

	October 29, 2023	January 29, 2023
	(In millions)	
Designated as cash flow hedges	$ 1,148	$ 1,128
Non-designated hedges	$ 365	$ 366

The unrealized gains and losses or fair value of our foreign currency forward contracts was not significant as of October 29, 2023 and January 29, 2023.

As of October 29, 2023, all designated foreign currency forward contracts mature within 18 months. The expected realized gains and losses deferred into accumulated other comprehensive income or loss related to foreign currency forward contracts within the next twelve months was not significant.

During the first nine months of fiscal years 2024 and 2023, the impact of derivative financial instruments designated for hedge accounting treatment on other comprehensive income or loss was not significant and all such instruments were determined to be highly effective.

NVIDIA CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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Note 12 - Debt

Long-Term Debt

The carrying value of our outstanding notes, the calendar year of maturity, and the associated interest rates were as follows:

	Expected Remaining Term (years)	Effective Interest Rate	Carrying Value at October 29, 2023	Carrying Value at January 29, 2023
			(In millions)	
0.309% Notes Due 2023	—	0.41%	$ —	$ 1,250
0.584% Notes Due 2024	0.6	0.66%	1,250	1,250
3.20% Notes Due 2026	2.9	3.31%	1,000	1,000
1.55% Notes Due 2028	4.6	1.64%	1,250	1,250
2.85% Notes Due 2030	6.4	2.93%	1,500	1,500
2.00% Notes Due 2031	7.6	2.09%	1,250	1,250
3.50% Notes Due 2040	16.4	3.54%	1,000	1,000
3.50% Notes Due 2050	26.4	3.54%	2,000	2,000
3.70% Notes Due 2060	36.4	3.73%	500	500
Unamortized debt discount and issuance costs			(44)	(47)
Net carrying amount			9,706	10,953
Less short-term portion			(1,249)	(1,250)
Total long-term portion			$ 8,457	$ 9,703

All our notes are unsecured senior obligations. All existing and future liabilities of our subsidiaries will be effectively senior to the notes. Our notes pay interest semi-annually. We may redeem each of our notes prior to maturity, subject to a make-whole premium as defined in the applicable form of note.

On June 15, 2023, we repaid the 0.309% Notes Due 2023.

As of October 29, 2023, we were in compliance with the required covenants, which are non-financial in nature, under the outstanding notes.

Commercial Paper

We have a $575 million commercial paper program to support general corporate purposes. As of October 29, 2023, we had not issued any commercial paper.

Note 13 - Commitments and Contingencies

Purchase Obligations

Our purchase obligations reflect our commitments to purchase components used to manufacture our products, including long-term supply and capacity agreements, certain software and technology licenses, other goods and services and long-lived assets.

As of October 29, 2023, we had outstanding inventory purchase and long-term supply and capacity obligations totaling $17.11 billion. We enter into agreements with contract manufacturers that allow them to procure inventory based upon criteria as defined by us, and in certain instances, these agreements allow us the option to cancel, reschedule, and adjust our requirements based on our business needs prior to firm orders being placed, but these changes may result in the payment of costs incurred through the date of

NVIDIA CORPORATION AND SUBSIDIARIES
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cancellation. Other non-inventory purchase obligations were $4.43 billion, which includes $3.60 billion of multi-year cloud service agreements, primarily to support our research and development efforts.

Total future purchase commitments as of October 29, 2023 are as follows:

	Commitments
	(In millions)
Fiscal Year:	
2024 (excluding first nine months of fiscal year 2024)	$ 6,499
2025	11,861
2026	1,128
2027	1,038
2028	660
2029 and thereafter	354
Total	$ 21,540

Accrual for Product Warranty Liabilities

The estimated amount of product warranty liabilities was $142 million and $82 million as of October 29, 2023 and January 29, 2023, respectively. The estimated product returns and estimated product warranty activity consisted of the following:

	Three Months Ended		Nine Months Ended	
	October 29, 2023	October 30, 2022	October 29, 2023	October 30, 2022
	(In millions)			
Balance at beginning of period	$ 115	$ 168	$ 82	$ 46
Additions	50	3	105	141
Utilization	(23)	(67)	(45)	(83)
Balance at end of period	$ 142	$ 104	$ 142	$ 104

We have provided indemnities for matters such as tax, product, and employee liabilities. We have included intellectual property indemnification provisions in our technology-related agreements with third parties. Maximum potential future payments cannot be estimated because many of these agreements do not have a maximum stated liability. We have not recorded any liability in our Condensed Consolidated Financial Statements for such indemnifications.

Litigation

Securities Class Action and Derivative Lawsuits

The plaintiffs in the putative securities class action lawsuit, captioned 4:18-cv-07669-HSG, initially filed on December 21, 2018 in the United States District Court for the Northern District of California, and titled In Re NVIDIA Corporation Securities Litigation, filed an amended complaint on May 13, 2020. The amended complaint asserted that NVIDIA and certain NVIDIA executives violated Section 10(b) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and SEC Rule 10b-5, by making materially false or misleading statements related to channel inventory and the impact of cryptocurrency mining on GPU demand between May 10, 2017 and November 14, 2018. Plaintiffs also alleged that the NVIDIA executives who they named as defendants violated Section 20(a) of the Exchange Act. Plaintiffs sought class certification, an award of unspecified compensatory damages, an award of reasonable costs and expenses, including attorneys' fees and expert fees, and further relief as the Court may deem just and proper. On March 2, 2021, the district court granted NVIDIA's motion to dismiss the complaint without leave to amend, entered judgment in favor of NVIDIA and closed the case. On March 30, 2021, plaintiffs filed an appeal from judgment

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in the United States Court of Appeals for the Ninth Circuit, case number 21-15604. On August 25, 2023, a majority of a three-judge Ninth Circuit panel affirmed in part and reversed in part the district court's dismissal of the case, with a third judge dissenting on the basis that the district court did not err in dismissing the case. On November 15, 2023, the Ninth Circuit denied NVIDIA's petition for rehearing *en banc* of the Ninth Circuit panel's majority decision to reverse in part the dismissal of the case, which NVIDIA had filed on October 10, 2023.

The putative derivative lawsuit pending in the United States District Court for the Northern District of California, captioned 4:19-cv-00341-HSG, initially filed January 18, 2019 and titled In re NVIDIA Corporation Consolidated Derivative Litigation, was stayed pending resolution of the plaintiffs' appeal in the In Re NVIDIA Corporation Securities Litigation action. On February 22, 2022, the court administratively closed the case, but stated that it would reopen the case once the appeal in the In Re NVIDIA Corporation Securities Litigation action is resolved. Following the Ninth Circuit's denial of NVIDIA's petition for rehearing on November 15, 2023, the parties will meet and confer regarding the next steps in this derivative matter. The lawsuit asserts claims, purportedly on behalf of us, against certain officers and directors of the Company for breach of fiduciary duty, unjust enrichment, waste of corporate assets, and violations of Sections 14(a), 10(b), and 20(a) of the Exchange Act based on the dissemination of allegedly false and misleading statements related to channel inventory and the impact of cryptocurrency mining on GPU demand. The plaintiffs are seeking unspecified damages and other relief, including reforms and improvements to NVIDIA's corporate governance and internal procedures.

The putative derivative actions initially filed September 24, 2019 and pending in the United States District Court for the District of Delaware, Lipchitz v. Huang, et al. (Case No. 1:19-cv-01795-UNA) and Nelson v. Huang, et. al. (Case No. 1:19-cv-01798- UNA), remain stayed pending resolution of the plaintiffs' appeal in the In Re NVIDIA Corporation Securities Litigation action. Following the Ninth Circuit's denial of NVIDIA's petition for rehearing on November 15, 2023, the parties will meet and confer regarding the next steps in these derivative matters. The lawsuits assert claims, purportedly on behalf of us, against certain officers and directors of the Company for breach of fiduciary duty, unjust enrichment, insider trading, misappropriation of information, corporate waste and violations of Sections 14(a), 10(b), and 20(a) of the Exchange Act based on the dissemination of allegedly false and misleading statements related to channel inventory and the impact of cryptocurrency mining on GPU demand. The plaintiffs seek unspecified damages and other relief, including disgorgement of profits from the sale of NVIDIA stock and unspecified corporate governance measures.

Another putative derivative action was filed on October 30, 2023 in the Court of Chancery of the State of Delaware, captioned Horanic v. Huang, et al. (Case No. 2023-1096-KSJM). This lawsuit asserts claims, purportedly on behalf of us, against certain officers and directors of the Company for breach of fiduciary duty and insider trading based on the dissemination of allegedly false and misleading statements related to channel inventory and the impact of cryptocurrency mining on GPU demand. The plaintiffs seek unspecified damages and other relief, including disgorgement of profits from the sale of NVIDIA stock and reform of unspecified corporate governance measures.

Accounting for Loss Contingencies

As of October 29, 2023, we have not recorded any accrual for contingent liabilities associated with the legal proceedings described above based on our belief that liabilities, while possible, are not probable. Further, except as specifically described above, any possible loss or range of loss in these matters cannot be reasonably estimated at this time. We are engaged in legal actions not described above arising in the ordinary course of business and, while there can be no assurance of favorable outcomes, we believe that the ultimate outcome of these actions will not have a material adverse effect on our operating results, liquidity or financial position.

Note 14 - Shareholders' Equity

Capital Return Program

During the third quarter and first nine months of fiscal year 2024, we repurchased 8.3 million and 15.9 million shares of our common stock for $3.72 billion and $7.01 billion, respectively. During the third quarter and first nine months of fiscal year 2023, we repurchased 28 million and 56 million shares of our common stock for

NVIDIA CORPORATION AND SUBSIDIARIES
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$3.65 billion and $8.99 billion, respectively. In August 2023, our Board of Directors approved an increase to our share repurchase program of an additional $25.00 billion, without expiration. As of October 29, 2023, we were authorized, subject to certain specifications, to repurchase additional shares of our common stock up to $25.24 billion. From October 30, 2023 through November 17, 2023, we repurchased 0.8 million shares for $366 million pursuant to a Rule 10b5-1 trading plan. Our share repurchase program aims to offset dilution from shares issued to employees. We may pursue additional share repurchases as we weigh market factors and other investment opportunities.

During the third quarter and first nine months of fiscal year 2024, we paid $99 million and $296 million in cash dividends to our shareholders, respectively. During the third quarter and first nine months of fiscal year 2023, we paid $100 million and $300 million in cash dividends to our shareholders, respectively. Our cash dividend program and the payment of future cash dividends under that program are subject to our Board of Directors' continuing determination that the dividend program and the declaration of dividends thereunder are in the best interests of our shareholders.

Note 15 - Segment Information

Our Chief Executive Officer, who is considered to be our chief operating decision maker, or CODM, reviews financial information presented on an operating segment basis for purposes of making decisions and assessing financial performance.

The Compute & Networking segment includes our Data Center accelerated computing platform; networking; automotive artificial intelligence, or AI, Cockpit, autonomous driving development agreements, and autonomous vehicle solutions; electric vehicle computing platforms; Jetson for robotics and other embedded platforms; NVIDIA AI Enterprise and other software; and DGX Cloud.

The Graphics segment includes GeForce GPUs for gaming and PCs, the GeForce NOW game streaming service and related infrastructure, and solutions for gaming platforms; Quadro/NVIDIA RTX GPUs for enterprise workstation graphics; virtual GPU software for cloud-based visual and virtual computing; automotive platforms for infotainment systems; and Omniverse Enterprise software for building and operating 3D internet applications.

Operating results by segment include costs or expenses that are directly attributable to each segment, and costs or expenses that are leveraged across our unified architecture and therefore allocated between our two segments.

The “All Other” category includes the expenses that our CODM does not assign to either Compute & Networking or Graphics for purposes of making operating decisions or assessing financial performance. The expenses include stock-based compensation expense, corporate infrastructure and support costs, acquisition-related and other costs, intellectual property related, or IP-related costs, acquisition termination cost, and other non-recurring charges and benefits that our CODM deems to be enterprise in nature.

Our CODM does not review any information regarding total assets on a reportable segment basis. Depreciation and amortization expense directly attributable to each reportable segment is included in operating results for each segment. However, our CODM does not evaluate depreciation and amortization expense by operating segment and, therefore, it is not separately presented. There is no intersegment revenue. The accounting policies for segment reporting are the same as for our consolidated financial statements. The table below presents details of our reportable segments and the “All Other” category.

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	Compute & Networking	Graphics	All Other	Consolidated
	(In millions)			
Three Months Ended October 29, 2023				
Revenue	$ 14,645	$ 3,475	$ —	$ 18,120
Operating income (loss)	$ 10,262	$ 1,493	$ (1,338)	$ 10,417
Three Months Ended October 30, 2022				
Revenue	$ 3,816	$ 2,115	$ —	$ 5,931
Operating income (loss)	$ 1,086	$ 606	$ (1,091)	$ 601
Nine Months Ended October 29, 2023				
Revenue	$ 29,507	$ 9,312	$ —	$ 38,819
Operating income (loss)	$ 19,149	$ 3,751	$ (3,542)	$ 19,358
Nine Months Ended October 30, 2022				
Revenue	$ 11,395	$ 9,528	$ —	$ 20,923
Operating income (loss)	$ 3,509	$ 3,739	$ (4,280)	$ 2,968

	Three Months Ended		Nine Months Ended	
	October 29, 2023	October 30, 2022	October 29, 2023	October 30, 2022
	(In millions)			
Reconciling items included in "All Other" category:				
Stock-based compensation expense	$ (979)	$ (745)	$ (2,555)	$ (1,971)
Unallocated cost of revenue and operating expenses	(198)	(156)	(515)	(432)
Acquisition-related and other costs	(135)	(174)	(446)	(499)
IP-related costs	(26)	—	(36)	—
Acquisition termination cost	—	—	—	(1,353)
Other	—	(16)	10	(25)
Total	$ (1,338)	$ (1,091)	$ (3,542)	$ (4,280)

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Revenue by geographic region is designated based upon the billing location of the customer. Revenue by Geographic areas were as follows:

	Three Months Ended		Nine Months Ended	
	October 29, 2023	October 30, 2022	October 29, 2023	October 30, 2022
	(In millions)			
Revenue:				
United States	$ 6,302	$ 2,148	$ 14,730	$ 6,069
Taiwan	4,333	1,153	8,968	5,134
China (including Hong Kong)	4,030	1,148	8,360	4,831
Singapore	2,702	536	4,506	1,963
Other countries	753	946	2,255	2,926
Total revenue	$ 18,120	$ 5,931	$ 38,819	$ 20,923

Revenue from sales to customers outside of the United States accounted for 65% and 62% of total revenue for the third quarter and first nine months of fiscal year 2024, respectively, and 64% and 71% of total revenue for the third quarter and first nine months of fiscal year 2023, respectively. The increase in revenue to the United States for the third quarter and first nine months of fiscal year 2024 was primarily due to higher U.S.-based Data Center end demand.

Sales to one customer, or Customer A, represented 12% of total revenue for the third quarter of fiscal year 2024, and sales to a second customer, or Customer B, represented 11% of total revenue for the first nine months of fiscal year 2024, both of which were attributable to the Compute & Networking segment.

In the first nine months of fiscal year 2023, there were no customers with 10% or more of total revenue. In the third quarter of fiscal year 2023, one customer represented 10% of total revenue, primarily attributable to the Compute & Networking segment.

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

	Three Months Ended		Nine Months Ended	
	October 29, 2023	October 30, 2022	October 29, 2023	October 30, 2022
	(In millions)			
Revenue:				
Data Center	$ 14,514	$ 3,833	$ 29,121	$ 11,389
Gaming	2,856	1,574	7,582	7,236
Professional Visualization	416	200	1,090	1,318
Automotive	261	251	810	609
OEM and Other	73	73	216	371
Total revenue	$ 18,120	$ 5,931	$ 38,819	$ 20,923

Part IV

Item 15. Exhibit and Financial Statement Schedules

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of NVIDIA Corporation

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of NVIDIA Corporation and its subsidiaries (the Xompany11) as of January 28, 2024 and January 29, 2023, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended January 28, 2024, including the related notes and financial statement schedule listed in the index appearing under Item 15(a)(2) (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of January 28, 2024, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of January 28, 2024 and January 29, 2023, and the results of its operations and its cash flows for each of the three years in the period ended January 28, 2024 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 28, 2024, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Valuation of Inventories - Provisions for Excess or Obsolete Inventories and Excess Product Purchase Commitments

As described in Notes 1,10 and 13 to the consolidated financial statements, the Company charges cost of sales for inventory provisions to write-down inventory for excess or obsolete inventory and for excess product purchase commitments. Most of the Company's inventory provisions relate to excess quantities of products, based on the Company's inventory levels and future product purchase commitments compared to assumptions about future demand and market conditions. As of January 28, 2024, the Company's consolidated inventories balance was $5.3 billion and the Company's consolidated outstanding inventory purchase and long-term supply and capacity obligations balance was $16.1 billion, of which a significant portion relates to inventory purchase obligations.

The principal considerations for our determination that performing procedures relating to the valuation of inventories, specifically the provisions for excess or obsolete inventories and excess product purchase commitments, is a critical audit matter are the significant judgment by management when developing provisions for excess or obsolete inventories and excess product purchase commitments, including developing assumptions related to future demand and market conditions. This in turn led to significant auditor judgment, subjectivity, and effort in performing procedures and evaluating managements assumptions related to future demand and market conditions.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's provisions for excess or obsolete inventories and excess product purchase commitments, including controls over management’s assumptions related to future demand and market conditions. These procedures also included, among others, testing management’s process for developing the provisions for excess or obsolete inventories and excess product purchase commitments; evaluating the appropriateness of management’s approach; testing the completeness and accuracy of underlying data used in the approach; and evaluating the reasonableness of management’s assumptions related to future demand and market conditions. Evaluating management’s assumptions related to future demand and market conditions involved evaluating whether the assumptions used by management were reasonable considering (i) current and past results, including historical product life cycle, (ii) the consistency with external market and industry data, and (iii) changes in technology.

/s/ PricewaterhouseCoopers LLP
San Jose, California
February 21, 2024

We have served as the Company's auditor since 2004.

NVIDIA Corporation and Subsidiaries
Consolidated Statements of Income
(In millions, except per share data)

	Year Ended		
	Jan 28, 2024	**Jan 29, 2023**	**Jan 30, 2022**
Revenue	$60,922	$26,974	$26,914
Cost of revenue	16,621	11,618	9,439
Gross profit	44,301	15,356	17,475
Operating expenses			
Research and development	8,675	7,339	5,268
Sales, general and administrative	2,654	2,440	2,166
Acquisition termination cost	—	1,353	—
Total operating expenses	11,329	11,132	7,434
Operating income	32,972	4,224	10,041
Interest income	866	267	29
Interest expense	(257)	(262)	(236)
Other, net	237	(48)	107
Other income (expense), net	846	(43)	(100)
Income before income tax	33,818	4,181	9,941
Income tax expense (benefit)	4,058	(187)	189
Net income	$29,760	$4,368	$9,752
Net income per share:			
Basic	$12.05	$1.76	$3.91
Diluted	$11.93	$1.74	$3.85
Weighted average shares used in per share computation:			
Basic	2,469	2,487	2,496
Diluted	2,494	2,507	2,535

See accompanying notes to the consolidated financial statements.

NVIDIA Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income
(In millions)

	Year Ended		
	Jan 28,2024	**Jan 29,2023**	**Jan 30,2022**
Net income	$29,760	$4,368	$9,752
Other comprehensive income (loss), net of tax			
Available-for-sale securities:			
Net change in unrealized gain(loss)	80	(31)	(16)
Reclassification adjustments for net realized gain included in net income	—	1	—
Net change in unrealized gain (loss)	80	(30)	(16)
Cash flow hedges:			
Net change in unrealized gain (loss)	38	47	(43)
Reclassification adjustments for net realized gain (loss) included in net income	(48)	(49)	29
Net change in unrealized loss	(10)	(2)	(14)
Other comprehensive income (loss), net of tax	70	(32)	(30)
Total comprehensive income	$29,830	$4,336	$9,722

See accompanying notes to the consolidated financial statements.

NVIDIA Corporation and Subsidiaries
Consolidated Balance Sheets
(In millions, except par value)

	Jan 28,2024	**Jan 29,2023**
Assets		
Current assets:		
Cash and cash equivalents	$7,280	$3,389
Marketable securities	18,704	9,907
Accounts receivable, net	9,999	3,827
Inventories	5,282	5,159
Prepaid expenses and other current assets	3,080	791
Total current assets	44,345	23,073
Property and equipment, net	3,914	3,807
Operating lease assets	1,346	1,038
Goodwill	4,430	4,372
Intangible assets, net	1,112	1,676
Deferred income tax assets	6,081	3,396
Other assets	4,500	3,820
Total assets	$65,728	$41,182
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$2,699	$1,193
Accrued and other current liabilities	6,682	4,120
Short-term debt	1,250	1,250
Total current liabilities	10,631	6,563
Long-term debt	8,459	9,703
Long-term operating lease liabilities	1,119	902
Other long-term liabilities	2,541	1,913
Total liabilities	22,750	19,081
Commitments and contingencies-see Note 13		
Shareholders' equity.		
Preferred stock $0.001 par value; 2 shares authorized; none issued	—	—
Common stock, $0.001 par value; 8,000 shares authorized; 2,464 shares issued and outstanding as of January 28, 2024; 2,466 shares issued and outstanding as of January 29, 2023	2	2
Additional paid-in capital	13,132	11,971
Accumulated other comprehensive income (loss)	27	(43)
Retained earnings	29,817	10,171
Total shareholders' equity	42,978	22,101
Total liabilities and shareholders' equity	$ 65,728	$41,182

See accompanying notes to the consolidated financial statements.

NVIDIA Corporation and Subsidiaries
Consolidated Statements of Shareholders' Equity

	Common Stock Outstanding						
	Shares	Amount	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Shareholders' Equity
(In millions, except per share data)							
Balances, Jan 31,2021	2,479	$3	$8,719	$ (10,756)	$19	$ 18,908	$16,893
Net income	—	—	—	—	—	9,752	9,752
Other comprehensive loss	—	—	—	—	(30)	—	(30)
Issuance of common stock from stock plans	35	—	281	—	—	—	281
Tax withholding related to vesting of restricted stock units	(8)	—	(614)	(1,290)	—	—	(1,904)
Cash dividends declared and paid ($0.16 per common share)	—	—	—	—	—	(399)	(399)
Fair value of partially vested equity awards assumed in connection with acquisitions	—	—	18	—	—	—	18
Stock-based compensation	—	—	2,001		—	—	2,001
Retirement of Treasury Stock	—	—	(20)	12,046	—	(12,026)	—
Balances, Jan 30,2022	2,506	3	10,385	—	(11)	16,235	26,612
Net income	—	—	—	—	—	4,368	4,368
Other comprehensive loss	—	—	—	—	(32)	—	(32)
Issuance of common stock from stock plans	31	—	355	—	—	—	355
Tax withholding related to vesting of restricted stock units	(8)	—	(1,475)	—	—	—	(1,475)
Shares repurchased	(63)	(1)	(4)	—	—	(10,034)	(10,039)
Cash dividends declared and paid ($0.16 per common share)	—	—	—	—	—	(398)	(398)
Stock-based compensation	—	—	2,710	—	—	—	2,710
Balances, Jan 29, 2023	2,466	2	11,971	—	(43)	10,171	22,101
Net income	—	—	—	—	—	29,760	29,760
Other comprehensive income	—	—	—	—	70	—	70
Issuance of common stock from stock plans	26	—	403	—	—	—	403
Tax withholding related to vesting of restricted stock units	(7)		(2,783)	—	—	—	(2,783)
Shares repurchased	(21)		(27)	—	—	(9,719)	(9,746)
Cash dividends declared and paid ($0.16 per common share)	—	—	—	—	—	(395)	(395)
Stock-based compensation	—	—	3,568	—	—	—	3,568
Balances, Jan 28, 2024	2,464	$2	$13,132	$—	$27	$ 29,817	$42,978

See accompanying notes to the consolidated financial statements.

NVIDIA Corporation and Subsidiaries
Consolidated Statements of Cash Flows
(In millions)

	Year Ended		
	Jan 28, 2024	**Jan 29, 2023**	**Jan 30, 2022**
Cash flows from operating activities:			
Net income	$29,760	$4,368	$9,752
Adjustments to reconcile net income to net cash provided by operating activities:			
Stock-based compensation expense	3,549	2,709	2,004
Depreciation and amortization	1,508	1,544	1,174
Deferred income taxes	(2,489)	(2,164)	(406)
(Gains) losses on investments in non-affiliated entities, net	(238)	45	(100
Acquisition termination cost	—	1,353	—
Other	(278)	(7)	47
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	(6,172)	822	(2,215
Inventories	(98)	(2,554)	(774)
Prepaid expenses and other assets	(1,522)	(1,517)	(1,715)
Accounts payable	1,531	(551)	568
Accrued and other current liabilities	2,025	1,341	581
Other long-term liabilities	514	252	192
Net cash provided by operating activities	28,090	5,641	9,108
Cash flows from investing activities:			
Proceeds from maturities of marketable securities	9,732	19,425	15,197
Proceeds from sales of marketable securities	50	1,806	1,023
Purchases of marketable securities	(18,211)	(11,897)	(24,787)
Purchases related to property and equipment and intangible assets	(1,069)	(1,833)	(976
Acquisitions, net of cash acquired	(83)	(49)	(263)
Investments in non-affiliated entities and other, net	(985)	(77)	(24)
Net cash provided by (used in) investing activities	(10,566)	7,375	(9,830)
Cash flows from financing activities:			
Proceeds related to employee stock plans	403	355	281
Payments related to repurchases of common stock	(9,533)	(10,039)	—
Payments related to tax on restricted stock units	(2,783)	(1,475)	(1,904)
Repayment of debt	(1,250)		(1,000)
Dividends paid	(395)	(398)	(399
Principal payments on property and equipment and intangible assets	(74)	(58)	(83)
Issuance of debt, net of issuance costs	—	—	4,977
Other	(1)	(2)	(7)
Net cash provided by (used in) financing activities	(13,633)	(11,617)	1,865
Change in cash and cash equivalents	3,891	1,399	1,143
Cash and cash equivalents at beginning of period	3,389	1,990	847
Cash and cash equivalents at end of period	$7,280	$3,389	$1,990
Supplemental disclosures of cash flow information:			
Cash paid for income taxes, net	$ 6,549	$ 1,404	$396

Cash paid for interest	$ 252	$ 254	$246

See accompanying notes to the consolidated financial statements.

NVIDIA Corporation and Subsidiaries
Notes to the Consolidated Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies

Our Company

Headquartered in Santa Clara, California, NVIDIA was incorporated in California in April 1993 and reincorporated in Delaware in April 1998.

All references to "NVIDIA," "we," "us," "our" or the "Company" mean NVIDIA Corporation and its subsidiaries.

Fiscal Year

We operate on a 52- or 53-week year, ending on the last Sunday in January. Fiscal years 2024, 2023 and 2022 were all 52-week years.

Principles of Consolidation

Our consolidated financial statements include the accounts of NVIDIA Corporation and our wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

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

In February 2023, we assessed the useful lives of our property, plant, and equipment. Based on advances in technology and usage rate, we increased the estimated useful life of most of our server, storage, and network equipment from three to four or five years, and our assembly and test equipment from five to seven years. The effect of this change for the fiscal year ended January 28, 2024 was a benefit of $33 million and $102 million for cost of revenue and operating expenses, respectively, which resulted in an increase in operating income of $135 million and net income of $114 million after tax, or $0.05 per both basic and diluted share.

Revenue Recognition

We derive our revenue from product sales, including hardware and systems, license and development arrangements, software licensing, and cloud services. We determine revenue recognition through the following steps: (1) identification of the contract with a customer; (2) identification of the performance obligations in the contract; (3) determination of the transaction price; (4) allocation of the transaction price to the performance obligations in the contract (where revenue is allocated on a relative standalone selling price basis by maximizing the use of observable inputs to determine the standalone selling price for each performance obligation); and (5) recognition of revenue when, or as, we satisfy a performance obligation.

Product Sales Revenue

Revenue from product sales is recognized upon transfer of control of products to customers in an amount that reflects the consideration we expect to receive in exchange for those products. Certain products are sold with support or an extended warranty for the incorporated system, hardware, and/or software. Support and extended warranty revenue are recognized ratably over the service period, or as services are performed. Revenue is recognized net of allowances for returns, customer programs and any taxes collected from customers.

For products sold with a right of return, we 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 fiscal period are anticipated to exceed historical return rates, we may determine that additional sales return allowances are required to accurately reflect our estimated exposure for product returns.

Our customer programs involve rebates, which are designed to serve as sales incentives to resellers of our products in various target markets, and marketing development funds, or MDFs, which represent monies paid to our partners that are earmarked for market segment development and are designed to support our partners' activities while also promoting NVIDIA products. We account for customer programs as a reduction to revenue and accrue for such programs for potential rebates and MDFs based on the amount we expect to be claimed by customers.

NVIDIA Corporation and Subsidiaries
Notes to the Consolidated Financial Statements
(Continued)

License and Development Arrangements

Our license and development arrangements with customers typically require significant customization of our IP components. As a result, we recognize the revenue from the license and the revenue from the development services as a single performance obligation over the period in which the development services are performed. We measure progress to completion based on actual cost incurred to date as a percentage of the estimated total cost required to complete each project. If a loss on an arrangement becomes probable during a period, we record a provision for such loss in that period.

Software Licensing

Our software licenses provide our customers with a right to use the software when it is made available to the customer. Customers may purchase either perpetual licenses or subscriptions to licenses, which differ mainly in the duration over which the customer benefits from the software. Software licenses are frequently sold along with the right to receive, on a when-and-if available basis, future unspecified software updates and upgrades. Revenue from software licenses is recognized up front when the software is made available to the customer. Software support revenue is recognized ratably over the service period, or as services are performed.

Cloud Services

Cloud services, which allow customers to use hosted software and hardware infrastructure without taking possession of the software or hardware, are provided on a subscription basis or a combination of subscription plus usage. Revenue related to subscription-based cloud services is recognized ratably over the contract period. Revenue related to cloud services based on usage is recognized as usage occurs. Cloud services are typically sold on a standalone basis, but certain offerings may be sold with hardware and/or software and related support.

Contracts with Multiple Performance Obligations

Our contracts may contain more than one of the products and services listed above, each of which is separately accounted for as a distinct performance obligation. We account for multiple agreements with a single customer as a single contract if the contractual terms and/or substance of those agreements indicate that they may be so closely related that they are, in effect, parts of a single contract.

We allocate the total transaction price to each distinct performance obligation in a multiple performance obligations arrangement on a relative standalone selling price basis. The standalone selling price reflects the price we would charge for a specific product or service if it were sold separately in similar circumstances and to similar customers. When determining standalone selling price, we maximize the use of observable inputs.

If a contract contains a single performance obligation, no allocation is required.

Product Warranties

We offer a limited warranty to end-users ranging from one to three years for products to repair or replace products for manufacturing defects or hardware component failures. 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. We also accrue for known warranty and indemnification issues if a loss is probable and can be reasonably estimated.

Stock-based Compensation

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, and performance stock units that are based on our corporate financial performance targets, or PSUs. We use a Monte Carlo simulation on the date of grant to estimate the fair value of performance stock units that are based on market conditions, or market-based PSUs. The compensation expense for RSUs and market-based PSUs is recognized using a straight-line attribution method over the requisite employee service period while compensation expense for PSUs is recognized using an accelerated amortization model. We estimate the fair value of shares to be issued under our employee stock purchase plan, or ESPP, using the Black-Scholes model at the commencement of an offering period in March and September of each year. Stock-based compensation for our ESPP is expensed using an accelerated amortization model. Additionally, for RSU, PSU, and market-based PSU awards, we estimate forfeitures semi-annually and revise the estimates of forfeiture in subsequent periods if actual forfeitures differ from those estimates. Forfeitures are estimated based on historical experience.

Litigation, Investigation and Settlement Costs

We currently, are, and will likely continue to be subject to claims, litigation, and other actions, including potential regulatory proceedings, involving patent and other intellectual property matters, taxes, labor and employment, competition and antitrust, commercial disputes, goods and services offered by us and by third parties, and other matters. There are many uncertainties associated with any litigation or investigation, and we cannot be certain that these actions or other third-party claims against us will be resolved without litigation, fines and/or substantial settlement payments or judgments. 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.

Foreign Currency Remeasurement

We use the U.S. dollar as our functional currency for our subsidiaries. Foreign currency monetary assets and liabilities are remeasured into United States dollars at end-of-period exchange rates. Non-monetary assets and liabilities such as property and equipment and equity are remeasured at historical exchange rates. Revenue and expenses are remeasured at exchange rates in effect during each period, except for those expenses related to non-monetary balance sheet amounts, which are remeasured at historical exchange rates. Gains or losses from foreign currency remeasurement are included in earnings in our Consolidated Statements of Income and to date have not been significant.

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.

Our calculation of 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 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 U.S., or foreign jurisdictions where we operate, or changes in other facts or circumstances. In addition, we recognize liabilities for potential U.S. 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 28, 2024, we had a valuation allowance of $1.6 billion related to capital loss carryforwards, and certain state and other deferred tax assets that management determined are not likely to be realized due, in part, to jurisdictional projections of future taxable income, including capital gains. To the extent realization of the deferred tax assets becomes more-likely-than-not, we would recognize such deferred tax assets as income tax benefits during the period.

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.

Net Income Per Share

Basic net income per share is computed using the weighted average number of common shares outstanding during the period. Diluted net income per share is computed using the weighted average number of common and potentially dilutive shares outstanding during the period, using the treasury stock method. Any anti-dilutive effect of equity awards outstanding is not included in the computation of diluted net income per share.

Cash and Cash Equivalents and Marketable Securities

We consider all highly liquid investments that are readily convertible into cash and have an original maturity of three months or less at the time of purchase to be cash equivalents. Marketable securities consist of highly liquid debt investments with maturities of greater than three months when purchased. We currently classify our investments as current based on the nature of the investments and their availability for use in current operations.

We classify our cash equivalents and marketable securities related to debt securities at the date of acquisition as available-for-sale. These available-for-sale debt securities are reported at fair value with the related unrealized gains and losses included in accumulated other comprehensive income or loss, a component of shareholders1 equity, net of tax. The fair value of interest-bearing debt securities includes accrued interest. Realized gains and losses on the sale of marketable securities are determined using the specific-identification method and recorded in the other income (expense), net, section of our Consolidated Statements of Income.

Available-for-sale debt investments are subject to a periodic impairment review. If the estimated fair value of available-for-sale debt securities is less than its amortized cost basis, we determine if the difference, if any, is caused by expected credit losses and write-down the amortized cost basis of the securities if it is more likely than not we will be required or we intend to sell the securities before recovery of its amortized cost basis. Allowances for credit losses and write-downs are recognized in the other income (expense), net section of our Consolidated Statements of Income.

Fair Value of Financial Instruments

The carrying value of cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair values due to their relatively short maturities as of January 28, 2024 and January 29, 2023. Marketable securities are comprised of available-for-sale securities that are reported at fair value with the related unrealized gains or losses included in accumulated other comprehensive income or loss, a component of shareholders' equity, net of tax. Fair value of the marketable securities is determined based on quoted market prices. Derivative instruments are recognized as either assets or liabilities and are measured at fair value. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. For derivative instruments designated as fair value hedges, the gains or losses are recognized in earnings in the periods of change together with the offsetting losses or gains on the hedged items attributed to the risk being hedged. For derivative instruments designated as cash-flow hedges, the effective portion of the gains or losses on the derivatives is initially reported as a component of other comprehensive income or loss and is subsequently recognized in earnings when the hedged exposure is recognized in earnings. For derivative instruments not designated for hedge accounting, changes in fair value are recognized in earnings.

Concentration of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash equivalents, marketable securities, and accounts receivable. Our investment policy requires the purchase of highly-rated fixed income securities, the diversification of investment type and credit exposures, and includes certain limits on our portfolio duration. We perform ongoing credit evaluations of our customers' financial condition and maintain an allowance for potential credit losses. This allowance consists of an amount identified for specific customers and an amount based on overall estimated exposure. Our overall estimated exposure excludes amounts covered by credit insurance and letters of credit.

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, including wafer fabrication, assembly, testing and packaging, manufacturing support costs, including labor and overhead associated with such purchases, final test yield fallout, and shipping costs, as well as the cost of purchased memory products and other component parts. We charge cost of sales for inventory provisions to write-down our inventory to the lower of cost or net realizable value or for obsolete or excess inventory, and for excess product purchase commitments. Most of our inventory provisions relate to excess quantities of products, based on our inventory levels and future product purchase commitments compared to assumptions about future demand and market conditions. Once inventory has been written-off or written-down, it creates a new cost basis for the inventory that is not subsequently written-up. We record a liability for noncancelable purchase commitments with suppliers for quantities in excess of our future demand forecasts consistent with our valuation of obsolete or excess inventory.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation of property and equipment is computed using the straight-line method based on the estimated useful lives of the assets of three to seven years. Once an asset is identified for retirement or disposition, the related cost and accumulated depreciation or amortization are removed, and a gain or loss is recorded. The estimated useful lives of our buildings are up to thirty years. Depreciation expense includes the amortization of assets recorded under finance leases. Leasehold improvements and assets recorded under finance leases are amortized over the shorter of the expected lease term or the estimated useful life of the asset.

Leases

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

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

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

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. In completing our impairment test, we perform either a qualitative or a quantitative analysis on a reporting unit basis.

Qualitative factors include industry and market considerations, overall financial performance, and other relevant events and factors affecting the reporting units.

The quantitative impairment test considers both the income approach and the market approach to estimate a reporting units fair value. The income and market valuation approaches consider factors that include, but are not limited to, prospective financial information, growth rates, residual values, discount rates and comparable multiples from publicly traded companies in our industry and require us to make certain assumptions and estimates regarding industry economic factors and the future profitability of our business.

Intangible Assets and Other Long-Lived Assets

Intangible assets primarily represent acquired intangible assets including developed technology and customer relationships, as well as rights acquired under technology licenses, patents, and acquired IP. We currently amortize our intangible assets with finite lives over periods ranging from one to twenty years using a method that reflects the pattern in which the economic benefits of the intangible asset are consumed or otherwise used up or, if that pattern cannot be reliably determined, using a straight-line amortization method.

Long-lived assets, such as property and equipment and intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. The recoverability of assets or asset groups to be held and used is measured by a comparison of the carrying amount of an asset or asset group to estimated undiscounted future cash flows expected to be generated by the asset or asset group. If the carrying amount of an asset or asset group exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset or asset group exceeds the estimated fair value of the asset or asset group. Fair value is determined based on the estimated discounted future cash flows expected to be generated by the asset or asset group. Assets and liabilities to be disposed of would be separately presented in the Consolidated Balance Sheet and the assets would be reported at the lower of the carrying amount or fair value less costs to sell, and would no longer be depreciated.

Business Combination

We allocate the fair value of the purchase price of an acquisition to the tangible assets acquired, liabilities assumed, and intangible assets acquired, based on their estimated fair values. The excess of the fair value of the purchase price over the fair values of these net tangible and intangible assets acquired is recorded as goodwill. Management's estimates of fair value are based upon assumptions believed to be reasonable, but our estimates and assumptions are inherently uncertain and subject to refinement. The estimates and assumptions used in valuing intangible assets include, but are not limited to, the amount and timing of projected future cash flows, discount rate used to determine the present value of these cash flows and asset lives. These estimates are inherently uncertain and, therefore, actual results may differ from the estimates made. As a result, during the measurement period of up to one year from the acquisition date, we may record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the measurement period's conclusion or final determination of the fair value of the purchase price of an acquisition, whichever comes first, any subsequent adjustments are recorded to our Consolidated Statements of Income.

Acquisition-related expenses are recognized separately from the business combination and expensed as incurred.

Investments in Non-Affiliated Entities

Our investment in non-affiliates consists of marketable equity securities, which are publicly traded, and non-marketable equity securities, which are investments in privately held companies. Marketable equity securities have readily determinable fair values with changes in fair value recorded in other income (expense), net. Non-marketable equity securities include investments that do not have a readily determinable fair value. The investments that do not have readily determinable fair value are measured at cost minus impairment, if any, and are adjusted for changes resulting from observable price changes in orderly transactions for an identical or similar investment in the same issuer, or the measurement alternative. Fair value is based upon observable inputs in an inactive market and the valuation requires our judgment due to the absence of market prices and inherent lack of liquidity. All gains and losses on these investments, realized and unrealized, are recognized in other income (expense), net on our Consolidated Statements of Income.

We assess whether an impairment loss has occurred on our investments in non-marketable equity securities, accounted for under the measurement alternative based on quantitative and qualitative factors. If any impairment is identified for non-marketable equity securities, we write down the investment to its fair value and record the corresponding charge through other income (expense), net on our Consolidated Statements of Income.

Recently Issued Accounting Pronouncements

Recent Accounting Pronouncements Not Yet Adopted

In November 2023, the Financial Accounting Standards Board, or FASB, issued a new accounting standard to provide for additional disclosures about significant expenses in operating segments. The standard is effective for our annual reporting for fiscal year 2025 and for interim period reporting starting in fiscal year 2026 retrospectively. We are currently evaluating the impact of this standard on our Consolidated Financial Statements.

In December 2023, the FASB issued a new accounting standard which provides for new and changes to income tax disclosures including disaggregation of the rate reconciliation and income taxes paid disclosures. The amendments in the standard are effective for annual periods beginning after December 15, 2024. Early adoption is permitted and should be applied prospectively, with retrospective application permitted. We expect to adopt this standard in our annual period beginning fiscal year 2026. We are currently evaluating the impact of this standard on our Consolidated Financial Statements.

Note 2 - Business Combination

Termination of the Arm Share Purchase Agreement

In February 2022, NVIDIA and SoftBank Group Corp, or SoftBank, announced the termination of the Share Purchase Agreement whereby NVIDIA would have acquired Arm from SoftBank. The parties agreed to terminate it due to significant regulatory challenges preventing the completion of the transaction. We recorded an acquisition termination cost of $1.4 billion in fiscal year 2023 reflecting the write-off of the prepayment provided at signing.

Note 3 – Leases

Our lease obligations primarily consist of operating leases for our headquarters complex, domestic and international office facilities, and data center space, with lease periods expiring between fiscal years 2025 and 2035.

Future minimum lease payments under our non-cancelable operating leases as of January 28,2024, are as follows:

	Operating Lease Obligations (In millions)
Fiscal Year:	
2025	$290
2026	270
2027	253
2028	236
2029	202
2030 and thereafter	288
Total	1,539
Less imputed interest	192
Present value of net future minimum lease payments	1,347
Less short-term operating lease liabilities	228
Long-term operating lease liabilities	$1,119

In addition, we have operating leases, primarily for our data centers, that are expected to commence within fiscal year 2025 with lease terms of 1 to 10 years for $1.1 billion.

Operating lease expenses for fiscal years 2024, 2023, and 2022 were $269 million, $193 million, $168 million, respectively. Short-term and variable lease expenses for fiscal years 2024, 2023, and 2022 were not significant.

NVIDIA Corporation and Subsidiaries
Notes to the Consolidated Financial Statements
(Continued)

Other information related to leases was as follows:

	Year Ended		
	Jan 28,2024	Jan 29,2023	Jan 30, 2022
	(In millions)		
Supplemental cash flows information			
Operating cash flows used for operating leases	$286	$184	$ 154
Operating lease assets obtained in exchange for lease obligations	$ 531	$358	$ 266

As of January 28, 2024, our operating leases had a weighted average remaining lease term of 6.1 years and a weighted average discount rate of 3.76%. As of January 29, 2023, our operating leases had a weighted average remaining lease term of 6.8 years and a weighted average discount rate of 3.21 %.

Note 4 - Stock-Based Compensation

Our stock-based compensation expense is associated with RSUs, performance stock units based on our corporate financial performance targets, or PSUs, performance stock units based on market conditions, or market-based PSUs, and our ESPP.

Our Consolidated Statements of Income include stock-based compensation expense, net of amounts allocated to inventory, as follows:

	Year Ended		
	Jan 28,2024	Jan 29,2023	Jan 30,2022
	(In millions)		
Cost of revenue	$141	$138	$141
Research and development	2,532	1,892	1,298
Sales, general and administrative	876	680	565
Total	$3,549	$2,710	$ 2,004

Stock-based compensation capitalized in inventories was not significant during fiscal years 2024, 2023, and 2022.

The following is a summary of equity awards granted under our equity incentive plans:

	Year Ended		
	Jan 28,2024	Jan 29,2023	Jan 30,2022
RSU, PSUs and Market-based PSUs	*(In millions, except per share data)*		
Awards granted	14	25	18
Estimated total grant-date fair value	$ 5,316	$4,505	$3,492
Weighted average grant-date fair value per share	$374.08	$183.72	$190.69
ESPP			
Shares purchased	3	3	5
Weighted average price per share	$158.07	$122.54	$56.36
Weighted average grant-date fair value per share	$69.90	$51.87	$23.24

As of January 28, 2024, there was $8.6 billion of aggregate unearned stock-based compensation expense. This amount is expected to be recognized over a weighted average period of 2.5 years for RSUs, PSUs, and market-based PSUs, and 0.8 years for ESPP.

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Notes to the Consolidated Financial Statements
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The fair value of shares issued under our ESPP have been estimated with the following assumptions:

	Year Ended		
	Jan 28,2024	**Jan 29,2023**	**Jan 30,2022**
	(Using the Black-Scholes model)		
ESPP			
Weighted average expected life (in years)	0.1-2.0	0.1-2.0	0.1-2.0
Risk-free interest rate	3.9%-5.5%	—%-4.6%	—%-0.5%
Volatility	31%-67%	43%-72%	20%-58%
Dividend yield	0.1%	0.1%	0.1%

For ESPP shares, the expected term represents the average term from the first day of the offering period to the purchase date. The risk-free interest rate assumption used to value ESPP shares is based upon observed interest rates on Treasury bills appropriate for the expected term. Our expected stock price volatility assumption for ESPP is estimated using historical volatility. For awards granted, we use the dividend yield at grant date. Our RSU, PSU, and market- based PSU awards are not eligible for cash dividends prior to vesting; therefore, the fair values of RSUs, PSUs, and market-based PSUs are discounted for the dividend yield.

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

Equity Incentive Program

We grant or have granted stock options, RSUs, PSUs, market-based PSUs, and stock purchase rights under the following equity incentive plans. In addition, in connection with our acquisitions of various companies, we have assumed certain stock-based awards granted under their stock incentive plans and converted them into our RSUs.

Amended and Restated 2007 Equity Incentive Plan

In 2007, our shareholders approved the NVIDIA Corporation 2007 Equity Incentive Plan, or as most recently amended and restated, the 2007 Plan.

The 2007 Plan authorizes the issuance of incentive stock options, non-statutory stock options, restricted stock, RSUs, stock appreciation rights, performance stock awards, performance cash awards, and other stock-based awards to employees, directors and consultants. Only our employees may receive incentive stock options. As of January 28, 2024, up to 37 million shares of our common stock could be issued pursuant to stock awards granted under the 2007 Plan. Currently, we grant RSUs, PSUs and market-based PSUs under the 2007 Plan, under which, as of January 28, 2024, there were 147 million shares available for future grants.

Subject to certain exceptions, RSUs granted to employees vest (A) over a four-year period, subject to continued service, with 25% vesting on a pre-determined date that is close to the anniversary of the date of grant and 6.25% vesting quarterly thereafter, (B) over a three-year period, subject to continued service, with 40% vesting on a pre-determined date that is close to the anniversary of the date of grant and 7.5% vesting quarterly thereafter, or (C) over a four-year period, subject to continued service, with 6.25% vesting quarterly. PSUs vest over a four-year period, subject to continued service, with 25% vesting on a pre-determined date that is close to the anniversary of the date of grant and 6.25% vesting quarterly thereafter. Market-based PSUs vest 100% on about the three- year anniversary of the date of grant. However, the number of shares subject to both PSUs and market-based PSUs that are eligible to vest is determined by the Compensation Committee based on achievement of pre-determined criteria.

Amended and Restated 2012 Employee Stock Purchase Plan

In 2012, our shareholders approved the NVIDIA Corporation 2012 Employee Stock Purchase Plan, or as most recently amended and restated, the 2012 Plan.

Employees who participate in the 2012 Plan may have up to 15% of their earnings withheld to purchase shares of common stock. The Board may decrease this percentage at its discretion. Each offering period is about 24 months, divided into four purchase periods of six months. The price of common stock purchased under our 2012 Plan will be equal to 85% of the lower of the fair market value of the common stock on the commencement date of each offering period or the fair market value of the common stock on each purchase date within the offering. As of January 28, 2024, we had 227 million shares reserved for future issuance under the 2012 Plan.

NVIDIA Corporation and Subsidiaries
Notes to the Consolidated Financial Statements
(Continued)

Equity Award Activity

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

	RSU, PSUs and Market-based PSUs Outstanding	
	Number of Shares	Weighted Average Grant-Date Fair Value
	(In millions, except per share data)	
Balances, Jan 29, 2023	45	$158.45
Granted	14	$374.08
Vested restricted stock	(21)	$148.56
Canceled and forfeited	(1)	$206.35
Balances, Jan 28,2024	37	$245.94
Vested and expected to vest after Jan 28, 2024	37	$245.49

As of January 28, 2024 and January 29, 2023, there were 147 million and 160 million shares, respectively, of common stock available for future grants under our equity incentive plans.

The total fair value of RSUs and PSUs, as of their respective vesting dates, during the years ended January 28, 2024, January 29, 2023, and January 30, 2022, was $8.2 billion, $4.3 billion, and $5.6 billion, respectively.

Note 5 - Net Income Per Share

The following is a reconciliation of the denominator of the basic and diluted net income per share computations for the periods presented:

	Year Ended		
	Jan 28,2024	Jan 29,2023	Jan 30,2022
Numerator:	*(In millions except per share, data)*		
Net income	$29,760	$ 4,368	$9,752
Denominator:			
Basic weighted average shares	2,469	2,487	2,496
Dilutive impact of outstanding equity awards	25	20	39
Diluted weighted average shares	2,494	2,507	2,535
Net income per share:			
Basic (1)	$12.05	$1.76	3.91
Diluted (2)	$11.93	$1.74	$3.85
Equity awards excluded from diluted net income per share because their effect would have been anti-dilutive	15	40	21

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

Note 6 - Goodwill

As of January 28, 2024, the total carrying amount of goodwill was $4.4 billion, consisting of goodwill balances allocated to our Compute & Networking and Graphics reporting units of $4.1 billion and $370 million, respectively. As of January 29, 2023, the total carrying amount of goodwill was $4.4 billion, consisting of goodwill balances allocated to our Compute & Networking and Graphics reporting units of $4.0 billion and $370 million, respectively. Goodwill increased by $59 million in fiscal year 2024 from an immaterial acquisition and was allocated to our Compute & Networking reporting unit. During the fourth quarters of fiscal years 2024, 2023, and 2022, we completed our annual qualitative impairment tests and concluded that goodwill was not impaired.

Note 7 - Amortizable Intangible Assets

The components of our amortizable intangible assets are as follows:

	Jan 28, 2024			Jan 29, 2023		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(In millions)					
Acquisition-related intangible assets (1)	$2,642	$ (1,720)	$922	$3,093	$ (1,614)	$1,479
Patents and licensed technology	449	(259)	190	446	(249)	197
Total intangible assets	$3,091	$ (1,979)	$1,112	$3,539	$ (1,863)	$1,676

(1) During the first quarter of fiscal year 2023, we commenced amortization of a $630 million in-process research and development intangible asset related to our acquisition of Mellanox.

Amortization expense associated with intangible assets for fiscal years 2024, 2023, and 2022 was $614 million, $699 million, and $563 million, respectively.

The following table outlines the estimated future amortization expense related to the net carrying amount of intangible assets as of January 28, 2024:

	Future Amortization Expense
	(In millions)
Fiscal Year:	
2025	$555
2026	261
2027	150
2028	37
2029	9
2030 and thereafter	100
Total	$1,112

NVIDIA Corporation and Subsidiaries
Notes to the Consolidated Financial Statements
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Note 8 - Cash Equivalents and Marketable Securities

Our cash equivalents and marketable securities related to debt securities are classified as "available-for-sale", debt securities. The following is a summary of cash equivalents and marketable securities:

	Jan 28, 2024					
					Reported as	
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value	Cash Equivalents	Marketable Securities
	(In millions)					
Corporate debt securities	$10,126	$31	$ (5)	$10,152	$2,231	$7,921
Debt securities issued by the U.S. Treasury	9,517	17	(10)	9,524	1,315	8,209
Debt securities issued by U.S. government agencies	2,326	8	(1)	2,333	89	2,244
Money market funds	3,031	—	—	3,031	3,031	—
Certificates of deposit	510	—	—	510	294	216
Foreign government bonds	174	—	—	174	60	114
Total	$25,684	$56	$ (16)	$25,724	$,7020	$18,704

	Jan 29, 2023					
					Reported as	
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value	Cash Equivalents	Marketable Securities
	(In millions)					
Corporate debt securities	$4,809	$—	$ (12)	$4,797	$1,087	$3,710
Debt securities issued by the U.S. Treasury	4,185	1	(44)	4,142	—	4,142
Debt securities issued by U.S. government agencies	1,836	—	(2)	1,834	50	1,784
Money market funds	1,777	—	—	1,777	1,777	—
Certificates of deposit	365	—	—	365	134	231
Foreign government bonds	140	—	—	140	100	40
Total	$13,112	$1	$(58)	$ 13,055	$3,148	$9,907

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Notes to the Consolidated Financial Statements
(Continued)

The following tables provide the breakdown of unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous loss position:

	Jan 28, 2024					
	Less than 12 Months		12 Months or Greater		Total	
	Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss
	(In millions)					
Debt securities issued by the U.S. Treasury	$3,343	$ (5)	$1,078	$ (5)	$4,421	$ (10)
Corporate debt securities	1,306	(3)	618	(2)	1,924	(5)
Debt securities issued by U.S. government agencies	670	(1)	—	—	670	(1)
Total	$5,319	$ (9)	$1,696	$ (7)	$7,015	$ (16)

	Jan 29, 2023					
	Less than 12 Months		12 Months or Greater		Total	
	Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss
	(In millions)					
Debt securities issued by the U.S. Treasury	$2,444	$ (21)	$1,172	$ (23)	$3,616	$ (44)
Corporate debt securities	1,188	(7)	696	(5)	1,884	(12)
Debt securities issued by U.S. government agencies	1,307	(2)			1,307	(2)
Total	$4,939	$ (30)	$1,868	$ (28)	$6,807	$ (58)

The gross unrealized losses are related to fixed income securities, driven primarily by changes in interest rates. Net realized gains and losses were not significant for all periods presented.

The amortized cost and estimated fair value of cash equivalents and marketable securities are shown below by contractual maturity.

	Jan 28,2024		Jan 29,2023	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(In millions)			
Less than one year	$16,336	$16,329	$9,738	$9,708
Due in 1-5 years	9,348	9,395	3,374	3,347
Total	$25,684	$25,724	$13,112	$13,055

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Notes to the Consolidated Financial Statements
(Continued)

Note 9 - Fair Value of Financial Assets and Liabilities and Investments in Non-Affiliated Entities

The fair values of our financial assets and liabilities are determined using quoted market prices of identical assets or quoted market prices of similar assets from active markets. We review fair value hierarchy classification on a quarterly basis.

		Fair Value at	
	Pricing Category	Jan 28,2024	Jan 29,2023
		(In millions)	
Assets			
Cash equivalents and marketable securities:			
Money market funds	Level 1	$3,031	$1,777
Corporate debt securities	Level 2	$10,152	$4,797
Debt securities issued by the U.S. Treasury	Level 2	$ 9,524	$4,142
Debt securities issued by U.S. government agencies	Level 2	$2,333	$1,834
Certificates of deposit	Level 2	$ 510	$ 365
Foreign government bonds	Level 2	$ 174	$140
Other assets (Investment in non-affiliated entities):			
Publicly-held equity securities	Level 1	$225	S 11
Liabilities (1)			
0.309% Notes Due 2023	Level 2	$ —	$ 1,230
0.584% Notes Due 2024	Level 2	$1,228	$1,185
3.20% Notes Due 2026	Level 2	$ 970	$966
1.55% Notes Due 2028	Level 2	$1,115	$1,099
2.85% Notes Due 2030	Level 2	$1,367	$1,364
2.00% Notes Due 2031	Level 2	$ 1,057	$1,044
3.50% Notes Due 2040	Level 2	$ 851	$870
3.50% Notes Due 2050	Level 2	$1,604	$ 1,637
3.70% Notes Due 2060	Level 2	$ 403	$ 410

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

Investments in Non-Affiliated Entities

Our investments in non-affiliated entities include marketable equity securities, which are publicly traded, and non-marketable equity securities, which are primarily investments in privately held companies. Our marketable equity securities have readily determinable fair values and are recorded as long-term other assets on our Consolidated Balance Sheets at fair value with changes in fair value recorded in Other income and expense, net on our Consolidated Statements of Income. Marketable equity securities totaled $225 million and $11 million as of January 28, 2024 and January 29, 2023, respectively. The net unrealized and realized gains and losses of investments in marketable securities net were not significant for fiscal years 2024, 2023 and 2022.

Our non-marketable equity securities are recorded in long-term other assets on our Consolidated Balance Sheets. The carrying value of our non-marketable equity securities totaled $1.3 billion and $288 million as of January 28, 2024 and January 29, 2023, respectively. Gains and losses on these investments, realized and unrealized, are recognized in Other income and expense, net on our Consolidated Statements of Income.

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(Continued)

Adjustments to the carrying value of our non-marketable equity securities accounted for under the measurement alternative were as follows:

	Year Ended
	Jan 28,2024
	(In millions)
Carrying amount as of Jan 29, 2023	$288
Adjustments related to non-marketable equity securities:	
Net additions	859
Unrealized gains	194
Impairments and unrealized losses	(20)
Carrying amount as of Jan 28, 2024	$1,321

In the fourth quarter of fiscal year 2024, one of our private company investments completed a secondary equity raise that resulted in an unrealized gain of $178 million.

Net unrealized gains recognized for the year ended January 28, 2024 for non-marketable investments in non-affiliated entities still held as of January 28, 2024 were $174 million. Net unrealized and realized gains related to non-marketable equity securities were not significant for fiscal years 2023 and 2022.

The following table summarizes the cumulative gross unrealized gains and cumulative gross unrealized losses and impairments related to non-marketable equity securities accounted for under the measurement alternative:

	Jan 28,2024
	(In millions)
Cumulative gross unrealized gains	$ 270
Cumulative gross unrealized losses and impairments	(45)

Note 10 - Balance Sheet Components

Two customers accounted for 24% and 11% of our accounts receivable balance as of January 28, 2024. Two customers accounted for 14% and 11% of our accounts receivable balance as of January 29, 2023.

Certain balance sheet components are as follows:

	Jan 28,2024	Jan 29,2023
	(In millions)	
Inventories (1):		
Raw materials	$1,719	$2,430
Work in-process	1,505	466
Finished goods	2,058	2,263
Total inventories	$5,282	$5,159

(1) In fiscal years 2024 and 2023, we recorded an inventory provision of $774 million and $1.0 billion, respectively, in cost of revenue.

NVIDIA Corporation and Subsidiaries
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(Continued)

	Jan 28,2024	Jan 292023,	Estimated Useful Life
	(In millions)		*(In years)*
Property and Equipment:			
Land	$218	$218	(A)
Buildings, leasehold improvements, and furniture	1,816	1,598	(B)
Equipment, compute hardware, and software	5,200	4,303	3-7
Construction in process	189	382	(C)
Total property and equipment, gross	7,423	6,501	
Accumulated depreciation and amortization	(3,509)	(2,694)	
Total property and equipment, net	$3,914	$3,807	

(A) Land is a non-depreciable asset.
(B) The estimated useful lives of our buildings are up to thirty years. Leasehold improvements and finance leases are amortized based on the lesser of either the asset's estimated useful life or the expected remaining lease term.
(C) Construction in process represents assets that are not available for their intended use as of the balance sheet date.

Depreciation expense for fiscal years 2024, 2023, and 2022 was $894 million, $844 million, and $611 million, respectively.

Accumulated amortization of leasehold improvements and finance leases was $400 million and $327 million as of January 28, 2024 and January 29, 2023, respectively.

Property, equipment and intangible assets acquired by assuming related liabilities during fiscal years 2024, 2023, and 2022 were $170 million, $374 million, and $258 million, respectively.

	Jan 28, 2024	Jan 29, 2023
Other assets:	*(In millions)*	
Prepaid supply and capacity agreements (1)	$2,458	$2,989
Investments in non-affiliated entities	1,546	299
Prepaid royalties	364	387
Other	132	145
Total other assets	$4,500	$3,820

(1) As of January 28, 2024 and January 29, 2023, there was an additional $2.5 billion and $458 million of short-term prepaid supply and capacity agreements included in Prepaid expenses and other current assets, respectively.

NVIDIA Corporation and Subsidiaries
Notes to the Consolidated Financial Statements
(Continued)

	Jan 28,2024	Jan 29,2023
	(In millions)	
Accrued and Other Current Liabilities:		
Customer program accruals	$2,081	$1,196
Excess inventory purchase obligations (1)	1,655	954
Deferred revenue (2)	764	354
Accrued payroll and related expenses	675	530
Product warranty and return provisions	415	108
Taxes payable	296	467
Operating leases	228	176
Unsettled share repurchases	187	117
Licenses and royalties	182	149
Other	199	69
Total accrued and other current liabilities	$ 6,682	$4,120

(1) In fiscal years 2024 and 2023, we recorded an expense of approximately $1.4 billion and $1.1 billion, respectively, in cost of revenue for inventory purchase obligations in excess of our current demand projections, supplier charges and for penalties related to cancellations and underutilization.

(2) Deferred revenue primarily includes customer advances and deferrals related to support for hardware and software, license and development arrangements, and cloud services. $233 million and $35 million of the balance in fiscal 2024 and 2023 respectively, related to customer advances.

	Jan 28, 2024	Jan 29, 2023
	(In millions)	
Other Long-Term Liabilities:		
Income tax payable (1)	$1,361	$1,204
Deferred income tax	462	247
Deferred revenue (2)	573	218
Licenses payable	80	181
Other	65	63
Total other long-term liabilities	$2,541	$1,913

(1) Income tax payable is comprised of the long-term portion of the one-time transition tax payable, unrecognized tax benefits, and related interest and penalties.

(2) Deferred revenue primarily includes deferrals related to support for hardware and software.

Deferred Revenue

The following table shows the changes in deferred revenue during fiscal years 2024 and 2023.

	Jan 28, 2024	Jan 29, 2023
	(In millions)	
Balance at beginning of period	$572	$502
Deferred revenue additions during the period	2,038	830
Revenue recognized during the period	(1,273)	(760)
Balance at end of period	$1,337	$572

Revenue recognized during fiscal year 2024 that was included in deferred revenue as of January 29, 2023 was $338 million. Revenue recognized during fiscal year 2023 that was included in deferred revenue as of January 30, 2022 was $282 million.

Revenue related to remaining performance obligations represents the contracted license and development arrangements and support for hardware and software. This includes deferred revenue currently recorded and amounts that will be invoiced in future periods. Revenue allocated to remaining performance obligations, which includes deferred revenue and amounts that will be invoiced and recognized as revenue in future periods, was $1.1 billion as of January 28, 2024. We expect to recognize approximately 40% of this revenue over the next twelve months and the remainder thereafter. This excludes revenue related to performance obligations for contracts with a length of one year or less.

Note 11 - Derivative Financial Instruments

We enter into foreign currency forward contracts to mitigate the impact of foreign currency exchange rate movements on our operating expenses. These contracts are designated as cash flow hedges for hedge accounting treatment. Gains or losses on the contracts are recorded in accumulated other comprehensive income or loss and reclassified to operating expense when the related operating expenses are recognized in earnings or ineffectiveness should occur.

We also enter into foreign currency forward contracts to mitigate the impact of foreign currency movements on monetary assets and liabilities that are denominated in currencies other than the U.S. dollar These forward contracts were not designated for hedge accounting treatment. Therefore, the change in fair value of these contracts is recorded in other income or expense and offsets the change in fair value of the hedged foreign currency denominated monetary assets and liabilities, which is also recorded in other income or expense.

The table below presents the notional value of our foreign currency forward contracts outstanding:

	Jan 28, 2024	**Jan 29, 2023**
	(In millions)	
Designated as cash flow hedges	$1,168	$1,128
Non-designated hedges	$597	$366

The unrealized gains and losses or fair value of our foreign currency forward contracts was not significant as of January 28, 2024 and January 29, 2023.

As of January 28, 2024, all designated foreign currency forward contracts mature within 18 months. The expected realized gains and losses deferred into accumulated other comprehensive income or loss related to foreign currency forward contracts within the next twelve months was not significant.

During fiscal years 2024 and 2023, the impact of derivative financial instruments designated for hedge accounting treatment on other comprehensive income or loss was not significant and all such instruments were determined to be highly effective.

NVIDIA Corporation and Subsidiaries
Notes to the Consolidated Financial Statements
(Continued)

Note 12 - Debt

Long-Term Debt

The carrying value of our outstanding notes, the calendar year of maturity, and the associated interest rates were as follows:

	Expected Remaining Term (years)	Effective Interest Rate	Jan 28,2024	Jan 29,2023
			(In millions)	
0.309% Notes Due 2023(1)	—	0.41%	$—	$1,250
0.584% Notes Due 2024	0.4	0.66%	1,250	1,250
3.20% Notes Due 2026	2.6	3.31%	1,000	1,000
1.55% Notes Due 2028	4.4	1.64%	1,250	1,250
2.85% Notes Due 2030	6.2	2.93%	1,500	1,500
2.00% Notes Due 2031	7.4	2.09%	1,250	1,250
3.50% Notes Due 2040	16.2	3.54%	1,000	1,000
3.50% Notes Due 2050	26.2	3.54%	2,000	2,000
3.70% Notes Due 2060	36.2	3.73%	500	500
Unamortized debt discount and issuance costs			(41)	(47)
Net carrying amount			9,709	10,953
Less short-term portion			(1,250)	(1,250)
Total long-term portion			$ 8,459	$9,703

(1) In fiscal year 2024, we repaid the 0.309% Notes Due 2023.

All our notes are unsecured senior obligations. All existing and future liabilities of our subsidiaries will be effectively senior to the notes. Our notes pay interest semi-annually. We may redeem each of our notes prior to maturity, subject to a make-whole premium as defined in the applicable form of note.

As of January 28, 2024, we were in compliance with the required covenants, which are non-financial in nature, under the outstanding notes.

Commercial Paper

We have a $575 million commercial paper program to support general corporate purposes. As of January 28, 2024, we had no commercial paper outstanding.

Note 13 - Commitments and Contingencies

Purchase Obligations

Our purchase obligations reflect our commitments to purchase components used to manufacture our products, including long-term supply and capacity agreements, certain software and technology licenses, other goods and services and long-lived assets.

As of January 28, 2024, we had outstanding inventory purchase and long-term supply and capacity obligations totaling $16.1 billion. We enter into agreements with contract manufacturers that allow them to procure inventory based upon criteria as defined by us, and in certain instances, these agreements allow us the option to cancel, reschedule, and adjust our requirements based on our business needs prior to firm orders being placed, but these changes may result in the payment of costs incurred through the date of cancellation. Other non-inventory purchase obligations were $4.6 billion, which includes $3.5 billion of multi-year cloud service agreements, primarily to support our research and development efforts.

NVIDIA Corporation and Subsidiaries
Notes to the Consolidated Financial Statements
(Continued)

Total future purchase commitments as of January 28, 2024 are as follows:

	Commitments
	(In millions)
Fiscal Year:	
2025	$17,316
2026	1,143
2027	1,060
2028	770
2029 and thereafter	418
Total	$20,707

Accrual for Product Warranty Liabilities

The estimated amount of product warranty liabilities was $306 million and $82 million as of January 28, 2024 and January 29, 2023, respectively. The estimated product returns and estimated product warranty activity consisted of the following:

	Year Ended		
	Jan 28, 2024	Jan 29, 2023	Jan 30, 2022
		(In millions)	
Balance at beginning of period	$82	$46	$ 22
Additions	278	145	40
Utilization	(54)	(109)	(16)
Balance at end of period	$306	$82	$46

In fiscal years 2024 and 2023, the additions in product warranty liabilities primarily related to Compute & Networking segment.

We have provided indemnities for matters such as tax, product, and employee liabilities. We have included intellectual property indemnification provisions in our technology-related agreements with third parties. Maximum potential future payments cannot be estimated because many of these agreements do not have a maximum stated liability. We have not recorded any liability in our Consolidated Financial Statements for such indemnifications.

Litigation

Securities Class Action and Derivative Lawsuits

The plaintiffs in the putative securities class action lawsuit, captioned 4:18-cv-07669-HSG, initially filed on December 21, 2018 in the United States District Court for the Northern District of California, and titled In Re NVIDIA Corporation Securities Litigation, filed an amended complaint on May 13, 2020. The amended complaint asserted that NVIDIA and certain NVIDIA executives violated Section 10(b) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and SEC Rule 10b-5, by making materially false or misleading statements related to channel inventory and the impact of cryptocurrency mining on GPU demand between May 10, 2017 and November 14, 2018. Plaintiffs also alleged that the NVIDIA executives who they named as defendants violated Section 20(a) of the Exchange Act. Plaintiffs sought class certification, an award of unspecified compensatory damages, an award of reasonable costs and expenses, including attorneys' fees and expert fees, and further relief as the Court may deem just and proper. On March 2, 2021, the district court granted NVIDIA's motion to dismiss the complaint without leave to amend, entered judgment in favor of NVIDIA and closed the case. On March 30, 2021, plaintiffs filed an appeal from judgment in the United States Court of Appeals for the Ninth Circuit, case number 21-15604. On August 25, 2023, a majority of a three-judge Ninth Circuit panel affirmed in part and reversed in part the district court's dismissal of the case, with a third judge dissenting on the basis that the district court did not err in dismissing the case. On

November 15, 2023, the Ninth Circuit denied NVIDIA's petition for rehearing en banc of the Ninth Circuit panel's majority decision to reverse in part the dismissal of the case, which NVIDIA had filed on October 10, 2023. On November 21, 2023, NVIDIA filed a motion with the Ninth Circuit for a stay of the mandate pending NVIDIA'S petition for a writ of certiorari in the Supreme Court of the United States and the Supreme Court's resolution of the matter. On December 5, 2023, the Ninth Circuit granted NVIDIA'S motion to stay the mandate. NVIDIAs deadline to file a petition for a writ of certiorari is March 4, 2024.

The putative derivative lawsuit pending in the United States District Court for the Northern District of California, captioned 4:19-cv-00341-HSG, initially filed January 18, 2019 and titled In re NVIDIA Corporation Consolidated Derivative Litigation, was stayed pending resolution of the plaintiffs' appeal in the In Re NVIDIA Corporation Securities Litigation action. On February 22, 2022, the court administratively closed the case, but stated that it would reopen the case once the appeal in the In Re NVIDIA Corporation Securities Litigation action is resolved. Following the Ninth Circuit's denial of NVIDIA's petition for rehearing on November 15, 2023, the parties are conferring regarding the next steps in this derivative matter. The lawsuit asserts claims, purportedly on behalf of us, against certain officers and directors of the Company for breach of fiduciary duty, unjust enrichment, waste of corporate assets, and violations of Sections 14(a), 10(b), and 20(a) of the Exchange Act based on the dissemination of allegedly false and misleading statements related to channel inventory and the impact of cryptocurrency mining on GPU demand. The plaintiffs are seeking unspecified damages and other relief, including reforms and improvements to NVIDIAs corporate governance and internal procedures.

The putative derivative actions initially filed September 24, 2019 and pending in the United States District Court for the District of Delaware, Lipchitz v. Huang, et al. (Case No. 1:19-cv-01795-UNA) and Nelson v. Huang, et. al. (Case No. 1:19-cv-01798- UNA), remain stayed pending resolution of the plaintiffs' appeal in the In Re NVIDIA Corporation Securities Litigation action. Following the Ninth Circuit's denial of NVIDIA's petition for rehearing on November 15, 2023, the parties are conferring regarding the next steps in these derivative matters. The lawsuits assert claims, purportedly on behalf of us, against certain officers and directors of the Company for breach of fiduciary duty, unjust enrichment, insider trading, misappropriation of information, corporate waste and violations of Sections 14(a), 10(b), and 20(a) of the Exchange Act based on the dissemination of allegedly false, and misleading statements related to channel inventory and the impact of cryptocurrency mining on GPU demand. The plaintiffs seek unspecified damages and other relief, including disgorgement of profits from the sale of NVIDIA stock and unspecified corporate governance measures.

Another putative derivative action was filed on October 30, 2023 in the Court of Chancery of the State of Delaware, captioned Horanic v. Huang, et al. (Case No. 2023-1096-KSJM). This lawsuit asserts claims, purportedly on behalf of us, against certain officers and directors of the Company for breach of fiduciary duty and insider trading based on the dissemination of allegedly false and misleading statements related to channel inventory and the impact of cryptocurrency mining on GPU demand. The plaintiffs seek unspecified damages and other relief, including disgorgement of profits from the sale of NVIDIA stock and reform of unspecified corporate governance measures. This derivative matter is stayed pending the final resolution of In Re NVIDIA Corporation Securities Litigation action.

Accounting for Loss Contingencies

As of January 28, 2024, we have not recorded any accrual for contingent liabilities associated with the legal proceedings described above based on our belief that liabilities, while possible, are not probable. Further, except as specifically described above, any possible loss or range of loss in these matters cannot be reasonably estimated at this time. We are engaged in legal actions not described above arising in the ordinary course of business and, while there can be no assurance of favorable outcomes, we believe that the ultimate outcome of these actions will not have a material adverse effect on our operating results, liquidity or financial position.

NVIDIA Corporation and Subsidiaries
Notes to the Consolidated Financial Statements
(Continued)

Note 14 - Income Taxes

The income tax expense (benefit) applicable to income before income taxes consists of the following:

	Year Ended		
	Jan 28, 2024	Jan 29, 2023	Jan 30, 2022
	(In millions)		
Current income taxes:	$5,710	$1,703	$ 482
Federal State	335	46	42
Foreign	502	228	71
Total current	6,547	1,977	595
Deferred income taxes:			
Federal	(2,499)	(2,165)	(420)
State	(206)	—	—
Foreign	216	1	14
Total deferred	(2,489)	(2,164)	(406)
Income tax expense (benefit)	$ 4,058	$ (187)	$189

Income before income tax consists of the following:

	Year Ended		
	Jan 28, 2024	Jan 29, 2023	Jan 30, 2022
	(In millions)		
U.S.	$29,495	$3,477	$8,446
Foreign	4,323	704	1,495
Income before income tax	$33,818	$4,181	$ 9,941

The income tax expense (benefit) differs from the amount computed by applying the U.S. federal statutory rate of 21% to income before income taxes as follows:

	Year ended					
	Jan 28,2024		Jan 29,2023		Jan 30,2022	
	(In millions, except percentages)					
Tax expense computed at federal statutory rate	$ 7,102	21.0%	$878	21.0%	$2,088	21.0%
Expense (benefit) resulting from:						
State income taxes, net of federal tax effect	120	0.4%	50	1.2%	42	0.4%
Foreign-derived intangible income	(1,408)	(4.2) %	(739)	(17.7) %	(520)	(5.2) %
Stock-based compensation	(741)	(2.2) %	(309)	(7.4) %	(337)	(3.4) %
Foreign tax rate differential	(467)	(1.4) %	(83)	(2.0) %	(497)	(5.0) %
U.S. federal research and development tax credit	(431)	(1.3) %	(278)	(6.6) %	(289)	(2.9) %
Acquisition termination cost	—	—%	261	6.2%	—	—%
IP domestication	—	—%	—	—%	(244)	(2.5) %
Other	(117)	(0.3) %	33	0.8%	(54)	(0.5) %
Income tax expense(benefit)	$ 4,058	12.0%	$ (187)	(4.5) %	$189	1.9%

NVIDIA Corporation and Subsidiaries
Notes to the Consolidated Financial Statements
(Continued)

The tax effect of temporary differences that gives rise to significant portions of the deferred tax assets and liabilities are presented below:

	Jan 28,2024	Jan 29,2023
	(In millions)	
Deferred tax assets:		
Capitalized research and development expenditure	$3,376	$1,859
GILTI deferred tax assets	1,576	800
Accruals and reserves, not currently deductible for tax purposes	1,121	686
Research and other tax credit carryforwards	936	951
Net operating loss and capital loss carryforwards	439	409
Operating lease liabilities	263	193
Stock-based compensation	106	99
Property, equipment and intangible assets	4	66
Other deferred tax assets	179	91
Gross deferred tax assets	8,000	5,154
Less valuation allowance	(1,552)	(1,484)
Total deferred tax assets	6,448	3,670
Deferred tax liabilities:		
Unremitted earnings of foreign subsidiaries	(502)	(228)
Operating lease assets	(255)	(179)
Acquired intangibles	(74)	(115)
Gross deferred tax liabilities	(831)	(522)
Net deferred tax asset (1)	$5,617	$3,148

(1) Net deferred tax asset includes long-term deferred tax assets of $6.1 billion and $3.4 billion and long-term deferred tax liabilities of $462 million and $247 million for fiscal years 2024 and 2023, respectively. Long-term deferred tax liabilities are included in other long-term liabilities on our Consolidated Balance Sheets.

As of January 28, 2024, we intend to indefinitely reinvest approximately $1.1 billion and $250 million of cumulative undistributed earnings held by certain subsidiaries in Israel and the United Kingdom, respectively. We have not provided the amount of unrecognized deferred tax liabilities for temporary differences related to these investments as the determination of such amount is not practicable.

As of January 28, 2024 and January 29, 2023, we had a valuation allowance of $1.6 billion and $1.5 billion, respectively, related to capital loss carryforwards, and certain state and other deferred tax assets that management determined are not likely to be realized due, in part, to jurisdictional projections of future taxable income, including capital gains. To the extent realization of the deferred tax assets becomes more-likely-than-not, we would recognize such deferred tax assets as income tax benefits during the period.

As of January 28, 2024, we had U.S. federal, state and foreign net operating loss carryforwards of $315 million, $342 million and $361 million, respectively. The federal and state carryforwards will begin to expire in fiscal years 2026 and 2025, respectively. The foreign net operating loss carryforwards of $361 million may be carried forward indefinitely. As of January 28, 2024, we had federal research tax credit carryforwards of $31 million, before the impact of uncertain tax positions, that will begin to expire in fiscal year 2025. We have state research tax credit carryforwards of $1.6 billion, before the impact of uncertain tax positions. $1.5 billion is attributable to the State of California and may be carried over indefinitely and $75 million is attributable to various other states and will begin to expire in fiscal year 2025. As of January 28, 2024, we had federal capital loss carryforwards of $1.4 billion that will begin to expire in fiscal year 2025.

Our tax attributes remain subject to audit and may be adjusted for changes or modification in tax laws, other authoritative interpretations thereof, or other facts and circumstances. Utilization of tax attributes may also be subject to limitations due to ownership changes and other limitations provided by the Internal Revenue Code and similar state and foreign tax provisions. If any such limitations apply, the tax attributes may expire or be denied before utilization.

NVIDIA Corporation and Subsidiaries
Notes to the Consolidated Financial Statements
(Continued)

A reconciliation of gross unrecognized tax benefits is as follows:

	Jan 28, 2024	Jan 29, 2023	Jan 30, 2022
		(In millions)	
Balance at beginning of period	$1,238	$1,013	$776
Increases in tax positions for current year	616	268	246
Increases in tax positions for prior years	87	1	14
Decreases in tax positions for prior years	(148)	(15)	(4)
Settlements	(104)	(9)	(8)
Lapse in statute of limitations	(19)	(20)	(11)
Balance at end of period	$1,670	$1,238	$1,013

Included in the balance of unrecognized tax benefits as of January 28, 2024 are $1.0 billion of tax benefits that would affect our effective tax rate if recognized.

We classify an unrecognized tax benefit as a current liability, or amount refundable, to the extent that we anticipate payment or receipt of cash for income taxes within one year. The amount is classified as a long-term liability, or reduction of long-term amount refundable, if we anticipate payment or receipt of cash for income taxes during a period beyond a year.

We include interest and penalties related to unrecognized tax benefits as a component of income tax expense. We recognized net interest and penalties related to unrecognized tax benefits in the income tax expense line of our consolidated statements of income of $42 million, $33 million, and $14 million during fiscal years 2024, 2023 and 2022, respectively. As of January 28, 2024 and January 29, 2023, we have accrued $140 million and $95 million, respectively, for the payment of interest and penalties related to unrecognized tax benefits, which is not included as a component of our gross unrecognized tax benefits.

While we believe that we have adequately provided for all tax positions, amounts asserted by tax authorities could be greater or less than our accrued position. Accordingly, our provisions on federal, state and foreign tax-related matters to be recorded in the future may change as revised estimates are made or the underlying matters are settled or otherwise resolved. As of January 28, 2024, we have not identified any positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within the next twelve months.

We are subject to taxation by taxing authorities both in the United States and other countries. As of January 28, 2024, the significant tax jurisdictions that may be subject to examination include the United States for fiscal years after 2020, as well as China, Germany, Hong Kong, India, Israel, Taiwan, and the United Kingdom for fiscal years 2005 through 2023. As of January 28, 2024, the significant tax jurisdictions for which we are currently under examination include Germany, India, Israel, and Taiwan for fiscal years 2005 through 2023.

Note 15 - Shareholders' Equity

Capital Return Program

In August 2023, our Board of Directors approved an increase to our share repurchase program of an additional $25.0 billion, without expiration. During fiscal year 2024, we repurchased 21 million shares of our common stock for $9.7 billion. As of January 28, 2024, we were authorized, subject to certain specifications, to repurchase additional shares of our common stock up to $22.5 billion. From January 29, 2024 through February 16, 2024, we repurchased 2.8 million shares for $1.9 billion pursuant to a Rule 10b5-1 trading plan. Our share repurchase program aims to offset dilution from shares issued to employees. We may pursue additional share repurchases as we weigh market factors and other investment opportunities.

During fiscal years 2024, 2023, and 2022, we paid $395 million, $398 million, and $399 million in cash dividends to our shareholders, respectively. Our cash dividend program and the payment of future cash dividends under that program are subject to our Board of Directors' continuing determination that the dividend program and the declaration of dividends thereunder are in the best interests of our shareholders.

In fiscal year 2022, we retired our existing 349 million treasury shares. These shares assumed the status of authorized and unissued shares upon retirement. The excess of repurchase price over par value was allocated between additional paid-in capital and retained earnings, resulting in a reduction in additional paid- in capital by $20 million and retained earnings by $12.0 billion. Any future repurchased shares will assume the status of authorized and unissued shares.

NVIDIA Corporation and Subsidiaries
Notes to the Consolidated Financial Statements
(Continued)

Note 16 - Employee Retirement Plans

We provide tax-qualified defined contribution plans to eligible employees in the U.S. and certain other countries. Our contribution expense for fiscal years 2024, 2023, and 2022 was $255 million, $227 million, and $168 million, respectively.

Note 17 - Segment Information

Our Chief Executive Officer, who is considered to be our chief operating decision maker, or CODM, reviews financial information presented on an operating segment basis for purposes of making decisions and assessing financial performance.

The Compute & Networking segment includes our Data Center accelerated computing platform; networking; automotive artificial intelligence, or Al, Cockpit, autonomous driving development agreements, and autonomous vehicle solutions; electric vehicle computing platforms; Jetson for robotics and other embedded platforms; NVIDIA Al Enterprise and other software; and DGX Cloud.

The Graphics segment includes GeForce GPUs for gaming and PCs, the GeForce NOW game streaming service and related infrastructure, and solutions for gaming platforms; Quadro/NVIDIA RTX GPUs for enterprise workstation graphics; virtual GPU software for cloud-based visual and virtual computing; automotive platforms for infotainment systems; and Omniverse Enterprise software for building and operating 3D internet applications.

Operating results by segment include costs or expenses that are directly attributable to each segment, and costs or expenses that are leveraged across our unified architecture and therefore allocated between our two segments.

The “AII Other” category includes the expenses that our CODM does not assign to either Compute & Networking or Graphics for purposes of making operating decisions or assessing financial performance. The expenses include stock-based compensation expense, corporate infrastructure and support costs, acquisition- related and other costs, intellectual property related, or IP-related costs, acquisition termination cost, and other non-recurring charges and benefits that our CODM deems to be enterprise in nature.

Our CODM does not review any information regarding total assets on a reportable segment basis. Depreciation and amortization expense directly attributable to each reportable segment is included in operating results for each segment. However, our CODM does not evaluate depreciation and amortization expense by operating segment and, therefore, it is not separately presented. There is no intersegment revenue. The accounting policies for segment reporting are the same as for our consolidated financial statements. The table below presents details of our reportable segments and the HAII Other" category.

	Compute &Networking	Graphics	All Other	Consolidated
	(In millions)			
Year Ended Jan 28,2024:				
Revenue	$ 47,405	$13,517	$ —	$60,922
Operating income (loss)	$32,016	$5,846	$ (4,890)	$32,972
Year Ended Jan 29, 2023:				
Revenue	$15,068	$11,906	$ —	$26,974
Operating income (loss)	$ 5,083	S4,552	$ (5,411)	$4,224
Year Ended Jan 30, 2022:				
Revenue	$11,046	$15,868	$ —	$ 26,914
Operating income (loss)	$ 4,598	$ 8,492	$ (3,049)	$10,041

NVIDIA Corporation and Subsidiaries
Notes to the Consolidated Financial Statements
(Continued)

	Year Ended		
	Jan 28, 2024	Jan 29, 2023	Jan 30, 2022
	(In millions)		
Reconciling items included in "All Other" category:			
Stock-based compensation expense	$ (3,549)	$ (2,710)	$ (2,004)
Unallocated cost of revenue and operating expenses	(728)	(595)	(399)
Acquisition-related and other costs	(583)	(674)	(636)
IP-related and legal settlement costs	(40)	(23)	(10)
Restructuring costs and other	—	(54)	—
Acquisition termination cost	—	(1,353)	—
Other	10	(2)	—
Total	$ (4,890)	$ (5,411)	$ (3,049)

Revenue by geographic areas is designated based upon the billing location of the customer. End customer location may be different than our customer's billing location. Revenue by geographic areas was as follows:

	Year Ended		
	Jan 28, 2024	Jan 29, 2023	Jan 30, 2022
Revenue:	(In millions)		
United States	$26,966	$8,292	$4,349
Taiwan	13,405	6,986	8,544
China (including Hong Kong)	10,306	5,785	7,111
Other countries	10,245	5,911	6,910
Total revenue	$60,922	$26,974	$26,914

Revenue from sales to customers outside of the United States accounted for 56%, 69%, and 84% of total revenue for fiscal years 2024, 2023, and 2022, respectively. The increase in revenue to the United States for fiscal year 2024 was primarily due to higher U.S.-based Compute & Networking segment demand.

Sales to one customer represented 13% of total revenue for fiscal year 2024, which was attributable to the Compute & Networking segment. No customer represented 10% or more of total revenue for fiscal years 2023 and 2022.

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

	Year Ended		
	Jan 28, 2024	Jan 29, 2023	Jan 30, 2022
Revenue:	(In millions)		
Data Center	$47,525	$15,005	$10,613
Gaming	10,447	9,067	12,462
Professional Visualization	1,553	1,544	2,111
Automotive	1,091	903	566
OEM and Other	306	455	1,162
Total revenue	$60,922	$26,974	$26,914

NVIDIA Corporation and Subsidiaries
Notes to the Consolidated Financial Statements
(Continued)

The following table presents summarized information for long-lived assets by country. Long-lived assets consist of property and equipment and exclude other assets, operating lease assets, goodwill, and intangible assets.

	Jan 28, 2024	Jan 29,2023
Long-lived assets:	*(In millions)*	
United States	$2,595	$2,587
Taiwan	773	702
Israel	325	283
Other countries	221	235
Total long-lived assets	$3,914	$3,807

NVIDIA Corporation and Subsidiaries
Schedule II- Valuation and Qualifying Accounts

Description	Balance at Beginning of Period	Additions	Deductions	Balance at End of Period
		(In millions)		
Fiscal year 2024				
Allowance for doubtful accounts	$4	$ — (1)	$ — (1)	$4
Sales return allowance	$ 26	$ 213 (2)	$ (130) (4)	$ 109
Deferred tax valuation allowance	$1,484	$162(3)	$ (94)(3)	$1,552
Fiscal year 2023				
Allowance for doubtful accounts	$ 4	$ — (1)	$— (1)	$ 4
Sales return allowance	$ 13	$4 (2)	$ (91)(4)	$ 26
Deferred tax valuation allowance	$ 907	$577 (3)	$—	$ 1,484
Fiscal year 2022				
Allowance for doubtful accounts	$ 4	$ — (1)	$ — (1)	$ 4
Sales return allowance	$17	$ 19 (2)	$ (23)(4)	$13
Deferred tax valuation allowance	$ 728	$ 179 (3)	$—	$907

(1) Additions represent either expense or acquired balances and deductions represent write-offs.

(2) Additions represent estimated product returns charged as a reduction to revenue or an acquired balance.

(3) Additional valuation allowance on deferred tax assets not likely to be realized. Additions represent additional valuation allowance on capital loss carryforwards, and certain state and other deferred tax assets. Deductions represent the release of valuation allowance on certain state deferred tax assets. 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.

(4) Represents sales returns.

For the purpose of this section only, unless the context requires otherwise, references to the "Company" are to NVIDIA, and references to "we", "us" and "our" shall be construed accordingly.

The following management discussion and analysis of the results of NVIDIA is extracted from the annual reports of NVIDIA for the years ended 31 January 2021, 30 January 2022 and 29 January 2023 and the third quarterly report of NVIDIA for the nine months ended 29 October 2023. It should be read in conjunction with the financial information of NVIDIA for the years ended 31 January 2021, 30 January 2022 and 29 January 2023 and the nine months ended 29 October 2023 set forth in Appendix II to this circular. The management discussion and analysis of the results of NVIDIA was issued in English and the Chinese translated version is provided for information purposes only. In case of discrepancies between the two versions, the English version shall prevail.

The Directors wish to emphasise that the extracts reproduced below are not prepared for incorporation into this circular and the Group has not participated in their preparation. As such, the Directors do not express any view as to their truth, accuracy or completeness, and the Shareholders and investors should exercise caution and should not place undue reliance on such information.

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", 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 and Our Businesses

NVIDIA pioneered accelerated computing to help solve the most challenging computational problems. Starting with a focus on PC graphics, we extended our focus in recent years to the revolutionary field of AI. Fueled by the sustained demand for exceptional 3D graphics and the scale of the gaming market, NVIDIA leveraged its GPU architecture to create platforms for virtual reality, HPC, and AI.

Through fiscal year 2020, our reportable segments were GPU and Tegra Processor. We changed our reportable segments to "Graphics" and "Compute & Networking" starting with the first quarter of fiscal year 2021.

Our Graphics segment includes GeForce GPUs for gaming and PCs, the GeForce NOW game streaming service and related infrastructure, and solutions for gaming platforms; Quadro/NVIDIA RTX GPUs for enterprise workstation graphics; vGPU software for cloud-based visual and virtual computing; and automotive platforms for infotainment systems.

Our Compute & Networking segment includes Data Center platforms and systems for AI, HPC, and accelerated computing; Mellanox networking and interconnect solutions; automotive AI Cockpit, autonomous driving development agreements, and autonomous vehicle solutions; and Jetson for robotics and other embedded platforms.

All prior period comparisons presented reflect our new reportable segments. Our market platforms – Gaming, Professional Visualization, Data Center, Automotive, OEM and Other – remain unchanged.

Headquartered in Santa Clara, California, NVIDIA was incorporated in California in April 1993 and reincorporated in Delaware in April 1998.

Recent Developments, Future Objectives and Challenges

Pending Acquisition of Arm Limited

On September 13, 2020, we entered into a Purchase Agreement with Arm and SoftBank for us to acquire, from SoftBank, all allotted and issued ordinary shares of Arm in a transaction valued at $40 billion. We paid $2 billion in cash at signing, or the Signing Consideration, and will pay upon closing of the acquisition $10 billion in cash and issue to SoftBank 44.3 million shares of our common stock with an aggregate value of $21.5 billion. The transaction includes a potential earn out, which is contingent on the achievement of certain financial performance targets by Arm during the fiscal year ending March 31, 2022. If the financial performance targets are achieved, Softbank can elect to receive either up to an additional $5 billion in cash or up to an additional 10.3 million shares of our common stock. We will issue up to $1.5 billion in restricted stock units to Arm employees after closing. The $2 billion paid upon signing was allocated between advanced consideration for the acquisition of $1.36 billion and the prepayment of intellectual property licenses from Arm of $0.17 billion and royalties of $0.47 billion, both with a 20-year term. The closing of the acquisition is subject to customary closing conditions, including receipt of specified governmental and regulatory consents and approvals and expiration of any related mandatory waiting period, and Arm's implementation of the reorganization and distribution of Arm's IoT Services Group and certain other assets and liabilities. We are engaged with regulators in the United States, the United Kingdom, the European Union, China and other jurisdictions. If the Purchase Agreement is terminated under certain circumstances, we will be refunded $1.25 billion of the Signing Consideration. The $2 billion payment upon signing was allocated on a fair value basis and any refund of the Signing Consideration will use stated values in the Purchase Agreement. We believe the closing of the acquisition will likely occur in the first quarter of calendar year 2022.

Demand

Our products are manufactured based on estimates of customers' future demand and our manufacturing lead times are very long. This could lead to a significant mismatch between supply and demand, giving rise to product shortages or excess inventory, and make our demand forecast more uncertain. We sell many of our products through a channel model, and our channel customers sell to retailers, distributors, and/or end customers. As a result, the decisions made by our channel partners, retailers, and distributors in response to changing market conditions and the changing demand for our products could impact our financial results. In order to have shorter shipment lead times and quicker delivery schedules for our customers, we may build inventory for anticipated periods of growth which do not occur, may build inventory anticipating demand that does not materialize, or may build inventory to serve what we believe is pent-up demand. In periods with limited availability of capacity and components in our supply chain, we may place non-cancellable inventory orders significantly in advance of our normal lead times, pay premiums or provide deposits to secure normal and incremental future supply, which could negatively impact our financial results. Demand for our products is based on many factors, including our product introductions and transitions, competitor announcements, and competing technologies, all of which can impact the timing and amount of our revenue. For example, our GPUs for gaming are capable of digital currency mining. Demand and use of GPUs for cryptocurrency has fluctuated in the past and is likely to continue to change quickly. Volatility in the cryptocurrency market, including changes in the prices of cryptocurrencies, can impact demand for our products and our ability to estimate demand for our products. Changes to cryptocurrency standards and processes including, but not limited to, the pending Ethereum 2.0 standard may also create increased aftermarket resales of our GPUs and may reduce demand for our new GPUs. Additionally, consumer behavior during the COVID-19 pandemic, such as increased demand for our Gaming, Data Center and mobile workstation and laptop products and suppressed corporate demand for desktop workstations, has made it more difficult for us to estimate future demand, and these challenges may be more pronounced in the future if and when the effects of the pandemic subside. In estimating demand and evaluating trends, we make multiple assumptions, any of which may prove to be incorrect.

COVID-19

The worldwide COVID-19 pandemic is prompting governments and businesses to take unprecedented measures including restrictions on travel, temporary business closures, quarantines and shelter-in-place orders. It has significantly impacted global economic activity and caused volatility and disruption in global financial markets. Since March 2020, most of our employees have been working remotely and we have temporarily prohibited most business travel.

Our Gaming and Data Center market platforms have benefited from stronger demand as people continue to work, learn, and play from home. In Professional Visualization, mobile workstations continue to benefit from work-from-home trends, and desktop workstation demand has started to recover, although not back to pre-COVID levels. In Automotive, COVID is no longer having a significant impact on demand. Throughout our supply chain, stronger demand globally has limited the availability of capacity and components, particularly in Gaming.

As the COVID-19 pandemic continues, the timing and overall demand from customers and the availability of supply chain, logistical services and component supply may have a material net negative impact on our business and financial results. Refer to Part I, Item 1A of this Annual Report on Form 10-K for additional information under the heading "Risk Factors".

We believe our existing balances of cash, cash equivalents and marketable securities, along with commercial paper and other short-term liquidity arrangements, will be sufficient to satisfy its working capital needs, capital asset purchases, dividends, debt repayments and other liquidity requirements associated with its existing operations.

Fiscal Year 2021 Summary

	Year Ended		
	January 31, 2021	January 26, 2020	Change
	($ in millions, except per share data)		
Revenue	$ 16,675	$ 10,918	Up 53%
Gross margin	62.3 %	62.0 %	Up 30 bps
Operating expenses	$ 5,864	$ 3,922	Up 50%
Income from operations	$ 4,532	$ 2,846	Up 59%
Net income	$ 4,332	$ 2,796	Up 55%
Net income per diluted share	$ 6.90	$ 4.52	Up 53%

Revenue for fiscal year 2021 was $16.68 billion, up 53% from a year earlier.

From a market-platform perspective, Gaming revenue was up 41% from a year ago, reflecting higher sales across desktop and laptop GPUs for gaming, and game-console SOCs. GPUs for gaming benefited from the ramp of our GeForce RTX 30 Series based on the NVIDIA Ampere architecture.

Professional Visualization revenue was down 13% from a year ago due to lower sales of GPUs for desktop workstations as enterprise demand was impacted by COVID.

Data Center revenue was up 124% from a year ago. Revenue growth was driven by our Mellanox acquisition and the ramp of the NVIDIA Ampere GPU architecture. In fiscal year 2021, Mellanox revenue contributed 10% of total company revenue.

Automotive revenue was down 23% from a year earlier, reflecting lower revenue from the expected ramp down of legacy infotainment modules and autonomous driving development agreements, partially offset by increases in AI cockpit and autonomous vehicle solutions.

OEM and Other revenue was up 25% from a year ago, primarily due to higher volume of entry-level laptop GPUs.

Gross margin for fiscal year 2021 was up 30 basis points from a year ago, primarily driven by product mix with higher Data Center and lower Automotive revenue, partially offset by Mellanox acquisition-related charges.

Operating expenses for fiscal year 2021 were $5.86 billion, up 50% from a year ago. The growth was influenced by the inclusion of Mellanox in the second quarter of fiscal year 2021, employee additions and increases in employee compensation and related expenses. Additionally, acquisition-related and other costs of $411 million primarily include $190 million in non-recurring intangible amortization of Mellanox order backlog, $123 million in recurring amortization of Mellanox intangible assets, and $40 million related to the pending acquisition of Arm.

Income from operations for fiscal year 2021 was $4.53 billion, up 59% from a year earlier. Net income and net income per diluted share for fiscal year 2021 were $4.33 billion and $6.90, up 55% and 53%, respectively, from a year earlier.

Cash, cash equivalents and marketable securities were $11.56 billion as of January 31, 2021, compared with $10.90 billion as of January 26, 2020. The increase primarily reflects the issuance of the $5 billion of notes in March 2020 and cash-flow generation, partially offset by acquisitions.

We paid $395 million in quarterly cash dividends in fiscal year 2021.

Market Platform Highlights

During fiscal year 2021, in our Gaming platform, we announced the launch of new laptop models powered by NVIDIA GeForce GPUs; unveiled GeForce RTX 30 Series GPUs including our second generation NVIDIA RTX; expanded NVIDIA GeForce NOW; announced that a range of games now support NVIDIA RTX ray tracing and DLSS AI super resolution; unveiled NVIDIA Reflex and NVIDIA Broadcast; expanded the RTX Studio lineup powered by new GeForce RTX SUPER GPUs; and released DLSS 2.0.

In our Professional Visualization platform, we launched mobile workstations with Acer, Dell, HP, Lenovo and Microsoft based on NVIDIA Quadro graphics for professional creators; released NVIDIA Quadro View; collaborated with Adobe to bring GPU-accelerated neural filters to Adobe Photoshop AI-powered tools; powered Autodesk's latest 3D visualization software with NVIDIA Quadro RTX; and collaborated with many other independent software vendors to help incorporate NVIDIA RTX and AI technology in their applications.

In our Data Center platform, we announced the NVIDIA A100 Tensor Core GPU and DGX A100, the first products based on the NVIDIA Ampere architecture; announced more than 50 NVIDIA A100-powered systems with OEM partners and released NVIDIA-Certified Systems with NVIDIA A100 GPUs to OEMs; shared news that major cloud providers, including Google Cloud Platform, AWS, Microsoft Azure and Oracle Cloud Infrastructure, reached general availability of cloud computing instances based on the NVIDIA A100 GPU; announced the NVIDIA DGX SuperPOD Solution for Enterprise; introduced the new family of NVIDIA BlueField-2 DPUs; introduced new products for the EGX Edge AI platform; announced a broad partnership with VMware to create an end-to-end enterprise platform for AI and a new architecture for data center, cloud and edge; powered eight of the top 10, and two-thirds of the total systems, on the latest TOP500 list of the world's fastest supercomputers; announced that five supercomputers backed by EuroHPC will use NVIDIA's data center accelerators or networking; and set 16 AI performance records on the latest MLPerf benchmarks.

In our Automotive platform, we announced with Mercedes-Benz that the automaker will launch software-defined, intelligent vehicles using end-to-end NVIDIA technology starting in 2024; announced that NVIDIA DRIVE autonomous driving technology is powering a range of electric vehicles from carmakers SAIC, Nio, Li Auto, Xpeng, robotaxi-maker Zoox, and cabless truck-maker Einride; announced that NVIDIA is powering the new Mercedes-Benz AI cockpit in the first half of 2021; announced that Hyundai Motor Group's entire lineup of Hyundai, Kia and Genesis models will come standard with NVIDIA DRIVE in-vehicle infotainment systems starting in 2022; and expanded the NVIDIA DRIVE sensor ecosystem with new solutions.

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 accounting principles generally accepted in the United States, or 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 business combinations, inventories, revenue recognition, income taxes, and goodwill. 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.

Business Combinations

The application of acquisition accounting to a business acquisition requires that we identify the individual assets acquired and liabilities assumed and estimate the fair value of each. The fair value of assets acquired and liabilities assumed in a business acquisition are recognized at the acquisition date, with the purchase price exceeding the fair values being recognized as goodwill. Determining fair value of identifiable assets, particularly intangibles, liabilities acquired and contingent obligations assumed requires management to make estimates. In certain circumstances, the allocations of the purchase price are based upon preliminary estimates and assumptions and subject to revision when we receive final information, including appraisals and other analyses. Accordingly, the measurement period for such purchase price allocations will end when the information, or the facts and circumstances, becomes available, but will not exceed twelve months. We will recognize measurement-period adjustments during the period of resolution, including the effect on earnings of any amounts that would have been recorded in previous periods if the accounting had been completed at the acquisition date.

Goodwill and intangible assets often represent a significant portion of the assets acquired in a business combination. We recognize the fair value of an acquired intangible apart from goodwill whenever the intangible arises from contractual or other legal rights, or when it can be separated or divided from the acquired entity and sold, transferred, licensed, rented or exchanged, either individually or in combination with a related contract, asset or liability. Intangible assets consist primarily of technology, customer relationships, order backlog and trade name acquired in a business combination and in-process research and development, or IPR&D. We generally assess the estimated fair values of acquired intangibles using a combination of valuation techniques. To estimate fair value, we are required to make certain estimates and assumptions, including future economic and market conditions, revenue growth, technology migration curve, and risk-adjusted discount rates. Our estimates require significant judgment and are based on historical data, various internal estimates, and external sources. Our assessment of IPR&D also includes consideration of the risk of the projects not achieving technological feasibility.

Inventories

Inventory cost is computed on an adjusted standard basis, which approximates actual cost on an average or first-in, first-out basis. We charge cost of sales for inventory provisions to write-down our inventory to the lower of cost or net realizable value or for obsolete or excess inventory. Most of our inventory provisions relate to excess quantities of products or components, based on our inventory levels and future product purchase commitments compared to assumptions about future demand and market conditions.

Situations that may result in excess or obsolete inventory include changes in business and economic conditions, changes in market conditions, sudden and significant decreases in demand for our products, inventory obsolescence because of changing technology and customer requirements, failure to estimate customer demand properly, or unexpected competitive pricing actions by our competition. In addition, cancellation or deferral of customer purchase orders could result in our holding excess inventory.

The overall net effect on our gross margin from inventory provisions and sales of items previously written down was insignificant in fiscal years 2021 and 2020. As a fabless semiconductor company, we must make commitments to purchase inventory based on forecasts of future customer demand. In doing so, we must account for our third-party manufacturers' lead times and constraints. We also adjust to other market factors, such as product offerings and pricing actions by our competitors, new product transitions, and macroeconomic conditions - all of which may impact demand for our products.

Refer to the Gross Profit and Gross Margin discussion below in this Management's Discussion and Analysis for further discussion.

Revenue Recognition

We derive our revenue from product sales, including hardware and systems, license and development arrangements, and software licensing. We determine revenue recognition through the following steps: (1) identification of the contract with a customer; (2) identification of the performance obligations in the contract; (3) determination of the transaction price; (4) allocation of the transaction price to the performance obligations in the contract (where revenue is allocated on a relative standalone selling price basis by maximizing the use of observable inputs to determine the standalone selling price for each performance obligation); and (5) recognition of revenue when, or as, we satisfy a performance obligation.

Product Sales Revenue

Revenue from product sales is recognized upon transfer of control of promised products to customers in an amount that reflects the consideration we expect to receive in exchange for those products. Certain products are sold along with support or extended warranty. Support and extended warranty revenue is recognized ratably over the service period, or as services are performed. Revenue is recognized net of allowances for returns, customer programs and any taxes collected from customers.

For products sold with a right of return, we 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 fiscal period are anticipated to exceed historical return rates, we may determine that additional sales return allowances are required to properly reflect our estimated exposure for product returns.

Our customer programs involve rebates, which are designed to serve as sales incentives to resellers of our products in various target markets, and marketing development funds, or MDFs, which represent monies paid to our partners that are earmarked for market segment development and are designed to support our partners' activities while also promoting NVIDIA products. We account for customer programs as a reduction to revenue and accrue for potential rebates and MDFs based on the amount we expect to be claimed by customers.

License and Development Arrangements

Our license and development arrangements with customers typically require significant customization of our intellectual property components. As a result, we recognize the revenue from the license and the revenue from the development services as a single performance obligation over the period in which the development services are performed. We measure progress to completion based on actual cost incurred to date as a percentage of the estimated total cost required to complete each project. If a loss on an arrangement becomes probable during a period, we record a provision for such loss in that period.

Refer to Note 1 of the Notes to the Consolidated Financial Statements in Part IV, Item 15 of this Annual Report on Form 10-K for additional information.

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.

Our calculation of 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 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 31, 2021, we had a valuation allowance of $728 million related to state and certain foreign deferred tax assets that management determined are not likely to be realized due to jurisdictional projections of future taxable income, tax attributes usage limitation by certain jurisdictions, 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 assets as an income tax benefit during the period.

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.

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 changed our reportable segments to "Graphics" and "Compute & Networking" starting with the first quarter of fiscal year 2021. As a result, our reporting units also changed, and we reassigned the goodwill balance to the new reporting units based on their relative fair values. We determined there was no goodwill impairment immediately prior to the reorganization. As of January 31, 2021, the total carrying amount of goodwill was $4.19 billion and the amount of goodwill allocated to our Graphics and Compute & Networking reporting units was $347 million and $3.85 billion, respectively. Determining 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.

We performed our annual goodwill assessment during the fourth quarter of fiscal year 2021 using a qualitative assessment and concluded there was no goodwill impairment.

Refer to Note 6 of the Notes to the Consolidated Financial Statements in Part IV, Item 15 of this Annual Report on Form 10-K for additional information.

Results of Operations

A discussion regarding our financial condition and results of operations for fiscal year 2021 compared to fiscal year 2020 is presented below. A discussion regarding our financial condition and results of operations for fiscal year 2020 compared to fiscal year 2019 can be found under Item 7 in our Annual Report on Form 10-K for the fiscal year ended January 26, 2020, filed with the SEC on February 20, 2020, which is available free of charge on the SEC's website at http://www.sec.gov and at our investor relations website, http://investor.nvidia.com.

The following table sets forth, for the periods indicated, certain items in our Consolidated Statements of Income expressed as a percentage of revenue.

	Year Ended	
	January 31, 2021	January 26, 2020
Revenue	100.0 %	100.0 %
Cost of revenue	37.7	38.0
Gross profit	62.3	62.0
Operating expenses:		
Research and development	23.5	25.9
Sales, general and administrative	11.6	10.0
Total operating expenses	35.1	35.9
Income from operations	27.2	26.1
Interest income	0.3	1.6
Interest expense	(1.1)	(0.5)
Other, net	0.1	—
Other income (expense), net	(0.7)	1.1
Income before income tax expense	26.5	27.2
Income tax expense	0.5	1.6
Net income	26.0 %	25.6 %

Revenue

Revenue by Reportable Segments

	Year Ended			
	January 31, 2021	January 26, 2020	$ Change	% Change
	($ in millions)			
Graphics	$ 9,834	$ 7,639	$ 2,195	29 %
Compute & Networking	6,841	3,279	3,562	109 %
Total	$ 16,675	$ 10,918	$ 5,757	53 %

Graphics - Graphics segment revenue increased by 29% in fiscal year 2021 compared to fiscal year 2020, reflecting growth in GeForce GPUs and game console SOCs, partially offset by lower sales of Quadro/NVIDIA RTX workstations.

Compute & Networking - Compute & Networking segment revenue increased by 109% in fiscal year 2021 compared to fiscal year 2020, reflecting the addition of Mellanox acquired on April 27, 2020 and the continued ramp of NVIDIA Ampere GPU architecture systems and new products.

Concentration of Revenue

Revenue from sales to customers outside of the United States accounted for 81% and 92% of total revenue for fiscal years 2021 and 2020, respectively. Revenue by geographic region is allocated to individual countries based on the location to which the products are initially billed even if the revenue is attributable to end customers in a different location.

No customer represented 10% or more of total revenue for fiscal year 2021. Dell represented approximately 11% of our total revenue for fiscal year 2020, and was attributable primarily to the Graphics segment.

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, board and device costs, manufacturing support costs, including labor and overhead associated with such purchases, final test yield fallout, inventory and warranty provisions, memory and component costs, and shipping costs. Cost of revenue also includes acquisition-related costs, development costs for license and service arrangements, IP-related costs, and stock-based compensation related to personnel associated with manufacturing.

Our overall gross margin was 62.3% and 62.0% for fiscal years 2021 and 2020, respectively. The increase in fiscal year 2021 was driven by product mix with higher Data Center and lower Automotive revenue, partially offset by Mellanox acquisition-related charges, including a non-recurring inventory step-up charge of $161 million and ongoing intangible asset amortization of $263 million.

Inventory provisions totaled $116 million and $161 million for fiscal years 2021 and 2020, respectively. Sales of inventory that was previously written-off or written-down totaled $145 million for both fiscal years 2021 and 2020. As a result, the overall net effect on our gross margin was insignificant in both fiscal years 2021 and 2020.

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

Graphics - The gross margin of our Graphics segment increased during fiscal year 2021 when compared to fiscal year 2020, primarily driven by product mix with lower legacy automotive infotainment revenue and higher margin mix within Quadro/Nvidia RTX.

Compute & Networking - The gross margin of our Compute & Networking segment increased during fiscal year 2021 when compared to fiscal year 2020, primarily driven by the addition of Mellanox products, higher margins in Data Center compute systems, and lower product mix of certain Automotive solutions.

Operating Expenses

	Year Ended			
	January 31, 2021	January 26, 2020	$ Change	% Change
	($ in millions)			
Research and development expenses	$ 3,924	$ 2,829	$ 1,095	39 %
% of net revenue	*23.5 %*	*25.9 %*		
Sales, general and administrative expenses	1,940	1,093	847	77 %
% of net revenue	*11.6 %*	*10.0 %*		
Total operating expenses	$ 5,864	$ 3,922	$ 1,942	50 %

Research and Development

Research and development expenses increased by 39% in fiscal year 2021 compared to fiscal year 2020, driven primarily by the acquisition of Mellanox. In addition, the increases reflect employee compensation and related costs, including stock-based compensation, and infrastructure costs.

Sales, General and Administrative

Sales, general and administrative expenses increased by 77% in fiscal year 2021 compared to fiscal year 2020, driven primarily by the Mellanox acquisition. In addition, the increases reflect employee compensation and related costs, including stock-based compensation.

Other Income (Expense), Net

Interest income consists of interest earned on cash, cash equivalents and marketable securities. Interest income was $57 million and $178 million in fiscal years 2021 and 2020, respectively. The decrease in interest income was primarily due to lower interest rates earned on our investments.

Interest expense is primarily comprised of coupon interest and debt discount amortization related to our September 2016 Notes and March 2020 Notes. Interest expense was $184 million and $52 million in fiscal years 2021 and 2020, respectively.

Income Taxes

We recognized income tax expense of $77 million and $174 million for fiscal years 2021 and 2020, respectively. Our annual effective tax rate was 1.7% and 5.9% for fiscal years 2021 and 2020, respectively.

The decrease in our effective tax rate in fiscal year 2021 as compared to fiscal year 2020 was primarily due to a decrease in the proportional amount of earnings subject to United States tax and an increase of tax benefits from stock-based compensation.

Our effective tax rate for fiscal years 2021 and 2020 was lower than the U.S. federal statutory rate of 21% due primarily to income earned in jurisdictions, including the British Virgin Islands, Israel, and Hong Kong, where the tax rate was lower than the U.S. federal statutory tax rate, recognition of U.S. federal research tax credits, and excess tax benefits related to stock-based compensation.

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 31, 2021	January 26, 2020
	(In millions)	
Cash and cash equivalents	$ 847	$ 10,896
Marketable securities	10,714	1
Cash, cash equivalents, and marketable securities	$ 11,561	$ 10,897

	Year Ended	
	January 31, 2021	January 26, 2020
	(In millions)	
Net cash provided by operating activities	$ 5,822	$ 4,761
Net cash provided by (used in) investing activities	$ (19,675)	$ 6,145
Net cash provided by (used in) financing activities	$ 3,804	$ (792)

As of January 31, 2021, we had $11.56 billion in cash, cash equivalents and marketable securities, an increase of $664 million from the end of fiscal year 2020. Our investment policy requires the purchase of highly rated fixed income securities, the diversification of investment types and credit exposures, and certain maturity limits on our portfolio.

In the third quarter of fiscal year 2021, we paid $2 billion as part of the proposed acquisition of Arm, which was allocated between advanced consideration for the acquisition of $1.36 billion, the prepayment of intellectual property licenses from Arm of $0.17 billion and royalties of $0.47 billion. The cash flow allocation of the payment resulted in $1.36 billion of advanced consideration included in acquisitions, net of cash acquired, $0.17 billion for the intellectual property license included in purchases related to property and equipment and intangible assets and $0.47 billion in prepayment of royalties included in changes in prepaid expenses and other assets.

Cash provided by operating activities increased in fiscal year 2021 compared to fiscal year 2020, due to higher net income, higher non-cash adjustments, partially offset by changes in working capital. Changes in working capital include increases in purchases of inventory and outstanding trade receivables, both due to higher fiscal year 2021 revenue, and a prepayment of royalties to Arm.

Cash used in investing activities increased in fiscal year 2021 compared to cash provided in fiscal year 2020, which primarily reflects cash used for the acquisition of Mellanox and the advanced consideration for the proposed acquisition of Arm, higher purchases of marketable securities, higher purchases of property and equipment and intangible assets, and lower sales of marketable securities, offset by higher maturities of marketable securities.

Cash provided by financing activities increased in fiscal year 2021 compared to cash used in fiscal year 2020, which primarily reflects the debt issued in the first quarter of fiscal year 2021, offset by payments related to tax on restricted stock units.

Liquidity

Our primary sources of liquidity are our cash and cash equivalents, our marketable securities, and the cash generated by our operations. As of January 31, 2021, we had $11.56 billion in cash, cash equivalents and marketable securities. We believe that we have sufficient liquidity to meet our operating requirements for at least the next twelve months, including our proposed acquisition of Arm. We continuously evaluate our liquidity and capital resources, including our access to external capital, to ensure we can adequately and efficiently finance our capital requirements beyond twelve months. 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 additional information.

Our marketable securities consist of debt securities issued by the U.S. government and its agencies, highly rated corporations and financial institutions, and foreign government entities, and certificates of deposits. These marketable securities are primarily denominated in U.S. dollars. Refer to Note 8 of the Notes to the Consolidated Financial Statements in Part IV, Item 15 of this Annual Report on Form 10-K for additional information.

During fiscal year 2022, we expect to use our existing cash and cash equivalents, our marketable securities, and the cash generated by our operations to fund our capital investments of approximately $1.0 billion to $1.2 billion related to property and equipment, including construction of a new building at our Santa Clara campus.

We have approximately $1.38 billion of cash, cash equivalents, and marketable securities held outside the U.S. for which we have not accrued any related foreign or state taxes if we repatriate these amounts to the U.S. Other than that, substantially all of our cash, cash equivalents and marketable securities held outside of the U.S. as of January 31, 2021 are available for use in the U.S. without incurring additional U.S. federal income taxes. 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.

Capital Return to Shareholders

In fiscal year 2021, we paid $395 million in quarterly cash dividends. Our cash dividend program and the payment of future cash dividends under that program are subject to our Board's continuing determination that the dividend program and the declaration of dividends thereunder are in the best interests of our shareholders.

As of January 31, 2021, we were authorized, subject to certain specifications, to repurchase additional shares of our common stock up to $7.24 billion through December 2022. We did not repurchase any shares during fiscal year 2021.

Outstanding Indebtedness and Credit Facilities

We have outstanding $1.50 billion of Notes Due 2030, $1.00 billion of Notes Due 2040, $2.00 billion of Notes Due 2050, and $500 million of Notes due 2060, or collectively, the March 2020 Notes.

We have outstanding $1.00 billion of Notes due 2021 and $1.00 billion of Notes due 2026, or collectively, the September 2016 Notes.

We have a Credit Agreement under which we may borrow up to $575 million for general corporate purposes and can obtain revolving loan commitments up to $425 million. As of January 31, 2021, we had not borrowed any amounts under this agreement.

We have a $575 million commercial paper program to support general corporate purposes. As of January 31, 2021, we had not issued any commercial paper.

Refer to Note 12 of the Notes to the Consolidated Financial Statements in Part IV, Item 15 of this Annual Report on Form 10-K for further discussion.

Contractual Obligations

We have $157 million of long-term tax liabilities related to tax basis differences in Mellanox and unrecognized tax benefits of $395 million, which includes related interest and penalties of $43 million recorded in non-current income tax payable as of January 31, 2021. We are unable to reasonably estimate the timing of any potential tax liability, interest payments, or penalties in individual years due to uncertainties in the underlying income tax positions and the timing of the effective settlement of such tax positions. We are currently under examination by the Internal Revenue Service for our fiscal years 2018 and 2019. 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 further information.

For a description of our long-term debt, purchase obligations, and operating lease obligations, refer to Note 12, Note 13, and Note 3 of the Notes to the Consolidated Financial Statements in Part IV, Item 15 of this Annual Report on Form 10-K, respectively.

Adoption of New and Recently Issued Accounting Pronouncements

Refer to 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 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", 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 and Our Businesses

NVIDIA pioneered accelerated computing to help solve the most challenging computational problems. Since our original focus on PC graphics, we have expanded to several other large and important computationally intensive fields. Fueled by the sustained demand for exceptional 3D graphics and the scale of the gaming market, NVIDIA has leveraged its GPU architecture to create platforms for scientific computing, AI, data science, AV, robotics, AR and VR.

Our two operating segments are "Graphics" and "Compute & Networking." Refer to Note 17 of the Notes to the Consolidated Financial Statements in Part IV, Item 15 of this Annual Report on Form 10-K for additional information.

Headquartered in Santa Clara, California, NVIDIA was incorporated in California in April 1993 and reincorporated in Delaware in April 1998.

Recent Developments, Future Objectives and Challenges

Termination of the Arm Share Purchase Agreement

On February 8, 2022, NVIDIA and SoftBank announced the termination of the Share Purchase Agreement whereby NVIDIA would have acquired Arm from SoftBank. The parties agreed to terminate because of significant regulatory challenges preventing the completion of the transaction. We intend to record in operating expenses a $1.36 billion charge in the first quarter of fiscal year 2023 reflecting the write-off of the prepayment provided at signing in September 2020.

Demand

Demand for our products is based on many factors, including our product introductions, time to market, transitions, competitor product releases and announcements, and competing technologies, all of which can impact the timing and volume of our revenue. GPUs have use cases in addition to their designed and marketed use case, such as for digital currency mining, including blockchain-based platforms such as Ethereum. It is difficult for us to estimate with any reasonable degree of precision the past or current impact of cryptocurrency mining, or forecast the future impact of cryptocurrency mining, on demand for our products. Volatility in the cryptocurrency market, including new compute technologies, price changes in cryptocurrencies, government cryptocurrency policies and regulations, and new cryptocurrency standards can impact and have impacted in the past cryptocurrency demand, and further impact demand for our products and our ability to estimate demand for our products. Changes to cryptocurrency standards and processes including, but not limited to, the pending Ethereum 2.0 standard may decrease the usage of GPUs for Ethereum mining and may also create increased aftermarket resale of our GPUs, impact retail prices for our GPUs, increase returns of our products in the distribution channel, and may reduce demand for our new GPUs. We have introduced LHR GeForce GPUs with limited Ethereum mining capability and increased the supply of CMP in an effort to address demand from gamers and direct miners to CMP. Beginning in the second quarter of fiscal year 2022, nearly all our desktop NVIDIA Ampere architecture GeForce GPU shipments were LHR in our effort to direct GeForce to gamers. If attempts in the aftermarket to improve the hash rate capabilities of our LHR cards are successful, our gaming cards may become more attractive to miners, and therefore limit our ability to supply our cards to non-mining customers. We cannot predict whether our strategy of using LHR cards and CMP will achieve our desired outcome. Additionally, consumer and enterprise behavior during the COVID-19 pandemic has made it more difficult for us to estimate future demand and may have changed pre-pandemic behaviors, and these challenges may be more pronounced or volatile in the future on both a global and regional basis. In estimating demand and evaluating trends, we make multiple assumptions, any of which may prove to be incorrect.

Supply

Our manufacturing lead times are very long and in some cases, extend to be twelve months or longer, which requires us to make estimates of customers' future demand. These conditions could lead to a significant mismatch between supply and demand, giving rise to product shortages or excess inventory, and make our demand forecast more uncertain. To have shorter shipment lead times and quicker delivery schedules for our customers, we may build finished products and maintain inventory for anticipated periods of growth which do not occur, anticipating demand that does not materialize, or for what we believe is pent-up demand. During fiscal year 2022, we made substantial strides in broadening our supply base to scale our company and better serve customer demand. We expect to remain supply-constrained into the first half of fiscal year 2023, primarily in Gaming and Networking. We have placed non-cancellable inventory orders for certain supply in advance of our historical lead times, paid premiums and provided deposits to secure future supply and capacity and may need to continue to do so in the future. Ordering product in advance of our historical lead times to secure supply in a constrained environment may trigger excess inventory or other charges if there is a partial or complete reduction in long-term demand for our products or if such demand is served by our competitors. Given our long lead times on inventory purchasing, demand may be perishable or may disappear. Given our current long lead times, we may order components before our product design is finalized and changes to the product design or end demand could trigger excess inventory. Our supply deliveries and production may be non-linear within a quarter or year which could cause changes to expected revenue or cash flows.

COVID-19

The COVID-19 pandemic continued during fiscal year 2022. Most of our employees continue to work remotely and we have paused most business travel. During fiscal year 2022, our Gaming, Data Center and Professional Visualization market platforms have benefited from stronger demand as people continue to work, learn, and play from home. Our Professional Visualization market platform also benefited from demand for workstations as enterprises support hybrid work environments. As our offices begin to reopen, we expect to incur incremental expenses as we resume onsite services and related in-office costs.

As the COVID-19 pandemic continues, the timing and overall demand from customers, the availability of supply chain, logistical services and component supply, and the impact of rising inflation may have a material net negative impact on our business and financial results.

We believe our existing balances of cash, cash equivalents and marketable securities, along with commercial paper arrangements, will be sufficient to satisfy our working capital needs, capital asset purchases, dividends, debt repayments and other liquidity requirements associated with our existing operations.

Fiscal Year 2022 Summary

	Year Ended		
	January 30, 2022	**January 31, 2021**	**Change**
	($ in millions, except per share data)		
Revenue	$ 26,914	$ 16,675	Up 61%
Gross margin	64.9 %	62.3 %	Up 260 bps
Operating expenses	$ 7,434	$ 5,864	Up 27%
Income from operations	$ 10,041	$ 4,532	Up 122%
Net income	$ 9,752	$ 4,332	Up 125%
Net income per diluted share	$ 3.85	$ 1.73	Up 123%

We specialize in markets where our computing platforms can provide tremendous acceleration for applications. These platforms incorporate processors, interconnects, software, algorithms, systems, and services to deliver unique value. Our platforms address four large markets where our expertise is critical: Gaming, Data Center, Professional Visualization, and Automotive.

Revenue for fiscal year 2022 was $26.91 billion, up 61% from a year ago.

Gaming revenue was up 61% from a year ago reflecting higher sales of GeForce GPUs. We continue to benefit from strong demand for NVIDIA Ampere architecture products, and believe the increase in Gaming revenue during fiscal year 2022 resulted from a combination of factors, including: the ramp of new RTX 30 Series GPUs; the release of new games supporting ray tracing; the rising popularity of gaming, esports, content creation and streaming; the demand for new and upgraded systems to support the increase in remote work; and the ability of end users to engage in cryptocurrency mining.

Although nearly all desktop NVIDIA Ampere architecture GeForce GPU shipments are LHR to help direct GeForce GPUs to gamers, our GPUs are capable of cryptocurrency mining. Gamers and others are therefore able to mine cryptocurrency using our GPUs, although we have limited visibility into how much this impacts our overall GPU demand. Volatility in the cryptocurrency market, including changes in the prices of cryptocurrencies or method of verifying transactions, such as proof of work or proof of stake, can impact demand for our products and degrade our ability to accurately estimate it. We are unable to estimate with any degree of precision the impact this volatility is likely to have in the future.

Data Center revenue was up 58% from a year ago primarily driven by sales of NVIDIA Ampere architecture GPUs across both training and inference for cloud computing and AI workloads such as natural language processing and deep recommender models.

Professional Visualization revenue was up 100% from a year ago driven by the ramp of NVIDIA Ampere architecture products and strong demand for workstations as enterprises support hybrid work environments, as well as growth in workloads such as 3D design, AI and rendering.

Automotive revenue was up 6% from a year ago due to self-driving and AI cockpit solutions offset by a decline in legacy cockpit revenue.

OEM and Other revenue was up 84% from a year ago primarily driven by CMP sales. CMP revenue was $550 million for the fiscal year and was nominal in the prior year.

Revenue for our CMP products declined significantly in the fourth quarter of fiscal year 2022. We are unable to estimate with any degree of precision the impact that volatility in the cryptocurrency market, as discussed above, is likely to have on future CMP sales.

Gross margin for fiscal year 2022 was up 260 basis points from a year ago driven by lower Mellanox acquisition-related charges, including a non-recurring inventory step-up charge of $161 million in fiscal year 2021. Margins also benefited from a higher-end mix within Gaming, partially offset by a mix shift within Data Center.

Operating expenses for fiscal year 2022 were up 27% from a year ago primarily driven by stock-based compensation, compensation-related costs associated with employee growth and higher infrastructure costs.

Income from operations was $10.04 billion, up 122% from a year ago. Net income and net income per diluted share were $9.75 billion and $3.85, up 125% and 123%, respectively, from a year ago.

Cash, cash equivalents and marketable securities were $21.21 billion, up from $11.56 billion a year earlier. The increase reflects operating cash flow generation and $5.00 billion of debt issuance proceeds.

We paid $399 million in quarterly cash dividends in fiscal year 2022.

Market Platform Highlights

At our November 2021 GPU Technology Conference, we announced general availability of NVIDIA Omniverse Enterprise; 65 new and updated software development kits, including NVIDIA Riva, Modulus, ReOpt, Morpheus, cuNumeric, and Clara Holoscan; NVIDIA Quantum-2 400Gbps switch and end-to-end networking platform; and NVIDIA Jetson AGX Orin for edge AI and autonomous machines.

In our Gaming platform during fiscal year 2022, we further expanded our desktop and laptop GeForce RTX 30 Series GPU line-ups; expanded the RTX ecosystem of games and applications to over 240; announced plans to integrate NVIDIA DLSS into the Unity game engine; and introduced a new high-performance membership tier to GeForce NOW.

In our Data Center platform, we launched new NVIDIA A30 and A10 GPUs for mainstream AI, data analytics and graphics; debuted a new class of NVIDIA-Certified Systems with leading server OEMs; unveiled NVIDIA Grace, our first Arm-based data center CPU; launched the NVIDIA AI Enterprise software suite; unveiled the NVIDIA Base Command and Fleet Command AI software offerings; and announced plans to build Earth-2, an AI supercomputer dedicated to addressing the global climate change crisis.

In our Professional Visualization platform, we unveiled NVIDIA RTX GPUs for next-generation notebook and desktop workstations; and launched NVIDIA Omniverse Enterprise for collaborative 3D design, digital twins and virtual worlds and NVIDIA Omniverse for Creators.

In our Automotive platform, we unveiled the NVIDIA DRIVE Atlan next-generation SOC; announced design wins with Mercedes-Benz for the AI cockpit in its new EQS sedan; with Volvo Cars for the autonomous driving computer in its next-generation cars, beginning with the XC90 in 2022; with energy vehicles from R-Auto, IM Motors, NIO, Faraday Future, VinFast and Xpeng; with robotaxis including Cruise, Amazon Zoox, Pony.ai and AutoX; with autonomous trucking companies Embark, Kodiak Robotics and Plus; formed a multi-year partnership with Jaguar Land Rover to jointly develop and deliver next-generation automated driving systems, plus AI-enabled services and experiences; and announced that Desay, Flex, Quanta, Valeo and ZF are using the NVIDIA DRIVE Hyperion platform to manufacture safe and secure AV systems for vehicle makers.

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 accounting principles generally accepted in the United States, or 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 inventories, revenue recognition, income taxes, and goodwill. 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.

Inventories

Inventory cost is computed on an adjusted standard basis, which approximates actual cost on an average or first-in, first-out basis. We charge cost of sales for inventory provisions to write-down our inventory to the lower of cost or net realizable value or for obsolete or excess inventory. Most of our inventory provisions relate to excess quantities of products or components, based on our inventory levels and future product purchase commitments compared to assumptions about future demand and market conditions.

Situations that may result in excess or obsolete inventory include changes in business and economic conditions, changes in market conditions, sudden and significant decreases in demand for our products, inventory obsolescence because of changing technology and customer requirements, new product introductions resulting in less demand for existing products or inconsistent spikes in demand due to unexpected end use cases, failure to estimate customer demand properly, ordering in advance of historical lead-times and the impact of changes in future demand, or increase in demand for competitive products, including competitive actions. Cancellation or deferral of customer purchase orders could result in our holding excess inventory.

The overall net effect on our gross margin from inventory provisions and sales of items previously written down was an unfavorable impact of 0.9% in fiscal year 2022 and insignificant in fiscal year 2021. As a fabless semiconductor company, we must make commitments to purchase inventory based on forecasts of future customer demand. In doing so, we must account for our third-party manufacturers' lead times and constraints. Our manufacturing lead times are very long and in some cases, extend on to be twelve months or longer, which requires us to make estimates of customers' future demand. We place non-cancellable inventory orders for certain products in advance of our historical lead times, pay premiums and provide deposits to secure future supply and capacity. We also adjust to other market factors, such as product offerings and pricing actions by our competitors, new product transitions, and macroeconomic conditions - all of which may impact demand for our products.

Refer to the Gross Profit and Gross Margin discussion below in this Management's Discussion and Analysis for further discussion.

Revenue Recognition

We derive our revenue from product sales, including hardware and systems, license and development arrangements, software licensing, and cloud services. We determine revenue recognition through the following steps: (1) identification of the contract with a customer; (2) identification of the performance obligations in the contract; (3) determination of the transaction price; (4) allocation of the transaction price to the performance obligations in the contract (where revenue is allocated on a relative standalone selling price basis by maximizing the use of observable inputs to determine the standalone selling price for each performance obligation); and (5) recognition of revenue when, or as, we satisfy a performance obligation.

Product Sales Revenue

Revenue from product sales is recognized upon transfer of control of products to customers in an amount that reflects the consideration we expect to receive in exchange for those products. Certain products are sold with support or an extended warranty for the incorporated system, hardware, and/or software. Support and extended warranty revenue are recognized ratably over the service period, or as services are performed. Revenue is recognized net of allowances for returns, customer programs and any taxes collected from customers.

For products sold with a right of return, we 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 fiscal period are anticipated to exceed historical return rates, we may determine that additional sales return allowances are required to properly reflect our estimated exposure for product returns.

Our customer programs involve rebates, which are designed to serve as sales incentives to resellers of our products in various target markets, and marketing development funds, or MDFs, which represent monies paid to our partners that are earmarked for market segment development and are designed to support our partners' activities while also promoting NVIDIA products. We account for customer programs as a reduction to revenue and accrue for potential rebates and MDFs based on the amount we expect to be claimed by customers.

License and Development Arrangements

Our license and development arrangements with customers typically require significant customization of our IP components. As a result, we recognize the revenue from the license and the revenue from the development services as a single performance obligation over the period in which the development services are performed. We measure progress to completion based on actual cost incurred to date as a percentage of the estimated total cost required to complete each project. If a loss on an arrangement becomes probable during a period, we record a provision for such loss in that period.

Refer to Note 1 of the Notes to the Consolidated Financial Statements in Part IV, Item 15 of this Annual Report on Form 10-K for additional information.

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.

Our calculation of 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 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 30, 2022, we had a valuation allowance of $907 million related to state and certain other deferred tax assets that management determined are not likely to be realized due to jurisdictional projections of future taxable income, tax attributes usage limitation by certain jurisdictions, 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 assets as an income tax benefit during the period.

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.

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. As of January 30, 2022, the total carrying amount of goodwill was $4.35 billion and the amount of goodwill allocated to our Graphics and Compute & Networking reporting units was $361 million and $3.99 billion, respectively. Determining 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.

We performed our annual goodwill assessment during the fourth quarter of fiscal year 2022 using a qualitative assessment and concluded there was no goodwill impairment.

Refer to Note 6 of the Notes to the Consolidated Financial Statements in Part IV, Item 15 of this Annual Report on Form 10-K for additional information.

Results of Operations

A discussion regarding our financial condition and results of operations for fiscal year 2022 compared to fiscal year 2021 is presented below. A discussion regarding our financial condition and results of operations for fiscal year 2021 compared to fiscal year 2020 can be found under Item 7 in our Annual Report on Form 10-K for the fiscal year ended January 31, 2021, filed with the SEC on February 26, 2021, which is available free of charge on the SEC's website at http://www.sec.gov and at our investor relations website, http://investor.nvidia.com.

The following table sets forth, for the periods indicated, certain items in our Consolidated Statements of Income expressed as a percentage of revenue.

	Year Ended	
	January 30, 2022	January 31, 2021
Revenue	100.0 %	100.0 %
Cost of revenue	35.1	37.7
Gross profit	64.9	62.3
Operating expenses:		
Research and development	19.6	23.5
Sales, general and administrative	8.0	11.6
Total operating expenses	27.6	35.1
Income from operations	37.3	27.2
Interest income	0.1	0.3
Interest expense	(0.9)	(1.1)
Other, net	0.4	0.1
Other income (expense), net	(0.4)	(0.7)
Income before income tax expense	36.9	26.5
Income tax expense	0.7	0.5
Net income	36.2 %	26.0 %

Revenue

Revenue by Reportable Segments

	Year Ended			
	January 30, 2022	January 31, 2021	$ Change	% Change
	($ in millions)			
Graphics	$ 15,868	$ 9,834	$ 6,034	61 %
Compute & Networking	11,046	6,841	4,205	61 %
Total	$ 26,914	$ 16,675	$ 10,239	61 %

Graphics - Graphics segment revenue increased by 61% in fiscal year 2022 compared to fiscal year 2021. We continue to benefit from strong demand for NVIDIA Ampere architecture products, and believe the increase in Gaming revenue during fiscal year 2022 resulted from a combination of factors, including: the ramp of new RTX 30 Series GPUs; the release of new games supporting ray tracing; the rising popularity of gaming, esports, content creation and streaming; the demand for new and upgraded systems to support the increase in remote work; and the ability of end users to engage in cryptocurrency mining.

Compute & Networking - Compute & Networking segment revenue increased by 61% in fiscal year 2022 compared to fiscal year 2021, driven primarily by sales of NVIDIA Ampere architecture products to hyperscale customers for cloud computing and workloads such as natural language processing and deep recommender models, as well as to vertical industries. The increase compared to fiscal year 2021 also reflects the strong sales of networking products and that fiscal year 2022 includes a full year of networking revenue as Mellanox was acquired in April 2020. CMP contributed $550 million in fiscal year 2022 compared to an insignificant amount in the prior year.

Concentration of Revenue

Revenue from sales to customers outside of the United States accounted for 84% and 81% of total revenue for fiscal years 2022 and 2021, respectively. Revenue by geographic region is allocated to individual countries based on the location to which the products are initially billed even if the revenue is attributable to end customers in a different location.

No customer represented 10% or more of total revenue for fiscal years 2022 and 2021.

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, including wafer fabrication, assembly, testing and packaging, board and device costs, manufacturing support costs, including labor and overhead associated with such purchases, final test yield fallout, inventory and warranty provisions, memory and component costs, tariffs, and shipping costs. Cost of revenue also includes acquisition-related costs, development costs for license and service arrangements, IP-related costs, and stock-based compensation related to personnel associated with manufacturing.

Our overall gross margin was 64.9% and 62.3% for fiscal years 2022 and 2021, respectively. The increase in fiscal year 2022 was primarily due to lower Mellanox acquisition-related charges, including a non-recurring inventory step-up charge of $161 million in fiscal year 2021. The increase also benefited from a higher-end mix within Graphics, partially offset by a mix shift within Compute & Networking.

Inventory provisions totaled $354 million and $116 million for fiscal years 2022 and 2021, respectively. Sales of inventory that was previously written-off or written-down totaled $111 million and $145 million for fiscal years 2022 and 2021, respectively. As a result, the overall net effect on our gross margin was an unfavorable impact of 0.9% in fiscal year 2022 and insignificant in fiscal year 2021.

The gross margin of our Graphics segment increased during fiscal year 2022 when compared to fiscal year 2021, primarily due to higher-end mix within GeForce GPUs.

The gross margin of our Compute & Networking segment decreased during fiscal year 2022 when compared to fiscal year 2021, primarily due to a shift in product mix and partially offset by a reduced contribution from Automotive solutions.

Operating Expenses

	Year Ended			
	January 30, 2022	January 31, 2021	$ Change	% Change
	($ in millions)			
Research and development expenses	$ 5,268	$ 3,924	$ 1,344	34 %
% of net revenue	*19.6 %*	*23.5 %*		
Sales, general and administrative expenses	2,166	1,940	226	12 %
% of net revenue	*8.0 %*	*11.6 %*		
Total operating expenses	$ 7,434	$ 5,864	$ 1,570	27 %

Research and Development

Research and development expenses increased by 34% in fiscal year 2022 compared to fiscal year 2021, primarily driven by stock-based compensation, compensation-related costs associated with employee growth and higher infrastructure costs.

Sales, General and Administrative

Sales, general and administrative expenses increased by 12% in fiscal year 2022 compared to fiscal year 2021, primarily driven by stock-based compensation, compensation-related costs associated with employee growth, partially offset by lower amortization of intangibles.

Other Income (Expense), Net

Interest income consists of interest earned on cash, cash equivalents and marketable securities. Interest income was $29 million and $57 million in fiscal years 2022 and 2021, respectively. The decrease in interest income was primarily due to lower interest rates earned on our investments.

Interest expense is primarily comprised of coupon interest and debt discount amortization related to our notes. Interest expense was $236 million and $184 million in fiscal years 2022 and 2021, respectively. The increase in expense reflects interest on the $5.00 billion note issued in June 2021.

Other, net, consists primarily of realized or unrealized gains and losses from investments in non-affiliated entities and the impact of changes in foreign currency rates. Other, net, was an income of $107 million during fiscal year 2022 and not significant during fiscal year 2021. The increase was primarily due to unrealized gains from our investments in non-affiliated entities. 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 for additional information regarding our investments in non-affiliated entities.

Income Taxes

We recognized income tax expense of $189 million and $77 million for fiscal years 2022 and 2021, respectively. Our annual effective tax rate was 1.9% and 1.7% for fiscal years 2022 and 2021, respectively.

The increase in our effective tax rate in fiscal year 2022 as compared to fiscal year 2021 was primarily due to an increase in the amount of earnings subject to U.S. tax, and a decreased impact of tax benefits from the U.S. federal research tax credit, partially offset by the benefit of the foreign-derived intangible income deduction, and the discrete benefit of the domestication of a foreign subsidiary, or the Domestication.

Our effective tax rate for fiscal year 2022 was lower than the U.S. federal statutory rate of 21% due to tax benefits from the foreign-derived intangible income deduction, income earned in jurisdictions, including the British Virgin Islands and Israel, that are subject to taxes lower than the U.S. federal statutory tax rate, excess tax benefits related to stock-based compensation, recognition of U.S. federal research tax credit and the one-time benefits of the Domestication.

Our effective tax rate for fiscal year 2021 was lower than the U.S. federal statutory rate of 21% due primarily to income earned in jurisdictions, including the British Virgin Islands, Israel, and Hong Kong, where the tax rate was lower than the U.S. federal statutory tax rate, recognition of U.S. federal research tax credits, and excess tax benefits related to stock-based compensation.

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, including the Domestication.

Liquidity and Capital Resources

	January 30, 2022	January 31, 2021
	(In millions)	
Cash and cash equivalents	$ 1,990	$ 847
Marketable securities	19,218	10,714
Cash, cash equivalents, and marketable securities	$ 21,208	$ 11,561

	Year Ended	
	January 30, 2022	January 31, 2021
	(In millions)	
Net cash provided by operating activities	$ 9,108	$ 5,822
Net cash provided by (used in) investing activities	$ (9,830)	$ (19,675)
Net cash provided by financing activities	$ 1,865	$ 3,804

As of January 30, 2022, we had $21.21 billion in cash, cash equivalents and marketable securities, an increase of $9.65 billion from the end of fiscal year 2021. Our investment policy requires the purchase of highly rated fixed income securities, the diversification of investment types and credit exposures, and certain maturity limits on our portfolio.

Cash provided by operating activities increased in fiscal year 2022 compared to fiscal year 2021, due to higher net income, partially offset by changes in working capital. Changes in working capital were primarily driven by prepayments of $1.87 billion for long-term supply agreements and increases in trade receivables due to higher revenue.

Cash used in investing activities decreased in fiscal year 2022 compared to cash provided in fiscal year 2021, reflecting lower payments in acquiring businesses as compared to the acquisition of Mellanox in fiscal year 2021, and higher marketable securities sales and maturities, partially offset by higher purchases of marketable securities.

Cash provided by financing activities decreased in fiscal year 2022 compared to cash provided in fiscal year 2021, which primarily reflects a debt repayment in the fiscal year 2022 and higher tax payments on restricted stock units.

Liquidity

Our primary sources of liquidity are our cash and cash equivalents, our marketable securities, and the cash generated by our operations. As of January 30, 2022, we had $21.21 billion in cash, cash equivalents and marketable securities. We believe that we have sufficient liquidity to meet our operating requirements for at least the next twelve months, and for the foreseeable future, including our future supply obligations and additional supply. We continuously evaluate our liquidity and capital resources, including our access to external capital, to ensure we can finance our future capital requirements.

Our marketable securities consist of certificates of deposits and debt securities issued by the U.S. government and its agencies, highly rated corporations and financial institutions, and foreign government entities. These marketable securities are primarily denominated in U.S. dollars. Refer to Note 8 of the Notes to the Consolidated Financial Statements in Part IV, Item 15 of this Annual Report on Form 10-K for additional information.

During fiscal year 2023, we expect to use our existing cash and cash equivalents, our marketable securities, and the cash generated by our operations to fund our capital investments of approximately $1.4 billion related to property and equipment.

We have approximately $1.4 billion of cash, cash equivalents, and marketable securities held outside the U.S. for which we have not accrued any related foreign or state taxes if we repatriate these amounts to the U.S. Other than that, substantially all of our cash, cash equivalents and marketable securities held outside of the U.S. as of January 30, 2022 are available for use in the U.S. without incurring additional U.S. federal income taxes. Following the Domestication, we have utilized almost all of our accumulated U.S. federal research tax credits during fiscal year 2022, resulting in higher cash tax payments starting in fiscal year 2023. In addition, beginning in fiscal year 2023, the TCJA requires taxpayers to capitalize research and development expenditures and to amortize domestic expenditures over five years and foreign expenditures over fifteen years. This will impact cash flows from operations and result in significantly higher cash tax payments starting in fiscal year 2023. 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.

Capital Return to Shareholders

In fiscal year 2022, we paid $399 million in quarterly cash dividends. Our cash dividend program and the payment of future cash dividends under that program are subject to our Board's continuing determination that the dividend program and the declaration of dividends thereunder are in the best interests of our shareholders.

As of January 30, 2022, we were authorized, subject to certain specifications, to repurchase additional shares of our common stock up to $7.24 billion through December 2022. We did not repurchase any shares during fiscal year 2022.

Outstanding Indebtedness and Commercial Paper Program

As of January 30, 2022, we had outstanding:

- $1.25 billion of Notes Due 2023;
- $1.25 billion of Notes Due 2024;
- $1.00 billion of Notes Due 2026;
- $1.25 billion of Notes Due 2028;
- $1.50 billion of Notes Due 2030;
- $1.25 billion of Notes Due 2031;
- $1.00 billion of Notes Due 2040;
- $2.00 billion of Notes Due 2050; and
- $500 million of Notes Due 2060.

We have a $575 million commercial paper program to support general corporate purposes. As of January 30, 2022, we had not issued any commercial paper.

Refer to Note 12 of the Notes to the Consolidated Financial Statements in Part IV, Item 15 of this Annual Report on Form 10-K for further discussion.

Contractual Obligations

We have unrecognized tax benefits of $729 million, which includes related interest and penalties of $59 million recorded in non-current income tax payable as of January 30, 2022. We are unable to reasonably estimate the timing of any potential tax liability, interest payments, or penalties in individual years due to uncertainties in the underlying income tax positions and the timing of the effective settlement of such tax positions. We are currently under examination by the Internal Revenue Service for our fiscal years 2018 and 2019. 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 further information.

For a description of our long-term debt, purchase obligations, and operating lease obligations, refer to Note 12, Note 13, and Note 3 of the Notes to the Consolidated Financial Statements in Part IV, Item 15 of this Annual Report on Form 10-K, respectively.

Climate Change

Refer to Part I, Item 1 of this Annual Report on Form 10-K for a description of Environmental, Social and Corporate Governance activities. To date, there has been no material impact to our results of operations associated with global sustainability regulations, compliance, costs from sourcing renewable energy or climate-related business trends. There are no material current climate change regulations impacting us, however, we are monitoring potential regulation changes in California, the United States, the United Kingdom, the European Union and other jurisdictions. We believe that climate change has not had a material impact to our revenue to date. We have not experienced any significant physical effects of climate change to date on our operations and results, nor any significant impacts on the cost or availability of insurance. In fiscal year 2023, we plan to build Earth-2, an AI supercomputer dedicated to predicting the impacts of climate change and increase our purchases of Renewable Energy Credits.

Adoption of New and Recently Issued Accounting Pronouncements

Refer to 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 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", 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 and Our Businesses

NVIDIA pioneered accelerated computing to help solve the most challenging computational problems. Since our original focus on PC graphics, we have expanded to several other large and important computationally intensive fields. Fueled by the sustained demand for exceptional 3D graphics and the scale of the gaming market, NVIDIA has leveraged its GPU architecture to create platforms for scientific computing, AI, data science, AV, robotics, metaverse and 3D internet applications.

Our two operating segments are "Compute & Networking" and "Graphics." Refer to Note 17 of the Notes to the Consolidated Financial Statements in Part IV, Item 15 of this Annual Report on Form 10-K for additional information.

Headquartered in Santa Clara, California, NVIDIA was incorporated in California in April 1993 and reincorporated in Delaware in April 1998.

Recent Developments, Future Objectives and Challenges

Supply, Products Transitions, and New Products and Business Models

Our supply, which includes inventory on hand, purchase obligations and prepaid supply agreements, has grown significantly due to current supply chain conditions, complexity of our products, and recent reductions in demand. At the end of fiscal year 2023, purchase obligations and prepaid supply agreements represented more than half of our total supply. Inventory provisions for excess inventory and purchase obligations totaled $2.17 billion in fiscal year 2023. We may incur inventory provisions if our inventory or supply commitments are misaligned with demand for our products.

Product transitions are complex as we often ship both new and legacy architecture products simultaneously and we and our channel partners prepare to ship and support new products. We are currently transitioning the architecture of our Data Center, Professional Visualization, and Gaming products. Qualification time for new products, customers anticipating product transitions and channel partners reducing channel inventory of legacy architectures ahead of new product introductions can create reductions or volatility in our revenue. While we have managed prior product transitions and have previously sold multiple product architectures at the same time, these transitions are difficult and prior trends may not continue.

We build technology and products for use cases and applications that may be new or may not yet exist. Examples include our Omniverse platform and third-party large language models and generative models. Our demand estimates for these use cases and applications can be incorrect and create volatility in our revenue or supply levels, and we may not be able to generate any revenue from these use cases and applications.

NVIDIA AI Cloud Service Offerings

We will offer enterprise customers NVIDIA AI cloud services directly and through our network of partners. Examples of these services include NVIDIA DGX Cloud, which is cloud-based infrastructure and software for training AI models, and customizable pretrained AI models. NVIDIA has partnered with leading cloud service providers to host these services in their data centers.

We entered into multi-year cloud service agreements in the second half of fiscal year 2023 to these offerings and our research and development activities. NVIDIA AI cloud services may not be successful and will take time, resources and investment. We also offer or plan to offer standalone software solutions for AI including NVIDIA AI Enterprise, NVIDIA Omniverse, NVIDIA DRIVE for automotive, and several other software solutions. These new business models or strategies may not be successful and we may fail to sell any meaningful standalone software or as-a-service solutions. We may incur significant costs and may not achieve any significant revenue from these offerings.

Global Trade

During the third quarter of fiscal year 2023, the USG announced new license requirements that, with certain exceptions, impact exports to China (including Hong Kong and Macau) and Russia of our A100 and H100 integrated circuits, DGX or any other systems or boards which incorporate A100 or H100 integrated circuits and our A100X. We are required to transition certain operations out of China (including Hong Kong), including research and development and supply and distribution operations. We have engaged with customers in China to provide alternative products not subject to the new license requirements, such as our new A800 offering.

Management of these new license and other requirements is complicated and time consuming. Our results and competitive position may be harmed if customers in China do not want to purchase our alternative product offerings, if customers purchase product from competitors, or if customers develop their own internal solution, if the USG does not grant licenses in a timely manner or denies licenses to significant customers, or if we incur significant transition costs.

COVID-19

During fiscal year 2023, we reopened our offices worldwide. We incurred incremental expenses and related in-office costs as we ramped onsite services.

Restrictions may be imposed or reinstated as the pandemic resurfaces, such as lockdown measures due to COVID-19 containment efforts in China. During fiscal year 2023, end customer sales for our products in China have been negatively impacted by lockdowns and this impact may continue if lockdowns return. COVID-19-related disruptions have created and may continue to create supply chain and logistics constraints. Challenges in estimating demand could become more pronounced or volatile in the future on both a global and regional basis.

Russia

In fiscal year 2023, we stopped direct sales to Russia and later in the year, we closed business operations in Russia. Direct sales to Russia in fiscal year 2022 were immaterial. Our revenue to partners that sell into Russia may have been negatively impacted due to the war in Ukraine.

Termination of the Arm Share Purchase Agreement

In February 2022, NVIDIA and SoftBank announced the termination of the Share Purchase Agreement whereby NVIDIA would have acquired Arm from SoftBank due to significant regulatory challenges preventing the completion of the transaction. We recorded an acquisition termination cost of $1.35 billion in fiscal year 2023 reflecting the write-off of the prepayment provided at signing.

Fiscal Year 2023 Summary

	Year Ended		
	January 29, 2023	January 30, 2022	Change
	($ in millions, except per share data)		
Revenue	$ 26,974	$ 26,914	— %
Gross margin	56.9 %	64.9 %	Down 8.0 pts
Operating expenses	$ 11,132	$ 7,434	Up 50%
Income from operations	$ 4,224	$ 10,041	Down 58%
Net income	$ 4,368	$ 9,752	Down 55%
Net income per diluted share	$ 1.74	$ 3.85	Down 55%

We specialize in markets where our computing platforms can provide tremendous acceleration for applications. These platforms incorporate processors, interconnects, software, algorithms, systems, and services to deliver unique value. Our platforms address four large markets where our expertise is critical: Data Center, Gaming, Professional Visualization, and Automotive.

Revenue for fiscal year 2023 revenue was $26.97 billion, flat compared with a year ago.

Data Center revenue was up 41% from a year ago led by strong growth from hyperscale customers and also reflects purchases made by several CSP partners to support multi-year cloud service agreements for our new NVIDIA AI cloud service offerings and our research and development activities.

Gaming revenue was down 27% from a year ago reflecting lower sell-in to partners to help reduce channel inventory levels as global macro-economic conditions and COVID-19 related disruptions in China weighed on gaming demand.

Professional Visualization revenue was down 27% from a year ago reflecting a lower sell-in to partners to help reduce channel inventory levels.

Automotive revenue was up 60% from a year ago reflecting growth in sales of self-driving solutions, computing solutions for electric vehicle makers and strength in sales of AI cockpit solutions. The increase also included growth in automotive development arrangements.

OEM and Other revenue was down 61% from a year ago driven by notebook OEM and CMP. CMP revenue was nominal in fiscal year 2023 and $550 million in fiscal year 2022.

Gross margin for fiscal year 2023 declined from a year ago, driven by $2.17 billion of inventory charges largely relating to excess supply of NVIDIA Ampere architecture Gaming and Data Center products as compared to the demand expectations for these products, particularly for the expected demand in China. The inventory charges were comprised of $1.04 billion for inventory on hand and $1.13 billion for inventory purchase obligations in excess of our demand expectations.

Operating expenses, which included a $1.35 billion acquisition termination charge related to the Arm transaction, were up 50% from a year ago. The increase also reflected compensation, data center infrastructure, and engineering development costs.

Cash, cash equivalents and marketable securities were $13.30 billion.

During fiscal year 2023, we returned $10.44 billion to shareholders in the form of share repurchases and cash dividends. As of the end of fiscal year 2023, we had $7.23 billion remaining under our share repurchase authorization through December 2023.

Market Platform Highlights

Data Center revenue for fiscal year 2023 was $15.01 billion, up 41% from fiscal year 2022. The strong growth in Data Center revenue was influenced by hyperscaler and cloud usage of our accelerated computing platforms and networking portfolio. In Data Center, we announced the NVIDIA Hopper GPU architecture and began ramping the first products based on the architecture, including the NVIDIA H100 Tensor Core GPU. The NVIDIA OVX server reference design launched for digital twins and other Omniverse applications. We completed two new large language models for cloud AI services — NVIDIA NeMo LLM and NVIDIA BioNeMo LLM. Additionally, we announced the NVIDIA Spectrum-4 end-to-end 400Gbps networking platform and began shipping Quantum-2 in December 2022.

Gaming revenue for fiscal year 2023 was $9.07 billion, down 27% from fiscal year 2022. Gaming results were influenced by the rapid change in economic conditions causing excess inventory with our channel partners. We introduced pricing programs for our channel partners and started undershipping GPU supply to the partners so that we could lower inventory in the channel. As we exited fiscal year 2023, we have made meaningful progress in establishing lower inventory levels with our channel partners. In Gaming, we announced the new Ada Lovelace GPU architecture, and introduced the first products based on Ada, including the GeForce RTX 4090, RTX 4080, and RTX 4070 Ti desktop GPUs and laptop GPUs featured in over 170 laptop designs. We introduced NVIDIA DLSS 3 for over 50 games and applications. We brought GeForce RTX 4080-class performance to the GeForce NOW Ultimate membership tier.

Professional Visualization revenue for fiscal year 2023 was $1.54 billion, down 27% from fiscal year 2022. Professional Visualization results were influenced by the rapid change in economic conditions causing excess inventory with our OEM partners. In Professional Visualization, we added new NVIDIA Ampere architecture RTX GPUs for workstations. We also announced Omniverse Avatar Cloud Engine and Omniverse Cloud and released a major update to NVIDIA Omniverse Enterprise.

Automotive revenue for fiscal year 2023 grew 60% compared to fiscal year 2022 to $903 million. In Automotive, we started production of the NVIDIA DRIVE Orin autonomous vehicle SOC and introduced next-generation NVIDIA DRIVE Thor.

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 accounting principles generally accepted in the United States, or 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 inventories, revenue recognition, and income taxes. 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.

Inventories

Inventory cost is computed on an adjusted standard basis, which approximates actual cost on an average or first-in, first-out basis. We charge cost of sales for inventory provisions to write-down our inventory to the lower of cost or net realizable value or for obsolete or excess inventory, and for excess product purchase commitments. Most of our inventory provisions relate to excess quantities of products or components, based on our inventory levels and future product purchase commitments compared to assumptions about future demand and market conditions, which requires management judgment.

Situations that may result in excess or obsolete inventory or excess product purchase commitments include changes in business and economic conditions, changes in market conditions, sudden and significant decreases in demand for our products, inventory obsolescence because of changing technology and customer requirements, new product introductions resulting in less demand for existing products or inconsistent spikes in demand due to unexpected end use cases, failure to estimate customer demand properly, ordering in advance of historical lead-times and the impact of changes in future demand, or increase in demand for competitive products, including competitive actions. Cancellation or deferral of customer purchase orders could result in our holding excess inventory.

The overall net effect on our gross margin from inventory provisions and sales of items previously written down was an unfavorable impact of 7.5% in fiscal year 2023 and 0.9% in fiscal year 2022. As a fabless semiconductor company, we must make commitments to purchase inventory based on forecasts of future customer demand. In doing so, we must account for our third-party manufacturers' lead times and constraints. In the past, our manufacturing lead times have been long, and in some cases, extended beyond twelve months for some products. We place non-cancellable inventory orders for certain product components in advance of our historical lead times, pay premiums and provide deposits to secure future supply and capacity. We also adjust to other market factors, such as product offerings and pricing actions by our competitors, new product transitions, and macroeconomic conditions - all of which may impact demand for our products.

Refer to the Gross Profit and Gross Margin discussion below in this Management's Discussion and Analysis for further discussion.

Revenue Recognition

We derive our revenue from product sales, including hardware and systems, license and development arrangements, software licensing, and cloud services. We determine revenue recognition through the following steps: (1) identification of the contract with a customer; (2) identification of the performance obligations in the contract; (3) determination of the transaction price; (4) allocation of the transaction price to the performance obligations in the contract (where revenue is allocated on a relative standalone selling price basis by maximizing the use of observable inputs to determine the standalone selling price for each performance obligation); and (5) recognition of revenue when, or as, we satisfy a performance obligation.

Product Sales Revenue

Revenue from product sales is recognized upon transfer of control of products to customers in an amount that reflects the consideration we expect to receive in exchange for those products. Certain products are sold with support or an extended warranty for the incorporated system, hardware, and/or software. Support and extended warranty revenue are recognized ratably over the service period, or as services are performed. Revenue is recognized net of allowances for returns, customer programs and any taxes collected from customers.

For products sold with a right of return, we 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 fiscal period are anticipated to exceed historical return rates, we may determine that additional sales return allowances are required to properly reflect our estimated exposure for product returns.

Our customer programs involve rebates, which are designed to serve as sales incentives to resellers of our products in various target markets, and marketing development funds, or MDFs, which represent monies paid to our partners that are earmarked for market segment development and are designed to support our partners' activities while also promoting NVIDIA products. We account for customer programs as a reduction to revenue and accrue for potential rebates and MDFs based on the amount we expect to be claimed by customers.

License and Development Arrangements

Our license and development arrangements with customers typically require significant customization of our IP components. As a result, we recognize the revenue from the license and the revenue from the development services as a single performance obligation over the period in which the development services are performed. We measure progress to completion based on actual cost incurred to date as a percentage of the estimated total cost required to complete each project. If a loss on an arrangement becomes probable during a period, we record a provision for such loss in that period.

Refer to Note 1 of the Notes to the Consolidated Financial Statements in Part IV, Item 15 of this Annual Report on Form 10-K for additional information.

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.

Our calculation of 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 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 the end of fiscal years 2023 and 2022, we had a valuation allowance of $1.48 billion and $907 million, respectively, related to capital loss carryforwards, state, and certain other deferred tax assets that management determined not likely to be realized due, in part, to jurisdictional projections of future taxable income, including capital gains. To the extent realization of the deferred tax assets becomes more-likely-than-not, we would recognize such deferred tax assets as income tax benefits during the period.

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.

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.

Change in Accounting Estimate

In February 2023, we completed an assessment of the useful lives of our property, plant, and equipment. Based on advances in technology and usage rate, we increased the estimated useful life of a majority of the server, storage, and network equipment from three years to a range of four to five years, and assembly and test equipment from five years to seven years. This change in accounting estimate became effective at the beginning of fiscal year 2024. Based on the carrying amounts of a majority of our server, storage, network, and assembly and test equipment, net in use as of the end of fiscal year 2023, it is estimated this change will increase our fiscal year 2024 operating income by $133 million as a result of the reduction in depreciation expense.

Results of Operations

A discussion regarding our financial condition and results of operations for fiscal year 2023 compared to fiscal year 2022 is presented below. A discussion regarding our financial condition and results of operations for fiscal year 2022 compared to fiscal year 2021 can be found under Item 7 in our Annual Report on Form 10-K for the fiscal year ended January 30, 2022, filed with the SEC on March 18, 2022, which is available free of charge on the SEC's website at http://www.sec.gov and at our investor relations website, http://investor.nvidia.com.

The following table sets forth, for the periods indicated, certain items in our Consolidated Statements of Income expressed as a percentage of revenue.

	Year Ended	
	January 29, 2023	January 30, 2022
Revenue	100.0 %	100.0 %
Cost of revenue	43.1	35.1
Gross profit	56.9	64.9
Operating expenses		
Research and development	27.2	19.6
Sales, general and administrative	9.1	8.0
Acquisition termination cost	5.0	—
Total operating expenses	41.3	27.6
Income from operations	15.6	37.3
Interest income	1.0	0.1
Interest expense	(1.0)	(0.9)
Other, net	(0.1)	0.4
Other income (expense), net	(0.1)	(0.4)
Income before income tax	15.5	36.9
Income tax expense (benefit)	(0.7)	0.7
Net income	16.2 %	36.2 %

Revenue

Revenue by Reportable Segments

	Year Ended			
	January 29, 2023	January 30, 2022	$ Change	% Change
		($ in millions)		
Compute & Networking	$ 15,068	$ 11,046	$ 4,022	36 %
Graphics	11,906	15,868	(3,962)	(25)%
Total	$ 26,974	$ 26,914	$ 60	— %

Compute & Networking - The year-on-year increase was led by growth from hyperscale customers and also reflects purchases made by several CSP partners to support multi-year cloud service agreements for our new NVIDIA AI cloud service offerings and our research and development activities. The increase was also related to the growth in Automotive. CMP contributed an insignificant amount in fiscal year 2023 compared to $550 million in fiscal year 2022.

Graphics - The year-on-year decrease primarily reflects lower sell-in to partners to help reduce channel inventory levels as global macro-economic conditions and COVID-19 related disruptions in China weighed on gaming demand.

Concentration of Revenue

Revenue from sales to customers outside of the United States accounted for 69% and 84% of total revenue for fiscal years 2023 and 2022, respectively. The decline in revenue outside the U.S. was primarily driven by China and Taiwan related to Data Center and Gaming. Revenue by geographic region is allocated to countries based on the billed location even if the revenue may be attributable to end customers in a different location.

No customer represented 10% or more of total revenue for fiscal years 2023 and 2022.

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, including wafer fabrication, assembly, testing and packaging, board and device costs, manufacturing support costs, including labor and overhead associated with such purchases, final test yield fallout, inventory and warranty provisions, memory and component costs, tariffs, and shipping costs. Cost of revenue also includes acquisition-related costs, development costs for license and service arrangements, IP-related costs, and stock-based compensation related to personnel associated with manufacturing operations.

Gross margin was 56.9% and 64.9% for fiscal years 2023 and 2022, respectively. The decrease in fiscal year 2023 was primarily due to $2.17 billion of inventory provisions in fiscal year 2023, which consists of approximately $1.04 billion for inventory on hand and approximately $1.13 billion for inventory purchase obligations in excess of our current demand projections.

Inventory provisions totaled $2.17 billion and $354 million for fiscal years 2023 and 2022, respectively. Sales of inventory that was previously written-off totaled $137 million and $111 million for fiscal years 2023 and 2022, respectively. As a result, the overall net effect on our gross margin was an unfavorable impact of 7.5% and 0.9% in fiscal years 2023 and 2022, respectively.

Compute & Networking - The gross margin of our Compute & Networking segment decreased during fiscal year 2023 when compared to fiscal year 2022, primarily due to inventory provisions.

Graphics - The gross margin of our Graphics segment decreased during fiscal year 2023 when compared to fiscal year 2022, primarily due to inventory and related provisions and lower margins of GeForce GPUs.

Operating Expenses

	Year Ended			
	January 29, 2023	January 30, 2022	$ Change	% Change
		($ in millions)		
Research and development expenses	$ 7,339	$ 5,268	$ 2,071	39 %
% of revenue	*27.2 %*	*19.6 %*		
Sales, general and administrative expenses	2,440	2,166	274	13 %
% of revenue	*9.1 %*	*8.0 %*		
Acquisition termination cost	1,353	—	1,353	100 %
% of revenue	*5.0 %*	*— %*		
Total operating expenses	$ 11,132	$ 7,434	$ 3,698	50 %
% of revenue	*41.3 %*	*27.6 %*		

The increase in research and development expense for fiscal year 2023 was primarily driven by increased compensation, employee growth, engineering development costs, and data center infrastructure.

The increase in sales, general and administrative expense for fiscal year 2023 was primarily driven by increased compensation and employee growth.

We recorded an acquisition termination cost related to the Arm transaction of $1.35 billion in fiscal year 2023 reflecting the write-off of the prepayment provided at signing.

Other Income (Expense), Net

	Year Ended			
	January 29, 2023	January 30, 2022	$ Change	% Change
		($ in millions)		
Interest income	$ 267	$ 29	$ 238	821 %
Interest expense	(262)	(236)	(26)	11 %
Other, net	(48)	107	(155)	(145)%
Other income (expense), net	$ (43)	$ (100)	$ 57	(57)%

Interest income consists of interest earned on cash, cash equivalents and marketable securities. The increase in interest income was primarily due to higher yields earned on our investments.

Interest expense is primarily comprised of coupon interest and debt discount amortization related to our notes. The increase in expense reflects interest on the $5.00 billion debt offering issued in June 2021.

Other, net, consists primarily of realized or unrealized gains and losses from investments in non-affiliated entities and the impact of changes in foreign currency rates. Change in other, net, compared to fiscal year 2022 was primarily driven by mark-to-market losses from publicly traded equity investments and changes in value from our non-affiliated private investments. Refer to Note 8 of the Notes to the Consolidated Financial Statements in Part IV, Item 15 of this Annual Report on Form 10-K for additional information regarding our investments in non-affiliated entities.

Income Taxes

We recognized income tax benefit of $187 million for fiscal year 2023 and income tax expense of $189 million for fiscal year 2022. Income tax as a percentage of income before income tax was a benefit of 4.5% for fiscal year 2023 and an expense of 1.9% for fiscal year 2022.

Beginning in fiscal year 2023, the 2017 Tax Cuts and Jobs Act, or TCJA, requires taxpayers to capitalize research and development expenditures and to amortize domestic expenditures over five years and foreign expenditures over fifteen years.

The fiscal year 2023 effective tax rate includes the mandatory capitalization and amortization of research and development expenses beginning in fiscal year 2023, which resulted in a greater FDII deduction and significantly increased current taxes, with a corresponding deferred tax benefit at the relevant statutory tax rate.

The decrease in our effective tax rate in fiscal year 2023 as compared to fiscal year 2022 was primarily due to increased tax benefits of the FDII deduction, stock-based compensation, and the U.S. federal research tax credit, relative to lower profitability. This is partially offset by the impact of an increase in the proportion of earnings subject to U.S. tax in fiscal year 2023 and the one-time benefits of the domestication of a foreign subsidiary in fiscal year 2022, or the Domestication.

Our effective tax rate for fiscal year 2023 was lower than the U.S. federal statutory rate of 21% due primarily to tax benefits from the FDII deduction, tax benefits related to stock-based compensation and the U.S. federal research tax credit.

Our effective tax rate for fiscal year 2022 was lower than the U.S. federal statutory rate of 21% due to tax benefits from the FDII deduction, income earned in jurisdictions that are subject to taxes lower than the U.S. federal statutory tax rate, excess tax benefits related to stock-based compensation, recognition of U.S. federal research tax credit and the one-time benefits of the Domestication.

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 29, 2023	January 30, 2022
	(In millions)	
Cash and cash equivalents	$ 3,389	$ 1,990
Marketable securities	9,907	19,218
Cash, cash equivalents, and marketable securities	$ 13,296	$ 21,208

	Year Ended	
	January 29, 2023	January 30, 2022
	(In millions)	
Net cash provided by operating activities	$ 5,641	$ 9,108
Net cash provided by (used in) investing activities	$ 7,375	$ (9,830)
Net cash provided by (used in) financing activities	$ (11,617)	$ 1,865

As of January 29, 2023, we had $13.30 billion in cash, cash equivalents and marketable securities, a decrease of $7.91 billion from the end of fiscal year 2022. Our investment policy requires the purchase of highly rated fixed income securities, the diversification of investment types and credit exposures, and certain maturity limits on our portfolio.

Cash provided by operating activities decreased in fiscal year 2023 compared to fiscal year 2022, primarily due to a decrease in net income adjusted for certain non-cash items, such as the Arm acquisition termination cost of $1.35 billion, and higher tax payments, partially offset by changes in working capital. Changes in working capital were primarily driven by lower accounts receivable due to strong collections partially offset by timing of supplier payments and inventory deliveries.

Cash provided by investing activities increased in fiscal year 2023 compared to fiscal year 2022, primarily driven by lower purchases and higher sales and maturities of marketable securities, offset by higher capital expenditures.

Cash used in financing activities increased in fiscal year 2023 compared to fiscal year 2022, due to share repurchases and the absence of debt issuance proceeds in fiscal year 2023, offset by absence of debt repayment.

Liquidity

Our primary sources of liquidity are our cash and cash equivalents, our marketable securities, and cash generated by our operations. At the end of fiscal year 2023, we had $13.30 billion in cash, cash equivalents and marketable securities. We believe that we have sufficient liquidity to meet our operating requirements for at least the next twelve months, and for the foreseeable future, including our future supply obligations and $1.25 billion of debt repayment due in fiscal year 2024. We continuously evaluate our liquidity and capital resources, including our access to external capital, to ensure we can finance future capital requirements.

Our marketable securities consist of debt securities issued by the U.S. government and its agencies, highly rated corporations and financial institutions, and foreign government entities, as well as certificates of deposit issued by highly rated financial institutions. These marketable securities are primarily denominated in U.S. dollars. Refer to Note 8 of the Notes to the Consolidated Financial Statements in Part IV, Item 15 of this Annual Report on Form 10-K for additional information.

During fiscal year 2024, we expect to use our existing cash and cash equivalents, our marketable securities, and the cash generated by our operations to fund our capital investments of approximately $1.10 billion to $1.30 billion related to property and equipment.

Except for approximately $1.38 billion of cash, cash equivalents, and marketable securities held outside the U.S. for which we have not accrued any related foreign or state taxes if we repatriate these amounts to the U.S., substantially all of our cash, cash equivalents and marketable securities held outside of the U.S. at the end of fiscal year 2023 are available for use in the U.S. without incurring additional U.S. federal income taxes.

Beginning in fiscal year 2023, the TCJA requires taxpayers to capitalize research and development expenditures and to amortize domestic expenditures over five years and foreign expenditures over fifteen years. The adverse cash flow impact of mandatory capitalization will be reduced in future years as capitalized research and development expenditures continue to amortize. 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.

Capital Return to Shareholders

During fiscal year 2023, we returned $10.04 billion in share repurchases and $398 million in quarterly cash dividends. Our cash dividend program and the payment of future cash dividends under that program are subject to our Board of Directors' continuing determination that the dividend program and the declaration of dividends thereunder are in the best interests of our shareholders.

As of January 29, 2023, we were authorized, subject to certain specifications, to repurchase additional shares of our common stock up to $7.23 billion through December 2023.

Outstanding Indebtedness and Commercial Paper Program

Our aggregate debt maturities as of January 29, 2023, by year payable, are as follows:

	January 29, 2023
	(In millions)
Due in one year	$ 1,250
Due in one to five years	2,250
Due in five to ten years	4,000
Due in greater than ten years	3,500
Unamortized debt discount and issuance costs	(47)
Net carrying amount	10,953
Less short-term portion	(1,250)
Total long-term portion	$ 9,703

We have a $575 million commercial paper program to support general corporate purposes. As of the end of fiscal year 2023, we had not issued any commercial paper.

Refer to Note 12 of the Notes to the Consolidated Financial Statements in Part IV, Item 15 of this Annual Report on Form 10-K for further discussion.

Material Cash Requirements and Other Obligations

For a description of our long-term debt, purchase obligations, and operating lease obligations, refer to Note 12, Note 13, and Note 3 of the Notes to the Consolidated Financial Statements in Part IV, Item 15 of this Annual Report on Form 10-K, respectively.

We have unrecognized tax benefits of $1.02 billion, which includes related interest and penalties of $95 million, recorded in non-current income tax payable at the end of fiscal year 2023. We are unable to reasonably estimate the timing of any potential tax liability, interest payments, or penalties in individual years due to uncertainties in the underlying income tax positions and the timing of the effective settlement of such tax positions. We are currently under examination by the Internal Revenue Service for our fiscal years 2018 and 2019. 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 further information.

Climate Change

To date, there has been no material impact to our results of operations associated with global sustainability regulations, compliance, costs from sourcing renewable energy or climate-related business trends.

Adoption of New and Recently Issued Accounting Pronouncements

Refer to 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 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements which are based on our management's beliefs and assumptions and on information currently available to our management. In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "could," "goal," "would," "expect," "plan," "anticipate," "believe," "estimate," "project," "predict," "potential" and similar expressions intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors, which may cause our actual results, performance, time frames or achievements to be materially different from any future results, performance, time frames or achievements expressed or implied by the forward-looking statements. We discuss many of these risks, uncertainties and other factors in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the fiscal year ended January 29, 2023 and in our Quarterly Reports on Form 10-Q for the fiscal quarters ended April 30, 2023 and July 30, 2023 in greater detail under the heading "Risk Factors" of such reports. Given these risks, uncertainties, and other factors, you should not place undue reliance on these forward-looking statements. Also, these forward-looking statements represent our estimates and assumptions only as of the date of this filing. You should read this Quarterly Report on Form 10-Q completely and with the understanding that our actual future results may be materially different from what we expect. We hereby qualify our forward-looking statements by these cautionary statements. Except as required by law, we assume no obligation to update these forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

All references to "NVIDIA," "we," "us," "our" or the "Company" mean NVIDIA Corporation and its subsidiaries.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the risk factors set forth in this Quarterly Report on Form 10-Q, our Annual Report on Form 10-K for the fiscal year ended January 29, 2023, and our Quarterly Reports on Form 10-Q for the fiscal quarters ended April 30, 2023 and July 30, 2023 under the heading "Risk Factors" of such reports, and our Condensed Consolidated Financial Statements and related Notes thereto, as well as other cautionary statements and risks described elsewhere in this Quarterly Report on Form 10-Q and our other filings with the SEC, before deciding to purchase or sell shares of our common stock.

Overview

Our Company and Our Businesses

Since our founding in 1993, NVIDIA has been a pioneer in accelerated computing. Our invention of the GPU in 1999 has sparked the growth of the PC gaming market, redefined computer graphics, ignited the era of modern AI and has fueled industrial digitalization across markets. NVIDIA is now a full-stack computing company with data-center-scale offerings that are reshaping industry.

Our two operating segments are "Compute & Networking" and "Graphics," as described in Note 15 of the Notes to Condensed Consolidated Financial Statements.

Headquartered in Santa Clara, California, NVIDIA was incorporated in California in April 1993 and reincorporated in Delaware in April 1998.

Recent Developments, Future Objectives and Challenges

Demand and Supply, Product Transitions, and New Products and Business Models

Demand for our data center systems and products has surged over the last three quarters and our demand visibility extends into next year. To meet this expected demand, we have increased our purchase obligations with existing suppliers, added new suppliers and entered into prepaid supply and capacity agreements. These increased purchase volumes, the number of suppliers, and the integration of new suppliers into our supply chain may create more supply chain complexity and execution risk. We expect to continue to enter into supplier and capacity arrangements and expect our supply to increase each quarter through next year. We may incur inventory provisions or impairments if our inventory or supply or capacity commitments exceed demand for our products or demand declines.

We build finished products and maintain inventory in advance of anticipated demand. While we have entered into long-term supply and capacity commitments, we may not be able to secure sufficient commitments for capacity to address our business needs, or our long-term demand expectations may change. These risks may increase as we shorten our product development cycles or enter new lines of business, which may require us to integrate new suppliers into our supply chain, creating additional supply chain complexity.

Product transitions are complex as we often ship both new and prior architecture products simultaneously and we and our channel partners prepare to ship and support new products. Due to our product introduction cycles, we are almost always in various stages of transitioning the architecture of our Data Center, Professional Visualization, and Gaming products. We will have a broader and faster Data Center product launch cadence to meet a growing and diverse set of AI opportunities. The increased frequency of these transitions may magnify the challenges associated with managing our supply and demand due to long manufacturing lead times. Qualification time for new products, customers anticipating product transitions and channel partners reducing channel inventory of prior architectures ahead of new product introductions can create reductions or volatility in our revenue. In addition, the bring up of new product architectures is complex due to functionality challenges and quality concerns not identified in manufacturing testing. These product quality issues may incur costs, increase our warranty costs, and delay further production of our architecture. Deployment of new products to customers creates additional challenges due to the complexity of our technologies, which has impacted and may in the future impact the timing of customer purchases or otherwise impact our demand. While we have managed prior product transitions and have previously sold multiple product architectures at the same time, these transitions are difficult, may impair our ability to predict demand and impact our supply mix, and we may incur additional costs.

We build technology and products for use cases and applications that may be new or may not yet exist such as our Omniverse platform, third-party large language models, and generative AI models. We have recently begun offering enterprise customers NVIDIA DGX cloud services directly and through our network of partners, which includes cloud-based infrastructure and software and services for training and deploying AI models, and NVIDIA AI Foundations for customizable pretrained AI models. Our demand estimates for new use cases, applications, and services can be incorrect and create volatility in our revenue or supply levels, and we may not be able to generate significant revenue from these use cases, applications, and services. New technologies such as generative AI models have emerged, and while they have driven increased demand for Data Center compute infrastructure, the long-term trajectory is unknown.

Global Trade

During the third quarter of fiscal year 2023, the U.S. government, or the USG, announced licensing requirements that, with certain exceptions, impact exports to China (including Hong Kong and Macau) and Russia of our A100 and H100 integrated circuits, DGX or any other systems or boards which incorporate A100 or H100 integrated circuits.

During the second quarter of fiscal year 2024, the USG informed us of an additional licensing requirement for a subset of A100 and H100 products destined to certain customers and other regions, including some countries in the Middle East.

On October 17, 2023, the USG announced new and updated licensing requirements effective in our fourth quarter of fiscal year 2024 for exports to China and Country Groups D1, D4, and D5 (including but not limited to Saudi Arabia, the United Arab Emirates, and Vietnam, but excluding Israel) of our products exceeding certain performance thresholds, including A100, A800, H100, H800, L4, L40, L40S and RTX 4090. The licensing requirements also apply to the export of products exceeding certain performance thresholds to a party headquartered in, or with an ultimate parent headquartered in, Country Group D5, including China. On October 23, 2023, the USG informed us the licensing requirements were effective immediately for shipments of our A100, A800, H100, H800, and L40S products. These licensing requirements did not have a meaningful impact on our revenue in the third quarter of fiscal year 2024 as they were announced near the end of the fiscal quarter and we had additional demand from customers outside of the named country groups. Our sales to China and other affected destinations, derived from products that are now subject to licensing requirements, have consistently contributed approximately 20-25% of Data Center revenue over the past few quarters. We expect that our sales to these destinations will decline significantly in the fourth quarter of fiscal year 2024, though we believe the decline will be more than offset by strong growth in other regions.

We are working to expand our Data Center product portfolio to offer new regulation-compliant solutions, including those for which the USG does not wish to have any advance notice before each shipment. To the extent that a customer requires products covered by the licensing requirements, we may seek a license for the customer but have no assurance that the USG will grant such a license, or that the USG will act on the license application in a timely manner or at all.

Our competitive position has been harmed, and our competitive position and future results may be further harmed over the long-term, if there are further changes in the USG's export controls. Given the increasing strategic importance of AI and rising geopolitical tensions, the USG has changed and may again change the export control rules at any time and further subject a wider range of our products to export restrictions and licensing requirements, negatively impacting our business and financial results. In the event of such change, we may be unable to sell our inventory of such products and may be unable to develop replacement products not subject to the licensing requirements, effectively excluding us from all or part of the China market, as well as other impacted markets, including the Middle East. Our sales to China will decrease significantly in the fourth quarter of fiscal year 2024.

While we work to enhance the resiliency and redundancy of our supply chain, which is currently concentrated in the Asia-Pacific, including China, Hong Kong, Korea and Taiwan, new and existing export controls or changes to existing export controls could limit alternative manufacturing locations and negatively impact our business.

Macroeconomic Factors

Macroeconomic factors, including inflation, increased interest rates, capital market volatility, global supply chain constraints and global economic and geopolitical developments, may have direct and indirect impacts on our results of operations, particularly demand for our products. While difficult to isolate and quantify, these macroeconomic factors can also impact our supply chain and manufacturing costs, employee wages, costs for capital equipment and value of our investments. Our product and solution pricing strategy generally does not fluctuate with short-term changes in our costs. Within our supply chain, we continuously manage product availability and costs with our vendors.

Israel

We are monitoring the impact of the geopolitical conflict in and around Israel on our operations, including the health and safety of our approximately 3,400 employees in the region who primarily support the research and development, operations, and sales and marketing of our networking products. Our operating expenses in the third quarter of fiscal year 2024 include expenses for financial support to impacted employees and charitable activity. We believe our global supply chain for our networking products has not experienced any significant impact. Further, in connection with the conflict, a significant number and percentage of our employees have been called-up for active military duty in Israel. Accordingly, some of our employees in Israel may be absent for an extended and indeterminate period, which may cause disruption to our product development or operations. In the third quarter of fiscal year 2024, we did not experience any significant impact or expense to our business; however, if the conflict is extended, it could impact future product development, operations, and revenue or create other uncertainty for our business.

Third Quarter of Fiscal Year 2024 Summary

	Three Months Ended				
	October 29, 2023	July 30, 2023	October 30, 2022	Quarter-over-Quarter Change	Year-over-Year Change
	($ in millions, except per share data)				
Revenue	$ 18,120	$ 13,507	$ 5,931	34 %	206 %
Gross margin	74.0 %	70.1 %	53.6 %	3.9 pts	20.4 pts
Operating expenses	$ 2,983	$ 2,662	$ 2,576	12 %	16 %
Operating income	$ 10,417	$ 6,800	$ 601	53 %	1,633 %
Net income	$ 9,243	$ 6,188	$ 680	49 %	1,259 %
Net income per diluted share	$ 3.71	$ 2.48	$ 0.27	50 %	1,274 %

We specialize in markets where our computing platforms can provide tremendous acceleration for applications. These platforms incorporate processors, interconnects, software, algorithms, systems, and services to deliver unique value. Our platforms address four large markets where our expertise is critical: Data Center, Gaming, Professional Visualization, and Automotive.

Revenue for the third quarter of fiscal year 2024 was $18.12 billion, up 206% from a year ago and up 34% sequentially.

Data Center revenue was up 279% from a year ago and up 41% sequentially. Strong sales of the NVIDIA HGX platform were driven by global demand for the training and inferencing of large language models, recommendation engines, and generative AI applications. Data Center compute grew 324% from a year ago and 38% sequentially, largely reflecting the strong ramp of our Hopper GPU architecture-based HGX platform from cloud service providers, or CSPs, including GPU-specialized CSPs; consumer internet companies; and enterprises. Our sales of Ampere GPU architecture-based Data Center products were significant but declined sequentially, as we approach the tail end of this architecture. We recognized initial revenue on the ramp of our L40S GPU and the GH200 Grace Hopper Superchip for a broad range of customers. CSPs drove roughly half of Data Center revenue, while consumer internet companies and enterprises comprised approximately the other half. Networking was up 155% from a year ago and up 52% sequentially, almost entirely due to strong growth in InfiniBand infrastructure to support our HGX platform.

Gaming revenue was up 81% from a year ago and up 15% sequentially. Strong year-on-year growth reflects higher sell-in to partners following normalization of channel inventory levels. Sequential growth reflects strong demand for our GeForce RTX 40 Series GPUs for back-to-school and the start of the holiday season.

Professional Visualization revenue was up 108% from a year ago and up 10% sequentially. The year-on-year increase reflects higher sell-in to partners following normalization of channel inventory levels. The sequential increase was primarily due to stronger enterprise workstation demand and the ramp of notebook workstations based on the Ada Lovelace GPU architecture.

Automotive revenue was up 4% from a year ago and up 3% sequentially. The year-on-year increase primarily reflects growth in sales of auto cockpit solutions and self-driving platforms. The sequential increase was driven by sales of self-driving platforms.

Gross margin increased significantly from a year ago and sequentially, driven by improved product mix from Data Center revenue growth and lower net inventory provisions and related charges.

In the third quarter of fiscal year 2024, provisions for inventory and related charges were $681 million. Sales of previously reserved inventory or settlements of excess inventory purchase obligations resulted in a provision release of $239 million, primarily from Ampere GPU architecture products. The net inventory provisions were $442 million and the unfavorable effect on our gross margin was 2.4 percentage points.

In the third quarter of fiscal year 2023, provisions for inventory and related charges were $702 million. Sales of previously reserved inventory or settlements of excess inventory purchase obligations resulted in a provision release of $21 million. The net inventory provisions were $681 million and the unfavorable effect on our gross margin was 11.5 percentage points.

Operating expenses were up 16% from a year ago and up 12% sequentially, driven by compensation and benefits, including stock-based compensation, primarily reflecting growth in employees and compensation increases.

Market Platform Highlights

Data Center revenue for the third quarter of fiscal year 2024 was $14.51 billion, up 279% from a year ago and up 41% from the previous quarter. We announced NVIDIA HGX H200 with the H200 Tensor Core GPU; introduced an AI foundry service, first available on Microsoft Azure; announced that the NVIDIA Spectrum-X will be integrated into servers from Dell Technologies, Hewlett Packard Enterprise and Lenovo in the first quarter of next year; announced that NVIDIA GH200 Grace Hopper Superchips will power more than 40 new supercomputers and began shipping in the third quarter of fiscal year 2024; and partnered with a range of leading companies on AI initiatives, including Amdocs, Dropbox, Foxconn, Genentech (member of Roche Group), Infosys, Lenovo, Reliance Industries, Scaleway, and Tata Group.

Gaming revenue for the third quarter of fiscal year 2024 was $2.86 billion, up 81% from a year ago and up 15% from the previous quarter. We launched DLSS 3.5 Ray Reconstruction; released TensorRT-LLM for Windows; added 56 DLSS games and over 15 Reflex games; and surpassed 1,700 games on GeForce NOW.

Professional Visualization revenue for the third quarter of fiscal year 2024 was $416 million, up 108% from a year ago and up 10% from the previous quarter. We announced a new line of desktop workstations with NVIDIA RTX 6000 Ada Generation GPUs and NVIDIA ConnectX smart interface cards.

Automotive revenue for the third quarter of fiscal year 2024 was $261 million, up 4% from a year ago and up 3% from the previous quarter. We furthered our collaboration with Foxconn to develop next-generation electric vehicles.

Financial Information by Business Segment and Geographic Data

Refer to Note 15 of the Notes to Condensed Consolidated Financial Statements for disclosure regarding segment information.

Critical Accounting Policies and Estimates

Refer to Part II, Item 7, "Critical Accounting Policies and Estimates" of our Annual Report on Form 10-K for the fiscal year ended January 29, 2023. There have been no material changes to our Critical Accounting Policies and Estimates.

Results of Operations

The following table sets forth, for the periods indicated, certain items in our Condensed Consolidated Statements of Income expressed as a percentage of revenue.

	Three Months Ended		Nine Months Ended	
	October 29, 2023	October 30, 2022	October 29, 2023	October 30, 2022
Revenue	100.0 %	100.0 %	100.0 %	100.0 %
Cost of revenue	26.0	46.4	29.1	44.9
Gross profit	74.0	53.6	70.9	55.1
Operating expenses				
Research and development	12.7	32.8	16.0	25.7
Sales, general and administrative	3.8	10.6	5.0	8.7
Acquisition termination cost	—	—	—	6.5
Total operating expenses	16.5	43.4	21.0	40.9
Operating income	57.5	10.2	49.9	14.2
Interest income	1.3	1.5	1.5	0.7
Interest expense	(0.3)	(1.1)	(0.5)	(0.9)
Other, net	(0.4)	(0.2)	(0.1)	(0.1)
Other income (expense), net	0.6	0.2	0.9	(0.3)
Income before income tax	58.1	10.4	50.8	13.9
Income tax expense (benefit)	7.1	(1.1)	5.8	(0.3)
Net income	51.0 %	11.5 %	45.0 %	14.2 %

Revenue

Revenue for the third quarter and first nine months of fiscal year 2024 was $18.12 billion and $38.82 billion, up 206% and 86%, respectively.

Revenue by Reportable Segments

	Three Months Ended				Nine Months Ended			
	October 29, 2023	October 30, 2022	$ Change	% Change	October 29, 2023	October 30, 2022	$ Change	% Change
				($ in millions)				
Compute & Networking	$ 14,645	$ 3,816	$ 10,829	284 %	$ 29,507	$ 11,395	$ 18,112	159 %
Graphics	3,475	2,115	1,360	64 %	9,312	9,528	(216)	(2) %
Total	$ 18,120	$ 5,931	$ 12,189	206 %	$ 38,819	$ 20,923	$ 17,896	86 %

Compute & Networking - The increase in the third quarter and first nine months of fiscal year 2024 compared to the third quarter and first nine months of fiscal year 2023 was due to higher Data Center revenue. Compute GPUs grew 369% year-on-year and 193% compared to the first nine months of fiscal year 2023 led by strong demand for the NVIDIA HGX platform driven by global demand for the training and inferencing of large language models, recommendation engines and inferencing of generative AI applications. Networking was up 155% year-on-year and 99% compared to the first nine months of last year, almost entirely due to strong growth in InfiniBand infrastructure to support our HGX platform.

Graphics - The increase in the third quarter of fiscal year 2024 compared to the third quarter of fiscal year 2023 reflects growth in Gaming GPUs reflecting higher sell-in to partners following normalization of channel inventory levels earlier this year. The decrease in the first nine months of fiscal year 2024 compared to the first nine months of fiscal year 2023 primarily reflects 57% lower enterprise graphics and 14% lower Professional Visualization GPUs, partially offset by 7% growth in Gaming GPUs, following normalization of channel inventory levels earlier this year.

Concentration of Revenue

Revenue by geographic region is designated based on the billing location even if the revenue may be attributable to end customers, or End Customers, such as CSPs, enterprises, and gamers in a different location. Revenue from sales to customers outside of the United States accounted for 65% and 62% of total revenue for the third quarter and first nine months of fiscal year 2024, respectively, and 64% and 71% of total revenue for the third quarter and first nine months of fiscal year 2023, respectively.

Our customers include original equipment manufacturers, original device manufacturers, system builders, system integrators, add-in board manufacturers, retailers/distributors, automotive manufacturers, tier-1 automotive suppliers, and other enterprises.

Sales to Customer A represented 12% of total revenue for the third quarter of fiscal year 2024, and sales to Customer B represented 11% of total revenue for the first nine months of fiscal year 2024, both of which were attributable to the Compute & Networking segment.

Our customers sell to End Customers. Our End Customers often do not purchase directly from us but purchase through multiple original equipment manufacturers, original device manufacturers, system integrators, distributors, and other channel partners. Our sales to Customer A and Customer B were largely in support of two End Customers. One End Customer is estimated to have represented approximately 15% and 17% of total revenue for the third quarter and first nine months of fiscal year 2024, respectively. A second End Customer is estimated to have represented approximately 13% and 10% of total revenue for the third quarter and first nine months of fiscal year 2024, respectively. Both of these End Customers were primarily attributable to our Compute & Networking segment.

Our estimated Compute & Networking End Customer demand is expected to remain concentrated.

In the first nine months of fiscal year 2023, there were no customers with 10% or more of total revenue. In the third quarter of fiscal year 2023, one customer represented 10% of total revenue, primarily attributable to the Compute & Networking segment.

Gross Margin

Our overall gross margin increased to 74.0% and 70.9% for the third quarter and first nine months of fiscal year 2024, respectively, from 53.6% and 55.1% for the third quarter and first nine months of fiscal year 2023, respectively. The year over year increase in the third quarter and first nine months of fiscal year 2024 was primarily due to improved product mix from Data Center revenue growth of 279% and 156%, respectively, and lower net inventory provisions and related charges.

Provisions for inventory and excess inventory purchase obligations totaled $681 million and $1.39 billion for the third quarter and first nine months of fiscal year 2024, respectively. Sales of previously reserved inventory or settlements of excess inventory purchase obligations resulted in a provision release of $239 million and $372 million, primarily from Ampere GPU architecture products, for the third quarter and first nine months of fiscal year 2024, respectively. The net effect on our gross margin was an unfavorable impact of 2.4% and 2.6% in the third quarter and first nine months of fiscal year 2024.

Provisions for inventory and excess inventory purchase obligations totaled $702 million and $2.01 billion for the third quarter and first nine months of fiscal year 2023, respectively. Sales of previously reserved inventory or settlements of excess inventory purchase obligations resulted in a provision release of $21 million and $59 million for the third quarter and first nine months of fiscal year 2023, respectively. The net effect on our gross margin was an unfavorable impact of 11.5% and 9.3% in the third quarter and first nine months of fiscal year 2023, respectively.

Operating Expenses

	Three Months Ended				Nine Months Ended			
	October 29, 2023	October 30, 2022	$ Change	% Change	October 29, 2023	October 30, 2022	$ Change	% Change
				($ in millions)				
Research and development expenses	$ 2,294	$ 1,945	$ 349	18 %	$ 6,210	$ 5,387	$ 823	15 %
% of net revenue	*12.7 %*	*32.8 %*			*16.0 %*	*25.7 %*		
Sales, general and administrative expenses	689	631	58	9 %	1,942	1,815	127	7 %
% of net revenue	*3.8 %*	*10.6 %*			*5.0 %*	*8.7 %*		
Acquisition termination cost	—	—	—	— %	—	1,353	(1,353)	(100) %
% of net revenue	*— %*	*— %*			*— %*	*6.5 %*		
Total operating expenses	$ 2,983	$ 2,576	$ 407	16 %	$ 8,152	$ 8,555	$ (403)	(5) %
% of net revenue	*16.5 %*	*43.4 %*			*21.0 %*	*40.9 %*		

The increases in research and development expenses and sales, general and administrative expenses for the third quarter and first nine months of fiscal year 2024 were primarily driven by compensation and benefits, including stock-based compensation, reflecting employee growth and compensation increases.

Acquisition Termination Cost

We recorded an acquisition termination cost related to the Arm transaction of $1.35 billion in fiscal year 2023 reflecting the write-off of the prepayment provided at signing.

Operating Income

Operating income for the third quarter and first nine months of fiscal year 2024 was $10.42 billion and $19.36 billion, respectively, up 1,633% and 552% from a year ago, respectively.

Operating Income by Reportable Segments

	Three Months Ended				Nine Months Ended			
	October 29, 2023	October 30, 2022	$ Change	% Change	October 29, 2023	October 30, 2022	$ Change	% Change
				($ in millions)				
Compute & Networking	$ 10,262	$ 1,086	$ 9,176	845 %	$ 19,149	$ 3,509	$ 15,640	446 %
Graphics	1,493	606	887	146 %	3,751	3,739	12	— %
All Other	(1,338)	(1,091)	(247)	23 %	(3,542)	(4,280)	738	(17) %
Total	$ 10,417	$ 601	$ 9,816	1,633 %	$ 19,358	$ 2,968	$ 16,390	552 %

Compute & Networking – Segment operating income increased during the third quarter and first nine months of fiscal year 2024 compared to the third quarter and first nine months of fiscal year 2023 primarily due to growth in revenue.

Graphics - Segment operating income increased during the third quarter of fiscal year 2024 compared to the third quarter of fiscal year 2023 due to growth in revenue. Segment operating income was flat during the first nine months of fiscal year 2024 compared to the first nine months of fiscal year 2023 due to a decline in revenue of $216 million, offset by lower provisions for inventory and excess inventory purchase obligations of $337 million in fiscal year 2024.

All Other expenses increased during the third quarter of fiscal year 2024 compared to the third quarter of fiscal year 2023 due to higher stock-based compensation expense. All Other expenses decreased during the first nine months of fiscal year 2024 compared to the first nine months of fiscal year 2023 due to an acquisition termination cost of $1.35 billion related to the Arm transaction in the prior year, partially offset by higher stock-based compensation expense of $584 million.

Other Income (Expense), Net

	Three Months Ended			Nine Months Ended		
	October 29, 2023	October 30, 2022	$ Change	October 29, 2023	October 30, 2022	$ Change
			($ in millions)			
Interest income	$ 234	$ 88	$ 146	$ 572	$ 152	$ 420
Interest expense	(63)	(65)	2	(194)	(198)	4
Other, net	(66)	(11)	(55)	(24)	(29)	5
Other income (expense), net	$ 105	$ 12	$ 93	$ 354	$ (75)	$ 429

Interest income consists of interest earned on cash, cash equivalents and marketable securities. The increase in interest income was due to higher yields.

Interest expense is comprised of coupon interest and debt discount amortization related to our notes.

Other, net, consists of realized or unrealized gains and losses from investments in non-affiliated entities and the impact of changes in foreign currency rates. The loss in Other, net, in the third quarter of fiscal year 2024 was driven by mark-to-market losses from publicly traded equity investments.

Income Taxes

Income tax was an expense of $1.28 billion and $2.24 billion for the third quarter and first nine months of fiscal year 2024, respectively, and a benefit of $67 million and $61 million for the third quarter and first nine months of fiscal year 2023, respectively. Income tax as a percentage of income before income tax was an expense of 12.2% and 11.3% for the third quarter and first nine months of fiscal year 2024, respectively, and a benefit of 10.9% and 2.1% for the third quarter and first nine months of fiscal year 2023, respectively.

The effective tax rate increased due to a decreased impact of tax benefits from the foreign-derived intangible income deduction, stock-based compensation, and the U.S. federal research tax credit, relative to the increase in income before income tax. The increase in the effective tax rate was partially offset by a benefit due to the IRS audit resolution.

Liquidity and Capital Resources

	October 29, 2023	January 29, 2023
	(In millions)	
Cash and cash equivalents	$ 5,519	$ 3,389
Marketable securities	12,762	9,907
Cash, cash equivalents and marketable securities	$ 18,281	$ 13,296

	Nine Months Ended	
	October 29, 2023	October 30, 2022
	(In millions)	
Net cash provided by operating activities	$ 16,591	$ 3,393
Net cash provided by (used in) investing activities	$ (4,457)	$ 7,378
Net cash used in financing activities	$ (10,004)	$ (9,961)

As of October 29, 2023, we had $18.28 billion in cash, cash equivalents, and marketable securities, an increase of $4.99 billion from the end of fiscal year 2023. Our investment policy requires the purchase of highly rated fixed income securities, the diversification of investment types and credit exposures, and certain maturity limits on our portfolio.

Cash provided by operating activities increased in the first nine months of fiscal year 2024 compared to the first nine months of fiscal year 2023, due to growth in revenue, partially offset by higher accounts receivable balance and taxes paid. Accounts receivable balance in the third quarter of fiscal year 2024 reflected approximately $570 million from customer payments received ahead of the invoice due date.

Cash provided by investing activities decreased in the first nine months of fiscal year 2024 compared to the first nine months of fiscal year 2023, primarily driven by lower marketable securities maturities.

Cash used in financing activities increased in the first nine months of fiscal year 2024 compared to the first nine months of fiscal year 2023, due to a debt repayment in the second quarter of fiscal year 2024 and higher tax payments related to RSUs, partially offset by lower share repurchases.

Liquidity

Our primary sources of liquidity are our cash, cash equivalents, and marketable securities, and the cash generated by our operations. As of October 29, 2023, we had $18.28 billion in cash, cash equivalents, and marketable securities. Our marketable securities consist of debt securities issued by the USG and its agencies, highly rated corporations and financial institutions, and foreign government entities, as well as certificates of deposit issued by highly rated financial institutions. These marketable securities are primarily denominated in U.S. dollars. Refer to Note 7 of the Notes to Condensed Consolidated Financial Statements for additional information. We believe that we have sufficient liquidity to meet our operating requirements for at least the next twelve months, and for the foreseeable future, including our debt obligations, future supply obligations and vendor and supplier prepayments. We continuously evaluate our liquidity and capital resources, including our access to external capital, to ensure we can finance future capital requirements.

Except for approximately $1.38 billion of cash, cash equivalents, and marketable securities held outside the U.S. for which we have not accrued any related foreign or state taxes if we repatriate these amounts to the U.S., substantially all of our cash, cash equivalents and marketable securities held outside of the U.S. as of October 29, 2023 are available for use in the U.S. without incurring additional U.S. federal income taxes. We paid $4.35 billion in cash taxes in the third quarter of fiscal year 2024, largely for previously deferred federal income tax payments related to the disaster relief made available by the IRS for certain California taxpayers.

Capital Return to Shareholders

During the third quarter and first nine months of fiscal year 2024, we returned $3.72 billion and $7.01 billion, respectively, in share repurchases and $99 million and $296 million, respectively, in cash dividends.

Our cash dividend program and the payment of future cash dividends under that program are subject to the continuing determination by our Board of Directors that the dividend program and the declaration of dividends thereunder are in the best interests of our shareholders.

On August 21, 2023, our Board of Directors approved an increase to our share repurchase program of an additional $25.00 billion, without expiration. As of October 29, 2023, we were authorized, subject to certain specifications, to repurchase additional shares of our common stock up to $25.24 billion. From October 30, 2023 through November 17, 2023, we repurchased 0.8 million shares for $366 million pursuant to a Rule 10b5-1 trading plan. Our share repurchase program aims to offset dilution from shares issued to employees. We may pursue additional share repurchases as we weigh market factors and other investment opportunities. We plan to continue share repurchases this fiscal year.

The U.S. Inflation Reduction Act of 2022 requires a 1% excise tax on certain share repurchases in excess of shares issued for employee compensation made after December 31, 2022. This provision has not had a material effect on our consolidated financial statements.

Outstanding Indebtedness and Commercial Paper

Our aggregate debt maturities as of October 29, 2023, by year payable, are as follows:

	October 29, 2023
	(In millions)
Due in one year	$ 1,250
Due in one to five years	2,250
Due in five to ten years	2,750
Due in greater than ten years	3,500
Unamortized debt discount and issuance costs	(44)
Net carrying amount	9,706
Less short-term portion	(1,249)
Total long-term portion	$ 8,457

We have a $575 million commercial paper program to support general corporate purposes. As of October 29, 2023, we had not issued any commercial paper.

Material Cash Requirements and Other Obligations

We have unrecognized tax benefits of $1.10 billion, which includes related interest and penalties of $115 million recorded in non-current income tax payable as of October 29, 2023. We are unable to reasonably estimate the timing of any potential tax liability, interest payments, or penalties in individual years due to uncertainties in the underlying income tax positions and the timing of the effective settlement of such tax positions. Refer to Note 6 of the Notes to Condensed Consolidated Financial Statements for further information.

Other than the contractual obligations described above, there were no material changes outside the ordinary course of business in our contractual obligations from those disclosed in our Annual Report on Form 10-K for the fiscal year ended January 29, 2023. Refer to Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources” in our Annual Report on Form 10-K for the fiscal year ended January 29, 2023 for a description of our contractual obligations. For a description of our operating lease obligations, long-term debt, and purchase obligations, refer to Note 3, Note 12, and Note 13 of the Notes to Condensed Consolidated Financial Statements, respectively.

Climate Change

To date, there has been no material impact to our results of operations associated with global sustainability regulations, compliance, costs from sourcing renewable energy or climate-related business trends.

Adoption of New and Recently Issued Accounting Pronouncements

There has been no adoption of any new and recently issued accounting pronouncements.

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", 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 and Our Businesses

NVIDIA pioneered accelerated computing to help solve the most challenging computational problems. Since our original focus on PC graphics, we have expanded to several other large and important computationally intensive fields. NVIDIA has leveraged its GPU architecture to create platforms for accelerated computing, Al solutions, scientific computing, data science, AV, robotics, metaverse and 3D internet applications.

Our two operating segments are "Compute & Networking" and "Graphics." Refer to Note 17 of the Notes to the Consolidated Financial Statements in Part IV, Item 15 of this Annual Report on Form 10-K for additional information.

Headquartered in Santa Clara, California, NVIDIA was incorporated in California in April 1993 and reincorporated in Delaware in April 1998.

Recent Developments, Future Objectives and Challenges

Demand and Supply, Product Transitions, and New Products and Business Models

Demand for our data center systems and products surged in fiscal year 2024. Entering fiscal year 2025, we are gathering customer demand indications across several product transitions. We have demand visibility for our new data center products ramping later in fiscal year 2025. We have increased our supply and capacity purchases with existing suppliers, added new vendors and entered into prepaid manufacturing and capacity agreements. These increased purchase volumes, the number of suppliers, and the integration of new vendors into our supply chain may create more complexity and execution risk. Our purchase commitments and obligations for inventory and manufacturing capacity at the end of fiscal year 2024 were impacted by shortening lead times for certain components. We may continue to enter into new supplier and capacity arrangements. Supply of Hopper architecture products is improving, and demand remains very strong. We expect our next-generation products to be supply-constrained based upon demand indications. We may incur inventory provisions or impairments if our inventory or supply or capacity commitments exceed demand for our products or demand declines.

We build finished products and maintain inventory in advance of anticipated demand. While we have entered into long-term supply and capacity commitments, we may not be able to secure sufficient commitments for capacity to address our business needs, or our long-term demand expectations may change. These risks may increase as we shorten our product development cycles, enter new lines of business, or integrate new suppliers or components into our supply chain, creating additional supply chain complexity.

Product transitions are complex as we often ship both new and prior architecture products simultaneously and we and our channel partners prepare to ship and support new products. Due to our product introduction cycles, we are almost always in various stages of transitioning the architecture of our Data Center, Professional Visualization, and Gaming products. We will have a broader and faster Data Center product launch cadence to meet a growing and diverse set of Al opportunities. The increased frequency of these transitions may magnify the challenges associated with managing our supply and demand due to manufacturing lead times. Qualification time for new products, customers anticipating product transitions and channel partners reducing channel inventory of prior architectures ahead of new product introductions can create reductions or volatility in our revenue. The increasing frequency and complexity of newly introduced products could result in quality or production issues that could increase inventory provisions, warranty or other costs or result in product delays. Deployment of new products to customers creates additional challenges due to the complexity of our technologies, which has impacted and may in the future impact the timing of customer purchases or otherwise impact our demand. While we have managed prior product transitions and have previously sold multiple product architectures at the same time, these transitions are difficult, may impair our ability to predict demand and impact our supply mix, and we may incur additional costs.

We build technology and introduce products for new and innovative use cases and applications such as our NVIDIA DGX Cloud services, Omniverse platform, LLMs, and generative Al models. Our demand estimates for new use cases, applications, and services can be incorrect and create volatility in our revenue or supply levels, and we may not be able to generate significant revenue from these use cases, applications, and services. Recent technologies, such as generative Al models, have emerged, and while they have driven increased demand for Data Center, the long-term trajectory is unknown.

Global Trade

During the third quarter of fiscal year 2023, the USG, announced licensing requirements that, with certain exceptions, impact exports to China (including Hong Kong and Macau) and Russia of our A100 and H100 integrated circuits, DGX or any other systems or boards which incorporate A100 or H100 integrated circuits.

In July 2023, the USG informed us of an additional licensing requirement for a subset of A100 and H100 products destined to certain customers and other regions, including some countries in the Middle East.

In October 2023, the USG announced new and updated licensing requirements that became effective in our fourth quarter of fiscal year 2024 for exports to China and Country Groups D1, D4, and D5 (including but not limited to Saudi Arabia, the United Arab Emirates, and Vietnam, but excluding Israel) of our products exceeding certain performance thresholds, including A100, A800, H100, H800, L4, L40, L40S and RTX 4090. The licensing requirements also apply to the export of products exceeding certain performance thresholds to a party headquartered in, or with an ultimate parent headquartered in, Country Group D5, including China. On October 23, 2023, the USG informed us the licensing requirements were effective immediately for shipments of our A100, A800, H100, H800, and L40S products. Our sales to China decreased as a percentage of total Data Center revenue from 19% in fiscal year 2023 to 14% in fiscal year 2024.

We have not received licenses to ship these restricted products to China. We are working to expand our Data Center product portfolio to offer new solutions, including those for which the USG does not require a license or advance notice before each shipment. We have started to ship alternatives to the China market in small volumes. China represented a mid-single digit percentage of our Data Center revenue in the fourth quarter of fiscal year 2024 due to USG licensing requirements and we expect China to be in a similar range in the first quarter of fiscal year 2025. To the extent that a customer requires products covered by the licensing requirements, we may seek a license for the customer but have no assurance that the USG will grant such a license, or that the USG will act on the license application in a timely manner or at all.

Our competitive position has been harmed, and our competitive position and future results may be further harmed in the long term, if there are further changes in the USG's export controls. Given the increasing strategic importance of Al and rising geopolitical tensions, the USG has changed and may again change the export control rules at any time and further subject a wider range of our products to export restrictions and licensing requirements, negatively impacting our business and financial results. In the event of such change, we may be unable to sell our inventory of such products and may be unable to develop replacement products not subject to the licensing requirements, effectively excluding us from all or part of the China market, as well as other impacted markets, including the Middle East.

While we work to enhance the resiliency and redundancy of our supply chain, which is currently concentrated in the Asia-Pacific region, new and existing export controls or changes to existing export controls could limit alternative manufacturing locations and negatively impact our business. Refer to "Item 1 A. Risk Factors -Risks Related to Regulatory, Legal, Our Stock and Other Matters" for a discussion of this potential impact.

Macroeconomic Factors

Macroeconomic factors, including inflation, increased interest rates, capital market volatility, global supply chain constraints and global economic and geopolitical developments, may have direct and indirect impacts on our results of operations, particularly demand for our products. While difficult to isolate and quantify, these macroeconomic factors can also impact our supply chain and manufacturing costs, employee wages, costs for capital equipment and value of our investments. Our product and solution pricing generally does not fluctuate with short-term changes in our costs. Within our supply chain, we continuously manage product availability and costs with our vendors.

Israel and Hamas Conflict

We are monitoring the impact of the geopolitical conflict in and around Israel on our operations, including the health and safety of our approximately 3,700 employees in the region who primarily support the research and development, operations, and sales and marketing of our networking products. Our operating expenses in fiscal year 2024 include expenses for financial support to impacted employees and charitable activity. We believe our global supply chain for our networking products has not experienced any significant impact. Further, in connection with the conflict, a substantial number of our employees in the region have been called-up for active military duty in Israel. Accordingly, some of our employees in Israel have been absent for an extended period and they or others may continue to be absent, which may cause disruption to our product development or operations. We did not experience any significant impact or expense to our business; however, if the conflict is further extended, it could impact future product development, operations, and revenue or create other uncertainty for our business.

Fiscal Year 2024 Summary

($ in millions, except per share data)

	Year Ended		
	Jan 28,2024	**Jan 29,2023**	**Change**
Revenue	$60,922	$26,974	Up 126%
Gross margin	72.7 %	56.9 %	Up 15.8 pts

Operating expenses	$11,329	$11,132	Up 2%
Operating income	$32,972	$4,224	Up 681 %
Net income	$29,760	$4,368	Up 581%
Net income per diluted share	$11.93	$1.74	Up 586%

We specialize in markets where our computing platforms can provide tremendous acceleration for applications. These platforms incorporate processors, interconnects, software, algorithms, systems, and services to deliver unique value. Our platforms address four large markets where our expertise is critical: Data Center, Gaming, Professional Visualization, and Automotive.

Revenue for fiscal year 2024 was $60.9 billion, up 126% from a year ago.

Data Center revenue for fiscal year 2024 was up 217%. Strong demand was driven by enterprise software and consumer internet applications, and multiple industry verticals including automotive, financial services, and healthcare. Customers across industry verticals access NVIDIA Al infrastructure both through the cloud and on-premises. Data Center compute revenue was up 244% in the fiscal year. Networking revenue was up 133% in the fiscal year.

Gaming revenue for fiscal year 2024 was up 15%. The increase reflects higher sell-in to partners following the normalization of channel inventory levels and growing demand.

Professional Visualization revenue for fiscal year 2024 was up 1 %.

Automotive revenue for the fiscal year 2024 was up 21 %. The increase primarily reflected growth in self-driving platforms.

Gross margin increased in fiscal year 2024, primarily driven by Data Center revenue growth and lower net inventory provisions as a percentage of revenue.

Operating expenses increased for fiscal year 2024, driven by growth in employees and compensation increases. Fiscal year 2023 also included a $1.4 billion acquisition termination charge related to the proposed Arm transaction.

Market Platform Highlights

Data Center revenue for fiscal year 2024 was $47.5 billion, up 217% from fiscal year 2023. In Data Center, we launched Al inference platforms that combine our full-stack inference software with NVIDIA Ada, NVIDIA Hopper and NVIDIA Grace Hopper processors optimized for generative Al, LLMs and other Al workloads. We introduced NVIDIA DGX Cloud and Al Foundations to help businesses create and operate custom large language models and generative Al models. As AV algorithms move to video transformers, and more cars are equipped with cameras, we expect NVIDIA's automotive data center processing demand to grow significantly. We estimate that in fiscal year 2024, approximately 40% of Data Center revenue was for Al inference. In the fourth quarter of fiscal year 2024, large cloud providers represented more than half of our Data Center revenue, supporting both internal workloads and external customers. We announced NVIDIA Spectrum-X, an accelerated networking platform for Al.

Gaming revenue for fiscal year 2024 was $10.4 billion, up 15% from fiscal year 2023. In Gaming, we launched the GeForce RTX 4060 and 4070 GPUs based on the NVIDIA Ada Lovelace architecture. We announced NVIDIA Avatar Cloud Engine for Games, a custom Al model foundry service using Al-powered natural language interactions to transform games and launched DLSS 3.5 Ray Reconstruction. Additionally, we released TensorRT-LLM for Windows and launched GeForce RTX 40-Series SUPER GPUs. Gaming reached a milestone of 500 Al-powered RTX games and applications utilizing NVIDIA DLSS, ray tracing and other NVIDIA RTX technologies.

Professional Visualization revenue for fiscal year 2024 was $1.6 billion, up 1% from fiscal year 2023. In Professional Visualization, we announced new GPUs based on the NVIDIA RTX Ada Lovelace architecture, and announced NVIDIA Omniverse Cloud, a fully managed service running in Microsoft Azure, for the development and deployment of industrial metaverse applications.

Automotive revenue for fiscal year 2024 was $1.1 billion, up 21% from fiscal year 2023. In Automotive, we announced a partnership with MediaTek, which will develop mainstream automotive systems on chips for global OEMs integrating a new NVIDIA GPU chiplet IP for AI and graphics. We furthered our collaboration with Foxconn to develop next-generation

electric vehicles, and announced further adoption of NVIDIA DRIVE platform with BYD, XPENG, GWM, Li Auto, ZEEKR and Xiaomi.

Critical Accounting Estimates

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States, or 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. Critical accounting estimates are those estimates that involve a significant level of estimation uncertainty and could have a material impact on our financial condition or results of operations. We have critical accounting estimates in the areas of inventories, revenue recognition, and income taxes. Refer to 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 summary of significant accounting policies.

Inventories

We charge cost of sales for inventory provisions to write-down our inventory to the lower of cost or net realizable value or for obsolete or excess inventory, and for excess product purchase commitments. Most of our inventory provisions relate to excess quantities of products or components, based on our inventory levels and future product purchase commitments compared to assumptions about future demand and market conditions, which requires management judgment.

Situations that may result in excess or obsolete inventory or excess product purchase commitments include changes in business and economic conditions, changes in market conditions, sudden and significant decreases in demand for our products, inventory obsolescence because of changing technology and customer requirements, new product introductions resulting in less demand for existing products or inconsistent spikes in demand, failure to estimate customer demand properly, ordering in advance of historical lead-times, government regulations and the impact of changes in future demand, or increase in demand for competitive products, including competitive actions. Cancellation or deferral of customer purchase orders could result in our holding excess inventory.

The net effect on our gross margin from inventory provisions and sales of items previously written down was an unfavorable impact of 2.7% in fiscal year 2024 and 7.5% in fiscal year 2023. Our inventory and capacity purchase commitments are based on forecasts of future customer demand. We account for our third- party manufacturers' lead times and constraints. Our manufacturing lead times can be and have been long, and in some cases, extended beyond twelve months for some products. We may place non-cancellable inventory orders for certain product components in advance of our historical lead times, pay premiums and provide deposits to secure future supply and capacity. We also adjust to other market factors, such as product offerings and pricing actions by our competitors, new product transitions, and macroeconomic conditions - all of which may impact demand for our products.

Refer to the Gross Profit and Gross Margin discussion below in this Management's Discussion and Analysis for further discussion.

Income Taxes

We are subject to income taxes in the U.S. and foreign jurisdictions. Our calculation of 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 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 U.S. or foreign jurisdictions where we operate, or changes in other facts or circumstances. In addition, we recognize liabilities for potential U.S. 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 the end of fiscal years 2024 and 2023, we had a valuation allowance of $1.6 billion and $1.5 billion, respectively, related to capital loss carryforwards, and certain state and other deferred tax assets that management determined are not likely to be realized due, in part, to jurisdictional projections of future taxable income, including capital gains. To the extent realization of the deferred tax assets becomes more-likely-than-not, we would recognize such deferred tax assets as income tax benefits during the period.

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.

Revenue Recognition

Revenue Allowances

For products sold with a right of return, we 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 fiscal period are anticipated to exceed historical return rates, we may determine that additional sales return allowances are required to reflect our estimated exposure for product returns. Return rights for certain stocking distributors for specific products are contractually limited based on a percentage of prior quarter shipments. For shipments to other customers, we do not allow returns, although we may approve returns for credit or refund based on applicable facts and circumstances.

We account for customer programs, which involve rebates and marketing development funds, as a reduction in revenue and accrue for such programs based on the amount we expect to be claimed by customers. Certain customer programs include distributor price incentives or other channel programs for specific products and customer classes which require judgement as to whether the applicable incentives will be attained. Estimates for customer program accruals include a combination of historical attainment and claim rates and may be adjusted based on relevant internal and external factors.

License and Development Arrangements

Revenue from License and Development Arrangements is recognized over the period in which the development services are performed. Each fiscal reporting period, we measure progress to completion based on actual cost incurred to date as a percentage of the estimated total cost required to complete each project. Estimated total cost for each project includes a forecast of internal engineer personnel time expected to be incurred and other third-party costs as applicable.

Contracts with Multiple Performance Obligations

Our contracts may contain more than one performance obligation. Judgement is required in determining whether each performance obligation within a customer contract is distinct. Except for License and Development Arrangements, NVIDIA products and services function on a standalone basis and do not require a significant amount of integration or interdependency. Therefore, multiple performance obligations contained within a customer contract are considered distinct and are not combined for revenue recognition purposes.

We allocate the total transaction price to each distinct performance obligation in a multiple performance obligations arrangement on a relative standalone selling price basis. In certain cases, we can establish standalone selling price based on directly observable prices of products or services sold separately in comparable circumstances to similar customers. If standalone selling price is not directly observable, such as when we do not sell a product or service separately, we determine standalone selling price based on market data and other observable inputs.

Change in Accounting Estimate

In February 2023, we assessed the useful lives of our property, plant, and equipment. Based on advances in technology and usage rate, we increased the estimated useful life of a majority of the server, storage, and network equipment from three years to a range of four to five years, and assembly and test equipment from five years to seven years. The estimated effect of this change for fiscal year 2024 was a benefit of $33 million and $102 million for cost of revenue and operating expenses, respectively, which resulted in an increase in operating income of $135 million and net income of $114 million after tax, or $0.05 per both basic and diluted share.

Results of Operations

A discussion regarding our financial condition and results of operations for fiscal year 2024 compared to fiscal year 2023 is presented below. A discussion regarding our financial condition and results of operations for fiscal year 2023 compared to fiscal year 2022 can be found under Item 7 in our Annual Report on Form 10-K for the fiscal year ended January 29, 2023, filed with the SEC on February 24, 2023, which is available free of charge on the SEC's website at http://www.sec.gov and at our investor relations website, http://investor.nvidia.com.

The following table sets forth, for the periods indicated, certain items in our Consolidated Statements of Income expressed as a percentage of revenue.

	Year Ended	
	Jan 28,2024	Jan 29,2023
Revenue	100.0 %	100.0%
Cost of revenue	27.3	43.1
Gross profit Operating expenses	72.7	56.9
Research and development	14.2	27.2
Sales, general and administrative	4.4	9.1
Acquisition termination cost	_	5.0
Total operating expenses	18.6	41.3
Operating income	54.1	15.6
Interest income	1.4	1.0
Interest expense	(0.4)	(1○)
Other, net	0.4	(0.1)
Other income (expense), net	1.4	(○-1)

Income before income tax	55.5	15.5
Income tax expense (benefit)	6.6	(0.7)
Net income	48.9 %	16.2 %

Reportable Segments

Revenue by Reportable Segments

	Year Ended			
	Jan 28, 2024	**Jan 29, 2023**	**$ Change**	**% Change**
		($ in millions)		
Compute & Networking	$ 47,405	$ 15,068 $	32,337	215%
Graphics	13,517	11,906	1,611	14%
Total	$60,922	$ 26,974 $	33,948	126 %

Operating Income by Reportable Segments

	Year Ended			
	Jan 28,2024	**Jan 29,2023**	**$ Change**	**% Change**
		($ in millions)		
Compute & Networking	$ 32,016	$ 5,083	$ 26,933	530 %
Graphics	5,846	4,552	1,294	28%
All Other	(4,890)	(5,411)	521	(10)%
Total	$ 32,972	$ 4,224	$ 28,748	681 %

Compute & Networking revenue - The year-on-year increase was due to higher Data Center revenue. Compute grew 266% due to higher shipments of the NVIDIA Hopper GPU computing platform for the training and inference of LLMs, recommendation engines and generative Al applications. Networking was up 133% due to higher shipments of InfiniBand.

Graphics revenue - The year-on-year increase was led by growth in Gaming of 15% driven by higher sell-in to partners following the normalization of channel inventory levels.

Reportable segment operating income - The year-on-year increase in Compute & Networking and Graphics operating income was driven by higher revenue.

All Other operating loss - The year-on-year decrease was due to the $1.4 billion Arm acquisition termination cost in fiscal year 2023, partially offset by a $839 million increase in stock-based compensation expense in fiscal year 2024.

Concentration of Revenue

Revenue by geographic region is designated based on the billing location even if the revenue may be attributable to end customers, such as enterprises and gamers in a different location. Revenue from sales to customers outside of the United States accounted for 56% and 69% of total revenue for fiscal years 2024 and 2023, respectively.

Our direct and indirect customers include public cloud, consumer internet companies, enterprises, startups, public sector entities, OEMs, ODMs, system integrators, AIB, and distributors.

Sales to one customer, Customer A, represented 13% of total revenue for fiscal year 2024, which was attributable to the Compute & Networking segment.

One indirect customer which primarily purchases our products through system integrators and distributors, including through

Customer A, is estimated to have represented approximately 19% of total revenue for fiscal year 2024, attributable to the Compute & Networking segment.

Our estimated Compute & Networking demand is expected to remain concentrated.

There were no customers with 10% or more of total revenue for fiscal years 2023 and 2022.

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, including wafer fabrication, assembly, testing and packaging, board and device costs, manufacturing support costs, including labor and overhead associated with such purchases, final test yield fallout, inventory and warranty provisions, memory and component costs, tariffs, and shipping costs. Cost of revenue also includes acquisition-related costs, development costs for license and service arrangements, IP-related costs, and stock-based compensation related to personnel associated with manufacturing operations.

Our overall gross margin increased to 72.7% in fiscal year 2024 from 56.9% in fiscal year 2023. The year over year increase was primarily due to strong Data Center revenue growth of 217% and lower net inventory provisions as a percentage of revenue.

Provisions for inventory and excess inventory purchase obligations totaled $2.2 billion for both fiscal years 2024 and 2023. Sales of previously reserved inventory or settlements of excess inventory purchase obligations resulted in a provision release of $540 million and $137 million for fiscal years 2024 and 2023, respectively. The net effect on our gross margin was an unfavorable impact of 2.7% and 7.5% in fiscal years 2024 and 2023, respectively.

Operating Expenses

	Year Ended			
	Jan 28, 2024	**Jan 29,2023**	**$ Change**	**% Change**
		($ in millions)		
Research and development expenses	$ 8,675	$ 7,339	$ 1,336	18%
% of net revenue	*14.2%*	*27.2%*		
Sales, general and administrative expenses	2,654	2,440	214	9%
% of net revenue	*4.4%*	*9.1 %*		
Acquisition termination cost	-	1,353	(1,353)	(100) %
% of net revenue	*—%*	*5.0%*		
Total operating expenses	$ 11,329	$ 11,132	$ 197	2%
% of net revenue	*18.6%*	*41.3%*		

The increase in research and development expenses and sales, general and administrative expenses for fiscal year 2024 was primarily driven by compensation and benefits, including stock-based compensation, reflecting employee growth and compensation increases.

Acquisition Termination Cost

We recorded an acquisition termination cost related to the Arm transaction of $1.4 billion in fiscal year 2023 reflecting the write-off of the prepayment provided at signing.

Other Income (Expense), Net

	Year Ended		
	Jan 28, 2024	Jan 29, 2023	Change
	($ in millions)		
Interest income	$ 866	$ 267	$ 599
Interest expense	(257)	(262)	5
Other, net	237	(48)	285
Other income (expense), net	$ 846	$ (43)	$ 889

Interest income consists of interest earned on cash, cash equivalents and marketable securities. The increase in interest income was due to higher yields on higher cash balances.

Interest expense is comprised of coupon interest and debt discount amortization related to our notes.

Other, net, consists of realized or unrealized gains and losses from investments in non-affiliated entities and the impact of changes in foreign currency rates. Change in Other, net, compared to fiscal year 2023 was driven by changes in value from our non-affiliated investments. 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 for additional information regarding our investments in non-affiliated entities.

Income Taxes

We recognized income tax expense of $4.1 billion for fiscal year 2024 and income tax benefit of $187 million for fiscal year 2023. Income tax as a percentage of income before income tax was an expense of 12.0% for fiscal year 2024 and a benefit of 4.5% for fiscal year 2023.

During the third quarter of fiscal year 2024, the Internal Revenue Service, or IRS, audit of our federal income tax returns for fiscal years 2018 and 2019 was resolved. We recognized a non-cash net benefit of $145 million, related to this IRS audit resolution, for effectively settled positions. This benefit consists of a reduction in unrecognized tax benefits of $236 million and related accrued interest of $17 million, net of federal benefit, partially offset by additional cash tax payments and reductions in tax attribute carryforwards of $108 million.

The effective tax rate increased due to a decreased impact of tax benefits from the FDII deduction, stock-based compensation, and the U.S. federal research tax credit, relative to the increase in income before income tax. The increase in the effective tax rate was partially offset by a benefit due to the IRS audit resolution.

Our effective tax rates for fiscal years 2024 and 2023 were lower than the U.S. federal statutory rate of 21 % due primarily to tax benefits from the FDII deduction, stock-based compensation and the U.S. federal research tax credit. Our effective tax rate for fiscal year 2024 was additionally benefited by the IRS audit resolution.

The OECD has announced an Inclusive Framework on Base Erosion and Profit Shifting including Pillar Two Model Rules for a new 15% global minimum tax applicable to large multinational corporations. Certain jurisdictions, including European Union member states and the United Kingdom, have enacted Pillar Two legislation that will start to become effective for our fiscal year 2025. The OECD, and its member countries, continue to release new guidance and legislation on Pillar Two and we continue to evaluate the impact on our financial position of the global implementation of these rules. Based on enacted laws, Pillar Two is not expected to materially impact our effective tax rate or cash flows in the next fiscal year. New legislation or guidance could change our current assessment.

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

	Jan 28, 2024	Jan 29,2023
	(In millions)	
Cash and cash equivalents	$ 7,280	$3,389
Marketable securities	18,704	9,907
Cash, cash equivalents, and marketable securities	$ 25,984	$ 13,296

	Year Ended	
	Jan 28, 2024	Jan 29, 2023
	(In millions)	
Net cash provided by operating activities	$ 28,090	$ 5,641
Net cash provided by (used in) investing activities	$ (10,566)	$ 7,375
Net cash used in financing activities	$ (13,633)	$ (11,617)

Our investment policy requires the purchase of highly rated fixed income securities, the diversification of investment types and credit exposures, and certain maturity limits on our portfolio.

Cash provided by operating activities increased in fiscal year 2024 compared to fiscal year 2023, due to growth in revenue. Accounts receivable balance in fiscal year 2024 reflected $557 million from customer payments received ahead of the invoice due date.

Cash provided by investing activities decreased in fiscal year 2024 compared to fiscal year 2023, primarily driven by lower marketable securities maturities and higher purchases of marketable securities.

Cash used in financing activities increased in fiscal year 2024 compared to fiscal year 2023, due to a debt repayment and higher tax payments related to RSUs, partially offset by lower share repurchases.

Liquidity

Our primary sources of liquidity are our cash, cash equivalents, and marketable securities, and the cash generated by our operations. At the end of fiscal year 2024, we had $26.0 billion in cash, cash equivalents and marketable securities. We believe that we have sufficient liquidity to meet our operating requirements for at least the next twelve months, and for the foreseeable future, including our future supply obligations and $1.3 billion of debt repayment due in fiscal year 2025 and share purchases. We continuously evaluate our liquidity and capital resources, including our access to external capital, to ensure we can finance future capital requirements.

Our marketable securities consist of debt securities issued by the U.S. government and its agencies, highly rated corporations and financial institutions, and foreign government entities, as well as certificates of deposit issued by highly rated financial institutions. These marketable securities are primarily denominated in U.S. dollars. Refer to Note 8 of the Notes to the Consolidated Financial Statements in Part IV, Item 15 of this Annual Report on Form 10-K for additional information.

During fiscal year 2025, we expect to use our existing cash, cash equivalents, and marketable securities, and the cash generated by our operations to fund our capital investments of approximately $3.5 billion to $4.0 billion related to property and equipment.

Except for approximately $1.4 billion of cash, cash equivalents, and marketable securities held outside the U.S. for which we have not accrued any related foreign or state taxes if we repatriate these amounts to the U.S., substantially all of our cash, cash equivalents and marketable securities held outside of the U.S. at the end of fiscal year 2024 are available for use in the U.S. without incurring additional U.S. federal income taxes.

Capital Return to Shareholders

During fiscal year 2024, we paid $395 million in quarterly cash dividends.

Our cash dividend program and the payment of future cash dividends under that program are subject to our Board of Directors' continuing determination that the dividend program and the declaration of dividends thereunder are in the best interests of our shareholders.

In August 2023, our Board of Directors approved an increase to our share repurchase program of an additional $25.0 billion, without expiration. During fiscal year 2024, we repurchased 21 million shares of our common stock for $9.7 billion. As of January 28, 2024, we were authorized, subject to certain specifications, to repurchase additional shares of our common stock up to $22.5 billion. From January 29, 2024 through February 16, 2024, we repurchased 2.8 million shares for $1.9 billion pursuant to a Rule 10b5-1 trading plan. Our share repurchase program aims to offset dilution from shares issued to employees. We may pursue additional share repurchases as we weigh market factors and other investment opportunities. We plan to continue share repurchases this fiscal year.

The U.S. Inflation Reduction Act of 2022 requires a 1% excise tax on certain share repurchases in excess of shares issued for employee compensation made after December 31,2022 which was not material for fiscal year 2024.

Outstanding Indebtedness and Commercial Paper Program

Our aggregate debt maturities as of January 28, 2024, by year payable, are as follows:

		Jan 28, 2024
		(In millions)
Due in one year	$	1,250
Due in one to five years		2,250
Due in five to ten years		2,750
Due in greater than ten years		3,500
Unamortized debt discount and issuance costs		(41)
Net carrying amount		9,709
Less short-term portion		(1,250)
Total long-term portion	$	8,459

We have a $575 million commercial paper program to support general corporate purposes. As of the end of fiscal year 2024, we had no commercial paper outstanding.

Refer to Note 12 of the Notes to the Consolidated Financial Statements in Part IV, Item 15 of this Annual Report on Form 10-K for further discussion.

Material Cash Requirements and Other Obligations

For a description of our long-term debt, purchase obligations, and operating lease obligations, refer to Note 12, Note 13, and Note 3 of the Notes to the Consolidated Financial Statements in Part IV, Item 15 of this Annual Report on Form 10-K, respectively.

We have unrecognized tax benefits of $1.3 billion, which includes related interest and penalties of $140 million, recorded in non-current income tax payable at the end of fiscal year 2024. We are unable to estimate the timing of any potential tax liability, interest payments, or penalties in individual years due to uncertainties in the underlying income tax positions and the timing of the effective settlement of such tax positions. 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 further information.

Climate Change

To date, there has been no material impact to our results of operations associated with global sustainability regulations, compliance, costs from sourcing renewable energy or climate-related business trends.

Adoption of New and Recently Issued Accounting Pronouncements

Refer to 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.

FINANCIAL INFORMATION OF SUPER MICRO FOR EACH OF THE THREE YEARS ENDED 30 JUNE 2021, 2022 AND 2023 AND THE SIX MONTHS ENDED 31 DECEMBER 2023

For the purpose of this section only, unless the context requires otherwise, references to the "Company" are to Super Micro, and references to "we", "us" and "our" shall be construed accordingly.

The following is an extract of the audited consolidated financial statements of Super Micro for the years ended 30 June 2021, 2022 and 2023 and the unaudited consolidated financial statements of Super Micro for the six months ended 31 December 2023, which were prepared in accordance with the U.S. GAAP, as extracted from the respective annual reports/second quarterly report of Super Micro for the years ended 30 June 2021, 2022 and 2023 and the six months ended 31 December 2023. These financial statements were issued in English and the Chinese translated version is provided for information purposes only. In case of discrepancies between the two versions, the English version shall prevail.

The annual reports/second quarter results and consolidated financial statements of Super Micro for the three years ended 30 June 2021, 2022 and 2023 and six months ended 31 December 2023 are available at the website of the SEC (https://www.sec.gov/).

The Directors wish to emphasise that the extracts reproduced below are not prepared for incorporation into this circular and the Company has not participated in their preparation. As such, the Directors do not express any view as to their truth, accuracy or completeness, and the Shareholders and investors should exercise caution and should not place undue reliance on such information.

A. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF SUPER MICRO FOR THE YEAR ENDED 30 JUNE 2021

Item 8. Financial Statements and Supplementary Data

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Super Micro Computer, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Super Micro Computer, Inc. and subsidiaries (the "Company") as of June 30,2021 and 2020, the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows, for each of the three years in the period ended June 30, 2021, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2021, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of June 30, 2021, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated August 27, 2021, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Inventories - Excess and Obsolescence Reserve — Refer to Notes 1 and 5 to the financial statements

Critical Audit Matter Description

The Company's inventories are stated at lower of cost, using weighted average cost method, or net realizable value. The Company evaluates inventory on a quarterly basis for excess and obsolescence and lower of cost or net realizable value and, as necessary, writes down the valuation of inventory based upon inventory aging, forecasted usage and sales, anticipated selling price, product obsolescence and other factors.

We identified the excess and obsolescence reserve as a critical audit matter because of judgments made by management in determining the reserve rates applied by inventory aging category to estimate the Company's excess and obsolescence reserve. This required a high degree of auditor judgment and an increased extent of effort when performing audit procedures to evaluate the reasonableness of the Company's reserve rates within its estimation of the inventory excess and obsolescence reserve.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the reserve rates applied to the inventory aging categories to estimate the Company's excess and obsolescence reserve included the following procedures, among others:

a. We tested the effectiveness of controls over the review of the calculation of excess and obsolescence reserve based on the Company's reserve methodology, including management's evaluation of the reserve rates by inventory aging category using historical data.
b. To understand and evaluate the Company's methodology for determining inventory that is excess or obsolete and the key assumptions and judgments made as part of the process, including the reserve rates, we made inquiries of various personnel in the Company including but not limited to finance and operations personnel about the expected product lifecycles and product development plans.
c. We involved data specialists to assess management's estimate on reserve rates by recalculating historical reserve rates across multiple fiscal periods. We compared our independently developed historical reserve rates with the reserve rates used by management.
d. We tested the accuracy and completeness of the underlying data utilized in management's excess and obsolescence reserve, including the classification of inventory by aging category. Then, selected a sample of inventory products and verified the items were properly included in the correct aging category for determination of the reserve rate.
e. We considered the existence of contradictory evidence based on reading of internal communications to management, Company press releases, and industry reports, as well as our observations and inquires as to changes within the business.

/s/ Deloitte & Touche LLP

San Jose, California
August 27, 2021

We have served as the Company's auditor since fiscal 2003.

SUPER MICRO COMPUTER, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)

	June 30, 2021	June 30, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	$ 232,266	$ 210,533
Accounts receivable, net of allowances of $2,591 and $4,586 at June 30, 2021 and 2020, respectively (including amounts receivable from related parties of $8,678 and $8,712 at June 30, 2021 and 2020, respectively)	463,834	403,745
Inventories	1,040,964	851,498
Prepaid expenses and other current assets (including receivables from related parties of $23,748 and $19,791 at June 30, 2021 and 2020, respectively)	130,195	126,985
Total current assets	1,867,259	1,592,761
Investment in equity investee	4,578	2,703
Property, plant and equipment, net	274,713	233,785
Deferred income taxes, net	63,288	54,898
Other assets	32,126	34,499
Total assets	$ 2,241,964	$ 1,918,646
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable (including amounts due to related parties of $70,096 and $72,368 at June 30, 2021 and 2020, respectively)	$ 612,336	$ 417,673
Accrued liabilities (including amounts due to related parties of $18,528 and $16,206 at June 30, 2021 and 2020, respectively)	178,850	155,401
Income taxes payable	12,741	4,700
Short-term debt	63,490	23,704
Deferred revenue	101,479	106,157
Total current liabilities	968,896	707,635
Deferred revenue, non-current	100,838	97,612
Long-term debt	34,700	5,697
Other long-term liabilities (including related party balance of $0 and $1,699 at June 30, 2021 and 2020, respectively)	41,132	41,995
Total liabilities	1,145,566	852,939
Commitments and contingencies (Note 16)		
Stockholders' equity:		
Common stock and additional paid-in capital, $0.001 par value		
Authorized shares: 100,000,000; Outstanding shares: 50,582,078 and 52,408,703 at June 30, 2021 and 2020, respectively		
Issued shares: 50,582,078 and 53,741,828 at June 30, 2021 and 2020, respectively	438,012	389,972
Treasury stock (at cost), 0 and 1,333,125 shares at June 30, 2021 and 2020, respectively	—	(20,491)
Accumulated other comprehensive income (loss)	453	(152)
Retained earnings	657,760	696,211
Total Super Micro Computer, Inc. stockholders' equity	1,096,225	1,065,540
Noncontrolling interest	173	167
Total stockholders' equity	1,096,398	1,065,707
Total liabilities and stockholders' equity	$ 2,241,964	$ 1,918,646

See accompanying notes to consolidated financial statements.

SUPER MICRO COMPUTER, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)

	Years Ended June 30,		
	2021	**2020**	**2019**
Net sales (including related party sales of $79,018, $85,759, and $69,906 in fiscal years 2021, 2020 and 2019, respectively)	$ 3,557,422	$ 3,339,281	$ 3,500,360
Cost of sales (including related party purchases of $239,558, $283,056, and $276,843 in fiscal years 2021, 2020 and 2019, respectively)	3,022,884	2,813,071	3,004,838
Gross profit	534,538	526,210	495,522
Operating expenses:			
Research and development	224,369	221,478	179,907
Sales and marketing	85,683	85,137	77,154
General and administrative	100,539	133,941	141,228
Total operating expenses	410,591	440,556	398,289
Income from operations	123,947	85,654	97,233
Other (expense) income, net	(2,834)	1,410	(1,020)
Interest expense	(2,485)	(2,236)	(6,690)
Income before income tax provision	118,628	84,828	89,523
Income tax provision	(6,936)	(2,922)	(14,884)
Share of income (loss) from equity investee, net of taxes	173	2,402	(2,721)
Net income	$ 111,865	$ 84,308	$ 71,918
Net income per common share:			
Basic	$ 2.19	$ 1.65	$ 1.44
Diluted	$ 2.09	$ 1.60	$ 1.39
Weighted-average shares used in calculation of net income per common share:			
Basic	51,157	50,987	49,917
Diluted	53,507	52,838	51,716

See accompanying notes to consolidated financial statements.

SUPER MICRO COMPUTER, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	Years Ended June 30,		
	2021	2020	2019
Net income	$ 111,865	$ 84,308	$ 71,918
Other comprehensive income (loss), net of tax:			
Foreign currency translation gain (loss)	605	(72)	(245)
Total other comprehensive income (loss)	605	(72)	(245)
Total comprehensive income	$ 112,470	$ 84,236	$ 71,673

See accompanying notes to consolidated financial statements.

SUPER MICRO COMPUTER, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except share amounts)

	Common Stock and Additional Paid-In Capital		Treasury Stock		Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Non-controlling Interest	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance at June 30, 2018	50,914,571	$ 331,550	(1,333,125)	$ (20,491)	$ 165	$ 532,271	$ 157	$ 843,652
Cumulative effect of adjustment from adoption of new accounting standard, net of taxes	—	—	—	—	—	7,714	—	7,714
Release of common stock shares upon vesting of restricted stock units	549,886	—	—	—	—	—	—	—
Shares withheld for the withholding tax on vesting of restricted stock units	(175,044)	(3,051)	—	—	—	—	—	(3,051)
Stock-based compensation	—	21,184	—	—	—	—	—	21,184
Foreign currency translation loss	—	—	—	—	(245)	—	—	(245)
Net income	—	—	—	—	—	71,918	4	71,922
Balance at June 30, 2019	51,289,413	$ 349,683	(1,333,125)	$ (20,491)	$ (80)	$ 611,903	$ 161	$ 941,176
Exercise of stock options, net of taxes	1,804,789	28,343						28,343
Release of common stock shares upon vesting of restricted stock units	979,274	—	—	—	—	—	—	—
Shares withheld for the withholding tax on vesting of restricted stock units	(331,648)	(8,243)	—	—	—	—	—	(8,243)
Stock-based compensation	—	20,189	—	—	—	—	—	20,189
Foreign currency translation loss	—	—	—	—	(72)	—	—	(72)
Net income	—	—	—	—	—	84,308	6	84,314
Balance at June 30, 2020	53,741,828	$ 389,972	(1,333,125)	$ (20,491)	$ (152)	$ 696,211	$ 167	$ 1,065,707
Exercise of stock options, net of taxes	1,645,800	28,387	—	—	—	—	—	28,387
Release of common stock shares upon vesting of restricted stock units	1,011,406	—	—	—	—	—	—	—
Shares withheld for the withholding tax on vesting of restricted stock units	(274,620)	(8,721)	—	—	—	—	—	(8,721)
Share repurchase and retirement	(5,542,336)	(175)	1,333,125	20,491		(150,316)		(130,000)
Stock-based compensation	—	28,549	—	—	—	—	—	28,549
Foreign currency translation gain	—	—	—	—	605	—	—	605
Net income	—	—	—	—	—	111,865	6	111,871
Balance at June 30, 2021	50,582,078	$ 438,012	—	$ —	$ 453	$ 657,760	$ 173	$ 1,096,398

See accompanying notes to consolidated financial statements.

SUPER MICRO COMPUTER, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Years Ended June 30, 2021	2020	2019
OPERATING ACTIVITIES:			
Net income	$ 111,865	$ 84,308	$ 71,918
Reconciliation of net income to net cash (used in) provided by operating activities:			
Depreciation and amortization	28,185	28,472	24,202
Stock-based compensation expense	28,549	20,189	21,184
(Recoveries of) Allowance for doubtful accounts	(820)	(3,081)	7,058
Provision for excess and obsolete inventories	6,805	18,373	32,946
Other	(1,044)	1,364	733
Impairment of investments	—	—	2,661
Share of (income) loss from equity investee	(173)	(2,402)	2,721
Foreign currency exchange loss (gain)	2,482	1,008	(313)
Deferred income taxes, net	(8,390)	(13,772)	(17,100)
Changes in operating assets and liabilities:			
Accounts receivable, net (including changes in related party balances of $34, $4,727 and $(10,357) in fiscal years 2021, 2020 and 2019, respectively)	(59,325)	(7,023)	85,027
Inventories	(196,271)	(199,683)	119,314
Prepaid expenses and other assets (including changes in related party balances of $(3,957), $1,511 and $2,714 in fiscal years 2021, 2020 and 2019, respectively)	(5,291)	(29,869)	8,410
Accounts payable (including changes in related party balances of $(2,272), $12,559 and $(18,001) in fiscal years 2021, 2020 and 2019, respectively)	189,309	59,889	(173,410)
Income taxes payable	8,041	(8,321)	5,831
Accrued liabilities (including changes in related party balances of $2,322, $5,670 and $(7,858) in fiscal years 2021, 2020 and 2019, respectively)	24,705	27,865	11,456
Deferred revenue	(1,452)	350	59,800
Other long-term liabilities (including changes in related party balances of $(1,699), $(1,301) and $(500) in fiscal years 2021, 2020 and 2019, respectively)	(4,220)	(8,001)	116
Net cash provided by (used in) operating activities	122,955	(30,334)	262,554
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment (including payments to related parties of $7,347, $4,386 and $4,472 in fiscal years 2021, 2020 and 2019, respectively)	(58,016)	(44,338)	(24,849)
Proceeds from sale of investment in a privately-held company	—	750	—
Net cash used in investing activities	(58,016)	(43,588)	(24,849)
FINANCING ACTIVITIES:			
Proceeds from borrowings, net of debt issuance costs	127,059	164,791	41,760
Repayment of debt	(60,629)	(159,191)	(67,700)
Net repayment on asset-backed revolving line of credit, net of costs	—	(1,116)	(65,945)
Payment of other fees for debt financing	(561)	(650)	(625)
Proceeds from exercise of stock options	28,387	28,343	—
Changes in obligations under capital leases	25	(138)	(267)
Payment of withholding tax on vesting of restricted stock units	(8,721)	(8,243)	(3,051)
Stock repurchases	(130,000)	—	—
Net cash (used in) provided by financing activities	(44,440)	23,796	(95,828)
Effect of exchange rate fluctuations on cash	560	376	(119)
Net increase (decrease) in cash, cash equivalents, and restricted cash	21,059	(49,750)	141,758
Cash, cash equivalents and restricted cash at beginning of year	212,390	262,140	120,382
Cash, cash equivalents and restricted cash at end of year	$ 233,449	$ 212,390	$ 262,140
Supplemental disclosure of cash flow information:			
Cash paid for interest	$ 1,948	$ 2,172	$ 3,861
Cash paid for taxes, net of refunds	$ 2,914	$ 43,317	$ 23,604
Non-cash investing and financing activities:			
Unpaid property, plant and equipment purchases (including due to related parties of $400, $2,223 and $1,609 as of June 30, 2021, 2020 and 2019, respectively)	$ 9,003	$ 12,051	$ 9,232
Equipment purchased under capital leases	$ 3,258	$ —	$ —
Contribution of certain technology rights to equity investee	$ —	$ —	$ 3,000

See accompanying notes to consolidated financial statements.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization and Summary of Significant Accounting Policies

Organization

Super Micro Computer, Inc. ("Super Micro Computer") was incorporated in 1993. Super Micro Computer is a global leader in server technology and green computing innovation. Super Micro Computer develops and provides high performance server and storage solutions based upon an innovative, modular and open-standard architecture. Super Micro Computer has operations primarily in the United States, the Netherlands, Taiwan, China and Japan.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP"). The consolidated financial statements of Super Micro Computer include the accounts of Super Micro Computer and entities consolidated under the variable interest model or the voting interest model. Noncontrolling interests are not presented separately in the consolidated statements of operations, and consolidated statements of comprehensive income as the amounts are immaterial. All intercompany accounts and transactions of Super Micro Computer and its consolidated entities (collectively, the "Company") have been eliminated in consolidation. For equity investments over which the Company is able to exercise significant influence over the investee but does not control the investee, and is not the primary beneficiary of the investee's activities are accounted for using the equity method. Investments in equity securities which do not have readily determinable fair values and for which the Company is not able to exercise significant influence over the investee are accounted for under the measurement alternative which is the cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar securities of the same investee.

Use of Estimates

U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Such estimates include, but are not limited to revenue recognition, allowances for doubtful accounts and sales returns, inventory valuation, useful lives of property, plant and equipment, product warranty accruals, stock-based compensation, impairment of investments and long-lived assets, and income taxes. The Company's estimates are evaluated on an ongoing basis and changes in the estimates are recognized prospectively. Actual results could differ from those estimates. The Company considered estimates of the economic implications of the COVID-19 pandemic on its critical and significant accounting estimates, including an assessment of the collectability of each customer contract as part of the revenue recognition process, assessment of the valuation of accounts receivable, assessment of provision for excess and obsolete inventory and an impairment of long-lived assets.

Fair Value of Financial Instruments

The Company accounts for certain assets and liabilities at fair value, which is the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly arms-length transaction between market participants. When measuring fair value, the Company takes into account the characteristics of the asset or liability that a market participant would consider when pricing the asset or liability at the measurement date. The Company considers one or more techniques for measuring fair value: market approach, income approach, and cost approach. The valuation techniques include inputs that are based on three different levels of observability to the market. The Company categorizes each of its fair value measurements in one of these three levels based on the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

- Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2 - Quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly; and
- Level 3 - Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Accounts receivable and accounts payable are carried at cost, which approximates fair value due to the short maturity of these instruments. Cash equivalents, certificates of deposit and the investment in an auction rate security are carried at fair value. Short-term and long-term debt is carried at amortized cost, which approximates its fair value based on borrowing rates currently available to the Company for loans with similar terms.

Cash and Cash Equivalents

The Company considers all highly liquid instruments with an original maturity of three months or less from the date of purchase to be cash equivalents. Cash equivalents consist primarily of money market funds and certificates of deposit with original maturities of less than three months.

Restricted Cash and Cash Equivalents

Restricted cash is comprised of amounts held in bank accounts which are controlled by the lenders pursuant to the terms of certain debt agreements, certificates of deposit primarily related to leases and customs requirements, and money market accounts held in escrow pursuant to the Company's workers' compensation program. These restricted cash balances have been excluded from the Company's cash and cash equivalents balance.

Inventories

Inventories are stated at lower of cost, using weighted average cost method, or net realizable value. Net realizable value is the estimated selling price of the Company's products in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Inventories consist of purchased parts and raw materials (principally electronic components), work in process (principally products being assembled) and finished goods. The Company evaluates inventory on a quarterly basis for excess and obsolescence and lower of cost or net realizable value and, as necessary, writes down the valuation of inventories based upon the Company's inventory aging, forecasted usage and sales, anticipated selling price, product obsolescence and other factors. Once inventory is written down, its new value is maintained until it is sold or scrapped.

The Company receives various rebate incentives from certain suppliers based on its contractual arrangements, including volume-based rebates. The rebates earned are recognized as a reduction of cost of inventories and reduce the cost of sales in the period when the related inventory is sold.

Property, Plant and Equipment

Property, plant and equipment is recorded at cost and depreciated using the straight-line method over the estimated useful lives of the related assets as follows:

Software	3 to 5 years
Machinery and equipment	3 to 7 years
Furniture and fixtures	5 years
Buildings	39 years
Building improvements	Up to 20 years
Land improvements	15 years
Leasehold improvements	Shorter of lease term or estimated useful life

Long-Lived Assets

The Company evaluates its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When the sum of the undiscounted future net cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount, an impairment loss would be measured based on the fair value of the asset compared to the carrying amount. No impairment charge for long-lived assets has been recorded in any of the periods presented.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Revenue Recognition

The Company generates revenues from the sale of server and storage systems, subsystems, accessories, services, server software management solutions, and support services.

Product sales. The Company recognizes revenue from sales of products as control is transferred to customers, which generally happens at the point of shipment or upon delivery, unless customer acceptance is uncertain. Products sold by the Company are delivered via shipment from the Company's facilities or drop shipment directly to its customers from a Company vendor. The Company may use distributors to sell products to end customers. Revenue from distributors is recognized when the distributor obtains control of the product, which generally happens at the point of shipment or upon delivery.

The Company applies judgment in determining the transaction price as the Company may be required to estimate variable consideration when determining the amount of revenue to recognize. As part of determining the transaction price in contracts with customers, the Company estimates reserves for future sales returns based on a review of its history of actual returns for each major product line. Based upon historical experience, a refund liability is recorded at the time of sale for estimated product returns and an asset is recognized for the amount expected to be recorded in inventory upon product return, less the expected recovery costs. The Company also reduces revenue for the estimated costs of customer and distributor programs and incentive offerings such as price protection and rebates as well as the estimated costs of cooperative marketing arrangements where the fair value of the benefit derived from the costs cannot be reasonably estimated. Any provision for customer and distributor programs and other discounts is recorded as a reduction of revenue at the time of sale based on an evaluation of the contract terms and historical experience.

Services sales. The Company's sale of services mainly consists of extended warranty and on-site services. Revenue related to extended warranty commences upon the expiration of the standard warranty period and is recognized ratably over the contractual period as the Company stands ready to perform any required warranty service. Revenue related to on-site services commences upon recognition of the product sale and is recognized ratably over the contractual period as the on-site services are made available to the customer. These service contracts are typically one to five years in length. Service revenue has been less than 10% of net sales for all periods presented and is not separately disclosed.

Contracts with multiple promised goods and services. Certain of the Company's contracts contain multiple promised goods and services. The Company assesses whether each promised good or service is distinct for the purpose of identifying the performance obligations in the contract. This assessment involves subjective determinations and requires management to make judgments about the individual promised goods or services and whether such goods or services are separable from the other aspects of the contractual relationship. Performance obligations in a contract are identified based on the promised goods or services that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the service either on its own or together with other resources that are readily available from third parties or from the Company, and are distinct in the context of the contract, whereby the transfer of the services is separately identifiable from other promises in the contract. If these criteria are not met, the promised goods and services are accounted for as a combined performance obligation. Revenue allocated to each performance obligation is recognized at the time the related performance obligation is satisfied by transferring control of the promised good or service to a customer.

If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on a relative standalone selling price basis. The Company determines standalone selling prices based on the price at which the performance obligation is sold separately. If the standalone selling price is not observable through past transactions, the Company applies judgment to estimate the standalone selling price taking into account available information, such as internally approved pricing guidelines with respect to geographies, customer type, internal costs, and gross margin objectives, for the related performance obligations.

When the Company receives consideration from a customer prior to transferring goods or services to the customer, the Company records a contract liability (deferred revenue). The Company also recognizes deferred revenue when it has an unconditional right to consideration (i.e., a receivable) before transfer of control of goods or services to a customer.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Company considers shipping & handling activities as costs to fulfill the sales of products. Shipping revenue is included in net sales when control of the product is transferred to the customer, and the related shipping and handling costs are included in cost of sales. Taxes imposed by governmental authorities on the Company's revenue producing activities with customers, such as sales taxes and value added taxes, are excluded from net sales and included in operating expenses.

Allowances for Doubtful Accounts

Customers are subjected to a credit review process that evaluates each customer's financial position and ability and intent to pay. On a quarterly basis, the Company makes estimates of its uncollectible accounts receivable by analyzing the aging of accounts receivable, history of bad debts, customer concentrations, customer-credit-worthiness, and current economic trends to evaluate the adequacy of the allowance for doubtful accounts. The Company's (recovery of) provision for bad debt was $(0.8) million, $(3.1) million, and $7.1 million in fiscal years 2021, 2020 and 2019, respectively.

Cost of Sales

Cost of sales primarily consists of the costs of materials, contract manufacturing, in-bound shipping, personnel and related expenses including stock-based compensation, equipment and facility expenses, warranty costs and provision for lower of cost or net realizable value and excess and obsolete inventory.

Product Warranties

The Company offers product warranties typically ranging from 15 to 39 months against any defective products. These standard warranties are assurance type warranties and the Company does not offer any services beyond the assurance that the product will continue working as specified. Therefore, these warranties are not considered separate performance obligations in the arrangement. Based on historical experience, the Company accrues for estimated returns of defective products at the time revenue is recognized. The Company monitors warranty obligations and may make revisions to its warranty reserve if actual costs of product repair and replacement are significantly higher or lower than estimated. Accruals for anticipated future warranty costs are recorded to cost of sales and included in accrued liabilities and other long-term liabilities. Warranty accruals are based on estimates that are updated on an ongoing basis taking into consideration inputs such as new product introductions, changes in the volume of claims compared with the Company's historical experience, and the changes in the cost of servicing warranty claims. The Company accounts for the effect of such changes in estimates prospectively. The following table presents for the fiscal years ended June 30, 2021, 2020 and 2019, the reconciliation of the changes in accrued warranty costs which is included as a component of accrued liabilities and other long-term liabilities (in thousands):

	Years Ended June 30,		
	2021	2020	2019
Balance, beginning of the year	$ 12,379	$ 11,034	$ 9,884
Provision for warranty	29,638	35,962	22,991
Costs utilized	(30,575)	(34,502)	(26,281)
Change in estimated liability for pre-existing warranties	1,421	(115)	4,440
Balance, end of the year	$ 12,863	$ 12,379	$ 11,034
Current portion	10,185	9,984	8,661
Non-current portion	$ 2,678	$ 2,395	$ 2,373

Research and Development

Research and development expenses consist of personnel expenses including salaries, benefits, stock-based compensation and incentive bonuses, and related expenses for the Company's research and development personnel, as well as materials and supplies, consulting services, third-party testing services and equipment and facility expenses related to the Company's research and development activities. All research and development costs are expensed as incurred. The Company occasionally receives funding from certain suppliers and customers towards its development efforts. Such amounts are recorded as a reduction of research and development expenses and were $10.9 million, $2.1 million, and $2.8 million for the fiscal years ended June 30, 2021, 2020 and 2019, respectively. During the fiscal year ended June 30, 2020, the Company also recorded a

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

$9.5 million net settlement fee as a reduction in the research and development expenses related to the reimbursement of previously incurred expenses for one canceled joint product development agreement.

Software development costs, including costs to develop software sold, leased, or otherwise marketed, that are incurred subsequent to the establishment of technological feasibility are capitalized if significant. Costs incurred during the application development stage for internal-use software are capitalized if significant. Capitalized software development costs are amortized using the straight-line amortization method over the estimated useful life of the applicable software. Such software development costs required to be capitalized have not been material to date.

Advertising Costs

Advertising costs, net of reimbursements received under the cooperative marketing arrangements with the Company's vendors, are expensed as incurred. Total advertising and promotional expenses were $4.1 million, $3.0 million and $2.4 million for the fiscal years ended June 30, 2021, 2020 and 2019, respectively.

Stock-Based Compensation

The Company measures and recognizes compensation expense for all share-based awards made to employees and non-employees, including stock options, restricted stock units ("RSUs") and performance-based restricted stock units (“PRSUs”). The Company recognizes the grant date fair value of all share-based awards over the requisite service period and accounts for forfeitures as they occur. Stock option and RSU awards are recognized to expense on a straight-line basis over the requisite service period. PRSU awards are recognized to expense using an accelerated method only when it is probable that a performance condition is met during the vesting period. If it is not probable, no expense is recognized and the previously recognized expense is reversed. The Company bases initial accrual of compensation expense on the estimated number of PRSUs that are expected to vest over the requisite service period. That estimate is revised if subsequent information indicates that the actual number of PRSUs is likely to differ from previous estimates. The cumulative effect on current and prior periods of a change in the estimated number of PRSUs expected to vest is recognized in stock-based compensation expense in the period of the change. Previously recognized compensation expense is not reversed if vested stock options, RSUs or PRSUs for which the requisite service has been rendered and the performance condition has been met expire unexercised or are not settled.

The fair value of RSUs and PRSUs is based on the closing market price of the Company's common stock on the date of grant. The Company estimates the fair value of stock options granted using a Black-Scholes option pricing model. This model requires the Company to make estimates and assumptions with respect to the expected term of the option and the expected volatility of the price of the Company's common stock. The expected term represents the period that the Company’s stock-based awards are expected to be outstanding and was determined based on the Company's historical experience. The expected volatility is based on the historical volatility of the Company’s common stock. The fair value is then amortized on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period.

Leases

The Company has arrangements for the right to use certain of its office, warehouse spaces and other premises, and equipment. The Company determines at inception if an arrangement is or contains a lease. When the terms of a lease effectively transfer control of the underlying asset to the Company, it is classified as a finance lease. All other leases are classified as operating leases.

Operating Leases

For operating leases with lease terms of more than 12 months, operating lease right-of-use ("ROU") assets are recorded in long-term other assets, and lease liabilities are recorded in accrued liabilities and other long-term liabilities on the consolidated balance sheet. The Company's lease term includes options to extend or terminate the lease when it is reasonably certain that it will exercise that option. The Company elected to apply the short-term lease recognition exemption and does not recognize ROU asset and lease liabilities for leases with an initial term of 12 months or less and recognizes as expense the payments under such leases on a straight-line basis over the lease term. The Company's leases with an initial term of 12 months or less are immaterial.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Operating lease ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments over the lease term. Operating lease ROU assets and liabilities are recognized at lease commencement based on the present value of the remaining lease payments discounted using the Company's incremental borrowing rate as the interest rate implicit in the lease arrangements is not readily determinable. The incremental borrowing rate is estimated to be the interest rate on a fully collateralized basis with similar terms and payments and in the economic environment where the leased asset is located. Operating lease ROU assets also include initial direct costs incurred, prepaid lease payments, minus any lease incentives. Operating lease expense is recognized on a straight-line basis over the lease term. The Company accounts for fixed payments for lease and non-lease components as a single lease component which increases the amount of ROU assets and liabilities. Non-lease components that are variable costs, such as common area maintenance, are expensed as incurred and not included in the ROU assets and lease liabilities.

Finance Leases

Assets under finance leases are recorded in property, plant and equipment, net and lease liabilities are included in accrued liabilities and other long-term liabilities on the consolidated balance sheet. Finance lease interest expense is recognized based on an effective interest method and depreciation of assets is recorded on a straight-line basis over the shorter of the lease term and useful life of the asset. The Company's finance leases are immaterial.

Income Taxes

The Company accounts for income taxes under an asset and liability approach. Deferred income taxes reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for income tax reporting purposes, net of operating loss carry-forwards and other tax credits measured by applying enacted tax laws related to the financial statement periods. Valuation allowances are provided when necessary to reduce deferred tax assets to an amount that is more likely than not to be realized.

The Company recognizes tax liabilities for uncertain income tax positions on the income tax return based on the two-step process. The first step is to determine whether it is more likely than not that each income tax position would be sustained upon audit. The second step is to estimate and measure the tax benefit as the amount that has a greater than 50% likelihood of being realized upon ultimate settlement with the tax authority. Estimating these amounts requires the Company to determine the probability of various possible outcomes. The Company evaluates these uncertain tax positions on a quarterly basis. This evaluation is based on the consideration of several factors, including changes in facts or circumstances, changes in applicable tax law, settlement of issues under audit and new exposures. If the Company later determines that its exposure is lower or that the liability is not sufficient to cover its revised expectations, the Company adjusts the liability and effects a related charge in its tax provision during the period in which the Company makes such a determination.

Variable Interest Entities

The Company determines at the inception of each arrangement whether an entity in which the Company holds an investment or in which the Company has other variable interests is considered a variable interest entity ("VIE"). The Company consolidates VIEs when it is the primary beneficiary. The primary beneficiary of a VIE is the party that meets both of the following criteria: (1) has the power to make decisions that most significantly affect the economic performance of the VIE and (2) has the obligation to absorb losses or the right to receive benefits that in either case could potentially be significant to the VIE. Periodically, the Company assesses whether any changes in the interest or relationship with the entity affect the determination of whether the entity is still a VIE and, if so, whether the Company is the primary beneficiary. If the Company is not the primary beneficiary in a VIE, the Company accounts for the investment or other variable interest in accordance with applicable GAAP.

The Company has concluded that Ablecom Technology, Inc. ("Ablecom") and its affiliate, Compuware Technology, Inc. ("Compuware"), are VIEs; however, the Company is not the primary beneficiary as it does not have the power to direct the activities that are most significant to the entities and therefore, the Company does not consolidate these entities. In performing its analysis, the Company considered its explicit arrangements with Ablecom and Compuware, all contractual arrangements with these entities. Also, as a result of the substantial related party relationships between the Company and these entities, the Company considered whether any implicit arrangements exist that would cause the Company to protect these related parties'

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

interests from suffering losses. The Company determined it has no material implicit arrangements with Ablecom, Compuware or their shareholders.

The Company and Ablecom jointly established Super Micro Asia Science and Technology Park, Inc. (the "Management Company") in Taiwan to manage the common areas shared by the Company and Ablecom for its separately constructed manufacturing facilities. In fiscal year 2012, each party contributed $0.2 million for a 50% ownership interest of the Management Company. The Company has concluded that the Management Company is a VIE, and the Company is the primary beneficiary as it has the power to direct the activities that are most significant to the Management Company. For the fiscal years ended 2021, 2020 and 2019, the accounts of the Management Company were consolidated with the accounts of Super Micro Computer, and a noncontrolling interest was recorded for Ablecom's interest in the net assets and operations of the Management Company. Net income (loss) attributable to Ablecom's interest was not material for the periods presented and was included in general and administrative expenses in the Company's consolidated statements of operations.

Foreign Currency Transactions

The functional currency of the Company’s international subsidiaries is the U.S. dollar, with the exception of Super Micro Asia and Technology Park, Inc., a consolidated variable interest entity. Monetary assets and liabilities of the Company's international subsidiaries that are denominated in foreign currency are remeasured into U.S. dollars at period-end exchange rates. Non-monetary assets and liabilities that are denominated in the foreign currency are remeasured into U.S. dollars at the historical rates. Revenue and expenses that are denominated in the foreign currency are remeasured into U.S. dollars at the average exchange rates during the period. Remeasurement of foreign currency accounts and resulting foreign exchange transaction gains and losses, which have not been material, are reflected in the consolidated statements of operations in other expense, net.

The functional currency of Super Micro Asia and Technology Park, Inc. is New Taiwanese Dollar (“NTD”). Assets and liabilities are translated to U.S. dollars at the period-end exchange rate. Revenues and expenses are translated using the average exchange rate for the period. The effects of foreign currency translation are included in stockholders’ equity as a component of accumulated other comprehensive (loss) income in the accompanying consolidated balance sheets and periodic movements are summarized as a line item in the consolidated statements of comprehensive income.

The Company has an investment in a privately-held company that is accounted for under the equity method (the "Corporate Venture"). The functional currency of the Corporate Venture is the Chinese Yuan. Adjustments for the Company's share of the effects of foreign currency translation from local currency to U.S. dollars are recorded as increases or decreases to the carrying value of the investment and included in stockholders’ equity as a component of accumulated other comprehensive (loss) income in the accompanying consolidated balance sheets and periodic movements are summarized as a line item in the consolidated statements of comprehensive income.

Net Income Per Common Share

Basic net income per common share is computed by dividing net income by the weighted-average number of shares of common stock outstanding during the period. Diluted net income per common share is computed by dividing net income by the weighted-average number of shares of common stock outstanding during the period increased to include the number of additional shares of common stock that would have been outstanding if the potentially dilutive securities had been issued. Potentially dilutive securities include outstanding stock options and unvested RSUs and PRSUs. Contingently issuable shares are included in computing basic net income per common share as of the date that all necessary conditions, including service vesting conditions have been satisfied. Contingently issuable shares are considered for computing diluted net income per common share as of the beginning of the period in which all necessary conditions have been satisfied and the only remaining vesting condition is a service vesting condition.

Under the treasury stock method, an increase in the fair market value of the Company's common stock results in a greater dilutive effect from outstanding stock options and RSUs and PRSUs. Additionally, the exercise of stock options and the vesting of RSUs results in a further dilutive effect on net income per share.

The computation of basic and diluted net income per common share is as follows (in thousands, except per share amounts):

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	Years Ended June 30,		
	2021	2020	2019
Numerator:			
Net income	$ 111,865	$ 84,308	$ 71,918
Denominator:			
Weighted-average shares outstanding	51,157	50,987	49,917
Effect of dilutive securities	2,350	1,851	1,799
Weighted-average diluted shares	53,507	52,838	51,716
Basic net income per common share	$ 2.19	$ 1.65	$ 1.44
Diluted net income per common share	$ 2.09	$ 1.60	$ 1.39

For the fiscal years ended June 30, 2021, 2020 and 2019, the Company had stock options, RSUs and PRSUs outstanding that could potentially dilute basic earnings per share in the future, but were excluded from the computation of diluted net income per share in the periods presented, as their effect would have been anti-dilutive. The anti-dilutive common share equivalents resulting from outstanding equity awards were 670,179, 2,208,000, and 3,758,000 for the fiscal years ended June 30, 2021, 2020 and 2019, respectively.

Concentration of Supplier Risk

Certain materials used by the Company in the manufacturing of its products are available from a limited number of suppliers. Shortages could occur in these materials due to an interruption of supply or increased demand in the industry. One supplier accounted for 20.3%, 26.8%, and 21.8% of total purchases for the fiscal years ended June 30, 2021, 2020 and 2019, respectively. Purchases from Ablecom and Compuware, related parties of the Company as noted in Note 13, "Related Party Transactions," accounted for a combined 7.8%, 10.1%, and 9.2% of total cost of sales for the fiscal years ended June 30, 2021, 2020 and 2019, respectively.

Concentration of Credit Risk

Financial instruments which potentially subject the Company to concentration of credit risk consist primarily of cash and cash equivalents, restricted cash, investment in an auction rate security and accounts receivable. No single customer accounted for 10% or more of the net sales in fiscal years 2021, 2020 and 2019. One customer accounted for 13.5% and 10.1% of accounts receivable, net as of June 30, 2021 and 2020, respectively.

Treasury Stock

The Company accounts for treasury stock under the cost method. Upon the retirement of treasury shares, the Company deducts the par value of the retired treasury shares from common stock and allocates the excess of cost over par as a deduction to additional paid-in capital based on the pro-rata portion of additional paid-in-capital, and the remaining excess as a deduction to retained earnings. Retired treasury shares revert to the status of authorized but unissued shares.

Accounting Pronouncements Recently Adopted

In June 2016, the FASB issued authoritative guidance, *Financial Instruments-Credit Losses: Measurement of Credit Losses on Financial Instruments*. Under this new guidance, a company is required to estimate credit losses on certain types of financial instruments using an expected-loss model, replacing the current incurred-loss model, and record the estimate through an allowance for credit losses, which results in more timely recognition of credit losses. The Company adopted this guidance on July 1, 2020 using the modified retrospective transition method, which requires a cumulative-effect adjustment, if any, to the opening balance of retained earnings to be recognized on the date of adoption with prior periods not restated. The adoption of the guidance had no material impact on the Company's consolidated financial statements as of July 1, 2020.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Company maintains an allowance for credit losses for accounts receivable and the investment in an auction rate security. The allowance for credit losses is estimated using a loss rate method, considering factors such as customers' credit risk, historical loss experience, current conditions, and forecasts. The allowance for credit losses is measured on a collective (pool) basis by aggregating customer balances with similar risk characteristics. The Company also records a specific allowance based on an analysis of individual past due balances or customer-specific information, such as a decline in creditworthiness or bankruptcy. The new guidance has no material impact on the Company's consolidated financial statements for the year ended June 30, 2021.

In August 2018, the FASB issued amended guidance, *Fair Value Measurement: Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*, to modify the disclosure requirements on fair value measurements based on the concepts in the FASB Concepts Statements, including the consideration of costs and benefits. The Company adopted this guidance on July 1, 2020. As of June 30, 2021, the Company's investment in an auction rate security is the only Level 3 investment measured at fair value on a recurring basis. Changes to the disclosures in the consolidated financial statements were immaterial. See Note 2, "Fair Value Disclosure".

In August 2018, the FASB issued authoritative guidance, *Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, to align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract as well as hosting arrangements that include an internal use software license with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The accounting for the service element of a hosting arrangement that is a service contract is not affected by the new guidance. The Company adopted this guidance on July 1, 2020, prospectively. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements and disclosures.

Accounting Pronouncements Not Yet Adopted

In December 2019, the FASB issued amended guidance, *Simplifying the Accounting for Income Taxes*, to remove certain exceptions to the general principles from *ASC 740 - Income Taxes*, and to improve consistent application of U.S. GAAP for other areas of ASC 740 by clarifying and amending existing guidance. The guidance is effective for the Company from July 1, 2021; early adoption is permitted. The Company determined that the adoption of the guidance will not have a material impact on the Company's consolidated financial statements and disclosures.

In March 2020, the FASB issued authoritative guidance, *Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. The new guidance provides optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued. The guidance also establishes (1) a general contract modification principle that entities can apply in other areas that may be affected by reference rate reform and (2) certain elective hedge accounting expedients. The amendment is effective for all entities through December 31, 2022. In January 2021, the FASB issued further guidance on this topic, which clarified the scope and application of the original guidance. LIBOR is used to calculate the interest on borrowings under the Company's 2018 Bank of America Credit Facility and E.SUN Credit Facility. The 2018 Bank of America Credit Facility was amended on June 28, 2021 with a new maturity date of June 28, 2026 and fallback terms related to LIBOR replacement mechanics. As the amendment has changes not related to LIBOR replacement, optional expedients under this guidance cannot be elected. E.SUN Credit Facility will terminate on September 18, 2021 before the phase out of LIBOR. Therefore, the Company does not expect the adoption of the guidance to have an impact on its consolidated financial statements and disclosures.

Note 2. Fair Value Disclosure

The financial instruments of the Company measured at fair value on a recurring basis are included in cash equivalents, other assets and accrued liabilities. The Company classifies its financial instruments, except for its investment in an auction rate security, within Level 1 or Level 2 in the fair value hierarchy because the Company uses quoted prices in active markets or alternative pricing sources and models using market observable inputs to determine their fair value.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Company's investment in an auction rate security is classified within Level 3 of the fair value hierarchy as the determination of its fair value was not based on observable inputs as of June 30, 2021 and June 30, 2020. See Note 1, "Organization and Summary of Significant Accounting Policies," for a discussion of the Company's policies regarding the fair value hierarchy. The Company is using the discounted cash flow method to estimate the fair value of the auction rate security at each period end and the following assumptions: (i) the expected yield based on observable market rate of similar securities, (ii) the security coupon rate that is reset monthly, (iii) the estimated holding period and (iv) a liquidity discount. The liquidity discount assumption is based on the management estimate of lack of marketability discount of similar securities and is determined based on the analysis of financial market trends over time, recent redemptions of securities and other market activities. The Company performed a sensitivity analysis and applying a change of either plus or minus 100 basis points in the liquidity discount does not result in a significantly higher or lower fair value measurement of the auction rate security as of June 30, 2021.

Financial Assets and Liabilities Measured on a Recurring Basis

The following table sets forth the Company's financial instruments as of June 30, 2021 and 2020, which are measured at fair value on a recurring basis by level within the fair value hierarchy. These are classified based on the lowest level of input that is significant to the fair value measurement (in thousands):

June 30, 2021	Level 1	Level 2	Level 3	Asset at Fair Value
Assets				
Money market funds(1)	$ 151	$ —	$ —	$ 151
Certificates of deposit(2)	—	863	—	863
Auction rate security	—	—	1,556	1,556
Total assets measured at fair value	$ 151	$ 863	$ 1,556	$ 2,570

June 30, 2020	Level 1	Level 2	Level 3	Asset at Fair Value
Assets				
Money market funds(1)	$ 1,163	$ —	$ —	$ 1,163
Certificates of deposit(2)	—	836	—	836
Auction rate security	—	—	1,571	1,571
Total assets measured at fair value	$ 1,163	$ 836	$ 1,571	$ 3,570
Liabilities				
Performance awards liability(3)	$ —	$ 2,100	$ —	$ 2,100
Total liabilities measured at fair value	$ —	$ 2,100	$ —	$ 2,100

(1) $0.0 million and $0.4 million in money market funds are included in cash and cash equivalents and $0.2 million and $0.8 million in money market funds are included in restricted cash, non-current in other assets in the consolidated balance sheets as of June 30, 2021 and 2020, respectively.

(2) $0.2 million and $0.2 million in certificates of deposit are included in cash and cash equivalents, $0.3 million and $0.3 million in certificates of deposit are included in prepaid expenses and other assets, and $0.4 million and $0.3 million in certificates of deposit are included in restricted cash, non-current in other assets in the consolidated balance sheets as of June 30, 2021 and 2020, respectively.

(3) As of June 30, 2021, the Company no longer measures performance awards liability at fair value because the Company trued up the performance awards liability to the cash payment value. As of June 30, 2020, the current portion of the performance awards liability of $1.5 million is included in accrued liabilities and the noncurrent portion of $0.6 million is included in other long-term liabilities in the consolidated balance sheets.

On a quarterly basis, the Company also evaluates the current expected credit loss by considering factors such as historical experience, market data, issuer-specific factors, and current economic conditions. For the fiscal year ended June 30, 2021, the credit losses related to the Company's investments was not significant.

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As of June 30, 2020, the Company estimated the fair value of performance awards using the Monte-Carlo simulation model and classified them within Level 2 of the fair value hierarchy as estimates are based on the observable inputs. The significant inputs used in estimating the fair value of the awards as of June 30, 2020 are as follows:

Stock Price as of Period End	Performance Period	Risk-free Rate	Volatility	Dividend Yield
$28.39	1.25 - 2.00 years	0.16%	53.75%	—

There was no movement in the balances of the Company's financial assets measured at fair value on a recurring basis, consisting of investment in an auction rate security, using significant unobservable inputs (Level 3) for fiscal years 2021 and 2020.

There were no transfers between Level 1, Level 2 or Level 3 financial instruments in fiscal years 2021 and 2020.

The following is a summary of the Company's investment in an auction rate security as of June 30, 2021 and 2020 (in thousands):

	June 30, 2021			
	Cost Basis	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Auction rate security	$ 1,750	$ —	$ (194)	$ 1,556

	June 30, 2020			
	Cost Basis	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Auction rate security	$ 1,750	$ —	$ (179)	$ 1,571

For the fiscal year ended June 30, 2021, the Company's loss recognized in other comprehensive income for the auction rate security was immaterial. No gain or loss was recognized in other comprehensive income for the auction rate security for the fiscal years ended June 30, 2020 and 2019.

The Company measures the fair value of outstanding debt for disclosure purposes on a recurring basis. As of June 30, 2021 and 2020, total debt of $98.2 million and $29.4 million, respectively, is reported at amortized cost. This outstanding debt is classified as Level 2 as it is not actively traded. The amortized cost of the outstanding debt approximates the fair value.

Other Financial Assets - Investments into Non-Marketable Equity Securities

The Company's non-marketable equity securities are investments in privately held companies without readily determinable fair values in the amount of $0.1 million as of June 30, 2021 and 2020, respectively. The Company accounts for these investments at cost minus impairment, if any, plus or minus changes from observable price changes in orderly transactions for the identical or similar investments by the same issuer. During the years ended June 30, 2021 and 2020, the Company did not record any upward or downward adjustments to the carrying values of the non-marketable equity securities related to observable price changes. The Company also did not record any impairment to the carrying values of the non-marketable equity securities during fiscal year 2021 and 2020. During fiscal year 2019, the Company recorded impairment charges of $2.7 million for its non-marketable equity securities which had an initial cost basis of $2.7 million as it was determined the carrying value of the investments were not recoverable.

Note 3. Revenue

SUPER MICRO COMPUTER, INC.
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Disaggregation of Revenue

The Company disaggregates revenue by type of product and geographical market in order to depict the nature, amount, and timing of revenue and cash flows. Service revenues, which are less than 10%, are not a significant component of total revenue and are aggregated within the respective categories.

The following is a summary of net sales by product type (in thousands):

	Years Ended June 30,		
	2021	2020	2019
Server and storage systems	$ 2,790,305	$ 2,620,754	$ 2,858,644
Subsystems and accessories	767,117	718,527	641,716
Total	$ 3,557,422	$ 3,339,281	$ 3,500,360

Server and storage systems constitute an assembly and integration of subsystems and accessories, and related services. Subsystems and accessories are comprised of serverboards, chassis and accessories.

International net sales are based on the country and geographical region to which the products were shipped. The following is a summary of net sales by geographic region (in thousands):

	Years Ended June 30,		
	2021	2020	2019
United States	$ 2,107,910	$ 1,957,329	$ 2,032,948
Asia	699,653	650,652	712,211
Europe	614,826	598,558	611,014
Other	135,033	132,742	144,187
Total	$ 3,557,422	$ 3,339,281	$ 3,500,360

Starting July 1, 2020, the Company does not separately disclose revenue by products sold to indirect sales channel partners or direct customers and original equipment manufacturers because management does not make business operational decisions based on this set of disaggregation so the disclosure is no longer material to investors.

Contract Balances

Generally, the payment terms of the Company's offerings range from 30 to 60 days. In certain instances, customers may prepay for products and services in advance of delivery. Receivables relate to the Company's unconditional right to consideration for performance obligations either partially or fully completed.

Contract assets are rights to consideration in exchange for goods or services that the Company has transferred to a customer when such right is conditional on something other than the passage of time. Such contract assets are insignificant to the Company's consolidated financial statements.

Contract liabilities consist of deferred revenue and relate to amounts invoiced to or advance consideration received from customers, which precede the Company's satisfaction of the associated performance obligation(s). The Company's deferred revenue primarily results from customer payments received upfront for extended warranties and on-site services because these performance obligations are satisfied over time. Revenue recognized during fiscal year ended June 30, 2021, which was included in the opening deferred revenue balance as of June 30, 2020 of $203.8 million, was $101.6 million.

Deferred revenue decreased $1.5 million during the fiscal year ended June 30, 2021 as compared to the fiscal year ended June 30, 2020 mainly due to the recognition of revenue from contracts entered into in prior periods exceeding the value of the transaction price allocated for service contract performance obligations during the fiscal year ended June 30, 2021.

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Transaction Price Allocated to the Remaining Performance Obligations

Remaining performance obligations represent the aggregate the amount of transaction price that is allocated to performance obligations not delivered, or only partially undelivered, as of the end of the reporting period. The Company applies the exemption to not disclose information about remaining performance obligations that are part of a contract that has an original expected duration of one year or less. These performance obligations generally consist of services, such as on-site services, including integration services and extended warranty services. that are contracted for one year or less, and products for which control has not yet been transferred. The value of the transaction price allocated to remaining performance obligations as of June 30, 2021 was approximately $202.3 million. The Company expects to recognize approximately 50% of remaining performance obligations as revenue in the next 12 months, and the remainder thereafter.

Capitalized Contract Acquisition Costs and Fulfillment Cost

Contract acquisition costs are those incremental costs that the Company incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. Contract acquisition costs consist primarily of incentive bonuses. Contract acquisition costs are considered incremental and recoverable costs of obtaining and fulfilling a contract with a customer and are therefore capitalizable. The Company applies the practical expedient to expense incentive bonus costs as incurred if the amortization period would be one year or less, generally upon delivery of the associated server and storage systems or components. Where the amortization period of the contract cost would be more than a year, the Company applies judgment in the allocation of the incentive bonus cost asset between hardware and service performance obligations and expenses the cost allocated to the hardware performance obligations upon delivery of associated server and storage systems or components and amortizes the cost allocated to service performance obligations over the period the services are expected to be provided. Contract acquisition costs allocated to service performance obligations that are subject to capitalization are insignificant to the Company's consolidated financial statements.

Contract fulfillment costs consist of costs paid in advance for outsourced services provided by third parties to the extent they are not in the scope of other guidance. Fulfillment costs paid in advance for outsourced services provided by third parties are capitalized and amortized over the period the services are expected to be provided. Such fulfillment costs are insignificant to the Company's consolidated financial statements.

Note 4. Accounts Receivable Allowances

The Company has established an allowance for doubtful accounts. The allowance for doubtful accounts is based upon the age of outstanding receivables, credit risk of specific customers, historical trends related to past losses and other relevant factors. Accounts receivable allowances as of June 30, 2021, 2020 and 2019 consisted of the following (in thousands):

	Beginning Balance	Charged to Cost and Expenses (Recovered), net	Write-offs	Ending Balance
Allowance for doubtful accounts:				
Year ended June 30, 2021	$ 4,586	$ (820)	$ (1,175)	$ 2,591
Year ended June 30, 2020	8,906	(3,081)	(1,239)	4,586
Year ended June 30, 2019	1,945	7,058	(97)	8,906

Note 5. Inventories

Inventories as of June 30, 2021 and 2020 consisted of the following (in thousands):

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	June 30, 2021	June 30, 2020
Finished goods	$ 761,694	$ 656,817
Work in process	80,472	38,146
Purchased parts and raw materials	198,798	156,535
Total inventories	$ 1,040,964	$ 851,498

During fiscal years 2021, 2020 and 2019, the Company recorded a net provision for excess and obsolete inventory to cost of sales totaling $6.8 million, $18.4 million and $32.9 million, respectively. The Company classifies subsystems and accessories that may be sold separately or incorporated into systems as finished goods.

Note 6. Property, Plant, and Equipment

Property, plant and equipment as of June 30, 2021 and 2020 consisted of the following (in thousands):

	June 30, 2021	June 30, 2020
Buildings	$ 86,930	$ 86,930
Land	76,421	75,251
Machinery and equipment	97,671	85,381
Buildings construction in progress[(1)]	87,438	46,311
Building and leasehold improvements	26,640	24,517
Software	22,592	20,597
Furniture and fixtures	22,843	21,544
	420,535	360,531
Accumulated depreciation and amortization	(145,822)	(126,746)
Property, plant and equipment, net	$ 274,713	$ 233,785

(1) Primarily relates to the development and construction costs associated with the Company's Green Computing Park located in San Jose, California and a new building in Taiwan.

Note 7. Prepaid Expenses and Other Assets

Prepaid expenses and other current assets as of June 30, 2021 and 2020 consisted of the following (in thousands):

	June 30, 2021	June 30, 2020
Other receivables[(1)]	$ 99,921	$ 96,669
Prepaid income tax	12,288	14,323
Prepaid expenses	6,719	7,075
Deferred service costs	4,900	4,161
Restricted cash	251	250
Others	6,116	4,507
Total prepaid expenses and other current assets	$ 130,195	$ 126,985

(1) Includes other receivables from contract manufacturers based on certain buy-sell arrangements of $76.2 million and $83.8 million as of June 30, 2021 and 2020, respectively.

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Other assets as of June 30, 2021 and 2020 consisted of the following (in thousands):

	June 30,	
	2021	2020
Operating lease right-of-use asset	$ 20,047	$ 23,784
Deferred service costs, non-current	5,421	4,632
Deposits	1,669	1,201
Prepaid expense, non-current	1,973	1,576
Investment in auction rate security	1,556	1,571
Restricted cash, non-current	932	1,607
Others	528	128
Total other assets	$ 32,126	$ 34,499

Cash, cash equivalents and restricted cash as of June 30, 2021 and 2020 consisted of the following (in thousands):

	June 30,	
	2021	2020
Cash and cash equivalents	$ 232,266	$ 210,533
Restricted cash included in prepaid expenses and other current assets	251	250
Restricted cash included in other assets	932	1,607
Total cash, cash equivalents and restricted cash	$ 233,449	$ 212,390

Note 8. Investment in a Corporate Venture

In October 2016, the Company entered into agreements pursuant to which the Company contributed certain technology rights in connection with an investment in the Corporate Venture to expand the Company's presence in China. The Corporate Venture is 30% owned by the Company and 70% owned by another company in China. The transaction was closed in the third fiscal quarter of 2017 and the investment has been accounted for using the equity method. As such, the Corporate Venture is also a related party.

The Company recorded a deferred gain related to the contribution of certain technology rights. As of June 30, 2021 and 2020, the Company had unamortized deferred gain balance of $1.0 million and $2.0 million, respectively, in accrued liabilities and $0.0 million and $1.0 million, respectively, in other long-term liabilities in the Company's consolidated balance sheets.

The Company monitors the investment for events or circumstances indicative of potential impairment and makes appropriate reductions in carrying values if it determines that an impairment charge is required. In June 2020, the third-party parent company that controls the Corporate Venture was placed on a U.S. government export control list, along with several of such third-party parent's related entities and a separate listing for one of its subsidiaries. The Corporate Venture is not itself a restricted party. The Company has concluded that the Corporate Venture is in compliance with the new restrictions. The Company does not believe that the equity investment carrying value is impacted as of June 30, 2021. No impairment charge was recorded for the fiscal years ended June 30, 2021 and 2020.

The Company sold products worth $51.2 million, $61.9 million, $52.2 million to the Corporate Venture in the fiscal years 2021, 2020, 2019, respectively, and the Company's share of intra-entity profits on the products that remained unsold by the Corporate Venture as of June 30, 2021 and June 30, 2020 have been eliminated and have reduced the carrying value of the Company's investment in the Corporate Venture. To the extent that the elimination of intra-entity profits reduces the investment balance below zero, such amounts are recorded within accrued liabilities. The Company had $8.5 million and $7.8 million due from the Corporate Venture in accounts receivable, net as of June 30, 2021 and 2020, respectively.

Note 9. Accrued Liabilities

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Accrued liabilities as of June 30, 2021 and 2020 consisted of the following (in thousands):

	June 30,	
	2021	2020
Accrued payroll and related expenses	$ 45,770	$ 33,577
Contract manufacturers liabilities	45,319	36,249
Customer deposits	32,419	9,942
Accrued warranty costs	10,185	9,984
Operating lease liability	6,322	6,310
Accrued cooperative marketing expenses	5,652	5,925
Accrued professional fees	2,737	5,661
Accrued legal liabilities	—	18,114
Others	30,446	29,639
Total accrued liabilities	$ 178,850	$ 155,401

Performance Awards Liability

In March 2020, the Board of Directors (the "Board") approved performance bonuses for the Chief Executive Officer, a senior executive and two members of the Board, which payments will be earned when specified market and performance conditions are achieved.

The Chief Executive Officer's aggregate cash bonuses of up to $8.1 million are earned in two tranches. The first 50% is payable if the average closing price for the Company's common stock equals or exceeds $31.61 for any period of 20 consecutive trading days following the date of the agreement and ending prior to September 30, 2021 and the Chief Executive Officer remains employed with the Company through the date that such common stock price goal is determined to have been achieved. This payment can be reduced at the discretion of the Board to the extent the Company has not made adequate progress in remediating its material weaknesses in its internal control over financial reporting as determined by the Board. The second 50% is payable if the average closing price for the Company's common stock equals or exceeds $32.99 for any period of 20 consecutive trading days following the date of the agreement and ending prior to June 30, 2022 and the Chief Executive Officer remains employed with the Company through the date that such common stock price goal is achieved. During the fiscal year ended June 30, 2021, the target average closing prices for both tranches were met but no determination has been made if there has been adequate progress in remediating the Company's internal weaknesses in its internal control over financial reporting. The cash payment under the second tranche has been made as of June 30, 2021, but no cash payment had been made for the first tranche as the Board has to approve this payment.

Performance bonuses for a senior executive and two members of the Board are earned based on achieving a specified target average closing price for the Company's common stock over the specified period as determined by the Board at the grant dates and continuous services through the payment dates. A senior executive earned an aggregate cash payment of $0.1 million when the target average closing price was met in the fourth quarter of fiscal year 2020. The two members of the Board can earn aggregate cash payments of $0.3 million in two tranches if the target average closing price reaches $31.61 for the first tranche and $32.99 per share for the second tranche. During the fiscal year ended June 30, 2021, the target average closing prices for both tranches were met and the cash payment for both tranches was made to the two Board members.

The Company accounts for the outstanding performance bonuses as liabilities and estimates fair value of payable amounts using a Monte-Carlo simulation model. The awards are re-measured at each period end with changes in fair value recorded in the Company's consolidated statement of operations in operating expenses. The cumulative recorded expense at each period end is trued-up to the expected payable amount vested through the period end. The requisite service periods over which expenses are recognized are derived from the Monte-Carlo model for all performance awards, except for the first 50% of the Chief Executive Officer's award that includes a performance condition. The Company estimates if it is probable that the performance condition will be met prior to the expiration date of this award. If at the measurement date it is determined to be probable, the Company estimates the requisite period as the longer of the service period derived by the Monte-Carlo model and the implicit service period when the Company expects to make adequate progress in remediating its material weaknesses in its

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internal control over financial reporting, as reported by the Company's Audit Committee. If it is determined to not be probable, then the Company will reverse any previously recognized expense for this award in the period when it is no longer probable that the performance condition will be achieved.

With the satisfaction of the target average closing price conditions in the fiscal year ended June 30, 2021, the Company trued up all the unpaid performance bonuses to the cash payment value. As of June 30, 2021, the full cash value of the bonuses were paid, except the Chief Executive Officer's first tranche performance bonus which was recorded as an accrued liability on the Company's consolidated balance sheet. The Company has completed the remediation of its material weaknesses in its internal control over financial reporting, and anticipates that the Board will conclude that there has been adequate progress in remediating the Company's material weaknesses in its internal control over financial reporting by October 31, 2021. Therefore, as of June 30, 2021, the Company trued up the accrued liability for the Chief Executive Officer’s first tranche award to the expected payable amount vested through the period end and the unrecognized cash value will be recorded over the remaining service period.

Based on the cash payment value and estimated fair value of these performance bonuses as of June 30, 2021 and June 30, 2020, the Company recorded a $3.6 million and $2.1 million liability, respectively, of which $3.6 million and $1.5 million, respectively, was recorded within accrued liabilities and $0.0 million and $0.6 million, respectively, was recorded within other long-term liabilities on the Company's consolidated balance sheet. An unrecognized compensation expense of $0.5 million will be recorded over the remaining service periods of 0.18 years. The expense recognized during fiscal years 2021 and 2020 was $5.8 million and $2.1 million, respectively.

Note 10. Short-term and Long-term Debt

Short-term and long-term debt obligations as of June 30, 2021 and 2020 consisted of the following (in thousands):

	June 30,	
	2021	2020
Line of credit:		
CTBC Bank	$ 18,000	$ —
E.SUN Bank	20,400	—
Total line of credit	38,400	—
Term loans:		
CTBC Bank, due August 31, 2021	25,090	23,704
CTBC Bank, due June 4, 2030	34,700	5,697
Total term loans	59,790	29,401
Total debt	98,190	29,401
Short-term debt and current portion of long-term debt	63,490	23,704
Debt, Non-current	$ 34,700	$ 5,697

Activities under Revolving Lines of Credit and Term Loans

<u>Bank of America</u>

<u>2018 Bank of America Credit Facility</u>

In April 2018, the Company entered into a revolving line of credit with Bank of America for up to $250.0 million (as amended from time to time, the "2018 Bank of America Credit Facility"). On June 28, 2021, the 2018 Bank of America Credit Facility was amended to, among other items, extend the maturity to June 28, 2026, reduce the size of the facility from $250.0 million to $200.0 million, increase the maximum amount that the Company can request the facility be increased (the accordion feature) from $100.0 million to $150.0 million, and update provisions relating to erroneous payments and LIBOR replacement mechanics. In addition, the amendment reduced both the unused line fee from 0.375% per annum to 0.2% or 0.3%

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per annum (depending upon amount drawn under the facility) and the interest rate applicable to the facility from LIBOR plus 2.00% or 3.00% per annum (depending upon amount drawn under the facility) to LIBOR plus 1.375% or 1.625% per annum. The amendment was accounted for as a modification and the impact was immaterial to the consolidated financial statements. Interest accrued on any loans under the 2018 Bank of America Credit Facility is due on the first day of each month, and the loans are due and payable in full on the termination date of the 2018 Bank of America Credit Facility. Voluntary prepayments are permitted without early repayment fees or penalties. Subject to customary exceptions, the 2018 Bank of America Credit Facility is secured by substantially all of Super Micro Computer’s assets, other than real property assets. Under the terms of the 2018 Bank of America Credit Facility, the Company is not permitted to pay any dividends. The 2018 Bank of America Credit Facility contains customary representations and warranties and customary affirmative and negative covenants applicable to the Company and its subsidiaries and contains a financial covenant, which requires that the Company maintain a certain fixed charge coverage ratio, for each twelve-month period while in a Trigger Period, as defined in the agreement, is in effect.

As of June 30, 2021 and 2020, the Company had no outstanding borrowings under the 2018 Bank of America Credit Facility. The interest rates under the 2018 Bank of America Credit Facility as of June 30, 2021 and 2020 were 1.50% and 3.00%, respectively. In October 2018, a $3.2 million letter of credit was issued under the 2018 Bank of America Credit Facility and in October 2019, the letter of credit amount was increased to $6.4 million. No amount was drawn under the standby letter of credit. In May 2021, the letter of credit was cancelled. The balance of debt issuance costs outstanding were $0.5 million and $0.6 million as of June 30, 2021 and 2020, respectively. The Company has been in compliance with all the covenants under the 2018 Bank of America Credit Facility, and as of June 30, 2021, the Company's available borrowing capacity was $200.0 million, subject to the borrowing base limitation and compliance with other applicable terms.

CTBC Bank

CTBC Credit Facility

In June 2019, the Company entered into a credit agreement with CTBC Bank, which was amended in August 2020, (collectively, the "CTBC Credit Facility"). The amended credit agreement with CTBC Bank that provides for (i) a 12-month NTD 700.0 million ($24.0 million U.S. dollar equivalent) term loan facility secured by the land and building located in Bade, Taiwan with an interest rate equal to the lender's established NTD interest rate plus 0.25% per annum which is adjusted monthly, which term loan facility also includes a 12-month guarantee of up to NTD 100.0 million ($3.4 million U.S. dollar equivalent) with an annual fee equal to 0.50% per annum, (ii) a 180-day NTD 1,500.0 million ($51.5 million U.S. dollar equivalent) term loan facility up to 100% of eligible accounts receivable in an aggregate amount with an interest rate equal to the lender's established NTD interest rate plus an interest rate ranging from 0.30% to 0.50% per annum which is adjusted monthly, and (iii) a 12-month revolving line of credit of up to 100% of eligible accounts receivable in an aggregate amount of up to $50.0 million with an interest rate equal to the lender's established USD interest rate plus 0.80% per annum which is adjusted monthly, or equal to the lender’s established NTD interest rate plus an interest rate ranging from 0.30% to 0.50% per annum which is adjusted monthly if the borrowing is in NTD. In February 2021, CTBC Bank amended the USD interest rate to be the lender's established USD interest rate plus 0.70% to 0.75% per annum which is adjusted monthly. The total borrowings allowed under the CTBC Credit Facility was capped at $50.0 million. There are no financial covenants associated with the CTBC Credit Facility.

The total outstanding borrowings under the CTBC Credit Facility term loan were denominated in NTD and remeasured into U.S. dollars of $25.1 million and $23.7 million at June 30, 2021 and 2020, respectively. The interest rate for these loans were 0.75% per annum as of June 30, 2021 and 0.63% per annum as of June 30, 2020. As of June 30, 2021 and 2020, the outstanding borrowings under the CTBC Credit Facility revolving line of credit were $18.0 million and $0.0 million, respectively. The interest rate was 0.98% per annum as of June 30, 2021. As of June 30, 2021, the amount available for future borrowing under the CTBC Credit Facility was $6.9 million. As of June 30, 2021, the net book value of land and building located in Bade, Taiwan, collateralizing the CTBC Credit Facility term loan was $24.8 million.

2020 CTBC Term Loan Facility due June 4, 2030

In May 2020, the Company entered into a ten-year, non-revolving term loan facility (“2020 CTBC Term Loan Facility”) to obtain up to NTD 1.2 billion ($40.7 million in U.S. dollar equivalents) in financing for use in the expansion and renovation of the Company’s Bade Manufacturing Facility located in Taiwan. Drawdowns on the 2020 CTBC Term Loan Facility are based on 80% of balances owed on commercial invoices from the contractor and shall be drawn according to the

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progress of the renovations. Borrowings under the 2020 CTBC Term Loan Facility are available through June 2022. The Company is required to pay against total outstanding principal and interest in equal monthly installments starting June 2023 and continuing through the maturity date of June 2030. Interest under the 2020 CTBC Term Loan Facility is the two-year term floating rate of postal saving interest rate plus 0.105% and is established on the date of the drawdown application. If no interest rate is agreed upon, interest shall accrue at the annual base rate for CTBC plus 4.00%. The 2020 CTBC Term Loan Facility is secured by the Bade Manufacturing Facility and its expansion. Fees paid to the lender as debt issuance costs were immaterial. The Company has financial covenants requiring the Company's current ratio, debt service coverage ratio, and financial debt ratio, as defined in the agreement, to be maintained at certain levels under the 2020 CTBC Term Loan Facility.

As of June 30, 2021 and 2020, the amounts outstanding under the 2020 CTBC Term Loan Facility were $34.7 million and $5.7 million, respectively. The interest rates for these loans were 0.45% per annum as of June 30, 2021 and June 30, 2020. The net book value of the property serving as collateral as of June 30, 2021 was $45.9 million. As of June 30, 2021, the Company was in compliance with all financial covenants under the 2020 CTBC Term Loan Facility.

2021 CTBC Credit Lines

On July 20, 2021 (the "Effective Date"), the Company entered into a general agreement for omnibus credit lines with CTBC Bank, which replaced the CTBC Credit Facility and 2020 CTBC Term Loan Facility (the "Prior CTBC Credit Lines") in their entirety and permit borrowings, from time to time, of (i) a term loan facility of up to NTD 1,550.0 million ($55.4 million in U.S. dollar equivalents) and (ii) a line of credit facility of up to US$105.0 million (the "2021 CTBC Credit Lines"). Interest rates are to be established according to individual credit arrangements established pursuant to the 2021 CTBC Credit Lines, which interest rates shall be subject to adjustment depending on the satisfaction of certain conditions. Term loans made pursuant to the 2021 CTBC Credit Lines are secured by certain of the Company's assets, including certain property, land, plant, and equipment. As of June 30, 2021, the net book value of land and building located in Bade, Taiwan, collateralizing the New CTBC Credit Facility term loan was $70.7 million. The Company is subject to various financial covenants under the 2021 CTBC Credit Lines, including current ratio, debt service coverage ratio, and financial debt ratio requirements. Amounts outstanding under the Prior CTBC Credit Lines on the Effective Date were assumed by the 2021 CTBC Credit Lines.

E.SUN Bank Credit Facility

In December 2020, Super Micro Computer Inc, Taiwan, a wholly-owned Taiwan subsidiary of the Company, entered into a General Credit Agreement (the "E.SUN Credit Facility") with E.SUN Bank in Taiwan. The E.SUN Credit Facility provides for the issuance of loans, advances, acceptances, bills, bank guarantees, overdrafts, letters of credit, and other types of drawdown instruments up to a credit limit of $30.0 million. The E.SUN Credit Facility expires on September 18, 2021.

Generally, the interest for base rate loans made under the E.SUN Credit Facility is based upon an average interbank overnight call loan rate in the finance industry (such as LIBOR or TAIFX) plus a fixed margin, and is subject to occasional adjustment. Interest for adjustable loan rate loans made under the E.SUN Credit Facility is based upon an average one-year fixed rate time saving deposit rate of a selected reference bank which shall be a well-known domestic bank in Taiwan, and is subject to occasional adjustment. The E.SUN Credit Facility has customary default provisions permitting E.SUN Bank to terminate or reduce the credit limit, shorten the credit period, or deem all liabilities due and payable, including in the event such Taiwan subsidiary of the Company has an overdue liability at another financial organization. There are no financial covenants associated with the E.SUN Credit Facility.

Terms for specific drawdown instruments issued under the E.SUN Credit Facility, such as credit amount, term of use, mode of drawdown, specific lending rate, and other relevant terms, are to be set forth in Notifications and Confirmation of Credit Conditions by and between the Company and E.SUN Bank. A Notification and Confirmation of Credit Conditions agreement under the E.SUN Credit Facility was entered into on December 2, 2020 for a $30.0 million import loan (the "Import Loan") with a tenor of 120 days. In June 2021, the Import Loan was amended to, among other items, bearing interest at a rate based on the higher of LIBOR plus 1.00% then divided by 0.946 or TAIFX plus 0.80% then divided by 0.946. As of June 30, 2021, the amounts outstanding under the E.SUN Credit Facility was $20.4 million and the interest rates for these loans ranged from approximately 1.0% to 1.29% per annum. As of June 30, 2021, the amount available for future borrowing under the E.SUN Credit Facility was $9.6 million.

Principal payments on short-term and long-term debt obligations are due as follows (in thousands):

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Fiscal Year:	Principal Payments
2022	$ 63,490
2023	413
2024	4,957
2025	4,957
2026	4,957
2027 and thereafter	19,416
Total short-term and long-term debt	$ 98,190

Note 11. Other Long-term Liabilities

Other long-term liabilities as of June 30, 2021 and 2020 consisted of the following (in thousands):

	June 30,	
	2021	2020
Accrued unrecognized tax benefits including related interest and penalties	$ 17,841	$ 15,496
Operating lease liability, non-current	14,539	18,102
Accrued warranty costs, non-current	2,678	2,395
Others	6,074	6,002
Total other long-term liabilities	$ 41,132	$ 41,995

Note 12. Leases

The Company leases offices, warehouses and other premises, vehicles and certain equipment leased under non-cancelable operating leases. Operating lease expense recognized and supplemental cash flow information related to operating leases for the years ended June 30, 2021 and 2020 were as follows (in thousands):

	Years Ended June 30,	
	2021	2020
Operating lease expense (including expense for lease agreements with related parties of $1,319 and $1,421 for the years ended June 30, 2021 and 2020, respectively)	$ 7,827	$ 6,993
Cash payments for operating leases (including payments to related parties of $1,351 and $1,443 for the years ended June 30, 2021 and 2020, respectively)	7,966	6,411
New operating lease assets obtained in exchange for operating lease liabilities	3,538	15,229

During the years ended June 30, 2021 and 2020, the Company's costs related to short-term lease arrangements for real estate and non-real estate assets were immaterial. Non-lease variable payments expensed in the years ended June 30, 2021, 2020 and 2019 were $1.8 million, $1.3 million and $0.0 million, respectively.

As of June 30, 2021, the weighted average remaining lease term for operating leases was 3.8 years and the weighted average discount rate was 3.4%. Maturities of operating lease liabilities under noncancelable operating lease arrangements as of June 30, 2021 were as follows (in thousands):

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Fiscal Year:		Maturities of operating leases
2022	$	6,932
2023		5,430
2024		4,538
2025		4,382
2026 and beyond		1,017
Total future lease payments	$	22,299
Less: Imputed interest		(1,438)
Present value of operating lease liabilities	$	20,861

As of June 30, 2021, commitments under short-term lease arrangements and operating and financing leases that have not yet commenced were immaterial.

The Company has entered into lease agreements with related parties. See Note 13, "Related Party Transactions" for a further discussion.

Note 13. Related Party Transactions

The Company has a variety of business relationships with Ablecom and Compuware. Ablecom and Compuware are both Taiwan corporations. Ablecom is one of the Company's major contract manufacturers; Compuware is both a distributor of the Company's products and a contract manufacturer for the Company. Ablecom's Chief Executive Officer, Steve Liang, is the brother of Charles Liang, the Company's President, Chief Executive Officer and Chairman of the Board. Steve Liang and his family members owned approximately 28.8% of Ablecom's stock and Charles Liang and his spouse, Sara Liu, who is also an officer and director of the Company, collectively owned approximately 10.5% of Ablecom's capital stock as of June 30, 2021. Bill Liang, a brother of both Charles Liang and Steve Liang, is a member of the Board of Directors of Ablecom. Bill Liang is also the Chief Executive Officer of Compuware, a member of Compuware's Board of Directors and a holder of a significant equity interest in Compuware. Steve Liang is also a member of Compuware's Board of Directors and is an equity holder of Compuware. Charles Liang or Sara Liu do not own any capital stock of Compuware and the Company does not own any of Ablecom or Compuware's capital stock.

Dealings with Ablecom

The Company has entered into a series of agreements with Ablecom, including multiple product development, production and service agreements, product manufacturing agreements, manufacturing services agreements and lease agreements for warehouse space.

Under these agreements, the Company outsources to Ablecom a portion of its design activities and a significant part of its server chassis manufacturing as well as an immaterial portion of other components. Ablecom manufactured approximately 91.8%, 95.5% and 96.3% of the chassis included in the products sold by the Company during fiscal years 2021, 2020 and 2019, respectively. With respect to design activities, Ablecom generally agrees to design certain agreed-upon products according to the Company's specifications, and further agrees to build the tools needed to manufacture the products. The Company pays Ablecom for the design and engineering services, and further agrees to pay Ablecom for the tooling. The Company retains full ownership of any intellectual property resulting from the design of these products and tooling.

With respect to the manufacturing aspects of the relationship, Ablecom purchases most of materials needed to manufacture the chassis from third parties and the Company provides certain components used in the manufacturing process (such as power supplies) to Ablecom through consignment or sales transactions. Ablecom uses these materials and components to manufacture the completed chassis and then sell them back to the Company. For the components purchased from the Company, Ablecom sells the components back to the Company at a price equal to the price at which the Company sold the components to Ablecom. The Company and Ablecom frequently review and negotiate the prices of the chassis the Company purchases from Ablecom. In addition to inventory purchases, the Company also incurs other costs associated with design services, tooling and other miscellaneous costs from Ablecom.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Company’s exposure to financial loss as a result of its involvement with Ablecom is limited to potential losses on its purchase orders in the event of an unforeseen decline in the market price and/or demand of the Company’s products such that the Company incurs a loss on the sale or cannot sell the products. Outstanding purchase orders from the Company to Ablecom were $40.2 million and $23.2 million at June 30, 2021 and 2020, respectively, representing the maximum exposure to financial loss. The Company does not directly or indirectly guarantee any obligations of Ablecom, or any losses that the equity holders of Ablecom may suffer. Since Ablecom manufactures substantially all the chassis that the Company incorporates into its products, if Ablecom were to suddenly be unable to manufacture chassis for the Company, the Company’s business could suffer if the Company is unable to quickly qualify substitute suppliers who can supply high-quality chassis to the Company in volume and at acceptable prices.

Dealings with Compuware

The Company has entered into a distribution agreement with Compuware, under which the Company appointed Compuware as a non-exclusive distributor of the Company’s products in Taiwan, China and Australia. Compuware assumes the responsibility to install the Company's products at the site of the end customer, if required, and administers customer support in exchange for a discount from the Company's standard price for its purchases.

The Company also has entered into a series of agreements with Compuware, including a multiple product development, production and service agreements, product manufacturing agreements, and lease agreements for office space.

Under these agreements, the Company outsources to Compuware a portion of its design activities and a significant part of its power supplies manufacturing as well as an immaterial portion of other components. With respect to design activities, Compuware generally agrees to design certain agreed-upon products according to the Company’s specifications, and further agrees to build the tools needed to manufacture the products. The Company pays Compuware for the design and engineering services, and further agrees to pay Compuware for the tooling. The Company retains full ownership of any intellectual property resulting from the design of these products and tooling. With respect to the manufacturing aspects of the relationship, Compuware purchases most of materials needed to manufacture the power supplies from outside markets and uses these materials to manufacture the products and then sell those products to the Company. The Company and Compuware frequently review and negotiate the prices of the power supplies the Company purchases from Compuware.

Compuware also manufactures motherboards, backplanes and other components used on printed circuit boards for the Company. The Company sells to Compuware most of the components needed to manufacture the above products. Compuware uses the components to manufacture the products and then sells the products back to the Company at a purchase price equal to the price at which the Company sold the components to Compuware, plus a “manufacturing value added” fee and other miscellaneous material charges and costs. The Company and Compuware frequently review and negotiate the amount of the “manufacturing value added” fee that will be included in the price of the products the Company purchases from Compuware. In addition to the inventory purchases, the Company also incurs costs associated with design services, tooling assets, and miscellaneous costs.

The Company’s exposure to financial loss as a result of its involvement with Compuware is limited to potential losses on its purchase orders in the event of an unforeseen decline in the market price and/or demand of the Company’s products such that the Company incurs a loss on the sale or cannot sell the products. Outstanding purchase orders from the Company to Compuware were $71.0 million and $45.7 million at June 30, 2021 and 2020, respectively, representing the maximum exposure to financial loss. The Company does not directly or indirectly guarantee any obligations of Compuware, or any losses that the equity holders of Compuware may suffer.

The Company’s results from transactions with Ablecom and Compuware for each of the fiscal years ended June 30, 2021, 2020 and 2019 are as follows (in thousands):

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	Years Ended June 30,		
	2021	2020	2019
Ablecom			
Purchases(1)	$ 130,852	$ 160,084	$ 145,273
Compuware			
Net sales	$ 27,865	$ 23,867	$ 17,651
Purchases(1)	115,213	131,763	139,579

(1) Includes principally purchases of inventory and other miscellaneous items.

The Company's net sales to Ablecom were not material for the fiscal years ended June 30, 2021, 2020 and 2019.

The Company had the following balances related to transactions with Ablecom and Compuware as of June 30, 2021 and 2020 (in thousands):

	June 30,	
	2021	2020
Ablecom		
Accounts receivable and other receivables(1)	$ 5,577	$ 6,379
Accounts payable and accrued liabilities(2)	41,194	40,056
Other long-term liabilities(3)	—	513
Compuware		
Accounts receivable and other receivables(1)	18,371	14,323
Accounts payable and accrued liabilities(2)	46,430	46,518
Other long-term liabilities(3)	—	186

(1) Other receivables include receivables from vendors included in prepaid and other current assets.
(2) Includes current portion of operating lease liabilities included in other current liabilities.
(3) Represents non-current portion of operating lease liabilities.

The Company procures certain semiconductor products from Monolithic Power Systems, Inc. ("MPS"), a fabless manufacturer of high-performance analog and mixed-signal semiconductors, for use in its products. Saria Tseng, who serves as a member on the Board of Directors, also serves as Vice President of Strategic Corporate Development, General Counsel and Secretary of MPS. The Company purchased $3.9 million, $5.2 million and $3.7 million of semiconductor products from MPS for use in its manufacturing process during the years ended June 30, 2021, 2020 and 2019, respectively. The amounts due to MPS as of June 30, 2021 and 2020 were not material.

See Note 8, "Investment in a Corporate Venture" for a discussion of the investment and the transactions and balances in the Company's Corporate Venture.

Note 14. Stock-based Compensation and Stockholders' Equity

Equity Incentive Plan

On June 5, 2020, the stockholders of the Company approved the 2020 Equity and Incentive Compensation Plan (the "2020 Plan"). The maximum number of shares available under the 2020 Plan is 5,000,000 plus 1,045,000 shares of common stock that remained available for future awards under the 2016 Equity Incentive Plan (the "2016 Plan"), at the time of adoption of the 2020 Plan. No other awards can be granted under the 2016 Plan and 7,246,000 shares of common stock remain reserved for outstanding awards issued under the 2016 Plan at the time of adoption of the 2020 Plan.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Under the 2020 Plan, the Company can grant stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units, dividend equivalents, and certain other awards, including those denominated or payable in, or otherwise based on, the Company’s common stock. The exercise price per share for incentive stock options granted to employees owning shares representing more than 10% of the Company's outstanding voting stock at the time of grant cannot be less than 110% of the fair value of the underlying shares on the grant date. Nonqualified stock options and incentive stock options granted to all other persons are granted at a price not less than 100% of the fair value. Options generally expire ten years after the date of grant. Stock options and RSUs generally vest over four years; 25% at the end of one year and one sixteenth per quarter thereafter.

As of June 30, 2021, the Company had 2,730,277 authorized shares available for future issuance under the 2020 Plan.

Common Stock Repurchase and Retirement

On August 9, 2020, the Board approved a share repurchase program to repurchase up to an aggregate of $30.0 million of the Company's common stock at market prices. The program was effective until December 31, 2020 or if earlier, until the maximum amount of common stock is repurchased. During the three months ended September 30, 2020, 1,142,294 shares of common stock were repurchased for $30.0 million and the program ended. Repurchased shares were recorded as treasury shares in the Company's condensed consolidated balance sheet as of September 30, 2020.

On December 11, 2020, the Company retired 2,475,419 shares of common stock, which were recorded as treasury stock in the Company's condensed consolidated balance sheet as of September 30, 2020.

On October 31, 2020, the Board approved a share repurchase program to repurchase up to an aggregate of $50.0 million of the Company's common stock at market prices. The program was effective until October 31, 2021 or if earlier, until the maximum amount of common stock was repurchased. As of March 31, 2021, 1,675,746 shares of common stock were repurchased and retired for an aggregate $50.0 million and the program ended.

On January 29, 2021, a duly authorized subcommittee of the Board approved a share repurchase program to repurchase up to an aggregate of $200.0 million of the Company's common stock at market prices. The program is effective until July 31, 2022 or if earlier, until the maximum amount of common stock is repurchased. 1,391,171 shares of common stock were repurchased and retired for an aggregate $50.0 million as of June 30, 2021.

During the fiscal year ended June 30, 2021, the Company repurchased and retired 4,209,211 shares of common stock for an aggregated $130.0 million. Additionally, the Company retired 1,333,125 shares of common stock repurchased in prior years.

Determining Fair Value

The Company's fair value of RSUs and PRSUs is based on the closing market price of the Company's common stock on the date of grant. The Company estimates the fair value of stock options granted using the Black-Scholes-option-pricing model. This fair value is then amortized ratably over the requisite service periods of the awards, which is generally the vesting period. The key inputs in using the Black-Scholes-option-pricing model were as follows:

Expected Term—The Company’s expected term represents the period that the Company’s stock-based awards are expected to be outstanding and was determined based on the Company's historical experience.

Expected Volatility—Expected volatility is based on the Company's implied and historical volatility.

Expected Dividend—The Black-Scholes valuation model calls for a single expected dividend yield as an input and the Company has no plans to pay dividends.

Risk-Free Interest Rate—The risk-free interest rate used in the Black-Scholes valuation method is based on the United States Treasury zero coupon issues in effect at the time of grant for periods corresponding with the expected term of option.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The fair value of stock option grants for the fiscal years ended June 30, 2021, 2020 and 2019 was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	Years Ended June 30,		
	2021	2020	2019
Risk-free interest rate	0.27% - 1.09%	0.47% - 1.72%	2.32% - 2.97%
Expected term	5.98 years	6.27 years	6.05 years
Dividend yield	— %	— %	— %
Volatility	50.03% - 50.43%	49.61% - 50.46%	47.34% - 50.28%
Weighted-average fair value	$ 14.92	$ 9.59	$ 9.25

The following table shows total stock-based compensation expense included in the consolidated statements of operations for the fiscal years ended June 30, 2021, 2020 and 2019 (in thousands):

	Years Ended June 30,		
	2021	2020	2019
Cost of sales	$ 1,762	$ 1,504	$ 1,663
Research and development	14,030	12,202	12,981
Sales and marketing	2,022	1,680	1,805
General and administrative	10,735	4,803	4,735
Stock-based compensation expense before taxes	28,549	20,189	21,184
Income tax impact	(8,574)	(6,814)	(4,349)
Stock-based compensation expense, net	$ 19,975	$ 13,375	$ 16,835

As of June 30, 2021, $8.4 million of unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 4 years, $45.1 million of unrecognized compensation cost related to unvested RSUs is expected to be recognized over a weighted-average period of 2.73 years and $0.1 million of unrecognized compensation cost related to unvested PRSUs is expected to be recognized over a period of 0.36 year. Additionally, as described below, $10.5 million of unrecognized compensation cost related to the 2021 CEO Performance Stock Option is expected to be recognized over a period of 5 years.

Stock Option Activity

In March 2021, the Company's Compensation Committee of the Board of Directors (the "Compensation Committee") approved the grant of a stock option award for 1,000,000 shares of common stock to the Company's CEO (the "2021 CEO Performance Stock Option"). The 2021 CEO Performance Stock Option has five vesting tranches with a vesting schedule based entirely on the attainment of operational milestones (performance conditions) and market conditions, assuming (1) continued employment either as the CEO or in such capacity as agreed upon between the Company's CEO and the Board and (2) service through each vesting date. Each of the five vesting tranches of the 2021 CEO Performance Stock Option will vest upon certification by the Compensation Committee that both (i) the market price milestone for such tranche, which begins at $45.00 per share for the first tranche and increases up to $120.00 per share thereafter (based on a 60 calendar day average, counting only trading days), has been achieved, and (ii) any one of five operational milestones focused on total revenue, as reported under U.S. GAAP, have been achieved for the previous four consecutive fiscal quarters. Upon vesting and exercise, including the payment of the exercise price of $45.00 per share, prior to March 2, 2024, the Company's CEO must hold shares that he acquires until March 2, 2024, other than those shares sold pursuant to a cashless exercise where shares are simultaneously sold to pay for the exercise price and any required tax withholding.

The achievement status of the operational and stock price milestones as of June 30, 2021 was as follows:

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Annualized Revenue Milestone	Achievement Status	Stock Price Milestone	Achievement Status
(in billions)			
$4.0	Probable	$45	Not met
$4.8	Probable	$60	Not met
$5.8	Probable	$75	Not met
$6.8	Probable	$95	Not met
$8.0	—	$120	Not met

On the grant date, a Monte Carlo simulation was used to determine for each tranche (i) a fixed expense amount for such tranche and (ii) the future time when the market price milestone for such tranche was expected to be achieved, or its "expected market price milestone achievement time." Separately, based on a subjective assessment of the Company's future financial performance, each quarter, the Company will determine whether achievement is probable for each operational milestone that has not previously been achieved or deemed probable of achievement, and, if so, the future time when the Company expects to achieve that operational milestone, or its "expected operational milestone achievement time." When the Company first determines that an operational milestone has become probable of being achieved, the Company will allocate the entire expense for the related tranche over the number of quarters between the grant date and the then-applicable "expected vesting time." The "expected vesting time" at any given time is the later of (i) the expected operational milestone achievement time (if the related operational milestone has not yet been achieved) and (ii) the expected market price milestone achievement time (if the related market price milestone has not yet been achieved). The Company will immediately recognize a catch-up expense for all accumulated expenses from the grant date through the quarter in which the operational milestone was first deemed probable of being achieved. Each quarter thereafter, the Company will recognize the prorated portion of the then-remaining expense for the tranche based on the number of quarters between such quarter and the then-applicable expected vesting time, except that upon vesting of a tranche, all remaining expenses for that tranche will be immediately recognized.

During the fiscal year ended June 30, 2021, the Company recognized compensation expense related to the 2021 CEO Performance Stock Option of $1.1 million. As of June 30, 2021, $10.5 million in unrecognized compensation cost related to the 2021 CEO Performance Stock Option is expected to be recognized over a period of 5 years.

The following table summarizes stock option activity during the fiscal years ended June 30, 2021, 2020 and 2019 under all plans:

	Options Outstanding	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value (in thousands)
Balance as of June 30, 2018	8,301,138	$ 16.50		
Granted	434,320	$ 18.58		
Forfeited/Cancelled	(1,360,823)	$ 8.94		
Balance as of June 30, 2019	7,374,635	$ 18.02		
Granted	273,260	$ 19.61		
Exercised	(1,812,000)	$ 15.74		
Forfeited/Cancelled	(456,127)	$ 11.97		
Balance as of June 30, 2020	5,379,768	$ 19.38		
Granted	1,517,110	$ 40.49		
Exercised	(1,645,800)	$ 17.25		
Forfeited/Cancelled	(75,524)	$ 24.43		
Balance as of June 30, 2021	5,175,554	$ 26.17	5.36	$ 57,099
Options vested and exercisable at June 30, 2021	3,448,888	$ 20.47	3.41	$ 50,887

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The total pretax intrinsic value of options exercised during the fiscal year ended June 30, 2021, 2020 and 2019 was $24.3 million, $19.3 million and $0, respectively. Additional information regarding options outstanding as of June 30, 2021, is as follows:

	Options Outstanding			Options Vested and Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Term (Years)	Weighted-Average Exercise Price Per Share	Number Exercisable	Weighted-Average Exercise Price Per Share
$9.24 - $12.50	521,886	1.54	$ 10.81	521,886	$ 10.81
$13.00 - $15.22	540,699	2.68	$ 14.33	490,794	$ 14.40
$17.09 - $18.93	714,906	3.17	$ 17.94	648,411	$ 17.97
$20.37 - $22.10	619,745	4.90	$ 21.13	547,375	$ 21.10
$22.15 - $25.44	614,906	5.81	$ 24.26	436,968	$ 24.67
$26.60 - $28.71	536,681	4.69	$ 27.08	529,181	$ 27.06
$30.33 - $38.50	590,341	7.26	$ 34.31	246,273	$ 34.48
$39.19 - $39.19	28,000	3.62	$ 39.19	28,000	$ 39.19
$42.35 - $42.35	8,390	4.82	$ 42.35	—	$ —
$45.00 - $45.00	1,000,000	9.67	$ 45.00	—	$ —
$9.24 - $45.00	5,175,554	5.36	$ 26.17	3,448,888	$ 20.47

RSU and PRSU Activity

In January 2015, the Company began to grant RSUs to employees. The Company grants RSUs to certain employees as part of its regular employee equity compensation review program as well as to selected new hires. RSUs are typically service based share awards that entitle the holder to receive freely tradable shares of the Company's common stock upon vesting.

In August 2017, the Compensation Committee granted two PRSU awards to the Company's Chief Executive Officer, both of which have both performance and service conditions. 50% of the PRSUs vested at June 30, 2018 when performance conditions were achieved, while the remainder vest in equal amounts over the following ten quarters subject to the continued employment of the CEO. As of June 30, 2021, the remaining 50% of the PRSUs had vested in accordance with the terms of the grant.

In March 2020, the Compensation Committee granted a PRSU award to one of the Company's senior executives. The award vests in two tranches and includes service and performance conditions. Each tranche has 15,000 RSUs that vest in May 2021 and November 2021 based on service conditions only. Additional units can be earned based on revenue growth percentage in fiscal year 2020 compared to fiscal year 2019, which units would vest in May 2021, and based on revenue growth percentage in fiscal year 2021 compared to fiscal year 2020, which units would vest in November 2021. No additional units were earned for fiscal year 2020 as revenue decreased from fiscal year 2019.

The following table summarizes RSUs and PRSUs activity during the fiscal years ended June 30, 2021 and 2020 under all plans:

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	Time-based RSUs Outstanding	Weighted Average Grant-Date Fair Value per Share	PRSUs Outstanding	Weighted Average Grant-Date Fair Value per Share
Balance as of June 30, 2018	1,480,605	$ 23.34	120,000	$ 27.10
Granted	1,086,911	$ 18.37	—	
Released(1)	(549,886)	$ 24.87	—	
Forfeited	(144,528)	$ 20.25	—	
Balance as of June 30, 2019	1,873,102	$ 20.25	120,000	$ 27.10
Granted	943,650	$ 20.45	30,000	$ 20.37
Released(1)	(871,274)	$ 20.97	(108,000)	$ 27.10
Forfeited	(177,451)	$ 19.49	—	
Balance as of June 30, 2020	1,768,027	$ 20.08	42,000	$ 22.29
Granted	1,334,418	$ 31.54	30,000	$ 34.27
Released(1)	(984,406)	$ 21.63	(27,000)	$ 23.36
Forfeited	(263,083)	$ 25.01	(30,000)	$ 20.37
Balance as of June 30, 2021	1,854,956	$ 26.79	15,000	$ 34.27

(1) The number of shares released excludes 172,857 RSUs that were vested but not released in fiscal year 2019. The number of vested but not released RSUs for fiscal years 2021 and 2020 was not material. The number of shares released also excludes 24,000 PRSUs that were vested but not released in fiscal year 2019. These vested RSUs and PRSUs were primarily released in fiscal year 2020 and included in fiscal year 2020 number upon the effectiveness of the Company's registration statement on Form S-8.

The total pretax intrinsic value of RSUs and PRSUs vested was $32.6 million, $18.9 million and $14.3 million for the fiscal years ended June 30, 2021, 2020 and 2019, respectively. In fiscal years 2021, 2020 and 2019, the Company withheld 274,620, 331,648 and 175,044 shares with value equivalent to the employees' minimum statutory obligation for the applicable income and other employment taxes from the vesting and release of 1,011,406, 979,274 and 549,886 RSUs and PRSUs, respectively, and remitted the cash to the appropriate taxing authorities. The total shares withheld were based on the value of the RSUs on their respective vesting dates as determined by the Company's closing stock price. Total payments for the employees' tax obligations to tax authorities were $8.7 million, $8.2 million and $3.1 million for the fiscal years ended June 30, 2021, 2020 and 2019, respectively, and are reflected as a financing activity within the consolidated statements of cash flows. Pursuant to the terms of the 2020 and 2016 Plan, shares withheld in connection with net-share settlements are returned to the 2016 Plan and are available for future grants under the 2020 and 2016 Plan.

Note 15. Income Taxes

The components of income before income tax provision for the fiscal years ended June 30, 2021, 2020 and 2019 are as follows (in thousands):

	Years Ended June 30,		
	2021	2020	2019
United States	$ 80,922	$ 35,701	$ 45,126
Foreign	37,706	49,127	44,397
Income before income tax provision	$ 118,628	$ 84,828	$ 89,523

The income tax provision for the fiscal years ended June 30, 2021, 2020 and 2019, consists of the following (in thousands):

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	Years Ended June 30,		
	2021	2020	2019
Current:			
Federal	$ 3,406	$ 4,568	$ 12,308
State	1,077	1,727	2,917
Foreign	10,843	10,399	16,531
	15,326	16,694	31,756
Deferred:			
Federal	(5,489)	(10,108)	(13,078)
State	(409)	(1,621)	(2,888)
Foreign	(2,492)	(2,043)	(906)
	(8,390)	(13,772)	(16,872)
Income tax provision	$ 6,936	$ 2,922	$ 14,884

The Company's net deferred tax assets as of June 30, 2021 and 2020 consist of the following (in thousands):

	June 30,	
	2021	2020
Research and development credits	$ 30,540	$ 24,304
Deferred revenue	18,584	20,354
Inventory valuation	13,831	13,946
Capitalized research and development costs	15,206	7,509
Stock-based compensation	3,868	4,075
Lease obligations	2,861	3,632
Accrued vacation and bonus	5,098	3,281
Prepaid and accrued expenses	1,179	2,560
Warranty accrual	2,154	2,051
Bad debt and other reserves	1,668	1,917
Marketing fund accrual	720	548
Other	4,460	3,652
Total deferred income tax assets	100,169	87,829
Deferred tax liabilities-depreciation and other	(4,137)	(4,428)
Right of use asset	(2,831)	(3,612)
Valuation allowance	(29,913)	(24,891)
Deferred income tax assets, net	$ 63,288	$ 54,898

The Company assesses its deferred tax assets for recoverability on a regular basis, and where applicable, a valuation allowance is recorded to reduce the total deferred tax asset to an amount that will, more likely than not, be realized in the future. As of June 30, 2021, the Company believes that most of its deferred tax assets are "more-likely-than not" to be realized with the exception of state research and development tax credits that have not met the "more-likely than not" realization threshold criteria. As a result, at June 30, 2021, the gross excess credits of $37.1 million, or net of federal tax benefit of $29.3 million, are subject to a full valuation allowance. At June 30, 2020, the gross excess credits of $30.8 million, or net of federal tax benefit of $24.3 million, are subject to a full valuation allowance. The change in valuation allowance is $5.0 million and $3.9 million for the fiscal years ended June 30, 2021 and 2020, respectively. The Company will continue to review its deferred tax assets in accordance with the applicable accounting standards. The net deferred tax assets balance as of June 30, 2021 and 2020 was $63.3 million and $54.9 million, respectively.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The 2017 Tax Reform Act also creates a new requirement that Global Intangible Low-Taxed Income ("GILTI") earned by controlled foreign corporations ("CFCs") that must be included currently in the gross income of a CFC's U.S. stockholder starting in the tax year that begins after 2017. GILTI does not have material impact on the Company's income tax provision.

Under U.S. GAAP, the Company is allowed to make an accounting policy choice of either (i) treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred (the "period cost method") or (ii) factoring such amounts into a company's measurement of its deferred taxes. The Company's selection of an accounting policy with respect to the GILTI tax rules is to treat GILTI tax as a current period expense under the period cost method.

Under the 2017 Tax Reform Act, starting on July 1, 2018, the Company is no longer subject to federal income tax on earnings remitted from our foreign subsidiaries. The Company previously asserted that all of its foreign undistributed earnings were indefinitely reinvested. As a result of the 2017 Tax Reform Act, the Company has determined that its foreign undistributed earnings are indefinitely reinvested except for Netherlands. The Company may repatriate foreign earnings from Netherlands which are previously taxed income as a result of the 2017 Tax Reform Act. The tax impact of such repatriation is estimated to be immaterial.

As a result of the 2017 Tax Reform Act, in December 2019, the Company realigned its international business operations and group structure. As a part of this restructuring, the Company moved certain intellectual property back to the United States. As a result of this restructuring, the Company estimated approximately $3.0 million and $1.9 million additional tax benefit from foreign derived intangible income in fiscal years 2021 and 2020 as compared to fiscal year 2019.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was enacted. The CARES Act provides temporary relief from certain aspects of the 2017 Tax Reform Act that imposed limitations on the utilization of certain losses, interest expense deductions, alternative minimum tax credits and made a technical correction to the 2017 Tax Reform Act related to the depreciable life of qualified improvement property. The CARES Act did not have a material impact on the Company.

The following is a reconciliation for the fiscal years ended June 30, 2021, 2020 and 2019, of the statutory rate to the Company's effective federal tax rate:

	Years Ended June 30,		
	2021	2020	2019
Income tax provision at statutory rate	21.0 %	21.0 %	21.0 %
State income tax, net of federal tax benefit	0.3	—	0.5
Foreign rate differential	(0.5)	—	1.1
Research and development tax credit	(10.5)	(13.1)	(9.5)
Uncertain tax positions, net of (settlement) with Tax Authorities	2.0	(2.3)	4.1
Foreign derived intangible / Subpart F income inclusion	(2.5)	(3.8)	(2.1)
Stock-based compensation	(3.3)	(2.8)	2.1
Non deductible penalty on SEC matter	—	4.4	—
Provision to return true-up	(1.9)	(1.1)	(1.6)
Other, net	1.2	1.1	1.0
Effective tax rate	5.8 %	3.4 %	16.6 %

As of June 30, 2021, the Company had state research and development tax credit carryforwards of $50.2 million. The state research and development tax credits will carryforward indefinitely to offset future state income taxes.

The following table summarizes the activity related to the unrecognized tax benefits (in thousands):

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

		Gross* Unrecognized Income Tax Benefits
Balance at June 30, 2018	$	25,117
Gross increases:		
For current year's tax positions		7,789
For prior years' tax positions		—
Gross decreases:		
Decreases due to settlements with taxing authority		(1,504)
Decreases due to lapse of statute of limitations		(3,354)
Balance at June 30, 2019		28,048
Gross increases:		
For current year's tax positions		8,769
For prior years' tax positions		505
Gross decreases:		
Decreases due to settlements with taxing authority		(7,632)
Decreases due to lapse of statute of limitations		(2,484)
Balance at June 30, 2020		27,206
Gross increases:		
For current year's tax positions		13,333
For prior years' tax positions		1,439
Gross decreases:		
Decreases due to lapse of statute of limitations		(1,243)
Balance at June 30, 2021	$	40,735

*excludes interest, penalties, federal benefit of state reserves

The total amount of unrecognized tax benefits that would affect the effective tax rate, if recognized, was $27.1 million and $13.4 million as of June 30, 2021 and 2020, respectively.

The Company's policy is to include interest and penalties related to unrecognized tax benefits within the income tax provision in the consolidated statements of operations. As of June 30, 2021 and 2020, the Company had accrued $2.5 million and $2.1 million for the payment of interest and penalties relating to unrecognized tax benefits, respectively.

In October 2019, the Taiwan tax authority completed its audit in Taiwan for fiscal year 2018 and proposed a transfer pricing adjustment on the Company which resulted in additional tax liability of $1.6 million. The Company accepted the proposed adjustment in October 2019 and paid the $1.6 million tax liability in February 2020. In February 2020, the Taiwan tax authority completed its audit in Taiwan for fiscal year 2019 and proposed a transfer pricing adjustment on the Company which resulted in additional tax liability of $1.0 million. The Company accepted the proposed adjustment and paid the $1.0 million tax liability in February 2020. The impact of these adjustments on the income statement was offset by the release of previously unrecognized tax benefits related to the fiscal years audited in the periods in which the proposed adjustments were accepted.

The Company believes that it has adequately provided reserves for all uncertain tax positions; however, amounts asserted by tax authorities could be greater or less than the Company's current position. Accordingly, the Company's provision on federal, state and foreign tax related matters to be recorded in the future may change as revised estimates are made or as the underlying matters are settled or otherwise resolved.

The federal statute of limitations remains open in general for tax years ended June 30, 2018 through 2021. Various states statute of limitations remains open in general for tax years ended June 30, 2017 through 2021. Certain statutes of limitations in major foreign jurisdictions remain open in general for the tax years ended June 30, 2016 through 2021. It is reasonably possible that our gross unrecognized tax benefits will decrease by approximately $1.0 million, in the next 12

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

months, due to the lapse of the statute of limitations. These adjustments, if recognized, would positively impact our effective tax rate, and would be recognized as additional tax benefits.

Note 16. Commitments and Contingencies

Litigation and Claims— On February 8, 2018, two putative class action complaints were filed against the Company, the Company's Chief Executive Officer, and the Company's former Chief Financial Officer in the U.S. District Court for the Northern District of California (*Hessefort v. Super Micro Computer, Inc., et al.*, *No. 18-cv-00838* and *United Union of Roofers v. Super Micro Computer, Inc., et al.*, *No. 18-cv-00850*). The complaints contain similar allegations, claiming that the defendants violated Section 10(b) of the Securities Exchange Act due to alleged misrepresentations and/or omissions in public statements regarding recognition of revenue. The court subsequently appointed New York Hotel Trades Council & Hotel Association of New York City, Inc. Pension Fund as lead plaintiff. The lead plaintiff then filed an amended complaint naming the Company's Senior Vice President of Investor Relations as an additional defendant. On June 21, 2019, the lead plaintiff filed a further amended complaint naming the Company's former Senior Vice President of International Sales, Corporate Secretary, and Director as an additional defendant. On July 26, 2019, the Company filed a motion to dismiss the complaint. On March 23, 2020, the Court granted the Company's motion to dismiss the complaint, with leave for lead plaintiff to file an amended complaint within 30 days. On April 22, 2020, lead plaintiff filed a further amended complaint. On June 5, 2020, the Company filed a motion to dismiss the further amended complaint, the hearing for which was calendared for September 23, 2020; however, the Court held a conference on September 15 to discuss how the Court could efficiently address the recent SEC settlement agreement. The parties stipulated to allow plaintiffs to further amend the complaint solely to add allegations relating to the SEC settlement. On October 14, 2020, plaintiffs filed a Fourth Amended Complaint. On October 28, 2020, defendants filed a supplemental motion to dismiss. On March 29, 2021, the Court granted in part and denied in part defendants' motions to dismiss. Plaintiffs' claims under Sections 10(b) and 20 of the Exchange Act were dismissed with prejudice as against the Company's former head of Investor Relations, Perry Hayes. Plaintiffs' Section 10(b) claim, but not the Section 20 claim, was likewise dismissed as to Wally Liaw, a founder, former director, and former SVP of International Sales. The Court denied the motions to dismiss the Section 10(b) and Section 20 claims against the Company, Charles Liang, and Howard Hideshima, the Company's former CFO. Discovery has commenced, and the Court has calendared a hearing on class certification for January 20, 2022. The Company intends to defend the lawsuit vigorously.

On October 27, 2020, certain current and former directors and officers of the Company were named as defendants in a putative derivative lawsuit filed in the Superior Court of the State of California, County of Santa Clara (the "Court"), captioned Barry v. Liang, et al., 20-CV-372190. The Company was also named as a nominal defendant. The complaint purports to allege claims for breaches of fiduciary duties, waste of corporate assets, and unjust enrichment arising out of allegations that the Company's officers and directors caused the Company to issue false and misleading statements about recognition of revenue and the effectiveness of its internal controls, failed to adopt and implement effective internal controls, and failed to timely file various reports with the Securities and Exchange Commission. The plaintiff seeks unspecified compensatory damages and other equitable relief. Defendants filed demurrers, which were set for hearing on August 4, 2021, but which were continued to September 15, 2021. Following this continuance, on July 21, 2021, Plaintiffs' counsel filed an amended complaint in lieu of responding to the demurrer. The amended complaint added no new claims; primarily, the amendment added allegations describing the March 29, 2021 motion to dismiss decision in the *Hessefort* class action. Defendants demurred to the amended complaint on August 24, 2021, and the Court has calendared the hearing for November 24, 2021. The case is otherwise currently stayed. The Company intends to defend the lawsuit vigorously.

On May 5, 2021, certain current and former directors and officers of the Company were named as defendants in a putative derivative lawsuit filed in the U.S. District Court for the Northern District of California, captioned *Stein v. Liang, et al.*, Case No. 3:21-cv-03357-KAW (the "Stein Derivative Action"). The Company was also named as a nominal defendant. The complaint purports to allege claims for breaches of fiduciary duties, waste of corporate assets, unjust enrichment, and contribution for violations of federal securities laws arising out of allegations that the Company's officers and directors caused the Company to issue false and misleading statements about recognition of revenue and the effectiveness of its internal controls, failed to adopt and implement effective internal controls, and failed to timely file various reports with the Securities and Exchange Commission. The plaintiff seeks unspecified compensatory damages and other equitable relief. Defendants filed motions to dismiss the complaint on August 6, 2021, and the Court has calendared the hearing for November 4, 2021. The Company intends to defend the lawsuit vigorously.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

SEC Matter— The Company cooperated with the SEC in its investigation of marketing expenses that contained certain irregularities discovered by Company management, which irregularities were disclosed on August 31, 2015, and the Company cooperated with the SEC in its further investigation of the matters underlying the Company's inability to timely file its Form 10-K for the fiscal year ended June 30, 2017 and concerning the publication of a false and widely discredited news article in October 2018 concerning the Company's products. On August 25, 2020, to fully resolve all matters under investigation, the Company consented to entry of an Order Instituting Cease-and-Desist Proceedings Pursuant to Section 8A of the Securities Act of 1933 and Section 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing a Cease-and-Desist Order ("Order"), as announced by the SEC. The Company admitted the SEC's jurisdiction over the Company and the subject matter of the proceedings, but otherwise neither admitted nor denied the SEC's findings, as described in the Order. The Company agreed to cease and desist from committing or causing any violations and any future violations of Sections 17(a)(2) and (3) of the Securities Act and Sections 13(a), 13(b)(2)(A), and 13(b)(2)(B), of the Exchange Act and Rules 12b-20, 13a-1, 13a-11, and 13a-13 thereunder. The Company agreed and paid a civil money penalty of $17,500,000 during the three months ended September 30, 2020, which was recorded to general and administrative expense in the Company's consolidated statement of operations. In addition, the Company's Chief Executive Officer concluded a settlement with the SEC on August 25, 2020, as announced by the SEC. The Company's Chief Executive Officer paid the Company the sum of $2,122,000 as reimbursement of profits from certain stock sales during the relevant period, pursuant to Section 304 of the Sarbanes-Oxley Act of 2002. The settlement amount was paid during the first quarter of fiscal 2021 and the Company recorded the payment as a credit to general and administrative expense.

Other legal proceedings and indemnifications

From time to time, the Company has been involved in various legal proceedings arising from the normal course of business activities. The resolution of any such matters have not had a material impact on the Company's consolidated financial condition, results of operations or liquidity as of June 30, 2021 and any prior periods.

The Company has entered into indemnification agreements with its current and former directors and executive officers.

Under these agreements, the Company has agreed to indemnify such individuals to the fullest extent permitted by law against liabilities that arise by reason of their status as directors or officers and to advance expenses incurred by such individuals in connection with related legal proceedings. It is not possible to determine the maximum potential amount of payments the Company could be required to make under these agreements due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each claim. However, the Company maintains directors and officers liability insurance coverage to reduce its exposure to such obligations.

Purchase Commitments - The Company has agreements to purchase inventory and non-inventory items primarily through the next 12 months. As of June 30, 2021, these remaining noncancelable commitments were $569.8 million, including $111.2 million for related parties.

Standby Letter of Credit - In October 2019, Bank of America increased the value of a previously issued standby letter of credit to a beneficiary from $3.2 million to $6.4 million to facilitate ongoing operations of the Company. The standby letter of credit is cancellable upon written notice from the issuer. No amounts have been drawn under the standby letter of credit. In May 2021, the standby letter of credit was cancelled.

Lease Commitments - See Note 12, "Leases," for a discussion of the Company's operating lease and financing lease commitments.

Note 17. Retirement Plans

The Company sponsors a 401(k) savings plan for eligible United States employees and their beneficiaries. Contributions by the Company are discretionary, and no contributions have been made by the Company for the fiscal years ended June 30, 2021, 2020 and 2019.

Beginning in March 2003, employees of Super Micro Computer, B.V. are required to deduct a portion of their gross wages based on a defined age-dependent premium and invest the amount in a defined contribution plan. The Company is required to match the amount that is deducted monthly from employees' wages. Similar to contributions into a 401(k) plan, the

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Company's obligation is limited to the contributions made to the contribution plan. Investment risk and investment rewards are assumed by the employees and not by the Company. For the fiscal years ended June 30, 2021, 2020 and 2019, the Company's matching contribution was $0.7 million, $0.6 million, and $0.5 million, respectively.

The Company contributes to a defined contribution pension plan administered by the government of Taiwan that covers all eligible employees within Taiwan. Pension plan benefits are based primarily on participants' compensation and years of service credited as specified under the terms of Taiwan's plan. The funding policy is consistent with the local requirements of Taiwan. The Company's obligation is limited to the contributions made to the pension plan. The Company has no control over the investment strategy of the assets of the government administered pension plan. For the fiscal years ended June 30, 2021, 2020 and 2019, the Company's contribution was $2.5 million, $1.9 million and $1.6 million, respectively.

The Company has a defined benefit pension plan under the R.O.C. Labor Standards Law for certain employees of Super Micro Computer, Inc. Taiwan that provides benefits based on an employee's length of service and average monthly salary for the six-month period prior to retirement. The Company contributes an amount equal to 2% of salaries paid each month to the pension fund (the "Fund"), which is administered by the Labor Pension Fund Supervisory Committee (the "Committee") and deposited in the Committee's name in the Bank of Taiwan. Before the end of each year, the Company assesses the balance in the Fund. If the amount of the balance in the Fund is inadequate to pay retirement benefits for eligible employees in the next year, the Company is required to fund the difference in one appropriation that should be made before the end of March 31 of the next year. The Fund is operated and managed by the government's designated authorities. As such, the Company does not have any right to intervene in the investments of the Fund. For the fiscal year ended June 30, 2021, the Company recorded a pension expense of $1.0 million. For the fiscal years ended June 30, 2020 and 2019, the Company's pension expense was immaterial.

Note 18. Segment Reporting

The Company operates in one operating segment that develops and provides high performance server solutions based upon an innovative, modular and open-standard architecture. The Company's chief operating decision maker is the Chief Executive Officer.

The following is a summary of property, plant and equipment, net (in thousands):

	June 30,	
	2021	2020
Long-lived assets:		
United States	$ 180,143	$ 178,812
Asia	91,640	51,605
Europe	2,930	3,368
	$ 274,713	$ 233,785

The Company's revenue is presented on a disaggregated basis in Note 3, "Revenue" by type of product and by geographical market.

B. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF SUPER MICRO FOR THE YEAR ENDED 30 JUNE 2022

Item 8. Financial Statements and Supplementary Data

Index to Consolidated Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Super Micro Computer, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Super Micro Computer, Inc. and subsidiaries (the "Company") as of June 30, 2022 and 2021, the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows, for each of the three years in the period ended June 30, 2022, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2022, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of June 30, 2022, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated August 29, 2022, expressed an unqualified opinion on the Company’s internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Inventories - Excess and Obsolescence Reserve — Refer to Notes 1 and 5 to the financial statements

Critical Audit Matter Description

The Company’s inventories are stated at lower of cost, using weighted average cost method, or net realizable value. The Company evaluates inventory on a quarterly basis for excess and obsolescence and lower of cost or net realizable value and, as necessary, writes down the valuation of inventory based upon inventory aging, forecasted usage and sales, anticipated selling price, product obsolescence and other factors.

We identified the excess and obsolescence reserve as a critical audit matter because of judgments made by management in determining the reserve rates applied by inventory aging category to estimate the Company’s excess and obsolescence reserve.

This required a high degree of auditor judgment and an increased extent of effort when performing audit procedures to evaluate the reasonableness of the Company’s reserve rates within its estimation of the inventory excess and obsolescence reserve.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the reserve rates applied to the inventory aging categories to estimate the Company’s excess and obsolescence reserve included the following procedures, among others:

- We tested the effectiveness of controls over the review of the calculation of excess and obsolescence reserve based on the Company’s reserve methodology, including management’s evaluation of the reserve rates by inventory aging category using historical data.
- To understand and evaluate the Company’s methodology for determining inventory that is excess or obsolete and the key assumptions and judgments made as part of the process, including the reserve rates, we made inquiries of various personnel in the Company including but not limited to finance and operations personnel about the expected product lifecycles and product development plans.
- We involved data specialists to assess management’s estimate on reserve rates by recalculating historical reserve rates across multiple fiscal periods. We compared our independently developed historical reserve rates with the reserve rates used by management to evaluate management’s ability to accurately estimate excess and obsolete inventory.
- We tested the accuracy and completeness of the underlying data utilized in management’s excess and obsolescence reserve, including the classification of inventory by aging category.
- We considered the existence of contradictory evidence based on reading of internal communications to management, Company press releases, and industry reports, as well as our observations and inquires as to changes within the business.

/s/ Deloitte & Touche LLP

San Jose, California
August 29, 2022

We have served as the Company's auditor since fiscal 2003.

SUPER MICRO COMPUTER, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share amounts)

	June 30, 2022	June 30, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	$ 267,397	$ 232,266
Accounts receivable, net of allowances of $1,753 and $2,591 at June 30, 2022 and 2021, respectively (including amounts receivable from related parties of $8,398 and $8,678 at June 30, 2022 and 2021, respectively)	834,513	463,834
Inventories	1,545,606	1,040,964
Prepaid expenses and other current assets (including receivables from related parties of $24,412 and $23,837 at June 30, 2022 and 2021, respectively)	158,799	130,195
Total current assets	2,806,315	1,867,259
Investment in equity investee	5,329	4,578
Property, plant and equipment, net	285,972	274,713
Deferred income taxes, net	69,929	63,288
Other assets	37,532	32,126
Total assets	$ 3,205,077	$ 2,241,964
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable (including amounts due to related parties of $87,355 and $70,096 at June 30, 2022 and 2021, respectively)	$ 655,403	$ 612,336
Accrued liabilities (including amounts due to related parties of $18,676 and $18,528 at June 30, 2022 and 2021, respectively)	212,419	178,850
Income taxes payable	41,743	12,741
Short-term debt	449,146	63,490
Deferred revenue	111,313	101,479
Total current liabilities	1,470,024	968,896
Deferred revenue, non-current	122,548	100,838
Long-term debt	147,618	34,700
Other long-term liabilities	39,140	41,132
Total liabilities	1,779,330	1,145,566
Commitments and contingencies (Note 15)		
Stockholders' equity:		
Common stock and additional paid-in capital, $0.001 par value		
Authorized shares: 100,000; Outstanding shares: 52,311 and 50,582 at June 30, 2022 and 2021, respectively		
Issued shares: 52,311 and 50,582 at June 30, 2022 and 2021, respectively	481,741	438,012
Accumulated other comprehensive income	911	453
Retained earnings	942,923	657,760
Total Super Micro Computer, Inc. stockholders' equity	1,425,575	1,096,225
Noncontrolling interest	172	173
Total stockholders' equity	1,425,747	1,096,398
Total liabilities and stockholders' equity	$ 3,205,077	$ 2,241,964

See accompanying notes to consolidated financial statements.

SUPER MICRO COMPUTER, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)

	Years Ended June 30,		
	2022	2021	2020
Net sales (including related party sales of $147,091, $79,018, and $85,759 in fiscal years 2022, 2021 and 2020, respectively)	$ 5,196,099	$ 3,557,422	$ 3,339,281
Cost of sales (including related party purchases of $371,076, $239,558, and $288,271 in fiscal years 2022, 2021 and 2020, respectively)	4,396,098	3,022,884	2,813,071
Gross profit	800,001	534,538	526,210
Operating expenses:			
Research and development	272,273	224,369	221,478
Sales and marketing	90,126	85,683	85,137
General and administrative	102,435	100,539	133,941
Total operating expenses	464,834	410,591	440,556
Income from operations	335,167	123,947	85,654
Other income (expense), net	8,079	(2,834)	1,410
Interest expense	(6,413)	(2,485)	(2,236)
Income before income tax provision	336,833	118,628	84,828
Income tax provision	(52,876)	(6,936)	(2,922)
Share of income from equity investee, net of taxes	1,206	173	2,402
Net income	$ 285,163	$ 111,865	$ 84,308
Net income per common share:			
Basic	$ 5.54	$ 2.19	$ 1.65
Diluted	$ 5.32	$ 2.09	$ 1.60
Weighted-average shares used in calculation of net income per common share:			
Basic	51,478	51,157	50,987
Diluted	53,615	53,507	52,838

See accompanying notes to consolidated financial statements.

SUPER MICRO COMPUTER, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	Years Ended June 30,		
	2022	**2021**	**2020**
Net income	$ 285,163	$ 111,865	$ 84,308
Other comprehensive income (loss), net of tax:			
Foreign currency translation gain (loss) and other	(247)	605	(72)
Net change in defined benefit obligations	705	—	—
Total other comprehensive income (loss), net of tax	458	605	(72)
Total comprehensive income	$ 285,621	$ 112,470	$ 84,236

See accompanying notes to consolidated financial statements.

SUPER MICRO COMPUTER, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except share amounts)

	Common Stock and Additional Paid-In Capital		Treasury Stock		Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Non-controlling Interest	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance at June 30, 2019	51,289,413	$ 349,683	(1,333,125)	$ (20,491)	$ (80)	$ 611,903	$ 161	$ 941,176
Exercise of stock options, net of taxes	1,804,789	28,343	—	—	—	—	—	28,343
Release of common stock shares upon vesting of restricted stock units	979,274	—	—	—	—	—	—	—
Shares withheld for the withholding tax on vesting of restricted stock units	(331,648)	(8,243)	—	—	—	—	—	(8,243)
Stock-based compensation	—	20,189	—	—	—	—	—	20,189
Other comprehensive loss	—	—	—	—	(72)	—	—	(72)
Net income	—	—	—	—	—	84,308	6	84,314
Balance at June 30, 2020	53,741,828	$ 389,972	(1,333,125)	$ (20,491)	$ (152)	$ 696,211	$ 167	$ 1,065,707
Exercise of stock options, net of taxes	1,645,800	28,387	—	—	—	—	—	28,387
Release of common stock shares upon vesting of restricted stock units	1,011,406	—	—	—	—	—	—	—
Shares withheld for the withholding tax on vesting of restricted stock units	(274,620)	(8,721)	—	—	—	—	—	(8,721)
Share repurchase and retirement	(5,542,336)	(175)	1,333,125	20,491	—	(150,316)	—	(130,000)
Stock-based compensation	—	28,549	—	—	—	—	—	28,549
Other comprehensive income	—	—	—	—	605	—	—	605
Net income	—	—	—	—	—	111,865	6	111,871
Balance at June 30, 2021	50,582,078	$ 438,012	—	$ —	$ 453	$ 657,760	$ 173	$ 1,096,398
Exercise of stock options, net of taxes	1,197,756	20,994	—	—	—	—	—	20,994
Release of common stock shares upon vesting of restricted stock units	763,641	—	—	—	—	—	—	—
Shares withheld for the withholding tax on vesting of restricted stock units	(232,461)	(10,081)	—	—	—	—	—	(10,081)
Stock-based compensation	—	32,816	—	—	—	—	—	32,816
Other comprehensive income	—	—	—	—	458	—	—	458
Net income	—	—	—	—	—	285,163	(1)	285,162
Balance at June 30, 2022	52,311,014	$ 481,741	—	$ —	$ 911	$ 942,923	$ 172	$ 1,425,747

See accompanying notes to consolidated financial statements.

SUPER MICRO COMPUTER, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Years Ended June 30, 2022	2021	2020
OPERATING ACTIVITIES:			
Net income	$ 285,163	$ 111,865	$ 84,308
Reconciliation of net income to net cash (used in) provided by operating activities:			
Depreciation and amortization	32,471	28,185	28,472
Stock-based compensation expense	32,816	28,549	20,189
Recovery of allowance for doubtful accounts	(840)	(820)	(3,081)
Provision for excess and obsolete inventories	15,090	6,805	18,373
Other	368	(1,044)	1,364
Share of income from equity investee	(1,206)	(173)	(2,402)
Foreign currency exchange (gain) loss	(13,747)	2,482	1,008
Deferred income taxes, net	(6,817)	(8,390)	(13,772)
Changes in operating assets and liabilities:			
Accounts receivable, net (including changes in related party balances of $280, $34 and $4,727 in fiscal years 2022, 2021 and 2020, respectively)	(371,598)	(59,325)	(7,023)
Inventories	(519,732)	(196,271)	(199,683)
Prepaid expenses and other assets (including changes in related party balances of $(575), $(3,969) and $1,511 in fiscal years 2022, 2021 and 2020, respectively)	(28,794)	(5,291)	(29,869)
Accounts payable (including changes in related party balances of $17,259, $(2,272) and $12,559 in fiscal years 2022, 2021 and 2020, respectively)	50,145	189,309	59,889
Income taxes payable	29,002	8,041	(8,321)
Accrued liabilities (including changes in related party balances of $148, $2,322 and $5,670 in fiscal years 2022, 2021 and 2020, respectively)	35,891	24,705	27,865
Deferred revenue	31,544	(1,452)	350
Other long-term liabilities (including changes in related party balances of $499, $(1,699) and $(1,301) in fiscal years 2022, 2021 and 2020, respectively)	(10,557)	(4,220)	(8,001)
Net cash provided by (used in) operating activities	(440,801)	122,955	(30,334)
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment (including payments to related parties of $4,818, $7,347 and $4,386 in fiscal years 2022, 2021 and 2020, respectively)	(45,182)	(58,016)	(44,338)
Investment in a privately-held company	(1,100)	—	—
Proceeds from sale of investment in a privately-held company	—	—	750
Net cash used in investing activities	(46,282)	(58,016)	(43,588)
FINANCING ACTIVITIES:			
Proceeds from borrowings	1,153,317	127,059	164,791
Repayment of debt	(640,695)	(60,629)	(159,191)
Net repayment on asset-backed revolving line of credit, net of costs	—	—	(1,116)
Payment of other fees for debt financing	(592)	(561)	(650)
Proceeds from exercise of stock options, net of taxes	20,994	28,387	28,343
Changes in obligations under capital leases	(72)	25	(138)
Payment of withholding tax on vesting of restricted stock units	(10,081)	(8,721)	(8,243)
Stock repurchases	—	(130,000)	—
Net cash (used in) provided by financing activities	522,871	(44,440)	23,796
Effect of exchange rate fluctuations on cash	(678)	560	376

Net increase (decrease) in cash, cash equivalents, and restricted cash		35,110		21,059		(49,750)
Cash, cash equivalents and restricted cash at beginning of year		233,449		212,390		262,140
Cash, cash equivalents and restricted cash at end of year	$	268,559	$	233,449	$	212,390
Supplemental disclosure of cash flow information:						
Cash paid for interest	$	5,492	$	1,948	$	2,172
Cash paid for taxes, net of refunds	$	19,690	$	2,914	$	43,317
Non-cash investing and financing activities:						
Unpaid property, plant and equipment purchases (including due to related parties of $689, $400 and $2,223 as of June 30, 2022, 2021 and 2020, respectively)	$	7,825	$	9,003	$	12,051
Right of use ("ROU") assets obtained in exchange for operating lease commitments	$	11,151	$	3,258	$	—

See accompanying notes to consolidated financial statements.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization and Summary of Significant Accounting Policies

Organization

Super Micro Computer, Inc. ("Super Micro Computer") was incorporated in 1993. Super Micro Computer is a global leader in server technology and green computing innovation. Super Micro Computer develops and provides high performance server and storage solutions based upon an innovative, modular and open-standard architecture. Super Micro Computer has operations primarily in the United States, the Netherlands, Taiwan, China and Japan.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP"). The consolidated financial statements of Super Micro Computer include the accounts of Super Micro Computer and entities consolidated under the variable interest model or the voting interest model. Noncontrolling interests are not presented separately in the consolidated statements of operations and consolidated statements of comprehensive income as the amounts are immaterial. All intercompany accounts and transactions of Super Micro Computer and its consolidated entities (collectively, the "Company") have been eliminated in consolidation. For equity investments over which the Company is able to exercise significant influence over the investee but does not control the investee and is not the primary beneficiary of the investee's activities are accounted for using the equity method. Investments in equity securities which do not have readily determinable fair values and for which the Company is not able to exercise significant influence over the investee are accounted for under the measurement alternative which is the cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar securities of the same investee.

Use of Estimates

U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Such estimates include, but are not limited to revenue recognition, allowances for doubtful accounts and sales returns, inventory valuation, useful lives of property, plant and equipment, product warranty accruals, stock-based compensation, impairment of investments and long-lived assets, and income taxes. The Company's estimates are evaluated on an ongoing basis and changes in the estimates are recognized prospectively. Actual results could differ from those estimates. The Company considered estimates of the economic implications of the COVID-19 pandemic pressures, global economic recession, inflation and increased interest rates on its critical and significant accounting estimates, including an assessment of the collectability of each customer contract as part of the revenue recognition process, assessment of the valuation of accounts receivable, assessment of provision for excess and obsolete inventory and an impairment of long-lived assets.

Fair Value of Financial Instruments

The Company accounts for certain assets and liabilities at fair value, which is the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly arms-length transaction between market participants. When measuring fair value, the Company takes into account the characteristics of the asset or liability that a market participant would consider when pricing the asset or liability at the measurement date. The Company considers one or more techniques for measuring fair value: market approach, income approach, and cost approach. The valuation techniques include inputs that are based on three different levels of observability to the market. The Company categorizes each of its fair value measurements in one of these three levels based on the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

- Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2 - Quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly; and
- Level 3 - Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

Accounts receivable and accounts payable are carried at cost, which approximates fair value due to the short maturity of these instruments. Cash equivalents, certificates of deposit and the investment in an auction rate security are carried at fair value. Short-term and long-term debt is carried at amortized cost, which approximates its fair value based on borrowing rates currently available to the Company for loans with similar terms.

Cash and Cash Equivalents

The Company considers all highly liquid instruments with an original maturity of three months or less from the date of purchase to be cash equivalents. Cash equivalents consist primarily of money market funds and certificates of deposit with original maturities of less than three months.

Restricted Cash and Cash Equivalents

Restricted cash is comprised of amounts held in bank accounts which are controlled by the lenders pursuant to the terms of certain debt agreements, certificates of deposit primarily related to leases and customs requirements, and money market accounts held in escrow pursuant to the Company's workers' compensation program. These restricted cash balances have been excluded from the Company's cash and cash equivalents balance.

Inventories

Inventories are stated at lower of cost, using weighted average cost method, or net realizable value. Net realizable value is the estimated selling price of the Company's products in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Inventories consist of purchased parts and raw materials (principally electronic components), work in process (principally products being assembled) and finished goods. The Company evaluates inventory on a quarterly basis for excess and obsolescence and lower of cost or net realizable value and, as necessary, writes down the valuation of inventories based upon the Company's inventory aging, forecasted usage and sales, anticipated selling price, product obsolescence and other factors. Once inventory is written down, its new value is maintained until it is sold or scrapped.

The Company receives various rebate incentives from certain suppliers based on its contractual arrangements, including volume-based rebates. The rebates earned are recognized as a reduction of cost of inventories and reduce the cost of sales in the period when the related inventory is sold.

Property, Plant and Equipment

Property, plant and equipment is recorded at cost and depreciated using the straight-line method over the estimated useful lives of the related assets as follows:

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Software	3 to 5 years
Machinery and equipment	3 to 7 years
Furniture and fixtures	5 years
Buildings	39 years
Building improvements	Up to 20 years
Land improvements	15 years
Leasehold improvements	Shorter of lease term or estimated useful life

Long-Lived Assets

The Company evaluates its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When the sum of the undiscounted future net cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount, an impairment loss would be measured based on the fair value of the asset compared to the carrying amount. No impairment charge for long-lived assets has been recorded in any of the periods presented.

Revenue Recognition

The Company generates revenues from the sale of server and storage systems, subsystems, accessories, services, server software management solutions, and support services.

Product sales. The Company recognizes revenue from sales of products as control is transferred to customers, which generally happens at the point of shipment or upon delivery, unless customer acceptance is uncertain. Products sold by the Company are delivered via shipment from the Company's facilities or drop shipment directly to its customers from a Company vendor. The Company may use distributors to sell products to end customers. Revenue from distributors is recognized when the distributor obtains control of the product, which generally happens at the point of shipment or upon delivery.

The Company applies judgment in determining the transaction price as the Company may be required to estimate variable consideration when determining the amount of revenue to recognize. As part of determining the transaction price in contracts with customers, the Company estimates reserves for future sales returns based on a review of its history of actual returns for each major product line. Based upon historical experience, a refund liability is recorded at the time of sale for estimated product returns and an asset is recognized for the amount expected to be recorded in inventory upon product return, less the expected recovery costs. The Company also reduces revenue for the estimated costs of customer and distributor programs and incentive offerings such as price protection and rebates as well as the estimated costs of cooperative marketing arrangements where the fair value of the benefit derived from the costs cannot be reasonably estimated. Any provision for customer and distributor programs and other discounts is recorded as a reduction of revenue at the time of sale based on an evaluation of the contract terms and historical experience.

Services sales. The Company's sale of services mainly consists of extended warranty and on-site services. Revenue related to extended warranty commences upon the expiration of the standard warranty period and is recognized ratably over the contractual period as the Company stands ready to perform any required warranty service. Revenue related to on-site services commences upon recognition of the product sale and is recognized ratably over the contractual period as the on-site services are made available to the customer. These service contracts are typically one to five years in length. Service revenue has been less than 10% of net sales for all periods presented and is not separately disclosed.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Contracts with multiple promised goods and services. Certain of the Company's contracts contain multiple promised goods and services. The Company assesses whether each promised good or service is distinct for the purpose of identifying the performance obligations in the contract. This assessment involves subjective determinations and requires management to make judgments about the individual promised goods or services and whether such goods or services are separable from the other aspects of the contractual relationship. Performance obligations in a contract are identified based on the promised goods or services that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the service either on its own or together with other resources that are readily available from third parties or from the Company, and are distinct in the context of the contract, whereby the transfer of the services is separately identifiable from other promises in the contract. If these criteria are not met, the promised goods and services are accounted for as a combined performance obligation. Revenue allocated to each performance obligation is recognized at the time the related performance obligation is satisfied by transferring control of the promised good or service to a customer.

If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. For contracts that contain multiple performance obligations, the Company allocates the transaction price for each customer contract to each performance obligation based on the relative standalone selling price (SSP) for each performance obligation within each contract. The Company recognizes the amount of transaction price allocated to each performance obligation within a customer contract as revenue at the time the related performance obligation is satisfied by transferring control of the promised good or service to a customer. Determining the relative SSP for contracts that contain multiple performance obligations requires significant judgement. The Company determines SSP based on the price at which the performance obligation is sold separately. If the SSP is not observable through past transactions, the Company applies judgment to estimate the SSP. For substantially all performance obligations, the Company is able to establish the SSP based on the observable prices of products or services sold separately in comparable circumstances to similar customers. The Company typically establishes an SSP range for its products and services, which is reassessed on a periodic basis or when facts and circumstances change. SSP for the Company's products and services can evolve over time due to changes in its pricing practices, internally approved pricing guidelines with respect to geographies, customer type, internal costs, and gross margin objectives for the related performance obligations which can also be influenced by intense competition, changes in demand for the Company's products and services, economic and other factors.

These estimates and judgements have not fluctuated significantly for the fiscal year ended June 30, 2022, compared to prior fiscal years.

When the Company receives consideration from a customer prior to transferring goods or services to the customer, the Company records a contract liability (deferred revenue). The Company also recognizes deferred revenue when it has an unconditional right to consideration (i.e., a receivable) before transfer of control of goods or services to a customer.

The Company considers shipping & handling activities as costs to fulfill the sales of products. Shipping revenue is included in net sales when control of the product is transferred to the customer, and the related shipping and handling costs are included in cost of sales. Taxes imposed by governmental authorities on the Company's revenue producing activities with customers, such as sales taxes and value added taxes, are excluded from net sales and included in operating expenses.

Allowances for Doubtful Accounts

Customers are subjected to a credit review process that evaluates each customer's financial position and ability and intent to pay. On a quarterly basis, the Company makes estimates of its uncollectible accounts receivable by analyzing the aging of accounts receivable, history of bad debts, customer concentrations, customer-credit-worthiness, and current economic trends to evaluate the adequacy of the allowance for doubtful accounts. The Company's recovery of allowance for bad debt was $(0.8) million, $(0.8) million, and $(3.1) million in fiscal years 2022, 2021 and 2020, respectively.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Cost of Sales

Cost of sales primarily consists of the costs of materials, contract manufacturing, in-bound shipping, personnel and related expenses including stock-based compensation, equipment and facility expenses, warranty costs and provision for lower of cost or net realizable value and excess and obsolete inventory.

Product Warranties

The Company offers product warranties typically ranging from 15 to 39 months against any defective products. These standard warranties are assurance type warranties, and the Company does not offer any services beyond the assurance that the product will continue working as specified. Therefore, these warranties are not considered separate performance obligations in the arrangement. Based on historical experience, the Company accrues for estimated returns of defective products at the time revenue is recognized. The Company monitors warranty obligations and may make revisions to its warranty reserve if actual costs of product repair and replacement are significantly higher or lower than estimated. Accruals for anticipated future warranty costs are recorded to cost of sales and included in accrued liabilities and other long-term liabilities. Warranty accruals are based on estimates that are updated on an ongoing basis taking into consideration inputs such as new product introductions, changes in the volume of claims compared with the Company's historical experience, and the changes in the cost of servicing warranty claims. The Company accounts for the effect of such changes in estimates prospectively. The following table presents for the fiscal years ended June 30, 2022, 2021 and 2020, the reconciliation of the changes in accrued warranty costs which is included as a component of accrued liabilities and other long-term liabilities (in thousands):

	Years Ended June 30,		
	2022	2021	2020
Balance, beginning of the year	$ 12,863	$ 12,379	$ 11,034
Provision for warranty	28,150	29,638	35,962
Costs utilized	(29,872)	(30,575)	(34,502)
Change in estimated liability for pre-existing warranties	996	1,421	(115)
Balance, end of the year	$ 12,137	$ 12,863	$ 12,379
Current portion	9,073	10,185	9,984
Non-current portion	$ 3,064	$ 2,678	$ 2,395

Research and Development

Research and development expenses consist of personnel expenses including salaries, benefits, stock-based compensation and incentive bonuses, and related expenses for the Company's research and development personnel, as well as materials and supplies, consulting services, third-party testing services and equipment and facility expenses related to the Company's research and development activities. All research and development costs are expensed as incurred. The Company occasionally receives funding from certain suppliers and customers towards its development efforts. Such amounts are recorded as a reduction of research and development expenses and were $8.2 million, $10.9 million, and $2.1 million for the fiscal years ended June 30, 2022, 2021 and 2020, respectively. During the fiscal year ended June 30, 2020, the Company also recorded a $9.5 million net settlement fee as a reduction in the research and development expenses related to the reimbursement of previously incurred expenses for one canceled joint product development agreement.

Software development costs, including costs to develop software sold, leased, or otherwise marketed, that are incurred subsequent to the establishment of technological feasibility are capitalized if significant. Costs incurred during the application development stage for internal-use software are capitalized if significant. Capitalized software development costs are amortized using the straight-line amortization method over the estimated useful life of the applicable software. Such software development costs required to be capitalized have not been material to date.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Advertising Costs

Advertising costs, net of reimbursements received under the cooperative marketing arrangements with the Company's vendors, are expensed as incurred. Total advertising and promotional expenses were $0.1 million, $4.1 million and $3.0 million for the fiscal years ended June 30, 2022, 2021 and 2020, respectively, net of credits from marketing development funds.

Stock-Based Compensation

The Company measures and recognizes compensation expense for all share-based awards made to employees and non-employees, including stock options, restricted stock units ("RSUs") and performance-based restricted stock units (“PRSUs”). The Company recognizes the grant date fair value of all share-based awards over the requisite service period and accounts for forfeitures as they occur. Stock option and RSU awards are recognized to expense on a straight-line basis over the requisite service period. PRSU awards are recognized to expense using an accelerated method only when it is probable that a performance condition is met during the vesting period. If it is not probable, no expense is recognized and the previously recognized expense is reversed. The Company bases initial accrual of compensation expense on the estimated number of PRSUs that are expected to vest over the requisite service period. That estimate is revised if subsequent information indicates that the actual number of PRSUs is likely to differ from previous estimates. The cumulative effect on current and prior periods of a change in the estimated number of PRSUs expected to vest is recognized in stock-based compensation expense in the period of the change. Previously recognized compensation expense is not reversed if vested stock options, RSUs or PRSUs for which the requisite service has been rendered and the performance condition has been met expire unexercised or are not settled.

The fair value of RSUs and PRSUs is based on the closing market price of the Company's common stock on the date of grant. The Company estimates the fair value of stock options granted using a Black-Scholes option pricing model. This model requires the Company to make estimates and assumptions with respect to the expected term of the option and the expected volatility of the price of the Company's common stock. The expected term represents the period that the Company’s stock-based awards are expected to be outstanding and was determined based on the Company's historical experience. The expected volatility is based on the historical volatility of the Company’s common stock. The fair value is then amortized on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period.

Leases

The Company has arrangements for the right to use certain of its office, warehouse spaces and other premises, and equipment. The Company determines at inception if an arrangement is or contains a lease. When the terms of a lease effectively transfer control of the underlying asset to the Company, it is classified as a finance lease. All other leases are classified as operating leases.

Operating Leases

For operating leases with lease terms of more than 12 months, operating lease right-of-use ("ROU") assets are recorded in long-term other assets, and lease liabilities are recorded in accrued liabilities and other long-term liabilities on the consolidated balance sheet. The Company's lease term includes options to extend or terminate the lease when it is reasonably certain that it will exercise that option. The Company elected to apply the short-term lease recognition exemption and does not recognize ROU asset and lease liabilities for leases with an initial term of 12 months or less and recognizes as expense the payments under such leases on a straight-line basis over the lease term. The Company's leases with an initial term of 12 months or less are immaterial.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Operating lease ROU assets represent the Company’s right to use an underlying asset for the lease term and lease liabilities represent the Company’s obligation to make lease payments over the lease term. Operating lease ROU assets and liabilities are recognized at lease commencement based on the present value of the remaining lease payments discounted using the Company’s incremental borrowing rate as the interest rate implicit in the lease arrangements is not readily determinable. The incremental borrowing rate is estimated to be the interest rate on a fully collateralized basis with similar terms and payments and in the economic environment where the leased asset is located. Operating lease ROU assets also include initial direct costs incurred, prepaid lease payments, minus any lease incentives. Operating lease expense is recognized on a straight-line basis over the lease term. The Company accounts for fixed payments for lease and non-lease components as a single lease component which increases the amount of ROU assets and liabilities. Non-lease components that are variable costs, such as common area maintenance, are expensed as incurred and not included in the ROU assets and lease liabilities.

Finance Leases

Assets under finance leases are recorded in property, plant and equipment, net and lease liabilities are included in accrued liabilities and other long-term liabilities on the consolidated balance sheet. Finance lease interest expense is recognized based on an effective interest method and depreciation of assets is recorded on a straight-line basis over the shorter of the lease term and useful life of the asset. The Company's finance leases are immaterial.

Income Taxes

The Company accounts for income taxes under an asset and liability approach. Deferred income taxes reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for income tax reporting purposes, net of operating loss carry-forwards and other tax credits measured by applying enacted tax laws related to the financial statement periods. Valuation allowances are provided when necessary to reduce deferred tax assets to an amount that is more likely than not to be realized.

The Company recognizes tax liabilities for uncertain income tax positions on the income tax return based on the two-step process. The first step is to determine whether it is more likely than not that each income tax position would be sustained upon audit. The second step is to estimate and measure the tax benefit as the amount that has a greater than 50% likelihood of being realized upon ultimate settlement with the tax authority. Estimating these amounts requires the Company to determine the probability of various possible outcomes. The Company evaluates these uncertain tax positions on a quarterly basis. This evaluation is based on the consideration of several factors, including changes in facts or circumstances, changes in applicable tax law, settlement of issues under audit and new exposures. If the Company later determines that its exposure is lower or that the liability is not sufficient to cover its revised expectations, the Company adjusts the liability and effects a related charge in its tax provision during the period in which the Company makes such a determination.

Variable Interest Entities

The Company determines at the inception of each arrangement whether an entity in which the Company holds an investment or in which the Company has other variable interests is considered a variable interest entity ("VIE"). The Company consolidates VIEs when it is the primary beneficiary. The primary beneficiary of a VIE is the party that meets both of the following criteria: (1) has the power to make decisions that most significantly affect the economic performance of the VIE and (2) has the obligation to absorb losses or the right to receive benefits that in either case could potentially be significant to the VIE. Periodically, the Company assesses whether any changes in the interest or relationship with the entity affect the determination of whether the entity is still a VIE and, if so, whether the Company is the primary beneficiary. If the Company is not the primary beneficiary in a VIE, the Company accounts for the investment or other variable interest in accordance with applicable GAAP.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Company has concluded that Ablecom Technology, Inc. (“Ablecom”) and its affiliate, Compuware Technology, Inc. ("Compuware"), are VIEs; however, the Company is not the primary beneficiary as it does not have the power to direct the activities that are most significant to the entities and therefore, the Company does not consolidate these entities. In performing its analysis, the Company considered its explicit arrangements with Ablecom and Compuware, all contractual arrangements with these entities. Also, as a result of the substantial related party relationships between the Company and these entities, the Company considered whether any implicit arrangements exist that would cause the Company to protect these related parties’ interests from suffering losses. The Company determined it has no material implicit arrangements with Ablecom, Compuware or their shareholders.

The Company and Ablecom jointly established Super Micro Asia Science and Technology Park, Inc. (the "Management Company") in Taiwan to manage the common areas shared by the Company and Ablecom for its separately constructed manufacturing facilities. In fiscal year 2012, each party contributed $0.2 million for a 50% ownership interest of the Management Company. The Company has concluded that the Management Company is a VIE, and the Company is the primary beneficiary as it has the power to direct the activities that are most significant to the Management Company. For the fiscal years ended 2022, 2021 and 2020, the accounts of the Management Company were consolidated with the accounts of Super Micro Computer, and a noncontrolling interest was recorded for Ablecom's interest in the net assets and operations of the Management Company. Net income (loss) attributable to Ablecom's interest was not material for the periods presented and was included in general and administrative expenses in the Company's consolidated statements of operations.

Foreign Currency Transactions

The functional currency of the Company’s international subsidiaries is the U.S. dollar, with the exception of Super Micro Asia and Technology Park, Inc., a consolidated variable interest entity. Monetary assets and liabilities of the Company's international subsidiaries that are denominated in foreign currency are remeasured into U.S. dollars at period-end exchange rates. Non-monetary assets and liabilities that are denominated in the foreign currency are remeasured into U.S. dollars at the historical rates. Revenue and expenses that are denominated in the foreign currency are remeasured into U.S. dollars at the average exchange rates during the period. Remeasurement of foreign currency accounts and resulting foreign exchange transaction gains and losses, are reflected in the consolidated statements of operations in other income (expense), net.

The functional currency of Super Micro Asia and Technology Park, Inc. is New Taiwanese Dollar (“NTD”). Assets and liabilities are translated to U.S. dollars at the period-end exchange rate. Revenues and expenses are translated using the average exchange rate for the period. The effects of foreign currency translation are included in stockholders’ equity as a component of accumulated other comprehensive (loss) income in the accompanying consolidated balance sheets and periodic movements are summarized as a line item in the consolidated statements of comprehensive income.

The Company has an investment in a privately-held company that is accounted for under the equity method (the "Corporate Venture"). The functional currency of the Corporate Venture is the Chinese Yuan. Adjustments for the Company's share of the effects of foreign currency translation from local currency to U.S. dollars are recorded as increases or decreases to the carrying value of the investment and included in stockholders’ equity as a component of accumulated other comprehensive (loss) income in the accompanying consolidated balance sheets and periodic movements are summarized as a line item in the consolidated statements of comprehensive income.

Net Income Per Common Share

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Basic net income per common share is computed by dividing net income by the weighted-average number of shares of common stock outstanding during the period. Diluted net income per common share is computed by dividing net income by the weighted-average number of shares of common stock outstanding during the period increased to include the number of additional shares of common stock that would have been outstanding if the potentially dilutive securities had been issued. Potentially dilutive securities include outstanding stock options and unvested RSUs and PRSUs. Contingently issuable shares are included in computing basic net income per common share as of the date that all necessary conditions, including service vesting conditions have been satisfied. Contingently issuable shares are considered for computing diluted net income per common share as of the beginning of the period in which all necessary conditions have been satisfied and the only remaining vesting condition is a service vesting condition.

Under the treasury stock method, an increase in the fair market value of the Company's common stock results in a greater dilutive effect from outstanding stock options and RSUs and PRSUs. Additionally, the exercise of stock options and the vesting of RSUs results in a further dilutive effect on net income per share.

The computation of basic and diluted net income per common share is as follows (in thousands, except per share amounts):

	Years Ended June 30,		
	2022	2021	2020
Numerator:			
Net income	$ 285,163	$ 111,865	$ 84,308
Denominator:			
Weighted-average shares outstanding	51,478	51,157	50,987
Effect of dilutive securities	2,137	2,350	1,851
Weighted-average diluted shares	53,615	53,507	52,838
Basic net income per common share	$ 5.54	$ 2.19	$ 1.65
Diluted net income per common share	$ 5.32	$ 2.09	$ 1.60

For the fiscal years ended June 30, 2022, 2021 and 2020, the Company had stock options, RSUs and PRSUs outstanding that could potentially dilute basic earnings per share in the future but were excluded from the computation of diluted net income per share in the periods presented, as their effect would have been anti-dilutive. The anti-dilutive common share equivalents resulting from outstanding equity awards were 475,529, 670,179, and 2,208,000 for the fiscal years ended June 30, 2022, 2021 and 2020, respectively.

Concentration of Supplier Risk

Certain materials used by the Company in the manufacturing of its products are available from a limited number of suppliers. Shortages could occur in these materials due to an interruption of supply or increased demand in the industry. Two suppliers accounted for 18.1% and 11.4% of total purchases for the fiscal year ended June 30, 2022. Two suppliers accounted for 20.3% and 11.8% of total purchases for the fiscal years ended June 30, 2021. One supplier accounted for 26.8% of total purchases for the fiscal years ended June 30, 2020. Purchases from Ablecom and Compuware, related parties of the Company as noted in Part II, Item 8, Note 12, "Related Party Transactions," accounted for a combined 8.3%, 7.8%, and 10.1% of total cost of sales for the fiscal years ended June 30, 2022, 2021 and 2020, respectively.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Concentration of Credit Risk

Financial instruments which potentially subject the Company to concentration of credit risk consist primarily of cash and cash equivalents, restricted cash, investment in an auction rate security and accounts receivable. No single customer accounted for 10% or more of the net sales in any of fiscal years 2022, 2021 and 2020. One customer accounted for 21.7% and 13.5% of accounts receivable, net as of June 30, 2022 and 2021, respectively.

Treasury Stock

The Company accounts for treasury stock under the cost method. Upon the retirement of treasury shares, the Company deducts the par value of the retired treasury shares from common stock and allocates the excess of cost over par as a deduction to additional paid-in capital based on the pro-rata portion of additional paid-in-capital, and the remaining excess as a deduction to retained earnings. Retired treasury shares revert to the status of authorized but unissued shares.

Accounting Pronouncements Recently Adopted

In December 2019, the FASB issued amended guidance, Simplifying the Accounting for Income Taxes, to remove certain exceptions to the general principles from ASC 740 - Income Taxes, and to improve consistent application of U.S. GAAP for other areas of ASC 740 by clarifying and amending existing guidance. The guidance is effective for the Company from July 1, 2021. The adoption of the guidance did not have a material impact on its condensed consolidated financial statements and disclosures.

Accounting Pronouncements Not Yet Adopted

In March 2020, the FASB issued authoritative guidance, *Facilitation of the Effects of Reference Rate Reform on Financial Reporting.* The new guidance provides optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued. The guidance also establishes (1) a general contract modification principle that entities can apply in other areas that may be affected by reference rate reform and (2) certain elective hedge accounting expedients. The amendments in this update do not apply to contract modifications made after December 31, 2022, new hedging relationships entered into after December 31, 2022, and existing hedging relationships evaluated for effectiveness in periods after December 31, 2022, except for hedging relationships existing as of December 31, 2022 that apply certain optional expedients in which the accounting effects are recorded through the end of the hedging relationship. The amendment is effective for all entities through December 31, 2022. In January 2021, the FASB issued further guidance on this topic, which clarified the scope and application of the original guidance. In April 2022, FASB issued a proposed accounting standard update for the deferral of the sunset date of Topic 848 and amendments to the definition of secured overnight financing rate (“SOFR"). The proposed amendment defers the sunset date of Topic 848 to December 31, 2024. The Company has loans and lines of credit with various financial institutions. Benchmark interest rates are used to calculate the interest on borrowings under the Chang Hwa Bank, CTBC, HSBC, Mega Bank Credit Facilities. LIBOR was used to calculate the interest on borrowings under the Company's 2018 Bank of America Credit Facility and E.SUN Credit Facility. The 2018 Bank of America Credit Facility was amended on June 28, 2021 to provide for a new maturity date of June 28, 2026 and fallback terms related to LIBOR replacement mechanics. On March 3, 2022, the 2018 Bank of America Credit Facility was amended to, among other items, increase the size of the facility from $200.0 million to $350.0 million and update provisions relating to payments and LIBOR replacement mechanics to SOFR. As these amendments had other contemporaneous changes to the facility, including the amount of borrowings permitted under the facility and not just directly related to LIBOR replacement, optional expedients under this guidance cannot be elected. The Company is currently evaluating the overall impact of adoption of the guidance on its consolidated financial statements and disclosures.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 2. Fair Value Disclosure

The financial instruments of the Company measured at fair value on a recurring basis are included in cash equivalents, other assets and accrued liabilities. The Company classifies its financial instruments, except for its investment in an auction rate security, within Level 1 or Level 2 in the fair value hierarchy because the Company uses quoted prices in active markets or alternative pricing sources and models using market observable inputs to determine their fair value.

The Company's investment in an auction rate security is classified within Level 3 of the fair value hierarchy as the determination of its fair value was not based on observable inputs as of June 30, 2022 and June 30, 2021. See Part II, Item 8, Note 1, "Organization and Summary of Significant Accounting Policies," for a discussion of the Company's policies regarding the fair value hierarchy. The Company is using the discounted cash flow method to estimate the fair value of the auction rate security at each period end and the following assumptions: (i) the expected yield based on observable market rate of similar securities, (ii) the security coupon rate that is reset monthly, (iii) the estimated holding period and (iv) a liquidity discount. The liquidity discount assumption is based on the management estimate of lack of marketability discount of similar securities and is determined based on the analysis of financial market trends over time, recent redemptions of securities and other market activities. The Company performed a sensitivity analysis and applying a change of either plus or minus 100 basis points in the liquidity discount does not result in a significantly higher or lower fair value measurement of the auction rate security as of June 30, 2022.

Financial Assets and Liabilities Measured on a Recurring Basis

The following table sets forth the Company's financial instruments as of June 30, 2022 and 2021, which are measured at fair value on a recurring basis by level within the fair value hierarchy. These are classified based on the lowest level of input that is significant to the fair value measurement (in thousands):

June 30, 2022	Level 1	Level 2	Level 3	Asset at Fair Value
Assets				
Money market funds(1)	$ 20,220	$ —	$ —	$ 20,220
Certificates of deposit(2)	—	832	—	832
Auction rate security	—	—	1,590	1,590
Total assets measured at fair value	$ 20,220	$ 832	$ 1,590	$ 22,642

June 30, 2021	Level 1	Level 2	Level 3	Asset at Fair Value
Assets				
Money market funds(1)	$ 151	$ —	$ —	$ 151
Certificates of deposit(2)	—	863	—	863
Auction rate security	—	—	1,556	1,556
Total assets measured at fair value	$ 151	$ 863	$ 1,556	$ 2,570

(1) $20.0 million and $0.0 million in money market funds are included in cash and cash equivalents and $0.2 million and $0.2 million in money market funds are included in restricted cash, non-current in other assets in the consolidated balance sheets as of June 30, 2022 and 2021, respectively.

(2) $0.2 million and $0.2 million in certificates of deposit are included in cash and cash equivalents, $0.3 million and $0.3 million in certificates of deposit are included in prepaid expenses and other assets, and $0.3 million and $0.4 million in certificates of deposit are included in restricted cash, non-current in other assets in the consolidated balance sheets as of June 30, 2022 and 2021, respectively.

On a quarterly basis, the Company also evaluates the current expected credit loss by considering factors such as historical experience, market data, issuer-specific factors, and current economic conditions. For the fiscal year ended June 30, 2022, the credit losses related to the Company's investments were not significant.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

There was an immaterial movement in the balances of the Company's financial assets measured at fair value on a recurring basis, consisting of investment in an auction rate security, using significant unobservable inputs (Level 3) for fiscal years 2022 and 2021.

There were no transfers between Level 1, Level 2 or Level 3 financial instruments in fiscal years 2022 and 2021.

The following is a summary of the Company’s investment in an auction rate security as of June 30, 2022 and 2021 (in thousands):

	June 30, 2022			
	Cost Basis	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Auction rate security	$ 1,750	$ —	$ (160)	$ 1,590

	June 30, 2021			
	Cost Basis	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Auction rate security	$ 1,750	$ —	$ (194)	$ 1,556

For the fiscal year ended June 30, 2022, the Company recognized $0.03 million of unrealized gain for the auction rate security in other comprehensive income based on the current valuation. For the fiscal year ended June 30, 2021, the Company's loss recognized in other comprehensive income for the auction rate security was immaterial. No gain or loss was recognized in other comprehensive income for the auction rate security for the fiscal year ended June 30, 2020.

The Company measures the fair value of outstanding debt for disclosure purposes on a recurring basis. As of June 30, 2022 and 2021, total debt of $596.8 million and $98.2 million, respectively, is reported at amortized cost. This outstanding debt is classified as Level 2 as it is not actively traded. The amortized cost of the outstanding debt approximates the fair value.

Other Financial Assets - Investments into Non-Marketable Equity Securities

The Company's non-marketable equity securities are investments in privately held companies without readily determinable fair values in the amount of $1.2 million as of each of June 30, 2022, and 2021. The Company accounts for these investments at cost minus impairment, if any, plus or minus changes from observable price changes in orderly transactions for the identical or similar investments by the same issuer. During the years ended June 30, 2022 and 2021, the Company did not record any upward or downward adjustments to the carrying values of the non-marketable equity securities related to observable price changes. The Company also did not record any impairment to the carrying values of the non-marketable equity securities during fiscal year 2022, 2021 and 2020.

Note 3. Revenue

Disaggregation of Revenue

The Company disaggregates revenue by type of product and geographical market in order to depict the nature, amount, and timing of revenue and cash flows. Service revenues, which are less than 10%, are not a significant component of total revenue and are aggregated within the respective categories.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following is a summary of net sales by product type (in thousands):

	Years Ended June 30,		
	2022	2021	2020
Server and storage systems	$ 4,463,833	$ 2,790,305	$ 2,620,754
Subsystems and accessories	732,266	767,117	718,527
Total	$ 5,196,099	$ 3,557,422	$ 3,339,281

Server and storage systems constitute an assembly and integration of subsystems and accessories, and related services. Subsystems and accessories are comprised of serverboards, chassis and accessories.

International net sales are based on the country and geographical region to which the products were shipped. The following is a summary of net sales by geographic region (in thousands):

	Years Ended June 30,		
	2022	2021	2020
United States	$ 3,035,523	$ 2,107,910	$ 1,957,329
Asia	1,139,898	699,653	650,652
Europe	825,200	614,826	598,558
Other	195,478	135,033	132,742
Total	$ 5,196,099	$ 3,557,422	$ 3,339,281

Starting July 1, 2020, the Company does not separately disclose revenue by products sold to indirect sales channel partners or direct customers and original equipment manufacturers because management does not make business operational decisions based on this set of disaggregation, so the disclosure is no longer material to investors.

Contract Balances

Generally, the payment terms of the Company's offerings range from 30 to 60 days. In certain instances, customers may prepay for products and services in advance of delivery. Receivables relate to the Company's unconditional right to consideration for performance obligations either partially or fully completed.

Contract assets are rights to consideration in exchange for goods or services that the Company has transferred to a customer when such right is conditional on something other than the passage of time. Such contract assets are insignificant to the Company's consolidated financial statements.

Contract liabilities consist of deferred revenue and relate to amounts invoiced to or advance consideration received from customers, which precede the Company's satisfaction of the associated performance obligation(s). The Company's deferred revenue primarily results from customer payments received upfront for extended warranties and on-site services because these performance obligations are satisfied over time. Additionally, at times, deferred revenue may fluctuate due to the timing of advance consideration received from non-cancellable non-refundable contract liabilities relating to the sale of future products. Revenue recognized during fiscal year ended June 30, 2022, which was included in the opening deferred revenue balance as of June 30, 2021, of $202.3 million, was $100.2 million.

Deferred revenue increased $31.5 million during the fiscal year ended June 30, 2022, as compared to the fiscal year ended June 30, 2021 mainly because the deferral on invoiced amounts for service contracts during the period exceeded the recognition of revenue from contracts entered into in prior periods.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Transaction Price Allocated to the Remaining Performance Obligations

Remaining performance obligations represent in aggregate the amount of transaction price that has been allocated to performance obligations not delivered, or only partially delivered, as of the end of the reporting period. The Company applies the exemption to not disclose information about remaining performance obligations that are part of a contract that has an original expected duration of one year or less. These performance obligations generally consist of services, such as on-site services, including integration services and extended warranty services that are contracted for one year or less, and products for which control has not yet been transferred. The value of the transaction price allocated to remaining performance obligations as of June 30, 2022, was approximately $233.8 million. The Company expects to recognize approximately 48% of remaining performance obligations as revenue in the next 12 months, and the remainder thereafter.

Capitalized Contract Acquisition Costs and Fulfillment Cost

Contract acquisition costs are those incremental costs that the Company incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. Contract acquisition costs consist primarily of incentive bonuses. Contract acquisition costs are considered incremental and recoverable costs of obtaining and fulfilling a contract with a customer and are therefore capitalizable. The Company applies the practical expedient to expense incentive bonus costs as incurred if the amortization period would be one year or less, generally upon delivery of the associated server and storage systems or components. Where the amortization period of the contract cost would be more than a year, the Company applies judgment in the allocation of the incentive bonus cost asset between hardware and service performance obligations and expenses the cost allocated to the hardware performance obligations upon delivery of associated server and storage systems or components and amortizes the cost allocated to service performance obligations over the period the services are expected to be provided. Contract acquisition costs allocated to service performance obligations that are subject to capitalization are insignificant to the Company's consolidated financial statements.

Contract fulfillment costs consist of costs paid in advance for outsourced services provided by third parties to the extent they are not in the scope of other guidance. Fulfillment costs paid in advance for outsourced services provided by third parties are capitalized and amortized over the period the services are expected to be provided. Such fulfillment costs are insignificant to the Company's consolidated financial statements.

Note 4. Accounts Receivable Allowances

The Company has established an allowance for doubtful accounts. The allowance for doubtful accounts is based upon the age of outstanding receivables, credit risk of specific customers, historical trends related to past losses and other relevant factors. Accounts receivable allowances as of June 30, 2022, 2021 and 2020 consisted of the following (in thousands):

	Beginning Balance	Charged to Cost and Expenses (Recovered), net	Write-offs	Ending Balance
Allowance for doubtful accounts:				
Year ended June 30, 2022	$2,591	$(840)	$2	$1,753
Year ended June 30, 2021	$4,586	$(820)	$(1,175)	$2,591
Year ended June 30, 2020	$8,906	$(3,081)	$(1,239)	$4,586

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 5. Inventories

Inventories as of June 30, 2022 and 2021 consisted of the following (in thousands):

	June 30, 2022	June 30, 2021
Finished goods	$ 1,025,555	$ 761,694
Work in process	209,576	80,472
Purchased parts and raw materials	310,475	198,798
Total inventories	$ 1,545,606	$ 1,040,964

During fiscal years 2022, 2021 and 2020, the Company recorded a net provision for excess and obsolete inventory to cost of sales totaling $15.1 million, $6.8 million and $18.4 million, respectively. The Company classifies subsystems and accessories that may be sold separately or incorporated into systems as finished goods.

Note 6. Property, Plant, and Equipment

Property, plant and equipment as of June 30, 2022 and 2021 consisted of the following (in thousands):

	June 30, 2022	June 30, 2021
Buildings	$ 143,509	$ 86,930
Land	84,616	76,421
Machinery and equipment	113,665	97,671
Buildings construction in progress(1)	303	87,438
Building and leasehold improvements	45,169	26,640
Software	23,186	22,592
Furniture and fixtures	43,282	22,843
	453,730	420,535
Accumulated depreciation and amortization	(167,758)	(145,822)
Property, plant and equipment, net	$ 285,972	$ 274,713

(1) Construction in progress balance as of June 30, 2021, primarily relates to the development and construction costs associated with the Company's Green Computing Park located in San Jose, California and the new building in Taiwan.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 7. Prepaid Expenses and Other Assets

Prepaid expenses and other current assets as of June 30, 2022 and 2021 consisted of the following (in thousands):

	June 30,	
	2022	2021
Other receivables[(1)]	$ 138,054	$ 99,921
Prepaid expenses	5,632	6,719
Deferred service costs	5,562	4,900
Prepaid income tax	2,352	12,288
Restricted cash	251	251
Others	6,948	6,116
Total prepaid expenses and other current assets	$ 158,799	$ 130,195

(1) Includes other receivables from contract manufacturers based on certain buy-sell arrangements of $98.9 million and $76.2 million as of June 30, 2022 and 2021, respectively.

Other assets as of June 30, 2022 and 2021 consisted of the following (in thousands):

	June 30,	
	2022	2021
Operating lease right-of-use asset	$ 23,679	$ 20,047
Deferred service costs, non-current	6,316	5,421
Prepaid expense, non-current	2,011	1,973
Investment in auction rate security	1,590	1,556
Deposits	1,069	1,669
Restricted cash, non-current	911	932
Others	1,956	528
Total other assets	$ 37,532	$ 32,126

Cash, cash equivalents and restricted cash as of June 30, 2022 and 2021 consisted of the following (in thousands):

	June 30,	
	2022	2021
Cash and cash equivalents	$ 267,397	$ 232,266
Restricted cash included in prepaid expenses and other current assets	251	251
Restricted cash included in other assets	911	932
Total cash, cash equivalents and restricted cash	$ 268,559	$ 233,449

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 8. Accrued Liabilities

Accrued liabilities as of June 30, 2022 and 2021 consisted of the following (in thousands):

	June 30,	
	2022	2021
Accrued payroll and related expenses	$ 57,736	$ 45,770
Contract manufacturers liabilities	41,125	45,319
Customer deposits	30,421	32,419
Accrued legal liabilities (Note 15)	18,250	—
Accrued warranty costs	9,073	10,185
Accrued cooperative marketing expenses	8,757	5,652
Operating lease liability	7,139	6,322
Accrued professional fees	4,281	2,737
Others	35,637	30,446
Total accrued liabilities	$ 212,419	$ 178,850

Performance Awards Liability

In March 2020, the Board of Directors (the "Board") approved performance bonuses for the Chief Executive Officer, a senior executive and two members of the Board, which payments will be earned when specified market and performance conditions are achieved.

The Chief Executive Officer's total cash bonus opportunity was $8.1 million, divided into two equal tranches. Each tranche would be earned if the average closing price for the Company's common stock reached specified targets. The Board retained the flexibility to reduce the amount payable under the first tranche (but not the second tranche) based on performance goals. Both price targets were reached during the fiscal year ended June 30, 2021, and the second tranche totaled $4.0 million was paid in full. As of June 30, 2021, the Company also expected it would likely pay the first tranche in full, and therefore recorded an expense of $3.6 million since March 2020 relating to the first tranche.

In September 2021, after the Company had closed its books for the year ended June 30, 2021, the Board decided to exercise its discretion to reduce the amount to be paid to the Chief Executive for the first tranche to $2.0 million, which was paid in the quarter ended December 31, 2021. As a result of the Board's decision to reduce the amount to be paid under the first tranche, the Company adjusted the $3.6 million expense previously recorded for the first tranche to the new amount of $2.0 million, which resulted in the Company recognizing a $1.6 million benefit from this adjustment during the quarter ended September 30, 2021. For the fiscal years ended June 30, 2022 and June 30, 2021, $1.6 million of benefit and $5.8 million of expense was recognized, respectively.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 9. Short-term and Long-term Debt

Short-term and long-term debt obligations as of June 30, 2022 and 2021 consisted of the following (in thousands):

	June 30,	
	2022	2021
Line of credit:		
2018 Bank of America Credit Facility	$ 268,245	$ —
2022 Bank of America Credit Facility	9,500	—
Cathay Bank Line of Credit	30,000	—
2021 CTBC Credit Lines	84,800	18,000
HSBC Bank Credit Facility	30,000	—
2021 E.SUN Bank Credit Facility	7,800	20,400
Mega Bank Credit Facility	3,500	—
Total line of credit	433,845	38,400
Term loan facilities:		
Chang Hwa Bank Credit Facility due October 15, 2026	33,643	—
CTBC Bank term loan, due August 31, 2022	—	25,090
CTBC Bank term loan, due June 4, 2030	40,372	34,700
2021 CTBC Credit Lines, due December 27, 2027	5,468	—
2021 E.SUN Bank Credit Facility, due September 15, 2026	43,064	—
Mega Bank Credit Facility, due September 15, 2026	40,372	—
Total term loans	162,919	59,790
Total debt	596,764	98,190
Short-term debt and current portion of long-term debt	449,146	63,490
Debt, non-current	$ 147,618	$ 34,700

Activities under Revolving Lines of Credit and Term Loans

Bank of America

2018 Bank of America Credit Facility

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

In April 2018, the Company entered into a revolving line of credit with Bank of America for up to $250.0 million (as amended from time to time, the "2018 Bank of America Credit Facility"). On March 3, 2022, the 2018 Bank of America Credit Facility was amended to, among other items, increase the size of the facility from $200.0 million to $350.0 million and change provisions relating to payments and LIBOR replacement mechanics to SOFR. The obligations bear a base interest rate plus 0.5% to 1.5% based on the SOFR availability. The amendment was accounted for as a modification and the impact was immaterial to the consolidated financial statements. Prior to that, on June 28, 2021, the 2018 Bank of America Credit Facility was amended to, among other items, extend the maturity to June 28, 2026, and increase the maximum amount that the Company can request the facility be increased from $100 million to $150 million. Interest accrued on any loans under the 2018 Bank of America Credit Facility is due on the first day of each month, and the loans are due and payable in full on the termination date of the 2018 Bank of America Credit Facility. Voluntary prepayments are permitted without early repayment fees or penalties. Subject to customary exceptions, the 2018 Bank of America Credit Facility is secured by substantially all of Super Micro Computer's assets, other than real property assets. Under the terms of the 2018 Bank of America Credit Facility, the Company is not permitted to pay any dividends. The 2018 Bank of America Credit Facility contains customary representations and warranties and customary affirmative and negative covenants applicable to the Company and its subsidiaries and contains a financial covenant, which requires that the Company maintain a certain fixed charge coverage ratio, for each twelve-month period while in a Trigger Period, as defined in the agreement, is in effect.

As of June 30, 2022, the total outstanding borrowings under the 2018 Bank of America Credit Facility were $268.2 million. As of June 30, 2021, the Company had no outstanding borrowings under the 2018 Bank of America Credit Facility. The interest rate under the 2018 Bank of America Credit Facility as of June 30, 2022 and 2021 was 2.53% and 1.50%, respectively. The balance of debt issuance costs outstanding as of June 30, 2022 and June 30, 2021 was $1.0 million and $0.5 million, respectively. The Company is in compliance with all covenants under the 2018 Bank of America Credit Facility, and as of June 30, 2022, the Company's available borrowing capacity was $81.8 million, subject to the borrowing base limitation and compliance with other applicable terms.

2022 Bank of America Credit Facility

On March 23, 2022, the Company through its Taiwan subsidiary entered into an Uncommitted Facility Agreement for credit lines with Bank of America – Taipei Branch (the "2022 Bank of America Credit Facility"), for an amount not to exceed in aggregate $20.0 million. The interest rate will be quoted by Bank of America - Taipei Branch for each drawdown. As of June 30, 2022, the total outstanding borrowings were $9.5 million with an interest rate of 1.85% per annum under the 2022 Bank of America Credit Facility.

<u>CTBC Bank</u>

2021 CTBC Credit Lines

The Company through its Taiwan subsidiary was party to (i) that certain credit agreement, dated May 6, 2020, with CTBC Bank Co., Ltd. ("CTBC Bank"), which provided for a ten-year, non-revolving term loan facility (the "2020 CTBC Term Loan Facility") to obtain up to NTD 1,200.0 million ($40.7 million U.S. dollar equivalent) and (ii) that certain credit agreement, dated August 24, 2020, with CTBC Bank (the "CTBC Credit Facility"), which provided for total borrowings of up to $50.0 million (collectively, the "Prior CTBC Credit Lines").

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

On July 20, 2021 (the "Effective Date"), the Company through its Taiwan subsidiary entered into a general agreement for omnibus credit lines with CTBC Bank (the "2021 CTBC Credit Lines), which replaced the Prior CTBC Credit Lines in their entirety and permit borrowings, from time to time, pursuant to (i) a term loan facility of up to NTD 1,550.0 million ($55.4 million U.S. dollar equivalent) including the existing 2020 CTBC Term Loan Facility of NTD 1,200.0 million ($42.9 million U.S. dollar equivalent) and a new 75-month, non-revolving term loan facility of NTD 350.0 million ($12.5 million U.S. dollar equivalent) to use to purchase machinery and equipment for the Company's Bade Manufacturing Facility located in Taiwan (the "2021 CTBC Machine Loan"), and (ii) a line of credit facility of up to $105.0 million (the "2021 CTBC Credit Facility"), which increased the borrowing capacity of CTBC Credit Facility. The 2021 CTBC Credit Facility provides (i) a 12-month NTD 1,250.0 million ($44.7 million U.S. dollar equivalent) term loan facility secured by the land and building located in Bade, Taiwan with an interest rate equal to the lender's established NTD interest rate plus 0.50% per annum which is adjusted monthly, which term loan facility also includes a 12-month guarantee of up to NTD 100.0 million ($3.6 million U.S. dollar equivalent) with an annual fee equal to 0.50% per annum, and (ii) a 12-month revolving line of credit of up to 100% of eligible accounts receivable in an aggregate amount of up to $105.0 million with an interest rate equal to the lender's established USD interest rate plus 0.70% to 0.75% per annum which is adjusted monthly.

Interest rates are to be established according to individual credit arrangements established pursuant to the 2021 CTBC Credit Lines, which interest rates shall be subject to adjustment depending on the satisfaction of certain conditions. Term loans made pursuant to the 2021 CTBC Credit Lines are secured by certain of the Taiwan subsidiary's assets, including certain property, land, plant, and equipment. There are various financial covenants under the 2021 CTBC Credit Lines, including current ratio, debt service coverage ratio, and financial debt ratio requirements. Amounts outstanding under the Prior CTBC Credit Lines on the Effective Date were assumed by the 2021 CTBC Credit Lines.

As of June 30, 2022 and 2021, the amounts outstanding under the 2020 CTBC Term Loan Facility were $40.4 million and $34.7 million, respectively. The interest rates for these loans were 0.825% per annum as of June 30, 2022 and 0.45% as of June 30, 2021. Under the 2021 CTBC Machine Loan, the amounts outstanding were $5.5 million on June 30, 2022. The interest rate for this loan was 1.025% per annum as of June 30, 2022. As of June 30, 2021 there were no outstanding borrowings under the 2021 CTBC Machine Loan.

The total outstanding borrowings under the 2021 CTBC Credit Facility term loan were denominated in NTD and remeasured into U.S. dollars of $0.0 million and $25.1 million at June 30, 2022 and 2021, respectively. The 2021 CTBC Credit Facility term loan was repaid on October 26, 2021. The interest rate for the 2021 CTBC Credit Facility term loan was 0.75% per annum as of June 30, 2021. As of June 30, 2022 and 2021, the outstanding borrowings under the 2021 CTBC Credit Facility revolving line of credit were $84.8 million and $18.0 million, respectively. The interest rates for these loans ranged from 1.80% to 2.52% per annum as of June 30, 2022 and were 0.98% per annum as of June 30, 2021. As of June 30, 2022, the amount available for future borrowing under the 2021 CTBC Credit Facility was $20.2 million. As of June 30, 2022, the net book value of land and building located in Bade, Taiwan, collateralizing the 2021 CTBC Credit Lines was $77.3 million. The Company was in compliance with all financial covenants under 2021 CTBC Credit Lines as of June 30, 2022.

<u>E.SUN Bank Credit Facility</u>

2021 E.SUN Bank Credit Facility

The Company through its Taiwan subsidiary was party to that certain General Credit Agreement, dated December 2, 2020, with E.SUN Bank ("E.SUN Bank"), which provided for the issuance of loans, advances, acceptances, bills, bank guarantees, overdrafts, letters of credit, and other types of drawdown instruments up to a credit limit of US $30.0 million (the "Prior E.SUN Bank Credit Facility"). The term of the Prior E.SUN Bank Credit Facility expired on September 18, 2021.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

On September 13, 2021 (the "Old E.SUN Bank Effective Date"), the Company through its Taiwan subsidiary entered into a new General Credit Agreement with E.SUN Bank, which replaced the Prior E.SUN Bank Credit Facility (the "2021 E.SUN Bank Credit Facility"). The 2021 E.SUN Bank Credit Facility permitted borrowings of up to (i) NTD 1,600.0 million ($57.6 million U.S. dollar equivalent) and (ii) $30.0 million as loans, advances, acceptances, bills, bank guarantees, overdrafts, letters of credit, and other types of drawdown instruments. Other terms of the 2021 E.SUN Bank Credit Facility were substantially identical to the Prior E.SUN Bank Credit Facility. Generally, interest for base rate loans made under the 2021 E.SUN Bank Credit Facility were based upon an average interbank overnight call loan rate in the finance industry (such as LIBOR or TAIFX) plus a fixed margin and is subject to occasional adjustment. The 2021 E.SUN Bank Credit Facility had customary default provisions permitting E.SUN Bank to terminate or reduce the credit limit, shorten the credit period, or deem all liabilities due and payable, including in the event the Taiwan subsidiary has an overdue liability at another financial organization. There were various financial covenants under the 2021 E.SUN Bank Credit Facility, including current ratio, net debt ratio, and interest coverage requirements to be reviewed on a yearly basis at fiscal year end.

Terms for specific drawdown instruments issued under the 2021 E.SUN Bank Credit Facility, such as credit amount, term of use, mode of drawdown, specific lending rate, and other relevant terms, were to be set forth in Notifications and Confirmation of Credit Conditions (a "Notification and Confirmation") negotiated with E.SUN Bank. A Notification and Confirmation was entered into on the Old E.SUN Bank Effective Date for (i) a five-year, non-revolving term loan facility to obtain up to NTD 1,600.0 million ($57.6 million U.S. dollar equivalent) in financing for use in research and development activities (the "Term Loan"), and (ii) a $30.0 million import loan (the "Import Loan") with a tenor of 120 days. As of June 30, 2022, the total outstanding borrowings under the Term Loan were denominated in NTD and remeasured into U.S. dollars of $43.1 million and the interest rates for the Term Loan was 1.37% per annum. As of June 30, 2022 and June 30, 2021, the amounts outstanding under the Import Loan were $7.8 million and $20.4 million, respectively. The interest rate for the fiscal year ended June 30, 2022 was 1.81% per annum. The interest rate for the fiscal year ended June 30, 2021 ranged from 1.00% to 1.29% per annum. As of June 30, 2022 the amount available for future borrowing under the Import Loan was $22.2 million. The Company was in compliance with all financial covenants under 2021 E.SUN Bank Credit Facility as of June 30, 2022.

2022 E.SUN Bank Credit Facility

On August 9, 2022 (the "New E.SUN Bank Effective Date"), the Company through its Taiwan subsidiary entered into a new General Credit Agreement with E.SUN Bank, which replaced the 2021 E.SUN Bank Credit Facility (the "New E.SUN Bank Credit Facility"). The New E.SUN Bank Credit Facility permits borrowings of up to (i) NTD 1.8 billion ($61.0 million U.S. dollar equivalent) and (ii) US$30.0 million. Other terms of the New E.SUN Bank Credit Facility are substantially identical to the Prior E.SUN Bank Credit Facility. Generally, interest for base rate loans made under the New E.SUN Bank Credit Facility are based upon an average interbank overnight call loan rate in the finance industry (such as TAIFX) plus a fixed margin, and is subject to occasional adjustment. The New E.SUN Bank Credit Facility has customary default provisions permitting E.SUN Bank to terminate or reduce the credit limit, shorten the credit period, or deem all liabilities due and payable, including in the event the Taiwan subsidiary has an overdue liability at another financial organization. The Company is not a guarantor of the New E.SUN Bank Credit Facility.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Terms for specific drawdown instruments issued under the New E.SUN Bank Credit Facility, such as credit amount, term of use, mode of drawdown, specific lending rate, and other relevant terms, are to be set forth in Notifications and Confirmation of Credit Conditions (a "Notification and Confirmation") negotiated with E.SUN Bank. Under a Notification and Confirmation entered into on the New E.SUN Bank Effective Date, the Subsidiary and E.SUN Bank have agreed to both a medium term credit loan of NTD 680.0 million ($23.0 million U.S. dollar equivalent) with a tenor of 5 years (the "Medium Term Loan") and a drawdown of US $30.0 million under the E.SUN Bank Credit Facility for an import loan with a tenor of 120 days (the "Import O/A Loan"). With respect to the Medium Term Loan, the period of use is between April 28, 2022 and April 28, 2023. The interest rate thereunder is based upon a floating annual rate plus a fixed margin, subject to adjustment under certain circumstances. Interest payments are due on a monthly basis. Principal is amortized evenly on a monthly basis, with principal payments subject to a one year grace period prior to the commencement of repayment. The Medium Term Loan will be used by the Taiwan subsidiary to support its manufacturing activities (such as purchase of materials and components) ("Use of Proceeds"). Drawdowns may be in amounts of up to 80% of permitted Use of Proceeds expenses. The Subsidiary is subject to various financial covenants in connection with the Medium Term Loan, including a current ratio, net debt to equity ratio, and interest coverage ratio. The current Medium Term Loan and the prior medium term loan under the Prior E.SUN Bank Credit Facility shall not exceed in aggregate NTD 1.8 billion. With respect to the Import O/A Loan, the period of use is between April 28, 2022 and April 28, 2023. The interest rate thereunder is based on TAIFX3 plus a fixed margin, subject to negotiation on a monthly basis and adjustment under certain circumstances. Interest payments are due on a monthly basis, and principal is repayable on the due date. Neither the Medium Term Loan nor Import O/A loan are secured.

Mega Bank

Mega Bank Credit Facilities

On September 13, 2021 (the "Mega Bank Effective Date"), the Company through its Taiwan subsidiary entered into a NTD 1,200.0 million ($43.2 million U.S. dollar equivalent) credit facility (the "Mega Bank Credit Facility") with Mega International Commercial Bank ("Mega Bank"). The Mega Bank Credit Facility will be used to support manufacturing activities (such as purchase of materials and components), and to provide medium-term working capital (the "Permitted Uses"). Drawdowns under the Mega Bank Credit Facility may be made through December 31, 2024, with the first drawdown date not later than November 5, 2021. The first drawdown date was on October 4, 2021. Drawdowns may be in amounts of up to 80% of Permitted Uses certified to the Bank in drawdown certificates. The interest rate depends upon the amount borrowed under Mega Bank Credit Facility, and as of the Mega Bank Effective Date, ranged from 0.645% to 0.845% per annum. The interest rate is subject to adjustment in certain circumstances, such as events of default. Interest is payable monthly. Principal payments for amounts borrowed commence on the 15th day of the month following two years after the first drawdown and are repaid in monthly installments over a period of three years thereafter. The Mega Bank Credit Facility is unsecured and has customary default provisions permitting Mega Bank to reduce or cancel the extension of credit, or declare all principal and interest amounts immediately due and payable. As of June 30, 2022, the total outstanding borrowings under the Mega Bank Credit Facility were denominated in NTD and remeasured into U.S. dollars of $40.4 million and the interest rates ranged from 1.02% to 1.22% per annum.

Credit Agreement with Mega Bank

On April 25, 2022, the Company through its Taiwan subsidiary, entered into a $20.0 million (or foreign currency equivalent) (the "Credit Limit") Omnibus Credit Authorization Agreement (the "Omnibus Credit Authorization Agreement") with Mega Bank. The Omnibus Credit Authorization Agreement permits individual credit authorizations subject to specified drawdown conditions up to the Credit Limit (on a revolving basis) to be used as loans for the purchase of materials or supplies.

SUPER MICRO COMPUTER, INC.
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Pursuant to the Omnibus Credit Authorization Agreement, the Taiwan subsidiary also entered into both a Credit Authorization Agreement (the "Credit Authorization Agreement") and Credit Authorization Approval Notice (the "Credit Authorization Approval Notice") with Mega Bank and an associated branch of Mega Bank, respectively. Pursuant to such Agreement and Notice, Mega Bank permits the Taiwan subsidiary to make drawdowns up to the Credit Limit for short-term loans for material purchases with a tenor not to exceed 120 days on a revolving basis. Drawdowns may be made through March 2023. The interest rate for each individual credit authorization is adjusted according to the Mega Bank's USD basic loan interest rate at the time of signing the agreement which was 0.90% per annum. Interest on such drawdowns is based upon TAIFX OFFER for six months plus 0.23% then divided by 0.946, subject to periodic adjustment and adjustment in certain other circumstances, such as failure to maintain a sufficient balance in a demand deposit account with Mega Bank which are subject to the bank's right of set off. The interest rate shall be adjusted once every month but shall not be lower than the USD basic loan interest rate plus 0.1%. If the loan involves the acceptance of a bill of exchange, the Company would be required to pay a handling fee at the annual rate of 0.75% calculated based on the number of actual acceptance days. The fee is paid in full upon acceptance and a minimum handling fee of NTD 400 is charged for each transaction. Amounts borrowed are otherwise unsecured, and the Credit Authorization Agreement has customary default provisions permitting Mega Bank to reduce the extension of credit, shorten the term for loan repayment or declare all of the amounts immediately due and payable. The Company is not a guarantor under the Credit Authorization Agreement or Credit Authorization Approval Notice.

As of June 30, 2022 the amount outstanding under the Credit Authorization Agreement was $3.5 million. The interest rate for the fiscal year ended June 30, 2022, was 1.85% per annum. As of June 30, 2022, the amount available for future borrowing under the Credit Limit was $16.5 million.

Chang Hwa Bank

Chang Hwa Bank Credit Facility

On October 5, 2021 (the "Chang Hwa Bank Effective Date"), the Company through its Taiwan subsidiary entered into a credit facility (the "Chang Hwa Bank Credit Facility") with Chang Hwa Commercial Bank, Ltd. ("Chang Hwa Bank"). The Chang Hwa Bank Credit Facility permits borrowings of up to NTD 1,000.0 million ($36.0 million U.S. dollar equivalent), including up to $20.0 million as loans, advances, acceptances, bills, bank guarantees, overdrafts, letters of credit, and other types of drawdown instruments. The Chang Hwa Bank Credit Facility has customary default provisions permitting Chang Hwa Bank to terminate or reduce the credit limit, shorten the credit period, or deem all liabilities due and payable, including in cross-default provisions with respect to the other Taiwan subsidiary debt obligations. Under the Chang Hwa Bank Credit Facility, Chang Hwa Bank has the right to demand collateral for debts owed.

On May 13, 2022, Chang Hwa Bank notified that they increased the borrowing capacity limit by $20.0 million.

As of June 30, 2022, the total outstanding borrowings under the Chang Hwa Bank Credit Facility were denominated in NTD and remeasured into U.S. dollars of $33.6 million and the interest rate was 1.175% per annum.

Terms for specific drawdown instruments issued under the Chang Hwa Bank Credit Facility, such as credit amount, term of use, mode of drawdown, specific lending rate, and other relevant terms, are to be set forth in separate loan contracts (each, a "Loan Contract") negotiated with Chang Hwa Bank. On the Chang Hwa Bank Effective Date, three Loan Contracts were entered into. None of the three Loan Contracts are secured and there are no financial covenants. The Company is not a guarantor under Chang Hwa Bank Credit Facility.

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HSBC Bank

HSBC Bank Credit Facility

On January 7, 2022 (the "HSBC Bank Effective Date"), the Company, through its Taiwan subsidiary, entered into a General Loan, Export/Import Financing, Overdraft Facilities and Securities Agreement (the "Loan Agreement") with a Taiwan affiliate of HSBC Bank ("HSBC Bank"). The Loan Agreement provides for borrowings in the form of loans, export/import financings, overdrafts, commercial paper guaranties, and other types of drawdown instruments. The Loan Agreement has customary default provisions permitting HSBC Bank to terminate or reduce the credit limit, shorten the credit period, or deem all liabilities due and payable, including in the event the Company's Taiwan subsidiary fails to make payment of sums under another agreement which permits acceleration of maturity of such indebtedness. The Company is not a guarantor of the Loan Agreement.

Terms for specific drawdown instruments issued under the Loan Agreement, such as credit amount, term of use, mode of drawdown, specific lending rate, and other relevant terms, may be set forth in facility letters (each, a "Facility Letter") negotiated with HSBC Bank. Under a Facility Letter entered into on the HSBC Bank Effective Date, the Company's Taiwan subsidiary and HSBC Bank agreed to a $30.0 million export/seller trade facility under the Loan Agreement with a tenor of 120 days. The interest rate thereunder is based on HSBC Bank's base rate plus a fixed margin, subject to adjustment under certain circumstances. Interest payments are due on a monthly basis, and principal is repayable on the due date.

As of June 30, 2022, the outstanding borrowings under the 2022 HSBC Bank Credit Facility revolving line of credit were $30.0 million. The interest rates for these loans ranged from 1.95% to 2.20% per annum as of June 30, 2022. As of June 30, 2022, there was no amount available for future borrowing under the 2022 HSBC Bank Credit Facility.

Cathay Bank

Cathay Bank Line of Credit

On May 19, 2022 (the "Cathay Bank Effective Date"), the Company entered into a Loan Agreement (the "Cathay Bank Loan Agreement") with Cathay Bank ("Cathay Bank") pursuant to which Cathay Bank has agreed to provide a revolving line of credit of up to $132 million (the "Commitment") for the five-year period following the Cathay Bank Effective Date. On the fifth anniversary of the Cathay Bank Effective Date, the total outstanding borrowings under the Cathay Bank Loan Agreement will automatically be converted into a five-year term loan. The interest rate under the Cathay Bank Loan Agreement is based upon either the SOFR index or prime rate index, at the Company's quarterly election, plus a tiered spread that is based upon the average amounts deposited by the Company at Cathay Bank as a percentage of the Commitment. The spread is either 1.65% or 2.0% if the index is SOFR index, or 1.25% or 1.00% if the spread is the prime rate index with the higher spread applying in each case if an amount less than 25% of the Commitment is on deposit with Cathay Bank. Interest is payable monthly during the five-year period following the Cathay Bank Effective Date. After conversion to a term loan on the fifth anniversary of the Cathay Bank Effective Rate, interest is payable monthly based on a 20-year amortization schedule with the unpaid balance due at maturity. The Cathay Bank Loan Agreement has customary default provisions and is cross defaulted with other indebtedness to the extent such default causes a material adverse effect with respect to the Commitment. The Company is required to comply with certain covenants, including maintaining a fixed charge coverage ratio of at least 1.15:1.00. The Company is required to pay Cathay Bank an unused facility fee in the amount of 0.15% per annum of the undrawn Commitment payable quarterly in arrears.

Borrowings under the Loan Agreement are secured against certain of the Company's properties located in San Jose, California (the "Collateral"). The Company has agreed to indemnify the Bank with respect to certain environmental matters with respect to the Collateral. The Collateral is subject to re-appraisal every two years at the election of the Bank, and the Bank reserves the right to reduce the Commitment in accordance with such appraised values. As of June 30, 2022, the outstanding borrowings under the Cathay Bank line of credit were $30.0 million.

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Principal payments on short-term and long-term debt obligations are due as follows (in thousands):

Fiscal Year:		Principal Payments
2023	$	449,146
2024		36,404
2025		39,769
2026		39,769
2027		14,855
2028 and thereafter		16,821
Total short-term and long-term debt	$	596,764

Note 10. Other Long-term Liabilities

Other long-term liabilities as of June 30, 2022 and 2021 consisted of the following (in thousands):

	June 30,			
	2022		2021	
Accrued unrecognized tax benefits including related interest and penalties, non-current	$	18,866	$	17,841
Operating lease liability, non-current		16,661		14,539
Accrued warranty costs, non-current		3,064		2,678
Other		549		6,074
Total other long-term liabilities	$	39,140	$	41,132

Note 11. Leases

The Company leases offices, warehouses and other premises, vehicles and certain equipment leased under non-cancelable operating leases. Operating lease expense recognized, and supplemental cash flow information related to operating leases for the years ended June 30, 2022 and 2021 were as follows (in thousands):

	Years Ended June 30,			
	2022		2021	
Operating lease expense (including expense for lease agreements with related parties of $711 and $1,319 for the years ended June 30, 2022 and 2021, respectively)	$	8,265	$	7,827
Cash payments for operating leases (including payments to related parties of $766 and $1,351 for the years ended June 30, 2022 and 2021, respectively)		8,007		7,966
New operating lease assets obtained in exchange for operating lease liabilities		11,151		3,538

During the years ended June 30, 2022 and 2021, the Company's costs related to short-term lease arrangements for real estate and non-real estate assets were immaterial. Non-lease variable payments expensed in the years ended June 30, 2022, 2021 and 2020 were $1.1 million, $1.8 million and $1.3 million, respectively.

SUPER MICRO COMPUTER, INC.
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As of June 30, 2022, the weighted average remaining lease term for operating leases was 3.8 years and the weighted average discount rate was 3.0%. Maturities of operating lease liabilities under noncancelable operating lease arrangements as of June 30, 2022, were as follows (in thousands):

Fiscal Year:	Maturities of operating leases	
2023	$	7,721
2024		6,525
2025		6,136
2026		2,602
2027		1,550
2028 and beyond		533
Total future lease payments	$	25,067
Less: Imputed interest		(1,267)
Present value of operating lease liabilities	$	23,800

As of June 30, 2022, commitments under short-term lease arrangements and operating and financing leases that have not yet commenced were immaterial.

The Company has entered into lease agreements with related parties. See Part II, Item 8, Note 12, "Related Party Transactions" for a further discussion.

Note 12. Related Party Transactions

The Company has a variety of business relationships with Ablecom and Compuware. Ablecom and Compuware are both Taiwan corporations. Ablecom is one of the Company's major contract manufacturers; Compuware is both a distributor of the Company's products and a contract manufacturer for the Company. Ablecom's Chief Executive Officer, Steve Liang, is the brother of Charles Liang, the Company's President, Chief Executive Officer and Chairman of the Board. Steve Liang and his family members owned approximately 28.8% of Ablecom's stock and Charles Liang and his spouse, Sara Liu, who is also an officer and director of the Company, collectively owned approximately 10.5% of Ablecom's capital stock as of June 30, 2022. Bill Liang, a brother of both Charles Liang and Steve Liang, is a member of the Board of Directors of Ablecom. Bill Liang is also the Chief Executive Officer of Compuware, a member of Compuware's Board of Directors and a holder of a significant equity interest in Compuware. Steve Liang is also a member of Compuware's Board of Directors and is an equity holder of Compuware. Charles Liang or Sara Liu do not own any capital stock of Compuware and the Company does not own any of Ablecom or Compuware's capital stock.

Dealings with Ablecom

The Company has entered into a series of agreements with Ablecom, including multiple product development, production and service agreements, product manufacturing agreements, manufacturing services agreements and lease agreements for warehouse space.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Under these agreements, the Company outsources to Ablecom a portion of its design activities and a significant part of its server chassis manufacturing as well as an immaterial portion of other components. Ablecom manufactured approximately 88.2%, 91.8% and 95.5% of the chassis included in the products sold by the Company during fiscal years 2022, 2021 and 2020, respectively. With respect to design activities, Ablecom generally agrees to design certain agreed-upon products according to the Company's specifications, and further agrees to build the tools needed to manufacture the products. The Company pays Ablecom for the design and engineering services, and further agrees to pay Ablecom for the tooling. The Company retains full ownership of any intellectual property resulting from the design of these products and tooling.

With respect to the manufacturing aspects of the relationship, Ablecom purchases most of materials needed to manufacture the chassis from third parties and the Company provides certain components used in the manufacturing process (such as power supplies) to Ablecom through consignment or sales transactions. Ablecom uses these materials and components to manufacture the completed chassis and then sell them back to the Company. For the components purchased from the Company, Ablecom sells the components back to the Company at a price equal to the price at which the Company sold the components to Ablecom. The Company and Ablecom frequently review and negotiate the prices of the chassis the Company purchases from Ablecom. In addition to inventory purchases, the Company also incurs other costs associated with design services, tooling and other miscellaneous costs from Ablecom.

The Company's exposure to financial loss as a result of its involvement with Ablecom is limited to potential losses on its purchase orders in the event of an unforeseen decline in the market price and/or demand of the Company's products such that the Company incurs a loss on the sale or cannot sell the products. Outstanding cancellable and non-cancellable purchase orders from the Company to Ablecom on June 30, 2022 were $39.5 million and $36.0 million, respectively, and outstanding cancellable and non-cancellable purchase orders from the Company to Ablecom on June 30, 2021 were $44.9 million and $40.2 million, respectively, effectively representing the exposure to financial loss. The Company does not directly or indirectly guarantee any obligations of Ablecom, or any losses that the equity holders of Ablecom may suffer. Since Ablecom manufactures substantially all the chassis that the Company incorporates into its products, if Ablecom were to suddenly be unable to manufacture chassis for the Company, the Company's business could suffer if the Company is unable to quickly qualify substitute suppliers who can supply high-quality chassis to the Company in volume and at acceptable prices.

Dealings with Compuware

The Company has entered into a distribution agreement with Compuware, under which the Company appointed Compuware as a non-exclusive distributor of the Company's products in Taiwan, China and Australia. Compuware assumes the responsibility to install the Company's products at the site of the end customer, if required, and administers customer support in exchange for a discount from the Company's standard price for its purchases.

The Company also has entered into a series of agreements with Compuware, including a multiple product development, production and service agreements, product manufacturing agreements, and lease agreements for office space.

Under these agreements, the Company outsources to Compuware a portion of its design activities and a significant part of its power supplies manufacturing as well as an immaterial portion of other components. With respect to design activities, Compuware generally agrees to design certain agreed-upon products according to the Company's specifications, and further agrees to build the tools needed to manufacture the products. The Company pays Compuware for the design and engineering services, and further agrees to pay Compuware for the tooling. The Company retains full ownership of any intellectual property resulting from the design of these products and tooling. With respect to the manufacturing aspects of the relationship, Compuware purchases most of materials needed to manufacture the power supplies from outside markets and uses these materials to manufacture the products and then sell those products to the Company. The Company and Compuware frequently review and negotiate the prices of the power supplies the Company purchases from Compuware.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Compuware also manufactures motherboards, backplanes and other components used on printed circuit boards for the Company. The Company sells to Compuware most of the components needed to manufacture the above products. Compuware uses the components to manufacture the products and then sells the products back to the Company at a purchase price equal to the price at which the Company sold the components to Compuware, plus a "manufacturing value added" fee and other miscellaneous material charges and costs, including overhead and labor. The Company and Compuware frequently review and negotiate the amount of the "manufacturing value added" fee that will be included in the price of the products the Company purchases from Compuware. In addition to the inventory purchases, the Company also incurs costs associated with design services, tooling assets, and miscellaneous costs.

The Company's exposure to financial loss as a result of its involvement with Compuware is limited to potential losses on its purchase orders in the event of an unforeseen decline in the market price and/or demand of the Company's products such that the Company incurs a loss on the sale or cannot sell the products. Outstanding cancellable and non-cancellable purchase orders from the Company to Compuware on June 30, 2022 were $213.3 million and $44.3 million, respectively, and outstanding cancellable and non-cancellable purchase orders from the Company to Compuware on June 30, 2021 were $123.3 million and $71.0 million, respectively, effectively representing the exposure to financial loss. The Company does not directly or indirectly guarantee any obligations of Compuware, or any losses that the equity holders of Compuware may suffer.

Dealings with Investment in a Corporate Venture

In October 2016, the Company entered into agreements pursuant to which the Company contributed certain technology rights in connection with an investment in a privately held company located in China to expand the Company's presence in China. The Corporate Venture is 30% owned by the Company and 70% owned by another company in China. The transaction was closed in the third fiscal quarter of 2017 and the investment is accounted for using the equity method. As such, the Corporate Venture is also a related party.

The Company recorded a deferred gain related to the contribution of certain technology rights. As of June 30, 2022 and 2021, the Company had unamortized deferred gain balance of $0.0 million and $1.0 million, respectively, in accrued liabilities and none in other long-term liabilities in the Company's consolidated balance sheets.

The Company monitors the investment for events or circumstances indicative of potential impairment and makes appropriate reductions in carrying values if it determines that an impairment charge is required. In June 2020, the third-party parent company that controls the Corporate Venture was placed on a U.S. government export control list, along with several of such third-party parent's related entities and a separate listing for one of its subsidiaries. The Corporate Venture is not itself a restricted party. The Company has concluded that the Corporate Venture is in compliance with the new restrictions. The Company does not believe that the equity investment carrying value is impacted as of June 30, 2022. No impairment charge was recorded for the fiscal years ended June 30, 2022 and 2021.

The Company sold products worth $121.0 million, $51.2 million, $61.9 million to the Corporate Venture in the fiscal years 2022, 2021 and 2020, respectively, and the Company's share of intra-entity profits on the products that remained unsold by the Corporate Venture as of June 30, 2022 and June 30, 2021 have been eliminated and have reduced the carrying value of the Company's investment in the Corporate Venture. To the extent that the elimination of intra-entity profits reduces the investment balance below zero, such amounts are recorded within accrued liabilities. The Company had $8.0 million and $8.5 million due from the Corporate Venture in accounts receivable, net as of June 30, 2022 and 2021, respectively.

Dealings with Monolithic Power Systems, Inc.

The Company procures certain semiconductor products from Monolithic Power Systems, Inc. ("MPS"), a fabless manufacturer of high-performance analog and mixed-signal semiconductors, through its contract manufacturers for use in its

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

products. A member of the Board of Directors, who served during fiscal year 2022 until May 18, 2022, also serves as an officer of MPS.

The Company had the following balances related to transactions with its related parties as of the fiscal years ended June 30, 2022, 2021 and 2020 (in thousands):

	Ablecom			Compuware			Corporate Venture			MPS			Total		
	Years Ended June 30,			Years Ended June 30,			Years Ended June 30,			Years Ended June 30,			Years Ended June 30,		
	2022	2021	2020	2022	2021	2020	2022	2021	2020	2022	2021	2020	2022	2021	2020
Accounts receivable	$ 2	$ 2	$ (27)	$ 404	$ 198	$ 938	$ 7,992	$ 8,478	$ 7,801	$ —	$ —	$ —	$ 8,398	$ 8,678	$ 8,712
Other receivable (1)	$ 4,816	$ 5,575	$ 6,406	$19,596	$18,173	$13,385	$ —	$ —	$ —	$ —	$ 89	$ —	$24,412	$23,837	$19,791
Accounts payable	$42,463	$38,152	$36,955	$44,892	$31,944	$35,413	$ —	$ —	$ —	$ —	$ —	$ —	$87,355	$70,096	$72,368
Accrued liabilities (2)	$ 3,531	$ 3,042	$ 3,101	$15,145	$14,486	$11,105	$ —	$ 1,000	$ 2,000	$ —	$ —	$ —	$18,676	$18,528	$16,206

(1) Other receivables include receivables from vendors included in prepaid and other current assets.
(2) Includes current portion of operating lease liabilities included in other current liabilities.

The Company's results from transactions with its related parties for each of the fiscal years ended June 30, 2022, 2021 and 2020, are as follows (in thousands):

	Ablecom			Compuware			Corporate Venture			MPS			Total		
	Years Ended June 30,			Years Ended June 30,			Years Ended June 30,			Years Ended June 30,			Years Ended June 30,		
	2022	2021	2020	2022	2021	2020	2022	2021	2020	2022	2021	2020	2022	2021	2020
Net sales	$ 15	$ (23)	$ (7)	$26,085	$27,865	$23,867	$120,991	$51,176	$61,899	$ —	$ —	$ —	$147,091	$79,018	$85,759
Purchases - inventory	$192,441	$122,243	$152,464	$170,300	$113,400	$130,592	$ —	$ —	$ —	$ 8,335	$ 3,915	$ 5,215	$371,076	$239,558	$288,271
Purchases - other miscellaneous items	$ 8,265	$ 8,609	$ 7,620	$ 1,455	$ 1,813	$ 1,171	$ —	$ —	$ —	$ —	$ —	$ —	$ 9,720	$10,422	$ 8,791

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Company's cash flow impact from transactions with its related parties for the fiscal years ended June 30, 2022, 2021 and 2020, are as follows (in thousands):

	Ablecom			Compuware			Corporate Venture			MPS			Total		
	Years Ended June 30,			Years Ended June 30,			Years Ended June 30,			Years Ended June 30,			Years Ended June 30,		
	2022	2021	2020	2022	2021	2020	2022	2021	2020	2022	2021	2020	2022	2021	2020
Changes in accounts receivable	$ —	$ (29)	$ 42	$ (206)	$ 740	$ (623)	$ 486	$ (677)	$ 5,308	$ —	$ —	$ —	$ 280	$ 34	$ 4,727
Changes in other receivable	$ 759	$ 832	$ 816	$ (1,423)	$ (4,788)	$ 695	$ —	$ —	$ —	$ 89	$ (13)	$ —	$ (575)	$(3,969)	$ 1,511
Changes in accounts payable	$ 4,311	$ 1,198	$ 5,709	$ 12,948	$ (3,470)	$ 6,850	$ —	$ —	$ —	$ —	$ —	$ —	$17,259	$(2,272)	$12,559
Changes in accrued liabilities	$ 489	$ (59)	$ 419	$ 659	$ 3,381	$ 5,251	$ (1,000)	$ (1,000)	$ —	$ —	$ —	$ —	$ 148	$ 2,322	$ 5,670
Changes in other long-term liabilities	$ —	$ (513)	$ 513	$ 499	$ (186)	$ 186	$ —	$ (1,000)	$ (2,000)	$ —	$ —	$ —	$ 499	$(1,699)	$(1,301)
Purchases of property, plant and equipment	$ 4,678	$ 7,110	$ 4,384	$ 140	$ 237	$ 2	$ —	$ —	$ —	$ —	$ —	$ —	$ 4,818	$ 7,347	$ 4,386
Unpaid property, plant and equipment	$ 583	$ 338	$ 2,158	$ 106	$ 62	$ 65	$ —	$ —	$ —	$ —	$ —	$ —	$ 689	$ 400	$ 2,223

Tripartite Agreement

On November 8, 2021, Super Micro Computer Inc., Taiwan (the "Subsidiary"), a Taiwan corporation and wholly-owned subsidiary of the Company, entered into a Tripartite Agreement (the "Agreement") with Ablecom and Compuware related to a three-way purchase of land.

Pursuant to the Agreement, the Subsidiary will participate in purchasing 33.33% of the 137,225.97 square meters (approximately 34 acres) of land Ablecom has agreed to acquire from third-party landowners in proximity to the Company's campus in Bade, Taiwan. Compuware will acquire 17.21% of such land and Ablecom will retain the remaining 49.46% of the land. Under the Agreement, fees and costs related to such land purchase would be borne by the parties according to their proportionate share of the land purchased. The Company intends to fund its proportionate share of the land purchased under the Agreement which is estimated to be approximately NTD 789.0 million (or approximately US $28.3 million) from either available cash and/or borrowings under loan agreements to which the Subsidiary is a party in Taiwan. Amounts payable related to the purchase of the land are due in three installments based upon the achievement of specified milestones. The transaction is subject to various customary conditions precedent, including the receipt of government approvals, the discharge of mortgages and leases on the land, and the completion of due diligence. As of June 30, 2022, due diligence and discussions with government officials are continuing, and no installment payments have been made with respect to the transaction. If the transaction does not close within 12 months, Ablecom may offer the land to other parties.

Note 13. Stock-based Compensation and Stockholders' Equity

Equity Incentive Plan

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

On June 5, 2020, the stockholders of the Company approved the 2020 Equity and Incentive Compensation Plan (the "Original 2020 Plan"). The maximum number of shares available under the Original 2020 Plan was 5,000,000 plus 1,045,000 shares of common stock that remained available for future awards under the 2016 Equity Incentive Plan (the “2016 Plan”), at the time of adoption of the Original 2020 Plan. No other awards can be granted under the 2016 Plan and 7,246,000 shares of common stock remain reserved for outstanding awards issued under the Original 2016 Plan at the time of adoption of the Original 2020 Plan. On May 18, 2022, the stockholders of the Company approved an amendment and restatement of the Original 2020 Plan (as amended and restated, the “2020 Plan”) which, among other things, increased the number of shares available for award under the 2020 Plan by an additional 2,000,000 shares.

Under the 2020 Plan, the Company can grant stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units, dividend equivalents, and certain other awards, including those denominated or payable in, or otherwise based on, the Company’s common stock. The exercise price per share for incentive stock options granted to employees owning shares representing more than 10% of the Company's outstanding voting stock at the time of grant cannot be less than 110% of the fair value of the underlying shares on the grant date. Nonqualified stock options and incentive stock options granted to all other persons are granted at a price not less than 100% of the fair value. Options generally expire ten years after the date of grant. Stock options and RSUs generally vest over four years; 25% at the end of one year and one sixteenth per quarter thereafter.

As of June 30, 2022, the Company had 3,604,025 authorized shares available for future issuance under the 2020 Plan.

Common Stock Repurchase and Retirement

On January 29, 2021, a duly authorized subcommittee of the Board approved a share repurchase program to repurchase up to an aggregate of $200.0 million of the Company's common stock at market prices. The program was effective until July 31, 2022 or if earlier, until the maximum amount of common stock is repurchased (the "Prior Repurchase Program"). 1,391,171 shares of common stock were repurchased and retired for an aggregate $50.0 million as of June 30, 2021. The Company had $150.0 million of remaining availability under the Prior Repurchase Program as of June 30, 2022. There were no shares repurchased under the Prior Repurchase Program during fiscal year 2022.

During the fiscal year ended June 30, 2021, the Company repurchased and retired 4,209,211 shares of common stock for an aggregated $130.0 million. Additionally, the Company retired 1,333,125 shares of common stock repurchased in prior years.

On August 3, 2022, after the expiration of the Prior Repurchase Program, a duly authorized subcommittee of the Company's Board approved a new share repurchase program to repurchase shares of common stock for up to $200 million at prevailing prices in the open market. The share repurchase program is effective until January 31, 2024 or until the maximum amount of common stock is repurchased, whichever occurs first.

Determining Fair Value

The Company's fair value of RSUs and PRSUs is based on the closing market price of the Company's common stock on the date of grant. The Company estimates the fair value of stock options granted using the Black-Scholes-option-pricing model. This fair value is then amortized ratably over the requisite service periods of the awards, which is generally the vesting period. The key inputs in using the Black-Scholes-option-pricing model were as follows:

Expected Term—The Company’s expected term represents the period that the Company’s stock-based awards are expected to be outstanding and was determined based on the Company's historical experience.

Expected Volatility—Expected volatility is based on the Company's implied and historical volatility.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Expected Dividend—The Black-Scholes valuation model calls for a single expected dividend yield as an input and the Company has no plans to pay dividends.

Risk-Free Interest Rate—The risk-free interest rate used in the Black-Scholes valuation method is based on the United States Treasury zero coupon issues in effect at the time of grant for periods corresponding with the expected term of option.

The fair value of stock option grants for the fiscal years ended June 30, 2022, 2021 and 2020 was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	Years Ended June 30,		
	2022	2021	2020
Risk-free interest rate	0.81% - 3.02%	0.27% - 1.09%	0.47% - 1.72%
Expected term	6.09 years	5.98 years	6.27 years
Dividend yield	— %	— %	— %
Volatility	49.69% - 50.13%	50.03% - 50.43%	49.61% - 50.46%
Weighted-average fair value	$ 20.25	$ 14.92	$ 9.59

The following table shows total stock-based compensation expense included in the consolidated statements of operations for the fiscal years ended June 30, 2022, 2021 and 2020 (in thousands):

	Years Ended June 30,		
	2022	2021	2020
Cost of sales	$ 1,876	$ 1,762	$ 1,504
Research and development	16,571	14,030	12,202
Sales and marketing	2,058	2,022	1,680
General and administrative	12,311	10,735	4,803
Stock-based compensation expense before taxes	32,816	28,549	20,189
Income tax impact	(12,220)	(8,574)	(6,814)
Stock-based compensation expense, net	$ 20,596	$ 19,975	$ 13,375

As of June 30, 2022, $12.5 million of unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 3.41 years and $56.5 million of unrecognized compensation cost related to unvested RSUs is expected to be recognized over a weighted-average period of 2.78 years. Additionally, as described below, $5.6 million of unrecognized compensation cost related to the 2021 CEO Performance Stock Option is expected to be recognized over a period of 3.0 years.

Stock Option Activity

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

In March 2021, the Company's Compensation Committee of the Board of Directors (the "Compensation Committee") approved the grant of a stock option award for 1,000,000 shares of common stock to the Company's CEO (the "2021 CEO Performance Stock Option"). The 2021 CEO Performance Stock Option has five vesting tranches with a vesting schedule based entirely on the attainment of operational milestones (performance conditions) and market conditions, assuming (1) continued employment either as the CEO or in such capacity as agreed upon between the Company's CEO and the Board and (2) service through each vesting date. Each of the five vesting tranches of the 2021 CEO Performance Stock Option will vest upon certification by the Compensation Committee that both (i) the market price milestone for such tranche, which begins at $45.00 per share for the first tranche and increases up to $120.00 per share thereafter (based on a 60 trading day average stock price), has been achieved, and (ii) any one of five operational milestones focused on total revenue, as reported under U.S. GAAP, have been achieved for the previous four consecutive fiscal quarters. Upon vesting and exercise, including the payment of the exercise price of $45.00 per share, prior to March 2, 2024, the Company's CEO must hold shares that he acquires until March 2, 2024, other than those shares sold pursuant to a cashless exercise where shares are simultaneously sold to pay for the exercise price and any required tax withholding.

The achievement status of the operational and stock price milestones as of June 30, 2022, was as follows:

Annualized Revenue Milestone (in billions)	Achievement Status	Stock Price Milestone	Achievement Status
$4.0	Achieved	$45	Achieved(1)
$4.8	Achieved(2)	$60	Not yet achieved
$5.8	Probable	$75	Not yet achieved
$6.8	Probable	$95	Not yet achieved
$8.0	Probable	$120	Not yet achieved

(1) The Company's Compensation Committee had certified achievement of the $4 billion annualized revenue milestone on March 26, 2022. The $45 stock price milestone was achieved based upon the 60-trading day average stock price from March 15, 2022 through June 8, 2022. The achievement of such stock price milestone and the vesting of the first tranche of 200,000 option shares under the 2021 CEO Performance Stock Option, representing one-fifth of such award were certified by the Company's Compensation Committee subsequent to June 30, 2022.

(2) To be certified by the Company's Compensation Committee after Annual Report on Form 10-K for the year ended June 30, 2022, as filed with the SEC.

On the grant date, a Monte Carlo simulation was used to determine for each tranche (i) a fixed expense amount for such tranche and (ii) the future time when the market price milestone for such tranche was expected to be achieved, or its "expected market price milestone achievement time." Separately, based on a subjective assessment of the Company's future financial performance, each quarter, the Company will determine whether achievement is probable for each operational milestone that has not previously been achieved or deemed probable of achievement, and, if so, the future time when the Company expects to achieve that operational milestone, or its "expected operational milestone achievement time." When the Company first determines that an operational milestone has become probable of being achieved, the Company will allocate the entire expense for the related tranche over the number of quarters between the grant date and the then-applicable "expected vesting time." The "expected vesting time" at any given time is the later of (i) the expected operational milestone achievement time (if the related operational milestone has not yet been achieved) and (ii) the expected market price milestone achievement time (if the related market price milestone has not yet been achieved). The Company will immediately recognize a catch-up expense for all accumulated expenses from the grant date through the quarter in which the operational milestone was first deemed probable of being achieved. Each quarter thereafter, the Company will recognize the prorated portion of the then-remaining expense for the tranche based on the number of quarters between such quarter and the then-applicable expected vesting time, except that upon vesting of a tranche, all remaining expenses for that tranche will be immediately recognized.

C. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF SUPER MICRO FOR THE YEAR ENDED 30 JUNE 2023

Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Super Micro Computer, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Super Micro Computer, Inc. and subsidiaries (the "Company") as of June 30, 2023 and 2022, the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows, for each of the three years in the period ended June 30, 2023, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2023 and 2022, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2023, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of June 30, 2023, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated August 25, 2023, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Inventories - Excess and Obsolescence Reserve — Refer to Notes 1 and 5 to the financial statements

Critical Audit Matter Description

The Company's inventories are stated at lower of cost, using weighted average cost method, or net realizable value. The Company evaluates inventory on a quarterly basis for excess and obsolescence and lower of cost or net realizable value and, as necessary, writes down the valuation of inventory based upon inventory aging, forecasted usage and sales, anticipated selling price, product obsolescence and other factors.

We identified the excess and obsolescence reserve as a critical audit matter because of judgments made by management in determining the reserve rates applied by inventory aging category to estimate the Company's excess and obsolescence reserve. This required a high degree of auditor judgment and an increased extent of effort when performing audit procedures to evaluate the reasonableness of the Company's reserve rates within its estimation of the inventory excess and obsolescence reserve.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the reserve rates applied to the inventory aging categories to estimate the Company’s excess and obsolescence reserve included the following procedures, among others:

- We tested the effectiveness of controls over the review of the calculation of excess and obsolescence reserve based on the Company’s reserve methodology, including management’s evaluation of the reserve rates by inventory aging category using historical data.
- To understand and evaluate the Company’s methodology for determining inventory that is excess or obsolete and the key assumptions and judgments made as part of the process, including the reserve rates, we made inquiries of various personnel in the Company including but not limited to finance and operations personnel about the expected product lifecycles and product development plans.
- We assessed management’s estimate on reserve rates by recalculating historical reserve rates across multiple fiscal periods. We compared our independently developed historical reserve rates with the reserve rates used by management to evaluate management’s ability to accurately estimate excess and obsolete inventory.
- We tested the accuracy and completeness of the underlying data utilized in management’s excess and obsolescence reserve, including the classification of inventory by aging category.
- We considered the existence of contradictory evidence based on reading of internal communications to management, Company press releases, and industry reports, as well as our observations and inquires as to changes within the business.

/s/ Deloitte & Touche LLP

San Jose, California
August 25, 2023

We have served as the Company's auditor since fiscal 2003.

SUPER MICRO COMPUTER, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except par value per share amounts)

	June 30, 2023	June 30, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	$ 440,459	$ 267,397
Accounts receivable, net of allowance for credit losses of $82 and $1,753 at June 30, 2023 and 2022, respectively (including amounts receivable from related parties of $5,473 and $8,398 at June 30, 2023 and 2022, respectively)	1,148,259	834,513
Inventories	1,445,564	1,545,606
Prepaid expenses and other current assets (including receivables from related parties of $27,732 and $24,412 at June 30, 2023 and 2022, respectively)	145,144	158,799
Total current assets	3,179,426	2,806,315
Property, plant and equipment, net	290,240	285,972
Deferred income taxes, net	162,654	69,929
Other assets	42,409	42,861
Total assets	$ 3,674,729	$ 3,205,077
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable (including amounts due to related parties of $89,134 and $87,355 at June 30, 2023 and 2022, respectively)	$ 776,831	$ 655,403
Accrued liabilities (including amounts due to related parties of $14,017 and $18,676 at June 30, 2023 and 2022, respectively)	163,865	212,419
Income taxes payable	129,166	41,743
Short-term debt	170,123	449,146
Deferred revenue	134,667	111,313
Total current liabilities	1,374,652	1,470,024
Deferred revenue, non-current	169,781	122,548
Long-term debt	120,179	147,618
Other long-term liabilities	37,947	39,140
Total liabilities	1,702,559	1,779,330
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Common stock and additional paid-in capital, $0.001 par value		
Authorized shares: 100,000; Outstanding shares: 52,901 and 52,311 at June 30, 2023 and 2022, respectively		
Issued shares: 52,901 and 52,311 at June 30, 2023 and 2022, respectively	538,352	481,741
Accumulated other comprehensive income	639	911
Retained earnings	1,433,014	942,923
Total Super Micro Computer, Inc. stockholders' equity	1,972,005	1,425,575
Noncontrolling interest	165	172
Total stockholders' equity	1,972,170	1,425,747
Total liabilities and stockholders' equity	$ 3,674,729	$ 3,205,077

See accompanying notes to consolidated financial statements.

SUPER MICRO COMPUTER, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)

	Years Ended June 30,		
	2023	2022	2021
Net sales (including related party sales of $60,537, $147,091, and $79,018 in fiscal years 2023, 2022 and 2021, respectively)	$ 7,123,482	$ 5,196,099	$ 3,557,422
Cost of sales (including related party purchases of $384,762, $371,076, and $239,558 in fiscal years 2023, 2022 and 2021, respectively)	5,840,470	4,396,098	3,022,884
Gross profit	1,283,012	800,001	534,538
Operating expenses:			
Research and development	307,260	272,273	224,369
Sales and marketing	115,025	90,126	85,683
General and administrative	99,585	102,435	100,539
Total operating expenses	521,870	464,834	410,591
Income from operations	761,142	335,167	123,947
Other income (expense), net	3,646	8,079	(2,834)
Interest expense	(10,491)	(6,413)	(2,485)
Income before income tax provision	754,297	336,833	118,628
Income tax provision	(110,666)	(52,876)	(6,936)
Share of (loss) income from equity investee, net of taxes	(3,633)	1,206	173
Net income	$ 639,998	$ 285,163	$ 111,865
Net income per common share:			
Basic	$ 12.09	$ 5.54	$ 2.19
Diluted	$ 11.43	$ 5.32	$ 2.09
Weighted-average shares used in calculation of net income per common share:			
Basic	52,925	51,478	51,157
Diluted	55,970	53,615	53,507

See accompanying notes to consolidated financial statements.

SUPER MICRO COMPUTER, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	Years Ended June 30,		
	2023	**2022**	**2021**
Net income	$ 639,998	$ 285,163	$ 111,865
Other comprehensive (loss) income, net of tax:			
Foreign currency translation (loss) gain and other	(223)	(247)	605
Net change in defined benefit obligations	(49)	705	—
Total other comprehensive (loss) income, net of tax	(272)	458	605
Total comprehensive income	$ 639,726	$ 285,621	$ 112,470

See accompanying notes to consolidated financial statements.

SUPER MICRO COMPUTER, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except share amounts)

	Common Stock and Additional Paid-In Capital		Treasury Stock		Accumulated Other Comprehensive Income	Retained Earnings	Non-controlling Interest	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance at June 30, 2020	53,741,828	$ 389,972	(1,333,125)	$ (20,491)	$ (152)	$ 696,211	$ 167	$ 1,065,707
Exercise of stock options, net of taxes	1,645,800	28,387	—	—	—	—	—	28,387
Release of common stock shares upon vesting of restricted stock units	1,011,406	—	—	—	—	—	—	—
Shares withheld for the withholding tax on vesting of restricted stock units	(274,620)	(8,721)	—	—	—	—	—	(8,721)
Share repurchase and retirement	(5,542,336)	(175)	1,333,125	20,491	—	(150,316)	—	(130,000)
Stock-based compensation	—	28,549	—	—	—	—	—	28,549
Other comprehensive income	—	—	—	—	605	—	—	605
Net income	—	—	—	—	—	111,865	6	111,871
Balance at June 30, 2021	50,582,078	$ 438,012	—	$ —	$ 453	$ 657,760	$ 173	$ 1,096,398
Exercise of stock options, net of taxes	1,197,756	20,994	—	—	—	—	—	20,994
Release of common stock shares upon vesting of restricted stock units	763,641	—	—	—	—	—	—	—
Shares withheld for the withholding tax on vesting of restricted stock units	(232,461)	(10,081)	—	—	—	—	—	(10,081)
Stock-based compensation	—	32,816	—	—	—	—	—	32,816
Other comprehensive income	—	—	—	—	458	—	—	458
Net income (loss)	—	—	—	—	—	285,163	(1)	285,162
Balance at June 30, 2022	52,311,014	$ 481,741	—	$ —	$ 911	$ 942,923	$ 172	$ 1,425,747
Exercise of stock options, net of taxes	1,454,811	30,466	—	—	—	—	—	30,466
Release of common stock shares upon vesting of restricted stock units	993,635	—	—	—	—	—	—	—
Shares withheld for the withholding tax on vesting of restricted stock units	(304,752)	(28,197)	—	—	—	—	—	(28,197)
Share repurchases and retirement	(1,553,350)	(91)	—	—	—	(149,907)	—	(149,998)
Stock-based compensation	—	54,433	—	—	—	—	—	54,433
Other comprehensive loss	—	—	—	—	(272)	—	—	(272)
Net income (loss)	—	—	—	—	—	639,998	(7)	639,991
Balance at June 30, 2023	52,901,358	$ 538,352	—	$ —	$ 639	$1,433,014	$ 165	$ 1,972,170

See accompanying notes to consolidated financial statements.

SUPER MICRO COMPUTER, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Years Ended June 30,		
	2023	2022	2021
OPERATING ACTIVITIES:			
Net income	$ 639,998	$ 285,163	$ 111,865
Reconciliation of net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	34,904	32,471	28,185
Stock-based compensation expense	54,433	32,816	28,549
Share of loss (income) from equity investee	3,633	(1,206)	(173)
Foreign currency exchange (gain) loss	(2,619)	(13,747)	2,482
Deferred income taxes, net	(92,969)	(6,817)	(8,390)
Other	(668)	368	(1,044)
Changes in operating assets and liabilities:			
Accounts receivable, net (including changes in related party balances of $2,925, $280 and $34 in fiscal years 2023, 2022 and 2021, respectively)	(311,897)	(372,438)	(60,145)
Inventories	100,042	(504,642)	(189,466)
Prepaid expenses and other assets (including changes in related party balances of $(3,320), $(575) and $(3,969) in fiscal years 2023, 2022 and 2021, respectively)	8,313	(28,794)	(5,291)
Accounts payable (including changes in related party balances of $1,779, $17,259 and $(2,272) in fiscal years 2023, 2022 and 2021, respectively)	127,135	50,145	189,309
Income taxes payable	87,423	29,002	8,041
Accrued liabilities (including changes in related party balances of $(4,659), $148 and $2,322 in fiscal years 2023, 2022 and 2021, respectively)	(50,311)	35,891	24,705
Deferred revenue	70,587	31,544	(1,452)
Other long-term liabilities (including changes in related party balances of $(321), $499 and $(1,699) in fiscal years 2023, 2022 and 2021, respectively)	(4,424)	(10,557)	(4,220)
Net cash provided by (used in) operating activities	663,580	(440,801)	122,955
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment (including payments to related parties of $7,844, $4,818 and $7,347 in fiscal years 2023, 2022 and 2021, respectively)	(36,793)	(45,182)	(58,016)
Investment in a privately-held company	(500)	(1,100)	—
Acquisition, net of cash acquired	(2,193)	—	—
Net cash used in investing activities	(39,486)	(46,282)	(58,016)
FINANCING ACTIVITIES:			
Proceeds from borrowings	1,093,860	1,153,317	127,059
Repayment of debt	(1,394,391)	(640,695)	(60,629)
Payment of other fees for debt financing	—	(592)	(561)
Proceeds from exercise of stock options, net of taxes	30,466	20,994	28,387
Changes in obligations under capital leases	(33)	(72)	25
Payment of withholding tax on vesting of restricted stock units	(28,197)	(10,081)	(8,721)
Stock repurchases	(149,998)	—	(130,000)
Net cash (used in) provided by financing activities	(448,293)	522,871	(44,440)
Effect of exchange rate fluctuations on cash	(3,400)	(678)	560
Net increase in cash, cash equivalents and restricted cash	172,401	35,110	21,059
Cash, cash equivalents and restricted cash at beginning of year	268,559	233,449	212,390
Cash, cash equivalents and restricted cash at end of year	$ 440,960	$ 268,559	$ 233,449
Supplemental disclosure of cash flow information:			
Cash paid for interest	$ 8,541	$ 5,492	$ 1,948
Cash paid for taxes, net of refunds	$ 114,963	$ 19,690	$ 2,914

Non-cash investing and financing activities:						
Unpaid property, plant and equipment purchases (including due to related parties of $810, $689 and $400 as of June 30, 2023, 2022 and 2021, respectively)	$	2,181	$	7,825	$	9,003
Right of use ("ROU") assets obtained in exchange for operating lease commitments	$	3,197	$	11,151	$	3,258

See accompanying notes to consolidated financial statements.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization and Summary of Significant Accounting Policies

Organization

Super Micro Computer, Inc. ("Super Micro Computer" or the "Company") was incorporated in 1993. Super Micro Computer is a global leader in server technology and green computing innovation. Super Micro Computer develops and provides high performance server and storage solutions based upon an innovative, modular and open-standard architecture. Super Micro Computer has operations primarily in the United States, the Netherlands, Taiwan, China and Japan.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP"). The consolidated financial statements of Super Micro Computer include the accounts of Super Micro Computer and entities consolidated under the variable interest model or the voting interest model. Noncontrolling interests are not presented separately in the consolidated statements of operations and consolidated statements of comprehensive income as the amounts are immaterial. All intercompany accounts and transactions of Super Micro Computer and its consolidated entities (collectively, the "Company") have been eliminated in consolidation. For equity investments over which the Company is able to exercise significant influence over the investee but does not control the investee and is not the primary beneficiary of the investee's activities are accounted for using the equity method. Investments in equity securities which do not have readily determinable fair values and for which the Company is not able to exercise significant influence over the investee are accounted for under the measurement alternative which is the cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar securities of the same investee.

During the year ended June 30, 2023, the Company completed the acquisition of 100% of the common shares of Gemini Open Cloud Computing Inc. ("Gemini") for a total purchase consideration of $2.5 million, subject to a holdback of $0.3 million due one year from the closing date of the acquisition. The revenue and results of operations of Gemini since the acquisition date on April 17, 2023 were not material and have been included in the Company's consolidated financial statements for fiscal 2023. The purchase price was allocated to tangible and identified intangible assets acquired and liabilities assumed based on estimated fair values. The goodwill is primarily attributable to the planned growth in the combined business of Super Micro Computer and Gemini. Goodwill of $1.8 million is recorded within other assets in the consolidated balance sheets and is not amortized to earnings, but instead is reviewed for impairment at least annually, absent any interim indicators of impairment. Goodwill recognized in the acquisition is not expected to be deductible for foreign tax purposes. Acquisition-related costs attributable to Gemini were not material and included in selling, general and administrative expense for the year ended June 30, 2023. Pro forma earnings and revenues as if this acquisition had occurred at the beginning of fiscal 2022 were not presented as they were not material.

Certain prior year balances have been reclassified to conform with the current year financial statement presentation. In order to conform with current period presentation Investment in Equity Investee has been grouped with Other Assets on the consolidated balance sheet as of June 30, 2022. Additionally, certain prior year amounts within cash from operating activities in the consolidated statements of cash flows have been reclassified to conform to current year presentation. These changes in presentation do not affect previously reported results.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Use of Estimates

U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Such estimates include, but are not limited to revenue recognition, allowances for credit losses and sales returns, inventory valuation, useful lives of property, plant and equipment, product warranty accruals, stock-based compensation, impairment of investments and long-lived assets, and income taxes. The Company’s estimates are evaluated on an ongoing basis and changes in the estimates are recognized prospectively. Actual results could differ from those estimates. These estimates and judgements have not fluctuated significantly for the fiscal year ended June 30, 2023 compared to prior fiscal years. The Company considered estimates of the economic implications of the COVID-19 pandemic pressures, global economic recession, inflation and increased interest rates on its critical and significant accounting estimates, including an assessment of the collectability of each customer contract as part of the revenue recognition process, assessment of the valuation of accounts receivable, assessment of provision for excess and obsolete inventory and an impairment of long-lived assets.

Fair Value of Financial Instruments

The Company accounts for certain assets and liabilities at fair value, which is the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly arms-length transaction between market participants. When measuring fair value, the Company takes into account the characteristics of the asset or liability that a market participant would consider when pricing the asset or liability at the measurement date. The Company considers one or more techniques for measuring fair value: market approach, income approach, and cost approach. The valuation techniques include inputs that are based on three different levels of observability to the market. The Company categorizes each of its fair value measurements in one of these three levels based on the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

- Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2 - Quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly; and
- Level 3 - Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

Accounts receivable and accounts payable are carried at cost, which approximates fair value due to the short maturity of these instruments. Cash equivalents, certificates of deposit and the investment in an auction rate security are carried at fair value. Short-term and long-term debt is carried at amortized cost, which approximates its fair value based on borrowing rates currently available to the Company for loans with similar terms.

Cash and Cash Equivalents

The Company considers all highly liquid instruments with an original maturity of three months or less from the date of purchase to be cash equivalents. Cash equivalents consist primarily of money market funds and certificates of deposit with original maturities of less than three months.

Restricted Cash

Restricted cash is comprised of amounts held in bank accounts which are controlled by the lenders pursuant to the terms of certain debt agreements, certificates of deposit primarily related to leases and customs requirements, and money market accounts held in escrow pursuant to the Company’s workers’ compensation program. These restricted cash balances have been excluded from the Company's cash and cash equivalents balance.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Inventories

Inventories are stated at lower of cost, using weighted average cost method, or net realizable value. Net realizable value is the estimated selling price of the Company's products in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Inventories consist of purchased parts and raw materials (principally electronic components), work in process (principally products being assembled) and finished goods. The Company evaluates inventory on a quarterly basis for excess and obsolescence and lower of cost or net realizable value and, as necessary, writes down the valuation of inventories based upon the Company's inventory aging, forecasted usage and sales, anticipated selling price, product obsolescence and other factors. Once inventory is written down, its new value is maintained until it is sold or scrapped.

The Company receives various rebate incentives from certain suppliers based on its contractual arrangements, including volume-based rebates. The rebates earned are recognized as a reduction of cost of inventories and reduce the cost of sales in the period when the related inventory is sold.

Property, Plant and Equipment

Property, plant and equipment is recorded at cost and depreciated using the straight-line method over the estimated useful lives of the related assets as follows:

Software	3 to 5 years
Machinery and equipment	5 to 7 years
Furniture and fixtures	5 years
Buildings	39 years
Building improvements	Up to 20 years
Land improvements	15 years
Leasehold improvements	Shorter of lease term or estimated useful life

Long-Lived Assets

The Company evaluates its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When the sum of the undiscounted future net cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount, an impairment loss would be measured based on the fair value of the asset compared to the carrying amount. No impairment charge for long-lived assets has been recorded in any of the periods presented.

Revenue Recognition

The Company generates revenues from the sale of server and storage systems, subsystems, accessories, services, server software management solutions, and support services.

Product sales. The Company recognizes revenue from sales of products as control is transferred to customers, which generally happens at the point of shipment or upon delivery, unless customer acceptance is uncertain. Products sold by the Company are delivered via shipment from the Company’s facilities or drop shipment directly to its customers from a Company vendor. The Company may use distributors to sell products to end customers. Revenue from distributors is recognized when the distributor obtains control of the product, which generally happens at the point of shipment or upon delivery.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Company applies judgment in determining the transaction price as the Company may be required to estimate variable consideration when determining the amount of revenue to recognize. As part of determining the transaction price in contracts with customers, the Company estimates reserves for future sales returns based on a review of its history of actual returns for each major product line. Based upon historical experience, a refund liability is recorded at the time of sale for estimated product returns and an asset is recognized for the amount expected to be recorded in inventory upon product return, less the expected recovery costs. The Company also reduces revenue for the estimated costs of customer and distributor programs and incentive offerings such as price protection and rebates as well as the estimated costs of cooperative marketing arrangements where the fair value of the benefit derived from the costs cannot be reasonably estimated. Any provision for customer and distributor programs and other discounts is recorded as a reduction of revenue at the time of sale based on an evaluation of the contract terms and historical experience.

Services sales. The Company's sale of services mainly consists of extended warranty and on-site services. Revenue related to extended warranty commences upon the expiration of the standard warranty period and is recognized ratably over the contractual period as the Company stands ready to perform any required warranty service. Revenue related to on-site services commences upon recognition of the product sale and is recognized ratably over the contractual period as the on-site services are made available to the customer. These service contracts are typically one to five years in length. Service revenue has been less than 10% of net sales for all periods presented and is not separately disclosed.

Contracts with multiple promised goods and services. Certain of the Company's contracts contain multiple promised goods and services. The Company assesses whether each promised good or service is distinct for the purpose of identifying the performance obligations in the contract. This assessment involves subjective determinations and requires management to make judgments about the individual promised goods or services and whether such goods or services are separable from the other aspects of the contractual relationship. Performance obligations in a contract are identified based on the promised goods or services that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the service either on its own or together with other resources that are readily available from third parties or from the Company, and are distinct in the context of the contract, whereby the transfer of the services is separately identifiable from other promises in the contract. If these criteria are not met, the promised goods and services are accounted for as a combined performance obligation. Revenue allocated to each performance obligation is recognized at the time the related performance obligation is satisfied by transferring control of the promised good or service to a customer.

If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. For contracts that contain multiple performance obligations, the Company allocates the transaction price for each customer contract to each performance obligation based on the relative standalone selling price ("SSP") for each performance obligation within each contract. The Company recognizes the amount of transaction price allocated to each performance obligation within a customer contract as revenue at the time the related performance obligation is satisfied by transferring control of the promised good or service to a customer. Determining the relative SSP for contracts that contain multiple performance obligations requires significant judgement. The Company determines SSP based on the price at which the performance obligation is sold separately. If the SSP is not observable through past transactions, the Company applies judgment to estimate the SSP. For substantially all performance obligations, the Company is able to establish the SSP based on the observable prices of products or services sold separately in comparable circumstances to similar customers. The Company typically establishes an SSP range for its products and services, which is reassessed on a periodic basis or when facts and circumstances change. SSP for the Company's products and services can evolve over time due to changes in its pricing practices, internally approved pricing guidelines with respect to geographies, customer type, internal costs, and gross margin objectives for the related performance obligations which can also be influenced by intense competition, changes in demand for the Company's products and services, economic and other factors.

When the Company receives consideration from a customer prior to transferring goods or services to the customer, the Company records a contract liability (deferred revenue). The Company also recognizes deferred revenue when it has an unconditional right to consideration (i.e., a receivable) before transfer of control of goods or services to a customer.

The Company considers shipping & handling activities as costs to fulfill the sales of products. Shipping revenue is included in net sales when control of the product is transferred to the customer, and the related shipping and handling costs are included in cost of sales. Taxes imposed by governmental authorities on the Company's revenue producing activities with customers, such as sales taxes and value added taxes, are excluded from net sales and included in operating expenses.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Allowance for Credit Losses

Customers are subjected to a credit review process that evaluates each customer's financial position and ability and intent to pay. On a quarterly basis, the Company makes estimates of its uncollectible accounts receivable by analyzing the aging of accounts receivable, history of bad debts, customer concentrations, customer-credit-worthiness, and current economic trends to evaluate the adequacy of the allowance for credit losses. The Company's recovery of net of allowance for credit losses was $(0.01) million, $(0.8) million, and $(0.8) million in fiscal years 2023, 2022 and 2021, respectively.

Cost of Sales

Cost of sales primarily consists of the costs of materials, contract manufacturing, in-bound shipping, personnel and related expenses including stock-based compensation, equipment and facility expenses, warranty costs and provision for lower of cost or net realizable value and excess and obsolete inventory.

Product Warranties

The Company offers product warranties typically ranging from 15 to 39 months against any defective products. These standard warranties are assurance type warranties, and the Company does not offer any services beyond the assurance that the product will continue working as specified. Therefore, these warranties are not considered separate performance obligations in the arrangement. Based on historical experience, the Company accrues for estimated returns of defective products at the time revenue is recognized. The Company monitors warranty obligations and may make revisions to its warranty reserve if actual costs of product repair and replacement are significantly higher or lower than estimated. Accruals for anticipated future warranty costs are recorded to cost of sales and included in accrued liabilities and other long-term liabilities. Warranty accruals are based on estimates that are updated on an ongoing basis taking into consideration inputs such as new product introductions, changes in the volume of claims compared with the Company's historical experience, and the changes in the cost of servicing warranty claims. The Company accounts for the effect of such changes in estimates prospectively. The following table presents for the fiscal years ended June 30, 2023, 2022 and 2021, the reconciliation of the changes in accrued warranty costs which is included as a component of accrued liabilities and other long-term liabilities (in thousands):

	Years Ended June 30,		
	2023	2022	2021
Balance, beginning of the year	$ 12,137	$ 12,863	$ 12,379
Provision for warranty	35,407	28,150	29,638
Costs utilized	(33,784)	(29,872)	(30,575)
Change in estimated liability for pre-existing warranties	1,099	996	1,421
Balance, end of the year	$ 14,859	$ 12,137	$ 12,863
Current portion	9,079	9,073	10,185
Non-current portion	$ 5,780	$ 3,064	$ 2,678

Research and Development

Research and development expenses consist of personnel expenses including salaries, benefits, stock-based compensation and incentive bonuses, and related expenses for the Company's research and development personnel, as well as materials and supplies, consulting services, third-party testing services and equipment and facility expenses related to the Company's research and development activities. All research and development costs are expensed as incurred. The Company occasionally receives funding from certain suppliers and customers towards its development efforts. Such amounts are recorded as a reduction of research and development expenses and were $20.0 million, $8.2 million, and $10.9 million for the fiscal years ended June 30, 2023, 2022 and 2021, respectively.

Software development costs, including costs to develop software sold, leased, or otherwise marketed, that are incurred subsequent to the establishment of technological feasibility are capitalized if significant. Costs incurred during the application development stage for internal-use software are capitalized if significant. Capitalized software development costs are amortized using the straight-line amortization method over the estimated useful life of the applicable software. Such software development costs required to be capitalized have not been material to date.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Advertising Costs

Advertising costs, net of reimbursements received under the cooperative marketing arrangements with the Company's vendors, are expensed as incurred. Total advertising and promotional expenses were $2.0 million, $0.1 million and $4.1 million for the fiscal years ended June 30, 2023, 2022 and 2021, respectively, net of credits from marketing development funds.

Stock-Based Compensation

The Company measures and recognizes compensation expense for all share-based awards made to employees and non-employees, including stock options, restricted stock units ("RSUs") and performance-based restricted stock units (“PRSUs”). The Company recognizes the grant date fair value of all share-based awards over the requisite service period and accounts for forfeitures as they occur. Stock option and RSU awards are recognized to expense on a straight-line basis over the requisite service period. PRSU awards are recognized to expense using an accelerated method only when it is probable that a performance condition is met during the vesting period. If it is not probable, no expense is recognized and the previously recognized expense is reversed. The Company bases initial accrual of compensation expense on the estimated number of PRSUs that are expected to vest over the requisite service period. That estimate is revised if subsequent information indicates that the actual number of PRSUs is likely to differ from previous estimates. The cumulative effect on current and prior periods of a change in the estimated number of PRSUs expected to vest is recognized in stock-based compensation expense in the period of the change. Previously recognized compensation expense is not reversed if vested stock options, RSUs or PRSUs for which the requisite service has been rendered and the performance condition has been met expire unexercised or are not settled.

The fair value of RSUs and PRSUs is based on the closing market price of the Company's common stock on the date of grant. The Company estimates the fair value of stock options granted using a Black-Scholes option pricing model. This model requires the Company to make estimates and assumptions with respect to the expected term of the option and the expected volatility of the price of the Company's common stock. The expected term represents the period that the Company’s stock-based awards are expected to be outstanding and was determined based on the Company's historical experience. The expected volatility is based on the historical volatility of the Company’s common stock. The fair value is then amortized on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period.

Leases

The Company has arrangements for the right to use certain of its office, warehouse spaces and other premises, and equipment. The Company determines at inception if an arrangement is or contains a lease. When the terms of a lease effectively transfer control of the underlying asset to the Company, it is classified as a finance lease. All other leases are classified as operating leases.

Operating Leases

For operating leases with lease terms of more than 12 months, operating lease ROU assets are recorded in long-term other assets, and lease liabilities are recorded in accrued liabilities and other long-term liabilities on the consolidated balance sheet. The Company's lease term includes options to extend or terminate the lease when it is reasonably certain that it will exercise that option. The Company elected to apply the short-term lease recognition exemption and does not recognize ROU asset and lease liabilities for leases with an initial term of 12 months or less and recognizes as expense the payments under such leases on a straight-line basis over the lease term. The Company's leases with an initial term of 12 months or less are immaterial.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Operating lease ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments over the lease term. Operating lease ROU assets and liabilities are recognized at lease commencement based on the present value of the remaining lease payments discounted using the Company's incremental borrowing rate as the interest rate implicit in the lease arrangements is not readily determinable. The incremental borrowing rate is estimated to be the interest rate on a fully collateralized basis with similar terms and payments and in the economic environment where the leased asset is located. Operating lease ROU assets also include initial direct costs incurred, prepaid lease payments, minus any lease incentives. Operating lease expense is recognized on a straight-line basis over the lease term. The Company accounts for fixed payments for lease and non-lease components as a single lease component which increases the amount of ROU assets and liabilities. Non-lease components that are variable costs, such as common area maintenance, are expensed as incurred and not included in the ROU assets and lease liabilities.

Finance Leases

Assets under finance leases are recorded in property, plant and equipment, net and lease liabilities are included in accrued liabilities and other long-term liabilities on the consolidated balance sheet. Finance lease interest expense is recognized based on an effective interest method and depreciation of assets is recorded on a straight-line basis over the shorter of the lease term and useful life of the asset. The Company's finance leases are immaterial.

Income Taxes

The Company accounts for income taxes under an asset and liability approach. Deferred income taxes reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for income tax reporting purposes, net of operating loss carry-forwards and other tax credits measured by applying enacted tax laws related to the financial statement periods. Valuation allowances are provided when necessary to reduce deferred tax assets to an amount that is more likely than not to be realized.

The Company recognizes tax liabilities for uncertain income tax positions on the income tax return based on the two-step process. The first step is to determine whether it is more likely than not that each income tax position would be sustained upon audit. The second step is to estimate and measure the tax benefit as the amount that has a greater than 50% likelihood of being realized upon ultimate settlement with the tax authority. Estimating these amounts requires the Company to determine the probability of various possible outcomes. The Company evaluates these uncertain tax positions on a quarterly basis. This evaluation is based on the consideration of several factors, including changes in facts or circumstances, changes in applicable tax law, settlement of issues under audit and new exposures. If the Company later determines that its exposure is lower or that the liability is not sufficient to cover its revised expectations, the Company adjusts the liability and effects a related charge in its tax provision during the period in which the Company makes such a determination.

Variable Interest Entities

The Company determines at the inception of each arrangement whether an entity in which the Company holds an investment or in which the Company has other variable interests is considered a variable interest entity ("VIE"). The Company consolidates VIEs when it is the primary beneficiary. The primary beneficiary of a VIE is the party that meets both of the following criteria: (1) has the power to make decisions that most significantly affect the economic performance of the VIE and (2) has the obligation to absorb losses or the right to receive benefits that in either case could potentially be significant to the VIE. Periodically, the Company assesses whether any changes in the interest or relationship with the entity affect the determination of whether the entity is still a VIE and, if so, whether the Company is the primary beneficiary. If the Company is not the primary beneficiary in a VIE, the Company accounts for the investment or other variable interest in accordance with applicable GAAP.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Company has concluded that Ablecom Technology, Inc. (“Ablecom”) and its affiliate, Compuware Technology, Inc. ("Compuware"), are VIEs; however, the Company is not the primary beneficiary as it does not have the power to direct the activities that are most significant to the entities and therefore, the Company does not consolidate these entities. In performing its analysis, the Company considered its explicit arrangements with Ablecom and Compuware, all contractual arrangements with these entities. Also, as a result of the substantial related party relationships between the Company and these entities, the Company considered whether any implicit arrangements exist that would cause the Company to protect these related parties’ interests from suffering losses. The Company determined it has no material implicit arrangements with Ablecom, Compuware or their shareholders.

The Company and Ablecom jointly established Super Micro Asia Science and Technology Park, Inc. (the "Management Company") in Taiwan to manage the common areas shared by the Company and Ablecom for its separately constructed manufacturing facilities. In fiscal year 2012, each party contributed $0.2 million for a 50% ownership interest of the Management Company. The Company has concluded that the Management Company is a VIE, and the Company is the primary beneficiary as it has the power to direct the activities that are most significant to the Management Company. For the fiscal years ended 2023, 2022 and 2021, the accounts of the Management Company were consolidated with the accounts of Super Micro Computer, and a noncontrolling interest was recorded for Ablecom's interest in the net assets and operations of the Management Company. Net income (loss) attributable to Ablecom's interest was not material for the periods presented and was included in general and administrative expenses in the Company's consolidated statements of operations.

Foreign Currency Transactions

The functional currency of the Company’s international subsidiaries is the U.S. dollar, with the exception of Super Micro Asia and Technology Park, Inc., a consolidated variable interest entity, and Gemini. Monetary assets and liabilities of the Company's international subsidiaries that are denominated in foreign currency are remeasured into U.S. dollars at period-end exchange rates. Non-monetary assets and liabilities that are denominated in the foreign currency are remeasured into U.S. dollars at the historical rates. Revenue and expenses that are denominated in the foreign currency are remeasured into U.S. dollars at the average exchange rates during the period. Remeasurement of foreign currency accounts and resulting foreign exchange transaction gains and losses, are reflected in the consolidated statements of operations in other income (expense), net.

The functional currency of Super Micro Asia and Technology Park, Inc. and Gemini is New Taiwanese Dollar (“NTD”). Assets and liabilities are translated to U.S. dollars at the period-end exchange rate. Revenues and expenses are translated using the average exchange rate for the period. The effects of foreign currency translation are included in stockholders’ equity as a component of accumulated other comprehensive (loss) income in the accompanying consolidated balance sheets and periodic movements are summarized as a line item in the consolidated statements of comprehensive income.

The Company has an investment in a privately-held company that is accounted for under the equity method (the "Corporate Venture"). The functional currency of the Corporate Venture is the Chinese Yuan. Adjustments for the Company's share of the effects of foreign currency translation from local currency to U.S. dollars are recorded as increases or decreases to the carrying value of the investment and included in stockholders’ equity as a component of accumulated other comprehensive (loss) income in the accompanying consolidated balance sheets and periodic movements are summarized as a line item in the consolidated statements of comprehensive income.

Net Income Per Common Share

Basic net income per common share is computed by dividing net income by the weighted-average number of shares of common stock outstanding during the period. Diluted net income per common share is computed by dividing net income by the weighted-average number of shares of common stock outstanding during the period increased to include the number of additional shares of common stock that would have been outstanding if the potentially dilutive securities had been issued. Potentially dilutive securities include outstanding stock options and unvested RSUs and PRSUs. Contingently issuable shares are included in computing basic net income per common share as of the date that all necessary conditions, including service vesting conditions have been satisfied. Contingently issuable shares are considered for computing diluted net income per common share as of the beginning of the period in which all necessary conditions have been satisfied and the only remaining vesting condition is a service vesting condition.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Under the treasury stock method, an increase in the fair market value of the Company's common stock results in a greater dilutive effect from outstanding stock options and RSUs and PRSUs. Additionally, the exercise of stock options and the vesting of RSUs results in a further dilutive effect on net income per share.

The computation of basic and diluted net income per common share is as follows (in thousands, except per share amounts):

	Years Ended June 30,		
	2023	2022	2021
Numerator:			
Net income	$ 639,998	$ 285,163	$ 111,865
Denominator:			
Weighted-average shares outstanding	52,925	51,478	51,157
Effect of dilutive securities	3,046	2,137	2,350
Weighted-average diluted shares	55,970	53,615	53,507
Basic net income per common share	$ 12.09	$ 5.54	$ 2.19
Diluted net income per common share	$ 11.43	$ 5.32	$ 2.09

For the fiscal years ended June 30, 2023, 2022 and 2021, the Company had stock options, RSUs and PRSUs outstanding that could potentially dilute basic earnings per share in the future but were excluded from the computation of diluted net income per share in the periods presented, as their effect would have been anti-dilutive. The anti-dilutive common share equivalents resulting from outstanding equity awards were 177,795, 475,529, and 670,179 for the fiscal years ended June 30, 2023, 2022 and 2021, respectively.

Concentration of Supplier Risk

Certain materials used by the Company in the manufacturing of its products are available from a limited number of suppliers. Shortages could occur in these materials due to an interruption of supply or increased demand in the industry. Two suppliers accounted for 13.5% and 30.7% of total purchases for the fiscal year ended June 30, 2023. The same two suppliers accounted for 18.1% and 11.4% of total purchases for the fiscal year ended June 30, 2022. The same two suppliers accounted for 20.3% and 11.8% of total purchases for the fiscal years ended June 30, 2021. Purchases from Ablecom and Compuware, related parties of the Company as noted in Part II, Item 8, Note 9, "Related Party Transactions," accounted for a combined 6.6%, 8.3%, and 7.8% of total cost of sales for the fiscal years ended June 30, 2023, 2022 and 2021, respectively.

Concentration of Credit Risk

Financial instruments which potentially subject the Company to concentration of credit risk consist primarily of cash and cash equivalents, restricted cash, investment in an auction rate security and accounts receivable. No single customer accounted for 10% or more of the net sales in any of fiscal years 2023, 2022 and 2021. Two customers accounted for 22.9% and 19.3% of accounts receivable, net as of June 30, 2023 and another customer accounted for 21.7% of accounts receivable, net as of June 30, 2022.

Treasury Stock

The Company accounts for treasury stock under the cost method. Upon the retirement of treasury shares, the Company deducts the par value of the retired treasury shares from common stock and allocates the excess of cost over par as a deduction to additional paid-in capital based on the pro-rata portion of additional paid-in-capital, and the remaining excess as a deduction to retained earnings. Retired treasury shares revert to the status of authorized but unissued shares.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Accounting Pronouncements Recently Adopted

In December 2019, the FASB issued amended guidance, Simplifying the Accounting for Income Taxes, to remove certain exceptions to the general principles from ASC 740 - Income Taxes, and to improve consistent application of U.S. GAAP for other areas of ASC 740 by clarifying and amending existing guidance. The guidance is effective for the Company from July 1, 2021. The adoption of the guidance in the fiscal year ended 2022 did not have a material impact on its consolidated financial statements and disclosures.

In March 2020, the FASB issued authoritative guidance, Facilitation of the Effects of Reference Rate Reform on Financial Reporting. The new guidance provides optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference London Interbank Offered Rate ("LIBOR") or another reference rate expected to be discontinued. This ASU provides optional expedients and exceptions for applying U.S. GAAP to contracts affected by *reference rate reform* if certain criteria are met. In December 2022, FASB issued ASU 2022-06 (ASC Topic 848) and deferred the sunset date from December 31, 2022 to December 31, 2024. The Company adopted the guidance in the quarter ended June 30, 2023 on a prospective basis and has transitioned from an interest rate based on LIBOR to Secured Overnight Financing Rate ("SOFR"). The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

Note 2. Fair Value Disclosure

The financial instruments of the Company measured at fair value on a recurring basis are included in cash equivalents, other assets and accrued liabilities. The Company classifies its financial instruments, except for its investment in an auction rate security, within Level 1 or Level 2 in the fair value hierarchy because the Company uses quoted prices in active markets or alternative pricing sources and models using market observable inputs to determine their fair value.

The Company’s investment in an auction rate security is classified within Level 3 of the fair value hierarchy as the determination of its fair value was not based on observable inputs as of June 30, 2023 and June 30, 2022. See Part II, Item 8, Note 1, "Organization and Summary of Significant Accounting Policies," for a discussion of the Company’s policies regarding the fair value hierarchy. The Company is using the discounted cash flow method to estimate the fair value of the auction rate security at each period end and the following assumptions: (i) the expected yield based on observable market rate of similar securities, (ii) the security coupon rate that is reset monthly, (iii) the estimated holding period and (iv) a liquidity discount. The liquidity discount assumption is based on the management estimate of lack of marketability discount of similar securities and is determined based on the analysis of financial market trends over time, recent redemptions of securities and other market activities. The Company performed a sensitivity analysis and applying a change of either plus or minus 100 basis points in the liquidity discount does not result in a significantly higher or lower fair value measurement of the auction rate security as of June 30, 2023.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Financial Assets and Liabilities Measured on a Recurring Basis

The following table sets forth the Company's financial instruments as of June 30, 2023 and 2022, which are measured at fair value on a recurring basis by level within the fair value hierarchy. These are classified based on the lowest level of input that is significant to the fair value measurement (in thousands):

June 30, 2023	Level 1	Level 2	Level 3	Asset at Fair Value
Assets				
Money market funds[1]	$ 20,823	$ —	$ —	$ 20,823
Certificates of deposit[2]	—	462	—	462
Auction rate security	—	—	1,843	1,843
Total assets measured at fair value	$ 20,823	$ 462	$ 1,843	$ 23,128

June 30, 2022	Level 1	Level 2	Level 3	Asset at Fair Value
Assets				
Money market funds[1]	$ 20,220	$ —	$ —	$ 20,220
Certificates of deposit[2]	—	832	—	832
Auction rate security	—	—	1,590	1,590
Total assets measured at fair value	$ 20,220	$ 832	$ 1,590	$ 22,642

(1) $20.6 million and $20.0 million in money market funds are included in cash and cash equivalents and $0.2 million and $0.2 million in money market funds are included in restricted cash, non-current in other assets in the consolidated balance sheets as of June 30, 2023 and 2022, respectively.

(2) $0.2 million and $0.2 million in certificates of deposit are included in cash and cash equivalents, $0.1 million and $0.3 million in certificates of deposit are included in prepaid expenses and other assets, and $0.2 million and $0.3 million in certificates of deposit are included in restricted cash, non-current in other assets in the consolidated balance sheets as of June 30, 2023 and 2022, respectively.

On a quarterly basis, the Company also evaluates the current expected credit loss by considering factors such as historical experience, market data, issuer-specific factors, and current economic conditions. For the fiscal year ended June 30, 2023 and 2022, the credit losses related to the Company's investments were not material.

There was an immaterial movement in the balances of the Company's financial assets measured at fair value on a recurring basis, consisting of investment in an auction rate security, using significant unobservable inputs (Level 3) for fiscal years 2023 and 2022.

There were no transfers between Level 1, Level 2 or Level 3 financial instruments in fiscal years 2023 and 2022.

The following is a summary of the Company's investment in an auction rate security as of June 30, 2023 and 2022 (in thousands):

	June 30, 2023			
	Cost Basis	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Auction rate security	$ 1,750	$ 287	$ (194)	$ 1,843

	June 30, 2022			
	Cost Basis	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Auction rate security	$ 1,750	$ —	$ (160)	$ 1,590

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

For the fiscal year ended June 30, 2023, the Company recognized $0.3 million of unrealized gain for the auction rate security in other comprehensive income based on the current valuation. For the fiscal year ended June 30, 2022, the Company recognized $0.03 million of unrealized gain for the auction rate security in other comprehensive income based on the current valuation. For the fiscal year ended June 30, 2021, the Company's loss recognized in other comprehensive income for the auction rate security was immaterial.

The Company measures the fair value of outstanding debt for disclosure purposes on a recurring basis. As of June 30, 2023 and 2022, total debt of $290.3 million and $596.8 million, respectively, is reported at amortized cost. This outstanding debt is classified as Level 2 as it is not actively traded. The amortized cost of the outstanding debt approximates the fair value.

Other Financial Assets - Investments into Non-Marketable Equity Securities

The Company's non-marketable equity securities are investments in privately held companies without readily determinable fair values in the amount of $1.7 million and $1.2 million as of June 30, 2023, and 2022, respectively. The Company accounts for these investments at cost minus impairment, if any, plus or minus changes from observable price changes in orderly transactions for the identical or similar investments by the same issuer. During the years ended June 30, 2023 and 2022, the Company did not record any upward or downward adjustments to the carrying values of the non-marketable equity securities related to observable price changes. The Company also did not record any impairment to the carrying values of the non-marketable equity securities during fiscal year 2023, 2022 and 2021.

Note 3. Revenue

Disaggregation of Revenue

The Company disaggregates revenue by type of product and geographical market in order to depict the nature, amount, and timing of revenue and cash flows. Service revenues, which are less than 10%, are not a significant component of total revenue and are aggregated within the respective categories.

The following is a summary of net sales by product type (in thousands):

	Years Ended June 30,		
	2023	2022	2021
Server and storage systems	$ 6,569,814	$ 4,463,833	$ 2,790,305
Subsystems and accessories	553,668	732,266	767,117
Total	$ 7,123,482	$ 5,196,099	$ 3,557,422

Server and storage systems constitute an assembly and integration of subsystems and accessories, and related services. Subsystems and accessories are comprised of serverboards, chassis and accessories.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

International net sales are based on the country and geographical region to which the products were shipped. The following is a summary of net sales by geographic region (in thousands):

	Years Ended June 30,		
	2023	2022	2021
United States	$ 4,834,061	$ 3,035,523	$ 2,107,910
Asia	1,050,837	1,139,898	699,653
Europe	1,003,046	825,200	614,826
Other	235,538	195,478	135,033
Total	$ 7,123,482	$ 5,196,099	$ 3,557,422

Contract Balances

Generally, the payment terms of the Company's offerings range from 30 to 60 days. In certain instances, customers may prepay for products and services in advance of delivery. Receivables relate to the Company's unconditional right to consideration for performance obligations either partially or fully completed.

Contract assets are rights to consideration in exchange for goods or services that the Company has transferred to a customer when such right is conditional on something other than the passage of time. Such contract assets are insignificant to the Company's consolidated financial statements.

Contract liabilities consist of deferred revenue and relate to amounts invoiced to or advance consideration received from customers, which precede the Company's satisfaction of the associated performance obligations. The Company's deferred revenue primarily results from customer payments received upfront for extended warranties and on-site services because these performance obligations are satisfied over time. Additionally, at times, deferred revenue may fluctuate due to the timing of advance consideration received from non-cancellable non-refundable contract liabilities relating to the sale of future products. Revenue recognized during fiscal year ended June 30, 2023, which was included in the opening deferred revenue balance as of June 30, 2022, of $233.8 million, was $109.0 million.

Deferred revenue increased $70.6 million as of June 30, 2023, as compared to the fiscal year ended June 30, 2022. This increase was mainly due to deferral on invoiced amounts for service contracts during the period exceeding the recognized revenue from contracts entered into in prior periods. This was accompanied by a $5.4 million increase in non-cancellable non-refundable advance consideration or cash consideration received from customers which preceded the Company's satisfaction of the associated performance obligations relating to product sales expected to be fulfilled in the next 12 months.

Transaction Price Allocated to the Remaining Performance Obligations

Remaining performance obligations represent in aggregate the amount of transaction price that has been allocated to performance obligations not delivered, or only partially delivered, as of the end of the reporting period. The Company applies the exemption to not disclose information about remaining performance obligations that are part of a contract that has an original expected duration of one year or less. These performance obligations generally consist of services, such as on-site services, including integration services and extended warranty services that are contracted for one year or less, and products for which control has not yet been transferred. The value of the transaction price allocated to remaining performance obligations as of June 30, 2023, was approximately $304.4 million. The Company expects to recognize approximately 44% of remaining performance obligations as revenue in the next 12 months, and the remainder thereafter.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Capitalized Contract Acquisition Costs and Fulfillment Cost

Contract acquisition costs are those incremental costs that the Company incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. Contract acquisition costs consist primarily of incentive bonuses paid to Company employees. Contract acquisition costs are considered incremental and recoverable costs of obtaining and fulfilling a contract with a customer and are therefore capitalizable. The Company applies the practical expedient to expense incentive bonus costs as incurred if the amortization period would be one year or less, generally upon delivery of the associated server and storage systems or components. Where the amortization period of the contract cost would be more than a year, the Company applies judgment in the allocation of the incentive bonus cost asset between hardware and service performance obligations and expenses the cost allocated to the hardware performance obligations upon delivery of associated server and storage systems or components and amortizes the cost allocated to service performance obligations over the period the services are expected to be provided. Contract acquisition costs allocated to service performance obligations that are subject to capitalization are insignificant to the Company's consolidated financial statements.

Contract fulfillment costs consist of costs paid in advance for outsourced services provided by third parties to the extent they are not in the scope of other guidance. Fulfillment costs paid in advance for outsourced services provided by third parties are capitalized and amortized over the period the services are expected to be provided. Such fulfillment costs are insignificant to the Company's consolidated financial statements.

Note 4. Accounts Receivable Allowances

The Company has established an allowance for credit losses. The allowance for credit losses is based upon the age of outstanding receivables, credit risk of specific customers, historical trends related to past losses and other relevant factors. Accounts receivable allowances as of June 30, 2023, 2022 and 2021 consisted of the following (in thousands):

	Beginning Balance	Charged to Cost and Expenses (Recovered), net	Write-offs	Ending Balance
Allowance for credit losses				
Year ended June 30, 2023	$1,753	$(13)	$(1,659)	$82
Year ended June 30, 2022	$2,591	$(840)	$2	$1,753
Year ended June 30, 2021	$4,586	$(820)	$(1,175)	$2,591

Note 5. Inventories

Inventories as of June 30, 2023 and 2022 consisted of the following (in thousands):

	June 30,	
	2023	2022
Finished goods	$ 1,045,177	$ 1,025,555
Work in process	71,874	209,576
Purchased parts and raw materials	328,513	310,475
Total inventories	$ 1,445,564	$ 1,545,606

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 6. Property, Plant, and Equipment

Property, plant and equipment as of June 30, 2023 and 2022 consisted of the following (in thousands):

	June 30,	
	2023	2022
Buildings	$ 143,496	$ 143,509
Machinery and equipment	130,151	113,665
Land	86,642	84,616
Building and leasehold improvements[1]	59,634	55,034
Furniture and fixtures[1]	36,303	33,417
Software	23,098	23,186
Buildings construction in progress	303	303
	479,627	453,730
Accumulated depreciation and amortization	(189,387)	(167,758)
Property, plant and equipment, net	$ 290,240	$ 285,972

(1) Certain amounts have been reclassified from Furniture and fixtures to Building and leasehold improvements for the year ended June 30, 2022 to conform to current year presentation.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 7. Short-term and Long-term Debt

Short-term and long-term debt obligations as of June 30, 2023 and 2022 consisted of the following (in thousands):

	June 30, 2023	June 30, 2022
Line of credit:		
2018 Bank of America Credit Facility	$ —	$ 268,245
2022 Bank of America Credit Facility	—	9,500
Cathay Bank Line of Credit	131,583	30,000
2021 CTBC Credit Lines	—	84,800
HSBC Bank Credit Facility	—	30,000
2021 E.SUN Bank Credit Facility	—	7,800
Mega Bank Credit Facility	—	3,500
Total line of credit	131,583	433,845
Term loan facilities:		
Chang Hwa Bank Credit Facility due October 15, 2026	26,853	33,643
CTBC Term Loan Facility, due June 4, 2030	38,208	40,372
2021 CTBC Credit Lines, due August 15, 2026	4,721	5,468
2021 E.SUN Bank Credit Facility, due September 15, 2026	33,513	43,064
2022 ESUN Bank Credit Facility, due August 15, 2027	16,756	—
Mega Bank Credit Facility, due September 15, 2026	38,668	40,372
Total term loans	158,719	162,919
Total debt	290,302	596,764
Short-term debt and current portion of long-term debt	170,123	449,146
Debt, non-current	$ 120,179	$ 147,618

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Activities under Revolving Lines of Credit and Term Loans

Available borrowings and interest rates as of June 30, 2023 and June 30, 2022 consisted of the following (in thousands except for percentages):

	June 30, 2023		June 30, 2022	
	Available borrowings	Interest rate	Available borrowings	Interest rate
Line of credit:				
2018 Bank of America Credit Facility	$ 350,000	6.57%	$ 81,755	2.53%
2022 Bank of America Credit Facility	$ 20,000	3.36%	$ 10,500	1.85%
Cathay Bank Line of Credit	$ 417	7.08%	$ 102,000	4.00%
2021 CTBC Credit Lines	$ —	—	$ 20,200	1.80% - 2.52%
2022 CTBC Credit Line	$ 105,000	3.33%	$ —	—
Chang Hwa Bank Credit Facility	$ 20,000	6.58%	$ 20,000	3.50%
HSBC Bank Credit Facility	$ 50,000	4.50%	$ —	1.95% - 2.20%
2021 E.SUN Bank Credit Facility	$ —	—	$ 22,200	1.80%
2022 E.SUN Bank Credit Facility	$ 30,000	4.18%	$ —	—
Mega Bank Credit Facility	$ 20,000	2.55%	$ 16,500	1.85%
Term loan facilities:				
Chang Hwa Bank Credit Facility due October 15, 2026	$ —	1.55%	$ —	1.18%
CTBC Term Loan Facility, due June 4, 2030	$ —	1.20%	$ —	0.83%
2021 CTBC Credit Lines, due August 15, 2026	$ —	1.40%	$ 6,308	1.03%
2021 E.SUN Bank Credit Facility, due September 15, 2026	$ 7,734	1.75%	$ 10,766	1.37%
2022 ESUN Bank Credit Facility, due August 15, 2027	$ —	1.75%	$ —	—
Mega Bank Credit Facility, due September 15, 2026	$ —	1.40% - 1.60%	$ —	1.02% - 1.22%

Bank of America

2018 Bank of America Credit Facility

In April 2018, the Company entered into a revolving line of credit with Bank of America for up to $250.0 million (as amended from time to time, the "2018 Bank of America Credit Facility"). On March 3, 2022, the 2018 Bank of America Credit Facility was amended to, among other items, increase the size of the facility from $200.0 million to $350.0 million and change provisions relating to payments and LIBOR replacement mechanics to SOFR. The obligations bear a base interest rate plus 0.5% to 1.5% based on the SOFR availability. The amendment was accounted for as a modification and the impact was immaterial to the consolidated financial statements. Prior to that, on June 28, 2021, the 2018 Bank of America Credit Facility was amended to, among other items, extend the maturity to June 28, 2026, and increase the maximum amount that the Company can request the facility be increased from $100 million to $150 million. Interest accrued on any loans under the 2018 Bank of America Credit Facility is due on the first day of each month, and the loans are due and payable in full on the termination date of the 2018 Bank of America Credit Facility. Voluntary prepayments are permitted without early repayment fees or penalties. Subject to customary exceptions, the 2018 Bank of America Credit Facility is secured by substantially all of Super Micro Computer's assets, other than real property assets. Under the terms of the 2018 Bank of America Credit Facility, the Company is not permitted to pay any dividends. The 2018 Bank of America Credit Facility contains customary representations and warranties and customary affirmative and negative covenants applicable to the Company and its subsidiaries and contains a financial covenant, which requires that the Company maintain a certain fixed charge coverage ratio, for each twelve-month period while in a Trigger Period, as defined in the agreement, is in effect.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

As of June 30, 2023 and 2022, the total outstanding borrowings under the 2018 Bank of America Credit Facility were $0.0 million and $268.2 million, respectively. The interest rate under the 2018 Bank of America Credit Facility as of June 30, 2023 and 2022 was 6.57% and 2.53%, respectively. The balance of debt issuance costs outstanding as of June 30, 2023 and June 30, 2022 was $0.7 million and $1.0 million, respectively. The Company is in compliance with all covenants under the 2018 Bank of America Credit Facility, and as of June 30, 2023, the Company's available borrowing capacity was $350.0 million, subject to the borrowing base limitation and compliance with other applicable terms.

2022 Bank of America Credit Facility

On March 23, 2022, the Company through its Taiwan subsidiary entered into an Uncommitted Facility Agreement for credit lines with Bank of America – Taipei Branch (the "2022 Bank of America Credit Facility"), for an amount not to exceed in aggregate $20.0 million. The interest rate will be quoted by Bank of America - Taipei Branch for each drawdown. As of June 30, 2023 and 2022, the total outstanding borrowings were $0.0 million and $9.5 million, respectively, with an interest rate of 3.36% and 1.85%, respectively, per annum under the 2022 Bank of America Credit Facility. As of June 30, 2023, the amount available for future borrowing under the 2022 Bank of America Credit Facility was $20.0 million.

<u>Cathay Bank</u>

Cathay Bank Line of Credit

On May 19, 2022 (the "Cathay Bank Effective Date"), the Company entered into a Loan Agreement (the "Cathay Bank Loan Agreement") with Cathay Bank pursuant to which Cathay Bank has agreed to provide a revolving line of credit of up to $132 million (the "Commitment") for the five-year period following the Cathay Bank Effective Date. On the fifth anniversary of the Cathay Bank Effective Date, the total outstanding borrowings under the Cathay Bank Loan Agreement will automatically be converted into a five-year term loan. The interest rate under the Cathay Bank Loan Agreement is based upon either the SOFR index or prime rate index, at the Company's quarterly election, plus a tiered spread that is based upon the average amounts deposited by the Company at Cathay Bank as a percentage of the Commitment. The spread is either 1.65% or 2.0% if the index is SOFR index, or 1.25% or 1.00% if the spread is the prime rate index with the higher spread applying in each case if an amount less than 25% of the Commitment is on deposit with Cathay Bank. Interest is payable monthly during the five-year period following the Cathay Bank Effective Date. After conversion to a term loan on the fifth anniversary of the Cathay Bank Effective Rate, interest is payable monthly based on a 20-year amortization schedule with the unpaid balance due at maturity. The Cathay Bank Loan Agreement has customary default provisions and is cross defaulted with other indebtedness to the extent such default causes a material adverse effect with respect to the Commitment. The Company is required to comply with certain covenants, including maintaining a fixed charge coverage ratio of at least 1.15:1.00. The Company is required to pay Cathay Bank an unused facility fee in the amount of 0.15% per annum of the undrawn Commitment payable quarterly in arrears. The Company is in compliance with all covenants under the Cathay Bank Loan Agreement.

Borrowings under the Cathay Bank Loan Agreement are secured against certain of the Company's properties located in San Jose, California (the "Collateral"). The Company has agreed to indemnify Cathay Bank with respect to certain environmental matters with respect to the Collateral. The Collateral is subject to re-appraisal every two years at the election of Cathay Bank, and Cathay Bank reserves the right to reduce the Commitment in accordance with such appraised values. As of June 30, 2023 and 2022 the outstanding borrowings under the Cathay Bank Loan Agreement were $131.6 million and $30.0 million, respectively. As of June 30, 2023, the Company's available borrowing capacity was $0.4 million under the Cathay Bank Loan Agreement.

<u>CTBC Bank</u>

CTBC Credit Facility

The Company through its Taiwan subsidiary was party to (i) that certain credit agreement, dated May 6, 2020, with CTBC Bank Co., Ltd. ("CTBC Bank"), which provided for a ten-year, non-revolving term loan facility (the "2020 CTBC Term Loan Facility") to obtain up to NTD 1,200.0 million ($40.7 million U.S. dollar equivalent) and (ii) that certain credit agreement, dated August 24, 2020, with CTBC Bank (the "CTBC Credit Facility"), which provided for total borrowings of up to $50.0 million (collectively, the "Prior CTBC Credit Lines").

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

As of June 30, 2023 and 2022, the amounts outstanding under the 2020 CTBC Term Loan Facility were $38.2 million and $40.4 million, respectively. The interest rates for these loans were 1.20% per annum as of June 30, 2023 and 0.83% as of June 30, 2022.The Company was in compliance with all financial covenants under 2020 CTBC Term Loan Facility as of June 30, 2023.

CTBC 2021 Credit Lines

On July 20, 2021 (the “Effective Date”), the Company through its Taiwan subsidiary entered into a general agreement for omnibus credit lines with CTBC Bank (the “2021 CTBC Credit Lines), which replaced the Prior CTBC Credit Lines in their entirety and permit borrowings, from time to time, pursuant to (i) a term loan facility of up to NTD 1,550.0 million ($55.4 million U.S. dollar equivalent) including the existing 2020 CTBC Term Loan Facility of NTD 1,200.0 million ($42.9 million U.S. dollar equivalent) and a new 75-month, non-revolving term loan facility of NTD 350.0 million ($12.5 million U.S. dollar equivalent) to use to purchase machinery and equipment for the Company’s Bade Manufacturing Facility located in Taiwan (the “2021 CTBC Machine Loan”), and (ii) a line of credit facility of up to $105.0 million (the “2021 CTBC Credit Facility”), which increased the borrowing capacity of CTBC Credit Facility. The 2021 CTBC Credit Facility provides (i) a 12-month NTD 1,250.0 million ($44.7 million U.S. dollar equivalent) term loan facility secured by the land and building located in Bade, Taiwan with an interest rate equal to the lender's established NTD interest rate plus 0.50% per annum which is adjusted monthly, which term loan facility also includes a 12-month guarantee of up to NTD 100.0 million ($3.6 million U.S. dollar equivalent) with an annual fee equal to 0.50% per annum, and (ii) a 12-month revolving line of credit of up to 100% of eligible accounts receivable in an aggregate amount of up to $105.0 million with an interest rate equal to the lender's established USD interest rate plus 0.70% to 0.75% per annum which is adjusted monthly.

Interest rates are to be established according to individual credit arrangements established pursuant to the 2021 CTBC Credit Lines, which interest rates shall be subject to adjustment depending on the satisfaction of certain conditions. Term loans made pursuant to the 2021 CTBC Credit Lines are secured by certain of the Taiwan subsidiary’s assets, including certain property, land, plant, and equipment. There are various financial covenants under the 2021 CTBC Credit Lines, including current ratio, debt service coverage ratio, and financial debt ratio requirements. Amounts outstanding under the Prior CTBC Credit Lines on the Effective Date were assumed by the 2021 CTBC Credit Lines.

As of June 30, 2023 and 2022, under the 2021 CTBC Machine Loan, the amounts outstanding were $4.7 million and $5.5 million, respectively. The interest rates for these loans were 1.40% per annum as of June 30, 2023 and 1.03% as of June 30, 2022. As of June 30, 2023 and 2022, the outstanding borrowings under the 2021 CTBC Credit Facility revolving line of credit were $0.0 million and $84.8 million, respectively. The interest rates ranged from 1.80% to 2.52% as of June 30, 2022. The Company was in compliance with all financial covenants under 2021 CTBC Machine Loan as of June 30, 2023.

2022 CTBC Credit Line

Pursuant to banking practices in Taiwan to confirm loan agreements annually, on October 3, 2022, the Company through the Taiwan Subsidiary entered into an Agreement for Individually Negotiated Terms and Conditions with CTBC (such credit line, the “2022 CTBC Credit Line”) related to the 2021 CTBC Credit Lines. The terms of the 2022 CTBC Credit Line remain substantially similar to the 2021 CTBC Credit Line, except the 2022 CTBC Credit Line made certain minor amendments to the monthly interest payment date. The total borrowing cap under the whole arrangement is $105.0 million and NTD 1,550.0 million ($55.4 million U.S. dollar equivalent).

As of June 30, 2023, the amount available for future borrowing under the 2022 CTBC Credit Line was $105 million. As of June 30, 2023, the net book value of land and building located in Bade, Taiwan, collateralizing the 2022 CTBC Credit Line was $74.8 million.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Chang Hwa Bank

Chang Hwa Bank Credit Facility

On October 5, 2021 (the “Chang Hwa Bank Effective Date”), the Company through its Taiwan subsidiary entered into a credit facility (the “Chang Hwa Bank Credit Facility”) with Chang Hwa Commercial Bank, Ltd. (“Chang Hwa Bank”). The Chang Hwa Bank Credit Facility permits borrowings of up to NTD 1,000.0 million ($36.0 million U.S. dollar equivalent), including up to $20.0 million as loans, advances, acceptances, bills, bank guarantees, overdrafts, letters of credit, and other types of drawdown instruments. The Chang Hwa Bank Credit Facility has customary default provisions permitting Chang Hwa Bank to terminate or reduce the credit limit, shorten the credit period, or deem all liabilities due and payable, including in cross-default provisions with respect to the other Taiwan subsidiary debt obligations. Under the Chang Hwa Bank Credit Facility, Chang Hwa Bank has the right to demand collateral for debts owed. Terms for specific drawdown instruments issued under the Chang Hwa Bank Credit Facility, such as credit amount, term of use, mode of drawdown, specific lending rate, and other relevant terms, are to be set forth in separate loan contracts (each, a “Loan Contract”) negotiated with Chang Hwa Bank. On the Chang Hwa Bank Effective Date, three Loan Contracts were entered into. None of the three Loan Contracts are secured and there are no financial covenants. The Company is not a guarantor under Chang Hwa Bank Credit Facility.

On May 13, 2022, Chang Hwa Bank notified that they increased the borrowing capacity limit by $20.0 million.

As of June 30, 2023 and 2022, the total outstanding borrowings under the Chang Hwa Bank Credit Facility were denominated in NTD and remeasured into U.S. dollars of $26.9 million and $33.6 million, respectively. The interest rate under the Chang Hwa Bank Credit Facility as of June 30, 2023 and 2022 was 1.55% per annum and 1.175% per annum, respectively. As of June 30, 2023, the amount available for future borrowing under the Chang Hwa Bank Credit Facility was $20.0 million.

E.SUN Bank

2021 E.SUN Bank Credit Facility

The Company through its Taiwan subsidiary was party to that certain General Credit Agreement, dated December 2, 2020, with E.SUN Bank (“E.SUN Bank”), which provided for the issuance of loans, advances, acceptances, bills, bank guarantees, overdrafts, letters of credit, and other types of drawdown instruments up to a credit limit of US $30.0 million (the “Prior E.SUN Bank Credit Facility”). The term of the Prior E.SUN Bank Credit Facility expired on September 18, 2021.

On September 13, 2021 (the “Old E.SUN Bank Effective Date”), the Company through its Taiwan subsidiary entered into a new General Credit Agreement with E.SUN Bank, which replaced the Prior E.SUN Bank Credit Facility (the “2021 E.SUN Bank Credit Facility”). The 2021 E.SUN Bank Credit Facility permitted borrowings of up to (i) NTD 1,600.0 million ($57.6 million U.S. dollar equivalent) and (ii) $30.0 million as loans, advances, acceptances, bills, bank guarantees, overdrafts, letters of credit, and other types of drawdown instruments. Other terms of the 2021 E.SUN Bank Credit Facility were substantially identical to the Prior E.SUN Bank Credit Facility. Generally, interest for base rate loans made under the 2021 E.SUN Bank Credit Facility were based upon an average interbank overnight call loan rate in the finance industry (such as LIBOR or TAIFX) plus a fixed margin and is subject to occasional adjustment. The 2021 E.SUN Bank Credit Facility had customary default provisions permitting E.SUN Bank to terminate or reduce the credit limit, shorten the credit period, or deem all liabilities due and payable, including in the event the Taiwan subsidiary has an overdue liability at another financial organization. There were various financial covenants under the 2021 E.SUN Bank Credit Facility, including current ratio, net debt ratio, and interest coverage requirements to be reviewed on a yearly basis at fiscal year end.

Terms for specific drawdown instruments issued under the 2021 E.SUN Bank Credit Facility, such as credit amount, term of use, mode of drawdown, specific lending rate, and other relevant terms, were to be set forth in Notifications and Confirmation of Credit Conditions (a “Notification and Confirmation”) negotiated with E.SUN Bank. A Notification and Confirmation was entered into on the Old E.SUN Bank Effective Date for (i) a five-year, non-revolving term loan facility to obtain up to NTD 1,600.0 million ($57.6 million U.S. dollar equivalent) in financing for use in research and development activities (the “Term Loan”), and (ii) a $30.0 million import loan (the “Import Loan”) with a tenor of 120 days. As of June 30, 2023 and 2022, the total outstanding borrowings under the Term Loan were denominated in NTD and remeasured into U.S. dollars of $33.5 million and $43.1 million, respectively. The interest rates for the Term Loan were 1.75% per annum as of June 30, 2023 and 1.37% per annum as of June 30, 2022.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

2022 E.SUN Bank Credit Facility

On August 9, 2022 (the "2022 E.SUN Bank Effective Date"), the Company through its Taiwan subsidiary, entered into a new General Credit Agreement with E.SUN Bank, which replaced the 2021 E.SUN Bank Credit Facility (the "2022 E.SUN Bank Credit Facility"). The 2022 E.SUN Bank Credit Facility permits borrowings of up to (i) NTD 1.8 billion ($61.0 million U.S. dollar equivalent) and (ii) US $30.0 million. Other terms of the 2022 E.SUN Bank Credit Facility are substantially identical to the 2021 E.SUN Bank Credit Facility. Generally, interest for base rate loans made under the 2022 E.SUN Bank Credit Facility are based upon an average interbank overnight call loan rate in the finance industry (such as TAIFX) plus a fixed margin and is subject to occasional adjustment. The 2022 E.SUN Bank Credit Facility has customary default provisions permitting E.SUN Bank to terminate or reduce the credit limit, shorten the credit period, or deem all liabilities due and payable, including in the event the Taiwan subsidiary has an overdue liability at another financial organization. The Company is not a guarantor of the New E.SUN Bank Credit Facility.

Terms for specific drawdown instruments issued under the 2022 E.SUN Bank Credit Facility, such as credit amount, term of use, mode of drawdown, specific lending rate, and other relevant terms, are to be set forth in a Notifications and Confirmation. Under a Notification and Confirmation entered into on the 2022 E.SUN Bank Effective Date, the Taiwan subsidiary and E.SUN Bank have agreed to both a Medium Term Credit Loan of NTD 680.0 million ($23.0 million U.S. dollar equivalent) with a tenor of five years (the "Medium Term Loan") and a drawdown of US $30.0 million under the 2022 E.SUN Bank Credit Facility for an import loan with a tenor of 120 days (the "2022 Import O/A Loan"). With respect to the Medium Term Loan, the interest rate thereunder is based upon a floating annual rate plus a fixed margin, subject to adjustment under certain circumstances. Interest payments are due on a monthly basis. Principal is amortized evenly on a monthly basis, with principal payments subject to a one year grace period prior to the commencement of repayment. The Medium Term Loan will be used by the Taiwan subsidiary to support its manufacturing activities (such as purchase of materials and components) ("Use of Proceeds"). Drawdowns may be in amounts of up to 80% of permitted Use of Proceeds expenses. The Taiwan subsidiary is subject to various financial covenants in connection with the Medium Term Loan, including a current ratio, net debt to equity ratio, and interest coverage ratio. The current Medium Term Loan and the prior medium term loan under the Prior E.SUN Bank Credit Facility shall not exceed in aggregate NTD 1.8 billion. With respect to the 2022 Import O/A Loan, the period of use is between April 28, 2022 and April 28, 2023. The interest rate thereunder is based on TAIFX3 plus a fixed margin, subject to negotiation on a monthly basis and adjustment under certain circumstances. Interest payments are due on a monthly basis, and the principal is repayable on the due date. Neither the Medium Term Loan nor 2022 Import O/A loan are secured. As of June 30, 2023, the amount outstanding under the Medium Term Loan was denominated in NTD and remeasured into US dollars of $16.8 million.

The Company was in compliance with all financial covenants under 2021 E.SUN Bank Credit Facility and 2022 E.SUN Bank Credit Facility as of June 30, 2023.

On June 17, 2023, the Company through the Taiwan subsidiary, entered into a Notification and Confirmation pursuant to which the Taiwan subsidiary and E.SUN Bank agreed to drawdowns of up to US$30 million for an import o/a financing loan with a tenor of 120 days (the "2023 Import O/A Loan"). The period of use is between May 16, 2023 and May 16, 2024. The interest rate thereunder is based on TAIFX3 plus a fixed margin, subject to negotiation on a monthly basis and adjustment under certain circumstances. Interest payments are due on a monthly basis, and principal is repayable on the due date. The 2023 Import O/A Loan is not secured. Such Notification and Confirmation replaced the Notification and Confirmation entered into on the 2022 E.SUN Bank Effective Date related to the 2022 Import O/A Loan.

As of June 30, 2023 and June 30, 2022, the amounts outstanding under the Import Loan were $0.0 million and $7.8 million, respectively. The interest rate for the fiscal year ended June 30, 2022 was 1.81% per annum. As of June 30, 2023, the amount available for future borrowing under the Import O/A Loan was $30 million.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

HSBC Bank

HSBC Bank Credit Facility

On January 7, 2022 (the "HSBC Bank Effective Date"), the Company, through its Taiwan subsidiary, entered into a General Loan, Export/Import Financing, Overdraft Facilities and Securities Agreement (the "Loan Agreement") with a Taiwan affiliate of HSBC Bank ("HSBC Bank"). The Loan Agreement provides for borrowings in the form of loans, export/import financings, overdrafts, commercial paper guaranties, and other types of drawdown instruments. The Loan Agreement has customary default provisions permitting HSBC Bank to terminate or reduce the credit limit, shorten the credit period, or deem all liabilities due and payable, including in the event the Company's Taiwan subsidiary fails to make payment of sums under another agreement which permits acceleration of maturity of such indebtedness. The Company is not a guarantor of the Loan Agreement.

Terms for specific drawdown instruments issued under the Loan Agreement, such as credit amount, term of use, mode of drawdown, specific lending rate, and other relevant terms, may be set forth in facility letters (each, a "Facility Letter") negotiated with HSBC Bank. Under a Facility Letter entered into on the HSBC Bank Effective Date, the Company's Taiwan subsidiary and HSBC Bank agreed to a $30.0 million export/seller trade facility under the Loan Agreement with a tenor of 120 days. The interest rate thereunder is based on HSBC Bank's base rate plus a fixed margin, subject to adjustment under certain circumstances. Interest payments are due on a monthly basis, and principal is repayable on the due date.

On February 7, 2023, the Company through the Taiwan subsidiary, entered into a new facility letter (the "New Facility Letter") with the Taiwan affiliate of HSBC Bank which expanded the prior $30 million facility letter entered into with HSBC Bank on January 7, 2022. The New Facility Letter permits borrowings up to a combined aggregate limit of $50.0 million which may be comprised of borrowings under a New Taiwan Dollar revolving facility with a sub-limit of NTD 300 million (the "NTD Revolver") and an export/seller facility with a sub-limit of $50 million (the "Export/Seller Facility"). Interest under both the NTD Revolver and Export/Seller Facility is based on HSBC Bank's base rate plus a fixed margin, subject to adjustment under certain circumstances. Interest payments thereunder are due on a monthly basis, or such other interest period as agreed by HSBC Bank, and principal is repayable on the due date. Amounts due under the New Facility Letter are currently not secured, but subject to HSBC Bank's right of set-off and right to repayment on demand and call for cash cover. As of June 30, 2023 and 2022, the outstanding borrowings under the HSBC Credit Facility were $0.0 million and $30.0 million, respectively. The interest rates for these loans were 4.50% per annum as of June 30, 2023 and ranged from 1.95% to 2.20% as of June 30, 2022. As of June 30, 2023, the amount available for future borrowing under the New Facility Letter was $50.0 million.

Mega Bank

Mega Bank Credit Facilities

On September 13, 2021 (the "Mega Bank Effective Date"), the Company through its Taiwan subsidiary entered into a NTD 1,200.0 million ($43.2 million U.S. dollar equivalent) credit facility (the "Mega Bank Credit Facility") with Mega International Commercial Bank ("Mega Bank"). The Mega Bank Credit Facility will be used to support manufacturing activities (such as purchase of materials and components), and to provide medium-term working capital (the "Permitted Uses"). Drawdowns under the Mega Bank Credit Facility may be made through December 31, 2024, with the first drawdown date not later than November 5, 2021. The first drawdown date was on October 4, 2021. Drawdowns may be in amounts of up to 80% of Permitted Uses certified to the Bank in drawdown certificates. The interest rate depends upon the amount borrowed under Mega Bank Credit Facility, and as of the Mega Bank Effective Date, ranged from 0.645% to 0.845% per annum. The interest rate is subject to adjustment in certain circumstances, such as events of default. Interest is payable monthly. Principal payments for amounts borrowed commence on the 15th day of the month following two years after the first drawdown and are repaid in monthly installments over a period of three years thereafter. The Mega Bank Credit Facility is unsecured and has customary default provisions permitting Mega Bank to reduce or cancel the extension of credit, or declare all principal and interest amounts immediately due and payable. As of June 30, 2023, the total outstanding borrowings under the Mega Bank Credit Facility were denominated in NTD and remeasured into U.S. dollars of $38.7 million and the interest rates ranged from 1.40% to 1.60% per annum. As of June 30, 2022, the total outstanding borrowings under the Mega Bank Credit Facility were denominated in NTD and remeasured into U.S. dollars of $40.4 million and the interest rates ranged from 1.02% to 1.22% per annum.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Credit Agreement with Mega Bank

On April 25, 2022, the Company through its Taiwan subsidiary, entered into a $20.0 million (or foreign currency equivalent) (the “2022 Credit Limit”) Omnibus Credit Authorization Agreement (the “2022 Omnibus Credit Authorization Agreement”) with Mega Bank. The 2022 Omnibus Credit Authorization Agreement permits individual credit authorizations subject to specified drawdown conditions up to the 2022 Credit Limit (on a revolving basis) to be used as loans for the purchase of materials or supplies.

Pursuant to the 2022 Omnibus Credit Authorization Agreement, the Taiwan subsidiary also entered into both a Credit Authorization Agreement (the “2022 Credit Authorization Agreement”) and Credit Authorization Approval Notice (the “2022 Credit Authorization Approval Notice”) with Mega Bank and an associated branch of Mega Bank, respectively. Pursuant to such Agreement and Notice, Mega Bank permits the Taiwan subsidiary to make drawdowns up to the 2022 Credit Limit for short-term loans for material purchases with a tenor not to exceed 120 days on a revolving basis. Drawdowns may be made through March 2023. The interest rate for each individual credit authorization is adjusted according to the Mega Bank’s USD basic loan interest rate at the time of signing the agreement which was 0.90% per annum. Interest on such drawdowns is based upon TAIFX OFFER for six months plus 0.23% then divided by 0.946, subject to periodic adjustment and adjustment in certain other circumstances, such as failure to maintain a sufficient balance in a demand deposit account with Mega Bank which are subject to the bank’s right of set off. The interest rate shall be adjusted once every month but shall not be lower than the USD basic loan interest rate plus 0.1%. If the loan involves the acceptance of a bill of exchange, the Company would be required to pay a handling fee at the annual rate of 0.75% calculated based on the number of actual acceptance days. The fee is paid in full upon acceptance and a minimum handling fee of NTD 400 is charged for each transaction. Amounts borrowed are otherwise unsecured, and the 2022 Credit Authorization Agreement has customary default provisions permitting Mega Bank to reduce the extension of credit, shorten the term for loan repayment or declare all of the amounts immediately due and payable. The Company is not a guarantor under the 2022 Credit Authorization Agreement or 2022 Credit Authorization Approval Notice.

On June 17, 2023, the Company through its Taiwan subsidiary, entered into a new Omnibus Credit Authorization Agreement (the “2023 Omnibus Authorization Agreement) and a Credit Authorization Approval Notice (the “2023 Credit Authorization Approval Notice”) with Mega Bank with the same 2022 Credit Limit which replaced the 2022 Omnibus Credit Authorization Agreement. Pursuant to such 2023 Credit Authorization Approval Notice, the associated Mega Bank branch permits the Taiwan subsidiary to make drawdowns up to the Credit Limit for short-term loans for material purchases and operating revolving with a tenor not to exceed 120 days for material purchases and 180 days on a revolving basis. Interest on material purchases drawdown denominated in US dollar is based upon TAIFX OFFER for either three or six months and operating revolving drawdown denominated in New Taiwan dollar is based upon TAIBOR OFFER for either three or six months, subject to periodic adjustment and adjustment in certain other circumstances, such as failure to maintain a sufficient balance in a demand deposit account with Mega Bank which are subject to the bank’s right of set off. Amounts borrowed are otherwise unsecured. The Company is not a guarantor under the 2023 Credit Authorization Approval Notice.

As of June 30, 2023, the amount outstanding under the 2023 Credit Authorization Agreement was $0.0 million. As of June 30, 2023, there was no amount outstanding under the 2022 Credit Authorization Agreement. As of June 30, 2022, the amount outstanding under the 2022 Credit Authorization Agreement was $3.5 million. The interest rates for the fiscal year ended June 30, 2023 and June 30, 2022, were 2.55% and 1.85% per annum, respectively. As of June 30, 2023, the amount available for future borrowing under the Credit Limit was $20.0 million.

SUPER MICRO COMPUTER, INC.
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Principal payments on short-term and long-term debt obligations are due as follows (in thousands):

Fiscal Year:		Principal Payments
2024	$	170,123
2025		42,461
2026		42,461
2027		18,447
2028		6,222
2029 and thereafter		10,588
Total short-term and long-term debt	$	290,302

Note 8. Leases

The Company leases offices, warehouses and other premises, vehicles and certain equipment leased under non-cancelable operating leases. Operating lease expense recognized, and supplemental cash flow information related to operating leases for the years ended June 30, 2023 and 2022 were as follows (in thousands):

	Years Ended June 30,			
		2023		2022
Operating lease expense (including expense for lease agreements with related parties of $561 and $711 for the years ended June 30, 2023 and 2022, respectively)	$	8,299	$	8,265
Cash payments for operating leases (including payments to related parties of $524 and $766 for the years ended June 30, 2023 and 2022, respectively)		8,275		8,007
New operating lease assets obtained in exchange for operating lease liabilities		3,197		11,151

During the years ended June 30, 2023 and 2022, the Company's costs related to short-term lease arrangements for real estate and non-real estate assets were immaterial. Non-lease variable payments expensed in the years ended June 30, 2023, 2022 and 2021 were $1.8 million, $1.1 million and $1.8 million, respectively.

As of June 30, 2023, the weighted average remaining lease term for operating leases was 3.0 years and the weighted average discount rate was 3.1%. Maturities of operating lease liabilities under noncancelable operating lease arrangements as of June 30, 2023, were as follows (in thousands):

Fiscal Year:		Maturities of operating leases
2024	$	7,756
2025		7,129
2026		3,000
2027		1,575
2028		536
Total future lease payments	$	19,996
Less: Imputed interest		(836)
Present value of operating lease liabilities	$	19,160

As of June 30, 2023, commitments under short-term lease arrangements and operating and financing leases that have not yet commenced were immaterial.

The Company has entered into lease agreements with related parties. See Part II, Item 8, Note 9, "Related Party Transactions" for a further discussion.

SUPER MICRO COMPUTER, INC.
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Note 9. Related Party Transactions

The Company has a variety of business relationships with Ablecom and Compuware. Ablecom and Compuware are both Taiwan corporations. Ablecom is one of the Company's major contract manufacturers; Compuware is both a distributor of the Company's products and a contract manufacturer for the Company. Ablecom's Chief Executive Officer, Steve Liang, is the brother of Charles Liang, the Company's President, Chief Executive Officer and Chairman of the Board. Steve Liang and his family members owned approximately 28.8% of Ablecom's stock and Charles Liang and his spouse, Sara Liu, who is also an officer and director of the Company, collectively owned approximately 10.5% of Ablecom's capital stock as of June 30, 2023. Bill Liang, a brother of both Charles Liang and Steve Liang, is a member of the Board of Directors of Ablecom. Bill Liang is also the Chief Executive Officer of Compuware, a member of Compuware's Board of Directors and a holder of a significant equity interest in Compuware. Steve Liang is also a member of Compuware's Board of Directors and is an equity holder of Compuware. Neither Charles Liang nor Sara Liu own any capital stock of Compuware and the Company does not own any of Ablecom or Compuware's capital stock.

Dealings with Ablecom

The Company has entered into a series of agreements with Ablecom, including multiple product development, production and service agreements, product manufacturing agreements, manufacturing services agreements and lease agreements for warehouse space.

Under these agreements, the Company outsources to Ablecom a portion of its design activities and a significant part of its server chassis manufacturing as well as an immaterial portion of other components. Ablecom manufactured approximately 91.9%, 88.2% and 91.8% of the chassis included in the products sold by the Company during fiscal years 2023, 2022 and 2021, respectively. With respect to design activities, Ablecom generally agrees to design certain agreed-upon products according to the Company's specifications, and further agrees to build the tools needed to manufacture the products. The Company pays Ablecom for the design and engineering services, and further agrees to pay Ablecom for the tooling. The Company retains full ownership of any intellectual property resulting from the design of these products and tooling.

With respect to the manufacturing aspects of the relationship, Ablecom purchases most of materials needed to manufacture the chassis from third parties and the Company provides certain components used in the manufacturing process (such as power supplies) to Ablecom through consignment or sales transactions. Ablecom uses these materials and components to manufacture the completed chassis and then sell them back to the Company. For the components purchased from the Company, Ablecom sells the components back to the Company at a price equal to the price at which the Company sold the components to Ablecom. The Company and Ablecom frequently review and negotiate the prices of the chassis the Company purchases from Ablecom. In addition to inventory purchases, the Company also incurs other costs associated with design services, tooling and other miscellaneous costs from Ablecom.

The Company's exposure to financial loss as a result of its involvement with Ablecom is limited to potential losses on its purchase orders in the event of an unforeseen decline in the market price and/or demand of the Company's products such that the Company incurs a loss on the sale or cannot sell the products. Outstanding cancellable and non-cancellable purchase orders from the Company to Ablecom on June 30, 2023 were $37.4 million and $23.7 million, respectively, and outstanding cancellable and non-cancellable purchase orders from the Company to Ablecom on June 30, 2022 were $39.5 million and $36.0 million, respectively, effectively representing the exposure to financial loss. The Company does not directly or indirectly guarantee any obligations of Ablecom, or any losses that the equity holders of Ablecom may suffer. Since Ablecom manufactures substantially all the chassis that the Company incorporates into its products, if Ablecom were to suddenly be unable to manufacture chassis for the Company, the Company's business could suffer if the Company is unable to quickly qualify substitute suppliers who can supply high-quality chassis to the Company in volume and at acceptable prices.

Dealings with Compuware

The Company has entered into a distribution agreement with Compuware, under which the Company appointed Compuware as a non-exclusive distributor of the Company's products in Taiwan, China and Australia. Compuware assumes the responsibility to install the Company's products at the site of the end customer, if required, and administers customer support in exchange for a discount from the Company's standard price for its purchases.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Company also has entered into a series of agreements with Compuware, including multiple product development, production and service agreements, product manufacturing agreements, and lease agreements for office space.

Under these agreements, the Company outsources to Compuware a portion of its design activities and a significant part of its power supplies manufacturing as well as an immaterial portion of other components. With respect to design activities, Compuware generally agrees to design certain agreed-upon products according to the Company's specifications, and further agrees to build the tools needed to manufacture the products. The Company pays Compuware for the design and engineering services, and further agrees to pay Compuware for the tooling. The Company retains full ownership of any intellectual property resulting from the design of these products and tooling. With respect to the manufacturing aspects of the relationship, Compuware purchases most of materials needed to manufacture the power supplies from outside markets and uses these materials to manufacture the products and then sell those products to the Company. The Company and Compuware frequently review and negotiate the prices of the power supplies the Company purchases from Compuware.

Compuware also manufactures motherboards, backplanes and other components used on printed circuit boards for the Company. The Company sells to Compuware most of the components needed to manufacture the above products. Compuware uses the components to manufacture the products and then sells the products back to the Company at a purchase price equal to the price at which the Company sold the components to Compuware, plus a "manufacturing value added" fee and other miscellaneous material charges and costs, including overhead and labor. The Company and Compuware frequently review and negotiate the amount of the "manufacturing value added" fee that will be included in the price of the products the Company purchases from Compuware. In addition to the inventory purchases, the Company also incurs costs associated with design services, tooling assets, and miscellaneous costs.

The Company's exposure to financial loss as a result of its involvement with Compuware is limited to potential losses on its purchase orders in the event of an unforeseen decline in the market price and/or demand of the Company's products such that the Company incurs a loss on the sale or cannot sell the products. Outstanding cancellable and non-cancellable purchase orders from the Company to Compuware on June 30, 2023 were $156.2 million and $46.8 million, respectively, and outstanding cancellable and non-cancellable purchase orders from the Company to Compuware on June 30, 2022 were $213.3 million and $44.3 million, respectively, effectively representing the exposure to financial loss. The Company does not directly or indirectly guarantee any obligations of Compuware, or any losses that the equity holders of Compuware may suffer.

Dealings with Investment in a Corporate Venture

In October 2016, the Company entered into agreements pursuant to which the Company contributed certain technology rights in connection with an investment in a privately held company located in China to expand the Company's presence in China. The Corporate Venture is 30% owned by the Company and 70% owned by another company in China. The transaction was closed in the third fiscal quarter of 2017 and the investment is accounted for using the equity method. As such, the Corporate Venture is also a related party.

The Company recorded a deferred gain related to the contribution of certain technology rights. There was no balance in the deferred gain in the consolidated balance sheets as of June 30, 2023 and 2022.

The Company monitors the investment for events or circumstances indicative of potential impairment and makes appropriate reductions in carrying values if it determines that an impairment charge is required. In June 2020, the third-party parent company that controls the Corporate Venture was placed on a U.S. government export control list, along with several of such third-party parent's related entities and a separate listing for one of its subsidiaries. The Corporate Venture is not itself a restricted party. The Company has concluded that the Corporate Venture is in compliance with the new restrictions. The Company does not believe that the equity investment carrying value is impacted as of June 30, 2023. No impairment charge was recorded for the fiscal years ended June 30, 2023 and 2022. As of June 30, 2023 and 2022, the investment in this Corporate Venture was $2.0 million and $5.3 million, respectively.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Company sold products worth $24.2 million, $121.0 million, and $51.2 million to the Corporate Venture in the fiscal years 2023, 2022 and 2021, respectively, and the Company's share of intra-entity profits on the products that remained unsold by the Corporate Venture as of June 30, 2023 and June 30, 2022 have been eliminated and have reduced the carrying value of the Company's investment in the Corporate Venture. To the extent that the elimination of intra-entity profits reduces the investment balance below zero, such amounts are recorded within accrued liabilities. The Company had $1.9 million and $8.0 million due from the Corporate Venture in accounts receivable, net as of June 30, 2023 and 2022, respectively.

The Company had the following balances related to transactions with its related parties as of the fiscal years ended June 30, 2023, 2022 and 2021 (in thousands):

	Ablecom Years Ended June 30,			Compuware Years Ended June 30,			Corporate Venture Years Ended June 30,			MPS[3] Years Ended June 30,			Total Years Ended June 30,		
	2023	2022	2021	2023	2022	2021	2023	2022	2021	2023	2022	2021	2023	2022	2021
Accounts receivable	$ 2	$ 2	$ 2	$ 3,528	$ 404	$ 198	$ 1,943	$ 7,992	$ 8,478	$ —	$ —	$ —	$ 5,473	$ 8,398	$ 8,678
Other receivable [1]	$ 2,841	$ 4,816	$ 5,575	$24,891	$19,596	$18,173	$ —	$ —	$ —	$ —	$ —	$ 89	$27,732	$24,412	$23,837
Accounts payable	$35,711	$42,463	$38,152	$53,423	$44,892	$31,944	$ —	$ —	$ —	$ —	$ —	$ —	$89,134	$87,355	$70,096
Accrued liabilities [2]	$ 1,230	$ 3,531	$ 3,042	$12,787	$15,145	$14,486	$ —	$ —	$ 1,000	$ —	$ —	$ —	$14,017	$18,676	$18,528

(1) Other receivables include receivables from vendors included in prepaid and other current assets.
(2) Includes current portion of operating lease liabilities included in other current liabilities.
(3) The Company procures certain semiconductor products from Monolithic Power Systems, Inc. ("MPS"), a fabless manufacturer of high-performance analog and mixed-signal semiconductors, through its contract manufacturers for use in its products. A former member of the Board of Directors who served until May 18, 2022 also serves as an officer of MPS. As a result, MPS ceased being a related party in the quarter ended September 30, 2022.

The Company's results from transactions with its related parties for each of the fiscal years ended June 30, 2023, 2022 and 2021, are as follows (in thousands):

	Ablecom Years Ended June 30,			Compuware Years Ended June 30,			Corporate Venture Years Ended June 30,			MPS [1] Years Ended June 30,			Total Years Ended June 30,		
	2023	2022	2021	2023	2022	2021	2023	2022	2021	2023	2022	2021	2023	2022	2021
Net sales	$ 8	$ 15	$ (23)	$36,286	$26,085	$27,865	$24,243	$120,99	$51,176	$ —	$ —	$ —	$60,537	$147,09	$79,018
Purchases - inventory	$167,801	$192,44	$122,243	$216,961	$170,300	$113,400	$ —	$ —	$ —	$ —	$ 8,335	$ 3,915	$384,76	$371,07	$239,55
Purchases - other miscellaneous items	$12,131	$8,265	$ 8,609	$ 2,011	$ 1,455	$ 1,813	$ —	$ —	$ —	$ —	$ —	$ —	$14,142	$ 9,720	$10,422

(1) The Company procures certain semiconductor products from MPS, a fabless manufacturer of high-performance analog and mixed-signal semiconductors, through its contract manufacturers for use in its products. A former member of the Board of Directors who served until May 18, 2022 also serves as an officer of MPS. As a result, MPS ceased being a related party in the quarter ended September 30, 2022.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Company's cash flow impact from transactions with its related parties for the fiscal years ended June 30, 2023, 2022 and 2021, are as follows (in thousands):

	Ablecom			Compuware			Corporate Venture			MPS[1]			Total		
	Years Ended June 30,			Years Ended June 30,			Years Ended June 30,			Years Ended June 30,			Years Ended June 30,		
	2023	2022	2021	2023	2022	2021	2023	2022	2021	2023	2022	2021	2023	2022	2021
Changes in accounts receivable	$ —	$ —	$ (29)	$ (3,124)	$ (206)	$ 740	$ 6,049	$ 486	$ (677)	$ —	$ —	$ —	$ 2,925	$ 280	$ 34
Changes in other receivable	$ 1,975	$ 759	$ 832	$ (5,295)	$ (1,423)	$ (4,788)	$ —	$ —	$ —	$ —	$ 89	$ (13)	$(3,320)	$ (575)	$(3,969)
Changes in accounts payable	$ (6,752)	$ 4,311	$ 1,198	$ 8,531	$ 12,948	$ (3,470)	$ —	$ —	$ —	$ —	$ —	$ —	$ 1,779	$17,259	$(2,272)
Changes in accrued liabilities	$ (2,301)	$ 489	$ (59)	$ (2,358)	$ 659	$ 3,381	$ —	$ (1,000)	$ (1,000)	$ —	$ —	$ —	$(4,659)	$ 148	$ 2,322
Changes in other long-term liabilities	$ —	$ —	$ (513)	$ (321)	$ 499	$ (186)	$ —	$ —	$ (1,000)	$ —	$ —	$ —	$ (321)	$ 499	$(1,699)
Purchases of property, plant and equipment	$ 7,498	$ 4,678	$ 7,110	$ 346	$ 140	$ 237	$ —	$ —	$ —	$ —	$ —	$ —	$ 7,844	$ 4,818	$ 7,347
Unpaid property, plant and equipment	$ 777	$ 583	$ 338	$ 33	$ 106	$ 62	$ —	$ —	$ —	$ —	$ —	$ —	$ 810	$ 689	$ 400

(1) The Company procures certain semiconductor products from MPS, a fabless manufacturer of high-performance analog and mixed-signal semiconductors, through its contract manufacturers for use in its products. A former member of the Board of Directors who served until May 18, 2022 also serves as an officer of MPS. As a result, MPS ceased being a related party in the quarter ended September 30, 2022.

Tripartite Agreement

On November 8, 2021, Super Micro Computer Inc., Taiwan (the "Subsidiary"), a Taiwan corporation and wholly-owned subsidiary of the Company, entered into a Tripartite Agreement (the "Agreement") with Ablecom and Compuware related to a three-way purchase of land. Ablecom advised that its underlying agreements to acquire land from the third-party landowners in proximity to the Company's campus in Bade, Taiwan have been terminated, and during the quarter ended December 31, 2022, the Agreement was terminated.

Note 10. Stock-based Compensation and Stockholders' Equity

Equity Incentive Plan

On June 5, 2020, the stockholders of the Company approved the 2020 Equity and Incentive Compensation Plan (the "Original 2020 Plan"). The maximum number of shares available under the Original 2020 Plan was 5,000,000 plus 1,045,000 shares of common stock that remained available for future awards under the 2016 Equity Incentive Plan (the "2016 Plan"), at the time of adoption of the Original 2020 Plan. No other awards can be granted under the 2016 Plan and 7,246,000 shares of common stock remain reserved for outstanding awards issued under the Original 2016 Plan at the time of adoption of the Original 2020 Plan. On May 18, 2022, the stockholders of the Company approved an amendment and restatement of the Original 2020 Plan (as amended and restated, the "2020 Plan") which, among other things, increased the number of shares available for award under the 2020 Plan by an additional 2,000,000 shares.

Under the 2020 Plan, the Company can grant stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units, dividend equivalents, and certain other awards, including those denominated or payable in, or otherwise based on, the Company's common stock. The exercise price per share for incentive stock options granted to employees owning shares representing more than 10% of the Company's outstanding voting stock at the time of grant cannot be less than 110% of the fair value of the underlying shares on the grant date. Nonqualified stock options and incentive stock options granted to all other persons are granted at a price not less than 100% of the fair value. Options generally expire ten years after the date of grant. Stock options and RSUs generally vest over four years; 25% at the end of one year and one sixteenth per quarter thereafter.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

As of June 30, 2023, the Company had 2,000,549 authorized shares available for future issuance under the 2020 Plan.

Common Stock Repurchase and Retirement

On January 29, 2021, a duly authorized subcommittee of the Board approved a share repurchase program to repurchase up to an aggregate of $200.0 million of the Company's common stock at market prices. The program was effective until July 31, 2022 or if earlier, until the maximum amount of common stock is repurchased (the "Prior Repurchase Program"). 1,391,171 shares of common stock were repurchased and retired for an aggregate $50.0 million as of June 30, 2021. The Company had $150.0 million of remaining availability under the Prior Repurchase Program as of June 30, 2022. There were no shares repurchased under the Prior Repurchase Program during fiscal year 2022, and the remainder of such Prior Repurchase Program expired on July 31, 2022.

During the fiscal year ended June 30, 2021, the Company repurchased and retired 4,209,211 shares of common stock for an aggregated $130.0 million. Additionally, the Company retired 1,333,125 shares of common stock repurchased in prior years.

On August 3, 2022, after the expiration of a prior share repurchase program on July 31, 2022, a duly authorized subcommittee of the Company's Board approved a new share repurchase program to repurchase shares of the Company’s common stock for up to $200 million at prevailing prices in the open market. The share repurchase program is effective until January 31, 2024 or until the maximum amount of common stock is repurchased, whichever occurs first. Under the common stock repurchase program, shares may be purchased from time to time in open market transactions, block trades, through plans established under the Securities Exchange Act Rule 10b5-1, or otherwise. The number of shares purchased and the timing of such purchases are based on working capital requirements, market and general business conditions, and other factors, including alternative investment opportunities.

During the fiscal year ended June 30, 2023, the Company repurchased and retired 1,553,350 shares of common stock for an aggregated $150.0 million. As of June 30, 2023, $50.0 million was available for additional repurchases of common stock.

Determining Fair Value

The Company's fair value of RSUs and PRSUs is based on the closing market price of the Company's common stock on the date of grant. The Company estimates the fair value of stock options granted using the Black-Scholes-option-pricing model. This fair value is then amortized ratably over the requisite service periods of the awards, which is generally the vesting period. The key inputs in using the Black-Scholes-option-pricing model were as follows:

Expected Term—The Company’s expected term represents the period that the Company’s stock-based awards are expected to be outstanding and was determined based on the Company's historical experience.

Expected Volatility—Expected volatility is based on the Company's implied and historical volatility.

Expected Dividend—The Black-Scholes valuation model calls for a single expected dividend yield as an input and the Company has no plans to pay dividends.

Risk-Free Interest Rate—The risk-free interest rate used in the Black-Scholes valuation method is based on the United States Treasury zero coupon issues in effect at the time of grant for periods corresponding with the expected term of option.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The fair value of stock option grants for the fiscal years ended June 30, 2023, 2022 and 2021 was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	Years Ended June 30,		
	2023	2022	2021
Risk-free interest rate	2.81% - 4.25%	0.81% - 3.02%	0.27% - 1.09%
Expected term	6.07 years	6.09 years	5.98 years
Dividend yield	— %	— %	— %
Volatility	50.62% - 53.47%	49.69% - 50.13%	50.03% - 50.43%
Weighted-average fair value	$ 62.08	$ 20.25	$ 14.92

The following table shows total stock-based compensation expense included in the consolidated statements of operations for the fiscal years ended June 30, 2023, 2022 and 2021 (in thousands):

	Years Ended June 30,		
	2023	2022	2021
Cost of sales	$ 4,574	$ 1,876	$ 1,762
Research and development	30,736	16,571	14,030
Sales and marketing	4,599	2,058	2,022
General and administrative	14,524	12,311	10,735
Stock-based compensation expense before taxes	54,433	32,816	28,549
Income tax impact	(18,106)	(12,220)	(8,574)
Stock-based compensation expense, net	$ 36,327	$ 20,596	$ 19,975

As of June 30, 2023, $24.0 million of unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 2.78 years and $102.7 million of unrecognized compensation cost related to unvested RSUs is expected to be recognized over a weighted-average period of 2.78 years. Additionally, as described below, $0.7 million of unrecognized compensation cost related to the 2021 CEO Performance Stock Option is expected to be recognized over a period of 0.8 years.

Stock Option Activity

In March 2021, the Company's Compensation Committee of the Board of Directors (the "Compensation Committee") approved the grant of a stock option award for 1,000,000 shares of common stock to the Company's CEO (the "2021 CEO Performance Stock Option"). The 2021 CEO Performance Stock Option has five vesting tranches with a vesting schedule based entirely on the attainment of operational milestones (performance conditions) and market conditions, assuming (1) continued employment either as the CEO or in such capacity as agreed upon between the Company's CEO and the Board and (2) service through each vesting date. Each of the five vesting tranches of the 2021 CEO Performance Stock Option will vest upon certification by the Compensation Committee that both (i) the market price milestone for such tranche, which begins at $45.00 per share for the first tranche and increases up to $120.00 per share thereafter (based on a 60 trading day average stock price), has been achieved, and (ii) any one of five operational milestones focused on total revenue, as reported under U.S. GAAP, have been achieved for the previous four consecutive fiscal quarters. Upon vesting and exercise, including the payment of the exercise price of $45.00 per share, prior to March 2, 2024, the Company's CEO must hold shares that he acquires until March 2, 2024, other than those shares sold pursuant to a cashless exercise where shares are simultaneously sold to pay for the exercise price and any required tax withholding.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The achievement status of the operational and stock price milestones as of June 30, 2023, was as follows:

Annualized Revenue Milestone (in billions)	Achievement Status	Stock Price Milestone	Achievement Status
$4.0	Achieved	$45	Achieved (1)
$4.8	Achieved	$60	Achieved (2)
$5.8	Achieved	$75	Achieved (3)
$6.8	Achieved	$95	Achieved (4)
$8.0	Probable	$120	Achieved (5)

(1) The vesting of the first tranche of 200,000 option shares under the 2021 CEO Performance Stock Option, representing one-fifth of such award, was certified by the Company's Compensation Committee in August 2022.
(2) The vesting of the second tranche of 200,000 option shares under the 2021 CEO Performance Stock Option representing one-fifth of such award was certified by the Company's Compensation Committee in October 2022.
(3) The vesting of the third tranche of 200,000 option shares under the 2021 CEO Performance Stock Option representing one-fifth of such award was certified by the Company's Compensation Committee in January 2023.
(4) On April 25, 2023, the Company's Compensation Committee certified achievement of the $95 stock price milestone based upon the 60 trading day average stock price from January 20, 2023 through April 17, 2023. The achievement of the $6.8 billion annualized revenue milestone is expected to be certified by the Company's Compensation Committee after the Annual Report on Form 10-K for the year ended June 30, 2023, is filed with the SEC. At such time, the Company's Compensation Committee is also expected to certify the vesting of the fourth tranche of 200,000 option shares under the 2021 CEO performance Stock Option representing one-fifth of such award.
(5) On June 19, 2023, the Compensation Committee certified achievement of the $120 stock price milestone based upon the 60 trading day average stock price from March 6, 2023 through May 30, 2023.

On the grant date, a Monte Carlo simulation was used to determine for each tranche (i) a fixed expense amount for such tranche and (ii) the future time when the market price milestone for such tranche was expected to be achieved, or its "expected market price milestone achievement time." Separately, based on a subjective assessment of the Company's future financial performance, each quarter, the Company will determine whether achievement is probable for each operational milestone that has not previously been achieved or deemed probable of achievement, and, if so, the future time when the Company expects to achieve that operational milestone, or its "expected operational milestone achievement time." When the Company first determines that an operational milestone has become probable of being achieved, the Company will allocate the entire expense for the related tranche over the number of quarters between the grant date and the then-applicable "expected vesting time." The "expected vesting time" at any given time is the later of (i) the expected operational milestone achievement time (if the related operational milestone has not yet been achieved) and (ii) the expected market price milestone achievement time (if the related market price milestone has not yet been achieved). The Company will immediately recognize a catch-up expense for all accumulated expenses from the grant date through the quarter in which the operational milestone was first deemed probable of being achieved. Each quarter thereafter, the Company will recognize the prorated portion of the then-remaining expense for the tranche based on the number of quarters between such quarter and the then-applicable expected vesting time, except that upon vesting of a tranche, all remaining expenses for that tranche will be immediately recognized.

During the fiscal year ended June 30, 2023, the Company recognized compensation expense related to the 2021 CEO Performance Stock Option of $4.9 million. As of June 30, 2023 and 2022, the Company had $0.7 million and $5.6 million, respectively, in unrecognized compensation cost related to the 2021 CEO Performance Stock Option. The unrecognized compensation cost as of June 30, 2023 is expected to be recognized over a period of 0.8 years.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table summarizes stock option activity during the fiscal years ended June 30, 2023, 2022 and 2021 under all plans:

	Options Outstanding	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value (in thousands)
Balance as of June 30, 2020	5,379,768	$ 19.38		
Granted	1,517,110	$ 40.49		
Exercised	(1,645,800)	$ 17.25		
Forfeited/Cancelled	(75,524)	$ 24.43		
Balance as of June 30, 2021	5,175,554	$ 26.17		
Granted	489,940	$ 40.23		
Exercised	(1,197,756)	$ 17.82		
Forfeited/Cancelled	(156,322)	$ 30.47		
Balance as of June 30, 2022	4,311,416	$ 29.99		
Granted	478,417	$ 74.98		
Exercised	(1,454,811)	$ 20.94		
Forfeited/Cancelled	(32,489)	$ 32.36		
Balance as of June 30, 2023	3,302,533	$ 40.47	6.49	$ 15,731
Options vested and exercisable at June 30, 2023	1,988,026	$ 32.03	5.19	$ 14,741

The total pretax intrinsic value of options exercised during the fiscal year ended June 30, 2023, 2022 and 2021 was $110.1 million, $29.6 million and $24.3 million, respectively. Additional information regarding options outstanding as of June 30, 2023, is as follows:

	Options Outstanding			Options Vested and Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Term (Years)	Weighted-Average Exercise Price Per Share	Number Exercisable	Weighted-Average Exercise Price Per Share
$11.76 - $20.54	345,584	3.35	$ 17.17	338,383	$ 17.15
$20.80 - $25.40	355,430	5.17	$ 22.98	317,107	$ 22.93
$25.44 - $30.33	422,171	3.94	$ 27.59	383,610	$ 27.31
$33.36 - $37.88	368,194	4.80	$ 35.82	244,029	$ 35.56
$38.50 - $42.35	291,527	8.35	$ 40.12	84,931	$ 39.85
$45.00 - $45.00	1,000,000	7.67	$ 45.00	600,000	$ 45.00
$52.15 - $76.63	281,212	9.16	$ 60.14	19,966	$ 53.30
$78.25 - $78.25	96,080	9.57	$ 78.25	—	$ —
$93.28 - $93.28	134,835	9.82	$ 93.28	—	$ —
$137.23 - $137.23	7,500	9.85	$ 137.23	—	$ —
$11.76 - $137.23	3,302,533	6.49	$ 40.47	1,988,026	$ 32.03

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

RSU and PRSU Activity

In March 2020, the Compensation Committee granted a PRSU award to one of the Company's senior executives. The award vests in two tranches and includes service and performance conditions. Each tranche has 15,000 RSUs that vest in May 2021 and November 2021 based on service conditions only. Additional units can be earned based on revenue growth percentage in fiscal year 2020 compared to fiscal year 2019, which units would vest in May 2021, and based on revenue growth percentage in fiscal year 2021 compared to fiscal year 2020, which units have vested in November 2021. No additional units were earned for fiscal year 2020 as revenue decreased from fiscal year 2019. An additional 2,939 units were earned for fiscal year 2021 that vested on November 10, 2021.

The following table summarizes RSUs and PRSUs activity during the fiscal years ended June 30, 2023, and 2022 under all plans:

	Time-based RSUs Outstanding	Weighted Average Grant-Date Fair Value per Share	PRSUs Outstanding	Weighted Average Grant-Date Fair Value per Share
Balance as of June 30, 2020	1,768,027	$ 20.08	42,000	$ 22.29
Granted	1,334,418	$ 31.54	30,000	$ 34.27
Released	(984,406)	$ 21.63	(27,000)	$ 23.36
Forfeited	(263,083)	$ 25.01	(30,000)	$ 20.37
Balance as of June 30, 2021	1,854,956	$ 26.79	15,000	$ 34.27
Granted	1,121,451	$ 38.99	2,939	$ 34.27
Released	(745,702)	$ 25.16	(17,939)	$ 34.27
Forfeited	(351,632)	$ 30.19	—	$ —
Balance as of June 30, 2022	1,879,073	$ 33.72	—	$ —
Granted	1,282,890	$ 73.21	—	$ —
Released	(993,635)	$ 37.86	—	$ —
Forfeited	(125,342)	$ 43.10	—	$ —
Balance as of June 30, 2023	2,042,986	$ 55.94	—	$ —

The total pretax intrinsic value of RSUs and PRSUs vested was $95.0 million, $33.1 million and $32.6 million for the fiscal years ended June 30, 2023, 2022 and 2021, respectively. In fiscal years 2023, 2022 and 2021, the Company withheld 304,752, 232,461 and 274,620 shares with value equivalent to the employees' minimum statutory obligation for the applicable income and other employment taxes from the vesting and release of 993,635, 763,641 and 1,011,406 RSUs and PRSUs, respectively, and remitted the cash to the appropriate taxing authorities. The total shares withheld were based on the value of the RSUs on their respective vesting dates as determined by the Company's closing stock price. Total payments for the employees' tax obligations to tax authorities were $28.2 million, $10.1 million and $8.7 million for the fiscal years ended June 30, 2023, 2022 and 2021, respectively, and are reflected as a financing activity within the consolidated statements of cash flows. Pursuant to the terms of the 2020 and 2016 Plan, shares withheld in connection with net-share settlements are returned to the 2020 and 2016 Plan, respectively, and are available for future grants under the 2020 Plan.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 11. Income Taxes

The components of income before income tax provision for the fiscal years ended June 30, 2023, 2022 and 2021 are as follows (in thousands):

	Years Ended June 30,		
	2023	2022	2021
United States	$ 632,237	$ 250,513	$ 80,922
Foreign	122,060	86,320	37,706
Income before income tax provision	$ 754,297	$ 336,833	$ 118,628

The income tax provision for the fiscal years ended June 30, 2023, 2022 and 2021, consists of the following (in thousands):

	Years Ended June 30,		
	2023	2022	2021
Current:			
Federal	$ 149,217	$ 34,711	$ 3,406
State	23,096	4,327	1,077
Foreign	31,063	20,495	10,843
	203,376	59,533	15,326
Deferred:			
Federal	(80,975)	(4,030)	(5,489)
State	(9,633)	(257)	(409)
Foreign	(2,102)	(2,370)	(2,492)
	(92,710)	(6,657)	(8,390)
Income tax provision	$ 110,666	$ 52,876	$ 6,936

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Company's net deferred tax assets as of June 30, 2023 and 2022 consist of the following (in thousands):

	June 30,	
	2023	2022
Research and development credits	$ 34,722	$ 33,080
Deferred revenue	32,376	24,370
Inventory valuation	23,022	16,792
Capitalized research and development costs	94,050	14,589
Stock-based compensation	4,589	3,762
Lease obligations	3,162	4,035
Accrued vacation and bonus	5,310	6,052
Prepaid and accrued expenses	—	1,298
Warranty accrual	3,038	2,134
Bad debt and other reserves	910	1,183
Marketing fund accrual	1,436	1,308
Other	5,978	5,169
Total deferred income tax assets	208,593	113,772
Deferred tax liabilities-depreciation and other	(6,216)	(6,259)
Right of use asset	(3,044)	(3,919)
Valuation allowance	(36,679)	(33,665)
Deferred income tax assets, net	$ 162,654	$ 69,929

The Company assesses its deferred tax assets for recoverability on a regular basis, and where applicable, a valuation allowance is recorded to reduce the total deferred tax asset to an amount that will, more likely than not, be realized in the future. As of June 30, 2023, the Company believes that most of its deferred tax assets are "more-likely-than not" to be realized with the exception of state research and development tax credits that have not met the "more-likely than not" realization threshold criteria. As a result, at June 30, 2023, the gross excess credits of $43.9 million, or net of federal tax benefit of $34.7 million, were subject to a full valuation allowance. At June 30, 2022, the gross excess credits of $42.0 million, or net of federal tax benefit of $33.2 million, were subject to a full valuation allowance. The change in valuation allowance is $3.0 million and $3.8 million for the fiscal years ended June 30, 2023 and 2022, respectively. The Company will continue to review its deferred tax assets in accordance with the applicable accounting standards. The net deferred tax assets balance as of June 30, 2023 and 2022 was $162.7 million and $69.9 million, respectively.

Under U.S. GAAP, the Company is allowed to make an accounting policy choice of either (i) treating taxes due on future U.S. inclusions in taxable income related to Global Intangible Low-Taxed Income ("GILTI") as a current-period expense when incurred (the "period cost method") or (ii) factoring such amounts into the measurement of its deferred taxes. The Company's selection of an accounting policy with respect to the GILTI tax rules is to treat GILTI tax as a current period expense under the period cost method.

The Tax Cuts and Jobs Act of 2017 eliminated the option to deduct research and development ("R&D") expenses in the year incurred and instead requires taxpayers to capitalize R&D expenses, including software development cost, and subsequently amortize such expenses over five years for R&D activities conducted in the United States and over fifteen years for R&D activities conducted outside of the United States beginning in the Company's fiscal year 2023. Although Congress has considered legislation that would defer, modify, and repeal the capitalization and amortization requirement, there is no assurance the provision will be deferred, repealed, or otherwise modified.

Additionally, as the result of the new R&D capitalization tax law effective in 2022, the capitalized amounts resulted in increased current year taxable income, that are deductible as amortized in future periods. The Company recorded a deferred tax asset for the capitalized R&D expenditures.

On August 16, 2022, the United States enacted the Inflation Reduction Act of 2022 ("IRA"), which, among other things, implemented a 15% minimum tax on book income of certain large corporations, a 1% excise tax on net stock repurchases, and several tax incentives to promote clean energy. The provisions of the IRA had no impact to the Company's fiscal 2023 income tax provision.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Under the 2017 Tax Reform Act, starting on July 1, 2018, the Company is no longer subject to federal income tax on earnings remitted from its foreign subsidiaries. The Company previously asserted that all its foreign undistributed earnings were indefinitely reinvested. As a result of the 2017 Tax Reform Act, the Company has determined that its foreign undistributed earnings are indefinitely reinvested except for Netherlands. The Company may repatriate foreign earnings from Netherlands which are previously taxed income as a result of the 2017 Tax Reform Act. The tax impact of such repatriation is estimated to be immaterial.

The following is a reconciliation for the fiscal years ended June 30, 2023, 2022 and 2021, of the statutory rate to the Company's effective federal tax rate:

	Years Ended June 30,		
	2023	2022	2021
Income tax provision at statutory rate	21.0 %	21.0 %	21.0 %
State income tax, net of federal tax benefit	1.1	0.9	0.3
Foreign rate differential	0.8	(0.3)	(0.5)
Research and development tax credit	(3.3)	(3.9)	(10.5)
Uncertain tax positions, net of (settlement) with Tax Authorities	0.1	0.3	2.0
Foreign derived intangible / Subpart F income inclusion	(1.9)	(1.4)	(2.5)
Stock-based compensation	(3.4)	(1.5)	(3.3)
Provision to return true-up	(0.1)	0.1	(1.9)
Other, net	0.4	0.5	1.2
Effective tax rate	14.7 %	15.7 %	5.8 %

As of June 30, 2023, the Company had state research and development tax credit carryforwards of $56.5 million. The state research and development tax credits will carryforward indefinitely to offset future state income taxes.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table summarizes the activity related to the unrecognized tax benefits (in thousands):

	Gross* Unrecognized Income Tax Benefits
Balance at June 30, 2020	$ 27,206
Gross increases:	
For current year's tax positions	13,333
For prior years' tax positions	1,439
Gross decreases:	
Decreases due to lapse of statute of limitations	(1,243)
Balance at June 30, 2021	40,735
Gross increases:	
For current year's tax positions	2,392
Gross decreases:	
Decreases due to settlements with taxing authority	(4,090)
Decreases due to lapse of statute of limitations	(1,036)
Balance at June 30, 2022	38,001
Gross increases:	
For current year's tax positions	6,632
For prior years' tax positions	1,616
Gross decreases:	
Decreases due to settlements with taxing authority	(2,077)
Decreases due to lapse of statute of limitations	(1,429)
Balance at June 30, 2023	$ 42,743

*excludes interest, penalties, federal benefit of state reserves

The total amount of unrecognized tax benefits that would affect the effective tax rate, if recognized, was $25.4 million and $23.5 million as of June 30, 2023 and 2022, respectively.

The Company's policy is to include interest and penalties related to unrecognized tax benefits within the income tax provision in the consolidated statements of operations. As of June 30, 2023 and 2022, the Company had accrued $3.5 million and $3.1 million for the payment of interest and penalties relating to unrecognized tax benefits, respectively.

In October 2019, the Taiwan tax authority completed its audit in Taiwan for fiscal year 2018 and proposed a transfer pricing adjustment on the Company which resulted in additional tax liability of $1.6 million. The Company accepted the proposed adjustment in October 2019 and paid the $1.6 million tax liability in February 2020. In February 2020, the Taiwan tax authority completed its audit in Taiwan for fiscal year 2019 and proposed a transfer pricing adjustment on the Company which resulted in additional tax liability of $1.0 million. The Company accepted the proposed adjustment and paid the $1.0 million tax liability in February 2020. The impact of these adjustments on the income statement was offset by the release of previously unrecognized tax benefits related to the fiscal years audited in the periods in which the proposed adjustments were accepted. Besides the $2.6 million tax liability paid for fiscal year 2018 and fiscal year 2019 audit, the Company paid $1.5 million additional tax liability for fiscal year 2017 under the same Taiwan tax audit. Total audit settlement in Taiwan was $4.2 million, which was paid by February 2020. The additional tax liability was recorded as tax provision on Super Micro Computer Inc. BV's books for its foreign permanent establishment in fiscal year 2017 to 2019.

In December 2022, the Company received an updated audit decision letter from the Taiwan tax authority. The letter confirmed the same amount of assessment of $4.2 million that the Company paid by February 2020, but the tax liability is for the Taiwan subsidiary's missing reporting of book income instead of the Netherlands BV subsidiary's permanent establishment. The Company accepted the change of the decision. Consequently, the Company made an intercompany adjustment on tax provision between Super Micro Computer Inc. BV and the Company's Taiwan subsidiaries. On the top of this intercompany transfer pricing charge, the Company

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

released $2.0 million tax reserve for Super Micro Computer Inc. BV's foreign permanent establishment tax uncertain reserve, and trued-up $1.0 million additional tax reserve on Super Micro Computer Inc. BV’s books for the unsettled audit with the Netherlands tax authority. The Company expects settlement from the Netherlands tax authority in early fiscal year 2024.

The Company believes that it has adequately provided reserves for all uncertain tax positions; however, amounts asserted by tax authorities could be greater or less than the Company’s current position. Accordingly, the Company’s provision on federal, state and foreign tax related matters to be recorded in the future may change as revised estimates are made or as the underlying matters are settled or otherwise resolved.

The federal statute of limitations remains open in general for tax years ended June 30, 2020 through 2022. Various states statute of limitations remains open in general for tax years ended June 30, 2019 through 2022. Certain statutes of limitations in major foreign jurisdictions remain open in general for the tax years ended June 30, 2017 through 2022. It is reasonably possible that our gross unrecognized tax benefits will decrease by approximately $3.0 million, in the next 12 months, due to the lapse of the statute of limitations. These adjustments, if recognized, would positively impact our effective tax rate, and would be recognized as additional tax benefits.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 12. Commitments and Contingencies

Litigation and Claims— On February 8, 2018, two putative class action complaints were filed against the Company, the Company's Chief Executive Officer, and the Company's former Chief Financial Officer in the U.S. District Court for the Northern District of California (Hessefort v. Super Micro Computer, Inc., et al., No. 18-cv-00838 and United Union of Roofers v. Super Micro Computer, Inc., et al., No. 18-cv-00850). The complaints contain similar allegations, claiming that the defendants violated Section 10(b) of the Securities Exchange Act due to alleged misrepresentations and/or omissions in public statements regarding recognition of revenue. The court subsequently appointed New York Hotel Trades Council & Hotel Association of New York City, Inc. Pension Fund as lead plaintiff. The lead plaintiff then filed an amended complaint naming the Company's Senior Vice President of Investor Relations as an additional defendant. On June 21, 2019, the lead plaintiff filed a further amended complaint naming the Company's former Senior Vice President of International Sales, Corporate Secretary, and Director as an additional defendant. On July 26, 2019, the Company filed a motion to dismiss the complaint. On March 23, 2020, the Court granted the Company's motion to dismiss the complaint, with leave for lead plaintiff to file an amended complaint within 30 days. On April 22, 2020, lead plaintiff filed a further amended complaint. On June 5, 2020, the Company filed a motion to dismiss the further amended complaint, the hearing for which was calendared for September 23, 2020; however, the Court held a conference on September 15 to discuss how the Court could efficiently address the recent SEC settlement agreement. The parties stipulated to allow plaintiffs to further amend the complaint solely to add allegations relating to the SEC settlement. On October 14, 2020, plaintiffs filed a Fourth Amended Complaint. On October 28, 2020, defendants filed a supplemental motion to dismiss. On March 29, 2021, the Court granted in part and denied in part defendants' motions to dismiss. Plaintiffs' claims under Sections 10(b) and 20 of the Exchange Act were dismissed with prejudice as against the Company's former head of Investor Relations, Perry Hayes. Plaintiffs' Section 10(b) claim, but not the Section 20 claim, was likewise dismissed as to Wally Liaw, a founder, former director, and former SVP of International Sales. The Court denied the motions to dismiss the Section 10(b) and Section 20 claims against the Company, Charles Liang, and Howard Hideshima, the Company's former CFO. On March 11, 2022, the Company, together with the individual defendants, agreed in principle with plaintiff's counsel to settle the action. On April 8, 2022, the parties entered into a stipulation of settlement, pursuant to which and subject to Court approval, plaintiff will dismiss with prejudice and release on behalf of a class of shareholders all claims against defendants, including the Company, in exchange for payment of $18,250,000, of which sum $2,000,000 will be funded by the Company. On May 25, 2022, the Court vacated the hearing on preliminary approval of the proposed settlement scheduled for June 2, 2022, stating that the unopposed motion was suitable for disposition without oral argument. On November 8, 2022, the Court granted preliminary approval and calendared a hearing on March 2, 2023 for final approval, which the Court continued to May 4, 2023. Following the Court granting preliminary approval, settlement funds were transferred into an account controlled by the settlement's escrow agent to be held until the Court granted final approval. Following the May 4, 2023 hearing, the Court granted final approval in a subsequent order issued on May 5, 2023 which fully resolved the action.

Other legal proceedings and indemnifications

From time to time, the Company has been involved in various legal proceedings arising from the normal course of business activities. The resolution of any such matters have not had a material impact on the Company's consolidated financial condition, results of operations or liquidity as of June 30, 2023, and any prior periods.

The Company has entered into indemnification agreements with its current and former directors and executive officers.

Under these agreements, the Company has agreed to indemnify such individuals to the fullest extent permitted by law against liabilities that arise by reason of their status as directors or officers and to advance expenses incurred by such individuals in connection with related legal proceedings. It is not possible to determine the maximum potential amount of payments the Company could be required to make under these agreements due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each claim. However, the Company maintains directors' and officers' liability insurance coverage to reduce its exposure to such obligations.

Purchase Commitments - The Company has agreements to purchase inventory and non-inventory items primarily through the next 12 months. As of June 30, 2023, these remaining noncancelable commitments were $2.3 billion, including $70.5 million for related parties.

Lease Commitments - See Part II, Item 8, Note 8, "Leases," for a discussion of the Company's operating lease and financing lease commitments.

SUPER MICRO COMPUTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 13. Retirement Plans

The Company sponsors a 401(k) savings plan for eligible United States employees and their beneficiaries. Contributions by the Company are discretionary, and no contributions have been made by the Company for the fiscal years ended June 30, 2023, 2022 and 2021.

Beginning in March 2003, employees of Super Micro Computer, B.V. are required to deduct a portion of their gross wages based on a defined age-dependent premium and invest the amount in a defined contribution plan. The Company is required to match the amount that is deducted monthly from employees' wages. Similar to contributions into a 401(k) plan, the Company's obligation is limited to the contributions made to the contribution plan. Investment risk and investment rewards are assumed by the employees and not by the Company. For the fiscal years ended June 30, 2023, 2022 and 2021, the Company's matching contribution was $0.9 million, $0.8 million, and $0.7 million, respectively.

The Company contributes to a defined contribution pension plan administered by the government of Taiwan that covers all eligible employees within Taiwan. Pension plan benefits are based primarily on participants' compensation and years of service credited as specified under the terms of Taiwan's plan. The funding policy is consistent with the local requirements of Taiwan. The Company's obligation is limited to the contributions made to the pension plan. The Company has no control over the investment strategy of the assets of the government administered pension plan. For the fiscal years ended June 30, 2023, 2022 and 2021, the Company's contribution was $3.6 million, $3.4 million and $2.5 million, respectively.

The Company has a defined benefit pension plan under the R.O.C. Labor Standards Law for certain employees of Super Micro Computer, Inc. Taiwan that provides benefits based on an employee's length of service and average monthly salary for the six-month period prior to retirement. The Company contributes an amount equal to 2% of salaries paid each month to the pension fund (the "Fund"), which is administered by the Labor Pension Fund Supervisory Committee (the "Committee") and deposited in the Committee's name in the Bank of Taiwan. Before the end of each year, the Company assesses the balance in the Fund. If the amount of the balance in the Fund is inadequate to pay retirement benefits for eligible employees in the next year, the Company is required to fund the difference in one appropriation that should be made before the end of March 31 of the next year. The Fund is operated and managed by the government's designated authorities. As such, the Company does not have any right to intervene in the investments of the Fund. For the fiscal years ended June 30, 2023, 2022 and 2021, the Company recorded a pension expense of $(0.1) million, $0.4 million and $1.0 million, respectively.

Note 14. Segment Reporting

The Company operates in one operating segment that develops and provides high performance server solutions based upon an innovative, modular and open-standard architecture. The Company's chief operating decision maker is the Chief Executive Officer.

The following is a summary of property, plant and equipment, net (in thousands):

	June 30,	
	2023	2022
Long-lived assets:		
United States	$ 183,485	$ 180,846
Asia	104,094	102,241
Europe	2,661	2,885
	$ 290,240	$ 285,972

The Company's revenue is presented on a disaggregated basis in Part II, Item 8, Note 3, "Revenue" by type of product and by geographical market.

D. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF SUPER MICRO FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2023

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PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

SUPER MICRO COMPUTER, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except par value per share amounts)
(unaudited)

	December 31, 2023	June 30, 2023
ASSETS		
Current assets:		
Cash and cash equivalents	$ 725,660	$ 440,459
Accounts receivable, net of allowance for credit losses of $77 and $82 at December 31, 2023 and June 30, 2023, respectively (including accounts receivable from related parties of $3,859 and $5,473 at December 31, 2023 and June 30, 2023, respectively)	1,502,971	1,148,259
Inventories	2,466,997	1,445,564
Prepaid expenses and other current assets (including receivables from related parties of $34,293 and $27,732 at December 31, 2023 and June 30, 2023, respectively)	146,727	145,144
Total current assets	4,842,355	3,179,426
Property, plant and equipment, net	297,102	290,240
Deferred income taxes, net	218,274	162,654
Other assets	47,269	42,409
Total assets	$ 5,405,000	$ 3,674,729
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable (including amounts due to related parties of $101,700 and $89,134 at December 31, 2023 and June 30, 2023, respectively)	$ 1,261,533	$ 776,831
Accrued liabilities (including amounts due to related parties of $18,509 and $14,017 at December 31, 2023 and June 30, 2023, respectively)	214,462	163,865
Income taxes payable	46,453	129,166
Short-term debt	276,307	170,123
Deferred revenue	193,334	134,667
Total current liabilities	1,992,089	1,374,652
Deferred revenue, non-current	190,342	169,781
Long-term debt	99,322	120,179
Other long-term liabilities	46,173	37,947
Total liabilities	2,327,926	1,702,559
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Common stock and additional paid-in capital, $0.001 par value		
Authorized shares: 100,000; Issued and outstanding shares: 55,917 and 52,901 at December 31, 2023 and June 30, 2023, respectively	1,190,276	538,352
Accumulated other comprehensive income	657	639
Retained earnings	1,885,977	1,433,014
Total Super Micro Computer, Inc. stockholders' equity	3,076,910	1,972,005
Noncontrolling interest	164	165
Total stockholders' equity	3,077,074	1,972,170
Total liabilities and stockholders' equity	$ 5,405,000	$ 3,674,729

See accompanying notes to condensed consolidated financial statements.

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SUPER MICRO COMPUTER, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)
(unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2023	2022	2023	2022
Net sales (including related party sales of $15,781 and $20,073 in the three months ended December 31, 2023 and 2022, respectively, and $33,177 and $45,126 in the six months ended December 31, 2023 and 2022, respectively)	$ 3,664,924	$ 1,803,195	$ 5,784,596	$ 3,655,325
Cost of sales (including related party purchases of $112,445 and $98,743 in the three months ended December 31, 2023 and 2022, respectively, and $225,552 and $195,279 in the six months ended December 31, 2023 and 2022, respectively)	3,100,602	1,465,773	4,866,583	2,970,368
Gross profit	564,322	337,422	918,013	684,957
Operating expenses:				
Research and development	108,824	70,700	219,851	144,943
Sales and marketing	46,854	28,445	84,084	57,808
General and administrative	37,180	23,095	70,104	46,901
Total operating expenses	192,858	122,240	374,039	249,652
Income from operations	371,464	215,182	543,974	435,305
Other (expense) income, net	(7,886)	(6,335)	(1,273)	1,719
Interest expense	(8,131)	(1,756)	(9,994)	(5,694)
Income before income tax provision	355,447	207,091	532,707	431,330
Income tax provision	(61,503)	(29,573)	(81,718)	(68,507)
Share of income (loss) from equity investee, net of taxes	2,024	(1,351)	1,974	(2,240)
Net income	$ 295,968	$ 176,167	$ 452,963	$ 360,583
Net income per common share:				
Basic	$ 5.47	$ 3.31	$ 8.45	$ 6.84
Diluted	$ 5.10	$ 3.14	$ 7.86	$ 6.51
Weighted-average shares used in the calculation of net income per common share:				
Basic	54,135	53,160	53,614	52,726
Diluted	58,078	56,144	57,632	55,427

See accompanying notes to condensed consolidated financial statements.

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SUPER MICRO COMPUTER, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)
(unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2023	2022	2023	2022
Net income	$ 295,968	$ 176,167	$ 452,963	$ 360,583
Other comprehensive income (loss), net of tax:				
Foreign currency translation gain (loss)	6	98	18	(299)
Total other comprehensive income (loss), net of tax	6	98	18	(299)
Total comprehensive income	$ 295,974	$ 176,265	$ 452,981	$ 360,284

See accompanying notes to condensed consolidated financial statements.

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SUPER MICRO COMPUTER, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except share amounts)
(unaudited)

Three Months Ended December 31, 2023	Common Stock and Additional Paid-In Capital Shares	Common Stock and Additional Paid-In Capital Amount	Accumulated Other Comprehensive Income	Retained Earnings	Non-controlling Interest	Total Stockholders' Equity
Balance at September 30, 2023	53,294,998	$ 574,718	$ 651	$ 1,590,009	$ 161	$ 2,165,539
Exercise of stock options, net of taxes	152,452	5,287	—	—	—	5,287
Release of common stock shares upon vesting of restricted stock units	213,366	—	—	—	—	—
Shares withheld for the withholding tax on vesting of restricted stock units	(58,617)	(15,594)	—	—	—	(15,594)
Issuance of common stock in a public offering, net of issuance costs	2,315,105	582,804	—	—	—	582,804
Stock-based compensation	—	43,061	—	—	—	43,061
Other comprehensive income	—	—	6	—	—	6
Net income	—	—	—	295,968	3	295,971
Balance at December 31, 2023	55,917,304	$ 1,190,276	$ 657	$ 1,885,977	$ 164	$ 3,077,074

Three Months Ended December 31, 2022	Common Stock and Additional Paid-In Capital Shares	Common Stock and Additional Paid-In Capital Amount	Accumulated Other Comprehensive Income	Retained Earnings	Non-controlling Interest	Total Stockholders' Equity
Balance at September 30, 2022	52,851,469	$ 497,183	$ 514	$ 1,127,339	$ 167	$ 1,625,203
Exercise of stock options, net of taxes	347,666	7,183	—	—	—	7,183
Release of common stock shares upon vesting of restricted stock units	290,471	—	—	—	—	—
Shares withheld for the withholding tax on vesting of restricted stock units	(89,305)	(6,788)	—	—	—	(6,788)
Stock-based compensation	—	16,981	—	—	—	16,981
Other comprehensive income	—	—	98	—	—	98
Net income (loss)	—	—	—	176,167	(2)	176,165
Balance at December 31, 2022	53,400,301	$ 514,559	$ 612	$ 1,303,506	$ 165	$ 1,818,842

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Six Months Ended December 31, 2023	Common Stock and Additional Paid-In Capital		Accumulated Other Comprehensive Income	Retained Earnings	Non-controlling Interest	Total Stockholders' Equity
	Shares	Amount				
Balance at June 30, 2023	52,901,358	$ 538,352	$ 639	$ 1,433,014	$ 165	$ 1,972,170
Exercise of stock options, net of taxes	341,409	9,574	—	—	—	9,574
Release of common stock shares upon vesting of restricted stock units	511,022	—	—	—	—	—
Shares withheld for the withholding tax on vesting of restricted stock units	(151,590)	(40,894)	—	—	—	(40,894)
Issuance of common stock in a public offering, net of issuance costs	2,315,105	582,804	—	—	—	582,804
Stock-based compensation	—	100,440	—	—	—	100,440
Other comprehensive income	—	—	18	—	—	18
Net income (loss)	—	—	—	452,963	(1)	452,962
Balance at December 31, 2023	55,917,304	$ 1,190,276	$ 657	$ 1,885,977	$ 164	$ 3,077,074

Six Months Ended December 31, 2022	Common Stock and Additional Paid-In Capital		Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Non-controlling Interest	Total Stockholders' Equity
	Shares	Amount				
Balance at June 30, 2022	52,311,014	$ 481,741	$ 911	$ 942,923	$ 172	$ 1,425,747
Exercise of stock options, net of taxes	752,892	15,327	—	—	—	15,327
Release of common stock shares upon vesting of restricted stock units	484,003	—	—	—	—	—
Shares withheld for the withholding tax on vesting of restricted stock units	(147,608)	(10,504)	—	—	—	(10,504)
Stock-based compensation	—	27,995	—	—	—	27,995
Other comprehensive loss	—	—	(299)	—	—	(299)
Net income (loss)	—	—	—	360,583	(7)	360,576
Balance at December 31, 2022	53,400,301	$ 514,559	$ 612	$ 1,303,506	$ 165	$ 1,818,842

See accompanying notes to condensed consolidated financial statements.

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SUPER MICRO COMPUTER, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Six Months Ended December 31,	
	2023	2022
OPERATING ACTIVITIES:		
Net income	$ 452,963	$ 360,583
Reconciliation of net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	18,775	17,196
Stock-based compensation expense	100,440	27,995
Share of (income) loss from equity investee	(1,974)	2,240
Foreign currency exchange loss (gain)	5,680	(4,614)
Deferred income taxes, net	(55,620)	(25,812)
Other	2,700	(430)
Changes in operating assets and liabilities:		
Accounts receivable, net (including changes in related party balances of $1,614 and $3,178 during the six months ended December 31, 2023 and 2022, respectively)	(354,685)	68,036
Inventories	(1,021,433)	123,789
Prepaid expenses and other assets (including changes in related party balances of $(6,561) and $(22,925) during the six months ended December 31, 2023 and 2022, respectively)	3,343	518
Accounts payable (including changes in related party balances of $12,566 and $751 during the six months ended December 31, 2023 and 2022, respectively)	479,613	(90,908)
Income taxes payable	(82,713)	(3,030)
Accrued liabilities (including changes in related party balances of $4,492 and $851 during the six months ended December 31, 2023 and 2022, respectively)	48,979	(44,092)
Deferred revenue	79,228	46,243
Other long-term liabilities (including changes in related party balances of $(152) and $(168) during the six months ended December 31, 2023 and 2022, respectively)	84	(3,040)
Net cash (used in) provided by operating activities	(324,620)	474,674
INVESTING ACTIVITIES:		
Purchases of property, plant and equipment (including payments to related parties of $4,528 and $4,514 during the six months ended December 31, 2023 and 2022, respectively)	(17,351)	(20,631)
Investment in equity securities	(5,184)	—
Net cash used in investing activities	(22,535)	(20,631)
FINANCING ACTIVITIES:		
Proceeds from borrowings	857,683	144,037
Repayment of debt	(776,987)	(564,662)
Proceeds from exercise of stock options, net of taxes	9,574	15,327
Payment of withholding tax on vesting of restricted stock units	(40,894)	(10,504)
Issuance of common stock in a public offering, net of issuance costs	582,804	—
Other	14	(19)
Net cash provided by (used in) financing activities	632,194	(415,821)
Effect of exchange rate fluctuations on cash	170	(1,693)
Net increase in cash, cash equivalents and restricted cash	285,209	36,529
Cash, cash equivalents and restricted cash at the beginning of the period	440,960	268,559
Cash, cash equivalents and restricted cash at the end of the period	$ 726,169	$ 305,088
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 9,344	$ 6,084
Cash paid for taxes, net of refunds	$ 217,788	$ 96,156

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Non-cash investing and financing activities:				
Unpaid property, plant and equipment purchases (including due to related parties of $2,577 and $1,764 as of December 31, 2023 and 2022, respectively)	$	6,163	$	3,333
Right of use ("ROU") assets obtained in exchange for operating lease commitments	$	9,749	$	1,024

See accompanying notes to condensed consolidated financial statements.

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SUPER MICRO COMPUTER, INC.
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Note 1. Summary of Significant Accounting Policies

Significant Accounting Policies and Estimates

No material changes have been made to the significant accounting policies of Super Micro Computer, Inc., a corporation incorporated under the laws of Delaware, and its consolidated entities (together, the “Company”), disclosed in Part II, Item 8, Note 1, "Organization and Summary of Significant Accounting Policies," in its Annual Report on Form 10-K, filed on August 28, 2023, for the year ended June 30, 2023. Management's estimates take into consideration, as applicable, general macroeconomic conditions, inflation, changes in interest rates and geopolitical events.

Basis of Presentation

The unaudited condensed consolidated financial statements included herein have been prepared by the Company pursuant to the rules and regulations of the United States Securities and Exchange Commission (the “SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") have been condensed or omitted pursuant to such rules and regulations.

The unaudited condensed consolidated financial statements included herein reflect all adjustments, including normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of the consolidated financial position, results of operations and cash flows for the periods presented. The consolidated results of operations for the three and six months ended December 31, 2023 are not necessarily indicative of the results that may be expected for future quarters or for the fiscal year ending June 30, 2024.

Certain prior year amounts within cash from operating activities in the condensed consolidated statements of cash flows have been reclassified to conform to current year presentation. These changes in presentation do not affect previously reported results.

Concentration of Supplier Risk

Certain materials used by the Company in the manufacturing of its products are available from a limited number of suppliers. Shortages could occur in these materials due to an interruption of supply or increased demand in the industry. Two suppliers accounted for 68.1% and 7.3% of total purchases for the three months ended December 31, 2023, and the same two suppliers accounted for 17.6% and 14.1% of total purchases for the three months ended December 31, 2022. Two suppliers accounted for 62.9% and 8.6% of total purchases for the six months ended December 31, 2023, and the same two suppliers accounted for 22.3% and 15.3% of total purchases for the six months ended December 31, 2022. The increase in concentration of total purchases to one of the Company's suppliers to 68.1% and 62.9% of total purchases for the three and six months ended December 31, 2023, respectively, is as a result of the purchase of key components to build its solutions for the Company's customers. Purchases from Ablecom, and Compuware, related parties of the Company (see Part I, Item 1, Note 8, "Related Party Transactions") accounted for a combined 3.6% and 6.7% of total cost of sales for the three months ended December 31, 2023 and 2022, respectively, and a combined 4.6% and 6.6% of total cost of sales for the six months ended December 31, 2023 and 2022, respectively.

Concentration of Credit and Customer Risk

Financial instruments which potentially subject the Company to concentration of credit risk consist primarily of cash and cash equivalents, restricted cash and accounts receivable.

Four customers accounted for 26.7%, 16.3%, 13.0% and 11.3% of accounts receivable, net as of December 31, 2023. Two customers accounted for 22.9% and 19.3% of accounts receivable, net as of June 30, 2023. These accounts receivable represent a concentration of credit risk to the Company.

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Two customers accounted for 25.5% and 10.4% of the net sales for the three months ended December 31, 2023 and one customer accounted for 25.3% of the net sales for the six months ended December 31, 2023. No single customer accounted for 10% or more of the net sales for the three months ended December 31, 2022, and one customer accounted for 15.8% of the net sales for the six months ended December 31, 2022.

Accounting Pronouncements Not Yet Adopted

In November 2023, the FASB issued ASU 2023-07, Segment Reporting (Topic 280) – Improvements to Reportable Segment Disclosures. This ASU requires that a public entity provide additional segment disclosures on an interim and annual basis. The amendments in this ASU should be applied retrospectively to all prior periods presented in the financial statements unless impracticable. Upon transition, the segment expense categories and amounts disclosed in the prior periods should be based on the significant segment expense categories identified and disclosed in the period of adoption. The ASU is effective for fiscal years beginning after December 15, 2023 and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. The Company is currently evaluating this guidance and the impact it may have on its financial statement disclosures.

In December 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures, which includes amendments that further enhance income tax disclosures, primarily through standardization and disaggregation of rate reconciliation categories and income taxes paid by jurisdiction. The amendments are effective for the Company's annual periods beginning July 1, 2025, with early adoption permitted, and should be applied either prospectively or retrospectively. The Company is currently evaluating this guidance and the impact it may have on its financial statement disclosures.

Note 2. Revenue

Disaggregation of Revenue

The Company disaggregates revenue by type of product and by the geographical market. Service revenues, which are less than 10%, are not a significant component of total revenue, and are aggregated within the respective categories.

The following is a summary of net sales by product type (in thousands):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2023	2022	2023	2022
Server and storage systems	$ 3,435,562	$ 1,660,931	$ 5,402,170	$ 3,373,987
Subsystems and accessories	229,362	142,264	382,426	281,338
Total	$ 3,664,924	$ 1,803,195	$ 5,784,596	$ 3,655,325

Server and storage systems constitute an assembly and integration of subsystems and accessories, and related services. Subsystems and accessories are comprised of server boards, chassis and accessories.

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International net sales are based on the country and geographic region to which the products were shipped. The following is a summary for the three and six months ended December 31, 2023 and 2022, of net sales by geographic region (in thousands):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2023	2022	2023	2022
United States	$ 2,605,585	$ 1,091,391	$ 4,225,099	$ 2,386,895
Asia	656,220	330,711	881,688	600,735
Europe	288,448	312,533	479,296	547,607
Other	114,671	68,560	198,513	120,088
Total	$ 3,664,924	$ 1,803,195	$ 5,784,596	$ 3,655,325

Contract Balances

Generally, the payment terms of the Company's offerings range from 30 to 60 days. In certain instances, customers may prepay for products and services in advance of delivery. Receivables relate to the Company's unconditional right to consideration for performance obligations either partially or fully completed.

Contract assets are rights to consideration in exchange for goods or services that the Company has transferred to a customer when such right is conditional on something other than the passage of time. Such contract assets are insignificant to the Company's condensed consolidated financial statements.

Contract liabilities consist of deferred revenue and relate to amounts invoiced to or advance consideration received from customers, which precede the Company's satisfaction of the associated performance obligations. The Company's deferred revenue primarily results from customer payments received upfront for extended warranties and on-site services because these performance obligations are satisfied over time. Additionally, at times, deferred revenue may fluctuate due to the timing of advance consideration received from non-cancellable non-refundable contract liabilities relating to the sale of future products. Revenue recognized during the three and six months ended December 31, 2023, which was included in the opening deferred revenue balance as of June 30, 2023, of $304.4 million, was $31.5 million and $75.2 million, respectively.

Deferred revenue increased $79.2 million as of December 31, 2023 as compared to the fiscal year ended June 30, 2023. This increase was mainly due to a $44.3 million increase in non-cancellable non-refundable advance consideration or cash consideration received from customers which preceded the Company's satisfaction of the associated performance obligations relating to product sales expected to be fulfilled in the next 12 months.

Transaction Price Allocated to the Remaining Performance Obligations

Remaining performance obligations represent in aggregate the amount of transaction price that has been allocated to performance obligations not delivered, or only partially delivered, as of the end of the reporting period. The Company applies the exemption to not disclose information about remaining performance obligations that are part of a contract that has an original expected duration of one year or less. These performance obligations generally consist of services, such as on-site services, including integration services and extended warranty services that are contracted for one year or less, and products for which control has not yet been transferred. The value of the transaction price allocated to remaining performance obligations as of December 31, 2023 was approximately $383.6 million. The Company expects to recognize approximately 50% of remaining performance obligations as revenue in the next 12 months, and the remainder thereafter.

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Capitalized Contract Acquisition Costs and Fulfillment Cost

Contract acquisition costs are those incremental costs that the Company incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. Contract acquisition costs consist primarily of incentive bonuses paid to Company employees. Contract acquisition costs are considered incremental and recoverable costs of obtaining and fulfilling a contract with a customer and are therefore capitalizable. The Company applies the practical expedient to expense incentive bonus costs as incurred if the amortization period would be one year or less, generally upon delivery of the associated server and storage systems or components. Where the amortization period of the contract cost would be more than a year, the Company applies judgment in the allocation of the incentive bonus cost asset between hardware and service performance obligations and expenses the cost allocated to the hardware performance obligations upon delivery of associated server and storage systems or components and amortizes the cost allocated to service performance obligations over the period the services are expected to be provided. Contract acquisition costs allocated to service performance obligations that are subject to capitalization are insignificant to the Company's condensed consolidated financial statements.

Contract fulfillment costs consist of costs paid in advance for outsourced services provided by third parties to the extent they are not in the scope of other guidance. Fulfillment costs paid in advance for outsourced services provided by third parties are capitalized and amortized over the period the services are expected to be provided. Such fulfillment costs are insignificant to the Company's condensed consolidated financial statements.

Note 3. Net Income Per Common Share

The following table shows the computation of basic and diluted net income per common share for the three and six months ended December 31, 2023 and 2022 (in thousands, except per share amounts):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2023	2022	2023	2022
Numerator:				
Net income	$ 295,968	$ 176,167	$ 452,963	$ 360,583
Denominator:				
Weighted-average shares outstanding	54,135	53,160	53,614	52,726
Effect of dilutive securities	3,943	2,984	4,017	2,701
Weighted-average diluted shares	58,078	56,144	57,632	55,427
Basic net income per common share	$ 5.47	$ 3.31	$ 8.45	$ 6.84
Diluted net income per common share	$ 5.10	$ 3.14	$ 7.86	$ 6.51

For the three and six months ended December 31, 2023 and 2022, the Company had stock options and restricted stock units ("RSUs") outstanding that could potentially dilute basic earnings per share in the future, but were excluded from the computation of diluted net income per share in the periods presented, as their effect would have been anti-dilutive. The anti-dilutive common share equivalents resulting from outstanding equity awards were 584,855 and 211,729 for the three months ended December 31, 2023 and 2022, respectively, and 461,292 and 259,562 for the six months ended December 31, 2023 and 2022, respectively.

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Note 4. Balance Sheet Components

The following tables provide details of the selected balance sheet items (in thousands):

Cash, Cash Equivalents and Restricted Cash:

	December 31, 2023	June 30, 2023
Cash and cash equivalents	$ 725,660	$ 440,459
Restricted cash included in other assets	509	501
Total cash, cash equivalents and restricted cash	$ 726,169	$ 440,960

Inventories:

	December 31, 2023	June 30, 2023
Finished goods	$ 1,566,278	$ 1,045,177
Work in process	516,331	71,874
Purchased parts and raw materials	384,388	328,513
Total inventories	$ 2,466,997	$ 1,445,564

Property, Plant, and Equipment:

	December 31, 2023	June 30, 2023
Buildings	$ 143,496	$ 143,496
Machinery and equipment	138,256	130,151
Land	90,754	86,642
Building and leasehold improvements	61,708	59,634
Furniture and fixtures	38,820	36,303
Software	23,823	23,098
Building construction in progress	1,941	303
	498,798	479,627
Accumulated depreciation and amortization	(201,696)	(189,387)
Property, plant and equipment, net	$ 297,102	$ 290,240

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Accrued Liabilities:

	December 31, 2023	June 30, 2023
Accrued payroll and related expenses	$ 64,237	$ 53,439
Customer deposits	35,965	16,577
Contract manufacturers liabilities	24,565	23,634
Accrued cooperative marketing expenses	12,153	9,744
Accrued warranty costs	9,554	9,079
Operating lease liability	8,940	7,292
Accrued professional fees	756	2,363
Other	58,292	41,737
Total accrued liabilities	$ 214,462	$ 163,865

Product Warranties:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2023	2022	2023	2022
Balance, beginning of the period	$ 15,629	$ 12,703	$ 14,859	$ 12,136
Provision for warranty	10,515	8,933	23,044	17,550
Costs utilized	(9,587)	(8,553)	(21,391)	(17,026)
Change in estimated liability for pre-existing warranties	59	193	104	616
Balance, end of the period	16,616	13,276	16,616	13,276
Current portion	9,554	8,668	9,554	8,668
Non-current portion	$ 7,062	$ 4,608	$ 7,062	$ 4,608

Note 5. Fair Value Disclosure

The financial instruments of the Company measured at fair value on a recurring basis are included in cash equivalents, other assets and accrued liabilities. The Company classifies its financial instruments, except for its investment in an auction rate security, within Level 1 or Level 2 in the fair value hierarchy because the Company uses quoted prices in active markets or alternative pricing sources and models using market observable inputs to determine their fair value.

The Company's investment in an auction rate security is classified within Level 3 of the fair value hierarchy as the determination of its fair value was not based on observable inputs as of December 31, 2023 and June 30, 2023. The Company is using the discounted cash flow method to estimate the fair value of the auction rate security at each period end and the following assumptions: (i) the expected yield based on observable market rate of similar securities, (ii) the security coupon rate that is reset monthly, (iii) the estimated holding period and (iv) a liquidity discount. The liquidity discount assumption is based on the management estimate of lack of marketability discount of similar securities and is determined based on the analysis of financial market trends over time, recent redemptions of securities and other market activities.

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Financial Assets and Liabilities Measured on a Recurring Basis

The following table sets forth the Company’s financial instruments as of December 31, 2023 and June 30, 2023, which are measured at fair value on a recurring basis by level within the fair value hierarchy. These are classified based on the lowest level of input that is significant to the fair value measurement (in thousands):

December 31, 2023	Level 1	Level 2	Level 3	Asset at Fair Value
Assets				
Money market funds [1]	$ 284	$ —	$ —	$ 284
Certificates of deposit [2]	—	465	—	465
Investment in marketable equity security	4,176	—	—	4,176
Auction rate security	—	—	1,843	1,843
Total assets measured at fair value	$ 4,460	$ 465	$ 1,843	$ 6,768

June 30, 2023	Level 1	Level 2	Level 3	Asset at Fair Value
Assets				
Money market funds [1]	$ 20,823	$ —	$ —	$ 20,823
Certificates of deposit [2]	—	462	—	462
Auction rate security	—	—	1,843	1,843
Total assets measured at fair value	$ 20,823	$ 462	$ 1,843	$ 23,128

(1) $0.1 million and $20.6 million in money market funds are included cash and cash equivalents and $0.2 million and $0.2 million in money market funds are included in restricted cash, non-current in other assets in the condensed consolidated balance sheets as of December 31, 2023 and June 30, 2023, respectively.

(2) $0.2 million and $0.2 million in certificates of deposit are included in cash and cash equivalents, $0.1 million and $0.1 million in certificates of deposit are included in prepaid expenses and other assets, and $0.2 million and $0.2 million in certificates of deposit are included in restricted cash, non-current in other assets in the condensed consolidated balance sheets as of December 31, 2023 and June 30, 2023, respectively.

The carrying amounts reported in the condensed consolidated balance sheets for cash and cash equivalents, accounts receivable, other assets, accounts payable and accrued liabilities approximate their fair values. The investment in marketable equity security is carried at fair value using values available on a public exchange and is based on a Level 1 input. The unrealized gains and losses of the investment is included in earnings. The condensed consolidated statement of operations for the three and six months ended December 31, 2023, includes an unrealized gain of $0.3 million and a loss of $0.8 million, respectively, which have been recorded in Other income, net.

On a quarterly basis, the Company also evaluates the current expected credit loss by considering factors such as historical experience, market data, issuer-specific factors, and current economic conditions. For the three and six months ended December 31, 2023, the credit losses related to the Company’s investments were not material.

There was immaterial movement in the balances of the Company's financial assets measured at fair value on a recurring basis, consisting of investment in an auction rate security, using significant unobservable inputs (Level 3) for the three and six months ended December 31, 2023 and 2022.

There were no transfers between Level 1, Level 2 or Level 3 financial instruments in the three and six months ended December 31, 2023 and 2022.

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The following is a summary of the Company’s investment in an auction rate security as of December 31, 2023 and June 30, 2023 (in thousands):

	Cost Basis	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Auction rate security	$ 1,750	$ 287	$ (194)	$ 1,843

No gain or loss was recognized in other comprehensive income for the auction rate security for the three and six months ended December 31, 2023 and 2022.

The Company measures the fair value of outstanding debt for disclosure purposes on a recurring basis. As of December 31, 2023 and June 30, 2023, total debt of $375.6 million and $290.3 million, respectively, was reported at amortized cost. This outstanding debt was classified as Level 2 as it was not actively traded. The amortized cost of the outstanding debt approximates the fair value.

Other Financial Assets - Investments into Non-Marketable Equity Securities

The Company's non-marketable equity securities are investments in privately held companies without readily determinable fair values in the amount of $0.1 million and $1.7 million as of December 31, 2023 and June 30, 2023, respectively. The Company accounts for these investments at cost less impairment, if any, plus or minus changes from observable price changes in orderly transactions for the identical or similar investments by the same issuer. During the three and six months ended December 31, 2023, the Company performed a qualitative assessment and identified impairment indicators. The Company recorded a $0.2 million and $1.8 million impairment during the three and six months ended December 31, 2023, respectively, in Other income, net on the condensed consolidated statement of operations. The Company did not have any impairment to the carrying values of the non-marketable equity securities during the three and six months ended December 31, 2022.

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Note 6. Short-term and Long-term Debt

Short-term and long-term debt obligations as of December 31, 2023 and June 30, 2023 consisted of the following (in thousands):

	December 31, 2023	June 30, 2023
Line of credit:		
2018 Bank of America Credit Facility	$ —	$ —
2022 Bank of America Credit Facility	20,000	—
Cathay Bank Line of Credit	131,583	131,583
2023 CTBC Credit Lines	36,873	—
HSBC Bank Credit Facility	29,704	—
Mega Bank Credit Facility	15,526	—
Total line of credit	233,686	131,583
Term loan facilities:		
Chang Hwa Bank Credit Facility due October 15, 2026	22,911	26,853
CTBC Term Loan Facility, due June 4, 2030	35,579	38,208
2021 CTBC Credit Lines, due August 15, 2026	3,991	4,721
2021 E.SUN Bank Credit Facility, due September 15, 2026	28,463	33,513
2022 ESUN Bank Credit Facility, due August 15, 2027	15,419	16,756
Mega Bank Credit Facility, due September 15, 2026	35,580	38,668
Total term loans	141,943	158,719
Total debt	375,629	290,302
Short-term debt and current portion of long-term debt	276,307	170,123
Debt, non-current	$ 99,322	$ 120,179

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Activities under Revolving Lines of Credit and Term Loans

Available borrowings and interest rates as of December 31, 2023 and June 30, 2023 consisted of the following (in thousands except for percentages):

	December 31, 2023			June 30, 2023		
	Available borrowings		Interest rate	Available borrowings		Interest rate
Line of credit:						
2018 Bank of America Credit Facility	$	350,000	6.82%	$	350,000	6.57%
2022 Bank of America Credit Facility	$	—	6.49%	$	20,000	3.36%
Cathay Bank Line of Credit	$	417	7.36%	$	417	7.08%
2022 CTBC Credit Lines	$	—	—	$	105,000	3.33%
2023 CTBC Credit Line	$	68,127	1.96% - 6.52%	$	—	—
Chang Hwa Bank Credit Facility	$	20,000	6.38%	$	20,000	6.58%
HSBC Bank Credit Facility	$	20,296	1.90% - 6.37%	$	50,000	4.50%
2022 E.SUN Bank Credit Facility	$	30,000	6.67%	$	30,000	4.18%
Mega Bank Credit Facility	$	4,474	1.90%	$	20,000	2.55%
Term loan facilities:						
Chang Hwa Bank Credit Facility due October 15, 2026	$	—	1.55%	$	—	1.55%
CTBC Term Loan Facility, due June 4, 2030	$	—	1.20%	$	—	1.20%
2021 CTBC Credit Lines, due August 15, 2026	$	—	1.40%	$	—	1.40%
2021 E.SUN Bank Credit Facility, due September 15, 2026	$	—	1.75%	$	7,734	1.75%
2022 ESUN Bank Credit Facility, due August 15, 2027	$	—	1.75%	$	—	1.75%
Mega Bank Credit Facility, due September 15, 2026	$	—	1.40% - 1.60%	$	—	1.40% - 1.60%

See “Part II. Item 8. Financial Statements and Supplementary Data – Note 7. Short-term and Long-term Debt” of the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2023 for a more complete description of the Company's credit facilities.

The Company entered into new agreements during the six months ended December 31, 2023 with the following terms:

CTBC Bank

2023 CTBC Bank Credit Lines

On September 28, 2023 (the “Effective Date”), the Company's Taiwan subsidiary entered into a new general agreement for omnibus credit lines with CTBC Bank, which replaces the prior CTBC credit lines in their entirety and permits for borrowings, from time to time, thereunder pursuant to various individual credit arrangements and includes the previously issued long and medium term loan facility of NTD 1,550.0 million entered in 2021 and 2020 (the “Long and Medium Loan Facility”), and each of (i) a short-term loan and guarantee line providing credit of up to NTD1,250.0 million and NTD100.0 million, respectively (the “NTD Short Term Loan/Guarantee Line”), (ii) a short-term loan providing a line of credit of up to $40.0 million (the “USD Short Term Loan Line”), and (iii) an export/import o/a loan line providing a line of credit of up to $105.0 million for exports and $50.0 million for imports (the “Export/Import Line,” and, together with the NTD Short Term Loan/Guarantee Line and the USD Short Term Loan Line, the “New CTBC Credit Lines”). Aggregate borrowings under the New CTBC Credit Lines together is subject to a cap of $105.0 million.

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Interest rates under each of the individual New CTBC Credit Lines are to be established according to individual credit arrangements, which interest rates shall be subject to adjustment depending on the satisfaction of certain conditions. Each of the NTD Short Term Loan/Guarantee Line and USD Short Term Loan Line are secured by certain of the Company's Taiwan subsidiary's assets, including certain property, land, and plant. The tenor for each of the individual New CTBC Credit Lines is one year. For the Long and Medium Loan Facility, the Taiwan subsidiary is subject to various financial covenants, including current ratio, debt service coverage ratio, and financial debt ratio requirements. In the event the Taiwan subsidiary does not satisfy such financial covenants, CTBC Bank is permitted to, among other things, reduce the permitted total borrowings to a cap of $70.0 million from $105.0 million. Additional covenants require, among other things, the Company to maintain ownership of all of the capital stock of its Taiwan subsidiary and prohibit secondary mortgages on certain assets securing various of the New CTBC Credit Lines. The New CTBC Credit Lines have customary default provisions permitting CTBC Bank to suspend the extension of credit, reduce the credit line, shorten the credit extension term, or declare all principal and interest amounts immediately due and payable upon the occurrence of an event of default.

The Company's Taiwan subsidiary intends to use borrowings under the New CTBC Credit Lines in connection with financing of eligible accounts receivable and accounts payable (vendor invoices) and to finance additional improvements to the Company's Bade Manufacturing Facility located in Taiwan.

As of December 31, 2023, the outstanding borrowings under the 2023 CTBC Bank Credit Lines were $36.9 million. The interest rate for these loans were 1.96% - 6.52% per annum as of December 31, 2023.

HSBC Bank

2023 HSBC Bank Credit Lines

On December 7, 2023, the Company's Taiwan subsidiary entered into a new Facility Letter with the Taiwan affiliate of HSBC Bank. The New Facility Letter is substantially identical to the prior Facility Letter entered into with HSBC Bank on February 7, 2023. The New Facility Letter permits borrowings up to a combined aggregate limit of $50 million which may be comprised of borrowings under a New Taiwan Dollar revolving facility with a sub-limit of NTD 300 million (the "NTD Revolver") and an export/seller facility with a sub-limit of $50 million (the "Export/Seller Facility", and together with the NTD Revolver, the "HSBC Bank Credit Lines"). Interest under both the NTD Revolver and Export/Seller Facility is based on HSBC Bank's base rate plus a fixed margin, subject to adjustment under certain circumstances. Interest payments thereunder are due on a monthly basis, or such other interest period as agreed by HSBC Bank, and principal is repayable on the due date.

Amounts due under the New Facility Letter are currently not secured, but subject to HSBC Bank's right of set-off and right to repayment on demand and call for cash coverage.

As of December 31, 2023, the outstanding borrowings under HSBC Bank Credit Lines were $29.7 million. The interest rates for these loans were 1.90% - 6.37% per annum as of December 31, 2023.

Principal payments on short-term and long-term obligations are due as follows (in thousands):

Fiscal Year Principal Payments

Remainder of 2024	$	254,997
2025		42,621
2026		42,621
2027		18,517
2028		6,246
2029 and thereafter		10,627
Total short-term and long-term debt	$	375,629

The Company is in compliance with all the covenants for the outstanding debt.

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Note 7. Leases

The Company leases offices, warehouses and other premises, vehicles and certain equipment leased under non-cancelable operating leases. Operating lease expense recognized and supplemental cash flow information related to operating leases for the three and six months ended December 31, 2023 and 2022 were as follows (in thousands):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2023	2022	2023	2022
Operating lease expense (including expense for lease agreements with related parties of $139 and $140 for the three months ended December 31, 2023 and 2022, respectively, and $277 and $284 for the six months ended December 31, 2023 and 2022, respectively)	$ 2,354	$ 2,115	$ 4,539	$ 4,225
Cash payments for operating leases (including payments to related parties of $129 and $127 for the three months ended December 31, 2023 and 2022, respectively, and $257 and $257 for the six months ended December 31, 2023 and 2022, respectively)	$ 2,204	$ 2,025	$ 4,287	$ 4,063
New operating lease assets obtained in exchange for operating lease liabilities	$ 572	$ 274	$ 9,749	$ 1,024

During the three and six months ended December 31, 2023 and 2022, the Company's costs related to short-term lease arrangements for real estate and non-real estate assets were immaterial. Non-lease variable payments expensed in the three and six months ended December 31, 2023 were $0.5 million and $0.9 million, respectively. Non-lease variable payments expensed in the three and six months ended December 31, 2022 were $0.4 million and $0.9 million, respectively.

As of December 31, 2023, the weighted average remaining lease term for operating leases was 3.1 years and the weighted average discount rate was 4.2%. Maturities of operating lease liabilities under noncancelable operating lease arrangements as of December 31, 2023 were as follows (in thousands):

Fiscal Year:	Maturities of operating leases
Remainder of 2024	$ 4,839
2025	9,436
2026	5,600
2027	3,885
2028	2,827
2029 and beyond	429
Total future lease payments	27,016
Less: Imputed interest	(1,991)
Present value of operating lease liabilities	$ 25,025

The Company has entered into lease agreements with related parties. See Part I, Item 1, Note 8, "Related Party Transactions," for a further discussion.

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Note 8. Related Party Transactions

The Company has a variety of business relationships with Ablecom and Compuware. Ablecom and Compuware are both Taiwan corporations. Ablecom is one of the Company's major contract manufacturers; Compuware is both a distributor of the Company's products and a contract manufacturer for the Company. Ablecom's Chief Executive Officer, Steve Liang, is the brother of Charles Liang, the Company's President, Chief Executive Officer and Chairman of the Board. Steve Liang and his family members owned approximately 36.0% of Ablecom's stock and Charles Liang and his spouse, Sara Liu, who is also an officer and director of the Company, collectively owned approximately 10.5% of Ablecom's capital stock as of December 31, 2023. Bill Liang, a brother of both Charles Liang and Steve Liang, is a member of the Board of Directors of Ablecom. Bill Liang is also the Chief Executive Officer of Compuware, a member of Compuware's Board of Directors and a holder of a significant equity interest in Compuware. Steve Liang is also a member of Compuware's Board of Directors and is an equity holder of Compuware. Neither Charles Liang nor Sara Liu own any capital stock of Compuware and the Company does not own any of Ablecom or Compuware's capital stock. In addition, a sibling of Yih-Shyan (Wally) Liaw, who is our Senior Vice President, Business Development and a director, owns approximately 11.7% of Ablecom's capital stock and 8.7% of Compuware's capital stock.

Dealings with Ablecom

The Company has entered into a series of agreements with Ablecom, including multiple product development, production and service agreements, product manufacturing agreements, manufacturing services agreements and lease agreements for warehouse space.

Under these agreements, the Company outsources to Ablecom a portion of its design activities and a significant part of its server chassis manufacturing as well as an immaterial portion of other components. Ablecom manufactured approximately 87.2% and 95.5% of the chassis included in the products sold by the Company during the three months ended December 31, 2023 and 2022, respectively, and 86.3% and 91.8% of the chassis included in the products sold by the Company during the six months ended December 31, 2023 and 2022, respectively. With respect to design activities, Ablecom generally agrees to design certain agreed-upon products according to the Company's specifications, and further agrees to build the tools needed to manufacture the products. The Company pays Ablecom for the design and engineering services, and further agrees to pay Ablecom for the tooling. The Company retains full ownership of any intellectual property resulting from the design of these products and tooling.

With respect to the manufacturing aspects of the relationship, Ablecom purchases most of materials needed to manufacture the chassis from third parties and the Company provides certain components used in the manufacturing process (such as power supplies) to Ablecom through consignment or sales transactions. Ablecom uses these materials and components to manufacture the completed chassis and then sell them back to the Company. For the components purchased from the Company, Ablecom sells the components back to the Company at a price equal to the price at which the Company sold the components to Ablecom. The Company and Ablecom frequently review and negotiate the prices of the chassis the Company purchases from Ablecom. In addition to inventory purchases, the Company also incurs other costs associated with design services, tooling and other miscellaneous costs from Ablecom.

The Company's exposure to financial loss as a result of its involvement with Ablecom is limited to potential losses on its purchase orders in the event of an unforeseen decline in the market price and/or demand of the Company's products such that the Company incurs a loss on the sale or cannot sell the products. Outstanding cancellable and non-cancellable purchase orders from the Company to Ablecom on December 31, 2023 were $49.1 million and $37.5 million, respectively, and outstanding cancellable and non-cancellable purchase orders from the Company to Ablecom on June 30, 2023 were $37.4 million and $23.7 million, respectively, effectively representing the exposure to financial loss. The Company does not directly or indirectly guarantee any obligations of Ablecom, or any losses that the equity holders of Ablecom may suffer. Since Ablecom manufactures substantially all the chassis that the Company incorporates into its products, if Ablecom were to suddenly be unable to manufacture chassis for the Company, the Company's business could suffer if the Company is unable to quickly qualify substitute suppliers who can supply high-quality chassis to the Company in volume and at acceptable prices.

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Dealings with Compuware

The Company has entered into a distribution agreement with Compuware, under which the Company appointed Compuware as a non-exclusive distributor of the Company's products in Taiwan, China and Australia. Compuware assumes the responsibility to install the Company's products at the site of the end customer, if required, and administers customer support in exchange for a discount from the Company's standard price for its purchases.

The Company also has entered into a series of agreements with Compuware, including multiple product development, production and service agreements, product manufacturing agreements, and lease agreements for office space.

Under these agreements, the Company outsources to Compuware a portion of its design activities and a significant part of its power supplies manufacturing as well as an immaterial portion of other components. With respect to design activities, Compuware generally agrees to design certain agreed-upon products according to the Company's specifications, and further agrees to build the tools needed to manufacture the products. The Company pays Compuware for the design and engineering services, and further agrees to pay Compuware for the tooling. The Company retains full ownership of any intellectual property resulting from the design of these products and tooling. With respect to the manufacturing aspects of the relationship, Compuware purchases most of materials needed to manufacture the power supplies from outside markets and uses these materials to manufacture the products and then sell those products to the Company. The Company and Compuware frequently review and negotiate the prices of the power supplies the Company purchases from Compuware.

Compuware also manufactures motherboards, backplanes and other components used on printed circuit boards for the Company. The Company sells to Compuware most of the components needed to manufacture the above products. Compuware uses the components to manufacture the products and then sells the products back to the Company at a purchase price equal to the price at which the Company sold the components to Compuware, plus a "manufacturing value added" fee and other miscellaneous material charges and costs including overhead and labor. The Company and Compuware frequently review and negotiate the amount of the "manufacturing value added" fee that will be included in the price of the products the Company purchases from Compuware. In addition to the inventory purchases, the Company also incurs costs associated with design services, tooling assets, and miscellaneous costs.

The Company's exposure to financial loss as a result of its involvement with Compuware is limited to potential losses on its purchase orders in the event of an unforeseen decline in the market price and/or demand of the Company's products such that the Company incurs a loss on the sale or cannot sell the products. Outstanding cancellable and non-cancellable purchase orders from the Company to Compuware on December 31, 2023 were $121.6 million and $49.9 million, respectively, and outstanding cancellable and non-cancellable purchase orders from the Company to Compuware on June 30, 2023 were $156.2 million and $46.8 million, respectively, effectively representing the exposure to financial loss. The Company does not directly or indirectly guarantee any obligations of Compuware, or any losses that the equity holders of Compuware may suffer.

Dealings with Investment in a Corporate Venture

In October 2016, the Company entered into agreements pursuant to which the Company contributed certain technology rights in connection with an investment in a privately-held company (the "Corporate Venture") located in China to expand the Company's presence in China. The Corporate Venture is 30% owned by the Company and 70% owned by another company in China. The transaction was closed in the third fiscal quarter of 2017 and the investment is accounted for using the equity method. As such, the Corporate Venture is also a related party.

The Company recorded a deferred gain related to the contribution of certain technology rights. There was no balance in the deferred gain in the consolidated balance sheets as of December 31, 2023 and June 30, 2023.

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The Company monitors the investment for events or circumstances indicative of potential impairment and makes appropriate reductions in carrying values if it determines that an impairment charge is required. In June 2020, the third-party parent company that controls the Corporate Venture was placed on a U.S. government export control list, along with several of such third-party parent's related entities and a separate listing for one of its subsidiaries. The Corporate Venture is not itself a restricted party. The Company has concluded that the Corporate Venture is in compliance with the new restrictions. The Company does not believe that the equity investment carrying value is impacted as of December 31, 2023. No impairment charge was recorded for the three and six months ended December 31, 2023 or 2022.

The Company sold products worth $11.4 million and $6.0 million to the Corporate Venture during the three months ended December 31, 2023 and 2022, respectively, and $12.2 million and $17.3 million to the Corporate Venture during the six months ended December 31, 2023 and 2022, respectively. The Company's share of intra-entity profits on the products that remained unsold by the Corporate Venture as of December 31, 2023 and June 30, 2023 have been eliminated and have reduced the carrying value of the Company's investment in the Corporate Venture. To the extent that the elimination of intra-entity profits reduces the investment balance below zero, such amounts are recorded within accrued liabilities. The Company had $3.5 million and $1.9 million due from the Corporate Venture in accounts receivable, net as of December 31, 2023 and June 30, 2023, respectively.

The Company had the following balances related to transactions with its related parties as of December 31, 2023 and June 30, 2023 (in thousands):

	Ablecom		Compuware		Corporate Venture		Total	
	December 31, 2023	June 30, 2023	December 31, 2023	June 30, 2023	December 31, 2023	June 30, 2023	December 31, 2023	June 30, 2023
Accounts receivable	$ 2	$ 2	$ 289	$ 3,528	$ 3,568	$ 1,943	$ 3,859	$ 5,473
Other receivable [(1)]	$ 2,270	$ 2,841	$ 32,023	$ 24,891	$ —	$ —	$ 34,293	$ 27,732
Accounts payable	$ 46,649	$ 35,711	$ 55,051	$ 53,423	$ —	$ —	$ 101,700	$ 89,134
Accrued liabilities [(2)]	$ 1,074	$ 1,230	$ 17,435	$ 12,787	$ —	$ —	$ 18,509	$ 14,017

(1) Other receivables include receivables from vendors included in prepaid and other current assets.
(2) Includes current portion of operating lease liabilities included in other current liabilities.

The Company's results from transactions with its related parties for each of the three months ended December 31, 2023 and 2022, are as follows (in thousands):

	Ablecom		Compuware		Corporate Venture		Total	
	Three months ended December 31,		Three months ended December 31,		Three months ended December 31,		Three months ended December 31,	
	2023	2022	2023	2022	2023	2022	2023	2022
Net sales	$ 4	$ 2	$ 4,392	$ 14,113	$ 11,385	$ 5,958	$ 15,781	$ 20,073
Purchases - inventory	$ 50,586	$ 46,715	$ 61,859	$ 52,028	$ —	$ —	$ 112,445	$ 98,743
Purchases - other miscellaneous items	$ 3,456	$ 2,763	$ 332	$ 279	$ —	$ —	$ 3,788	$ 3,042

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The Company's results from transactions with its related parties for each of the six months ended December 31, 2023 and 2022, are as follows (in thousands):

	Ablecom		Compuware		Corporate Venture		Total	
	Six months ended December 31,		Six months ended December 31,		Six months ended December 31,		Six months ended December 31,	
	2023	2022	2023	2022	2023	2022	2023	2022
Net sales	$ 6	$ 3	$ 20,998	$ 27,872	$ 12,173	$ 17,251	$ 33,177	$ 45,126
Purchases - inventory	$ 97,199	$ 94,562	$ 128,353	$ 100,717	$ —	$ —	$ 225,552	$ 195,279
Purchases - other miscellaneous items	$ 8,215	$ 7,526	$ 749	$ 537	$ —	$ —	$ 8,964	$ 8,063

The Company's cash flow impact from transactions with its related parties for each of the six months ended December 31, 2023 and 2022, are as follows (in thousands):

	Ablecom		Compuware		Corporate Venture		Total	
	Six months ended December 31,		Six months ended December 31,		Six months ended December 31,		Six months ended December 31,	
	2023	2022	2023	2022	2023	2022	2023	2022
Changes in accounts receivable	$ —	$ —	$ 3,239	$ 137	$ (1,625)	$ 3,041	$ 1,614	$ 3,178
Changes in other receivable	$ 571	$ 1,364	$ (7,132)	$ (24,289)	$ —	$ —	$ (6,561)	$ (22,925)
Changes in accounts payable	$ 10,938	$ (3,589)	$ 1,628	$ 4,340	$ —	$ —	$ 12,566	$ 751
Changes in accrued liabilities	$ (156)	$ (2,009)	$ 4,648	$ 2,860	$ —	$ —	$ 4,492	$ 851
Changes in other long-term liabilities	$ —	$ —	$ (152)	$ (168)	$ —	$ —	$ (152)	$ (168)
Purchases of property, plant and equipment	$ 4,460	$ 4,366	$ 68	$ 148	$ —	$ —	$ 4,528	$ 4,514
Unpaid property, plant and equipment	$ 2,570	$ 1,764	$ 7	$ —	$ —	$ —	$ 2,577	$ 1,764

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Note 9. Stock-based Compensation and Stockholders' Equity

Equity Incentive Plan

On June 5, 2020, the stockholders of the Company approved the 2020 Equity and Incentive Compensation Plan (the "Original 2020 Plan"). The maximum number of shares available under the Original 2020 Plan was 5,000,000 plus 1,045,000 shares of common stock that remained available for future awards under the 2016 Equity Incentive Plan (the "2016 Plan"), at the time of adoption of the Original 2020 Plan. No other awards can be granted under the 2016 Plan and 7,246,000 shares of common stock remained reserved for outstanding awards issued under the Original 2016 Plan at the time of adoption of the Original 2020 Plan. On May 18, 2022, the stockholders of the Company approved an amendment and restatement of the Original 2020 Plan which, among other things, increased the number of shares available for award under the 2020 Plan by an additional 2,000,000 shares.

On January 22, 2024, the stockholders of the Company approved a further amendment and restatement of the Original 2020 Plan (as amended and restated from time to time, the "2020 Plan") which, among other things, further increased the number of shares available for award under the 2020 Plan by an additional 1,500,000 shares.

Under the 2020 Plan, the Company can grant stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units, dividend equivalents, and certain other awards, including those denominated or payable in, or otherwise based on, the Company's common stock. The exercise price per share for incentive stock options granted to employees owning shares representing more than 10% of the Company's outstanding voting stock at the time of grant cannot be less than 110% of the fair value of the underlying shares on the grant date. Nonqualified stock options and incentive stock options granted to all other persons are granted at a price not less than 100% of the fair value. Options generally expire ten years after the date of grant. Stock options and RSUs generally vest over four years; 25% at the end of one year and one sixteenth per quarter thereafter.

As of December 31, 2023, the Company had 483,780 authorized shares available for future issuance under the 2020 Plan.

Offering of Common Stock

On December 5, 2023, the Company completed a public offering of 2,415,805 shares of the Company's common stock at $262.00 per share, with 2,315,105 shares sold by the Company and 100,700 shares sold by selling stockholders.

The Company received net proceeds of approximately $582.8 million, after deducting underwriting discounts and commissions and offering expenses payable by the Company. The Company did not receive any proceeds from the sale of the shares of common stock by the selling stockholders.

Common Stock Repurchase and Retirement

On August 3, 2022, after the expiration of a prior share repurchase program on July 31, 2022, a duly authorized subcommittee of the Company's Board approved a new share repurchase program to repurchase shares of the Company's common stock for up to $200 million at prevailing prices in the open market. Under the common stock repurchase program, shares may be purchased from time to time in open market transactions, block trades, through plans established under the Securities Exchange Act Rule 10b5-1, or otherwise. The number of shares purchased and the timing of such purchases are based on working capital requirements, market and general business conditions, and other factors, including alternative investment opportunities.

No shares were repurchased under the share repurchase program during the three and six months ended December 31, 2023. As of December 31, 2023, $50.0 million was available for additional repurchases of common stock. The share repurchase program was effective until January 31, 2024, at which time the remaining unutilized portion of such program expired.

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Determining Fair Value

The Company's fair value of RSUs is based on the closing market price of the Company's common stock on the date of grant. The Company estimates the fair value of stock options granted using the Black-Scholes-option-pricing model. This fair value is then amortized ratably over the requisite service periods of the awards, which is generally the vesting period. The key inputs in using the Black-Scholes-option-pricing model were as follows:

Expected Term—The Company's expected term represents the period that the Company's stock-based awards are expected to be outstanding and was determined based on the Company's historical experience.

Expected Volatility—Expected volatility is based on the Company's implied and historical volatility.

Expected Dividend—The Black-Scholes valuation model calls for a single expected dividend yield as an input and the Company has no plans to pay dividends.

Risk-Free Interest Rate—The risk-free interest rate used in the Black-Scholes valuation method is based on the United States Treasury zero coupon issues in effect at the time of grant for periods corresponding with the expected term of option.

The fair value of stock option grants for the three and six months ended December 31, 2023 and 2022 was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2023	2022	2023	2022
Risk-free interest rate	4.78%	4.16% - 4.25%	4.15% - 4.78%	2.81% - 4.25%
Expected term	5.99 years	6.07 years	3.00 years - 5.99 years	6.07 years
Dividend yield	—%	—%	—%	—%
Volatility	58.89%	51.64% - 51.68%	56.87% - 58.89%	50.62% - 51.68%
Weighted-average fair value	$156.09	$36.37	$179.16	$34.60

The following table shows total stock-based compensation expense included in the condensed consolidated statements of operations for the three and six months ended December 31, 2023 and 2022 (in thousands):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2023	2022	2023	2022
Cost of sales	$ 3,555	$ 1,486	$ 9,459	$ 2,370
Research and development	25,439	9,334	61,149	15,452
Sales and marketing	4,340	1,448	10,005	2,257
General and administrative	9,727	4,713	19,827	7,916
Stock-based compensation expense before taxes	43,061	16,981	100,440	27,995
Income tax impact	(9,569)	(3,381)	(25,434)	(4,720)
Stock-based compensation expense, net	$ 33,492	$ 13,600	$ 75,006	$ 23,275

As of December 31, 2023, $73.5 million of unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 3.26 years and $237.0 million of unrecognized compensation cost related to unvested RSUs is expected to be recognized over a weighted-average period of 2.65 years. As described below, there is no unrecognized compensation cost related to the 2021 CEO Performance Stock Option as of December 31, 2023. Additionally, $27.4 million of unrecognized compensation cost related to the 2023 CEO Performance Stock Option is expected to be recognized over a period of 1.75 years.

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Stock Option Activity

2021 CEO Performance Award

In March 2021, the Company's Compensation Committee of the Board of Directors (the "Compensation Committee") approved the grant of a stock option award for 1,000,000 shares of common stock to the Company's CEO (the "2021 CEO Performance Stock Option"). The 2021 CEO Performance Stock Option has five vesting tranches with a vesting schedule based entirely on the attainment of operational milestones (performance conditions) and market conditions, assuming (1) continued employment either as the CEO or in such capacity as agreed upon between the Company's CEO and the Board and (2) service through each vesting date. Each of the five vesting tranches of the 2021 CEO Performance Stock Option will vest upon certification by the Compensation Committee that both (i) the market price milestone for such tranche, which begins at $45.00 per share for the first tranche and increases up to $120.00 per share thereafter (based on a 60 trading day average stock price), has been achieved, and (ii) any one of five operational milestones focused on total revenue, as reported under U.S. GAAP, have been achieved for the previous four consecutive fiscal quarters. Upon vesting and exercise, including the payment of the exercise price of $45.00 per share, prior to March 2, 2024, the Company's CEO must hold shares that he acquires until March 2, 2024, other than those shares sold pursuant to a cashless exercise where shares are simultaneously sold to pay for the exercise price and any required tax withholding.

The achievement status of the operational and stock price milestones as of December 31, 2023 was as follows:

Annualized Revenue Milestone (in billions)	Achievement Status	Stock Price Milestone	Achievement Status
$4.0	Achieved	$45	Achieved (1)
$4.8	Achieved	$60	Achieved (2)
$5.8	Achieved	$75	Achieved (3)
$6.8	Achieved	$95	Achieved (4)
$8.0	Achieved (5)	$120	Achieved (6)

(1) The vesting of the first tranche of 200,000 option shares under the 2021 CEO Performance Stock Option, representing one-fifth of such award, was certified by the Company's Compensation Committee in August 2022.
(2) The vesting of the second tranche of 200,000 option shares under the 2021 CEO Performance Stock Option representing one-fifth of such award was certified by the Company's Compensation Committee in October 2022.
(3) The vesting of the third tranche of 200,000 option shares under the 2021 CEO Performance Stock Option representing one-fifth of such award was certified by the Company's Compensation Committee in January 2023.
(4) The vesting of the fourth tranche of 200,000 option shares under the 2021 CEO Performance Stock Option representing one-fifth of such award was certified by the Company's Compensation Committee in September 2023.
(5) Revenue reported for the four quarters ended December 31, 2023 was $9.3 billion. Achievement of the $8.0 billion revenue goal has not yet been certified by the Company's Compensation Committee.
(6) On June 19, 2023, the Compensation Committee certified achievement of the $120 stock price milestone based upon the 60 trading day average stock price from March 6, 2023 through May 30, 2023.

During the three and six months ended December 31, 2023, the Company recognized compensation expense related to the 2021 CEO Performance Stock Option of $0.5 million and $0.7 million, respectively. During the three and six months ended December 31, 2022, the Company recognized compensation expense related to the 2021 CEO Performance Stock Option of $1.9 million and $3.2 million, respectively. As of December 31, 2023 and June 30, 2023, the Company had $0.0 million and $0.7 million, respectively, in unrecognized compensation cost related to the 2021 CEO Performance Stock Option.

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2023 CEO Performance Award

In November 2023, the Compensation Committee approved the grant of a stock option award for 500,000 shares of common stock to the Company's CEO (the "2023 CEO Performance Stock Option"). The 2023 CEO Performance Stock Option has five vesting tranches with a vesting schedule based entirely on the attainment of operational milestones (performance conditions) and market conditions, assuming (1) continued employment either as the CEO or in such capacity as agreed upon between the Company's CEO and the Board and (2) service through each vesting date. Each of the five vesting tranches of the 2023 CEO Performance Stock Option will vest upon certification by the Compensation Committee that both (i) the market price milestone for such tranche, which begins at $450.00 per share for the first tranche and increases up to $1,100.00 per share thereafter (based on a 60 trading day average stock price), has been achieved, and (ii) any one of five operational milestones focused on total revenue, as reported under U.S. GAAP, have been achieved for the previous four consecutive fiscal quarters. Upon vesting and exercise, including the payment of the exercise price of $450.00 per share, prior to November 14, 2026, the Company's CEO must hold shares that he acquires until November 14, 2026, other than those shares sold pursuant to a cashless exercise where shares are simultaneously sold to pay for the exercise price and any required tax withholding.

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The achievement status of the operational and stock price milestones as of December 31, 2023 was as follows:

Annualized Revenue Milestone (in billions)	Achievement Status	Stock Price Milestone	Achievement Status
$13.0	Probable	$450	Not met
$15.0	Not Probable	$600	Not met
$17.0	Not Probable	$750	Not met
$19.0	Not Probable	$900	Not met
$21.0	Not Probable	$1,100	Not met

During the three and six months ended December 31, 2023, the Company recognized compensation expense related to the 2023 CEO Performance Stock Option of $2.5 million. As of December 31, 2023 , the Company had $27.4 million in unrecognized compensation cost related to the 2023 CEO Performance Stock Option. The unrecognized compensation cost as of December 31, 2023 is expected to be recognized over a period of 1.75 years.

On the respective grant dates of each of the 2021 CEO Performance Award and the 2023 CEO Performance Award, a Monte Carlo simulation was used to determine for each tranche of each award (i) a fixed expense amount for such tranche and (ii) the future time when the market price milestone for such tranche was expected to be achieved, or its "expected market price milestone achievement time." Separately, based on a subjective assessment of the Company's future financial performance, each quarter, the Company will determine whether achievement is probable for each operational milestone that has not previously been achieved or deemed probable of achievement, and, if so, the future time when the Company expects to achieve that operational milestone, or its "expected operational milestone achievement time." When the Company first determines that an operational milestone has become probable of being achieved, the Company will allocate the entire expense for the related tranche over the number of quarters between the grant date and the then-applicable "expected vesting time." The "expected vesting time" at any given time is the later of (i) the expected operational milestone achievement time (if the related operational milestone has not yet been achieved) and (ii) the expected market price milestone achievement time (if the related market price milestone has not yet been achieved). The Company will immediately recognize a catch-up expense for all accumulated expenses from the respective grant date through the quarter in which the operational milestone was first deemed probable of being achieved. Each quarter thereafter, the Company will recognize the prorated portion of the then-remaining expense for the tranche based on the number of quarters between such quarter and the then-applicable expected vesting time, except that upon vesting of a tranche, all remaining expenses for that tranche will be immediately recognized.

The following table summarizes stock option activity during the six months ended December 31, 2023 under all plans:

	Options Outstanding		Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (in Years)
Balance as of June 30, 2023	3,302,533	$	40.47	
Granted	844,242	$	393.40	
Exercised	(341,409)	$	28.68	
Forfeited/Cancelled	(7,127)	$	60.76	
Balance as of December 31, 2023	3,798,239	$	119.94	7.00
Options vested and exercisable at December 31, 2023	2,044,524	$	36.57	5.36

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RSU Activity

The following table summarizes RSU activity during the six months ended December 31, 2023 under all plans:

	Time-Based RSUs Outstanding	Weighted Average Grant-Date Fair Value per Share
Balance as of June 30, 2023	2,042,986	$ 55.94
Granted	724,048	$ 309.00
Released	(511,022)	$ 96.34
Forfeited	(45,329)	$ 91.53
Balance as of December 31, 2023	2,210,683	$ 128.75

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

Note 10. Income Taxes

The Company recorded a provision for income taxes of $61.5 million and $81.7 million for the three and six months ended December 31, 2023, respectively, and $29.6 million and $68.5 million for the three and six months ended December 31, 2022, respectively. The effective tax rate was 17.3% and 15.3% for the three and six months ended December 31, 2023, respectively, and 14.3% and 15.9% for the three and six months ended December 31, 2022, respectively. The effective tax rate for the three months ended December 31, 2023 is higher than that for the three months ended December 31, 2022, primarily due to a 2% increase caused by a reduction of foreign derived intangible income which is subject to lower income tax rate than a statutory tax rate of 21%. In addition, there was a 1% increase caused by more non tax deductible stock-based compensation for officers over one million dollars threshold. The effective tax rate for the six months ended December 31, 2023 is lower than that for the six months ended December 31, 2022, primarily due to an increase in the tax deduction for stock-based compensation in the six months ended December 31, 2023.

The Tax Cuts and Jobs Act of 2017 eliminated the option to deduct research and development (“R&D”) expenses in the year incurred and instead requires taxpayers to capitalize R&D expenses, including software development cost, and subsequently amortize such expenses over five years for R&D activities conducted in the United States and over fifteen years for R&D activities conducted outside of the United States beginning in the Company's fiscal year 2023. Although Congress has considered legislation that would defer, modify, and repeal the capitalization and amortization requirement, there is no assurance the provision will be deferred, repealed, or otherwise modified.

The Company believes that it has adequately provided reserves for all uncertain tax positions; however, amounts asserted by tax authorities could be greater or less than the Company’s current position. Accordingly, the Company’s provision on federal, state and foreign tax related matters to be recorded in the future may change as revised estimates are made or as the underlying matters are settled or otherwise resolved.

In general, the federal statute of limitations remains open for tax years ended June 30, 2020 through 2023. Various states’ statutes of limitations remain open in general for tax years ended June 30, 2019 through 2023. Certain statutes of limitations in major foreign jurisdictions remain open for the tax years ended June 30, 2018 through 2023. It is reasonably possible that the Company’s gross unrecognized tax benefits will decrease by approximately $3.2 million, in the next 12 months, due to the lapse of the statute of limitations. These adjustments, if recognized, would positively impact the Company’s effective tax rate, and would be recognized as additional tax benefits.

Note 11. Commitments and Contingencies

Legal proceedings and indemnifications

From time to time, the Company has been involved in various legal proceedings arising from the normal course of business activities. The resolution of any such matters have not had a material impact on the Company’s consolidated financial condition, results of operations or liquidity as of December 31, 2023 and any prior periods.

The Company has entered into indemnification agreements with its current and former directors and executive officers.

Under these agreements, the Company has agreed to indemnify such individuals to the fullest extent permitted by law against liabilities that arise by reason of their status as directors or officers and to advance expenses incurred by such individuals in connection with related legal proceedings. It is not possible to determine the maximum potential amount of payments the Company could be required to make under these agreements due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each claim. However, the Company maintains directors and officers liability insurance coverage to reduce its exposure to such obligations.

Purchase Commitments— The Company has agreements to purchase inventory and non-inventory items primarily through the next 12 months. As of December 31, 2023, these remaining noncancelable commitments were $1.9 billion, including $87.4 million for related parties.

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SUPER MICRO COMPUTER, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Note 12. Segment Reporting

The Company operates in one operating segment that develops and provides high-performance server and storage solutions based upon an innovative, modular and open-standard architecture. The Company's chief operating decision maker is the Chief Executive Officer.

The following is a summary of property, plant and equipment, net (in thousands):

	December 31, 2023	June 30, 2023
Long-lived assets:		
United States	$ 183,896	$ 183,485
Asia	110,676	104,094
Europe	2,530	2,661
	$ 297,102	$ 290,240

The Company's revenue is presented on a disaggregated basis in Part I, Item 1, Note 2, "Revenue," by type of product and by geographical market.

Note 13. Subsequent Events

On January 26, 2024, the Company entered into an agreement to purchase real estate for an aggregate price of $80.0 million, subject to certain adjustments to be determined at closing. The transaction is expected to close during the third quarter of fiscal 2024. The Company plans to acquire this property using its own cash.

On January 31, 2024, the Company entered into a lease for approximately 260,000 square feet of space in San Jose, California for a term of 79 months. The Company currently intends to use such premises for additional warehouse space. The lease also provides that the Company is required to rent an additional approximate 198,000 square feet of space in the same building after such space becomes available for the remainder of the term stated above. Aggregate payment under the lease for both the primary space and additional space is approximately $0.6 million per month, subject to annual increase.

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For the purpose of this section only, unless the context requires otherwise, references to the "Company" are to Super Micro, and references to "we", "us" and "our" shall be construed accordingly.

The following management discussion and analysis of the results of Super Micro is extracted from the annual reports of Super Micro for the years ended 30 June 2021, 2022 and 2023 and the second quarter report of Super Micro for the six months ended 31 December 2023. It should be read in conjunction with the financial information of Super Micro for the years ended 30 June 2021, 2022 and 2023 and the six months ended 31 December 2023 set forth in Appendix V to this circular. The management discussion and analysis of the results of Super Micro was issued in English and the Chinese translated version is provided for information purposes only. In case of discrepancies between the two versions, the English version shall prevail.

The Directors wish to emphasise that the extracts reproduced below are not prepared for incorporation into this circular and the Group has not participated in their preparation. As such, the Directors do not express any view as to their truth, accuracy or completeness, and the Shareholders and investors should exercise caution and should not place undue reliance on such information.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the consolidated financial statements and related notes which appear elsewhere in this Annual Report. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this Annual Report, particularly under the heading "Risk Factors."

Overview

We are a global leader and innovator of application-optimized high performance and high-efficiency server and storage systems for a variety of markets, including enterprise data centers, cloud computing, artificial intelligence, 5G and edge computing. Our solutions include complete servers, storage systems, modular blade servers, blades, workstations, full racks, networking devices, server management software, and server sub-systems. We also provide global support and services to help our customers install, upgrade and maintain their computing infrastructure.

We commenced operations in 1993 and have been profitable every year since inception. For fiscal years 2021, 2020 and 2019, our net income was $111.9 million, $84.3 million and $71.9 million, respectively. In order to increase our sales and profits, we believe that we must continue to develop flexible and application optimized server and storage solutions and be among the first to market with new features and products. We must also continue to expand our software and customer service and support offerings, particularly as we increasingly focus on larger enterprise customers. Additionally, we must focus on development of our sales partners and distribution channels to further expand our market share. We measure our financial success based on various indicators, including growth in net sales, gross profit margin and operating margin. Among the key non-financial indicators of our success is our ability to rapidly introduce new products and deliver the latest application-optimized server and storage solutions. In this regard, we work closely with microprocessor and other key component vendors to take advantage of new technologies as they are introduced. Historically, our ability to introduce new products rapidly has allowed us to benefit from technology transitions such as the introduction of new microprocessors and storage technologies, and as a result, we monitor the introduction cycles of NVIDIA Corporation, Intel Corporation, Advanced Micro Devices, Inc., Samsung Electronics Company Limited, Micron Technology, Inc. and others closely and carefully. This also impacts our research and development expenditures as we continue to invest more in our current and future product development efforts.

Coronavirus (COVID-19) Pandemic Impact

The global spread of the coronavirus (COVID-19) and the various attempts to contain it have created significant volatility, uncertainty and economic disruption for many businesses worldwide. In an effort to contain COVID-19 or slow its spread, governments around the world have enacted various measures, including orders that govern the operations of businesses, require masks be worn and define shelter in place and social distancing protocols. We are an essential critical infrastructure (information technology) business under the relevant federal, state and county regulations. Accordingly, in late March 2020, we responded to the directives from Santa Clara County and the State of California regarding instructions to combat the spread of COVID-19. Our first priority is the safety of our workforce and we have implemented numerous health precautions and work practices to be in compliance with the law and to operate in a safe manner.

We quickly transitioned certain of our indirect labor forces to work from home at the earlier phase of the pandemic and continued to operate our local assembly in Taiwan and, after an initial period of disruption, in the United States and Europe. We operate in the critical industry of IT infrastructure and we assessed our customer base to identify priority customers who operate in critical industries. We continue to see ongoing demand and do not have significant direct exposure to industries such as retail, oil and gas and hospitality, which have been impacted the greatest. As time passes, we may discover greater indirect exposure to distressed industries through our channel partners and OEM customers.

We have actively managed our supply chain for potential shortage risk by building inventories of critical components required for our motherboards and other system printed circuit boards in response to the early outbreak of COVID-19 in China. Since that time, we have continued to add to our inventories of key components such as CPUs, memory, SSDs and GPUs such that customer orders can be fulfilled as they are received.

Logistics has emerged as a new challenge as globally the transportation industry restricted the frequency of departures and increased logistics costs. We experienced increased costs in freight as well as direct labor costs as we incentivized our employees to continue to work and assist us in serving our customers, many of whom are in critical industries. We expect this trend to continue for the duration of the COVID-19 pandemic.

We monitor the credit profile and payment history of our customers to evaluate risk in specific industries or geographic areas where cash flow may be disrupted. While we believe that we are adequately capitalized, we actively manage our liquidity needs. In December 2020, our Taiwan subsidiary entered into a general credit agreement with E.SUN Bank in Taiwan. This general credit agreement provides for the issuance of loans, advances, acceptances, bills, bank guarantees, overdrafts, letters of credit, and other types of drawdown instruments up to a credit limit of $30 million. The term of this general credit agreement was through September 18, 2021. In June 2021, we negotiated an extension of our credit facility with Bank of America to extend the maturity date to June 2026. In July 2021, we replaced our prior credit facility and term loan facility with China Trust and Bank Corp ("CTBC Bank"), with a new facility for omnibus credit lines.

Our management team is focused on guiding our company through the ongoing challenges presented by COVID-19. Currently, there are positive signs with vaccine availability and reductions in infection rates; however, with the possibility of new virus strains and vaccine supply constraints, we are unable to predict the ultimate extent to which the global COVID-19 pandemic may further impact our business operations, financial performance and results of operations within the next 12 months. See also “Business–Employees and Human Capital Resources.”

Financial Highlights

The following is a summary of financial highlights of fiscal years 2021 and 2020:

- Net sales increased by 6.5% in fiscal year 2021 as compared to fiscal year 2020.
- Gross margin declined to 15.0% in fiscal year 2021 from 15.8% in fiscal year 2020, primarily due to product and customer mix and increased logistic costs.
- Operating expenses declined by 6.8% in fiscal year 2021 as compared to fiscal year 2020, primarily due to the special performance bonuses to our employees and the accrual for our settlement with the SEC incurred in fiscal year 2020.
- Net income increased to $111.9 million in fiscal year 2021 as compared to $84.3 million in fiscal year 2020, which was primarily due to the higher net sales and lower operating expenses in fiscal year 2021 as compared to fiscal year 2020.
- Our cash and cash equivalents were $232.3 million and $210.5 million at the end of fiscal years 2021 and 2020, respectively. In fiscal year 2021, we generated net cash of $21.1 million, of which $123.0 million was provided by operating activities related primarily to the increase in net income. We also invested $58.0 million in purchases of property and equipment, including construction of a new facility in San Jose, California, and used $44.4 million in financing activities primarily due to the repurchase of $130.0 million of our common stock, which was offset by the proceeds from borrowings.

Critical Accounting Policies and Estimates

General

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States. The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amount of assets, liabilities, net sales and expenses. We evaluate our estimates on an on-going basis, and base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making the judgments we make about the carrying values of assets and liabilities that are not readily apparent from other sources. Because these estimates can vary depending on the situation, actual results may differ from the estimates. Making estimates and judgments about future events is inherently unpredictable and is subject to significant uncertainties, some of which are beyond our control. Should any of these estimates and assumptions change or prove to have been incorrect, it could have a material impact on our results of operations, financial position and statement of cash flows.

A summary of significant accounting policies is included in Part II, Item 8, Note 1, “Organization and Summary of Significant Accounting Policies” in our notes to the consolidated financial statements in this Annual Report. Management believes the following are the most critical accounting policies and reflect the significant estimates and assumptions used in the preparation of the consolidated financial statements.

Revenue Recognition

The most critical accounting policy estimate and judgments required in applying ASC 606, Revenue Recognition of Contracts from Customers, and our revenue recognition policy relate to the determination of the transaction price, distinct performance obligations and the evaluation of the standalone selling price (the “SSP”) for each performance obligation.

We generate revenues from the sale of server and storage systems, subsystems, accessories, services, server software management solutions, and support services. Many of our customer contracts include multiple performance obligations. Judgment is required in determining whether each performance obligation within a customer contract is distinct. This assessment involves subjective determinations and requires management to make judgments about the individual promised goods or services and whether such goods or services are separable from the other aspects of the contractual relationship.

As part of determining the transaction price in contracts with customers, we may be required to estimate variable consideration when determining the amount of revenue to recognize. We estimate reserves for future sales returns based on a review of our history of actual returns. Based upon historical experience, a refund liability is recorded at the time of sale for estimated product returns and an asset is recognized for the amount expected to be recorded in inventory upon product return, less the expected recovery costs. We also estimate the costs of customer and distributor programs and incentive offerings such as price protection, rebates, as well as the estimated costs of cooperative marketing arrangements where the fair value of the benefit derived from the costs cannot be reasonably estimated. Any provision is recorded as a reduction of revenue at the time of sale based on an evaluation of the contract terms and historical experience.

We allocate the transaction price for each customer contract to each performance obligation based on the relative SSP for each performance obligation within each contract. We recognize the amount of transaction price allocated to each performance obligation within a customer contract as revenue as each performance obligation is delivered. Determining the relative SSP for contracts that contain multiple performance obligations requires significant judgement. We determine standalone selling prices based on the price at which the performance obligation is sold separately. If the standalone selling price is not observable through past transactions, we apply judgment to estimate the SSP. For substantially all performance obligations, we are able to establish the SSP based on the observable prices of products or services sold separately in comparable circumstances to similar customers. We typically establish an SSP range for our products and services, which is reassessed on a periodic basis or when facts and circumstances change. SSP for our products and services can evolve over time due to changes in our pricing practices, internally approved pricing guidelines with respect to geographies, customer type, internal costs, and gross margin objectives for the related performance obligations which can also be influenced by intense competition, changes in demand for our products and services, economic and other factors.

These estimates and judgements have not fluctuated significantly for the fiscal year ended June 30, 2021 compared to prior fiscal years.

Inventories

Inventories are stated at lower of cost, using weighted average cost method, or net realizable value. Net realizable value is the estimated selling price of our products in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Inventories consist of purchased parts and raw materials (principally electronic components), work in process (principally products being assembled) and finished goods. We evaluate inventory on a quarterly basis for lower of cost or net realizable value and excess and obsolescence and, as necessary, write down the valuation of inventories based upon our inventory aging, forecasted usage and sales, anticipated selling price, product obsolescence and other factors. Once inventory is written down, its new value is maintained until it is sold or scrapped.

We receive various rebate incentives from certain suppliers based on our contractual arrangements, including volume-based rebates. The rebates earned are recognized as a reduction of cost of inventories and reduce the cost of sales in the period when the related inventory is sold. We determine the volume-based rebates to be recognized in the cost of sales on a first-in, first-out basis.

Income Taxes

As part of the process of preparing our consolidated financial statements, we are required to estimate our taxes in each of the jurisdictions in which we operate. We estimate actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as accruals and allowances not currently deductible for tax purposes. These differences result in deferred tax assets, which are included in our consolidated balance sheets. In general, deferred tax assets represent future tax benefits to be received when certain expenses previously recognized in our consolidated statements of income become deductible expenses under applicable income tax laws, or when loss or credit carryforwards are utilized. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. We continue to assess the need for a valuation allowance on the deferred tax assets by evaluating both positive and negative evidence that may exist. Any adjustment to the valuation allowance on deferred tax assets would be recorded in the consolidated statements of income for the period that the adjustment is determined to be required.

We recognize tax liabilities for uncertain income tax positions on the income tax return based on the two-step process. The first step is to determine whether it is more likely than not that each income tax position would be sustained upon audit. The second step is to estimate and measure the tax benefit as the amount that has a greater than 50% likelihood of being realized upon ultimate settlement with the tax authority. Estimating these amounts requires us to determine the probability of various possible outcomes. We evaluate these uncertain tax positions on a quarterly basis. This evaluation is based on the consideration of several factors, including changes in facts or circumstances, changes in applicable tax law, settlement of issues under audit and new exposures. If we later determine that our exposure is lower or that the liability is not sufficient to cover our revised expectations, we adjust the liability and effect a related charge in our tax provision during the period in which we make such a determination.

Stock-Based Compensation

We measure and recognize compensation expense for all share-based awards made to employees and non-employees, including stock options, restricted stock units ("RSUs") and performance-based restricted stock units (“PRSUs”). We recognize the grant date fair value of all share-based awards over the requisite service period and account for forfeitures as they occur. Stock option and RSU awards are recognized to expense on a straight-line basis over the requisite service period. PRSU awards are recognized to expense using an accelerated method only when it is probable that a performance condition is met during the vesting period. If it is not probable, no expense is recognized and the previously recognized expense is reversed. We base initial accrual of compensation expense on the estimated number of PRSUs that are expected to vest over the requisite service period. That estimate is revised if subsequent information indicates that the actual number of PRSUs is likely to differ from previous estimates. The cumulative effect on current and prior periods of a change in the estimated number of PRSUs expected to vest is recognized in stock-based compensation expense in the period of the change. Previously recognized compensation expense is not reversed if vested stock options, RSUs or PRSUs for which the requisite service has been rendered and the performance condition has been met expire unexercised or are not settled.

The fair value of RSUs and PRSUs is based on the closing market price of our common stock on the date of grant. We estimate the fair value of stock options granted using a Black-Scholes option pricing model. This model requires us to make estimates and assumptions with respect to the expected term of the option and the expected volatility of the price of our common stock. The expected term represents the period that our stock-based awards are expected to be outstanding and was determined based on our historical experience. The expected volatility is based on the historical volatility of our common stock. The assumptions used to determine the fair value of the option awards represent management’s best estimates. These estimates involve inherent uncertainties and the application of management’s judgment. Our use of the Black-Scholes option-pricing model requires the input of highly subjective assumptions. If factors change and different assumptions are used, our stock-based compensation expense could be materially different in the future.

Variable Interest Entities

We determine at the inception of each arrangement whether an entity in which we hold an investment or in which we have other variable interests is considered a variable interest entity ("VIE"). We consolidate VIEs when we are the primary beneficiary. The primary beneficiary of a VIE is the party that meets both of the following criteria: (1) has the power to make decisions that most significantly affect the economic performance of the VIE and (2) has the obligation to absorb losses or the right to receive benefits that in either case could potentially be significant to the VIE. Periodically, we assess whether any changes in the interest or relationship with the entity affect the determination of whether the entity is still a VIE and, if so, whether we are the primary beneficiary. If we are not the primary beneficiary in a VIE, we account for the investment or other variable interest in accordance with applicable GAAP.

We have concluded that Ablecom and its affiliate, Compuware, are VIEs; however, we are not the primary beneficiary as we do not have the power to direct the activities that are most significant to the entities and therefore, we do not consolidate these entities. In performing this analysis, we considered our explicit arrangements with Ablecom and Compuware, including all contractual arrangements with these entities. Also, as a result of the substantial related party relationships between us and these two companies, we considered whether any implicit arrangements exist that would cause us to protect these related parties' interests from suffering losses. We determined that no material implicit arrangements exist with Ablecom, Compuware, or their shareholders.

Our ability to assess correctly our influence or control over an entity at inception of our involvement or on a continuous basis when determining the primary beneficiary of a VIE affects the presentation of these entities in our consolidated financial statements. Subsequent evaluations of the primary beneficiary of a VIE may require the use of different assumptions that could lead to identification of a different primary beneficiary, resulting in a different consolidation conclusion than what was determined at inception of the arrangement.

Results of Operations

The following table presents certain items of our consolidated statements of operations expressed as a percentage of revenue.

	Years Ended June 30,		
	2021	2020	2019
Net sales	100.0 %	100.0 %	100.0 %
Cost of sales	85.0 %	84.2 %	85.8 %
Gross profit	15.0 %	15.8 %	14.2 %
Operating expenses:			
Research and development	6.3 %	6.6 %	5.1 %
Sales and marketing	2.4 %	2.5 %	2.2 %
General and administrative	2.8 %	4.1 %	4.0 %
Total operating expenses	11.5 %	13.2 %	11.3 %
Income from operations	3.5 %	2.6 %	2.9 %
Other (expense) income, net	(0.1)%	— %	— %
Interest expense	(0.1)%	(0.1)%	(0.2)%
Income before income tax provision	3.3 %	2.5 %	2.7 %
Income tax provision	(0.2)%	(0.1)%	(0.4)%
Share of income (loss) from equity investee, net of taxes	— %	0.1 %	(0.1)%
Net income	3.1 %	2.5 %	2.2 %

Net Sales

Net sales consist of sales of our server and storage solutions, including systems and related services and subsystems and accessories. The main factors that impact net sales of our server and storage systems are the number of compute nodes sold and the average selling prices per node. The main factors that impact net sales of our subsystems and accessories are units shipped and the average selling price per unit. The prices for our server and storage systems range widely depending upon the configuration, including the number of compute nodes in a server system as well as the level of integration of key components such as SSDs and memory. The prices for our subsystems and accessories can also vary widely based on whether a customer is purchasing power supplies, server boards, chassis or other accessories.

A compute node is an independent hardware configuration within a server system capable of having its own CPU, memory and storage and that is capable of running its own instance of a non-virtualized operating system. The number of compute nodes sold, which can vary by product, is an important metric we use to track our business. Measuring volume using compute nodes enables more consistent measurement across different server form factors and across different vendors. As with most electronics-based product life cycles, average selling prices typically are highest at the time of introduction of new products that utilize the latest technology and tend to decrease over time as such products mature in the market and are replaced by next generation products. Additionally, in order to remain competitive throughout all industry cycles, we actively change our selling price per unit in response to changes in costs for key components such as memory and SSDs.

The following table presents net sales by product type for fiscal years 2021, 2020 and 2019 (dollars in millions):

	Years Ended June 30, 2021	2020	2019	2021 over 2020 Change $	%	2020 over 2019 Change $	%
Server and storage systems	$2,790.3	$2,620.8	$2,858.7	$ 169.5	6.5 %	$ (237.9)	(8.3)%
Percentage of total net sales	78.4 %	78.5 %	81.7 %				
Subsystems and accessories	767.1	718.5	641.7	48.6	6.8 %	76.8	12.0 %
Percentage of total net sales	21.6 %	21.5 %	18.3 %				
Total net sales	$3,557.4	$3,339.3	$3,500.4	$ 218.1	6.5 %	$ (161.1)	(4.6)%

Fiscal Year 2021 Compared with Fiscal Year 2020

During fiscal year 2021 we experienced increased revenue from server and storage systems, particularly from our large enterprise and datacenter customers. The year-over-year increase in net sales of server and storage systems was primarily due to an increase of average selling prices per compute node by approximately 17%, offset by a decrease of approximately 9% in the number of units of compute nodes sold. We typically adjust our selling prices as component costs rise and fall. The increase in average selling prices was primarily due to significant inventory component price increases resulting from component shortages during fiscal year 2021. The year-over-year increase in net sales of subsystems and accessories was primarily due to an increase of approximately 5% in the volume of subsystems and accessories sold, mainly due to increased demand and approximately 2% increase in average selling prices due primarily to the increase in costs of the components. Our services and software revenue, included in server and storage systems revenue, increased by $0.2 million year-over-year.

Fiscal Year 2020 Compared with Fiscal Year 2019

During fiscal year 2020 we continued to experience a steady demand for server and storage systems, particularly from our large enterprise and datacenter customers. The year-over-year decrease in net sales of server and storage systems was primarily due to a decrease of average selling prices per compute node by approximately 11%, offset by a slight increase in the number of units of compute nodes sold. We typically adjust our prices as component costs rise and fall. The decline in average selling prices was primarily due to substantially lower costs for key components, specifically for memory and storage, as compared to the previous fiscal year. The year-over-year increase in net sales of subsystems and accessories was primarily due to an increase of approximately 19% in the volume of subsystems and accessories sold, mainly due to increased demand from our indirect sales channel offset by an approximately 6% decrease in average selling prices due primarily to the decrease in costs of the components. Our services and software revenue, included in server and storage systems revenue, increased by $39.8 million year-over-year.

The following table presents percentages of net sales by geographic region for fiscal years 2021, 2020 and 2019 (dollars in millions):

	Years Ended June 30, 2021	2020	2019	2021 over 2020 Change $	%	2020 over 2019 Change $	%
United States	$ 2,107.9	$ 1,957.3	$ 2,032.9	$ 150.6	7.7 %	$ (75.6)	(3.7)%
Percentage of total net sales	59.3 %	58.6 %	58.1 %				
Asia	699.7	650.7	712.2	49.0	7.5 %	(61.5)	(8.6)%
Percentage of total net sales	19.7 %	19.5 %	20.3 %				
Europe	614.8	598.6	611.0	16.2	2.7 %	(12.4)	(2.0)%
Percentage of total net sales	17.3 %	17.9 %	17.5 %				
Others	135.0	132.7	144.3	2.3	1.7 %	(11.6)	(8.0)%
Percentage of total net sales	3.7 %	4.0 %	4.1 %				
Total net sales	$ 3,557.4	$ 3,339.3	$ 3,500.4	$ 218.1	6.5 %	$ (161.1)	(4.6)%

Fiscal Year 2021 Compared with Fiscal Year 2020

The year-over-year increase in net sales in the United States was primarily due to an increase in net sales of our server and storage systems. The year-over-year increase in net sales in Asia was primarily due to an increase in net sales of our server and storage systems in China, Singapore, India and Japan, partially offset by a decrease in the net sales in Taiwan. The year-over-year increase in net sales in Europe was primarily due to an increase in net sales of our server and storage systems in the Germany, UK and France, partially offset by a decrease in net sales in the Netherlands and Russia.

Fiscal Year 2020 Compared with Fiscal Year 2019

The year-over-year decrease in net sales in the United States was primarily due to a decrease in net sales of our server and storage systems to our direct customers and OEMs. The year-over-year decrease in net sales in Asia was primarily due to a decrease in net sales of our server and storage systems to OEMs in China, India and Japan, partially offset by a slight increase in the net sales of subsystems and accessories in China and of server and storage systems in the rest of Asia region. The year-over-year decrease in net sales in Europe was primarily due to a decrease in net sales of our server and storage systems to our direct customers and OEMs in the Netherlands, partially offset by an increase in net sales of our subsystems and accessories to our indirect sales channel in Germany and an increase in sales to our indirect sales channel in France.

Cost of Sales and Gross Margin

Cost of sales primarily consists of the costs to manufacture our products, including the costs of materials, contract manufacturing, shipping, personnel expenses, including salaries, benefits, stock-based compensation and incentive bonuses, equipment and facility expenses, warranty costs and inventory excess and obsolescence provisions. The primary factors that impact our cost of sales are the mix of products sold and cost of materials, which include purchased parts and material costs, shipping costs, salary and benefits and overhead costs related to production. Cost of sales as a percentage of net sales may increase over time if decreases in average selling prices are not offset by corresponding decreases in our costs. Our cost of sales as a percentage of net sales is also impacted by the extent to which we are able to efficiently utilize our expanding manufacturing capacity. Because we generally do not have long-term fixed supply agreements, our cost of sales is subject to change based on the cost of materials and market conditions. As a result, our cost of sales as a percentage of net sales in any period can increase due to significant component price increases resulting from component shortages.

We use several suppliers and contract manufacturers to design and manufacture subsystems in accordance with our specifications, with most final assembly and testing predominantly performed at our manufacturing facilities in the same region where our products are sold. During the fiscal year 2021, we continued to expand manufacturing and service operations in Taiwan primarily to support our Asian and European customers and have continued to work on improving our utilization of our overseas manufacturing capacity. We work with Ablecom, one of our key contract manufacturers and also a related party to optimize modular designs for our chassis and certain of other components. We also outsource to Compuware, also a related party, a portion of our design activities and a significant part of our manufacturing of components, particularly power supplies. Our purchases of products from Ablecom and Compuware combined represented 7.8%, 10.1% and 9.2% of our cost of sales for fiscal years 2021, 2020 and 2019, respectively. For further details on our dealings with related parties, see Part II, Item 8, Note 13, “Related Party Transactions.”

Cost of sales and gross margin for fiscal years 2021, 2020 and 2019, are as follows (dollars in millions):

	Years Ended June 30,			2021 over 2020 Change		2020 over 2019 Change	
	2021	2020	2019	$	%	$	%
Cost of sales	$3,022.9	$2,813.1	$3,004.8	$ 209.8	7.5 %	$ (191.7)	(6.4)%
Gross profit	534.5	526.2	495.5	8.3	1.6 %	30.7	6.2 %
Gross margin	15.0 %	15.8 %	14.2 %		(0.8)%		1.6 %

Fiscal Year 2021 Compared with Fiscal Year 2020

The year-over-year increase in cost of sales was primarily attributable to an increase of $244.1 million in costs of materials and contract manufacturing expenses primarily related to the increase in net sales volume and an increase of $8.9 million of freight. This was offset by a decrease of $29.5 million in overhead costs attributable primarily to a recovery of costs paid in prior periods, a decrease of $12.4 million in the provision of excess inventory and obsolescence and a decrease of $2.6 million in personnel expenses due to a decrease in special performance bonuses in the fiscal year 2021. Warranty and repairs costs also decreased by $3.4 million in the fiscal year 2021 as compared to the fiscal year 2020.

The period-over-period decrease in the gross margin percentage was primarily due to sales prices increasing at a slower rate than the increase in the costs of components and due to the decrease in services and software revenue which have higher margins than product sales. Since the start of the COVID-19 pandemic, we have experienced an increase in both logistics costs as well as direct labor costs as we incentivize our employees to continue to work and assist us in serving our customers. This increase in costs negatively impacts our gross margins, and we expect these higher costs to continue for the duration of the COVID-19 pandemic.

Fiscal Year 2020 Compared with Fiscal Year 2019

The year-over-year decrease in cost of sales was primarily attributable to a decrease of $214.3 million in inventory costs related primarily to the decrease in the prices of components and a decrease of $14.6 million in the provision of excess inventory and obsolescence due to fewer excess and obsolescence items identified in the fiscal year 2020. This was offset by an increase of $19.6 million in overhead costs attributable primarily to increased tariffs and an increase of $11.3 million in personnel expenses, which included a special performance bonus of $4.1 million. Warranty and repairs costs also increased by $5.7 million in the fiscal year 2020 as compared to the fiscal year 2019.

The period-over-period increase in the gross margin percentage was primarily due to sales prices declining at a slower rate than the decline in the costs of components and due to the increase in services and software revenue which have higher margins than product sales. Since the start of the COVID-19 pandemic, we have experienced an increase in both logistics costs as well as direct labor costs as we incentivize our employees to continue to work and assist us in serving our customers. This increase in costs negatively impacts our gross margins, and we expect these higher costs to continue for the duration of the COVID-19 pandemic.

Operating Expenses

Research and development expenses consist of personnel expenses, including salaries, benefits, stock-based compensation and incentive bonuses, and related expenses for our research and development personnel, as well as product development costs such as materials and supplies, consulting services, third-party testing services and equipment and facility expenses related to our research and development activities. All research and development costs are expensed as incurred. We occasionally receive non-recurring engineering funding from certain suppliers and customers for joint development. Under these arrangements, we are reimbursed for certain research and development costs that we incur as part of the joint development efforts with our suppliers and customers. These amounts offset a portion of the related research and development expenses and have the effect of reducing our reported research and development expenses.

Sales and marketing expenses consist primarily of personnel expenses, including salaries, benefits, stock-based compensation and incentive bonuses, and related expenses for our sales and marketing personnel, costs for tradeshows, independent sales representative fees and marketing programs. From time to time, we receive cooperative marketing funding from certain suppliers. Under these arrangements, we are reimbursed for certain marketing costs that we incur as part of the joint promotion of our products and those of our suppliers. These amounts offset a portion of the related expenses and have the effect of reducing our reported sales and marketing expenses. The timing, magnitude and estimated usage of these programs can result in significant variations in reported sales and marketing expenses from period to period. Spending on cooperative marketing, reimbursed by our suppliers, typically increases in connection with new product releases by our suppliers.

General and administrative expenses consist primarily of general corporate costs, including personnel expenses such as salaries, benefits, stock-based compensation and incentive bonuses, and related expenses for our general and administrative personnel, financial reporting, information technology, corporate governance and compliance, outside legal, audit, tax fees, insurance and bad debt reserves on accounts receivable.

Operating expenses for fiscal years 2021, 2020 and 2019 are as follows (dollars in millions):

	Years Ended June 30,			2021 over 2020 Change		2020 over 2019 Change	
	2021	2020	2019	$	%	$	%
Research and development	$ 224.4	$ 221.5	$ 179.9	$ 2.9	1.3 %	$ 41.6	23.1 %
Sales and marketing	85.7	85.1	77.2	0.6	0.7 %	7.9	10.2 %
General and administrative	100.5	133.9	141.2	(33.4)	(24.9)%	(7.3)	(5.2)%
Total operating expenses	$ 410.6	$ 440.5	$ 398.3	(29.9)	(6.8)%	42.2	10.6 %

Fiscal Year 2021 Compared with Fiscal Year 2020

The year-over-year increase in research and development expenses was primarily due to an increase of $11.6 million in costs mainly related to materials, supplies and equipment used in product development. During the fiscal year 2020, we recorded a $9.5 million net settlement fee as a reduction in the research and development expenses related to the reimbursement of previously incurred materials, supplies and equipment costs for one canceled joint product development agreement. Personnel expenses increased $1.7 million as a result of an increase in the number of research and development employees, These increases were partially offset by an increase of $8.8 million in research and development credits from certain suppliers and customers towards our development efforts and a $1.5 million decrease in trade shows and business travel as a result in a change in our operations in response to the COVID-19 pandemic.

The year-over-year increase in sales and marketing expenses was primarily due to an increase of $1.2 million in advertising expenses, a $1.0 million increase in other sales and marketing expenses, offset by a $1.7 million decrease in trade shows and business travel as a result in a change in our operations in response to the COVID-19 pandemic.

The year-over-year decrease in general and administrative expenses was due to a decrease of $41.8 million in professional fees incurred to investigate, assess and remediate the causes that led to the delay in filing our periodic reports with the SEC and the associated restatement of certain of our previously issued financial statements, a decrease of $4.1 million in other expenses related to the COVID-19 pandemic, and a $1.1 million decrease in supplies costs. These decreases were partially offset by a $12.9 million increase in personnel expenses due to increased full time personnel and bonuses.

We anticipate the above expenses impacted by the COVID-19 pandemic to normalize if and when the COVID-19 pandemic is over.

Fiscal Year 2020 Compared with Fiscal Year 2019

The year-over-year increase in research and development expenses was primarily due to an increase of $41.3 million in personnel expenses as a result of an increase in the number of research and development employees and a special performance bonus of $17.3 million, a decrease of $0.7 million in reimbursements received for certain research and development costs that we incurred as part of joint product development; an increase of $6.7 million in costs mainly related to materials, supplies and equipment used in product development, and an increase of $1.8 million in facilities expenses. During fiscal year 2020, we also recorded a $9.5 million net settlement fee as a reduction in the research and development expenses related to the reimbursement of previously incurred expenses for one canceled joint product development agreement.

The year-over-year increase in sales and marketing expenses was primarily due to an increase of $8.1 million in personnel expenses as a result of an increase in the number of sales and marketing personnel and a special performance bonus of $1.8 million.

The year-over-year decrease in general and administrative expenses was due to a decrease of $33.9 million in professional fees that were primarily incurred to investigate, assess and begin remediating the causes that led to the delay in filing our periodic reports with the SEC and the associated restatement of certain of our previously issued financial statements; a decrease of $10.2 million in bad debt provision expenses due to recovery of previously provisioned receivables from certain international customers, offset by an increase of $17.5 million related to an expense accrual for the settlement with the SEC; an increase of $14.1 million in personnel expenses as a result of an increase in the number of personnel and a special performance bonus of $4.5 million; an increase of $3.2 million in insurance expense; and an increase of $1.7 million related primarily to facilities expenses.

Interest and Other Expense, Net

Other (expense) income, net consists primarily of interest earned on our investment and cash balances and foreign exchange gains and losses.

Interest expense represents interest expense on our term loans and lines of credit.

Interest and other expense, net for fiscal years 2021, 2020 and 2019 are as follows (dollars in millions):

	Years Ended June 30,			2021 over 2020 Change		2020 over 2019 Change	
	2021	2020	2019	$	%	$	%
Other (expense) income, net	$ (2.8)	$ 1.4	$ (1.0)	$ (4.2)	(300.0)%	$ 2.4	(240.0)%
Interest expense	(2.5)	(2.2)	(6.7)	(0.3)	13.6 %	4.5	(67.2)%
Interest and other expense, net	$ (5.3)	$ (0.8)	$ (7.7)	$ (4.5)	562.5 %	$ 6.9	(89.6)%

Fiscal Year 2021 Compared with Fiscal Year 2020

The change of $4.2 million in other (expense) income, net was attributable to a decrease of $2.4 million in interest income on our interest-bearing deposits due primarily to lower yields on investments and an increase of $1.8 million in foreign exchange loss due to unfavorable foreign currency fluctuations.

Fiscal Year 2020 Compared with Fiscal Year 2019

The year-over-year change in interest expense of $4.5 million is primarily a result of lower interest rates and reduced levels of borrowings in fiscal year 2020 as compared to fiscal year 2019. The change of $2.4 million in other (expense) income, net was attributable to an increase of $1.6 million in interest income on our interest bearing deposits and a decrease of $0.8 million in other expenses.

Provision for Income Taxes

Our income tax provision is based on our taxable income generated in the jurisdictions in which we operate, primarily the United States, Taiwan, and the Netherlands. Our effective tax rate differs from the statutory rate primarily due to research and development tax credits, uncertain tax positions, tax benefits from foreign derived intangible income and stock based compensation. A reconciliation of the federal statutory income tax rate to our effective tax rate is set forth in Part II, Item 8, Note 15, "Income Taxes" to the consolidated financial statements in this Annual Report.

Provision for income taxes and effective tax rates for fiscal years 2021, 2020 and 2019 are as follows (dollars in millions):

	Years Ended June 30,			2021 over 2020 Change		2020 over 2019 Change	
	2021	2020	2019	$	%	$	%
Income tax provision	$ 6.9	$ 2.9	$ 14.9	$ 4.0	137.9 %	$ (12.0)	(80.5)%
Effective tax rate	5.8 %	3.4 %	16.6 %				

Fiscal Year 2021 Compared with Fiscal Year 2020

The year-over-year increase in the effective tax rate was primarily due to a release of reserve from uncertain tax positions in the prior year.

Fiscal Year 2020 Compared with Fiscal Year 2019

The year-over-year decrease in the effective tax rate was primarily due to an increase in tax benefits from research and development tax credits, stock based compensation, releases of uncertain tax positions, and U.S. sales to foreign jurisdictions, partially offset by the tax impact from the non-deductible settlement with the SEC.

Share of (Loss) from Equity Investee, Net of Taxes

	Years Ended June 30,			2021 over 2020 Change		2020 over 2019 Change	
	2021	2020	2019	$	%	$	%
Share of income (loss) from equity investee, net of taxes	$ 0.2	$ 2.4	$ (2.7)	$ (2.2)	(91.7)%	$ 5.1	188.9 %

Fiscal Year 2021 Compared with Fiscal Year 2020

The year-over-year decrease of $2.2 million in share of income from equity investee, net of taxes was primarily due to lower net income recognized by the Corporate Venture in the fiscal year 2021 as compared to 2020.

Fiscal Year 2020 Compared with Fiscal Year 2019

The year-over-year increase of $5.1 million from share of (loss) to income from equity investee, net of taxes was primarily due to net income recognized by the Corporate Venture in the fiscal year 2020 as compared to net loss in the fiscal year 2019.

Liquidity and Capital Resources

We have financed our growth primarily with funds generated from operations, in addition to utilizing borrowing facilities, particularly in relation to the financing of real property acquisitions as well as an increase in the need for working capital due to longer supply chain manufacturing and delivery times. Our cash and cash equivalents were $232.3 million and $210.5 million as of June 30, 2021 and 2020, respectively. Our cash in foreign locations was $152.6 million and $98.0 million as of June 30, 2021 and 2020, respectively.

Amounts held outside of the U.S. are generally utilized to support non-U.S. liquidity needs. Repatriations generally will not be taxable from a U.S. federal tax perspective, but may be subject to state income or foreign withholding tax. Where local restrictions prevent an efficient intercompany transfer of funds, our intent is to keep cash balances outside of the U.S. and to meet liquidity needs through operating cash flows, external borrowings, or both. We do not expect restrictions or potential taxes incurred on repatriation of amounts held outside of the U.S. to have a material effect on our overall liquidity, financial condition or results of operations.

We believe that our current cash, cash equivalents, borrowing capacity available from our credit facilities and internally generated cash flows will be sufficient to support our operating businesses and maturing debt and interest payments for the twelve months following the issuance of these consolidated financial statements. We expect to pay a special performance bonus of approximately $4.0 million to our CEO within the next year. During the fiscal year 2021, the target average closing price of our common stock condition for the bonus was satisfied but no determination has been made if the specified performance condition has been satisfied.

During the fiscal year ended June 30, 2021, we retired 1,333,125 shares of common stock repurchased in prior years. Additionally, we repurchased and retired 4,209,211 shares of common stock for an aggregated $130.0 million under multiple share repurchase programs. All programs were completed during the fiscal year except for the program approved on January 29, 2021 to repurchase up to an aggregate of $200.0 million of our common stock at market prices. The program is effective until July 31, 2022 or if earlier, until the maximum amount of common stock is repurchased. As of June 30, 2021, we still had $150.0 million available to be used by July 31, 2022.

Our key cash flow metrics were as follows (dollars in millions):

	Years Ended June 30,			2021 over 2020	2020 over 2019
	2021	2020	2019		
Net cash provided by (used in) operating activities	$ 123.0	$ (30.3)	$ 262.6	$ 153.3	$ (292.9)
Net cash used in investing activities	$ (58.0)	$ (43.6)	$ (24.8)	$ (14.4)	$ (18.8)
Net cash (used in) provided by financing activities	$ (44.4)	$ 23.8	$ (95.8)	$ (68.2)	$ 119.6
Net increase (decrease) in cash, cash equivalents and restricted cash	$ 21.1	$ (49.8)	$ 141.8	$ 70.9	$ (191.6)

Operating Activities

Net cash provided by operating activities increased by $153.3 million for fiscal year 2021 as compared to fiscal year 2020. While net income increased by $27.6 million in fiscal year 2021 as compared to fiscal year 2020, the increase in cash flows from operating activities was due primarily to a decrease of cash used for net working capital requirements of $120.3 million. Non-cash charges related to stock-based compensation expense increased by $8.4 million, collection of bad debt previously reserved decreased by $2.3 million, income from equity investee decreased by $2.2 million and $5.4 million decrease in the non-cash charges related to the change in our deferred income tax assets. These increases in the cash flow from operating activities were partially offset by the decrease of $11.6 million in previously reserved excess and obsolete inventory.

Net cash provided by operating activities decreased by $292.9 million for fiscal year 2020 as compared to fiscal year 2019. While net income increased by $12.4 million in fiscal year 2020 as compared to fiscal year 2019, the decrease in cash flows from operating activities was due primarily to an increase of cash used for net working capital requirements of $281.3 million, including a $181.3 million increase in inventories to meet customer demand, support expected business growth and mitigate supply chain risk due to the COVID-19 pandemic environment. Non-cash charges related to excess and obsolete inventory decreased by $14.6 million, related to bad debt reserve decreased by $10.1 million, related to income (loss) from equity investee decreased by $5.1 million, and related to impairment of investments decreased by $2.7 million in fiscal year 2020 compared to fiscal year 2019. These decreases were offset by an increase of $8.9 million in the non-cash charges related to the change in our deferred income tax assets, unrealized losses on our foreign currency-denominated credit facilities, and depreciation and amortization expense resulting from the amortization of operating lease right-of-use assets.

Investing Activities

Net cash used in investing activities was $58.0 million, $43.6 million and $24.8 million for the fiscal years 2021, 2020 and 2019, respectively, as we invested in our Green Computing Park in San Jose to expand our capacity and office space we purchased and expanded our Bade Facility in Taiwan and made purchases of property, plant and equipment.

Financing Activities

Net cash used in financing activities increased by $68.2 million for fiscal year 2021 as compared to fiscal year 2020 primarily due to an increase of $130.0 million in repurchase of our common stock, partially offset by an increase of $61.9 million in proceeds from borrowings net of repayment. Net cash used in financing activities decreased by $119.6 million for fiscal year 2020 as compared to fiscal year 2019 primarily due to decreased net repayments of debt of $96.4 million, and cash receipts from exercises of stock options of $28.3 million offset by increased cash payments for withholding taxes from the vesting of restricted stock of $5.2 million.

Other Factors Affecting Liquidity and Capital Resources

2018 Bank of America Credit Facility

In April 2018, we entered into a revolving line of credit with Bank of America for up to $250.0 million (as amended from time to time, the "2018 Bank of America Credit Facility"). On June 28, 2021, the 2018 Bank of America Credit Facility was amended to, among other items, extend the maturity to June 28, 2026, reduce the size of the facility from $250.0 million to $200.0 million, increase the maximum amount that we can request the facility be increased (the accordion feature) from $100.0 million to $150.0 million, and update provisions relating to erroneous payments and LIBOR replacement mechanics. In addition, the amendment reduced both the unused line fee from 0.375% per annum to 0.2% or 0.3% per annum (depending upon amount drawn under the facility) and the interest rate applicable to the facility from LIBOR plus 2.00% or 3.00% per annum (depending upon amount drawn under the facility) to LIBOR plus 1.375% or 1.625% per annum. As of June 30, 2021, we had no outstanding borrowings. Our available borrowing capacity was $200.0 million, subject to the borrowing base limitation and compliance with other applicable terms. Interest accrued on any loans under the 2018 Bank of America Credit Facility is due on the first day of each month, and the loans are due and payable in full on the termination date of the 2018 Bank of America Credit Facility. Voluntary prepayments are permitted without early repayment fees or penalties. The 2018 Bank of America Credit Facility is secured by substantially all of Super Micro Computer's assets, other than real property assets. In addition, we are not permitted to pay any dividends. Under the terms of the 2018 Bank of America Credit Facility agreement, we are required to maintain a certain fixed charge ratio and we have been in compliance with all covenants under the 2018 Bank of America Credit Facility.

CTBC Bank

2020 CTBC Credit Facility

In August 2020, we entered into a credit agreement with CTBC Bank in Taiwan that provides for term loans of up to $50.0 million (the "2020 CTBC Credit Facility"), which had a maturity date of August 2021. As of June 30, 2021, the outstanding borrowings under the CTBC Credit Facility revolving line of credit were $18.0 million and the interest rates for these loans were 0.98% per annum. The total outstanding borrowings under the CTBC Credit Facility term loan were denominated in NTD and remeasured into U.S. dollars of $25.1 million at June 30, 2021 and the interest rates for these loans were 0.75% per annum. The amount available for future borrowing under the CTBC Credit Facility was $6.9 million as of June 30, 2021. The term loans are secured by certain of our assets, including certain property, plant, and land. There are no financial covenants under the 2020 CTBC Credit Facility.

2020 CTBC Term Loan Facility due June 4, 2030

In May 2020, we entered into a ten-year, non-revolving term loan facility (the "2020 CTBC Term Loan Facility") to obtain up to NTD 1.2 billion ($40.7 million in U.S. dollar equivalents) in financing for use in the expansion and renovation of our Bade Manufacturing Facility located in Taiwan. Draw downs on the 2020 CTBC Term Loan Facility are based on 80% of balances owed on commercial invoices from the contractor and are drawn according to the progress of the renovations. Borrowings under the 2020 CTBC Term Loan Facility are available through June 2022. We are required to pay against total outstanding principal and interest in equal monthly installments starting June 2023 and continuing through the maturity date of June 2030. The 2020 CTBC Term Loan Facility is secured by the Bade Manufacturing Facility, including any expansion. Fees paid to the lender as debt issuance costs were immaterial. We borrowed $29.0 million in the fiscal year ended June 30, 2021 with a rate of 0.45% per annum. As of June 30, 2021, the amount outstanding under the 2020 CTBC Term Loan Facility was $34.7 million and the net book value of the property serving as collateral was $45.9 million. We have financial covenants requiring our current ratio, debt service coverage ratio, and financial debt ratio, to be maintained at certain levels. As of June 30, 2021, we were in compliance with all financial covenants under the 2020 CTBC Term Loan Facility.

2021 CTBC Credit Lines

On July 20, 2021 (the "Effective Date"), we entered into a general agreement for omnibus credit lines with CTBC Bank, which replaced the 2020 CTBC Credit Facility and 2020 CTBC Term Loan Facility (the "Prior CTBC Credit Lines") in their entirety and permits borrowings, from time to time, of (i) a term loan facility of up to NTD1,550.0 million ($55.4 million in U.S. dollar equivalents) and (ii) a line of credit facility of up to US$105.0 million (the "2021 CTBC Credit Lines"). Interest rates are to be established according to individual credit arrangements established pursuant to the 2021 CTBC Credit Lines, which interest rates shall be subject to adjustment depending on the satisfaction of certain conditions. Term loans made pursuant to the 2021 CTBC Credit Lines are secured by certain of our assets, including certain property, land, plant, and equipment located in Bade, Taiwan. We are subject to various financial covenants under the 2021 CTBC Credit Lines, including current ratio, debt service coverage ratio, and financial debt ratio requirements. Amounts outstanding under the Prior CTBC Credit Lines on the Effective Date were assumed by the 2021 CTBC Credit Lines.

E.SUN Credit Facility

In December 2020, Super Micro Computer Inc, Taiwan, our wholly-owned Taiwan subsidiary, entered into a General Credit Agreement (the "E.SUN Credit Facility") with E.SUN Bank in Taiwan. The E.SUN Credit Facility provides for the issuance of loans, advances, acceptances, bills, bank guarantees, overdrafts, letters of credit, and other types of drawdown instruments up to a credit limit of $30.0 million. Terms for specific drawdowns are set forth in separate Notification and Confirmation of Credit Conditions by and between us and E.SUN Bank. The E.SUN Credit Facility expires September 18, 2021. There are no financial covenants associated with the E.SUN Credit Facility. A Notification and Confirmation Agreement was entered into on December 2, 2020 for a $30.0 million import loan (the "Import Loan") under the E. SUN Credit Facility with a tenor of 120 days bearing interest at a rate based on LIBOR or TAIFX plus a fixed margin. As of June 30, 2021, the amounts outstanding under the E.SUN Credit Facility were $20.4 million and the interest rates for these loans ranged from approximately .0% to1.29% per annum. As of June 30, 2021, the amount available for future borrowing under the E.SUN Credit Facility was $9.6 million.

Refer to Part I, Item 1, Note 10, "Short-term and Long-term Debt" in our notes to consolidated financial statements in this Annual Report on Form 10-K for further information on our outstanding debt.

<u>*Capital Expenditure Requirements*</u>

We anticipate our capital expenditures in fiscal year 2022 will be approximately $21.4 million, relating primarily to costs associated in our manufacturing capabilities, including tooling for new products, new information technology investments, and facilities upgrades. We will continue to evaluate new business opportunities and new markets. As a result, our future growth within the existing business or new opportunities and markets may dictate the need for additional facilities and capital expenditures to support that growth. We evaluate capital expenditure projects based on a variety of factors, including expected strategic impacts (such as forecasted impact on revenue growth, productivity, expenses, service levels and customer retention) and our expected return on investment.

We intend to continue to focus our capital expenditures in fiscal year 2022 to support the growth of our operations. Our future capital requirements will depend on many factors including our growth rate, the timing and extent of spending to support development efforts, the expansion of sales and marketing activities, the introduction of new and enhanced software and services offerings, the investments in our office facilities and our systems infrastructure, the continuing market acceptance of our offerings and our planned investments, particularly in our product development efforts, applications or technologies.

Contractual Obligations

Our estimated future obligations as of June 30, 2021 include both current and long term obligations. For our long-term debt as noted in Part I, Item 1, Note 10, "Short-term and Long-term Debt", we have a current obligation of $63.5 million and a long-term obligation of $34.7 million. Under our operating leases as noted in Note 12, "Leases", we have a current obligation of $6.3 million and a long-term obligation of $14.5 million. As noted in Note 16, "Commitments and Contingencies", we have current obligations related to noncancelable purchase commitments of $569.8 million.

Recent Accounting Pronouncements

For a description of recent accounting pronouncements, including the expected dates of adoption and estimated effects, if any, on our consolidated financial statements, see Part II, Item 8, Note 1, “Organization and Summary of Significant Accounting Policies” to the consolidated financial statements in this Annual Report.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the consolidated financial statements and related notes which appear elsewhere in this Annual Report. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this Annual Report, particularly under the heading "Risk Factors."

Overview

We are a Silicon Valley-based provider of accelerated compute platforms that are application-optimized high performance and high-efficiency server and storage systems for a variety of markets, including enterprise data centers, cloud computing, artificial intelligence, 5G and edge computing. Our Total IT Solutions include complete servers, storage systems, modular blade servers, blades, workstations, full rack scale solutions, networking devices, server sub-systems, server management and security software. We also provide global support and services to help our customers install, upgrade and maintain their computing infrastructure.

We commenced operations in 1993 and have been profitable every year since inception. For fiscal years 2022, 2021 and 2020, our net income was $285.2 million, $111.9 million and $84.3 million, respectively. In order to increase our sales and profits, we believe that we must continue to develop flexible and application optimized server and storage solutions and be among the first to market with new features and products. We must also continue to expand our software and customer service and support offerings, particularly as we increasingly focus on larger enterprise customers. Additionally, we must focus on development of our sales partners and distribution channels to further expand our market share. We measure our financial success based on various indicators, including growth in net sales, gross profit margin and operating margin. Among the key non-financial indicators of our success is our ability to rapidly introduce new products and deliver the latest application-optimized server and storage solutions. In this regard, we work closely with microprocessor and other key component vendors to take advantage of new technologies as they are introduced. Historically, our ability to introduce new products rapidly has allowed us to benefit from technology transitions such as the introduction of new microprocessors and storage technologies, and as a result, we monitor the introduction cycles of NVIDIA Corporation, Intel Corporation, Advanced Micro Devices, Inc., Samsung Electronics Company Limited, Micron Technology, Inc. and others closely and carefully. This also impacts our research and development expenditures as we continue to invest more in our current and future product development efforts.

COVID-19 Pandemic Impact

COVID-19 and its variants have continued to create volatility, uncertainty and economic disruption for many businesses worldwide. In an effort to contain COVID-19 or slow its spread, governments around the world have enacted various measures, including orders that govern the operations of businesses. We are an essential critical infrastructure (information technology) business under the relevant federal, state and county regulations. Our first priority is the safety of our workforce and we have therefore implemented numerous health precautions and work practices to be in compliance with the law and to operate in a safe manner.

We have continued to see ongoing demand for our IT solutions and do not have significant direct exposure to industries which have been impacted the greatest. The COVID-19 pandemic has created additional demand for many server applications that support the global movement towards a digital economy. These applications include greater use of online transactions for everyday purchases by consumers of food, clothing, entertainment from gaming and video streaming, as well as tele-health, social networking, messaging, email, autonomous driving solutions and video conferencing companies.

We have actively managed our supply chain for potential shortage risk by building inventories of critical components required such as CPUs, memory, SSDs and GPUs to support our ability to fulfill customer orders. Our architecture, which is based on a “Building Block Solutions” design approach, has also assisted us during the COVID-19 pandemic, to qualify different components for compatibility with our systems to help us overcome some shortages.

Logistics has continued to be a challenge during the COVID-19 pandemic as the global transportation industry, and particularly ocean transportation, has been constrained by shortages of containers, labor, truckers and crowded ports. As a result, shipping by air, has been used more frequently despite that it is more expensive and there are fewer flights during the COVID-19 pandemic than there were previously. We have experienced increased costs in freight. In addition, we also experienced increased direct labor costs as we incentivized our employees to continue to work and assist us in serving our customers, many of whom are in critical industries. We expect both of these trends to continue until the COVID-19 pandemic and other macroeconomic factors exacerbated by the COVID-19 pandemic end.

We monitor the credit profile and payment history of our customers to evaluate risk in specific industries or geographic areas where cash flow may be disrupted. While we believe that we are adequately capitalized, we actively manage our liquidity needs. In June 2021, we negotiated an extension of our credit facility with Bank of America to extend the maturity date to June 2026 and, in March 2022, further negotiated an increase in the size of our credit facility with Bank of America from $200 million to $350 million. In July 2021, we replaced our prior credit facility and term loan facility with CTBC Bank, with a new facility for omnibus credit lines. In September 2021, we replaced our prior credit facility with E.SUN Bank, with new credit facility and term facility. In September 2021 and April 2022, we entered into a term loan facility and credit line, respectively, with Mega Bank which will be used to support our manufacturing activities (including the purchase of materials and components) and provide medium-term working capital. In October 2021, we entered into a credit facility with Chang Hwa Bank and in January 2022 we entered into a loan agreement with HSBC Bank, each of which will be used to support the growth of our Taiwan business. In May 2022, we also entered into a line of credit with Cathay Bank to be used for general corporate purposes to support our growth. In August 2022, we entered into a new general credit agreement with E.Sun Bank which replaced the prior E.Sun Bank credit facility which will also support the growth of our Taiwan business. Refer to Part II, Item 8, Note 9, "Short-term and Long-term Debt" in our notes to consolidated financial statements in this Annual Report on Form 10-K for further information on our outstanding debt

Our management team is focused on guiding our company through the ongoing challenges presented by the COVID-19 pandemic, including the emergence of any new variants. There are positive signs with the expiration of various COVID-19 mandates, vaccine availability and the rollout of boosters; however, with the possibility of the emergence of other new virus strains and ongoing adverse impacts of the COVID-19 pandemic on economic recovery, we are unable to predict the ultimate extent to which the global COVID-19 pandemic may further impact our business operations, financial performance and results of operations.

Financial Highlights

The following is a summary of financial highlights of fiscal years 2022 and 2021:

- Net sales increased by 46.1% in fiscal year 2022 as compared to fiscal year 2021.
- Gross margin increased to 15.4% in fiscal year 2022 from 15.0% in fiscal year 2021, primarily due to product and customer mix and was offset by increased logistic costs.
- Operating expenses increased by 13.2% in fiscal year 2022 as compared to fiscal year 2021, primarily due to the increase in personnel expenses as a result of salary increases and a higher headcount.
- Net income increased to $285.2 million in fiscal year 2022 as compared to $111.9 million in fiscal year 2021, which was primarily due to the higher net sales and lower operating expenses as a percentage of revenues in fiscal year 2022 as compared to fiscal year 2021.

- Our cash and cash equivalents were $267.4 million and $232.3 million at the end of fiscal years 2022 and 2021, respectively. In fiscal year 2022, we generated net cash of $35.1 million and $522.9 million in cash provided by financing activities primarily due to the proceeds from borrowings and invested $45.2 million in purchases of property and equipment. We used $440.8 million in operating activities primarily related to the increase in inventories and accounts receivables.

Critical Accounting Policies and Estimates

General

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States. The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amount of assets, liabilities, net sales and expenses. We evaluate our estimates on an on-going basis and base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making the judgments we make about the carrying values of assets and liabilities that are not readily apparent from other sources. Because these estimates can vary depending on the situation, actual results may differ from the estimates. Making estimates and judgments about future events is inherently unpredictable and is subject to significant uncertainties, some of which are beyond our control. Should any of these estimates and assumptions change or prove to have been incorrect, it could have a material impact on our results of operations, financial position and statement of cash flows.

A summary of significant accounting policies is included in Part II, Item 8, Note 1, “Organization and Summary of Significant Accounting Policies” in our notes to the consolidated financial statements in this Annual Report. Management believes the following are the most critical accounting policies and reflect the significant estimates and assumptions used in the preparation of the consolidated financial statements.

Revenue Recognition

The most critical accounting policy estimate and judgments required in applying ASC 606, Revenue Recognition of Contracts from Customers, and our revenue recognition policy relate to the determination of the transaction price, distinct performance obligations and the evaluation of the standalone selling price (the “SSP”) for each performance obligation.

We generate revenues from the sale of server and storage systems, subsystems, accessories, services, server software management solutions, and support services. Many of our customer contracts include multiple performance obligations. Judgment is required in determining whether each performance obligation within a customer contract is distinct. This assessment involves subjective determinations and requires management to make judgments about the individual promised goods or services and whether such goods or services are separable from the other aspects of the contractual relationship.

As part of determining the transaction price in contracts with customers, we may be required to estimate variable consideration when determining the amount of revenue to recognize. We estimate reserves for future sales returns based on a review of our history of actual returns. Based upon historical experience, a refund liability is recorded at the time of sale for estimated product returns and an asset is recognized for the amount expected to be recorded in inventory upon product return, less the expected recovery costs. We also estimate the costs of customer and distributor programs and incentive offerings such as price protection, rebates, as well as the estimated costs of cooperative marketing arrangements where the fair value of the benefit derived from the costs cannot be reasonably estimated. Any provision is recorded as a reduction of revenue at the time of sale based on an evaluation of the contract terms and historical experience.

We allocate the transaction price for each customer contract to each performance obligation based on the relative SSP for each performance obligation within each contract. We recognize the amount of transaction price allocated to each performance obligation within a customer contract as revenue at the time the respective performance obligation is satisfied by transferring control of the promised good or service to a customer. Determining the relative SSP for contracts that contain multiple performance obligations requires significant judgement. We determine standalone selling prices based on the price at which the performance obligation is sold separately. If the standalone selling price is not observable through past transactions, we apply judgment to estimate the SSP. For substantially all performance obligations, we are able to establish the SSP based on the observable prices of products or services sold separately in comparable circumstances to similar customers. We typically establish an SSP range for our products and services, which is reassessed on a periodic basis or when facts and circumstances change. SSP for our products and services can evolve over time due to changes in our pricing practices, internally approved pricing guidelines with respect to geographies, customer type, internal costs, and gross margin objectives for the related performance obligations which can also be influenced by intense competition, changes in demand for our products and services, economic and other factors.

These estimates and judgements have not fluctuated significantly for the fiscal year ended June 30, 2022 compared to prior fiscal years.

Inventories

Inventories are stated at lower of cost, using weighted average cost method, or net realizable value. Net realizable value is the estimated selling price of our products in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Inventories consist of purchased parts and raw materials (principally electronic components), work in process (principally products being assembled) and finished goods. We evaluate inventory on a quarterly basis for lower of cost or net realizable value and excess and obsolescence and, as necessary, write down the valuation of inventories based upon our inventory aging, forecasted usage and sales, anticipated selling price, product obsolescence and other factors. Once inventory is written down, its new value is maintained until it is sold or scrapped.

We receive various rebate incentives from certain suppliers based on our contractual arrangements, including volume-based rebates. The rebates earned are recognized as a reduction of cost of inventories and reduce the cost of sales in the period when the related inventory is sold. We determine the volume-based rebates to be recognized in the cost of sales on a first-in, first-out basis.

Income Taxes

As part of the process of preparing our consolidated financial statements, we are required to estimate our taxes in each of the jurisdictions in which we operate. We estimate actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as accruals and allowances not currently deductible for tax purposes. These differences result in deferred tax assets, which are included in our consolidated balance sheets. In general, deferred tax assets represent future tax benefits to be received when certain expenses previously recognized in our consolidated statements of income become deductible expenses under applicable income tax laws, or when loss or credit carryforwards are utilized. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. We continue to assess the need for a valuation allowance on the deferred tax assets by evaluating both positive and negative evidence that may exist. Any adjustment to the valuation allowance on deferred tax assets would be recorded in the consolidated statements of income for the period that the adjustment is determined to be required.

We recognize tax liabilities for uncertain income tax positions on the income tax return based on the two-step process. The first step is to determine whether it is more likely than not that each income tax position would be sustained upon audit. The second step is to estimate and measure the tax benefit as the amount that has a greater than 50% likelihood of being realized upon ultimate settlement with the tax authority. Estimating these amounts requires us to determine the probability of various possible outcomes. We evaluate these uncertain tax positions on a quarterly basis. This evaluation is based on the consideration of several factors, including changes in facts or circumstances, changes in applicable tax law, settlement of issues under audit and new exposures. If we later determine that our exposure is lower or that the liability is not sufficient to cover our revised expectations, we adjust the liability and reflect a related charge in our tax provision during the period in which we make such a determination.

Stock-Based Compensation

We measure and recognize compensation expense for all share-based awards made to employees and non-employees, including stock options, restricted stock units ("RSUs") and performance-based restricted stock units (“PRSUs”). We recognize the grant date fair value of all share-based awards over the requisite service period and account for forfeitures as they occur. Stock option and RSU awards are recognized to expense on a straight-line basis over the requisite service period. PRSU awards are recognized to expense using an accelerated method only when it is probable that a performance condition is met during the vesting period. If it is not probable, no expense is recognized and the previously recognized expense is reversed. We base initial accrual of compensation expense on the estimated number of PRSUs that are expected to vest over the requisite service period. That estimate is revised if subsequent information indicates that the actual number of PRSUs is likely to differ from previous estimates. The cumulative effect on current and prior periods of a change in the estimated number of PRSUs expected to vest is recognized in stock-based compensation expense in the period of the change. Previously recognized compensation expense is not reversed if vested stock options, RSUs or PRSUs for which the requisite service has been rendered and the performance condition has been met expire unexercised or are not settled.

The fair value of RSUs and PRSUs is based on the closing market price of our common stock on the date of grant. We estimate the fair value of stock options granted using a Black-Scholes option pricing model. This model requires us to make estimates and assumptions with respect to the expected term of the option and the expected volatility of the price of our common stock. The expected term represents the period that our stock-based awards are expected to be outstanding and was determined based on our historical experience. The expected volatility is based on the historical volatility of our common stock. The assumptions used to determine the fair value of the option awards represent management’s best estimates. These estimates involve inherent uncertainties and the application of management’s judgment. Our use of the Black-Scholes option-pricing model requires the input of highly subjective assumptions. If factors change and different assumptions are used, our stock-based compensation expense could be materially different in the future.

Variable Interest Entities

We determine at the inception of each arrangement whether an entity in which we hold an investment or in which we have other variable interests is considered a variable interest entity ("VIE"). We consolidate VIEs when we are the primary beneficiary. The primary beneficiary of a VIE is the party that meets both of the following criteria: (1) has the power to make decisions that most significantly affect the economic performance of the VIE and (2) has the obligation to absorb losses or the right to receive benefits that in either case could potentially be significant to the VIE. Periodically, we assess whether any changes in the interest or relationship with the entity affect the determination of whether the entity is still a VIE and, if so, whether we are the primary beneficiary. If we are not the primary beneficiary in a VIE, we account for the investment or other variable interest in accordance with applicable GAAP.

We have concluded that Ablecom and its affiliate, Compuware, are VIEs; however, we are not the primary beneficiary as we do not have the power to direct the activities that are most significant to the entities and therefore, we do not consolidate these entities. In performing this analysis, we considered our explicit arrangements with Ablecom and Compuware, including all contractual arrangements with these entities. Also, as a result of the substantial related party relationships between us and these two companies, we considered whether any implicit arrangements exist that would cause us to protect these related parties’ interests from suffering losses. We determined that no material implicit arrangements exist with Ablecom, Compuware, or their shareholders.

Our ability to assess correctly our influence or control over an entity at inception of our involvement or on a continuous basis when determining the primary beneficiary of a VIE affects the presentation of these entities in our consolidated financial statements. Subsequent evaluations of the primary beneficiary of a VIE may require the use of different assumptions that could lead to identification of a different primary beneficiary, resulting in a different consolidation conclusion than what was determined at inception of the arrangement.

Results of Operations

The following table presents certain items of our consolidated statements of operations expressed as a percentage of revenue.

	Years Ended June 30,		
	2022	2021	2020
Net sales	100.0 %	100.0 %	100.0 %
Cost of sales	84.6 %	85.0 %	84.2 %
Gross profit	15.4 %	15.0 %	15.8 %
Operating expenses:			
Research and development	5.2 %	6.3 %	6.6 %
Sales and marketing	1.7 %	2.4 %	2.5 %
General and administrative	2.0 %	2.8 %	4.1 %
Total operating expenses	8.9 %	11.5 %	13.2 %
Income from operations	6.5 %	3.5 %	2.6 %
Other (expense) income, net	0.2 %	(0.1)%	— %
Interest expense	(0.1)%	(0.1)%	(0.1)%
Income before income tax provision	6.6 %	3.3 %	2.5 %
Income tax provision	(1.0)%	(0.2)%	(0.1)%
Share of income from equity investee, net of taxes	— %	— %	0.1 %
Net income	5.6 %	3.1 %	2.5 %

Net Sales

Net sales consist of sales of our server and storage solutions, including systems and related services and subsystems and accessories. The main factors that impact net sales of our server and storage systems are the number of compute nodes sold and the average selling prices per node. The main factors that impact net sales of our subsystems and accessories are units shipped and the average selling price per unit. The prices for our server and storage systems range widely depending upon the configuration, including the number of compute nodes in a server system as well as the level of integration of key components such as SSDs and memory. The prices for our subsystems and accessories can also vary widely based on whether a customer is purchasing power supplies, server boards, chassis or other accessories.

A compute node is an independent hardware configuration within a server system capable of having its own CPU, memory and storage and that is capable of running its own instance of a non-virtualized operating system. The number of compute nodes sold, which can vary by product, is an important metric we use to track our business. Measuring volume using compute nodes enables more consistent measurement across different server form factors and across different vendors. As with most electronics-based product life cycles, average selling prices typically are highest at the time of introduction of new products that utilize the latest technology and tend to decrease over time as such products mature in the market and are replaced by next generation products. Additionally, in order to remain competitive throughout all industry cycles, we actively change our selling price per unit in response to changes in costs for key components such as CPU/GPU, memory and storage.

The following table presents net sales by product type for fiscal years 2022, 2021 and 2020 (dollars in millions):

	Years Ended June 30,			2022 over 2021 Change		2021 over 2020 Change	
	2022	2021	2020	$	%	$	%
Server and storage systems	$4,463.8	$2,790.3	$2,620.8	$ 1,673.5	60.0 %	$ 169.5	6.5 %
Percentage of total net sales	85.9 %	78.4 %	78.5 %				
Subsystems and accessories	732.3	767.1	718.5	(34.8)	(4.5)%	48.6	6.8 %
Percentage of total net sales	14.1 %	21.6 %	21.5 %				
Total net sales	$5,196.1	$3,557.4	$3,339.3	$ 1,638.7	46.1 %	$ 218.1	6.5 %

Fiscal Year 2022 Compared with Fiscal Year 2021

During fiscal year 2022 we experienced increased revenue from server and storage systems, particularly from our large enterprise and datacenter customers. The year-over-year increase in net sales of server and storage systems was primarily due to an increase of average selling prices per compute node by approximately 32% as well as an increase of approximately 23% in the number of units of compute nodes sold. The year-over-year decrease in net sales of subsystems and accessories was primarily due to our emphasis on selling full systems and servers. Our services and software revenue, included in server and storage systems revenue, increased by $2.5 million year-over-year.

Fiscal Year 2021 Compared with Fiscal Year 2020

During fiscal year 2021 we experienced increased revenue from server and storage systems, particularly from our large enterprise and datacenter customers. The year-over-year increase in net sales of server and storage systems was primarily due to an increase of average selling prices per compute node by approximately 17%, offset by a decrease of approximately 9% in the number of units of compute nodes sold. We typically adjust our selling prices as component costs rise and fall. The increase in average selling prices was primarily due to significant inventory component price increases resulting from component shortages during fiscal year 2021. The year-over-year increase in net sales of subsystems and accessories was primarily due to an increase of approximately 5% in the volume of subsystems and accessories sold, mainly due to increased demand and an approximately 2% increase in average selling prices due primarily to the increase in costs of the components. Our services and software revenue, included in server and storage systems revenue, increased by $0.2 million year-over-year.

The following table presents percentages of net sales by geographic region for fiscal years 2022, 2021 and 2020 (dollars in millions):

	Years Ended June 30,			2022 over 2021 Change		2021 over 2020 Change	
	2022	2021	2020	$	%	$	%
United States	$ 3,035.5	$ 2,107.9	$ 1,957.3	$ 927.6	44.0 %	$ 150.6	7.7 %
Percentage of total net sales	58.4 %	59.3 %	58.6 %				
Asia	1,139.9	699.7	650.7	440.2	62.9 %	49.0	7.5 %
Percentage of total net sales	21.9 %	19.7 %	19.5 %				
Europe	825.2	614.8	598.6	210.4	34.2 %	16.2	2.7 %
Percentage of total net sales	15.9 %	17.3 %	17.9 %				
Others	195.5	135.0	132.7	60.5	44.8 %	2.3	1.7 %
Percentage of total net sales	3.7 %	3.7 %	4.0 %				
Total net sales	$ 5,196.1	$ 3,557.4	$ 3,339.3	$ 1,638.7	46.1 %	$ 218.1	6.5 %

Fiscal Year 2022 Compared with Fiscal Year 2021

The year over year increase in overall net sales is the result of increased selling prices and quantities of product shipments. Asia experienced the highest percentage growth among all regions. China, Japan and Korea exceeded the overall regional average of growth, which was the primary driver of the increases in net sales in Asia. Russia experienced a year over year decrease due to the conflict in that region, which decrease had an immaterial impact on our overall performance.

Fiscal Year 2021 Compared with Fiscal Year 2020

The year-over-year increase in net sales in the United States was primarily due to an increase in net sales of our server and storage systems. The year-over-year increase in net sales in Asia was primarily due to an increase in net sales of our server and storage systems in China, Singapore, India and Japan, partially offset by a decrease in the net sales in Taiwan. The year-over-year increase in net sales in Europe was primarily due to an increase in net sales of our server and storage systems in the Germany, UK and France, partially offset by a decrease in net sales in the Netherlands and Russia.

Cost of Sales and Gross Margin

Cost of sales primarily consists of the costs to manufacture our products, including the costs of materials, contract manufacturing, shipping, personnel expenses, including salaries, benefits, stock-based compensation and incentive bonuses, equipment and facility expenses, warranty costs and inventory excess and obsolescence provisions. The primary factors that impact our cost of sales are the mix of products sold and cost of materials, which include purchased parts and material costs, shipping costs, salary and benefits and overhead costs related to production. Cost of sales as a percentage of net sales may increase over time if decreases in average selling prices are not offset by corresponding decreases in our costs. Our cost of sales as a percentage of net sales is also impacted by the extent to which we are able to efficiently utilize our expanding manufacturing capacity. Because we generally do not have long-term fixed supply agreements, our cost of sales is subject to change based on the cost of materials and market conditions. As a result, our cost of sales as a percentage of net sales in any period can increase due to significant component price increases resulting from component shortages.

We use several suppliers and contract manufacturers to design and manufacture subsystems in accordance with our specifications, with most final assembly and testing predominantly performed at our manufacturing facilities in the same region where our products are sold. We work with Ablecom, one of our key contract manufacturers and also a related party to optimize modular designs for our chassis and certain of other components. We also outsource to Compuware, also a related party, a portion of our design activities and a significant part of our manufacturing of components, particularly power supplies. Our purchases of products from Ablecom and Compuware combined represented 8.3%, 7.8% and 10.1% of our cost of sales for fiscal years 2022, 2021 and 2020, respectively. For further details on our dealings with related parties, see Part II, Item 8, Note 12, “Related Party Transactions.”

Cost of sales and gross margin for fiscal years 2022, 2021 and 2020, are as follows (dollars in millions):

	Years Ended June 30,			2022 over 2021 Change		2021 over 2020 Change	
	2022	2021	2020	$	%	$	%
Cost of sales	$4,396.1	$3,022.9	$2,813.1	$ 1,373.2	45.4 %	$ 209.8	7.5 %
Gross profit	800.0	534.5	526.2	265.5	49.7 %	8.3	1.6 %
Gross margin	15.4 %	15.0 %	15.8 %		0.4 %		(0.8)%

Fiscal Year 2022 Compared with Fiscal Year 2021

The year-over-year increase in cost of sales was primarily attributed to an increase of $1,262.6 million in costs of materials and contract manufacturing expenses primarily related to the increase in net sales volume, a $54.9 million increase in freight charges, a $23.6 million increase in overhead costs, a $18.9 million increase due to lower cost recovery of cost paid in prior periods, a $8.3 million increase in excess and obsolete inventory charges and a $4.9 million increase in other cost of sales.

The year-over-year increase in the gross margin percentage was primarily due to sales prices increases, product and customer mix and higher capitalization of manufacturing overhead due to higher inventory levels, offset by higher costs from freight, overhead, other cost of sales, excess and obsolete inventory charges, and lower recovery of costs from prior periods. Since the start of the COVID-19 pandemic, we have experienced an increase in costs of sales, logistics costs as well as direct labor costs as we incentivize our employees. This increase in costs negatively impacts our gross margin, and we expect these higher costs to continue for the duration of the COVID-19 pandemic.

Fiscal Year 2021 Compared with Fiscal Year 2020

The year-over-year increase in cost of sales was primarily attributable to an increase of $244.1 million in costs of materials and contract manufacturing expenses primarily related to the increase in net sales volume and an increase of $8.9 million in the cost of freight. This was offset by a decrease of $29.5 million in overhead costs attributable primarily to a recovery of costs paid in prior periods, a decrease of $12.4 million in the provision of excess inventory and obsolescence and a decrease of $2.6 million in personnel expenses due to a decrease in special performance bonuses in the fiscal year 2021. Warranty and repairs costs also decreased by $3.4 million in the fiscal year 2021 as compared to the fiscal year 2020.

The period-over-period decrease in the gross margin percentage was primarily due to sales prices increasing at a slower rate than the increase in the costs of components and due to the decrease in services and software revenue which have higher margins than product sales. Since the start of the COVID-19 pandemic, we have experienced an increase in both logistics costs as well as direct labor costs as we incentivize our employees to continue to work and assist us in serving our customers. This increase in costs negatively impacts our gross margins, and we expect these higher costs to continue for the duration of the COVID-19 pandemic.

Operating Expenses

Research and development expenses consist of personnel expenses, including salaries, benefits, stock-based compensation and incentive bonuses, and related expenses for our research and development personnel, as well as product development costs such as materials and supplies, consulting services, third-party testing services and equipment and facility expenses related to our research and development activities. All research and development costs are expensed as incurred. We occasionally receive non-recurring engineering funding from certain suppliers and customers for joint development. Under these arrangements, we are reimbursed for certain research and development costs that we incur as part of the joint development efforts with our suppliers and customers. These amounts offset a portion of the related research and development expenses and have the effect of reducing our reported research and development expenses.

Sales and marketing expenses consist primarily of personnel expenses, including salaries, benefits, stock-based compensation and incentive bonuses, and related expenses for our sales and marketing personnel, cost for tradeshows, independent sales representative fees and marketing programs. From time to time, we receive marketing development funding from certain suppliers. Under these arrangements, we are reimbursed for certain marketing costs that we incur as part of the joint promotion of our products and those of our suppliers. These amounts offset a portion of the related expenses and have the effect of reducing our reported sales and marketing expenses. The timing, magnitude and estimated usage of these programs can result in significant variations in reported sales and marketing expenses from period to period. Spending on cooperative marketing, reimbursed by our suppliers, typically increases in connection with new product releases by our suppliers.

General and administrative expenses consist primarily of general corporate costs, including personnel expenses such as salaries, benefits, stock-based compensation and incentive bonuses, and related expenses for our general and administrative personnel, financial reporting, information technology, corporate governance and compliance, outside legal, audit, tax fees, insurance and bad debt reserves on accounts receivable.

Operating expenses for fiscal years 2022, 2021 and 2020 are as follows (dollars in millions):

	Years Ended June 30,			2022 over 2021 Change		2021 over 2020 Change	
	2022	2021	2020	$	%	$	%
Research and development	$ 272.3	$ 224.4	$ 221.5	$ 47.9	21.3 %	$ 2.9	1.3 %
Percentage of total net sales	5.2 %	6.3 %	6.6 %				
Sales and marketing	90.1	85.7	85.1	4.4	5.1 %	0.6	0.7 %
Percentage of total net sales	1.7 %	2.4 %	2.5 %				
General and administrative	102.4	100.5	133.9	1.9	1.9 %	(33.4)	(24.9)%
Percentage of total net sales	2.0 %	2.8 %	4.0 %				
Total operating expenses	$ 464.8	$ 410.6	$ 440.5	54.2	13.2 %	(29.9)	(6.8)%

Fiscal Year 2022 Compared with Fiscal Year 2021

The year-over-year increase in research and development expenses was primarily due to a $40.8 million increase in personnel expenses due to salary increases and a higher headcount, $3.7 million lower research and development credits from certain suppliers and customers towards our development efforts and a $3.4 million increase in product development costs.

The year-over-year increase in sales and marketing expenses was primarily due to a $9.6 million increase in personnel expenses due to salary increases and a higher headcount, offset by a $5.7 million increase in marketing development funds received and a $0.5 million increase in advertising and other expenses.

The year-over-year increase in general and administrative expenses was primarily due to a $4.1 million increase in legal and litigation settlement expenses and $6.6 million increase in personnel and other expenses due to salary increases and a higher headcount offset by decrease of $1.5 million in professional fees driven by lower expenses incurred to remediate the causes that led to the delay in filing our periodic reports with the SEC and the associated restatement of our previously issued financial statements and a $7.3 million decrease in expense from special performance awards.

Fiscal Year 2021 Compared with Fiscal Year 2020

The year-over-year increase in research and development expenses was primarily due to an increase of $11.6 million in costs mainly related to materials, supplies and equipment used in product development. During fiscal year 2020, we recorded a $9.5 million net settlement fee as a reduction in the research and development expenses related to the reimbursement of previously incurred materials, supplies and equipment costs for one canceled joint product development agreement. Personnel expenses increased $1.7 million as a result of an increase in the number of research and development employees. These increases were partially offset by an increase of $8.8 million in research and development credits from certain suppliers and customers towards our development efforts and a $1.5 million decrease mainly due to decrease in travel expenses as a result of change in our operations in response to the COVID-19 pandemic.

The year-over-year increase in sales and marketing expenses was primarily due to an increase of $1.2 million in advertising expenses, a $1.0 million increase in other sales and marketing expenses, offset by a $1.7 million decrease in trade shows and business travel as a result in a change in our operations in response to the COVID-19 pandemic.

The year-over-year decrease in general and administrative expenses was due to a decrease of $41.8 million in professional fees incurred to investigate, assess and remediate the causes that led to the delay in filing our periodic reports with the SEC and the associated restatement of certain of our previously issued financial statements, a decrease of $3.4 million in other expenses related to the COVID-19 pandemic and a $1.1 million decrease in supplies costs. These decreases were partially offset by a $12.9 million increase in personnel expenses due to increased full time personnel and bonuses.

We anticipate the above expenses impacted by the COVID-19 pandemic to normalize if and when the COVID-19 pandemic is over.

Interest and Income (Expense), Net

Other income (expense), net consists primarily of interest earned on our investment and cash balances and foreign exchange gains and losses.

Interest expense represents interest expense on our term loans and lines of credit.

Interest and other income (expense), net for fiscal years 2022, 2021 and 2020 are as follows (dollars in millions):

	Years Ended June 30,			2022 over 2021 Change		2021 over 2020 Change	
	2022	2021	2020	$	%	$	%
Other income (expense), net	$ 8.1	$ (2.8)	$ 1.4	$ 10.9	(389.3)%	$ (4.2)	(300.0)%
Interest expense	(6.4)	(2.5)	(2.2)	(3.9)	156.0 %	(0.3)	13.6 %
Interest and other income (expense), net	$ 1.7	$ (5.3)	$ (0.8)	$ 7.0	(132.1)%	$ (4.5)	562.5 %

<ins>*Fiscal Year 2022 Compared with Fiscal Year 2021*</ins>

The change of $7.0 million in interest and other (expense) income, net was primarily attributable to a $10.9 million increase in foreign exchange gain due to favorable currency fluctuations primarily related to our borrowing facilities in Taiwan offset by a $3.9 million increase in interest expense due to increase in loan balances and interest rates.

<ins>*Fiscal Year 2021 Compared with Fiscal Year 2020*</ins>

The change of $4.5 million in interest expense and other (expense) income, net was attributable to a decrease of $2.4 million in interest income on our interest-bearing deposits due primarily to lower yields on investments and an increase of $1.8 million in foreign exchange loss due to unfavorable foreign currency fluctuations.

Provision for Income Taxes

Our income tax provision is based on our taxable income generated in the jurisdictions in which we operate, which primarily include the United States, Taiwan, and the Netherlands. Our effective tax rate differs from the statutory rate primarily due to research and development tax credits, certain non-deductible expenses, tax benefits from foreign derived intangible income and stock-based compensation. A reconciliation of the federal statutory income tax rate to our effective tax rate is set forth in Part II, Item 8, Note 14, "Income Taxes" to the consolidated financial statements in this Annual Report.

Provision for income taxes and effective tax rates for fiscal years 2022, 2021 and 2020 are as follows (dollars in millions):

	Years Ended June 30,			2022 over 2021 Change		2021 over 2020 Change	
	2022	2021	2020	$	%	$	%
Income tax provision	$ 52.9	$ 6.9	$ 2.9	$ 46.0	666.7 %	$ 4.0	137.9 %
Percentage of total net sales	1.0 %	0.2 %	0.1 %				
Effective tax rate	15.7 %	5.8 %	3.4 %				

Fiscal Year 2022 Compared with Fiscal Year 2021

The year-over-year increase in the effective tax rate was primarily due to a significant increase in revenue and income before tax. Total effective tax rate increased by 9.5% from 5.8% for the fiscal year ended June 30, 2021 to 15.7% for the fiscal year ended June 30, 2022. This increase was driven by a 15.4% increase in the overall effective tax rate. R&D credit reduced the effective tax rate by 3.5% and foreign derived income reduced the effective tax rate by 1.4%.

Fiscal Year 2021 Compared with Fiscal Year 2020

The year-over-year increase in the effective tax rate was primarily due to a release of reserve from uncertain tax positions in the prior year.

Share of Income from Equity Investee, Net of Taxes

Share of income from equity investee, net of taxes represents our share of income from the Corporate Venture in which we have a 30% ownership.

Share of income from equity investee, net of taxes for fiscal years 2022, 2021 and 2020 are as follows (dollars in millions):

	Years Ended June 30,			2022 over 2021 Change		2021 over 2020 Change	
	2022	2021	2020	$	%	$	%
Share of income from equity investee, net of taxes	$ 1.2	$ 0.2	$ 2.4	$ 1.0	500.0 %	$ (2.2)	91.7 %
Percentage of total net sales	— %	— %	— %				

Fiscal Year 2022 Compared with Fiscal Year 2021

The period-over-period increase of $1.0 million in share of income from equity investee, net of taxes was primarily due to more net income recognized by the Corporate Venture.

Fiscal Year 2021 Compared with Fiscal Year 2020

The year-over-year decrease of $2.2 million in share of income from equity investee, net of taxes was primarily due to lower net income recognized by the Corporate Venture in the fiscal year 2021 as compared to 2020.

Liquidity and Capital Resources

We have financed our growth primarily with funds generated from operations, in addition to utilizing borrowing facilities, particularly in relation to an increase in the need for working capital due to longer supply chain manufacturing and delivery times as well as the financing of real property acquisitions and funds received from the exercise of employee stock options. Our cash and cash equivalents were $267.4 million and $232.3 million as of June 30, 2022 and 2021, respectively. Our cash in foreign locations was $169.5 million and $152.6 million as of June 30, 2022 and 2021, respectively.

Amounts held outside of the U.S. are generally utilized to support non-U.S. liquidity needs. Repatriations generally will not be taxable from a U.S. federal tax perspective but may be subject to state income or foreign withholding tax. Where local restrictions prevent an efficient intercompany transfer of funds, our intent is to keep cash balances outside of the U.S. and to meet liquidity needs through operating cash flows, external borrowings, or both. We do not expect restrictions or potential taxes incurred on repatriation of amounts held outside of the U.S. to have a material effect on our overall liquidity, financial condition or results of operations.

We believe that our current cash, cash equivalents, borrowing capacity available from our credit facilities and internally generated cash flows will be sufficient to support our operating businesses and maturing debt and interest payments for the twelve months following the issuance of these consolidated financial statements. In August 2022, we entered into a new general credit agreement with E.Sun Bank. This New E.SUN Bank Credit Facility permits borrowings of up to (i) NTD 1.8 billion ($61.0 million U.S. dollar equivalent) and (ii) US$30.0 million in loans that will support the growth of our Taiwan business.

On January 29, 2021, a duly authorized subcommittee of the Board of Directors approved the Prior Repurchase Program, which permitted us to repurchase up to an aggregate of $200.0 million of our common stock at market prices. The program was effective until the earlier of July 31, 2022 or the date when the maximum amount of common stock is repurchased. We had $150.0 million of remaining availability under the Prior Repurchase Program as of June 30, 2022. Subsequently, on August 3, 2022, after the expiration of the Prior Repurchase Program, a duly authorized subcommittee of our Board approved a new share repurchase program to repurchase shares of common stock for up to $200 million at prevailing prices in the open market. The share repurchase program is effective until January 31, 2024 or until the maximum amount of common stock is repurchased, whichever occurs first.

Our key cash flow metrics were as follows (dollars in millions):

	Years Ended June 30,			2022 over	2021 over
	2022	2021	2020	2021	2020
Net cash (used in) provided by operating activities	$ (440.8)	$ 123.0	$ (30.3)	$ (563.8)	$ 153.3
Net cash used in investing activities	$ (46.3)	$ (58.0)	$ (43.6)	$ 11.7	$ (14.4)
Net cash provided by (used in) financing activities	$ 522.9	$ (44.4)	$ 23.8	$ 567.3	$ (68.2)
Net increase (decrease) in cash, cash equivalents and restricted cash	$ 35.1	$ 21.1	$ (49.8)	$ 14.0	$ 70.9

Operating Activities

Net cash provided by operating activities decreased by $563.8 million for fiscal year 2022 as compared to fiscal year 2021. The decrease was primarily due to an increase in net cash required for net working capital of $739.6 million to meet customer demand, support expected business growth and mitigate supply chain risk as a result of the COVID-19 pandemic environment and a $16.2 million decrease in unrealized gain and loss. These decreases are partially offset by increases in provision for excess and obsolete inventories of $8.3 million, depreciation and amortization expense of $4.3 million, stock-based compensation expense of $4.3 million and net income of $173.3 million. Since the beginning of the COVID-19 pandemic and the accompanying supply chain disruptions our management decided to increase our holdings of all components of our inventory (finished goods, work in process and purchased parts and raw materials). This decision reflected our belief that we had opportunities to increase our net sales if we could mitigate the risk of being unable to satisfy customer demand because of these supply chain disruptions, including longer lead times. We expect disruption of the supply chain and longer lead times to continue for the foreseeable future and therefore expect to continue to carry larger amounts of inventory than we would if the supply chain were functioning more normally and predictably.

Net cash provided by operating activities increased by $153.3 million for fiscal year 2021 as compared to fiscal year 2020. While net income increased by $27.6 million in fiscal year 2021 as compared to fiscal year 2020, the increase in cash flows from operating activities was due primarily to a decrease of cash used for net working capital requirements of $120.3 million. Non-cash charges related to stock-based compensation expense increased by $8.4 million, collection of bad debt previously reserved decreased by $2.3 million, income from equity investee decreased by $2.2 million and $5.4 million decrease in the non-cash charges related to the change in our deferred income tax assets. These increases in the cash flow from operating activities were partially offset by the decrease of $11.6 million in previously reserved excess and obsolete inventory.

Investing Activities

Net cash used in investing activities was $46.3 million, $58.0 million and $43.6 million for fiscal years 2022, 2021 and 2020, respectively, as we invested in our Green Computing Park in San Jose to expand our capacity and office space we purchased and expanded our Bade Facility in Taiwan and made purchases of property, plant and equipment.

Financing Activities

Net cash used in financing activities increased by $567.3 million for fiscal year 2022 as compared to fiscal year 2021 primarily due to an increase of $446.2 million in proceeds from borrowings net of repayment, offset by a $130.0 million decrease in stock repurchases. Net cash used in financing activities increased by $68.2 million for fiscal year 2021 as compared to fiscal year 2020 primarily due to an increase of $130.0 million in repurchase of our common stock, partially offset by an increase of $61.9 million in proceeds from borrowings net of repayment.

Other Factors Affecting Liquidity and Capital Resources

Refer to Part II, Item 8, Note 9, “Short-term and Long-term Debt” in our notes to consolidated financial statements in this Annual Report on Form 10-K for further information on our outstanding debt.

Capital Expenditure Requirements

We anticipate our capital expenditures in fiscal year 2023 will be approximately $21.2 million, relating primarily to costs associated in our manufacturing capabilities, including tooling for new products, new information technology investments, and facilities upgrades. We will continue to evaluate new business opportunities and new markets. As a result, our future growth within the existing business or new opportunities and markets may dictate the need for additional facilities and capital expenditures to support that growth. We evaluate capital expenditure projects based on a variety of factors, including expected strategic impacts (such as forecasted impact on revenue growth, productivity, expenses, service levels and customer retention) and our expected return on investment.

We intend to continue to focus our capital expenditures in fiscal year 2023 to support the growth of our operations. Our future capital requirements will depend on many factors including our growth rate, the timing and extent of spending to support development efforts, the expansion of sales and marketing activities, the introduction of new and enhanced software and services offerings, the investments in our office facilities and our systems infrastructure, the continuing market acceptance of our offerings and our planned investments, particularly in our product development efforts, applications or technologies.

Contractual Obligations

Our estimated future obligations as of June 30, 2022, include both current and long term obligations. For our long-term debt as noted in Part II, Item 8, Note 9, “Short-term and Long-term Debt”, we have a current obligation of $449.1 million and a long-term obligation of $147.6 million. Under our operating leases as noted in Part II, Item 8, Note 11, "Leases", we have a current obligation of $7.7 million and a long-term obligation of $17.4 million. As noted in Part II, Item 8, Note 15, "Commitments and Contingencies", we have current obligations related to noncancelable purchase commitments of $562.9 million.

Recent Accounting Pronouncements

For a description of recent accounting pronouncements, including the expected dates of adoption and estimated effects, if any, on our consolidated financial statements, see Part II, Item 8, Note 1, “Organization and Summary of Significant Accounting Policies” to the consolidated financial statements in this Annual Report.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the consolidated financial statements and related notes which appear elsewhere in this Annual Report. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this Annual Report, particularly under the heading "Risk Factors."

Overview

We are a Silicon Valley-based provider of accelerated compute platforms that are application-optimized high performance and high-efficiency server and storage systems for a variety of markets, including enterprise data centers, cloud computing, AI, 5G and edge computing. Our Total IT Solutions include complete servers, storage systems, modular blade servers, blades, workstations, full rack-scale solutions, networking devices, server sub-systems, server management and security software. We also provide global support and services to help our customers install, upgrade and maintain their computing infrastructure.

We commenced operations in 1993 and have been profitable every year since inception. For fiscal years 2023, 2022 and 2021, our net income was $640.0 million, $285.2 million and $111.9 million, respectively. In order to increase our sales and profits, we believe that we must continue to develop flexible and application optimized server and storage solutions and be among the first to market with new features and products. We must also continue to expand our software and customer service and support offerings, particularly as we increasingly focus on larger enterprise customers. Additionally, we must focus on development of our sales partners and distribution channels to further expand our market share. We measure our financial success based on various indicators, including growth in net sales, gross profit margin and operating margin. Among the key non-financial indicators of our success is our ability to rapidly introduce new products and deliver the latest application-optimized server and storage solutions. In this regard, we work closely with microprocessor and other key component vendors to take advantage of new technologies as they are introduced. Historically, our ability to introduce new products rapidly has allowed us to benefit from technology transitions such as the introduction of new microprocessors and storage technologies, and as a result, we monitor the product introduction cycles of Intel Corporation, NVIDIA Corporation, Advanced Micro Devices, Inc., Samsung Electronics Company Limited, Micron Technology, Inc. and others closely and carefully. This also impacts our research and development expenditures as we continue to invest more in our current and future product development efforts.

COVID-19 Pandemic Impact

Our business and financial outlook have experienced, and may continue to face, challenges due to adverse macroeconomic conditions and uncertainties. These factors encompass labor shortages, disruptions in the supply chain, inflation, higher interest rates, and fluctuations in capital markets. The global business landscape encountered widespread disruption as a consequence of the COVID-19 pandemic, which commenced in early 2020. The extent of its direct or indirect impact on general market conditions, as well as our business, results of operations, cash flows, and financial condition, is contingent upon uncertain future developments, including the emergence of new variants.

We remain committed to continuously assessing the nature and extent of the impact of general macroeconomic conditions and the ongoing COVID-19 pandemic on our business. For a more comprehensive discussion, please refer to the "Risk Factors" included in Part I, Item 1A of this Annual Report on Form 10-K.

Financial Highlights

The following is a summary of financial highlights of fiscal years 2023 and 2022:

- Net sales increased by 37.1% in fiscal year 2023 as compared to fiscal year 2022.
- Gross margin increased to 18.0% in fiscal year 2023 from 15.4% in fiscal year 2022, primarily due to product and customer mix and decreased logistic costs.
- Operating expenses increased by 12.3% in fiscal year 2023 as compared to fiscal year 2022, primarily due to the increase in personnel expenses as a result of salary increases, equity grants and a higher headcount.

- Net income increased to $640.0 million in fiscal year 2023 as compared to $285.2 million in fiscal year 2022, which was primarily due to the higher net sales and lower operating expenses as a percentage of revenues in fiscal year 2023 as compared to fiscal year 2022.

- Our cash and cash equivalents were $440.5 million and $267.4 million at the end of fiscal years 2023 and 2022, respectively. In fiscal year 2023, we generated net cash of $172.4 million, comprised of $663.6 million provided by operating activities primarily due to increased net income, $448.3 million used in financing activities primarily due to repayment of debt and stock repurchase, and $39.5 million cash used in investing activities primarily due to $36.8 million in purchases of property and equipment.

Critical Accounting Policies and Estimates

General

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States. The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amount of assets, liabilities, net sales and expenses. We evaluate our estimates on an on-going basis based on a) historical experience, b) assumptions we believe to be reasonable under the circumstances and are not readily apparent from other sources, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Because these estimates can vary depending on the situation, actual results may differ from the estimates. Making estimates and judgments about future events is inherently unpredictable and is subject to significant uncertainties, some of which are beyond our control. Should any of these estimates and assumptions change or prove to have been incorrect, it could have a material impact on our results of operations, financial position and statement of cash flows. These estimates and judgements have not fluctuated significantly for the fiscal year ended June 30, 2023 compared to prior fiscal years.

A summary of significant accounting policies is included in Part II, Item 8, Note 1, "Organization and Summary of Significant Accounting Policies" in our notes to the consolidated financial statements in this Annual Report. Management believes the following are the most critical accounting policies and reflect the significant estimates and assumptions used in the preparation of the consolidated financial statements.

Revenue Recognition

The most critical accounting policy estimate and judgments required in applying ASC 606, Revenue Recognition of Contracts from Customers, and our revenue recognition policy relate to the determination of the transaction price, distinct performance obligations and the evaluation of the standalone selling price (the "SSP") for each performance obligation.

We generate revenues from the sale of server and storage systems, subsystems, accessories, services, server software management solutions, and support services. Many of our customer contracts include multiple performance obligations. Judgment is required in determining whether each performance obligation within a customer contract is distinct. This assessment involves subjective determinations and requires management to make judgments about the individual promised goods or services and whether such goods or services are separable from the other aspects of the contractual relationship.

As part of determining the transaction price in contracts with customers, we may be required to estimate variable consideration when determining the amount of revenue to recognize. We estimate reserves for future sales returns based on a review of our history of actual returns. Based upon historical experience, a refund liability is recorded at the time of sale for estimated product returns and an asset is recognized for the amount expected to be recorded in inventory upon product return, less the expected recovery costs. We also estimate the costs of customer and distributor programs and incentive offerings such as price protection, customer rebates, as well as the estimated costs of cooperative marketing arrangements where the fair value of the benefit derived from the costs cannot be reasonably estimated. Any provision is recorded as a reduction of revenue at the time of sale based on an evaluation of the contract terms and historical experience.

We allocate the transaction price for each customer contract to each performance obligation based on the relative SSP for each performance obligation within each contract. We recognize the amount of transaction price allocated to each performance obligation within a customer contract as revenue at the time the respective performance obligation is satisfied by transferring control of the promised good or service to a customer. Determining the relative SSP for contracts that contain multiple performance obligations requires significant judgement. We determine standalone selling prices based on the price at which the performance obligation is sold separately. If the standalone selling price is not observable through past transactions, we apply judgment to estimate the SSP. For substantially all performance obligations, we are able to establish the SSP based on the observable prices of products or services sold separately in comparable circumstances to similar customers. We typically establish an SSP range for our products and services, which is reassessed on a periodic basis or when facts and circumstances change. SSP for our products and services can evolve over time due to changes in our pricing practices, internally approved pricing guidelines with respect to geographies, customer type, internal costs, and gross margin objectives for the related performance obligations which can also be influenced by intense competition, changes in demand for our products and services, economic and other factors.

Inventories

Inventories are stated at lower of cost, using weighted average cost method, or net realizable value. Net realizable value is the estimated selling price of our products in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Inventories consist of purchased parts and raw materials (principally electronic components), work in process (principally products being assembled) and finished goods. We evaluate inventory on a quarterly basis for lower of cost or net realizable value and excess and obsolescence and, as necessary, write down the valuation of inventories based upon our inventory aging, forecasted usage and sales, anticipated selling price, product obsolescence and other factors. Once inventory is written down, its new value is maintained until it is sold or scrapped.

We receive various rebate incentives from certain suppliers based on our contractual arrangements, including volume-based rebates. The rebates earned are recognized as a reduction of cost of inventories and reduce the cost of sales in the period when the related inventory is sold. We determine the volume-based rebates to be recognized in the cost of sales on a first-in, first-out basis.

Income Taxes

As part of the process of preparing our consolidated financial statements, we are required to estimate our taxes in each of the jurisdictions in which we operate. We estimate actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as accruals and allowances not currently deductible for tax purposes. These differences result in deferred tax assets, which are included in our consolidated balance sheets. In general, deferred tax assets represent future tax benefits to be received when certain expenses previously recognized in our consolidated statements of income become deductible expenses under applicable income tax laws, or when loss or credit carryforwards are utilized. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. We continue to assess the need for a valuation allowance on the deferred tax assets by evaluating both positive and negative evidence that may exist. Any adjustment to the valuation allowance on deferred tax assets would be recorded in the consolidated statements of income for the period that the adjustment is determined to be required.

We recognize tax liabilities for uncertain income tax positions on the income tax return based on the two-step process. The first step is to determine whether it is more likely than not that each income tax position would be sustained upon audit. The second step is to estimate and measure the tax benefit as the amount that has a greater than 50% likelihood of being realized upon ultimate settlement with the tax authority. Estimating these amounts requires us to determine the probability of various possible outcomes. We evaluate these uncertain tax positions on a quarterly basis. This evaluation is based on the consideration of several factors, including changes in facts or circumstances, changes in applicable tax law, settlement of issues under audit and new exposures. If we later determine that our exposure is lower or that the liability is not sufficient to cover our revised expectations, we adjust the liability and reflect a related charge in our tax provision during the period in which we make such a determination.

Stock-Based Compensation

We measure and recognize compensation expense for all share-based awards made to employees and non-employees, including stock options, restricted stock units ("RSUs") and performance-based restricted stock units (“PRSUs”). We recognize the grant date fair value of all share-based awards over the requisite service period and account for forfeitures as they occur. Stock option and RSU awards are recognized to expense on a straight-line basis over the requisite service period. PRSU awards are recognized to expense using an accelerated method only when it is probable that a performance condition is met during the vesting period. If it is not probable, no expense is recognized and the previously recognized expense is reversed. We base initial accrual of compensation expense on the estimated number of PRSUs that are expected to vest over the requisite service period. That estimate is revised if subsequent information indicates that the actual number of PRSUs is likely to differ from previous estimates. The cumulative effect on current and prior periods of a change in the estimated number of PRSUs expected to vest is recognized in stock-based compensation expense in the period of the change. Previously recognized compensation expense is not reversed if vested stock options, RSUs or PRSUs for which the requisite service has been rendered and the performance condition has been met expire unexercised or are not settled.

The fair value of RSUs and PRSUs is based on the closing market price of our common stock on the date of grant. We estimate the fair value of stock options granted using a Black-Scholes option pricing model. This model requires us to make estimates and assumptions with respect to the expected term of the option and the expected volatility of the price of our common stock. The expected term represents the period that our stock-based awards are expected to be outstanding and was determined based on our historical experience. The expected volatility is based on the historical volatility of our common stock. The assumptions used to determine the fair value of the option awards represent management’s best estimates. These estimates involve inherent uncertainties and the application of management’s judgment. Our use of the Black-Scholes option-pricing model requires the input of highly subjective assumptions. If factors change and different assumptions are used, our stock-based compensation expense could be materially different in the future.

Results of Operations

The following table presents certain items of our consolidated statements of operations expressed as a percentage of revenue.

	Years Ended June 30,		
	2023	**2022**	**2021**
Net sales	100.0 %	100.0 %	100.0 %
Cost of sales	82.0 %	84.6 %	85.0 %
Gross profit	18.0 %	15.4 %	15.0 %
Operating expenses:			
Research and development	4.3 %	5.2 %	6.3 %
Sales and marketing	1.6 %	1.7 %	2.4 %
General and administrative	1.4 %	2.0 %	2.8 %
Total operating expenses	7.3 %	8.9 %	11.5 %
Income from operations	10.7 %	6.5 %	3.5 %
Other income (expense), net	0.1 %	0.2 %	(0.1)%
Interest expense	(0.1)%	(0.1)%	(0.1)%
Income before income tax provision	10.7 %	6.6 %	3.3 %
Income tax provision	(1.6)%	(1.0)%	(0.2)%
Share of (loss) income from equity investee, net of taxes	(0.1)%	— %	— %
Net income	9.0 %	5.6 %	3.1 %

Net Sales

Net sales consist of sales of our server and storage solutions, including systems and related services and subsystems and accessories. The main factors that impact net sales of our server and storage systems are the number of compute nodes sold and the average selling prices per node. The main factors that impact net sales of our subsystems and accessories are units shipped and the average selling price per unit. The prices for our server and storage systems range widely depending upon the configuration, including the number of compute nodes in a server system as well as the level of integration of key components such as SSDs and memory. The prices for our subsystems and accessories can also vary widely based on whether a customer is purchasing power supplies, server boards, chassis or other accessories.

A compute node is an independent hardware configuration within a server system capable of having its own CPU, memory and storage and that is capable of running its own instance of a non-virtualized operating system. The number of compute nodes sold, which can vary by product, is an important metric we use to track our business. Measuring volume using compute nodes enables more consistent measurement across different server form factors and across different vendors. As with most electronics-based product life cycles, average selling prices typically are highest at the time of introduction of new products that utilize the latest technology and tend to decrease over time as such products mature in the market and are replaced by next generation products. Additionally, in order to remain competitive throughout all industry cycles, we actively change our selling price per unit in response to changes in costs for key components such as CPU/GPU, memory and storage.

The following table presents net sales by product type for fiscal years 2023, 2022 and 2021 (dollars in millions):

	Years Ended June 30,			2023 over 2022 Change		2022 over 2021 Change	
	2023	2022	2021	$	%	$	%
Server and storage systems	$6,569.8	$4,463.8	$2,790.3	$ 2,106.0	47.2 %	$ 1,673.5	60.0 %
Percentage of total net sales	92.2 %	85.9 %	78.4 %				
Subsystems and accessories	553.7	732.3	767.1	(178.6)	(24.4)%	(34.8)	(4.5)%
Percentage of total net sales	7.8 %	14.1 %	21.6 %				
Total net sales	$7,123.5	$5,196.1	$3,557.4	$ 1,927.4	37.1 %	$ 1,638.7	46.1 %

Fiscal Year 2023 Compared with Fiscal Year 2022

During fiscal year 2023 we experienced increased revenue from server and storage systems, particularly from our large enterprise and datacenter customers. The year-over-year increase in net sales of server and storage systems was primarily due to the strong demands from such customers for GPU, high performance computing ("HPC"), and rack-scale solutions which are generally more complex and of higher value, resulting in an increase of average selling prices. The year-over-year decrease in net sales of subsystems and accessories was primarily due to our emphasis on selling full systems and servers. Our services and software revenue, included in server and storage systems revenue, increased by $28.0 million year-over-year.

Fiscal Year 2022 Compared with Fiscal Year 2021

During fiscal year 2022 we experienced increased revenue from server and storage systems, particularly from our large enterprise and datacenter customers. The year-over-year increase in net sales of server and storage systems was primarily due to an increase of average selling prices per compute node by approximately 32% as well as an increase of approximately 23% in the number of units of compute nodes sold. The year-over-year decrease in net sales of subsystems and accessories was primarily due to our emphasis on selling full systems and servers. Our services and software revenue, included in server and storage systems revenue, increased by $2.5 million year-over-year.

The following table presents percentages of net sales by geographic region for fiscal years 2023, 2022 and 2021 (dollars in millions):

	Years Ended June 30,			2023 over 2022 Change		2022 over 2021 Change	
	2023	2022	2021	$	%	$	%
United States	$ 4,834.1	$ 3,035.5	$ 2,107.9	$ 1,798.6	59.3 %	$ 927.6	44.0 %
Percentage of total net sales	67.9 %	58.4 %	59.3 %				
Asia	1,050.8	1,139.9	699.7	(89.1)	(7.8)%	440.2	62.9 %
Percentage of total net sales	14.7 %	21.9 %	19.7 %				
Europe	1,003.1	825.2	614.8	177.9	21.6 %	210.4	34.2 %
Percentage of total net sales	14.1 %	15.9 %	17.3 %				
Others	235.5	195.5	135.0	40.0	20.5 %	60.5	44.8 %
Percentage of total net sales	3.3 %	3.7 %	3.7 %				
Total net sales	$ 7,123.5	$ 5,196.1	$ 3,557.4	$ 1,927.4	37.1 %	$ 1,638.7	46.1 %

Fiscal Year 2023 Compared with Fiscal Year 2022

The year-over-year increase in overall net sales is the result of increased selling prices and units shipped of product sold especially to large enterprise and datacenter customers. The United States experienced the highest percentage growth among all regions. This is due to increased demand from datacenter customers in the United States for GPU, high performance computing ("HPC"), and rack-scale solutions. The year-over-year decrease in Asia is mainly due to economic slowdown in China and Japan during fiscal year 2023 which heavily reduced the sales activities in that region.

Fiscal Year 2022 Compared with Fiscal Year 2021

The year-over-year increase in overall net sales is the result of increased selling prices and quantities of product shipments. Asia experienced the highest percentage growth among all regions. China, Japan and Korea exceeded the overall regional average of growth, which was the primary driver of the increases in net sales in Asia. Russia experienced a year over year decrease due to the conflict in that region, which decrease had an immaterial impact on our overall performance.

Cost of Sales and Gross Margin

Cost of sales primarily consists of the costs to manufacture our products, including the costs of materials, contract manufacturing, shipping, personnel expenses, including salaries, benefits, stock-based compensation and incentive bonuses, equipment and facility expenses, warranty costs and inventory excess and obsolescence provisions. The primary factors that impact our cost of sales are the mix of products sold and cost of materials, which include purchased parts and material costs, shipping costs, salary and benefits and overhead costs related to production as well as economies of scale gained from higher production volume in our facilities. Cost of sales as a percentage of net sales may increase or decrease over time if the changes in average selling prices are not matched by corresponding changes in our costs. Our cost of sales as a percentage of net sales is also impacted by the extent to which we are able to efficiently utilize our expanding manufacturing capacity. Because we generally do not have long-term fixed supply agreements, our cost of sales is subject to frequent change based on the availability of materials and other market conditions.

We use several suppliers and contract manufacturers to design and manufacture subsystems in accordance with our specifications, with most final assembly and testing performed at our manufacturing facilities in the same region where our products are sold. We work with Ablecom, one of our key contract manufacturers and also a related party, to optimize modular designs for our chassis and certain other components. We also outsource to Compuware, also a related party, a portion of our design activities and a significant part of the manufacturing of components, particularly power supplies. Our purchases of products from Ablecom and Compuware combined represented 6.6%, 8.3% and 7.8% of our cost of sales for fiscal years 2023, 2022 and 2021, respectively. For further details on our dealings with related parties, see Part II, Item 8, Note 9, "Related Party Transactions."

Cost of sales and gross margin for fiscal years 2023, 2022 and 2021, are as follows (dollars in millions):

	Years Ended June 30,			2023 over 2022 Change		2022 over 2021 Change	
	2023	2022	2021	$	%	$	%
Cost of sales	$5,840.5	$4,396.1	$3,022.9	$ 1,444.4	32.9 %	$ 1,373.2	45.4 %
Gross profit	1,283.0	800.0	534.5	483.0	60.4 %	265.5	49.7 %
Gross margin	18.0 %	15.4 %	15.0 %		2.6 %		0.4 %

Fiscal Year 2023 Compared with Fiscal Year 2022

The year-over-year increase in cost of sales was primarily attributed to an increase of $1,379.6 million in costs of materials and contract manufacturing expenses primarily related to the increased shipments of our products and solutions, a $59.2 million increase in overhead costs which includes labor costs attributed to increase of operation activities, a $36.6 million increase in inventory reserves, and a $13.6 million increase in other cost of sales partially offset by a $44.6 million decrease in freight charges due to a reduced need to expedite shipments due to disruptions in the supply chain caused by the COVID-19 pandemic.

The year-over-year increase in the gross margin percentage was primarily due to favorable product and customer mix and lower other cost of goods sold as a percentage of sales, based on higher volumes.

Fiscal Year 2022 Compared with Fiscal Year 2021

The year-over-year increase in cost of sales was primarily attributed to an increase of $1,262.6 million in costs of materials and contract manufacturing expenses primarily related to the increase in net sales volume, a $54.9 million increase in freight charges, a $23.6 million increase in overhead costs, a $18.9 million increase due to lower cost recovery of cost paid in prior periods, a $8.3 million increase in excess and obsolete inventory charges and a $4.9 million increase in other cost of sales.

The year-over-year increase in the gross margin percentage was primarily due to sales prices increases, product and customer mix and higher capitalization of manufacturing overhead due to higher inventory levels, offset by higher costs from freight, overhead, other cost of sales, excess and obsolete inventory charges, and lower recovery of costs from prior periods. Since the start of the COVID-19 pandemic, we have experienced an increase in costs of sales, logistics costs as well as direct labor costs as we incentivized our employees. This increase in costs negatively impacts our gross margin, and we expect these higher costs to continue for the duration of the COVID-19 pandemic.

Operating Expenses

Research and development expenses consist of personnel expenses, including salaries, benefits, stock-based compensation and incentive bonuses, and related expenses for our research and development personnel, as well as product development costs such as materials and supplies, consulting services, third-party testing services and equipment and facility expenses related to our research and development activities. All research and development costs are expensed as incurred. We occasionally receive non-recurring engineering ("NRE") funding from certain suppliers and customers for joint development. Under these arrangements, we are reimbursed for certain research and development costs that we incur as part of the joint development efforts with our suppliers and customers. These amounts offset a portion of the related research and development expenses and have the effect of reducing our reported research and development expenses.

Sales and marketing expenses consist primarily of personnel expenses, including salaries, benefits, stock-based compensation and incentive bonuses, and related expenses for our sales and marketing personnel, cost for tradeshows, independent sales representative fees and marketing programs. From time to time, we receive marketing development funding from certain suppliers. Under these arrangements, we are reimbursed for certain marketing costs that we incur as part of the joint promotion of our products and those of our suppliers. These amounts offset a portion of the related expenses and have the effect of reducing our reported sales and marketing expenses. The timing, magnitude and estimated usage of these programs can result in significant variations in reported sales and marketing expenses from period to period. Spending on cooperative marketing, reimbursed by our suppliers, typically increases in connection with new product releases by our suppliers.

General and administrative expenses consist primarily of general corporate costs, including personnel expenses such as salaries, benefits, stock-based compensation and incentive bonuses, and related expenses for our general and administrative personnel, financial reporting, information technology, corporate governance and compliance, outside legal, audit, tax fees, insurance and bad debt reserves on accounts receivable.

Operating expenses for fiscal years 2023, 2022 and 2021 are as follows (dollars in millions):

	Years Ended June 30,			2023 over 2022 Change		2022 over 2021 Change	
	2023	2022	2021	$	%	$	%
Research and development	$ 307.3	$ 272.3	$ 224.4	$ 35.0	12.9 %	$ 47.9	21.3 %
Percentage of total net sales	4.3 %	5.2 %	6.3 %				
Sales and marketing	115.0	90.1	85.7	24.9	27.6 %	4.4	5.1 %
Percentage of total net sales	1.6 %	1.7 %	2.4 %				
General and administrative	99.6	102.4	100.5	(2.8)	(2.7)%	1.9	1.9 %
Percentage of total net sales	1.4 %	2.0 %	2.8 %				
Total operating expenses	$ 521.9	$ 464.8	$ 410.6	57.1	12.3 %	54.2	13.2 %

Fiscal Year 2023 Compared with Fiscal Year 2022

The year-over-year increase in research and development expenses was primarily driven by a $43.5 million increase in compensation expenses due to salary increases, higher headcount and the cost of equity awards as we expanded our workforce and invested in key talent, and a $2.6 million increase in product development costs to support the development of next generation products and technologies, offset by a $11.1 million increase in research and development credits received from certain suppliers and customers.

The year-over-year increase in sales and marketing expenses was primarily driven by a $23.8 million increase in compensation expenses due to salary increases, higher headcount and the cost of equity awards and a $4.6 million increase in travel and trade show expenses to drive new sales opportunities for our products and customer support, offset by a $3.5 million increase in marketing development funds received.

The year-over-year decrease in general and administrative expenses was primarily due to a $5.2 million decrease in professional fees and other, a $2.0 million decrease in litigation settlement expenses relating to a derivative lawsuit, partially offset by an increase of $4.4 million in compensation expenses associated with the cost of equity awards.

Fiscal Year 2022 Compared with Fiscal Year 2021

The year-over-year increase in research and development expenses was primarily due to a $40.8 million increase in personnel expenses due to salary increases and a higher headcount, $3.7 million lower research and development credits from certain suppliers and customers towards our development efforts and a $3.4 million increase in product development costs.

The year-over-year increase in sales and marketing expenses was primarily due to a $9.6 million increase in personnel expenses due to salary increases and a higher headcount, offset by a $5.7 million increase in marketing development funds received and a $0.5 million increase in advertising and other expenses.

The year-over-year increase in general and administrative expenses was primarily due to a $4.1 million increase in legal and litigation settlement expenses and $6.6 million increase in personnel and other expenses due to salary increases and a higher headcount offset by decrease of $1.5 million in professional fees driven by lower expenses incurred to remediate the causes that led to the delay in filing our periodic reports with the SEC and the associated restatement of our previously issued financial statements and a $7.3 million decrease in expense from special performance awards.

Interest and Other Income (Expense), Net

Other income (expense), net consists primarily of interest earned on our investment and cash balances and foreign exchange gains and losses.

Interest expense represents interest expense on our term loans and lines of credit.

Interest and other income (expense), net for fiscal years 2023, 2022 and 2021 are as follows (dollars in millions):

	Years Ended June 30,			2023 over 2022 Change		2022 over 2021 Change	
	2023	2022	2021	$	%	$	%
Other income (expense), net	$ 3.6	$ 8.1	$ (2.8)	$ (4.5)	(55.6)%	$ 10.9	(389.3)%
Interest expense	(10.5)	(6.4)	(2.5)	(4.1)	64.1 %	(3.9)	156.0 %
Interest and other income (expense), net	$ (6.9)	$ 1.7	$ (5.3)	$ (8.6)	(505.9)%	$ 7.0	(132.1)%

Fiscal Year 2023 Compared with Fiscal Year 2022

The change of $8.6 million in interest and other income (expense), net was primarily attributable to a $4.5 million decrease in foreign exchange gain due to unfavorable currency fluctuations primarily related to our borrowing facilities in Taiwan and a $4.1 million increase in interest expense due to increase in interest rates on our outstanding loan balances.

Fiscal Year 2022 Compared with Fiscal Year 2021

The change of $7.0 million in interest and other income (expense), net was primarily attributable to a $10.9 million increase in foreign exchange gain due to favorable currency fluctuations primarily related to our borrowing facilities in Taiwan offset by a $3.9 million increase in interest expense due to increase in loan balances and interest rates.

Provision for Income Taxes

Our income tax provision is based on our taxable income generated in the jurisdictions in which we operate, which primarily include the United States, Taiwan, and the Netherlands. Our effective tax rate differs from the statutory rate primarily due to research and development tax credits, certain non-deductible expenses, tax benefits from foreign derived intangible income and stock-based compensation. A reconciliation of the federal statutory income tax rate to our effective tax rate is set forth in Part II, Item 8, Note 11, “Income Taxes” to the consolidated financial statements in this Annual Report.

Provision for income taxes and effective tax rates for fiscal years 2023, 2022 and 2021 are as follows (dollars in millions):

	Years Ended June 30,			2023 over 2022 Change		2022 over 2021 Change	
	2023	2022	2021	$	%	$	%
Income tax provision	$ 110.7	$ 52.9	$ 6.9	$ 57.8	109.3 %	$ 46.0	666.7 %
Percentage of total net sales	1.6 %	1.0 %	0.2 %				
Effective tax rate	14.7 %	15.7 %	5.8 %				

Fiscal Year 2023 Compared with Fiscal Year 2022

The year-over-year decrease in the effective tax rate is attributable to higher tax deductions from disqualified disposition of stock-based compensation, an increase in the R&D tax credit, and an increase in foreign-derived income. As a result of these favorable elements which were partially offset by certain unfavorable items including an increase in state taxes, the total effective tax rate decreased by 1%, declining from 15.7% in the fiscal year ended June 30, 2022, to 14.7% in the fiscal year ended June 30, 2023.

Fiscal Year 2022 Compared with Fiscal Year 2021

The year-over-year increase in the effective tax rate was primarily due to a significant increase in revenue and income before tax. Total effective tax rate increased by 9.5% from 5.8% for the fiscal year ended June 30, 2021 to 15.7% for the fiscal year ended June 30, 2022. This increase was driven by a 15.4% increase in the overall effective tax rate. R&D credit reduced the effective tax rate by 3.5% and foreign derived income reduced the effective tax rate by 1.4%.

Share of Income (Loss) from Equity Investee, Net of Taxes

Share of income from equity investee, net of taxes represents our share of income (loss) from the Corporate Venture in which we have a 30% ownership.

Share of income (loss) from equity investee, net of taxes for fiscal years 2023, 2022 and 2021 are as follows (dollars in millions):

	Years Ended June 30,			2023 over 2022 Change		2022 over 2021 Change	
	2023	2022	2021	$	%	$	%
Share of income (loss) from equity investee, net of taxes	$ (3.6)	$ 1.2	$ 0.2	$ (4.8)	(400.0)%	$ 1.0	(500.0)%
Percentage of total net sales	— %	— %	— %				

Fiscal Year 2023 Compared with Fiscal Year 2022

The period-over-period decrease of $4.8 million in share of income from equity investee, net of taxes was primarily due to lower net income recognized by the Corporate Venture.

Fiscal Year 2022 Compared with Fiscal Year 2021

The period-over-period increase of $1.0 million in share of income from equity investee, net of taxes was primarily due to more net income recognized by the Corporate Venture.

Liquidity and Capital Resources

We have financed our growth primarily with funds generated from operations, in addition to utilizing borrowing facilities, particularly in relation to an increase in the need for working capital due to longer supply chain manufacturing and delivery times as well as the financing of real property acquisitions and funds received from the exercise of employee stock options. Our cash and cash equivalents were $440.5 million and $267.4 million as of June 30, 2023 and 2022, respectively. Our cash in foreign locations was $192.3 million and $169.5 million as of June 30, 2023 and 2022, respectively.

Amounts held outside of the U.S. are generally utilized to support non-U.S. liquidity needs. Repatriations generally will not be taxable from a U.S. federal tax perspective but may be subject to state income or foreign withholding tax. Where local restrictions prevent an efficient intercompany transfer of funds, our intent is to keep cash balances outside of the U.S. and to meet liquidity needs through operating cash flows, external borrowings, or both. We do not expect restrictions or potential taxes incurred on repatriation of amounts held outside of the U.S. to have a material effect on our overall liquidity, financial condition or results of operations.

We believe that our current cash, cash equivalents, borrowing capacity available from our credit facilities and internally generated cash flows will be sufficient to support our operating businesses and maturing debt and interest payments for the 12 months following the issuance of these consolidated financial statements. On June 17, 2023, the Company through the Taiwan subsidiary, entered into a Notification and Confirmation pursuant to which the Taiwan subsidiary and E.SUN Bank agreed to drawdowns of up to US$30 million for an import o/a financing loan with a tenor of 120 days (the “2023 Import O/A Loan”). We continue to evaluate financing options that may be required to support the growth of our business, if it occurs more rapidly than anticipated.

On January 29, 2021, a duly authorized subcommittee of the Board of Directors approved the Prior Repurchase Program, which permitted us to repurchase up to an aggregate of $200.0 million of our common stock at market prices. The program was effective until the earlier of July 31, 2022 or the date when the maximum amount of common stock is repurchased. We had $150.0 million of remaining availability under the Prior Repurchase Program as of June 30, 2022, and such program subsequently expired on July 31, 2022.

On August 3, 2022, after the expiration of the Prior Share Repurchase Program on July 31, 2022, a duly authorized subcommittee of our Board approved a new share repurchase program to repurchase shares of our common stock for up to $200 million at prevailing prices in the open market. The share repurchase program is effective until January 31, 2024 or until the maximum amount of common stock is repurchased, whichever occurs first. We repurchased 1,553,350 shares of common stock for $150 million during the fiscal year ended June 30, 2023 under this program and had $50.0 million of remaining availability as of June 30, 2023.

Our key cash flow metrics were as follows (dollars in millions):

	Years Ended June 30, 2023	2022	2021	2023 over 2022	2022 over 2021
Net cash provided by (used in) operating activities	$ 663.6	$ (440.8)	$ 123.0	$ 1,104.4	$ (563.8)
Net cash used in investing activities	$ (39.5)	$ (46.3)	$ (58.0)	$ 6.8	$ 11.7
Net cash (used in) provided by financing activities	$ (448.3)	$ 522.9	$ (44.4)	$ (971.2)	$ 567.3
Net increase in cash, cash equivalents and restricted cash	$ 172.4	$ 35.1	$ 21.1	$ 137.3	$ 14.0

Operating Activities

Net cash provided by operating activities increased by $1,104.4 million for fiscal year 2023 as compared to fiscal year 2022. The increase was primarily due to an increase in net cash provided from net working capital of $796.7 million, a $354.8 million increase in net income due to the increase in sales of our products and solutions, a $21.6 million increase in stock-based compensation expense as a result of an increase in the cost of equity awards, a $11.1 million decrease in unrealized gain due to currency fluctuation, and a $6.4 million increase in other non-cash items. These changes are offset by an increase of $86.2 million in deferred income taxes primarily due to increase in capitalized research and development costs.

Net cash provided by operating activities decreased by $563.8 million for fiscal year 2022 as compared to fiscal year 2021. The decrease was primarily due to an increase in net cash required for net working capital of $739.6 million to meet customer demand, support expected business growth and mitigate supply chain risk as a result of the COVID-19 pandemic environment and a $16.2 million decrease in unrealized gain and loss. These decreases are partially offset by increases in provision for excess and obsolete inventories of $8.3 million, depreciation and amortization expense of $4.3 million, stock-based compensation expense of $4.3 million and net income of $173.3 million. Since the beginning of the COVID-19 pandemic and the accompanying supply chain disruptions our management decided to increase our holdings of all components of our inventory (finished goods, work in process and purchased parts and raw materials). This decision reflected our belief that we had opportunities to increase our net sales if we could mitigate the risk of being unable to satisfy customer demand because of these supply chain disruptions, including longer lead times. We expect disruption of the supply chain and longer lead times to continue for the foreseeable future and therefore expect to continue to carry larger amounts of inventory than we would if the supply chain were functioning more normally and predictably.

Investing Activities

Net cash used in investing activities was $39.5 million, $46.3 million and $58.0 million for fiscal years 2023, 2022 and 2021, respectively, as we invested in our Green Computing Park in San Jose to expand our manufacturing capacity and office, expanded our Bade Facility in Taiwan and made purchases of property, plant and equipment.

Financing Activities

Net cash used in financing activities increased by $971.2 million for fiscal year 2023 as compared to fiscal year 2022 primarily due to repurchases of our common stock for $150.0 million reflecting our commitment to return value to our shareholders and repayment of net borrowings of $813.2 million. Net cash used in financing activities increased by $567.3 million for fiscal year 2022 as compared to fiscal year 2021 primarily due to an increase of $446.2 million in proceeds from borrowings net of repayment, offset by a $130.0 million decrease in stock repurchases.

Other Factors Affecting Liquidity and Capital Resources

Refer to Part II, Item 8, Note 7, “Short-term and Long-term Debt” in our notes to consolidated financial statements in this Annual Report on Form 10-K for further information on our outstanding debt.

Capital Expenditure Requirements

We anticipate our capital expenditures in fiscal year 2024 will be in range of $105.0 million to $115.0 million, relating primarily to costs associated with our manufacturing capabilities, including tooling for new products, new information technology investments, and facilities upgrades. During the second quarter of fiscal year 2023, we entered into a letter of understanding to acquire land in Malaysia to expand our manufacturing operations. A definitive agreement to acquire such land, subject to various conditions, was subsequently executed in January 2023. We are obtaining early access to such land prior to the acquisition, and we anticipate additional capital expenditures in fiscal year 2024 of $75.0 million (included in the above range) for such initiative. In addition, we will continue to evaluate new business opportunities and new markets. As a result, our future growth within the existing business or new opportunities and markets may dictate the need for additional facilities and capital expenditures to support that growth. We evaluate capital expenditure projects based on a variety of factors, including expected strategic impacts (such as forecasted impact on revenue growth, productivity, expenses, service levels and customer retention) and our expected return on investment.

We intend to continue to focus our capital expenditures in fiscal year 2024 to support the growth of our operations. Our future capital requirements will depend on many factors including our growth rate, the timing and extent of spending to support development efforts, the expansion of sales and marketing activities, the introduction of new and enhanced software and services offerings and investments in our office facilities and our IT system infrastructure.

Contractual Obligations

Our estimated future obligations as of June 30, 2023, include both current and long term obligations. For our long-term debt as noted in Part II, Item 8, Note 7, “Short-term and Long-term Debt”, we have a current obligation of $170.1 million and a long-term obligation of $120.2 million. Under our operating leases as noted in Part II, Item 8, Note 8, "Leases", we have a current obligation of $7.8 million and a long-term obligation of $12.2 million. As noted in Part II, Item 8, Note 12, "Commitments and Contingencies", we have current obligations related to noncancelable purchase commitments of $2.3 billion.

We have not provided a detailed estimate of the payment timing of unrecognized tax benefits due to the uncertainty of when the related tax settlements will become due. See Part II, Item 8, Note 11, “Income Taxes” to the consolidated financial statements in this Annual Report for a discussion of income taxes.

Recent Accounting Pronouncements

For a description of recent accounting pronouncements, including the expected dates of adoption and estimated effects, if any, on our consolidated financial statements, see Part II, Item 8, Note 1, “Organization and Summary of Significant Accounting Policies” to the consolidated financial statements in this Annual Report.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This section and other parts of this Quarterly Report contain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act") that involve risks and uncertainties. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology including "would," "could," "may," "will," "should," "expect," "intend," "plan," "anticipate," "believe," "estimate," "predict," "potential," "probable of achievement," or "continue," the negative of these terms or other comparable terminology. In evaluating these statements, you should specifically consider various factors, including the risks discussed under "Risk Factors" in Part II, Item 1A of this filing. These factors may cause our actual results to differ materially from those anticipated or implied in the forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. We cannot guarantee future results, levels of activity, performance or achievements.

The following discussion and analysis of the financial condition and results of our operations should be read in conjunction with our condensed consolidated financial statements and related footnotes included elsewhere in this Quarterly Report and included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2023 (the "2023 10-K"), which includes our condensed consolidated financial statements for the fiscal years ended June 30, 2023 and 2022.

Overview

We are a Silicon Valley-based provider of accelerated compute platforms that are comprised of application-optimized high performance and high-efficiency server and storage systems for a variety of markets, including enterprise data centers, cloud computing, artificial intelligence ("AI"), 5G and edge computing. Our Total IT Solutions include complete servers, storage systems, modular blade servers, blades, workstations, full rack scale solutions, networking devices, server sub-systems, server management and security software. We also provide global support and services to help our customers install, upgrade and maintain their computing infrastructure.

We commenced operations in 1993 and have been profitable every year since inception. In order to increase our sales and profits, we believe that we must continue to develop customized and application optimized server and storage solutions and be among the first to market with new features and products. We continue to expand our software, customer service and support offerings, as we increasingly focus on larger enterprise customers. We measure our financial success based on various indicators, including growth in net sales, gross profit margin and operating margin. Among the key non-financial indicators of our success is our ability to rapidly introduce new products and deliver the latest application-optimized server and storage solutions. In this regard, we work closely with microprocessor, GPU and other key component vendors to take advantage of new technologies as they are introduced. Historically, our ability to introduce new products rapidly has allowed us to benefit from technology transitions such as the introduction of new microprocessors, accelerators and storage technologies, and as a result, we monitor the product introduction cycles of Intel Corporation, NVIDIA Corporation, Advanced Micro Devices, Inc., Samsung Electronics Company Limited, Micron Technology, Inc. and others closely and carefully. This also impacts our research and development expenditures as we continue to invest more in our current and future product development efforts.

Financial Highlights

The following is a summary of our financial highlights of the second quarter of fiscal year 2024:

- Net sales increased by 103.2% in the three months ended December 31, 2023 as compared to the three months ended December 31, 2022.
- Gross margin decreased to 15.4% in the three months ended December 31, 2023 from 18.7% in the three months ended December 31, 2022.
- Operating expenses increased by 57.8% as compared to the three months ended December 31, 2022 and were equal to 5.3% and 6.7% of net sales in the three months ended December 31, 2023 and 2022, respectively.
- Effective tax rate increased to 17.3% in the three months ended December 31, 2023 from 14.3% in the three months ended December 31, 2022.

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Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States. The preparation of these condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, net sales and expenses. We evaluate our estimates on an on-going basis based on a) historical experience and b) assumptions we believe to be reasonable under the circumstances and are not readily apparent from other sources, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Because these estimates can vary depending on the situation, actual results may differ from these estimates. Making estimates and judgments about future events is inherently unpredictable and is subject to significant uncertainties, some of which are beyond our control. Should any of these estimates and assumptions change or prove to have been incorrect, it could have a material impact on our results of operations, financial position and statement of cash flows.

There have been no material changes to our critical accounting policies and estimates as compared to those disclosed in our 2023 10-K. For a description of our critical accounting policies and estimates, see Part I, Item 1, Note 1, "Summary of Significant Accounting Policies" in our notes to condensed consolidated financial statements in this Quarterly Report.

Results of Operations

The following table presents certain items of our condensed consolidated statements of operations expressed as a percentage of revenue.

	Three Months Ended December 31,		Six Months Ended December 31,	
	2023	2022	2023	2022
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	84.6 %	81.3 %	84.1 %	81.3 %
Gross profit	15.4 %	18.7 %	15.9 %	18.7 %
Operating expenses:				
Research and development	3.0 %	3.9 %	3.8 %	4.0 %
Sales and marketing	1.3 %	1.6 %	1.5 %	1.6 %
General and administrative	1.0 %	1.2 %	1.2 %	1.2 %
Total operating expenses	5.3 %	6.7 %	6.5 %	6.8 %
Income from operations	10.1 %	12.0 %	9.4 %	11.9 %
Other (expense) income, net	(0.2)%	(0.4)%	0.0 %	0.1 %
Interest expense	(0.2)%	(0.1)%	(0.2)%	(0.2)%
Income before income tax provision	9.7 %	11.5 %	9.2 %	11.8 %
Income tax provision	(1.7)%	(1.6)%	(1.4)%	(1.9)%
Share of income (loss) from equity investee, net of taxes	0.1 %	(0.1)%	0.0 %	(0.1)%
Net income	8.1 %	9.8 %	7.8 %	9.8 %

Net Sales

Net sales consist of sales of our server and storage solutions, including systems and related services and subsystems and accessories. The prices for our server and storage systems range widely depending upon the configuration, as well as the level of integration of key components such as CPUs, GPUs, SSDs and memory. The prices for our subsystems and accessories can also vary widely based on whether a customer is purchasing power supplies, server boards, chassis or other accessories.

As with most electronics-based product life cycles, average selling prices typically are highest at the time of introduction of new products that utilize the latest technology and tend to decrease over time as such products mature in the market and are replaced by next generation products. Additionally, in order to remain competitive throughout all industry cycles, we actively change our selling price per unit in response to changes in costs for key components such as CPUs, GPUs, SSDs and memory.

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The following table presents net sales by product type for the three and six months ended December 31, 2023 and 2022 (dollars in millions):

	Three Months Ended December 31,		Change		Six Months Ended December 31,		Change	
	2023	2022	$	%	2023	2022	$	%
Server and storage systems	$ 3,435.6	$ 1,660.9	$ 1,774.7	106.9 %	$ 5,402.2	$ 3,374.0	$ 2,028.2	60.1 %
Percentage of total net sales	93.7 %	92.1 %			93.4 %	92.3 %		
Subsystems and accessories	$ 229.3	$ 142.3	$ 87.0	61.1 %	$ 382.4	$ 281.3	$ 101.1	35.9 %
Percentage of total net sales	6.3 %	7.9 %			6.6 %	7.7 %		
Total net sales	$ 3,664.9	$ 1,803.2	$ 1,861.7	103.2 %	$ 5,784.6	$ 3,655.3	$ 2,129.3	58.3 %

Server and storage systems constitute an assembly and integration of subsystems and accessories and related services. Subsystems and accessories are comprised of server-boards, chassis and accessories.

Comparison of Three Months Ended December 31, 2023 and 2022

The period-over-period increase in net sales of our server and storage systems was primarily due to the strong demand from customers for GPU, high performance computing ("HPC"), and rack-scale solutions which are generally more complex and of higher value, resulting in an increase of average selling price ("ASP").

The period-over-period increase in net sales for our subsystems and accessories is primarily due to increased demand of accessories sold to data center customers as more accessories and spares were purchased in conjunction with the strong sales of full systems and servers.

Comparison of Six Months Ended December 31, 2023 and 2022

The period-over-period increase in net sales of our server and storage systems was primarily due to the strong demand from customers for GPU, high performance computing ("HPC"), and rack-scale solutions which are generally more complex and of higher value, resulting in an increase of average selling price ("ASP").

The period-over-period increase in net sales for our subsystems and accessories is primarily due to increased demand of accessories sold to data center customers as more accessories and spares were purchased in conjunction with the strong sales of full systems and servers.

The following table presents net sales by geographic region for the three and six months ended December 31, 2023 and 2022 (dollars in millions):

	Three Months Ended December 31,		Change	Change	Six Months Ended December 31,		Change	Change
	2023	2022	$	%	2023	2022	$	%
United States	$ 2,605.6	$ 1,091.4	$ 1,514.2	138.7 %	$ 4,225.1	$ 2,386.9	$ 1,838.2	77.0 %
Percentage of total net sales	71.1 %	60.5 %			73.0 %	65.3 %		
Asia	$ 656.2	$ 330.7	$ 325.5	98.4 %	$ 881.7	$ 600.7	$ 281.0	46.8 %
Percentage of total net sales	17.9 %	18.4 %			15.2 %	16.4 %		
Europe	$ 288.4	$ 312.5	$ (24.1)	(7.7)%	$ 479.3	$ 547.6	$ (68.3)	(12.5)%
Percentage of total net sales	7.9 %	17.3 %			8.3 %	15.0 %		
Others	$ 114.7	$ 68.6	$ 46.1	67.2 %	$ 198.5	$ 120.1	$ 78.4	65.3 %
Percentage of total net sales	3.1 %	3.8 %			3.5 %	3.3 %		
Total net sales	$ 3,664.9	$ 1,803.2			$ 5,784.6	$ 3,655.3		

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Comparison of Three Months Ended December 31, 2023 and 2022

The period-over-period increase in overall net sales is the result of higher ASPs, especially for large enterprise and data center customers. United States sales experienced significant growth due to increased demand from data center customers for GPU, HPC, and rack-scale solutions. The period-over-period increase of net sales in Asia and other regions is mainly due to an increase in net sales in Taiwan, Singapore, Canada and South Africa. The period-over-period decrease in sales in Europe is mainly due to decreases in net sales in Germany, United Kingdom, and France.

Two customers accounted for 25.5% and 10.4% of the net sales for the three months ended December 31, 2023. We had no customers with net sales over 10% for the three months ended December 31, 2022, however, we expect to continue to have customers exceeding 10% of net sales in future quarters.

Comparison of Six Months Ended December 31, 2023 and 2022

The period-over-period increase in overall net sales is the result of higher ASPs, especially for large enterprise and data center customers. United States sales experienced significant growth due to increased demand from data center customers for GPU, HPC, and rack-scale solutions. The period-over-period increase of net sales in Asia and other regions is mainly due to an increase in net sales in Taiwan, Canada and South Africa. The period-over-period decrease in sales in Europe is mainly due to decreases in net sales in Germany, United Kingdom, and France.

One customer accounted for 25.3% of the net sales for the six months ended December 31, 2023. The same customer accounted for 15.8% of net sales for the six months ended December 31, 2022. We expect to continue to have customers exceeding 10% of net sales in future quarters.

Cost of Sales and Gross Margin

Cost of sales primarily consists of the costs to manufacture our products, which includes: the costs of materials, contract manufacturing, shipping, personnel expenses (salaries, benefits, stock-based compensation and incentive bonuses), equipment and facility expenses, warranty costs and inventory reserve charges. The primary factors that impact our cost of sales are the mix of products sold, changes in the cost of components, changes in logistic costs, changes in salary and benefits and overhead costs related to production as well as economies of scale gained from higher production volume in our facilities. Cost of sales as a percentage of net sales may increase or decrease over time if the changes in our costs are not matched by corresponding changes in our ASPs. Our cost of sales as a percentage of net sales is also impacted by the timing and extent to which we add to, and are able to efficiently utilize, our manufacturing capacity. Because we generally do not have long-term fixed supply agreements, our cost of sales is subject to frequent change based on the availability of materials and other market conditions. Certain materials used in the manufacturing of our products are available from a limited number of suppliers and we expect that this trend will continue in the future.

We use several suppliers and contract manufacturers to design and manufacture subsystems in accordance with our specifications, with most final assembly and testing generally performed at our manufacturing facilities in the same region where our products are sold. We work with Ablecom, one of our key contract manufacturers and also a related party to optimize modular designs for our chassis and certain other components. We also outsource to Compuware, also a related party, a portion of our design activities and a significant part of the manufacturing of certain components, particularly power supplies.

Cost of sales and gross margin for the three and six months ended December 31, 2023 and 2022 are as follows (dollars in millions):

	Three Months Ended December 31,		Change		Six Months Ended December 31,		Change	
	2023	2022	$	%	2023	2022	$	%
Cost of sales	$ 3,100.6	$ 1,465.8	$ 1,634.8	111.5 %	$ 4,866.6	$ 2,970.4	$ 1,896.2	63.8 %
Gross profit	$ 564.3	$ 337.4	$ 226.9	67.2 %	$ 918.0	$ 685.0	$ 233.0	34.0 %
Gross margin	15.4 %	18.7 %		(3.3)%	15.9 %	18.7 %		(2.8)%

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Comparison of Three Months Ended December 31, 2023 and 2022

The period-over-period increase in cost of sales was primarily attributed to an increase in sales volume, which resulted in an increase of $1,639.1 million in costs of materials and contract manufacturing expenses, and a $3.1 million increase in overhead costs, partially offset by a $7.4 million decrease in inventory reserve charges.

The period-over-period decrease in the gross margin percentage was primarily due to product and customer mix, partially offset by lower cost of goods sold from manufacturing efficiency and other factors.

Comparison of Six Months Ended December 31, 2023 and 2022

The period-over-period increase in cost of sales was primarily attributed to an increase in sales volume, which resulted in an increase of $1,918.6 million in costs of materials and contract manufacturing expenses, and a $0.9 million increase in overhead costs, partially offset by a $12.7 million decrease in inventory reserve charges and a $10.6 million decrease in freight costs due to an improved supply chain.

The period-over-period decrease in the gross margin percentage was primarily due to product and customer mix, partially offset by lower cost of goods sold from manufacturing efficiency and other factors.

Operating Expenses

Research and development expenses consist of personnel expenses including salaries, benefits, stock-based compensation and incentive bonuses for our research and development personnel, as well as product development costs such as materials and supplies, consulting services, third-party testing services and equipment and facility expenses related to our research and development activities. All research and development costs are expensed as incurred. We occasionally receive non-recurring engineering funding from certain suppliers and customers for joint development. Under these arrangements, we are reimbursed for certain research and development costs that we incur as part of the joint development efforts with our suppliers and customers. These reimbursed costs offset a portion of the related research and development expenses and have the effect of reducing our reported research and development expenses.

Sales and marketing expenses consist primarily of personnel expenses including salaries, benefits, stock-based compensation and incentive bonuses for our sales and marketing personnel, cost for trade shows, independent sales representative fees and marketing programs. From time to time, we receive marketing development funding from certain suppliers. Under these arrangements, we are reimbursed for certain marketing costs that we incur as part of the joint promotion of our products and those of our suppliers. These reimbursed costs offset a portion of the related expenses and have the effect of reducing our reported sales and marketing expenses. The timing, magnitude and estimated usage of these programs can result in significant variations in reported sales and marketing expenses from period to period. Spending on cooperative marketing, reimbursed by our suppliers, typically increases in connection with new product releases by our suppliers.

General and administrative expenses consist primarily of general corporate costs, including personnel expenses such as salaries, benefits, stock-based compensation and incentive bonuses for our general and administrative personnel, financial reporting, information technology, corporate governance and compliance, outside legal, audit, tax fees, insurance and bad debt reserves on accounts receivable.

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Operating expenses for the three and six months ended December 31, 2023 and 2022 are as follows (dollars in millions):

	Three Months Ended December 31,		Change		Six Months Ended December 31,		Change	
	2023	2022	$	%	2023	2022	$	%
Research and development	$ 108.8	$ 70.7	$ 38.1	53.9 %	$ 219.8	$ 145.0	$ 74.8	51.6 %
Percentage of total net sales	3.0 %	3.9 %			3.8 %	4.0 %		
Sales and marketing	$ 46.9	$ 28.4	$ 18.5	65.1 %	$ 84.1	$ 57.8	$ 26.3	45.5 %
Percentage of total net sales	1.3 %	1.6 %			1.5 %	1.6 %		
General and administrative	$ 37.2	$ 23.1	$ 14.1	61.0 %	$ 70.1	$ 46.9	$ 23.2	49.5 %
Percentage of total net sales	1.0 %	1.2 %			1.2 %	1.2 %		
Total operating expenses	$ 192.9	$ 122.2	$ 70.7	57.9 %	$ 374.0	$ 249.7	$ 124.3	49.8 %
Percentage of total net sales	5.3 %	6.7 %			6.5 %	6.8 %		

Comparison of Three Months Ended December 31, 2023 and 2022

Research and development expenses. The period-over-period increase in research and development expenses was primarily driven by a $33.5 million increase in compensation expenses due to salary increases, higher headcount and the cost of equity awards as we expanded our workforce and invested in key talent, a $1.0 million increase in product development costs to support the development of next generation products and technologies and a $3.6 million decrease in research and development credits received from certain suppliers and customers. We believe that research and development expenses will continue to increase as we continue to expand our workforce and invest in key talent to stay at the forefront of development of next generation products and technologies.

Sales and marketing expenses. The period-over-period increase in sales and marketing expenses was primarily driven by a $14.9 million increase in compensation expenses due to salary increases, higher headcount and cost of equity awards, a $5.5 million increase in advertising and other expenses and a $1.9 million decrease in marketing development funds received. We believe that sales and marketing expenses will continue to increase as we continue to expand our workforce and invest in key talent.

General and administrative expenses. The period-over-period increase in general and administrative expenses was primarily due to a $7.8 million increase in compensation expenses associated with higher headcount and the cost of equity awards and a $6.3 million increase in professional and service fees and other expenses. We believe that general and administrative expenses will continue to increase as we continue to expand our workforce and invest in key talent.

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Comparison of Six Months Ended December 31, 2023 and 2022

Research and development expenses. The period-over-period increase in research and development expenses was primarily driven by a $72.4 million increase in compensation expenses due to salary increases, higher headcount and the cost of equity awards as we expanded our workforce and invested in key talent, a $1.9 million increase in product development costs to support the development of next generation products and technologies and a $0.5 million decrease in research and development credits received from certain suppliers and customers. We believe that research and development expenses will continue to increase as we continue to expand our workforce and invest in key talent to stay at the forefront of development of next generation products and technologies.

Sales and marketing expenses. The period-over-period increase in sales and marketing expenses was primarily driven by a $24.0 million increase in compensation expenses due to salary increases, higher headcount and the cost of equity awards, a $3.5 million increase in advertising and other expenses and a $1.2 million decrease in marketing development funds received. We believe that sales and marketing expenses will continue to increase as we continue to expand our workforce and invest in key talent.

General and administrative expenses. The period-over-period increase in general and administrative expenses was primarily due to a $16.4 million increase in compensation expenses associated with higher headcount and the cost of equity awards and a $3.8 million increase in professional and service fees and other expenses. We believe that general and administrative expenses will continue to increase as we continue to expand our workforce and invest in key talent.

Interest Expense and Other Expense, Net

Other (expense) income, net consists primarily of interest earned on our investment and cash balances and foreign exchange gains and losses.

Interest expense represents interest expense on our term loans and lines of credit.

Interest expense and other income (expense), net for the three and six months ended December 31, 2023 and 2022 are as follows (dollars in millions):

	Three Months Ended December 31,		Change		Six Months Ended December 31,		Change	
	2023	2022	$	%	2023	2022	$	%
Other (expense) income, net	$ (7.9)	$ (6.3)	$ (1.6)	25.4 %	$ (1.3)	$ 1.7	$ (3.0)	(176.5)%
Interest expense	(8.1)	(1.8)	(6.3)	350.0 %	(10.0)	(5.7)	(4.3)	75.4 %
Interest expense and other expense, net	$ (16.0)	$ (8.1)	$ (7.9)	97.5 %	$ (11.3)	$ (4.0)	$ (7.3)	182.5 %

Comparison of Three Months Ended December 31, 2023 and 2022

The increase of $7.9 million in interest expense and other expense, net was primarily attributable to an increase in interest expense of $6.3 million due to an increase in outstanding loan balances and a $1.6 million increase in other expense driven by increase in foreign exchange losses of $3.0 million due to weakening of US dollars offset by a $1.4 million increase in interest and other income.

Comparison of Six Months Ended December 31, 2023 and 2022

The increase of $7.3 million in interest expense and other expense, net was primarily attributable to an increase in interest expense of $4.3 million due to an increase in outstanding loan balances and a $3.0 million increase in other expense driven by investment impairment and increase in foreign exchange losses of $6.0 million due to weakening of US dollars offset by an increase of $3.0 million in interest and other income.

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Income Tax Provision

Our income tax provision is based on our taxable income generated in the jurisdictions in which we operate, which primarily include the United States, Taiwan, and the Netherlands. Our effective tax rate differs from the statutory rate primarily due to research and development tax credits, certain non-deductible expenses, tax benefits from foreign derived intangible income and stock-based compensation.

Provision for income taxes and effective tax rates for the three and six months ended December 31, 2023 and 2022 are as follows (dollars in millions):

	Three Months Ended December 31,		Change		Six Months Ended December 31,		Change	
	2023	2022	$	%	2023	2022	$	%
Income tax provision	$ 61.5	$ 29.6	$ 31.9	107.8 %	$ 81.7	$ 68.5	$ 13.2	19.3 %
Percentage of total net sales	1.7 %	1.6 %			1.4 %	1.9 %		
Effective tax rate	17.3 %	14.3 %			15.3 %	15.9 %		

Comparison of Three Months Ended December 31, 2023 and 2022

Our quarterly effective income tax rate is based on the estimated annual income tax rate forecast and discrete tax items recognized in the period. The income tax provision and effective tax rate for the three months ended December 31, 2023 is higher than that for the three months ended December 31, 2022, primarily due to a 2% increase caused by a reduction of foreign derived intangible income which is subject to lower income tax rate than a statutory tax rate of 21%. In addition, there was a 1% increase caused by more non tax deductible stock-based compensation for officers over one million dollars threshold.

Comparison of Six Months Ended December 31, 2023 and 2022

Our quarterly effective income tax rate is based on the estimated annual income tax rate forecast and discrete tax items recognized in the period. The income tax provision for the six months ended December 31, 2023 is higher than that for the six months ended December 31, 2022, primarily due to a significant increase in annual forecasted taxable income. The effective tax rate for the six months ended December 31, 2023 is lower than that for the six months ended December 31, 2022, primarily due to an increase in the tax deduction for stock compensation.

Share of Income (Loss) from Equity Investee, Net of Taxes

Share of income (loss) from equity investee, net of taxes represents our share of income (loss) from the Corporate Venture in which we have 30% ownership.

Share of income (loss) from equity investee, net of taxes for the three and six months ended December 31, 2023 and 2022 are as follows (dollars in millions):

	Three Months Ended December 31,		Change		Six Months Ended December 31,		Change	
	2023	2022	$	%	2023	2022	$	%
Share of income (loss) from equity investee, net of taxes	$ 2.0	$ (1.4)	$ 3.4	n/m (1)	$ 2.0	$ (2.2)	$ 4.2	n/m (1)
Percentage of total net sales	0.1 %	(0.1)%			— %	(0.1)%		

(1) n/m - Not meaningful

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Comparison of Three Months Ended December 31, 2023 and 2022

The period-over-period increase of $3.4 million in share of income from equity investee, net of taxes was primarily due to a net income recognized by the Corporate Venture.

Comparison of Six Months Ended December 31, 2023 and 2022

The period-over-period increase of $4.2 million in share of income from equity investee, net of taxes was primarily due to a net income recognized by the Corporate Venture.

Liquidity and Capital Resources

We have financed our growth primarily with funds generated from operations, in addition to utilizing borrowing facilities and selling our common stock. Our recent drivers of liquidity changes have included an increase in the need for working capital due to higher levels of inventory required by growing revenues and to a lesser extent, longer supply chain lead times on certain key components. Our cash and cash equivalents were $725.7 million and $440.5 million as of December 31, 2023 and June 30, 2023, respectively. Our cash and cash equivalents in foreign locations were $193.8 million and $192.3 million as of December 31, 2023 and June 30, 2023, respectively.

Amounts held outside of the U.S. are generally utilized to support non-U.S. liquidity needs. Repatriations generally will not be taxable from a U.S. federal tax perspective but may be subject to state income or foreign withholding tax. Where local restrictions prevent an efficient intercompany transfer of funds, our intent is to keep cash balances outside of the U.S. and to meet liquidity needs through operating cash flows, external borrowings, or both. We do not expect restrictions or potential taxes incurred on repatriation of amounts held outside of the U.S. to have a material effect on our overall liquidity, financial condition or results of operations.

We believe that our current cash, cash equivalents, borrowing capacity available from our credit facilities and internally generated cash flows will be sufficient to support our operating businesses and maturing debt and interest payments for the 12 months following the filing of this Quarterly Report on Form 10-Q. On December 7, 2023, our Taiwan subsidiary entered into a new Facility Letter with the Taiwan affiliate of HSBC Bank. The New Facility Letter permits borrowings up to a combined aggregate limit of $50 million which may be comprised of borrowings under a New Taiwan Dollar revolving facility with a sub-limit of NTD 300 million and an export/seller facility with a sub-limit of $50 million. We continue to evaluate financing options that may be required to support the growth of our business, if it occurs more rapidly than anticipated.

On August 3, 2022, after the expiration of a prior share repurchase program on July 31, 2022, a duly authorized subcommittee of our Board approved a new share repurchase program to repurchase shares of our common stock for up to $200 million at prevailing prices in the open market. The share repurchase program was effective until January 31, 2024. We repurchased 1,553,350 shares of common stock for $150 million during the fiscal year ended June 30, 2023 under this program and had $50.0 million of remaining availability as of December 31, 2023 and at the time the program expired on January 31, 2024.

On December 5, 2023, the Company completed a public offering of 2,415,805 shares of the Company's common stock at $262.00 per share, with 2,315,105 shares sold by the Company and 100,700 shares sold by selling stockholders.

We received net proceeds of approximately $582.8 million, after deducting underwriting discounts and commissions and offering expenses payable by us. We did not receive any proceeds from the sale of the shares of common stock by the selling stockholders. We intend to utilize the proceeds to support our operations, including working capital needs, manufacturing capacity expansion and increased R&D investments.

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Our key cash flow metrics were as follows (dollars in millions):

	Six Months Ended December 31, 2023	Six Months Ended December 31, 2022	Change
Net cash (used in) provided by operating activities	$ (324.6)	$ 474.7	$ (799.3)
Net cash used in investing activities	$ (22.5)	$ (20.6)	$ (1.9)
Net cash provided by (used in) financing activities	$ 632.2	$ (415.8)	$ 1,048.0
Net increase in cash, cash equivalents and restricted cash	$ 285.2	$ 36.5	$ 248.7

Operating Activities

Net cash provided by operating activities decreased by $799.3 million for the six months ended December 31, 2023 as compared to the six months ended December 31, 2022. The decrease was primarily due to an increase in net cash required for net working capital of $945.1 million to manufacture products in order to meet customer demand and support expected business growth and a $19.0 million decrease in non-cash items. These decreases are partially offset by increase in net income of $92.4 million and stock-based compensation expense of $72.4 million. The key changes in net working capital of $945.1 million includes an increase in inventory of $1,145.2 million, and an increase in accounts receivable of $422.7 million offset by an increase in accounts payable of $570.5 million.

Investing Activities

Net cash used in investing activities increased by $1.9 million for the six months ended December 31, 2023 as compared to the six months ended December 31, 2022 primarily due to an increase in investment of $5.2 million made in the six months ended December 31, 2023 offset by a decrease of $3.3 million in purchases of property, plant and equipment.

Financing Activities

Net cash provided by financing activities increased by $1,048.0 million for the six months ended December 31, 2023 as compared to the six months ended December 31, 2022 primarily due to proceeds from our offering of common stock, net of issuance costs of $582.8 million and an increase of $501.3 million in proceeds from borrowings, net of repayment.

Other Factors Affecting Liquidity and Capital Resources

Refer to Part I, Item 1, Note 6, “Short-term and Long-term Debt,” in our notes to condensed consolidated financial statements in this Quarterly Report on Form 10-Q for further information on our outstanding debt.

Capital Expenditure Requirements

We anticipate our capital expenditures for the remainder of fiscal year 2024 will be in range of $170.0 million to $180.0 million, relating primarily to costs associated with our manufacturing capabilities, including tooling for new products, new information technology investments, and facilities upgrades and expansion. During the second quarter of fiscal year 2023, we entered into a letter of understanding to acquire land in Malaysia to expand our manufacturing operations. A definitive agreement to acquire such land, subject to various conditions, was subsequently executed in January 2023. We obtained early access to such land prior to the acquisition, and we anticipate additional capital expenditures for the remainder of fiscal year 2024 of $28.0 million (included in the above range) for such initiative. In addition, in January 2024, we entered into a purchase and sale agreement (the “Purchase Agreement’) to purchase real estate comprising approximately 19.72 acres of land and 293,906 square feet of buildings and improvements located in proximity to the Company’s headquarters space in San Jose, California “as is” for an aggregate purchase price of $80.0 million, subject to certain adjustments to be determined at closing. Under the Purchase Agreement, we made a deposit of $10.0 million which is non-refundable except in limited circumstances. The transaction, currently expected to close in February 2024, is subject to customary closing conditions. We will also continue to evaluate new business opportunities and new markets. As a result, our future growth within the existing business or new opportunities and markets may dictate the need for additional facilities and capital expenditures to support that growth. We evaluate capital expenditure projects based on a variety of factors, including expected strategic impacts (such as forecasted impact on revenue growth, productivity, expenses, service levels and customer retention) and our expected return on investment.

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We intend to continue to focus our capital expenditures in fiscal year 2024 to support the growth of our operations. Our future capital requirements will depend on many factors including our growth rate, the timing and extent of spending to support development efforts, the expansion of sales and marketing activities, the introduction of new and enhanced software and services offerings and investments in our office facilities and our IT system infrastructure.

Recent Accounting Pronouncements

For a description of recent accounting pronouncements, including the expected dates of adoption and estimated effects, if any, on our condensed consolidated financial statements, see Part I, Item 1, Note 1, "Summary of Significant Accounting Policies," to the condensed consolidated financial statements in this Quarterly Report on Form 10-Q.

A. UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

The following is an illustrative unaudited pro forma consolidated statement of assets and liabilities of Brainhole Technology Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") (the "**Unaudited Pro Forma Financial Information**") prepared in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants and on the basis of the notes set out below, to illustrate the financial position of the Group as if the further acquisition and further disposal of listed securities (the "**Major Transaction**") had been completed on 30 June 2023.

This Unaudited Pro Forma Financial Information has been prepared by the directors of the Company for illustrative purpose only and because of its hypothetical nature, it may not purport to represent the true picture of the financial position of the Group had the Major Transaction been completed on 30 June 2023. The Unaudited Pro Forma Financial Information should be read in conjunction with other financial information included elsewhere in this circular.

Unaudited pro forma statement of assets and liabilities of the Group

	Unaudited 30 June 2023 HK$'000 (Note 1)	Pro forma adjustment (1) HK$'000 (Note 2)	Pro forma adjustment (2) HK$'000 (Note 3)	Pro forma adjustment (3) HK$'000 (Note 4)	Pro forma adjustment (4) HK$'000 (Note 5)	Pro forma adjustment (5) HK$'000 (Note 6)	Pro forma adjustment (6) HK$'000 (Note 7)	Pro forma adjustment (7) HK$'000 (Note 8)	Pro forma adjustment (8) HK$'000 (Note 9)	Pro forma adjustment (9) HK$'000 (Note 10)	Pro forma adjustment (10) HK$'000 (Note 11)	Pro forma adjustment (11) HK$'000 (Note 12)	Pro forma adjustment (12) HK$'000 (Note 13)	Pro forma adjustment (13) HK$'000 (Note 14)	Pro forma adjustment (14) HK$'000 (Note 15)	Pro forma adjustment (15) HK$'000 (Note 16)	Pro forma adjustment (16) HK$'000 (Note 17)	Unaudited Pro forma 30 June 2023 HK$'000
Non-current assets																		
Plant and equipment	48,235																	48,235
Right-of-use assets	5,499																	5,499
Intangible assets	891																	891
Deferred tax assets	15,748																	15,748
Prepayment for plant and equipment	905																	905
	71,278																	71,278
Current assets																		
Inventories	38,915																	38,915
Trade and other receivables	95,708																	95,708
Contract assets	1,531																	1,531
Amounts due from related companies	7,849																	7,849
Financial assets at fair value through profit or loss	54,384	26,499	(13,003)	8,940	25,867	(13,956)	7,975	(6,991)	(4,985)	(14,989)	(7,020)	12,930	4,973	(9,934)	(6,944)	(5,970)	5,987	63,763
Bank balances and cash	44,825	(26,565)	12,970	(8,962)	(25,932)	13,921	(7,995)	6,973	4,972	14,952	7,002	(12,962)	(4,986)	9,909	6,927	5,955	(6,002)	35,002
	243,212																	242,768
Current liabilities																		
Trade and other payables	83,124																	83,124
Bank borrowings	5,537																	5,537
Lease liabilities	2,394																	2,394
Deferred income	387																	387
Loan from an immediate holding company	486																	486
Loans from related companies	52,973																	52,973
Income tax payables	33																	33
	144,934																	144,934
Net current assets	98,278																	97,834
Total assets less current liabilities	169,556																	169,112

	Unaudited 30 June 2023 HK$'000 (Note 1)	Pro forma adjustment (1) HK$'000 (Note 2)	Pro forma adjustment (2) HK$'000 (Note 3)	Pro forma adjustment (3) HK$'000 (Note 4)	Pro forma adjustment (4) HK$'000 (Note 5)	Pro forma adjustment (5) HK$'000 (Note 6)	Pro forma adjustment (6) HK$'000 (Note 7)	Pro forma adjustment (7) HK$'000 (Note 8)	Pro forma adjustment (8) HK$'000 (Note 9)	Pro forma adjustment (9) HK$'000 (Note 10)	Pro forma adjustment (10) HK$'000 (Note 11)	Pro forma adjustment (11) HK$'000 (Note 12)	Pro forma adjustment (12) HK$'000 (Note 13)	Pro forma adjustment (13) HK$'000 (Note 14)	Pro forma adjustment (14) HK$'000 (Note 15)	Pro forma adjustment (15) HK$'000 (Note 16)	Pro forma adjustment (16) HK$'000 (Note 17)	Unaudited Pro forma 30 June 2023 HK$'000
Non-current liabilities																		
Lease liabilities	3,474																	3,474
Deferred tax liability	260																	260
Deferred income	1,862																	1,862
Loan from ultimate controlling party	80,824																	80,824
	86,420																	86,420
	83,136																	82,692
Capital and reserves																		
Share capital	8,000																	8,000
Reserves	75,136	(66)	(33)	(22)	(65)	(35)	(20)	(18)	(13)	(37)	(18)	(32)	(13)	(25)	(17)	(15)	(15)	74,692
	83,136																	82,692

Notes to the unaudited pro forma statement of assets and liabilities of the Group:

(1) The unaudited consolidated statement of financial position of the Company as at 30 June 2023 has been extracted from the interim report of the Company dated 30 August 2023.

(2) The Group previously acquired NVIDIA Corporation (Nasdaq stock code: NVDA) shares ("**NVIDIA Shares**") through the open market with details below. Total consideration of NVIDIA Shares was HK$26,565,000, being assumed to the fair value of NVIDIA Shares as at 30 June 2023.

Trade date	**Number of shares acquired**	**Average purchase price per share**	**Average purchase price per share**	**Consideration (excluding stamp duty and related expenses)**	**Stamp duty and related expenses**	**Total consideration**
		US$	*HK$*	*HK$'000*	*HK$'000*	*HK$'000*
4 August 2023	1,730	446	3,470	6,003	15	6,018
9 August 2023	1,780	433	3,365	5,989	15	6,004
15 August 2023	1,140	447	3,478	3,965	10	3,975
16 August 2023	2,020	443	3,443	6,954	17	6,971
9 January 2024	890	518	4,032	3,588	9	3,597
				26,499	**66**	**26,565**

(3) The Group previously disposed NVIDIA Shares through the open market with details below. Total consideration of NVIDIA Shares was HK$12,970,000, being assumed to the fair value of NVIDIA Shares as at 30 June 2023.

Trade date	**Number of shares disposed**	**Average selling price per share**	**Average selling price per share**	**Consideration (excluding stamp duty and related expenses)**	**Stamp duty and related expenses**	**Total consideration**
		US$	*HK$*	*HK$'000*	*HK$'000*	*HK$'000*
4 December 2023	1,970	458	3,561	7,015	18	6,997
19 December 2023	1,560	493	3,839	5,988	15	5,973
				13,003	**33**	**12,970**

(4) The Group further acquired NVIDIA Shares through the open market with details below. Total consideration of NVIDIA Shares was HK$8,962,000, being assumed to the fair value of NVIDIA Shares as at 30 June 2023.

Trade date	**Number of shares acquired**	**Average purchase price per share**	**Average purchase price per share**	**Consideration (excluding stamp duty and related expenses)**	**Stamp duty and related expenses**	**Total consideration**
		US$	*HK$*	*HK$'000*	*HK$'000*	*HK$'000*
24 January 2024	1,910	602	4,680	8,940	22	8,962
				8,940	**22**	**8,962**

(5) The Group previously acquired Super Micro Computer Inc. (Nasdaq stock code: SMCI) shares ("**SMCI Shares**") through the open market with details below. Total consideration of SMCI Shares was HK$25,932,000, being assumed to the fair value of SMCI Shares as at 30 June 2023.

Trade date	**Number of shares acquired**	**Average purchase price per share**	**Average purchase price per share**	**Consideration (excluding stamp duty and related expenses)**	**Stamp duty and related expenses**	**Total consideration**
		US$	*HK$*	*HK$'000*	*HK$'000*	*HK$'000*
15 August 2023	5,230	269	2,094	10,950	27	10,977
24 August 2023	2,770	276	2,146	5,945	15	5,960
23 January 2024	1,460	439	3,415	4,986	13	4,999
24 January 2024	1,090	470	3,657	3,986	10	3,996
				25,867	**65**	**25,932**

(6) The Group previously disposed SMCI Shares through the open market with details below. Total consideration of SMCI Shares was HK$13,921,000, being assumed to the fair value of SMCI Shares as at 30 June 2023.

Trade date	**Number of shares disposed**	**Average selling price per share**	**Average selling price per share**	**Consideration (excluding stamp duty and related expenses)**	**Stamp duty and related expenses**	**Total consideration**
		US$	*HK$*	*HK$'000*	*HK$'000*	*HK$'000*
18 September 2023	3,160	243	1,894	5,985	15	5,970
14 December 2023	1,340	287	2,233	2,992	7	2,984
19 December 2023	810	316	2,460	1,993	5	1,988
27 December 2023	1,310	293	2,280	2,986	7	2,979
				13,956	**35**	**13,921**

(7) The Group further acquired SMCI Shares through the open market with details below. Total consideration of SMCI Shares was HK$7,995,000, being assumed to the fair value of SMCI Shares as at 30 June 2023.

Trade date	**Number of shares acquired**	**Average purchase price per share**	**Average purchase price per share**	**Consideration (excluding stamp duty and related expenses)**	**Stamp duty and related expenses**	**Total consideration**
		US$	*HK$*	*HK$'000*	*HK$'000*	*HK$'000*
30 January 2024	1,960	523	4,069	7,975	20	7,995
				7,975	**20**	**7,995**

(8) The Group further disposed NVIDIA Shares through the open market with details below. Total consideration of NVIDIA Shares was HK$6,973,000, being assumed to the fair value of NVIDIA Shares as at 30 June 2023.

Trade date	**Number of shares disposed**	**Average selling price per share**	**Average selling price per share**	**Consideration (excluding stamp duty and related expenses)**	**Stamp duty and related expenses**	**Total consideration**
		US$	*HK$*	*HK$'000*	*HK$'000*	*HK$'000*
30 January 2024	1,430	628	4,889	6,991	18	6,973
				6,991	**18**	**6,973**

(9) The Group further disposed NVIDIA Shares through the open market with details below. Total consideration of NVIDIA Shares was HK$4,972,000, being assumed to the fair value of NVIDIA Shares as at 30 June 2023.

Trade date	Number of shares disposed	Average selling price per share	Average selling price per share	Consideration (excluding stamp duty and related expenses)	Stamp duty and related expenses	Total consideration
		US$	*HK$*	*HK$'000*	*HK$'000*	*HK$'000*
15 February 2024	880	728	5,665	4,985	13	4,972
				4,985	**13**	**4,972**

(10) The Group further disposed NVIDIA Shares through the open market with details below. Total consideration of NVIDIA Shares was HK$14,952,000, being assumed to the fair value of NVIDIA Shares as at 30 June 2023.

Trade date	Number of shares disposed	Average selling price per share	Average selling price per share	Consideration (excluding stamp duty and related expenses)	Stamp duty and related expenses	Total consideration
		US$	*HK$*	*HK$'000*	*HK$'000*	*HK$'000*
16 February 2024	2,650	727	5,656	14,989	37	14,952
				14,989	**37**	**14,952**

(11) The Group further disposed SMCI Shares through the open market with details below. Total consideration of SMCI Shares was HK$7,002,000, being assumed to the fair value of SMCI Shares as at 30 June 2023.

Trade date	Number of shares disposed	Average selling price per share	Average selling price per share	Consideration (excluding stamp duty and related expenses)	Stamp duty and related expenses	Total consideration
		US$	*HK$*	*HK$'000*	*HK$'000*	*HK$'000*
16 February 2024	1,020	885	6,882	7,020	18	7,002
				7,020	**18**	**7,002**

(12) The Group further acquired SMCI Shares through the open market with details below. Total consideration of SMCI Shares was HK$12,962,000, being assumed to the fair value of SMCI Shares as at 30 June 2023.

Trade date	**Number of shares acquired**	**Average purchase price per share**	**Average purchase price per share**	**Consideration (excluding stamp duty and related expenses)**	**Stamp duty and related expenses**	**Total consideration**
		US$	*HK$*	*HK$'000*	*HK$'000*	*HK$'000*
22 February 2024	1,920	866	6,735	12,930	32	12,962
				12,930	**32**	**12,962**

(13) The Group further acquired NVIDIA Shares through the open market with details below. Total consideration of NVIDIA Shares was HK$4,986,000, being assumed to the fair value of NVIDIA Shares as at 30 June 2023.

Trade date	**Number of shares acquired**	**Average purchase price per share**	**Average purchase price per share**	**Consideration (excluding stamp duty and related expenses)**	**Stamp duty and related expenses**	**Total consideration**
		US$	*HK$*	*HK$'000*	*HK$'000*	*HK$'000*
22 February 2024	840	761	5,921	4,973	13	4,986
				4,973	**13**	**4,986**

(14) The Group further disposed SMCI Shares through the open market with details below. Total consideration of SMCI Shares was HK$9,909,000, being assumed to the fair value of SMCI Shares as at 30 June 2023.

Trade date	**Number of shares disposed**	**Average selling price per share**	**Average selling price per share**	**Consideration (excluding stamp duty and related expenses)**	**Stamp duty and related expenses**	**Total consideration**
		US$	*HK$*	*HK$'000*	*HK$'000*	*HK$'000*
29 February 2024	1,490	857	6,667	9,934	25	9,909
				9,934	**25**	**9,909**

(15) The Group further disposed SMCI Shares through the open market with details below. Total consideration of SMCI Shares was HK$6,927,000, being assumed to the fair value of SMCI Shares as at 30 June 2023.

Trade date	Number of shares disposed	Average selling price per share	Average selling price per share	Consideration (excluding stamp duty and related expenses)	Stamp duty and related expenses	Total consideration
		US$	*HK$*	*HK$'000*	*HK$'000*	*HK$'000*
6 March 2024	780	1,144	8,903	6,944	17	6,927
				6,944	**17**	**6,927**

(16) The Group further disposed NVIDIA Shares through the open market with details below. Total consideration of NVIDIA Shares was HK$5,955,000, being assumed to the fair value of NVIDIA Shares as at 30 June 2023.

Trade date	Number of shares disposed	Average selling price per share	Average selling price per share	Consideration (excluding stamp duty and related expenses)	Stamp duty and related expenses	Total consideration
		US$	*HK$*	*HK$'000*	*HK$'000*	*HK$'000*
6 March 2024	870	882	6,862	5,970	15	5,955
				5,970	**15**	**5,955**

(17) The Group further acquired SMCI Shares through the open market with details below. Total consideration of SMCI Shares was HK$6,002,000, being assumed to the fair value of SMCI Shares as at 30 June 2023.

Trade date	Number of shares acquired	Average purchase price per share	Average purchase price per share	Consideration (excluding stamp duty and related expenses)	Stamp duty and related expenses	Total consideration
		US$	*HK$*	*HK$'000*	*HK$'000*	*HK$'000*
1 April 2024	740	1,040	8,091	5,987	15	6,002
				5,987	**15**	**6,002**

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of the independent reporting accountants' assurance report received from CWK CPA Limited, Certified Public Accountants, Hong Kong, the reporting accountants of Company, in respect of the unaudited pro forma financial information prepared for the purpose of incorporation in this circular.

CWK
中主環球

The Directors
Suites 1801–03
18/F, One Taikoo Place
979 King's Road
Quarry Bay
Hong Kong

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Brainhole Technology Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of assets and liabilities of the Group as at 30 June 2023, and related notes as set out on pages VI-1 to VI-9 of Appendix VI of the circular dated 24 May 2024 (the "**Circular**") (the "**Unaudited Pro Forma Financial Information**") issued by the Company in connection with the further acquisition and further disposal of listed securities (the "**Major Transaction**"). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described on VI-1 to VI-9 of Appendix VI of the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Major Transaction on the Group's financial position as at 30 June 2023 as if the transaction had taken place at 30 June 2023. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial statements for the period ended 30 June 2023, on which an unaudited interim report has been published.

Directors' responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline ("**AG**") 7 Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

Our independence and quality management

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. Our firm applies Hong Kong Standard on Quality Management 1 Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Auditor's responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of the Unaudited Pro Forma Financial Information included in the Circular is solely to illustrate the impact of Major Transaction on unadjusted financial information of the Group as if the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and

- the Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

CWK CPA Limited
Certified Public Accountants
Hong Kong,

24 May 2024

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors' and chief executives' interests and short positions in shares of the Company

As at the Latest Practicable Date, the Directors and chief executives of the Company and their associates had the following interests in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules (the "**Model Code**") to be notified to the Company and the Stock Exchange.

Long positions in the shares and underlying shares of the Company

Name of Director	Nature of interest	Number of ordinary shares held	Approximate percentage of interest in the Company as at Latest Practicable Date
Mr. Zhang Liang Johnson	Interest of controlled Corporation *(Note)*	599,658,000 Shares (L)	74.96%

(L) denotes long position

Note: Mr. Zhang Liang Johnson, an executive Director, was interested in 599,658,000 Shares, representing approximately 74.96% of the Company's issued share capital, through Yoho Bravo Limited which is wholly-owned by him.

(b) Substantial Shareholders' interests and short positions

Name of Shareholder	Nature of interest	Number of ordinary shares held	Approximate percentage of interest in our Company as at the Latest Practicable Date
Yoho Bravo Limited *(Note)*	Beneficial owner	599,658,000 (L)	74.96%

(L) denotes long position

Note: Mr. Zhang Liang Johnson, an executive Director, was interested in 599,658,000 Shares, representing approximately 74.96% of the Company's issued share capital, through Yoho Bravo Limited which is wholly-owned by him.

Save as disclosed herein, at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in any Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO); or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors is a director or employee of a company which had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors entered, or proposed to enter, into any service contract with any member of the Group, excluding contracts expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation).

4. DIRECTORS' INTERESTS IN ASSETS AND CONTRACTS OF THE GROUP

As at the Latest Practicable Date, so far as the Directors are aware, none of the Directors had any interest, either directly or indirectly, in any assets which has since 31 December 2023 (being the date to which the latest published audited consolidated financial statements of the Company were made up) been acquired or disposed of by or leased to, any member of the Group or are proposed to be acquired or disposed of by, or leased to, any member of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date and which is significant in relation to the businesses of any member of the Group.

5. MATERIAL CONTRACTS

The Group has entered into the following contract (not being contract entered into in the ordinary course of business) within the two years immediately preceding the Latest Practicable Date which is or may be material:

(a) on 31 July 2023 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further disposal of 131,400 American depository shares of XPeng Inc. through the open market at the aggregate consideration of approximately US$2.6 million (equivalent to approximately HK$20.6 million) (for which no written contract was entered into between the parties thereto);

(b) on 20 December 2023 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 17,650 Class A common stocks of Affirm Holdings, Inc. through the open market at the aggregate consideration of approximately US$0.9 million (equivalent to approximately HK$7.0 million) (for which no written contract was entered into between the parties thereto);

(c) on 24 January 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the Further Acquisition of NVIDIA Shares through the open market at the aggregate consideration of approximately US$1.1 million (equivalent to approximately HK$8.9 million) (for which no written contract was entered into between the parties thereto);

(d) on 30 January 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the Further Acquisition of Super Micro Shares through the open market at the aggregate consideration of approximately US$1.0 million (equivalent to approximately HK$8.0 million) (for which no written contract was entered into between the parties thereto);

(e) on 30 January 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the Further Disposal of NVIDIA Shares through the open market at the aggregate consideration of approximately US$0.9 million (equivalent to approximately HK$7.0 million) (for which no written contract was entered into between the parties thereto);

(f) on 6 February 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further disposal of 3,220 class A common stocks of Coinbase Global, Inc. through the open market at the aggregate consideration of approximately US$0.4 million (equivalent to approximately HK$3.0 million) (for which no written contract was entered into between the parties thereto);

(g) on 15 February 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 3,740 class A common stocks of Coinbase Global, Inc. through the open market at the aggregate consideration of approximately US$0.6 million (equivalent to approximately HK$5.0 million) (for which no written contract was entered into between the parties thereto);

(h) on 15 February 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the February 15 Further Disposal of NVIDIA Shares through the open market at the aggregate consideration of approximately US$0.6 million (equivalent to approximately HK$5.0 million) (for which no written contract was entered into between the parties thereto);

(i) on 16 February 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the February 16 Further Disposal of NVIDIA Shares through the open market at the aggregate consideration of approximately US$1.9 million (equivalent to approximately HK$15.0 million) (for which no written contract was entered into between the parties thereto);

(j) on 16 February 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 3,470 class A common stocks of Coinbase Global, Inc. through the open market at the aggregate consideration of approximately US$0.6 million (equivalent to approximately HK$5.0 million) (for which no written contract was entered into between the parties thereto);

(k) on 16 February 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further disposal of 1,020 Super Micro Shares through the open market at the aggregate consideration of approximately US$1.0 million (equivalent to approximately HK$7.0 million) (for which no written contract was entered into between the parties thereto);

(l) on 20 February 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the disposal of 16,370 class A common stocks of Coinbase Global, Inc. through the open market at the aggregate consideration of approximately US$2.9 million (equivalent to approximately HK$22.3 million) (for which no written contract was entered into between the parties thereto);

(m) on 20 February 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the acquisition of 213,000 domestic shares of Seres Group Co., Ltd. through the open market at the aggregate consideration of approximately RMB15.5 million (equivalent to approximately HK$17.1 million) (for which no written contract was entered into between the parties thereto);

(n) on 21 February 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 51,500 domestic shares of Seres Group Co., Ltd. through the open market at the aggregate consideration of approximately RMB3.7 million (equivalent to approximately HK$4.0 million) (for which no written contract was entered into between the parties thereto);

(o) on 22 February 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the February Further Acquisition of Super Micro Shares through the open market at the aggregate consideration of approximately US$1.7 million (equivalent to approximately HK$12.9 million) (for which no written contract was entered into between the parties thereto);

(p) on 27 February 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further disposal of 33,350 class A common stocks of Affirm Holdings, Inc. through the open market at the aggregate consideration of approximately US$1.3 million (equivalent to approximately HK$9.9 million) (for which no written contract was entered into between the parties thereto);

(q) on 28 February 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 93,800 domestic shares of Seres Group Co., Ltd. through the open market at the aggregate consideration of approximately RMB8.3 million (equivalent to approximately HK$9.1 million) (for which no written contract was entered into between the parties thereto);

(r) on 29 February 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the February Disposal of Super Micro Shares through the open market at the aggregate consideration of approximately US$1.3 million (equivalent to approximately HK$9.9 million) (for which no written contract was entered into between the parties thereto);

(s) on 1 March 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 101,200 domestic shares of Seres Group Co., Ltd. through the open market at the aggregate consideration of approximately RMB9.2 million (equivalent to approximately HK$10.1 million) (for which no written contract was entered into between the parties thereto);

(t) on 6 March 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the March Further Disposal of Super Micro Shares through the open market at the aggregate consideration of approximately US$0.9 million (equivalent to approximately HK$6.9 million) (for which no written contract was entered into between the parties thereto);

(u) on 7 March 2024, the Company executed a trade order with BOCI Securities Limited relating to the acquisition of 305,000 domestic shares of IEIT SYSTEMS Co., Ltd. through the open market at the aggregate consideration of approximately RMB12.9 million (equivalent to approximately HK$14.2 million) (for which no written contract was entered into between the parties thereto);

(v) on 21 March 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the acquisition of 23,200 common stocks of Micron Technology, Inc. through the open market at the aggregate consideration of approximately US$2.6 million (equivalent to approximately HK$19.8 million) (for which no written contract was entered into between the parties thereto);

(w) on 21 March 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the disposal of 181,000 domestic shares of Seres Group Co., Ltd. through the open market at the aggregate consideration of approximately RMB18.4 million (equivalent to approximately HK$20.3 million) (for which no written contract was entered into between the parties thereto);

(x) on 22 March 2024, the Company executed a trade order with BOCI Securities Limited relating to the acquisition of 650,000 ordinary shares of Pop Mart International Group Limited through the open market at the aggregate consideration of approximately HK$18.0 million (for which no written contract was entered into between the parties thereto);

(y) on 22 March 2024, the Company executed a trade order with BOCI Securities Limited relating to the further disposal of 94,000 domestic shares of Seres Group Co., Ltd. through the open market at the aggregate consideration of approximately RMB9.2 million (equivalent to approximately HK$10.2 million) (for which no written contract was entered into between the parties thereto);

(z) on 1 April 2024, the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 10,400 common stocks of Micron Technology, Inc. through the open market at the aggregate consideration of approximately US$1.3 million (equivalent to approximately HK$10.0 million) (for which no written contract was entered into between the parties thereto);

(aa) on 1 April 2024, the Company executed a trade order with BOCI Securities Limited relating to the April Further Acquisition of Super Micro Shares through the open market at the aggregate consideration of approximately US$0.8 million (equivalent to approximately HK$6.0 million) (for which no written contract was entered into between the parties thereto);

(bb) on 2 April 2024, the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 166,000 ordinary shares of Pop Mart International Group Limited through the open market at the aggregate consideration of approximately HK$5.0 million (for which no written contract was entered into between the parties thereto);

(cc) on 23 April 2024, the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 145,000 ordinary shares of Pop Mart International Group Limited through the open market at the aggregate consideration of approximately HK$5.0 million (for which no written contract was entered into between the parties thereto);

(dd) on 30 April 2024, the Company executed a trade order with BOCI Securities Limited relating to the further disposal of 66,100 domestic shares of Seres Group Co., Ltd. through the open market at the aggregate consideration of approximately RMB6.5 million (equivalent to approximately HK$7.1 million) (for which no written contract was entered into between the parties thereto); and

(ee) on 7 May 2024, the Company executed a trade order with BOCI Securities Limited relating to the further disposal of 82,900 domestic shares of Seres Group Co., Ltd. through the open market at the aggregate consideration of approximately RMB7.3 million (equivalent to approximately HK$8.0 million) (for which no written contract was entered into between the parties thereto).

6. LITIGATION

As at the Latest Practicable Date, so far as the Directors are aware, the Group is not engaged in any material litigation or arbitration proceedings nor is any material litigation or claim pending or threatened against it.

7. DIRECTORS' INTEREST IN COMPETING BUSINESS

As at the Latest Practicable Date, so far as the Directors are aware of, none of the Directors nor their respective close associates had any interest in any business which competes or is likely to compete, or is in conflict or is likely to be in conflict, either directly or indirectly, with the business of the Group.

8. EXPERT AND CONSENT

The following is the qualification of the expert who has given opinion or advice contained in this circular:

Name	Qualification
CWK CPA Limited	Certified Public Accountants under Professional Accountant Ordinance (Cap. 50 of Laws of Hong Kong) and Registered Public Interest Entity Auditor under Financial Reporting Council Ordinance (Cap. 588 of Laws of Hong Kong)

CWK CPA Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its report or letter (as the case may be) and references to its name in the form and context in which they are included.

As at the Latest Practicable Date, CWK CPA Limited had no shareholding in any member of the Group, nor did it have any right (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any securities in any member of the Group.

As at the Latest Practicable Date, CWK CPA Limited did not have any direct or indirect interest in any assets which have been, since 31 December 2023 (being the date to which the latest published audited financial statements of the Group were made up), acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to any member of the Group.

The letter or report (as the case may be) from the above expert is given as at the date of this circular for incorporation therein.

9. GENERAL

(a) The registered address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, the Cayman Islands.

(b) The principal place of business of the Company in Hong Kong is at Suites 1801–03, 18/F, One Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong.

(c) The Hong Kong share registrar of the Company is Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.

(d) The company secretary of the Company is Ms. Wong Tik. Ms. Wong is a certified public accountant and an associate member of the Hong Kong Institute of Certified Public Accountants.

(e) In the event of any inconsistency, the English version of this circular shall prevail over the Chinese version.

10. DOCUMENTS ON DISPLAY

Copies of memorandums giving full particulars of the transaction contemplated under each of the Further Acquisition of NVIDIA Shares, the Further Acquisition of Super Micro Shares, the Further Disposal of NVIDIA Shares, the February 15 Further Disposal of NVIDIA Shares, the February 16 Further Disposal of NVIDIA Shares, the February Further Acquisition of Super Micro Shares, the February Disposal of Super Micro Shares, the March Further Disposal of Super Micro Shares and the April Further Acquisition of Super Micro Shares (material contracts (c), (d), (e), (h), (i), (o), (r), (t) and (aa) as mentioned above) will be published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (http://www.brainholetechnology.com) for a period of 14 days from the date of this circular.