



NVIDIA.

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Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

RE: File Reference No. 1102-001

Dear FASB:

NVIDIA Corporation wishes to provide its views to the FASB regarding the "Invitation to Comment – Accounting for Stock-Based Compensation" dated November 18, 2002. NVIDIA Corporation (NASDAQ: NVDA) is a visual computing technology and market leader headquartered in Santa Clara, California that employs over 1,500 people. Our graphics and communications processors are incorporated into a wide variety of computing platforms, including consumer digital-media PCs, enterprise PCs, professional workstations, digital content creation systems, notebook PCs, military navigation systems and video games consoles.

We believe that options do have value. This is evidenced by our recent Stock Option Exchange Offer (the Offer), which closed on October 24, 2002, during which we offered employees with certain "out-of-the-money" options the right to exchange those options for common stock of NVIDIA. The fair value of the options exchanged for common stock was calculated using the Black-Scholes Model. This was a voluntary offer – meaning that our employees did not have to participate in the Offer – yet the result was that approximately 91% of eligible employees (holding approximately 91% of the eligible options) decided to exchange their options for an amount of common stock equal to the Black-Scholes Model value of each option. Such a response to a voluntary offer lends some credibility to the argument that the fair value of options as calculated by the Black-Scholes Model has some validity.

However, we believe that significant changes need to be adopted with respect to the application of the Black-Scholes Model to the calculation of employee option values. As we will discuss in greater detail in this letter, we believe that the volatility factor used in the Black-Scholes Model needs to be standardized and that the result of a Black-Scholes Model calculation should be discounted to reflect the fact that employee options are not freely-tradable.

We have historically provided options to our employees as compensation for services that they provide to NVIDIA. Our employees are our most valuable asset. We constantly strive to attract, retain and motivate the most talented individuals available in the marketplace and options represent a meaningful portion of the overall compensation that we are able provide to our employees.

While the Invitation to Comment solicits comments on many aspects of the stock-based compensation issue, and goes into great detail describing the IASB's recent ED2 on Share-Based Payment, we will focus our comments on two main topics – Measurement and Method of Transition.

Measurement

There are diverse views within our organization regarding the effectiveness of existing option valuation models such as the Black-Scholes Model. However, in spite of the deficiencies that exist in the Black-Scholes Model, we believe that the FASB should mandate its use for the measurement of stock-based compensation using the fair value method. The accounting community has been working with the Black-Scholes Model since the mid-1990's and has become very proficient at applying it. Many publicly-traded companies, stock transfer agents, public accounting firms and other professional firms have developed and refined reliable software programs that utilize the Black-Scholes Model to calculate option values. In the current business environment the accounting departments and public accounting firms are busy enough trying to keep up with the new regulations imposed by the Sarbanes-Oxley Act and the increasing volume of GAAP coming from an ever-expanding number of sources. It does not seem efficient to require us to learn yet another option-pricing model that would undoubtedly also be subject to criticism about its own deficiencies as a valuation device. In addition, allowing the use of multiple models to value options would lead to even less comparability than exists under the current rules. We believe it would be more productive to abandon efforts to change option-pricing models or introduce new ones and focus our efforts on making modifications to the existing model.

The Black-Scholes Model requires the use of six factors: the exercise price, the expected life of the option, the current price of the underlying stock at the grant date, the expected volatility of the underlying stock, expected dividends on the underlying stock, and the risk-free interest rate. Variations in those factors result in significantly different option valuations, particularly with respect to expected volatility and expected option lives. We believe that the FASB should minimize the allowable ranges of those factors in order to enhance comparability between companies' financial statements, as follows:

Volatility. Different sectors of the marketplace have experienced cycles of "boom and bust" over the last century. However, as evidenced by the recent events in the technology sector, such cycles rarely last for long. As such, we believe that an historical overall market volatility rate, such as the historical volatility of the S&P 500 or the Dow Jones Industrial Average, should be used by all companies in measuring stock-based compensation using the Black-Scholes Model. Currently, most public companies have used their own stock's historical volatility rates in calculating the amount of pro forma option expense shown in their financial statement footnotes. However, the wild stock price volatilities that were seen in the 1990's resulted in inflated and misleading pro forma option expense in those years and will soon be followed by deflated and, again, misleading option expense figures in the years to come as thousands upon thousands of options expire as worthless. If all public companies used an overall market volatility rate, the

resulting option values and therefore the corresponding stock-based compensation expense amounts recognized would be not only more comparable but would be a more accurate measure of the value of the options.

Expected life. We believe that this factor should be fixed at the vesting period of the option grant. It is over that period that the option expense is attributed to stock-based compensation in the income statement under SFAS 123. In addition, while there are certainly some exceptions, most option plans require that employee options expire three months after termination of employment and therefore any value realized by an employee option holder is likely to occur within the vesting period. Again, by standardizing this factor, the resultant option value calculation will be comparable between companies.

Further, with respect to calculating the value of employee option expense, we believe that even after taking into consideration our suggestions above, an additional modification needs to be introduced to the final outcome of the Black-Scholes Model to reflect the fact that employee options are not freely-tradable and are in fact subject to substantial restrictions. The Black-Scholes Model was developed to value freely-tradable options, so it is common sense that some discount should be applied to its result in arriving at the value of an employee option. Consistent with our previously-stated beliefs related to the other option-pricing model factors, we believe that that discount factor applied to the Black-Scholes Model result should be uniform among all companies to enhance comparability.

Method of Transition

Statement of Financial Accounting Standard No. 148 (SFAS 148) "Accounting for Stock-Based Compensation – Transition and Disclosure", issued on December 31, 2002, allows for three transition methods for companies adopting fair value accounting for options. While we understand that the FASB's needed to quickly issue rules clarifying the adoption of fair value accounting by "volunteer" companies, we believe that when the final FASB guidance on fair value accounting for options is issued it should contain only one method of transition. Why do we believe this? Because, for example, if three companies - all with the exact same input factors for the Black-Scholes Model - each chose a different transition method their results would be radically different, as follows:

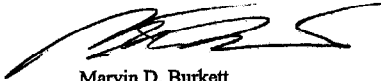
- i) A company adopting the Prospective Method in SFAS 148 would show very little option expense in the year of adoption, followed by a ramp-up of option expense over the following years.
- ii) A company adopting the Modified Prospective Method in SFAS 148 would show the full amount of option expense in the year of adoption, but have no such amounts to compare to in prior periods; and
- iii) A company adopting the Retroactive Restatement Method in SFAS 148 would show the full amount of option expense in the year of adoption and would have recorded amounts to compare to retroactively in prior periods.

NVIDIA believes that to allow such a variety of transition methods would result in financial reporting that is even less useful to the reader of financial statements than the current footnote disclosures. Some may argue that because SFAS 148 requires additional disclosures about which of the above transition methods was adopted by a particular company, the lack of comparability inherent in allowing multiple transition methods will be mitigated. However, we feel strongly that most users of financial statements place more emphasis on the income statement than the footnotes (which, essentially is a key argument that is being used by proponents of expensing stock options in the first place) and therefore suggest that the FASB allow only one transition method to be used when final rules are issued.

Further, we believe that the Retroactive Restatement Method is the most logical and useful method to be applied due to its advantages of comparability between fiscal years – both past and present - and its recognition of all options issued by a company.

Thank you for your consideration of this matter. If you have questions regarding this letter, please feel free to contact me at (408) 486-2000.

Sincerely,



Marvin D. Burkett
Chief Financial Officer