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

FORM 10-Q

[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended October 24, 2004

OR

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

Commission file number: 0-23985

NVIDIA CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

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

The number of shares of the registrant's common stock outstanding as of November 5, 2004 was 166,212,906 shares.

NVIDIA CORPORATION
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (Unaudited)

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

	October 24, 2004	January 25, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 156,687	$ 214,422
Marketable securities	431,163	389,621
Accounts receivable, net	307,409	196,631
Inventories	297,551	234,238
Prepaid expenses and other current assets	15,080	14,539
Deferred income taxes	3,261	3,261
Total current assets	1,211,151	1,052,712
Property and equipment, net	182,198	190,029
Deposits and other assets	8,132	7,731
Goodwill	108,107	108,909
Intangible assets, net	30,068	39,963
	$ 1,539,656	$ 1,399,344
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 262,960	$ 185,342
Accrued liabilities	150,833	144,755
Current portion of capital lease obligations	1,360	4,015
Total current liabilities	415,153	334,112
Deferred income tax liabilities	8,609	8,609
Capital lease obligations, less current portion	-	856
Long-term liabilities	7,483	4,582
Stockholders' equity:		
Common stock	168	164
Additional paid-in capital	613,326	583,481
Treasury stock	(24,644)	-
Deferred stock-based compensation	(3,442)	(5,468)
Accumulated other comprehensive income (loss), net	(1,502)	850
Retained earnings	524,505	472,158
Total stockholders' equity	1,108,411	1,051,185
	$ 1,539,656	$ 1,399,344

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	October 24, 2004	October 26, 2003	October 24, 2004	October 26, 2003
Revenue	$ 515,591	$ 486,069	$ 1,443,557	$ 1,350,826
Cost of revenue	348,849	351,938	987,886	960,153
Gross profit	166,742	134,131	455,671	390,673
Operating expenses:				
Research and development	87,880	73,052	251,050	197,982
Sales, general and administrative	50,104	42,218	148,184	122,850
In-process research and development	-	3,500	-	3,500
Total operating expenses	137,984	118,770	399,234	324,332
Operating income	28,758	15,361	56,437	66,341
Interest income	2,633	4,626	8,172	15,958
Interest expense	(25)	(3,794)	(147)	(11,915)
Other income, net	983	2,428	973	3,108
Convertible debenture redemption expense	-	(13,068)	-	(13,068)
Income before income tax expense	32,349	5,553	65,435	60,424
Income tax expense (benefit)	6,470	(803)	13,088	10,171
Net income	$ 25,879	$ 6,356	$ 52,347	$ 50,253
Basic net income per share	$ 0.16	$ 0.04	$ 0.32	$ 0.31
Diluted net income per share	$ 0.15	$ 0.04	$ 0.30	$ 0.29
Shares used in basic per share computation	166,122	161,582	165,848	160,093
Shares used in diluted per share computation	172,869	173,149	176,293	171,453

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended	
	October 24, 2004	October 26, 2003
Cash flows from operating activities:		
Net income	$ 52,347	$ 50,253
Adjustments to reconcile net income to net cash provided by operating activities:		
In-process research and development	-	3,500
Write-off convertible debenture issuance costs	-	5,485
Non-cash realized gain on investment exchange	(533)	-
Depreciation and amortization	71,512	58,410
Stock-based compensation	1,052	361
Allowance for doubtful accounts	(245)	1,195
Changes in operating assets and liabilities:		
Accounts receivable	(122,041)	(61,203)
Inventories	(63,313)	(111,707)
Prepaid expenses and other current assets	(830)	(3,513)
Deposits and other assets	(556)	(2,484)
Accounts payable	77,678	100,474
Accrued liabilities	17,958	9,856
Net cash provided by operating activities	33,029	50,627
Cash flows from investing activities:		
Purchases of marketable securities	(222,783)	(640,209)
Sales and maturities of marketable securities	178,635	935,697
Acquisition of businesses	-	(71,303)
Purchases of property, equipment and intangible assets	(49,284)	(115,248)
Net cash provided by (used in) investing activities	(93,432)	108,937
Cash flows from financing activities:		
Redemption of convertible debenture	-	(300,000)
Common stock issued under employee stock plans	30,823	29,752
Repurchase of common stock	(24,644)	-
Principal payments on capital leases	(3,511)	(4,497)
Net cash provided by (used in) financing activities	2,668	(274,745)
Change in cash and cash equivalents	(57,735)	(115,181)
Cash and cash equivalents at beginning of period	214,422	346,994
Cash and cash equivalents at end of period	$ 156,687	$ 231,813
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 147	$ 15,063
Cash paid (refund) for income taxes, net	$ 410	$ (528)
Non cash activities:		
Acquisition of business - goodwill adjustment	$ 1,091	$ -
Assets recorded under capital lease arrangements	$ -	$ 2,528
Application of customer advance to accounts receivable	$ 11,508	$ 58,139
Marketable security received from investment exchange	$ 688	$ -
Asset retirement obligation	$ 4,483	$ -
Unrealized losses from marketable securities	$ 3,294	$ 5,618
Deferred stock-based compensation	$ 974	$ 6,336

See accompanying notes to condensed consolidated financial statements.

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

Note 1 - Summary of Significant Accounting Policies

Basis of presentation

The accompanying unaudited condensed consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Securities and Exchange Commission, or SEC, Regulation S-X. In the opinion of management, all adjustments, consisting only of normal recurring adjustments except as otherwise noted, considered necessary for a fair presentation have been included. The results for the interim periods presented are not necessarily indicative of the results expected for any future period. The following information should be read in conjunction with the audited financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended January 25, 2004.

Fiscal year

We operate on a 52 or 53-week year, ending on the Sunday nearest January 31. Fiscal year 2005 is a 53-week year, compared to fiscal year 2004 which was a 52-week year. The fourth quarter of fiscal year 2005 is a 14-week quarter, compared to the fourth quarter of fiscal year 2004 which was a 13-week quarter.

Reclassifications

Certain prior year statement of cash flows and comprehensive income balances were reclassified to conform to the current period presentation.

Use of Estimates

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

Stock-Based Compensation

Statement of Financial Accounting Standards No. 148, or SFAS No. 148, *Accounting for Stock-Based Compensation - Transition and Disclosure*, amends the disclosure requirements of Statement of Financial Accounting Standards No. 123, or SFAS No. 123, *Accounting for Stock-Based Compensation,* to require more prominent disclosures in both annual and interim financial statements regarding the method of accounting for stock-based compensation and the effect of the method used on reported results.

We use the intrinsic value method, as prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees,* to account for our stock-based employee compensation plans. As such, compensation expense is recorded if on the date of grant the current fair value per share of the underlying stock exceeds the exercise price per share. Compensation cost for our stock-based compensation plans as determined consistent with SFAS No. 123, would have decreased net income to the pro forma amounts indicated below:

	Three Months Ended		Nine Months Ended	
	October 24, 2004	October 26, 2003	October 24, 2004	October 26, 2003
	(In thousands, except per share data)			
Net income, as reported	$ 25,879	$ 6,356	$ 52,347	$ 50,253
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	244	231	842	231
Deduct: Stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(25,135)	(20,075)	(67,556)	$ (56,530)
Pro forma net income (loss)	$ 988	$ (13,488)	$ (14,367)	$ (6,046)
Basic net income per share - as reported	$ 0.16	$ 0.04	$ 0.32	$ 0.31
Basic net income (loss) per share - pro forma	$ 0.01	$ (0.08)	$ (0.09)	$ (0.04)
Diluted net income per share - as reported	$ 0.15	$ 0.04	$ 0.30	$ 0.29
Diluted net income (loss) per share - pro forma	$ 0.01	$ (0.08)	$ (0.09)	$ (0.04)

Note 2 - New Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board, or FASB, issued Interpretation No. 46, or FIN 46, *Consolidation of Variable Interest Entities*, which addresses consolidation by business enterprises of variable interest entities, or VIEs, either: (1) that do not have sufficient equity investment at risk to permit the entity to finance its activities without additional subordinated financial support, or (2) in which the equity investors lack an essential characteristic of a controlling financial interest. In December 2003, the FASB completed deliberations of proposed modifications to FIN 46, or FIN 46(R), resulting in an effective date of no later than the first interim or annual period ending after March 15, 2004. The adoption of FIN 46(R) did not have an impact on our results of operations or financial position.

In March 2004, the FASB approved the consensus reached on the Emerging Issues Task Force Issue No. 03-1, or EITF 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments.* EITF 03-1 provides guidance for identifying impaired investments and new disclosure requirements for investments that are deemed to be temporarily impaired. On September 30, 2004, the FASB issued a final staff position EITF Issue 03-1-1 that delays the effective date for the measurement and recognition guidance included in paragraphs 10 through 20 of EITF 03-1. Quantitative and qualitative disclosures required by EITF 03-1 remain effective for our fiscal year ending 2005. We do not believe the impact of adoption of this EITF consensus will be significant to our overall results of operations or financial position.

Note 3 - 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 dilutive common equivalent shares outstanding during the period, using the treasury stock method. Under the treasury stock method, the effect of stock options outstanding is not included in the computation of diluted net income per share for periods when their effect is anti-dilutive. The following is a reconciliation of the numerators and denominators of the basic and diluted net income per share computations for the periods presented:

	Three Months Ended		Nine Months Ended	
	October 24, 2004	October 26, 2003	October 24, 2004	October 26, 2003
	(In thousands, except per share data)			
Numerator:				
Numerator for basic and diluted net income per share	$ 25,879	$ 6,356	$ 52,347	$ 50,253
Denominator:				
Denominator for basic net income per share, weighted average shares	166,122	161,582	165,848	160,093
Effect of dilutive securities:				
Stock options outstanding	6,747	11,567	10,445	11,360
Denominator for diluted net income per share, weighted average shares	172,869	173,149	176,293	171,453
Net income per share:				
Basic net income per share	$ 0.16	$ 0.04	$ 0.32	$ 0.31
Diluted net income per share	$ 0.15	$ 0.04	$ 0.30	$ 0.29

Diluted net income per share does not include the effect of the following anti-dilutive common equivalent shares:

	Three Months Ended		Nine Months Ended	
	October 24, 2004	October 26, 2003	October 24, 2004	October 26, 2003
	(In thousands)			
Stock options	31,863	8,114	13,949	12,084

The weighted-average exercise price of stock options excluded from the computation of diluted net income per share was $20.88 and $27.75 for the three and nine months ended October 24, 2004, respectively. The weighted-average exercise price of stock options excluded from the computation of diluted net income per share was $29.22 and $25.38 for the three and nine months ended October 26, 2003, respectively.

Note 4 - Guarantees

FASB Interpretation No. 45, or FIN 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others,* requires that upon issuance of a guarantee, the guarantor must recognize a liability for the fair value of the obligation it assumes under that guarantee. In addition, FIN 45 requires disclosures about the guarantees that an entity has issued, including a tabular reconciliation of the changes of the entity's product warranty liabilities.

We record a reduction to revenue for estimated product returns at the time revenue is recognized primarily based on historical return rates. The reductions to revenue for estimated product returns for the three and nine months ended October 24, 2004 and October 26, 2003 are as follows:

Description	Balance at Beginning of Period	Additions (1)	Deductions (2)	Balance at End of Period
		(In thousands)		
Three months ended October 24, 2004				
Allowance for sales returns	$ 11,039	$ 4,138	$ (4,357)	$ 10,820
Three months ended October 26, 2003				
Allowance for sales returns	$ 11,359	$ 2,977	$ (5,973)	$ 8,363
Nine months ended October 24, 2004				
Allowance for sales returns	$ 9,421	$ 14,747	$ (13,348)	$ 10,820
Nine months ended October 26, 2003				
Allowance for sales returns	$ 13,228	$ 6,449	$ (11,314)	$ 8,363

(1) Allowances for sales returns are charged as a reduction to revenue.

(2) Represents amounts written off against the allowance for sales returns.

In connection with certain agreements that we have executed in the past, we have at times provided indemnities to cover the indemnified party for matters such as tax, product and employee liabilities. We have also on occasion 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. However, historically costs related to these indemnification provisions have not been significant. As such, we have not recorded any liability in our condensed consolidated financial statements for such indemnifications.

Note 5 - Comprehensive Income

Comprehensive income consists of net income and other comprehensive income or loss. Other comprehensive income or loss components include unrealized gains or losses on available-for-sale securities. The components of comprehensive income, net of tax, were as follows:

	Three Months Ended		Nine Months Ended	
	October 24, 2004	October 26, 2003	October 24, 2004	October 26, 2003
		(In thousands)		
Net income	$ 25,879	$ 6,356	$ 52,347	$ 50,253
Net change in unrealized gains (losses) on available-for-sale securities	1,656	(856)	(3,426)	(1,055)
Tax effect of unrealized gains (losses) on available-for-sale securities	(1,056)	171	969	211
Reclassification adjustments for net realized (gains) losses on available-for-sale securities included in net income	91	(2,394)	131	(3,159)
Tax effect of reclassification adjustments included in net income	(18)	479	(26)	632
Total comprehensive income	$ 26,552	$ 3,756	$ 49,995	$ 46,882

Note 6 -3dfx Asset Purchase

During fiscal year 2002, we completed the purchase of certain assets from 3dfx Interactive, Inc., or 3dfx, for an aggregate purchase price of approximately $74.2 million. The 3dfx asset purchase was accounted for under the purchase method of accounting and closed on April 18, 2001. Under the terms of the Asset Purchase Agreement, the cash consideration due at the closing was $70.0 million, less $15.0 million that was loaned to 3dfx pursuant to a Credit Agreement dated December 15, 2000. The Asset Purchase Agreement also provided, subject to the other provisions thereof, that if 3dfx properly certified that all its debts and other liabilities had been provided for, then we would have been obligated to pay 3dfx two million shares of NVIDIA common stock. If 3dfx could not make such a certification, but instead properly certified that its debts and liabilities could be satisfied for less than $25.0 million, then 3dfx could have elected to receive a cash payment equal to the amount of such debts and liabilities and a reduced number of shares of our common stock, with such reduction calculated by dividing the cash payment by $25.00 per share. If 3dfx could not certify that all of its debts and liabilities had been provided for, or could not be satisfied, for less than $25.0 million, we would not be obligated under the agreement to pay any additional consideration for the assets. We are currently party to litigation relating to certain aspects of the asset purchase and 3dfx's subsequent bankruptcy in October 2002. Please see Note 12 for further information regarding this litigation.

The 3dfx asset purchase price of $70.0 million and direct transaction costs of $4.2 million were allocated based on fair values presented below.

	Fair Market Value (In thousands)	Straight-Line Amortization Period (Years)
Property and equipment	$ 2,433	1-2
Trademarks	11,310	5
Goodwill	60,418	--
Total	$ 74,161	

The final allocation of the purchase price of the 3dfx assets is contingent upon the amount of additional consideration, if any, paid to 3dfx upon the final satisfaction of their liabilities.

Note 7 -Goodwill and Intangible Assets

We are currently amortizing our intangible assets with definitive lives over periods ranging from 1 to 5 years. The components of our amortizable intangible assets are as follows:

	October 24, 2004			January 25, 2004		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(In thousands)					
Technology licenses	$ 15,424	$ (9,263)	$ 6,161	$ 15,178	$ (7,161)	$ 8,017
Patents	23,260	(14,255)	9,005	19,319	(8,992)	10,327
Acquired intellectual property	27,086	(16,608)	10,478	27,067	(10,590)	16,477
Trademarks	11,310	(7,990)	3,320	11,310	(6,283)	5,027
Other	1,494	(390)	1,104	250	(135)	115
Total intangible assets	$ 78,574	$ (48,506)	$ 30,068	$ 73,124	$ (33,161)	$ 39,963

Amortization expense associated with intangible assets for the three and nine months ended October 24, 2004 was $5.0 million and $15.3 million, respectively. Amortization expense associated with intangible assets for the three and nine months ended October 26, 2003 was $4.8 million and $11.1 million, respectively. Amortization expense for the net carrying amount of intangible assets at October 24, 2004 is estimated to be $4.3 million for the remainder of fiscal 2005, $15.2 million in fiscal 2006, $8.4 million in fiscal 2007, $2.0 million in fiscal 2008 and $100,000 in fiscal 2009.

The carrying amount of goodwill is as follows:

	October 24, 2004	January 25, 2004
	(In thousands)	
3dfx	$ 50,326	$ 50,326
MediaQ	52,913	53,695
Other	4,868	4,888
Total goodwill	$ 108,107	$ 108,909

The decrease in the carrying amount of goodwill for MediaQ is a result of additional information that became available during the third quarter of fiscal year 2005.

Note 8 - Marketable Securities

We account for our investment instruments in accordance with Statement of Financial Accounting Standards No. 115, or SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. All of our cash equivalents and marketable securities are treated as “available-for-sale” under SFAS No. 115. Cash equivalents consist of financial instruments which are readily convertible into cash and have original maturities of three months or less at the time of acquisition. Marketable securities consist primarily of highly liquid investments with a maturity of greater than three months when purchased and some equity investments. We classify our marketable securities at the date of acquisition in the available-for-sale category as our intention is to convert them into cash for operations. These securities are reported at fair value with the related unrealized gains and losses included in accumulated other comprehensive income (loss), a component of stockholders’ equity, net of tax. Realized gains and losses on the sale of marketable securities are determined using the specific-identification method. Net realized loss for the three and nine months ended October 24, 2004 were ($90,000) and ($115,000), respectively. Net realized gains for the three and nine months ended October 26, 2003 were $2.5 million and $3.0 million, respectively.

Note 9 - Balance Sheet Components

Certain balance sheet components are as follows:

	October 24, 2004	January 25, 2004
	(In thousands)	
Inventories:		
Raw materials	$ 39,586	$ 22,131
Work in-process	97,951	44,523
Finished goods	160,014	167,584
Total inventories	$ 297,551	$ 234,238

The significant increase in raw materials primarily relates to the purchase of memory products that we plan to bundle with our GeForce 6 products. The significant increase in work-in-process primarily relates to the ramping of our GeForce 6 series products.

At October 24, 2004, we had outstanding inventory purchase obligations totaling $359.3 million.

	October 24, 2004	January 25, 2004
	(In thousands)	
Property and Equipment:		
Software	$ 121,671	$ 116,150
Test equipment	80,919	73,287
Computer equipment	84,121	70,173
Leasehold improvements	77,278	58,649
Construction in process	3,418	1,620
Office furniture and equipment	18,314	17,996
	385,721	337,875
Accumulated depreciation and amortization	(203,523)	(147,846)
Property and equipment, net	$ 182,198	$ 190,029

	October 24, 2004	January 25, 2004
	(In thousands)	
Accrued Liabilities:		
Accrued customer programs	$ 60,559	$ 54,875
Customer advances	1,590	11,530
Taxes payable	42,015	29,609
Accrued payroll and related expenses	29,474	30,270
Deferred rent	10,311	8,151
Other	6,884	10,320
Total accrued liabilities	$ 150,833	$ 144,755

Note 10 - Asset Retirement Obligation

In fiscal 2004, we adopted Statement of Financial Accounting Standards No. 143, or SFAS No. 143, *Accounting for Asset Retirement Obligations*, which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 143 applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or normal use of the assets. SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The fair value of the liability is added to the carrying amount of the associated asset and this additional carrying amount is depreciated over the life of the asset. At the time of adoption, our obligation, if any, was immaterial. During our third quarter of fiscal 2005, we completed leasehold improvements at our headquarters facility in Santa Clara, California and recorded a liability of $4.5 million to return the property to its original condition upon lease termination in fiscal year 2013.

Note 11 - Segment Information

We design, develop and market graphics processing units, or GPUs, media and communications processors, or MCPs, wireless media processors, or WMPs, and related software. During the second quarter of fiscal 2005, our chief operating decision maker, the Chief Executive Officer, began reviewing financial information presented on an operating segment basis for purposes of making operating decisions and assessing financial performance. We now report three product-line operating segments: the GPU business, which is composed of products that support desktop personal computers, or PCs, notebook PCs and professional workstations; the MCP business, which is composed of NVIDIA nForce and Xbox products; and the WMP business, which supports handheld personal digital assistants and cellular phones. In addition to these operating segments, we have the "All Other" category that includes human resources, legal, finance, general administration and corporate marketing expenses that we do not allocate to our other operating segments. "All Other" also includes the results of operations of other miscellaneous operating segments that are neither individually reportable, nor aggregated with another operating segment. Revenue in the "All Other" category is primarily derived from sales of memory.

We do not identify or allocate assets by operating segment. Operating segments do not record intersegment revenue, and, accordingly, there is none to be reported. The accounting policies for segment reporting are the same as for our company as a whole.

For periods prior to the first quarter of fiscal 2005, product-line operating segment information other than revenue is impracticable to obtain primarily due to changes in our enterprise resource system structure that we implemented during the first quarter of fiscal 2005.

	GPU	MCP	WMP	All Other	Consolidated
			(In thousands)		
Three Months Ended October 24, 2004:					
Revenue	$ 301,373	$ 151,391	$ 11,091	$ 51,736	$ 515,591
Operating income (loss)	$ 32,238	$ 36,009	$ (13,764)	$ (25,725)	$ 28,758
Three Months Ended October 26, 2003:					
Revenue	$ 277,113	$ 176,950	$ 3,778	$ 28,228	$ 486,069
Nine Months Ended October 24, 2004:					
Revenue	$ 969,822	$ 325,250	$ 21,950	$ 126,535	$ 1,443,557
Operating income (loss)	$ 113,094	$ 46,275	$ (29,814)	$ (73,118)	$ 56,437
Nine Months Ended October 26, 2003:					
Revenue	$ 886,060	$ 376,383	$ 3,778	$ 84,605	$ 1,350,826

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 operations in different geographic regions:

	Three Months Ended		Nine Months Ended	
	October 24, 2004	October 26, 2003	October 24, 2004	October 26, 2003
Revenue:		(In thousands)		
United States and other Americas	$ 183,403	$ 158,466	$ 437,983	$ 369,276
Asia Pacific	285,163	301,851	918,628	904,684
Europe	47,025	25,752	86,946	76,866
Total revenue	$ 515,591	$ 486,069	$ 1,443,557	$ 1,350,826

Revenue from significant customers, those representing approximately 10% or more of total revenue for the respective periods, is summarized as follows:

	Three Months Ended		Nine Months Ended	
	October 24, 2004	October 26, 2003	October 24, 2004	October 26, 2003
Revenue:				
Customer A	9%	10%	8%	12%
Customer B	21%	25%	16%	18%
Customer C	17%	17%	20%	19%
Customer D	4%	10%	8%	11%

Note 12 - Litigation

3dfx

On December 15, 2000, NVIDIA Corporation and one of our indirect subsidiaries entered into an agreement to purchase certain graphics chip assets from 3dfx. The 3dfx asset purchase closed on April 18, 2001. In May 2002, we were served with a complaint filed by the landlord of 3dfx's San Jose, California commercial real estate lease. In October 2002, 3dfx filed for Chapter 11 bankruptcy protection in the United States Bankruptcy Court for the Northern District of California. In December 2002, we were served with a complaint filed by the landlord of 3dfx's Austin, Texas commercial real estate lease. The landlords' complaints both assert claims for, among other things, interference with contract, successor liability and fraudulent transfer. The landlords' are seeking to recover, among other things, amounts owed on their leases in the aggregate amount of approximately $10 million. In March 2003, we were served with a complaint filed by the Trustee appointed by the Bankruptcy Court to represent the interests of the 3dfx bankruptcy estate. The Trustee's complaint asserts claims for, among other things, successor liability and fraudulent transfer. The Trustee's complaint seeks additional payments from us, the amount of which has not been quantified. The landlords' actions have been removed to the Bankruptcy Court from the Superior Court of California and consolidated with the Trustee's action for purposes of discovery. Discovery is currently proceeding and no trial date has been set. We believe the claims asserted against us are without merit and we will continue to defend ourselves vigorously.

Opti Incorporated

On October 19, 2004, Opti Incorporated ("Opti") filed a complaint for patent infringement against NVIDIA in the United States District Court for the Eastern District of Texas. Opti asserts that unspecified NVIDIA chipsets infringe five U.S. patents held by Opti. Opti seeks unspecified damages for our conduct, attorneys fees and triple damages for alleged willful infringement by NVIDIA. NVIDIA intends to respond to this complaint in December. We believe the claims asserted against us are without merit and we will continue to defend ourselves vigorously.

We are subject to other legal proceedings, but we do not believe that the ultimate outcome of any of these proceedings will have a material adverse effect on our financial position or overall trends in results of operations. However, if an unfavorable ruling were to occur in any specific period, there exists the possibility of a material adverse impact on the results of operations of that period.

Note 13 - Stock Repurchase Program

On August 9, 2004, we announced that our Board of Directors had authorized a stock repurchase program to repurchase shares of our common stock, subject to certain specifications, up to an aggregate maximum amount of $300.0 million. To date, we have repurchased 2.1 million shares for a total cost of approximately $24.6 million.

Note 14 - Subsequent Event

On November 19, 2004, NVIDIA and Intel Corporation announced that the companies have signed a broad, multi-year patent cross-license agreement spanning multiple product lines and product generations. Additionally, the companies signed a multi-year chipset agreement for NVIDIA to license Intel's front-side bus technology.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion contains 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, which are subject to the "safe harbor" created by those sections. When used in this report, the words "expects," "believes," "intends," "anticipates," "estimates," "plans," and similar expressions are intended to identify forward-looking statements. These forward-looking statements relate to future periods and include, but are not limited to, the features, benefits, capabilities, performance, production and availability of our technology and products, the length of product cycles, our gross margins, our inventories, product life cycles, average selling prices, our strategies as to our GPU, MCP and WMP product segments, the importance of digital media processing technology, MXM and PCI Express, our critical accounting policies, sources of revenue and anticipated revenue, including revenue derived from sales of the Xbox, revenue mix, our expectations regarding increases in and reasons for our expenditures, planned capital expenditures, the adequacy of our cash flow, our liquidity, uses of cash, investments of our cash and marketable securities, our tax rate, evaluation of repatriation of foreign earnings, our quarterly and annual results of operations, the impact of recent accounting pronouncements, expectations regarding our competition and our competitive position, our intellectual property, the importance of our strategic relationships, customer demand, our reliance on a limited number of customers, expansion of our technologies and products, including by investment or acquisition, our internal controls over financial reporting, our ability to attract customers, our ability to attract and retain qualified personnel and our foreign currency risk strategy. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected. These risks and uncertainties include, but are not limited to, the risks discussed below as well as unanticipated decreases in average selling prices of a particular product, our inability to decrease inventory purchase commitments in a meaningful timeframe, reduction in demand for or market acceptance of our products or our customers' products, defects in our products, the impact of competitive pricing pressure, new product announcements or introductions by our competitors, disruptions in our relationships with Taiwan Semiconductor Manufacturing Company, or TSMC, United Microelectronics Corporation, or UMC, International Business Machines Corporation, or IBM, Chartered Semiconductor Manufacturing, or Chartered and other key suppliers, fluctuations in general economic conditions, failure to achieve design wins, the seasonality of the PC and our other product segments, international and political conditions, the concentration of sales of our products to a limited number of customers, unforeseen reductions in demand for our products, our ability to safeguard our intellectual property, delays in the development of new products, delays in volume production of our products, developments in and expenses related to litigation and the matters set forth under the caption "Business Risks." These forward-looking statements speak only as of the date hereof. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

In this report, all references to “NVIDIA,” “we,” “us,” or “our” mean NVIDIA Corporation and our subsidiaries.

NVIDIA, GeForce, MXM, SLI, GoForce, NVIDIA Quadro and NVIDIA nForce are our trademarks or registered trademarks in the United States and other countries. We also refer to trademarks of other corporations and organizations in this document.

Overview

Our Company

NVIDIA Corporation is a worldwide leader in graphics and digital media processors dedicated to creating products that enhance the interactive experience on consumer and professional computing platforms. We design, develop and market graphics processing units, or GPUs, media and communications processors, or MCPs, wireless media processors, or WMPs, and related software. Our products are integral to a wide variety of visual computing platforms, including enterprise personal computers, or PCs, consumer PCs, professional workstations, notebook PCs, personal digital assistants, cellular phones, game consoles and digital media centers. We were incorporated in California in April 1993 and reincorporated in Delaware in April 1998. Our mission is to be the most important media processing company in the world.

Recent Developments

Intel Agreement

On November 19, 2004, NVIDIA and Intel Corporation announced that the companies have signed a broad, multi-year patent cross-license agreement spanning multiple product lines and product generations. Additionally, the companies signed a multi-year chipset agreement for NVIDIA to license Intel's front-side bus technology.

Peripheral Component Interconnect Express, or PCI Express

In February 2004, we announced a top-to-bottom family of PCI Express GPUs. By using a PCI Express high-speed interconnect, or HSI, which is a complex piece of networking technology that performs high-speed bi-directional interconnect protocol conversion, we were able to transform our GeForce family of GPUs into PCI Express compatible GPUs.

In May 2004, we announced the Mobile PCI Express Module Specification, or MXM. MXM was jointly developed by NVIDIA and leading notebook PC manufacturers in an effort to accelerate the adoption of PCI Express-based notebooks in all market segments. MXM is an open design specification that supports a wide range of graphics solutions from any GPU manufacturer, allowing system integrators maximum flexibility for build-to-order with various graphics solutions. MXM will also serve as the primary delivery vehicle for our next generation GPUs based on the GeForce Go 6 series architecture.

In June 2004, we executed on our strategy to deliver a full line of GPUs ready to support PCI Express chipsets. Our first PCI Express graphics solutions, the GeForce PCX series, are currently shipping to leading add-in-card partners, original equipment manufacturers, or OEMs, system builders and other partners and were released for retail sale during the second quarter of fiscal 2005.

In August 2004, we announced that PCI-SIG, the Special Interest Group responsible for Conventional PCI, PCI-X and PCI Express industry-standard I/O technologies, has added our PCI Express technology-based products to the PCI-SIG Integrators List, including GPUs designed for workstations, desktops, and notebook computers.

In September 2004, we announced the GeForce 6600 GT and the GeForce 6600. In October 2004, we announced the GeForce 6200, our first native PCI Express GPUs. In November 2004, we announced the launch of GeForce Go 6800 GPU, our first native PCI Express GPU for notebook PCs.

WMP Business

During the first quarter of fiscal 2005, Motorola, Inc. announced their decision to incorporate our GoForce 4000 in their upcoming new line of 3G multimedia phones. In July 2004, we announced that Samsung Electronics had selected our GoForce 2100 media processor for the SCH-M500 Mobile Intelligent Terminal by Samsung, or MITS, phone. We now have design wins with three of the world's top five cell phone OEMS - Motorola, Samsung and LG Electronics, Inc. Over the next several years, we expect digital media processing technology to play a critical role in the cell phone industry. In September 2004, we unveiled the GoForce 3D 4500, the world's first 3D WMP.

GeForce 6 Series

In April 2004, we announced our latest flagship GPU architecture, the GeForce 6 series. The GeForce 6 series offers a number of new features, including a faster architecture than our GeForce FX series, compliance with many of the latest software standards and on-chip video processors for high-definition encoding and decoding and direct-to-television playback. The GeForce 6 series offers more flexibility for game designers and graphic artists, while increasing performance over our previous top-end product, the GeForce FX 5950. During the second quarter of fiscal 2005, we launched the production shipment of the GeForce 6800 Ultra, 6800 GT and 6800, the industry’s first GPUs to support Microsoft Corporation’s, or Microsoft DirectX 9 Shader Model 3.0. During the third quarter of fiscal 2005, we launched the production shipment of the GeForce 6600 GT and 6600, which are targeted for the mainstream market, and the GeForce 6200, which delivers the GeForce 6 Series architecture and performance to the value PC segment.

Scalable Link Interface, or SLI, Technology

In June 2004, we unveiled a new SLI technology that enables certain GeForce 6 series or NVIDIA Quadro graphics cards to operate in a single PC or workstation. PCI Express-based PCs and workstations based on NVIDIA SLI technology became available in the second half of fiscal 2005 from PC and workstation manufacturers.

NVIDIA nForce3 and NVIDIA nForce4

During the first quarter of fiscal 2005, we launched production of the NVIDIA nForce3 250Gb MCP, the first single-chip MCP to offer gigabit Ethernet, dual independent Serial Advanced Technology Attachment, or SATA, controllers, industry leading Redundant Array of Independent Disks, or RAID, features and hardware security processing. In June 2004, we announced the release of the NVIDIA nForce3 Ultra MCP, a MCP for motherboards and PC systems based on the AMD64 computing platform. In October 2004, we introduced the NVIDIA nForce4 MCPs, our new family of high-performance PCI Express-based MCPs for AMD64 computing environments. NVIDIA nForce4 MCPs provide the platform technology that is designed to power this year's fastest gaming, enthusiast, and digital media PCs and motherboards, driving the PCI Express transition.

Repatriation Legislation

The American Jobs Creation Act of 2004 was signed into law on October 22, 2004. This act provides a special one-time dividends received deduction on the repatriation of certain foreign earnings to a U.S. taxpayer. We are currently in the process of evaluating whether or not, and to what extent, if any, this provision may benefit NVIDIA. We expect to complete such evaluation before the end of our fiscal year 2006.

Technology License

We entered into a technology license agreement with Tensilica, Inc. effective September 30, 2004. Harvey C. Jones, an NVIDIA director, is also the Chairman of the Board of Directors of Tensilica, Inc.

Future Objectives and Challenges

Re-Establish GPU Leadership

We have committed ourselves to recapture technology leadership in our GPU business, while creating an architecture that is cost efficient. During the second quarter of fiscal 2005, we launched the industry's first GPUs that support Microsoft's Shader Model 3.0 with the production shipment of the GeForce 6800 Ultra, 6800 GT and 6800. During the third quarter of fiscal 2005, we launched the GeForce 6600 GT, GeForce 6600, and GeForce 6200 GPUs. To date, the GeForce 6 series has won over 75 awards worldwide and was named the recommended GPU for id Software's highly anticipated game, Doom 3. With the GeForce 6 family, we are focused on capturing a significant share of the performance GPU segment, and then leveraging that leadership position into the mainstream and value GPU segments. By the end of fiscal year 2005, we expect to have a top-to-bottom product line that supports Shader Model 3.0.

PCI Express

PCI Express is expected to enable a new level of performance for high bandwidth applications like graphics and networking. The transition to PCI Express, which is extremely complex, is central to our GPU and MCP objectives this fiscal year. We initiated this transition by creating our GeForce PCX series of GPUs, using HSI technology. During the second quarter of fiscal 2005, we executed on our strategy to deliver a full line of GPUs ready to support PCI Express chipsets. Our first PCI Express graphics solutions, the GeForce PCX series, are currently shipping to leading add-in-card partners, OEMs, system builders and other partners, and were released for retail sale during the second quarter of fiscal 2005. We expected to ramp up sales of our PCI Express products during the second quarter of fiscal 2005, but as a result of Intel Corporation's, or Intel's, delayed PCI Express chipset production, followed by their product recall, the performance desktop segment was impacted by stalling our customers' production ramp of our GeForce PCX GPUs. During the third quarter of fiscal 2005, we announced and ramped up sales of the GeForce 6600 GT, GeForce 6600 and the GeForce 6200, our first native PCI Express GPUs.

Gross Margin Improvement

We continue to remain intensely focused on improving our gross margins. During the third quarter of fiscal 2005, our gross margin was 32.3%, an increase of 1.6% from our gross margin of 30.7% for the second quarter of fiscal 2005. We expect gross margin to improve by approximately 1.0% during the fourth quarter of fiscal 2005 as the GeForce 6 product family becomes an increasing portion of our business.

MCP Business

Our strategy is to attempt to win the Athlon 64 segment by building MCPs that lead the industry in performance and system technologies. We have dedicated a significant number of our engineers to our MCP business. We believe this investment is strategically important. We intend to offer a full line of MCPs for desktop, notebook and the server segments in the future.

WMP Business

Our WMP objective is to drive the multimedia handheld era by building exciting products that leverage our expertise, resources, and investments in digital media processing combined with our low power technology. With the WMPs on our roadmap, we anticipate that future cell phones will be able to receive television programs, record digital video like a camcorder, enable video phone calls, and be portable game players.

Critical Accounting Policies and Estimates

Management's discussion and analysis of financial condition and results of operations are based upon our unaudited condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to revenue recognition, accounts receivable, inventories, long-lived assets, goodwill, income taxes and contingencies. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities.

We believe the following critical accounting policies affect our significant judgments and estimates used in the preparation of our condensed 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 and the audit committee has reviewed our disclosures relating to our critical accounting policies and estimates in this report.

Revenue Recognition

We recognize revenue from product sales when persuasive evidence of an arrangement exists, the product has been delivered, the price is fixed and determinable and collection is reasonably assured. For all sales, we use a binding purchase order and in certain cases we use a contractual agreement as evidence of an arrangement. We consider delivery to occur upon shipment provided title and risk of loss have passed to the customer. At the point of sale, we assess whether the arrangement fee is fixed and determinable and whether collection is reasonably assured. If we determine that collection of a fee is not reasonably assured, we defer the fee and recognize revenue at the time collection becomes reasonably assured, which is generally upon receipt of cash.

Our policy on sales to distributors and stocking representatives is to defer recognition of revenue and related cost of revenue until the distributors and representatives resell the product.

We record estimated reductions to revenue for customer programs at the time revenue is recognized. Our customer programs primarily involve rebates, which are designed to serve as sales incentives to resellers of our products in various target markets. We account for rebates in accordance with Emerging Issues Task Force Issue 01-9, or EITF 01-9, *Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)* and, as such, we accrue for 100% of the potential rebates and do not apply a breakage factor. Unclaimed rebates, which historically have not been significant, are reversed to revenue upon expiration of the rebate. Rebates typically expire nine months from the date of the original sale.

Our customer programs also include marketing development funds, or MDFs. We account for MDFs as either a reduction of revenue or an operating expense in accordance with EITF 01-9. MDFs represent monies paid to retailers, system builders, OEMs, distributors and add-in card partners that are earmarked for market segment development and expansion and typically are designed to support our partners' activities while also promoting NVIDIA products.

If market conditions decline, we may take actions to increase amounts offered under customer programs, possibly resulting in an incremental reduction of revenue at the time such programs are offered.

We also record a reduction to revenue by establishing a sales return allowance for estimated product returns at the time revenue is recognized, based primarily on historical return rates. However, if product returns for a particular fiscal period exceed historical return rates we may determine that additional sales return allowances are required to properly reflect our estimated exposure for product returns.

Accounts Receivable

We maintain an allowance for doubtful accounts receivable for estimated losses resulting from the inability of our customers to make required payments. Management determines this allowance, which consists of an amount identified for specific customer issues as well as an amount based on general estimated exposure. Our overall estimated exposure excludes amounts covered by credit insurance and letters of credit. If the financial condition of our customers or insurance carrier were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required that could adversely affect our operating results. Furthermore, there can be no assurance that we will be able to obtain credit insurance in the future. Our current credit insurance agreement expires on December 31, 2004.

Inventories

We write down our inventory for estimated lower of cost or market, obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required that could adversely affect our operating results. If actual market conditions are more favorable, we may have higher gross margins when products are sold. Sales to date of such products have not had a significant impact on our gross margin.

Valuation of Long-lived Assets

We review long-lived assets, such as property and equipment, and intangible assets subject to amortization, whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. We utilize a two-step approach to testing long-lived assets for impairment. The first step tests for possible impairment indicators. If an impairment indicator is present, the second step measures whether the asset is recoverable based on a comparison of the carrying amount of the asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Our review requires the use of judgment and estimates. No such impairment charges have occurred to date. However, future events or circumstances may result in a charge to earnings if we determine that the carrying value of a long-lived asset is not recoverable.

Goodwill

We utilize a two-step approach to testing goodwill for impairment. The first step tests for possible impairment by applying a fair value-based test. The second step, if necessary, measures the amount of such an impairment by applying fair value-based tests to individual assets and liabilities. We elected to perform our annual goodwill impairment review during the fourth quarter of each fiscal year. We completed our most recent annual impairment test during the fourth quarter of fiscal 2004 and concluded that there was no impairment. However, future events or circumstances may result in a charge to earnings due to the potential for a write down of goodwill in connection with such tests.

Income Taxes

Statement of Financial Accounting Standards No. 109, or SFAS No. 109, *Accounting for Income Taxes*, establishes financial accounting and reporting standards for the effect of income taxes. In accordance with SFAS No. 109, 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 also recognize federal, state and foreign deferred tax assets or liabilities 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 current and deferred tax assets and liabilities is based on certain estimates and judgments and involves dealing with uncertainties in the application of complex tax laws. Our estimates of current and deferred tax assets and liabilities may change based, in part, on added certainty or finality to an anticipated outcome, changes in accounting or tax laws in the United States, or 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.

Contingencies

We are subject to the possibility of various loss contingencies arising in the ordinary course of business. We consider the likelihood of loss or impairment of an asset or the incurrence of a liability, as well as our ability to reasonably estimate the amount of loss in determining loss contingencies. An estimated loss contingency is accrued when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. We regularly evaluate current information available to us to determine whether such accruals should be adjusted and whether new accruals are required.

Results of Operations

The following table sets forth, for the periods indicated, certain items in our condensed consolidated statements of operations expressed as a percentage of revenue.

	Three Months Ended		Nine Months Ended	
	October 24, 2004	October 26, 2003	October 24, 2004	October 26, 2003
Revenue	100.0%	100.0%	100.0%	100.0%
Cost of revenue	67.7	72.4	68.4	71.1
Gross profit	32.3	27.6	31.6	28.9
Operating expenses:				
Research and development	17.0	15.0	17.4	14.7
Sales, general and administrative	9.7	8.7	10.3	9.1
In-process research and development	0.0	0.7	0.0	0.2
Total operating expenses	26.7	24.4	27.7	24.0
Operating income	5.6	3.2	3.9	4.9
Interest and other income, net	0.7	0.6	0.6	0.5
Convertible debenture redemption expense	0.0	(2.7)	0.0	(1.0)
Income before income tax expense	6.3	1.1	4.5	4.4
Income tax expense (benefit)	1.3	(0.2)	0.9	0.7
Net income	5.0%	1.3%	3.6%	3.7%

Three and Nine Months Ended October 24, 2004 and October 26, 2003

Revenue

During the second quarter of fiscal 2005, we began reporting three product-line operating segments: the GPU business, which is composed of products that support desktop PCs, notebook PCs and professional workstations; the MCP business, which is composed of NVIDIA nForce products and Xbox products; and the WMP business, which is comprised of products that support handheld personal digital assistants and cellular phones. Please refer to Note 11of the Notes to Condensed Consolidated Financial Statements for further information.

Revenue was $515.6 million for the third quarter of fiscal 2005 and $486.1 million for the third quarter of fiscal 2004, which represented an increase of 6%. This revenue increase was primarily due to increased sales of our NVIDIA Quadro workstation products, increased memory sales and increased sales of our handheld products, offset by decreases in sales of our Xbox and NVIDIA nForce products and a net decrease in sales of our desktop GPU products. The increase in sales of our NVIDIA Quadro workstation products in the third quarter of fiscal 2005 when compared to the third quarter of fiscal 2004 was primarily due to unit sales volume increases. The increase in memory sales in the third quarter of fiscal 2005 when compared to the third quarter of fiscal 2004 was a result of the alignment of our memory sales with increased shipments of our GeForce 6 products during the quarter. The increase in handheld sales in the third quarter of fiscal 2005 when compared to the third quarter of fiscal 2004 was primarily due to sales of our GoForce 4000 WMPs. Sales of our desktop GPU products decreased slightly in the third quarter of fiscal 2005 when compared to the third quarter of fiscal 2004. This slight decrease in desktop GPU products was the result of a decline in sales of our older desktop GPU products, which was not quite offset by the increase in sales of our newer GeForce 6 GPU products. Sales of our NVIDIA nForce products also decreased slightly in the third quarter of fiscal 2005 when compared to the third quarter of fiscal 2004. This slight decrease in NVIDIA nForce sales was a result of a significant increase in sales of our NVIDIA nForce3 products that was more than offset by a decline in sales of our older NVIDIA nForce1 and NVIDIA nForce2 products. Sales of our Xbox products have historically fluctuated based on the timing of orders from Microsoft Corporation, or Microsoft. Sales to Microsoft were slightly lower in the third quarter of fiscal 2005 when compared to the third quarter of fiscal 2004.

Revenue increased by 7% to $1.44 billion for the first nine months of fiscal 2005 compared to $1.35 billion for the first nine months of fiscal 2004. This revenue increase was primarily due to increased sales of our NVIDIA Quadro workstation products, increased memory sales, increased sales of our handheld products and increased sales of our notebook GPU products, offset by decreases in sales of our Xbox and NVIDIA nForce products. The increase in sales of our NVIDIA Quadro workstation products in the first nine months of fiscal 2005 when compared to the first nine months of fiscal 2004 was primarily due to unit sales volume increases. The increase in memory sales in the first nine months of fiscal 2005 when compared to the first nine months of fiscal 2004 was a result of the alignment of memory sales with increased shipments of our GeForce 6 products during the period. The increase in handheld sales in the first nine months of fiscal 2005 when compared to the first nine months of fiscal 2004 was primarily due to our acquisition of MediaQ, Inc. in October 2003, which represented our initial entry into the handheld market. The slight increase in notebook GPU products in the first nine months of fiscal 2005 when compared to the first nine months of fiscal 2004 was a result of sales of our GeForce FX Go notebook GPU products outpacing the decline in other of our older notebook GPU product lines during the period. The decrease in NVIDIA nForce sales during the first nine months of fiscal 2005 when compared to the first nine months of fiscal 2004 was a result of a significant increase in sales of our NVIDIA nForce3 products that was more than offset by a decline in sales of our older NVIDIA nForce1 and NVIDIA nForce2 products. Sales of our Xbox products have historically fluctuated based on the timing of orders from Microsoft. Sales to Microsoft were slightly lower in the first nine months of fiscal 2005 when compared to the first nine months of fiscal 2004.

Revenue from sales to customers outside of the United States and other Americas accounted for 64% of total revenue for the third quarter of fiscal 2005 and 67% for the third quarter of fiscal 2004. Revenue from sales to customers outside of the United States and other Americas accounted for 70% of total revenue for the first nine months of fiscal 2005 and 73% for the first nine months of fiscal 2004. Revenue by geographic region is allocated to individual countries based on the location to which the products are initially billed even if the foreign contract equipment manufacturers, or CEMs', and add-in board and motherboard manufacturers' revenue is attributable to end customers in a different location. The decrease in the percentage of revenue from sales to customers outside of the United States and other Americas is primarily due to increased sales to one of our CEMs, which are billed in the United States.

Sales to Microsoft accounted for approximately 21% of revenue for the third quarter of fiscal 2005 and 25% of revenue for the third quarter of fiscal 2004. Our other three largest customers accounted for approximately 30% of revenue for the third quarter of fiscal 2005 and 37% of revenue for the third quarter of fiscal 2004. Sales to Microsoft accounted for approximately 16% of revenue for the first nine months of fiscal 2005 and 18% of revenue for the first nine months of fiscal 2004. Our other three largest customers accounted for approximately 36% of revenue for the first nine months of fiscal 2005 and 42% of revenue for the first nine months of fiscal 2004.

During the fourth quarter of fiscal 2005, we expect Xbox revenue to decrease significantly due to a seasonal decline in orders from Microsoft. We believe that we can offset this decrease with increased sales of our GeForce 6 series of GPUs and increased sales of our handheld products. In future periods, our revenue may be affected by demand for and market acceptance of our products and/or our customers' products, our ability to successfully develop and produce our products in volume production, competitive pressures resulting in lower than expected average selling prices, and new product announcements or product introductions by our competitors.

Gross Profit

Gross profit consists of total revenue, net of allowances, less cost of revenue. Cost of revenue consists primarily of the cost of semiconductors purchased from subcontractors, including wafer fabrication, assembly, testing and packaging, manufacturing support costs, including labor and overhead associated with such purchases, final test yield fallout, inventory provisions and shipping costs. Gross margin is the ratio of gross profit to revenue. Our gross margin can vary in any period depending on the mix of types of products sold.

Our gross margin was 32.3% and 27.6% for the third quarter of fiscal 2005 and the third quarter of fiscal 2004, respectively. Our gross margin was 31.6% and 28.9% for the first nine months of fiscal 2005 and the first nine months of fiscal 2004, respectively. Gross margins improved during the third quarter of fiscal 2005 and the first nine months of fiscal 2005 as compared to the same periods in the prior year as a result of three primary factors. First, during fiscal 2004 our GeForce FX series of GPU products had experienced lower gross margins than previous series of GeForce GPU products, such as the GeForce 4 series. Company-wide efforts were made to drive down cost and improve gross margins and, as a result, during the first nine months of fiscal 2005, we were able to improve our gross margins. In addition, in the first nine months of fiscal 2005, we realized increased sales of our performance GeForce FX desktop GPU products and began shipping our GeForce 6 series GPUs, which are among our highest gross margin products. Finally, revenue from our NVIDIA Quadro workstation products, which typically provide the highest gross margins of any of our products, increased as a percentage of our total revenue during the first nine months of fiscal 2005 when compared to the first nine months of fiscal 2004. This increase in our mix of revenue toward higher-margin products led to a positive impact of overall gross margin during the third quarter of fiscal 2005 and the first nine months of fiscal 2005.

In the future, we could be subject to excess or obsolete inventories and be required to take additional write-downs if growth slows or if we incorrectly forecast product demand. A reduction in demand and market acceptance of our products and/or our customers' products could also negatively impact our gross margins. We remain intensely focused on driving down cost and improving gross margins. We expect margins to continue to improve throughout the year as the GeForce 6 series becomes an increasing portion of our business.

Operating Expenses

Research and Development. Research and development expenses consist of salaries and benefits, cost of development tools and software, cost of new product development, consultant costs and other expenses such as facilities and equipment costs. Research and development expenses increased by $14.8 million, or 20%, from the third quarter of fiscal 2004 to the third quarter of fiscal 2005 primarily due to an $8.2 million increase related to additional personnel, a $1.7 million increase in depreciation charges primarily related to purchases of new research and development emulation equipment and intangible assets, a $3.8 million increase in new product development costs, and a $1.1 million increase in other expenses, such as travel and entertainment, facilities and legal fees, during the period. Research and development expenses increased by $53.1 million, or 27%, from the first nine months of fiscal 2004 to the first nine months of fiscal 2005 primarily due to a $27.6 million increase related to additional personnel, a $13.9 million increase in depreciation charges primarily related to purchases of new research and development emulation equipment and intangible assets, a $7.9 million increase in new product development costs, a $2.3 million increase in facility expenses and a $1.4 million increase in other expenses, such as travel and entertainment, and legal fees, during the period.

Sales, General and Administrative. Sales, general and administrative expenses consist primarily of salaries, commissions and bonuses, promotional tradeshow and advertising expenses, marketing development expenses, travel and entertainment expenses, legal and accounting expenses and other expenses. Sales, general and administrative expenses increased $7.9 million, or 19%, from the third quarter of fiscal 2004 to the third quarter of fiscal 2005 primarily due to a $4.1 million increase related to 82 additional personnel primarily in sales and marketing, $2.7 million increase in advertising, marketing development and travel and entertainment expenses related to the launch of our new GeForce 6 products, a $1.5 million increase related to legal, tax and accounting fees, and $400,000 overall decrease in other general administrative activities. Sales, general and administrative expenses increased $25.3 million, or 21%, from the first nine months of fiscal 2004 to the first nine months of fiscal 2005 primarily due to an $18.0 million increase in advertising, marketing development and travel and entertainment expenses related to the launch of our new GeForce 6 products, a $12.3 increase related to additional personnel primarily in sales and marketing, and a $2.6 million increase in depreciation charges primarily related to purchases of office equipment during fiscal 2004. These increases were offset by a $3.7 million decrease in computer software equipment, a $2.4 million decrease in legal fees related to resolution of the Microsoft arbitration and shareholder lawsuits, tax and accounting fees, and a $1.5 million decrease in other general administrative activities.

Interest Income and Interest Expense

Interest income consists of interest earned on cash, cash equivalents and marketable securities. Interest income decreased $2.0 million from $4.6 million to $2.6 million from the third quarter of fiscal 2004 to the third quarter of fiscal 2005. Interest income decreased $7.8 million from $16.0 million to $8.2 million from the first nine months of fiscal 2004 to the first nine months of fiscal 2005. These decreases were primarily the result of lower average balances of cash, cash equivalents, and marketable securities due to the redemption of our convertible subordinated debentures during the third quarter of fiscal 2004.

Interest expense primarily consists of interest incurred as a result of capital lease obligations and, prior to the redemption in the third quarter of fiscal 2004, interest on our convertible subordinated debentures. Interest expense decreased from $3.8 million in the third quarter of fiscal 2004 to $25,000 in the third quarter of fiscal 2005. Interest expense decreased $11.8 million from $11.9 million to $150,000 from the first nine months of fiscal 2004 to the first nine months of fiscal 2005. These decreases were primarily due to the redemption of our convertible subordinated debentures.

Other Income and Other Expense, net

Other income and expense primarily consists of realized gains and losses on the sale of marketable securities. Other income decreased by $1.4 million from the third quarter of fiscal 2004 to the third quarter of fiscal 2005 primarily due to $2.5 million of realized gains on the sale of marketable securities during the third quarter of fiscal 2004 as a result of our liquidation of a significant portion of our marketable securities portfolio in order to obtain the cash required to redeem our convertible subordinated debentures in October 2003. This decrease was offset by a $1.0 million realized gain during the third quarter of fiscal year 2005 related to the receipt of cash and marketable securities as part of an investment exchange. Other income decreased by $2.1 million from the first nine months of fiscal 2004 to the first nine months of fiscal primarily due to $2.5 million of realized gains on the sale of marketable securities during the third quarter of fiscal 2004.

Income Taxes

We recognized income tax expense of $6.5 million and $13.1 million for the three and nine months ended October 24, 2004, respectively. The effective income tax rate for the three and nine months ended October 24, 2004 was 20%. We recognized income tax benefit of $800,000 for the three months ended October 26, 2003, and recognized income tax expense of $10.2 million for the nine months ended October 26, 2003. The effective income tax rate for the three and nine months ended October 26, 2003 was (14.5%) and 16.8%, respectively. The effective income tax rate for the three and nine months ended October 26, 2003 was composed of three separate rates. The $13.1 million convertible debenture redemption expense was tax affected as a benefit at a 40% rate. The $3.5 million write-off of in-process research and development was not tax affected and the operating income was taxed at our anticipated 20% rate for fiscal 2004. Our effective tax rate is lower than the U.S. Federal Statutory rate of 35% due primarily to income earned in lower tax jurisdictions and research and development tax credits.

Liquidity and Capital Resources

As of October 24, 2004, we had $587.9 million in cash, cash equivalents and marketable securities, a decrease of $16.2 million from the end of fiscal 2004. Our portfolio of cash equivalents and marketable securities is managed by several financial institutions. Our investment policy requires the purchase of top-tier investment grade securities, the diversification of asset type and certain limits on our portfolio duration.

Operating activities generated cash of $33.0 million and $50.6 million during the first nine months of fiscal 2005 and fiscal 2004, respectively. Net cash provided by operating activities during the first nine months of fiscal 2005 was primarily due to $52.3 million of net income and a $77.7 million increase accounts payable related to the timing of payments made to our suppliers offset by a $63.3 million increase in inventory caused by a ramp-up in production of our new GeForce 6 products and a $122.0 million increase in accounts receivable primarily related to increased sales during the last month of the third quarter of fiscal 2005.

Cash used in investing activities has consisted primarily of investments in marketable securities and purchases of property and equipment, which include leasehold improvements for our facilities, and intangible assets. Investing activities used cash of $93.4 million during the first nine months of fiscal 2005 compared to cash provided of $108.9 million during the first nine months of fiscal 2004. Net cash used by investing activities during the first nine months of fiscal 2005 was primarily due to $44.1 million of net purchases of marketable securities. In addition, we used $49.3 million for capital expenditures primarily attributable to purchases of leasehold improvements for our new data center at our headquarters campus, new research and development emulation equipment, technology licenses, software and intangible assets. We expect to spend approximately $15.0 million to $25.0 million for capital expenditures during the remainder of fiscal 2005, primarily for purchases of software licenses, emulation equipment, computer and engineering workstations. In addition, we may continue to use cash in connection with the acquisition of new businesses or assets.

Financing activities provided cash of $2.7 million during the first nine months of fiscal 2005 primarily from $30.8 million of common stock issued under employee stock plans, offset by $24.6 million related to our stock repurchase program.

Stock Repurchase Program

On August 9, 2004, we announced a stock repurchase program under which we may purchase up to $300.0 million of our common stock over a three year period through August 2007. The repurchases will be made in the open market or in privately negotiated transactions, from time to time, in compliance with Rule 10b-18 under the Securities Exchange Act of 1934, subject to market conditions, applicable legal requirements and other factors. Our stock repurchase program does not obligate us to acquire any particular amount of common stock and may be suspended at any time at our discretion. The repurchases will be funded from our available working capital. To date, we have repurchased 2.1 million shares for a total cost of approximately $24.6 million.

Operating Capital and Capital Expenditure Requirements

We believe that our existing cash balances and anticipated cash flows from operations will be sufficient to meet our operating, acquisition and capital requirements for at least the next 12 months. However, there is no assurance that we will not need to raise additional equity or debt financing within this time frame. Additional financing may not be available on favorable terms or at all and may be dilutive to our then-current stockholders. We also may require additional capital for other purposes not presently contemplated. If we are unable to obtain sufficient capital, we could be required to curtail capital equipment purchases or research and development expenditures, which could harm our business. Factors that could affect our cash used or generated from operations and, as a result, our need to seek additional borrowings or capital include:

- decreased demand and market acceptance for our products and/or our customers' products;
- inability to successfully develop and produce in volume production our next-generation products;
- competitive pressures resulting in lower than expected average selling prices; and
- new product announcements or product introductions by our competitors.

For additional factors see "Business Risks - Our operating results are unpredictable and may fluctuate, and if our operating results are below the expectations of securities analysts or investors our stock price could decline."

Other key factors that could affect our liquidity include:

Shelf Registration Statement

In December 2003, we filed a Form S-3 with the Securities and Exchange Commission, or SEC, under their "shelf" registration process. This shelf registration was declared effective by the SEC on March 25, 2004. Under this shelf registration process, we may sell common stock, preferred stock, debt securities, warrants, stock purchase contracts and/or stock purchase units in one or more offerings up to a total dollar amount of $500.0 million. Unless otherwise indicated in the applicable prospectus supplement, we intend to use the proceeds for working capital and general corporate purposes. In particular, we expect to incur significant operating expenses in connection with:

- continuing to develop our technology;
- hiring additional personnel;
- expanding our sales and marketing organization and activities;
- acquiring complementary technologies, assets or businesses; and
- capital expenditures.

3dfx Asset Purchase

The 3dfx asset purchase closed on April 18, 2001. Under the terms of the Asset Purchase Agreement, the cash consideration due at the closing was $70.0 million, less $15.0 million that was loaned to 3dfx pursuant to a Credit Agreement dated December 15, 2000. The Asset Purchase Agreement also provided, subject to the other provisions thereof, that if 3dfx properly certified that all its debts and other liabilities had been provided for, then we would have been obligated to pay 3dfx two million shares of NVIDIA common stock. If 3dfx could not make such a certification, but instead properly certified that its debts and liabilities could be satisfied for less than $25.0 million, then 3dfx could have elected to receive a cash payment equal to the amount of such debts and liabilities and a reduced number of shares of our common stock, with such reduction calculated by dividing the cash payment by $25.00 per share. If 3dfx could not certify that all of its debts and liabilities had been provided for, or could not be satisfied, for less than $25.0 million, we would not be obligated under the agreement to pay any additional consideration for the assets. We are currently party to litigation relating to certain aspects of the asset purchase and 3dfx's subsequent bankruptcy in October 2002. Please see Part II, Item 1, "Legal Proceedings" for further information regarding this litigation.

Contractual Obligations

As of October 24, 2004, our outstanding inventory purchase obligations have increased to $359.3 million from $213.3 million as of January 25, 2004 primarily due to purchase orders for our new GeForce 6 series of GPUs. There were no other material changes in our contractual obligations from those disclosed in our Annual Report on Form 10-K for the year ended January 25, 2004. Please see 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 year ended January 25, 2004.

Recent Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board, or FASB, issued Interpretation No. 46, or FIN 46, *Consolidation of Variable Interest Entities*, which addresses consolidation by business enterprises of variable interest entities, or VIEs, either: (1) that do not have sufficient equity investment at risk to permit the entity to finance its activities without additional subordinated financial support, or (2) in which the equity investors lack an essential characteristic of a controlling financial interest. In December 2003, the FASB completed deliberations of proposed modifications to FIN 46, or FIN 46(R), resulting in an effective date of no later than the first interim or annual period ending after March 15, 2004. The adoption of FIN 46(R) did not have an impact on our results of operations or financial position.

In March 2004, the FASB approved the consensus reached on the Emerging Issues Task Force Issue No. 03-1, or EITF 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments.* EITF 03-1 provides guidance for identifying impaired investments and new disclosure requirements for investments that are deemed to be temporarily impaired. On September 30, 2004, the FASB issued a final staff position EITF Issue 03-1-1 that delays the effective date for the measurement and recognition guidance included in paragraphs 10 through 20 of EITF 03-1. Quantitative and qualitative disclosures required by EITF 03-1 remain effective for our fiscal year ending 2005. We do not believe the impact of adoption of this EITF consensus will be significant to our overall results of operations or financial position.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

We invest in a variety of financial instruments, consisting principally of investments in commercial paper, money market funds and highly liquid debt securities of corporations, municipalities and the United States government and its agencies. These investments are denominated in U.S. dollars.

We account for our investment instruments in accordance with Statement of Financial Accounting Standards No. 115, or SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. All of the cash equivalents and marketable securities are treated as "available-for-sale" under SFAS No. 115. Investments in both fixed rate and floating rate interest earning instruments carry a degree of interest rate risk. Fixed rate securities may have their market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectations due to changes in interest rates or we may suffer losses in principal if forced to sell securities that decline in market value due to changes in interest rates. However, because we classify our debt securities as "available-for-sale," no gains or losses are recognized due to changes in interest rates unless such securities are sold prior to maturity. These securities are reported at fair value with the related unrealized gains and losses included in accumulated other comprehensive income, a component of stockholders’ equity, net of tax.

Exchange Rate Risk

We consider our direct exposure to foreign exchange rate fluctuations to be minimal. Currently, sales and arrangements with third-party manufacturers and subcontractors provide for pricing and payment in U.S. dollars, and therefore are not subject to exchange rate fluctuations. To date, we have not engaged in any currency hedging activities, although we may do so in the future. Fluctuations in currency exchange rates could harm our business in the future.

Business Risks

In addition to the risks discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations," our business is subject to the risks set forth below.

Risks Related to Our Operations

Our failure to estimate customer demand properly may result in excess or obsolete inventory or, conversely, may result in inadequate inventory levels, any of which could adversely affect our financial results.

Inventory purchases are based upon future demand forecasts. If there were to be a sudden and significant decrease in demand for our products, or if there were a higher incidence of inventory obsolescence because of rapidly changing technology and customer requirements, we could be required to write-down our inventory and our gross margins could be adversely affected. During the second quarter of fiscal 2005, demand for our non PCI Express mainstream desktop products declined significantly due in large part to unexpected competitive pricing actions taken by our competition. As a result of these competitive pricing actions, we were required to reduce the average selling prices of certain of our mainstream and value desktop products and our gross margins were adversely affected. If such competitive pricing actions were to recur in the future, we could be forced to continue to reduce average selling prices or to write-down our inventory and our gross margins could be adversely affected. Conversely, if we underestimate our customers' demand for our products, we may have inadequate manufacturing capability and may not be able to obtain sufficient inventory to fill our customers' orders on a timely basis. If we are unable to fill our customers' orders on a timely basis, our reputation and revenue may be negatively affected.

We order materials in advance of anticipated customer demand. Therefore, we have limited ability to reduce our inventory purchase commitments quickly in response to any revenue shortfalls.

Substantially all of our sales are made on the basis of purchase orders rather than long-term agreements. As a result, we may commit resources to the production of products without having received advance purchase commitments from customers. Any inability to sell products to which we have devoted significant resources could harm our business. In addition, cancellation or deferral of product orders could result in our holding excess inventory, which could adversely affect our profit margins and restrict our ability to fund operations. We may build inventories during periods of anticipated growth and in connection with selling workstation boards directly to major original equipment manufacturers, or OEMs. Additionally, because we typically recognize a substantial portion of our revenue in the last month of each quarter, we may not be able to reduce our inventory purchase commitments in a timely manner in response to any revenue shortfalls. We could be subject to excess or obsolete inventories and be required to take corresponding inventory write-downs if growth slows or if we incorrectly forecast product demand. A reduction in demand could negatively impact our gross margins and financial results.

We are dependent on key personnel and the loss of these employees could negatively impact our business.

Our performance is substantially dependent on the performance of our executive officers and key employees. None of our officers or employees is bound by an employment agreement, and so our relationships with our officers and employees are at will. We do not have "key person" life insurance policies on any of our employees. The loss of the services of any of our executive officers, technical personnel or other key employees, particularly Jen-Hsun Huang, our President and Chief Executive Officer, would harm our business. Our success will depend on our ability to identify, hire, train and retain highly qualified technical and managerial personnel. Our failure to attract and retain the necessary technical and managerial personnel would harm our business. The integration of new executives or personnel could disrupt our ongoing operations.

Failure to achieve expected manufacturing yields for existing and/or new products would reduce our gross margins.

Semiconductor manufacturing yields are a function both of product design, which is developed largely by us, and process technology, which typically is proprietary to the manufacturer. Since low yields may result from either design or process technology failures, yield problems may not be effectively determined or resolved until an actual product exists that can be analyzed and tested to identify process sensitivities relating to the design rules that are used. As a result, yield problems may not be identified until well into the production process, and resolution of yield problems would require cooperation by and communication between us and the manufacturer.

Because of our potentially limited access to wafer fabrication capacity from our manufacturers, any decrease in manufacturing yields could result in an increase in our per unit costs and force us to allocate our available product supply among our customers. This could potentially harm customer relationships, our reputation, our revenue and our gross profit. Our wafer manufacturers may be unable to achieve or maintain acceptable manufacturing yields in the future. Our inability to achieve planned yields from our wafer manufacturers could harm our business. We also face the risk of product recalls or product returns resulting from design or manufacturing defects that are not discovered during the manufacturing and testing process. In the event of a significant number of product returns due to a defect or recall, our business could suffer.

To stay competitive, we may have to invest more resources in research and development.

If new competitors, technological advances by existing competitors or other competitive factors require us to invest significantly greater resources than anticipated in research and development efforts, our operating expenses would increase. We have substantially increased our engineering and technical resources and have 1,218 full-time employees engaged in research and development as of October 24, 2004, compared to 1,012 employees as of October 26, 2003. During the third quarter of fiscal 2005 and fiscal 2004, research and development expenditures represented 17.0% and 15.0% as a percentage of revenue, respectively. During the first nine months of fiscal 2005 and fiscal 2004, research and development expenditures represented 17.4% and 14.7% as a percentage of revenue, respectively. If we are required to invest significantly greater resources than anticipated in research and development efforts without an increase in revenue, our operating results would decline.

Our operating expenses are relatively fixed and we may have limited ability to reduce expenses quickly in response to any revenue shortfalls.

During the third quarter of fiscal 2005 and fiscal 2004, our operating expenses, which are comprised of research and development expenses and sales, general and administrative expenses, represented 26.7% and 24.4% as a percentage of our total revenue, respectively. During the first nine months of fiscal 2005 and fiscal 2004, our operating expenses represented 27.7% and 24.0% as a percentage of our total revenue, respectively. We typically recognize a substantial portion of our revenues in the last month of each quarter, we may not be able to adjust our operating expenses in a timely manner in response to any revenue shortfalls. If we are unable to reduce operating expenses quickly in response to any revenue shortfalls it would negatively impact our financial results.

Failure to transition to new manufacturing process technologies could affect our ability to compete effectively.

Our strategy is to utilize the most advanced process technology appropriate for our products and available from commercial third-party foundries. Use of advanced processes may have greater risk of initial yield problems and higher product cost. Manufacturing process technologies are subject to rapid change and require significant expenditures for research and development. We continuously evaluate the benefits of migrating to smaller geometry process technologies in order to improve performance and reduce costs. We currently use 0.15-micron, 0.14 micron 0.13, and 0.11 micron process technologies for our family of GPUs, MCPs and WMPs. The majority of our newest GPUs, the GeForce 6 series, GeForce FX and the GeForce FX Go products are manufactured in 0.13-micron process technology.

We have experienced difficulty in migrating to new manufacturing processes in the past and, consequently, have suffered reduced yields, delays in product deliveries and increased expense levels. Moreover, we are dependent on our relationships with our third-party manufacturers to migrate to smaller geometry processes successfully. We may continue to have difficulty migrating to new manufacturing process technologies successfully or on a timely basis. Our inability to transition to new manufacturing process technologies may adversely affect our operating results and negatively impact our gross margins.

Our operating results are unpredictable and may fluctuate, and if our operating results are below the expectations of securities analysts or investors our stock price could decline.

Many of our revenue components fluctuate and are difficult to predict, and our operating expenses are largely independent of revenue in any particular period. It is therefore difficult for us to accurately forecast revenue and profits or losses. As a result, it is possible that in some quarters our operating results could be below the expectations of securities analysts or investors, which could cause the trading price of our common stock to decline, perhaps substantially. For example, on August 5, 2004, we announced that the operating results for our second quarter of fiscal 2005 included significantly lower amounts of revenue and earnings per share than had been expected by securities analysts. Our announcement was followed by a decline in the trading price of our common stock. We believe that our quarterly and annual results of operations may continue to be affected by a variety of factors that could harm our revenue, gross profit and results of operations.

Factors that have affected our results of operations in the past, and could affect our results of operations in the future, include the following:

- demand and market acceptance for our products and/or our customers' products;
- the successful development and volume production of our next-generation products;
- new product announcements or product introductions by our competitors;
- our ability to introduce new products in accordance with OEMs' design requirements and design cycles;
- changes in the timing of product orders due to unexpected delays in the introduction of our customers' products;
- fluctuations in the availability of manufacturing capacity or manufacturing yields;
- declines in spending by corporations and consumers related to perceptions regarding an economic downturn in the U.S. and international economies;
- competitive pressures resulting in lower than expected average selling prices;
- product rates of return in excess of that forecasted or expected due to quality issues;
- the rescheduling or cancellation of customer orders;
- the loss of a key customer or the termination of a strategic relationship;
- seasonal fluctuations associated with the PC and consumer products market;
- substantial disruption in our suppliers' operations, either as a result of a natural disaster, equipment failure, terrorism or other cause;
- supply constraints for and changes in the cost of the other components incorporated into our customers' products, including memory devices;
- our ability to reduce the manufacturing costs of our products;
- legal and other costs related to defending intellectual property and other types of lawsuits;
- customer receivable bad debt write-offs;
- costs associated with the repair and replacement of defective products;
- unexpected inventory write-downs; and
- introductions of enabling technologies to keep pace with faster generations of processors and controllers.

Any one or more of the factors discussed above could prevent us from achieving our expected future revenue or net income. Accordingly, we believe that period-to-period comparisons of our results of operations should not be relied upon as an indication of future performance. In addition, the results of any quarterly period are not necessarily indicative of results to be expected for a full fiscal year.

Risks Related to Our Products

We need to develop new products and to manage product transitions in order to succeed.

Our business depends to a significant extent on our ability to successfully develop new products for our target segments. Our add-in board and motherboard manufacturers, original design manufacturers, or ODMs, and major OEM customers typically introduce new system configurations as often as twice per year, typically based on spring and fall design cycles. Accordingly, our existing products must have competitive performance levels or we must timely introduce new products with such performance characteristics in order to be included in new system configurations. This requires that we do the following:

- anticipate the features and functionality that consumers will demand;
- incorporate those features and functionalities into products that meet the exacting design requirements of OEMs, ODMs, CEMs and add-in board and motherboard manufacturers;
- price our products competitively; and
- introduce the products to the market within the limited window for OEMs, ODMs, and add-in board and motherboard manufacturers.

As a result, we believe that significant expenditures for research and development will continue to be required in the future. The success of new product introductions will depend on several factors, including the following:

- proper new product definition;
- timely completion and introduction of new product designs;
- the ability of IBM, TSMC, UMC, Chartered and any additional third-party manufacturers to effectively manufacture our new products in a timely manner;
- dependence on third-party subcontractors for assembly, testing and packaging of our products and in meeting product delivery schedules and maintaining product quality;
- the quality of any new products;
- differentiation of new products from those of our competitors;
- market acceptance of our products and our customers' products; and
- availability of adequate quantity and configurations of various types of memory products.

A critical component of our product development effort is our partnerships with leaders in the computer aided design, or CAD, industry. We have invested significant resources to develop relationships with industry leaders, including Cadence Design Systems, Inc., IKOS Systems, Inc. and Synopsys, Inc., often assisting these companies in the product definition of their new products. We believe that forming these relationships and utilizing next-generation development tools to design, simulate and verify our products will help us remain at the forefront of the 3D graphics, communications and networking markets and develop products that utilize leading-edge technology on a rapid basis. We believe this approach assists us in meeting the new design schedules of PC OEMs and cell phone manufacturers. If these relationships are not successful, we may not be able to develop new products in a timely manner, which could result in a loss of market share, a decrease in revenue and a negative impact on our operating results.

In addition, our strategy includes utilizing the most advanced semiconductor process technology appropriate for our products and available from commercial third-party foundries. Use of advanced processes has in the past resulted in initial yield problems. New products that we introduce may not incorporate the features and functionality demanded by OEMs, ODMs, add-in board and motherboard manufacturers and consumers of PCs and consumer electronics. In addition, we may not successfully develop or introduce new products in sufficient volumes within the appropriate time to meet both the OEMs' design cycles and market demand. We have in the past experienced delays in the development of some new products. Our failure to successfully develop, introduce or achieve market acceptance for new digital media processors would harm our business. In particular, we experienced delays in the introduction of digital media processors using our next generation technology during the first half of fiscal 2004. In addition, we expected to ramp up sales of our PCI Express products during the second quarter of fiscal 2005, but as a result of Intel Corporation's, or Intel's, delayed PCI Express chipset production, followed by their product recall, the performance desktop segment was impacted by stalling our customers' production ramp of our GeForce PCX GPUs. Any such delay in the future or failure of our digital media processors or other processors to meet or exceed specifications of competitive products could materially harm our business.

Our failure to identify new product opportunities or develop new products could harm our business.

As our digital media processors develop and competition increases, we anticipate that product life cycles at the high end will remain short and average selling prices will continue to decline. In particular, we expect average selling prices and gross margins for our digital media processors to decline as each product matures and as unit volume increases. As a result, we will need to introduce new products and enhancements to existing products to maintain overall average selling prices and gross margins. In order for our digital media processors to achieve high volumes, leading PC OEMs, ODMs, and add-in board and motherboard manufacturers must select our digital media processor for design into their products, and then successfully complete the designs of their products and sell them. We may be unable to successfully identify new product opportunities or to develop and bring to market new products in a timely fashion. In addition, we cannot guarantee that new products we develop will be selected for design into PC OEMs', ODMs', and add-in board and motherboard manufacturers' products, that any new designs will be successfully completed or that any new products will be sold. As the complexity of our products and the manufacturing process for products increases, there is an increasing risk that we will experience problems with the performance of products and that there will be delays in the development, introduction or volume shipment of our products. We may experience difficulties related to the production of current or future products or other factors may delay the introduction or volume sale of new products we developed. In addition, we may be unable to successfully manage the production transition risks with respect to future products. Failure to achieve any of the foregoing with respect to future products or product enhancements could result in rapidly declining average selling prices, reduced margins and reduced demand for products or loss of market share. In addition, technologies developed by others may render our digital media processors non-competitive or obsolete or result in our holding excess inventory, any of which would harm our business.

PCI Express is central to our GPU as well as MCP strategies this fiscal year and the outcome of this strategy will impact our business.

PCI Express is expected to enable a new level of performance for high bandwidth applications like graphics and networking. The transition to PCI Express, which is extremely complex, is central to our GPU and MCP objectives this fiscal year. Our transition strategy includes using a PCI Express high-speed interconnect, or HSI. HSI is a complex piece of networking technology that performs high-speed bi-directional interconnect protocol conversion. Using HSI, we transformed some of our GPUs into PCI Express compatible GPUs. In February 2004, we launched a top-to-bottom family of PCI Express solutions.

In May 2004, we announced MXM, which was jointly developed by NVIDIA and leading notebook PC manufacturers in an effort to accelerate the adoption of PCI Express-based notebooks in all market segments. MXM is an open design specification that supports a wide range of graphics solutions from any GPU manufacturer, allowing system integrators flexibility for build-to-order with various graphics solutions. MXM will also serve as the primary delivery vehicle for our next generation GPUs based on the GeForce Go 6 series architecture. During the third quarter of fiscal 2005, we announced the GeForce 6600 GT, GeForce 6600 and the GeForce 6200, our first native PCI Express GPUs. In June 2004, we executed on our strategy to deliver a full line of GPUs ready to support PCI Express chipsets. Our first PCI Express graphics solutions, the GeForce PCX series, are currently shipping to leading add-in-card partners, OEMs, system builders and other partners and were released for retail sale during the second quarter of fiscal 2005. If our PCI Express compatible products do not meet consumer and/or analysts expectations, our business could suffer.

We could suffer a loss of market share if our products contain significant defects.

Products as complex as those we offer may contain defects or failures when introduced or when new versions or enhancements to existing products are released. We have in the past discovered defects and incompatibilities with customers' hardware in certain of our products and may experience delays or loss of revenue to correct any new defects or incompatibilities in the future. Errors in new products or releases after commencement of commercial shipments could result in loss of market share, failure to achieve market acceptance and harm our financial results. Our products typically go through only one verification cycle prior to beginning volume production and distribution. As a result, our products may contain defects or flaws that are undetected prior to volume production and distribution. If these defects or flaws exist and are not detected prior to volume production and distribution, we may be required to reimburse customers for costs to repair or replace the affected products in the field. We may also be required to incur additional development costs, which could divert the attention of our management and engineers from the development of new products. These costs could be significant and could adversely affect our business and operating results. We may also suffer a loss of reputation and/or a loss in our market share, either of which could materially harm our financial results.

Risks Related to Our Partners

We sell our products to a small number of customers and our business could suffer by the loss of these customers.

We have only a limited number of customers and our sales are highly concentrated. Although a small number of our customers represent the majority of our revenue, their end customers include a large number of OEMs and system integrators throughout the world. Our sales process involves achieving key design wins with leading PC OEMs and major system builders and supporting the product design into high volume production with key CEMs, ODMs, motherboard and add-in board manufacturers. These design wins in turn influence the retail and system builder channel that is serviced by CEMs, ODMs, motherboard and add-in board manufacturers. Our distribution strategy is to work with a small number of leading independent CEMs, ODMs, motherboard manufacturers, add-in board manufacturers and stocking representatives, each of which has relationships with a broad range of system builders and leading PC OEMs. Currently, we sell a significant majority of our digital media processors directly to stocking representatives, CEMs, ODMs, motherboard and add-in board manufacturers, which then sell boards with our graphics processor to leading PC OEMs, retail outlets and to a large number of system builders. If we were to lose sales to our PC OEMs, CEMs, ODMs, motherboard and add-in board manufacturers or if they were to significantly reduce the number of products they order from us, our revenue may not reach or exceed the expected level in any period, which could harm our financial condition and our results of operations.

Difficulties in collecting accounts receivable could result in significant charges against income, which could harm our business.

Our accounts receivable are highly concentrated and make us vulnerable to adverse changes in our customers' businesses and to downturns in the economy and the industry. We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. This allowance consists of an amount identified for specific customers and an amount based on overall estimated exposure. As of October 24, 2004 and October 26, 2003 our allowance for doubtful accounts represented 0.4% and 0.6% of revenue for each fiscal quarter, respectively. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required which could adversely affect our operating results. We may have to record additional reserves or write-offs in the future, which could harm our business.

We depend on foundries and independent contractors to manufacture our products and these third parties may not be able to satisfy our manufacturing requirements, which would harm our business.

We do not manufacture the semiconductor wafers used for our products and do not own or operate a wafer fabrication facility. Our products require wafers manufactured with state-of-the-art fabrication equipment and techniques. We utilize TSMC, IBM, UMC, and Chartered to produce our semiconductor wafers and utilize independent subcontractors to perform assembly, testing and packaging. Our wafer requirements represent a significant portion of the total production capacity at IBM. We depend on these suppliers to allocate to us a portion of their manufacturing capacity sufficient to meet our needs, to produce products of acceptable quality and at acceptable manufacturing yields, and to deliver those products to us on a timely basis at acceptable prices. These manufacturers may be unable to meet our near-term or long-term manufacturing or pricing requirements. We obtain manufacturing services on a purchase order basis. TSMC, IBM, UMC, and Chartered have no obligation to provide us with any specified minimum quantities of product. TSMC, IBM, UMC, and Chartered fabricate wafers for other companies, including certain of our competitors, and could choose to prioritize capacity for other users, reduce or eliminate deliveries to us, or increase the prices that they charge us on short notice. Because the lead-time needed to establish a strategic relationship with a new manufacturing partner could be several quarters, there is no readily available alternative source of supply for any specific product. We believe that long-term market acceptance for our products will depend on reliable relationships with TSMC, IBM, UMC, Chartered and any other manufacturers used by us to ensure adequate product supply and competitive pricing to respond to customer demand. Any difficulties like these would harm our business.

There can be no assurance that IBM will be able to produce wafers of acceptable quality and with acceptable manufacturing yield and deliver those wafers to us and our independent assembly and testing subcontractors on a timely basis.

During fiscal 2004, we announced that we had formed a multi-year strategic alliance under which IBM would manufacture certain GeForce GPUs. IBM began manufacturing GeForce GPUs in July 2003 at its plant in New York. Our manufacturing yields and product performance could suffer due to difficulties associated with adapting our technology and product design to the proprietary process technology and design rules of IBM. Any decrease in manufacturing yields could result in an increase in our per unit costs and force us to allocate our available product supply among our customers. This could potentially harm customer relationships as well as our revenue and gross profit. We also face the risk of product recalls or product returns resulting from design or manufacturing defects that are not discovered during the manufacturing and testing process. In the event of a significant number of product returns due to a defect or recall, our business could suffer.

We are dependent on third parties located outside of the United States for assembly, testing and packaging of our products, which reduces our control over the delivery and quantity of our products.

Our digital media processors are assembled and tested by Siliconware Precision Industries Company Ltd., Amkor Technology Inc., STATS ChipPAC Incorporated and Advanced Semiconductor Engineering, Inc., all of which are located outside of the United States. We do not have long-term agreements with any of these subcontractors. As a result of our dependence on third-party subcontractors for assembly, testing and packaging of our products, we do not directly control product delivery schedules or product quality. Any product shortages, quality assurance problems or political instability outside of the United States could increase the costs of manufacture, assembly or testing of our products, which could cause our gross margin to decline. Due to the amount of time typically required to qualify assemblers and testers, we could experience significant delays in the shipment of our products if we are required to find alternative third parties to assemble or test our products or components. Any such delays could result in a loss of reputation or a decrease in sales to our customers.

We rely on third-party vendors to supply tools to us for the development of our new products and we may be unable to obtain the tools necessary to develop these products.

In the design and development of new products and product enhancements, we rely on third-party software development tools. While we currently are not dependent on any one vendor for the supply of these tools, some or all of these tools may not be readily available in the future. For example, we have experienced delays in the introduction of products in the past as a result of the inability of then available software development tools to fully simulate the complex features and functionalities of our products. The design requirements necessary to meet consumer demands for more features and greater functionality from digital media processors in the future may exceed the capabilities of the software development tools available to us. If the software development tools we use become unavailable or fail to produce designs that meet consumer demands, our business could suffer.

We may not be able to realize the potential financial or strategic benefits of business acquisitions and that could hurt our ability to grow our business, develop new products and sell our products.

In the past we have acquired and invested in other businesses that offered products, services and technologies that we believed would help expand or enhance our products and services or help expand our distribution channels. For any previous or future acquisition or investment, the following risks could impair our ability to grow our business and develop new products and, ultimately, could impair our ability to sell our products:

- difficulty in combining the technology, operations or workforce of the acquired business;
- disruption of our ongoing businesses;
- difficulty in realizing the potential financial or strategic benefits of the transaction;
- diversion of management’s attention from our business;
- difficulty in maintaining uniform standards, controls, procedures and policies; and

- possible impairment of relationships with employees and customers as a result of any integration of new businesses and management personnel.

In addition, the consideration for any future acquisition could be paid in cash, shares of our common stock, or a combination of cash and common stock. If the consideration is paid with our common stock, existing stockholders would be further diluted.

The impact on our future revenue by Microsoft's announcement that it has entered into an agreement with one of our competitors to develop technology for future Xbox products and services is uncertain.

During fiscal 2004, Microsoft announced that it had entered into an agreement with one of our competitors to develop technology for future Xbox products and services. The impact that this announcement may have on our future revenue from Microsoft is uncertain, but we anticipate that we will not achieve historical levels of Xbox revenue in fiscal 2006. Revenue from Microsoft during the third quarter of fiscal 2005 and fiscal 2004 accounted for 21% and 25%, respectively, of our total revenue. During the first nine months of fiscal 2005 and fiscal 2004 revenue from Microsoft accounted for 16% and 18%, respectively, of our total revenue. Revenue from Microsoft during fiscal 2004, fiscal 2003 and fiscal 2002 accounted for 15%, 23% and 9%, respectively, of our total revenue.

Provisions in our certificate of incorporation, our bylaws and our agreement with Microsoft could delay or prevent a change in control.

Our certificate of incorporation and bylaws contain provisions that could make it more difficult for a third party to acquire a majority of our outstanding voting stock. These provisions include the following:

- the ability of the board of directors to create and issue preferred stock without prior stockholder approval;

- the prohibition of stockholder action by written consent;

- a classified board of directors; and

- advance notice requirements for director nominations and stockholder proposals.

On March 5, 2000, we entered into an agreement with Microsoft in which we agreed to develop and sell graphics chips and to license certain technology to Microsoft and its licensees for use in the Xbox. In the event that an individual or corporation makes an offer to purchase shares equal to or greater than 30% of the outstanding shares of our common stock, Microsoft has first and last rights of refusal to purchase the stock. The Microsoft provision and the other factors listed above could also delay or prevent a change in control of NVIDIA.

Risks Related to Our Competition

The 3D graphics, platform processor and handheld industries are highly competitive and we may be unable to compete.

The market for GPUs, MCPs and WMPs for PCs and handhelds is intensely competitive and is characterized by rapid technological change, evolving industry standards and declining average selling prices. We believe that the principal competitive factors in this market are performance, breadth of product offerings, access to customers and distribution channels, backward-forward software support, conformity to industry standard Application Programming Interfaces, or APIs, manufacturing capabilities, price of digital media processors and total system costs of add-in boards and motherboards. We expect competition to increase both from existing competitors and new market entrants with products that may be less costly than ours, or may provide better performance or additional features not provided by our products, which could harm our business. For example, during the second quarter of fiscal 2005, we implemented pricing reductions on certain of our mainstream products in order to respond to our competition's competitive pricing actions.

Our primary source of competition is from companies that provide or intend to provide GPU and MCP solutions for the PC and WMP segments. Our competitors include the following:

- suppliers of MCPs that incorporate 3D graphics functionality as part of their existing solutions, such as ATI Technologies, Inc., or ATI, Intel, Silicon Integrated Systems Corporation and VIA Technologies, Inc., or VIA;

- suppliers of desktop standalone GPUs that incorporate 3D graphics functionality as part of their existing solutions, such as ATI, Creative Technology Ltd., Matrox Electronics Systems Ltd. and XGI Technology, Inc.;

- suppliers of notebook standalone GPUs that incorporate 3D graphics functionality as part of their existing solutions, such as ATI, Silicon Motion, Inc. and the joint venture of a division of SONICblue Incorporated (formerly S3 Incorporated) and VIA; and

- suppliers of WMPs for handheld devices that incorporate advanced graphics functionality as part of their existing solutions, such as ATI, Renesas Technology, and Seiko-Epson Corporation.

If and to the extent we offer products outside of the PC, consumer electronics and handheld segments, we may face competition from some of our existing competitors as well as from companies with which we currently do not compete. We cannot accurately predict if we will compete successfully in any new markets we may enter.

Our failure to achieve one or more design wins would harm our business.

Our future success will depend in large part on achieving design wins, which entails having our existing and future products chosen for hardware components or subassemblies designed by PC OEMs, ODMs, and add-in board and motherboard manufacturers. Our add-in board and motherboard manufacturers and major OEM and ODM customers typically introduce new system configurations as often as twice per year, generally based on spring and fall design cycles. Accordingly, our existing products must have competitive performance levels or we must timely introduce new products with such performance characteristics in order to be included in new system configurations. Our failure to achieve one or more design wins would harm our business. The process of being qualified for inclusion in an OEM's product can be lengthy and could cause us to miss a cycle in the demand of end users for a particular product feature, which also could harm our business.

Our ability to achieve design wins also depends in part on our ability to identify and ensure compliance with evolving industry standards. Unanticipated changes in industry standards could render our products incompatible with products developed by major hardware manufacturers and software developers, including Intel and Microsoft. This would require us to invest significant time and resources to redesign our products to ensure compliance with relevant standards. If our products are not in compliance with prevailing industry standards for a significant period of time, our ability to achieve design wins could suffer. If we are unable to achieve new design wins for existing or new customers, we may lose market share and our operating results would be negatively impacted.

Risks Related to Market Conditions

We are dependent on the PC market and the rate of its growth has and may in the future have a negative impact on our business.

We derive the majority of our revenue from the sale of products for use in the desktop and notebook PC segments, including professional workstations. We expect to continue to derive most of our revenue from the sale or license of products for use in the desktop and notebook PC segments in the next several years. A reduction in sales of PCs, or a reduction in the growth rate of PC sales, will reduce demand for our products. Moreover, changes in demand could be large and sudden. Since PC manufacturers often build inventories during periods of anticipated growth, they may be left with excess inventories if growth slows or if they have incorrectly forecast product transitions. In these cases, PC manufacturers may abruptly suspend substantially all purchases of additional inventory from suppliers like us until the excess inventory has been absorbed.

Our products may not continue to be accepted by the PC and consumer electronics segments.

Our success depends in part upon continued broad adoption of our digital media processors for 3D graphics in PC and consumer electronics applications. The market for digital media processors has been characterized by unpredictable and sometimes rapid shifts in the popularity of products, often caused by the publication of competitive industry benchmark results, changes in dynamic random memory devices pricing and other changes in the total system cost of add-in boards, as well as by severe price competition and by frequent new technology and product introductions. Only a small number of products have achieved broad market acceptance and such market acceptance, if achieved, is difficult to sustain due to intense competition and frequent new technology and product introductions. Since the PC segment is our core business, our business would suffer if for any reason our current or future digital media processors do not continue to achieve widespread acceptance in the PC segment. If we are unable to complete the timely development of products or if we were unable to successfully and cost-effectively manufacture and deliver products that meet the requirements of the PC segment, we may experience a decrease in revenue which could negatively impact our operating results.

We are subject to risks associated with international operations which may harm our business.

We generated 64% of our total revenue from sales to customers outside of the United States and other Americas for the third quarter of fiscal 2005 and 70% for the first nine months of fiscal 2005. Revenue from sales to customers outside of the United States and other Americas accounted for 67% of total revenue for the third quarter of fiscal 2004 and 73% for the first nine months of fiscal 2004. Sales to these customers outside of the United States and other Americas subjects us to a number of risks associated with conducting business outside of the United States and other Americas, including the following:

- international economic and political conditions;
- unexpected changes in, or impositions of, legislative or regulatory requirements;
- inadequate local infrastructure;
- delays resulting from difficulty in obtaining export licenses for certain technology, tariffs, quotas and other trade barriers and restrictions;
- transportation delays;
- longer payment cycles;
- increases in the U.S. dollar as compared to other currencies;
- imposition of additional taxes and penalties;
- the burdens of complying with a variety of foreign laws; and
- other factors beyond our control, including terrorism, war and diseases such as severe acute respiratory syndrome, or SARS, and the Bird flu, which may delay the manufacture, assembly, testing and packing of our products.

If sales to any of our customers outside of the United States and other Americas are delayed or cancelled because of any of the above factors, our revenue may be negatively impacted.

Currently, all of our arrangements with third-party manufacturers and subcontractors provide for pricing and payment in U.S. dollars as are sales to our customers located outside of the United States and other Americas. To date, we have not engaged in any currency hedging activities, although we may do so in the future. Fluctuations in currency exchange rates could harm our business in the future.

Hostilities involving the United States and/or terrorist attacks could harm our business.

The financial, political, economic and other uncertainties following the terrorist attacks upon the United States led to a weakening of the global economy. Subsequent terrorist acts and/or the threat of future outbreak or continued escalation of hostilities involving the United States and Iraq or other countries could adversely affect the growth rate of our revenue and have an adverse effect on our business, financial condition or results of operations. In addition, any escalation in these events or similar future events may disrupt our operations or those of our customers, distributors and suppliers, which could also adversely affect our business, financial condition or results of operations.

Our business is cyclical in nature and an industry downturn could harm our financial results.

Our business is directly affected by market conditions in the highly cyclical semiconductor industry, including alternating periods of overcapacity and capacity constraints, variations in manufacturing costs and yields, significant expenditures for capital equipment and product development and rapid technological change. If we are unable to respond to changes in our industry, which can be unpredictable and rapid, in an efficient and timely manner, our operating results could suffer. In particular, from time to time, the semiconductor industry has experienced significant and sometimes prolonged downturns characterized by diminished product demand and accelerated erosion of average selling prices. If we cannot take appropriate actions such as reducing our costs to sufficiently offset declines in demand during a downturn, our revenue and earnings will suffer during downturns.

Political instability in Taiwan and in The People's Republic of China or elsewhere could harm our business.

Because of our reliance on TSMC and UMC, our business may be harmed by political instability in Taiwan, including the worsening of the strained relations between The People's Republic of China and Taiwan, or if relations between the United States and The People's Republic of China are strained due to foreign relations events. If any of our suppliers experienced a substantial disruption in their operations, as a result of a natural disaster, political unrest, economic instability, acts of terrorism or war, equipment failure or other cause, could harm our business.

We are exposed to fluctuations in the market values of our portfolio investments and in interest rates.

We invest in a variety of financial instruments, consisting principally of investments in commercial paper, money market funds and highly liquid debt securities of corporations, municipalities and the United States government and its agencies. These investments are denominated in U.S. dollars.

We account for our investment instruments in accordance with SFAS No. 115. All of the cash equivalents and marketable securities are treated as "available-for-sale" under SFAS No. 115. Investments in both fixed rate and floating rate interest earning instruments carry a degree of interest rate risk. Fixed rate debt securities may have their market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Part of our portfolio includes equity investments in publicly traded companies, the value of which are subject to market price volatility. Due in part to these factors, our future investment income may fall short of expectations due to changes in interest rates or if the decline in fair value of our publicly traded equity investments is judged to be other-than-temporary. We may suffer losses in principal if forced to sell securities that decline in market value due to changes in interest rates. However, because our debt securities are classified as "available-for-sale", no gains or losses are recognized due to changes in interest rates unless such securities are sold prior to maturity.

Our stock price may continue to experience significant short-term fluctuations.

The price of our common stock has fluctuated greatly. These price fluctuations have been rapid and severe. For example, on August 5, 2004, we announced that the operating results for our second quarter of fiscal 2005 included significantly lower amounts of revenue and earnings per share than had been expected by securities analysts. Our announcement was followed by a decline in the trading price of our common stock. We believe that our quarterly and annual results of operations may continue to be affected by a variety of factors that could harm our revenue, gross profit and results of operations. The price of our common stock may continue to fluctuate greatly in the future due to factors that are non-company specific, such as the decline in the U.S. economy, acts of terror against the United States, war or due to a variety of company specific factors, including quarter to quarter variations in our operating results, shortfalls in revenue or earnings from levels expected by securities analysts and the other factors discussed in these risk factors.

Risks Related to Intellectual Property, Litigation and Government Action

While we believe that we currently have adequate internal controls over financial reporting, we are exposed to risks from recent legislation requiring companies to evaluate those internal controls.

Section 404 of the Sarbanes-Oxley Act of 2004 requires our management to report on, and our independent auditors to attest to, the effectiveness of our internal control structure and procedures for financial reporting. We have an ongoing program to perform the system and process evaluation and testing necessary to comply with these requirements. This legislation is relatively new and neither companies nor accounting firms have significant experience in complying with its requirements. As a result, we expect to incur increased expense and to devote additional management resources to Section 404 compliance. In the event that our chief executive officer, chief financial officer or independent auditors determine that our internal controls over financial reporting are not effective as defined under Section 404, investor perceptions of us may be adversely effected and could cause a decline in the market price of our stock.

Our industry is characterized by vigorous protection and pursuit of intellectual property rights or positions that could result in substantial costs to us.

The semiconductor industry is characterized by vigorous protection and pursuit of intellectual property rights and positions, which has resulted in protracted and expensive litigation. The digital media processor industry in particular has been characterized recently by the aggressive pursuit of intellectual property positions, and we expect our competitors to continue to pursue aggressive intellectual property positions. In addition, from time to time we receive notices or are included in legal actions alleging that we have infringed patents or other intellectual property rights owned by third parties. We expect that, as the number of issued hardware and software patents increases, and as competition in our product lines intensifies, the volume of intellectual property infringement claims may increase. If infringement claims are made against us, we may seek licenses under the claimants' patents or other intellectual property rights. However, licenses may not be offered at all or on terms acceptable to us, particularly by competitors. The failure to obtain a license from a third party for technology used by us could cause us to incur substantial liabilities and to suspend the manufacture of and sale of one or more products, which could reduce our revenue and harm our business. Furthermore, we may initiate claims or litigation against third parties for infringement of our proprietary rights or to establish the validity of our proprietary rights, which could be costly. We have agreed to indemnify certain customers for certain claims of infringement arising out of sale of our products. If we have to initiate a claim or indemnify a customer, our operating expenses may increase which could negatively impact our operating results.

Our ability to compete will be harmed if we are unable to adequately protect our intellectual property.

We rely primarily on a combination of patents, trademarks, trade secrets, employee and third-party nondisclosure agreements and licensing arrangements to protect our intellectual property in the United States and internationally. We have numerous patents issued, allowed and pending in the United States and in foreign countries. Our patents and pending patent applications relate to technology used by us in connection with our products, including our digital media processors. We also rely on international treaties and organizations and foreign laws to protect our intellectual property. The laws of certain foreign countries in which our products are or may be manufactured or sold, including various countries in Asia, may not protect our products or intellectual property rights to the same extent as by the laws of the United States. This makes the possibility of piracy of our technology and products more likely. We continuously assess whether and where to seek formal protection for particular innovations and technologies based on such factors as: the commercial significance of our operations and our competitors' operations in particular countries and regions; the location in which our products are manufactured; our strategic technology or product directions in different countries; and the degree to which intellectual property laws exist and are meaningfully enforced in different jurisdictions.

Our pending patent applications and any future applications may not be approved. In addition, any issued patents may not provide us with competitive advantages or may be challenged by third parties. The enforcement of patents by others may harm our ability to conduct our business. Others may independently develop substantially equivalent intellectual property or otherwise gain access to our trade secrets or intellectual property. Our failure to effectively protect our intellectual property could harm our business. We have licensed technology from third parties for incorporation in our digital media processors, and expect to continue to enter into license agreements for future products. These licenses may result in royalty payments to third parties, the cross licensing of technology by us or payment of other consideration. If these arrangements are not concluded on commercially reasonable terms, our business could suffer.

Litigation against us or our customers concerning infringement would likely result in significant expense to us and divert the efforts of our technical and management personnel.

We are currently subject to claims of patent infringement, and we may be subject to patent infringement claims or suits brought by other parties in the future. These claims and any future lawsuits could divert our resources, including management's attention, and result in the payment of substantial damages.

We are subject to changes in financial accounting standards, which may affect our reported financial results or the way we conduct business.

The Financial Accounting Standards Board and various federal legislative proposals have proposed changes to Accounting Principles Generally Accepted in the United States, or U.S. GAAP, that may require us to recognize compensation expense for our employee stock options. We currently use the intrinsic value method to measure compensation expense for stock-based awards to our employees. Under this method, we generally do not recognize compensation expense for an employee stock option when the exercise price of the stock option is equal to the fair market value on the date of grant. If any change to U.S. GAAP is adopted that requires us to recognize compensation expense for our employee stock options, our reported results of operations may be adversely affected.

ITEM 4. CONTROLS AND PROCEDURES

Controls and Procedures

(i) *Evaluation of Disclosure Controls and Procedures.* We maintain “disclosure controls and procedures,” as such term is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 (the “Exchange Act”). Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls, will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, control may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Based on their evaluation as of October 24, 2004, our Chief Executive Officer and Chief Financial Officer have concluded that, subject to the limitations noted above, our disclosure controls and procedures were reasonably effective to ensure that the material information required to be disclosed by us in this quarterly report on Form 10-Q was recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms.

(ii) *Changes in Internal Controls*. There was no change in our internal controls over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) identified in connection with the evaluation described in Item 4(i) above that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

3dfx

On December 15, 2000, NVIDIA Corporation and one of our indirect subsidiaries entered into an agreement to purchase certain graphics chip assets from 3dfx. The asset purchase closed on April 18, 2001. In May 2002, we were served with a complaint filed by the landlord of 3dfx's San Jose, California commercial real estate lease. In October 2002, 3dfx filed for Chapter 11 bankruptcy protection in the United States Bankruptcy Court for the Northern District of California. In December 2002, we were served with a complaint filed by the landlord of 3dfx's Austin, Texas commercial real estate lease. The landlords' complaints both assert claims for, among other things, interference with contract, successor liability and fraudulent transfer. The landlords' are seeking to recover, among other things, amounts owed on their leases in the aggregate amount of approximately $10 million. In March 2003, we were served with a complaint filed by the Trustee appointed by the Bankruptcy Court to represent the interests of the 3dfx bankruptcy estate. The Trustee's complaint asserts claims for, among other things, successor liability and fraudulent transfer. The Trustee's complaint seeks additional payments from us, the amount of which has not been quantified. The landlords' actions have been removed to the Bankruptcy Court from the Superior Court of California and consolidated with the Trustee's action for purposes of discovery. Discovery is currently proceeding and no trial date has been set. We believe the claims asserted against us are without merit and we will continue to defend ourselves vigorously.

Opti Incorporated

On October 19, 2004, Opti Incorporated ("Opti") filed a complaint for patent infringement against NVIDIA in the United States District Court for the Eastern District of Texas. Opti asserts that unspecified NVIDIA chipsets infringe five U.S. patents held by Opti. Opti seeks unspecified damages for our conduct, attorneys fees and triple damages for alleged willful infringement by NVIDIA. NVIDIA intends to respond to this complaint in December. We believe the claims asserted against us are without merit and we will continue to defend ourselves vigorously.

We are subject to other legal proceedings, but we do not believe that the ultimate outcome of any of these proceedings will have a material adverse effect on our financial position or overall trends in results of operations. However, if an unfavorable ruling were to occur in any specific period, there exists the possibility of a material adverse impact on the results of operations of that period.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans of Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1)
July 26, 2004 through August 22, 2004	1,075,000	$ 10.57	1,075,000	$ 288,642,283
August 23, 2004 through September 19, 2004	819,253	$ 12.83	819,253	$ 278,133,053
September 20, 2004 through October 24, 2004	190,100	$ 14.61	190,100	$ 275,356,213
Total	2,084,353	$ 11.82 (2)	2,084,353	

(1) We have an ongoing authorization from the Board of Directors, subject to certain specifications, to repurchase shares of our common stock up to an aggregate maximum amount of $300.0 million on the open market or in negotiated transactions through August 2007.

(2) Represents average price paid per share during the third quarter of fiscal 2005.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the Annual Meeting of Stockholders held on August 19, 2004, the following proposals were adopted by the margin indicated. Proxies for the Annual Meeting were solicited pursuant to Section 14(a) of the Securities Exchange Act of 1934 and there was no solicitation in opposition of management's solicitation.

1. The election of three (3) directors to serve for a three-year term until the 2007 Annual Meeting of Stockholders. The results of the voting were as follows:

a. James C. Gaither

Number of shares voted For	136,914,619
Number of shares Withholding Authority	13,461,629

b. Jen-Hsun Huang

Number of shares voted For	141,365,382
Number of shares Withholding Authority	9,010,866

c. A. Brooke Seawell

Number of shares voted For	139,831,912
Number of shares Withholding Authority	10,544,336

The other directors whose term of office as a director continued after the Annual Meeting of Stockholders are Steven Chu, Ph.D., Harvey C. Jones, William J. Miller, Tench Coxe and Mark A. Stevens.

2. Ratification of the appointment of PricewaterhouseCoopers LLP as our independent auditors for our fiscal year ending January 30, 2005. The results of the voting were as follows:

Number of shares voted For	146,041,003
Number of shares voted Against	739,449
Number of shares Abstaining	3,595,796
Number of Broker Non-Votes	0

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No.	Description
10.1#	1998 Non-Employee Directors' Stock Option Plan (Annual Grant - Board Service), as amended.
10.2#	1998 Non-Employee Directors' Stock Option Plan (Committee Grant - Committee Service), as amended.
10.3#	1998 Non-Employee Directors' Stock Option Plan (Initial Grant).
10.4#	1998 Equity Incentive Plan, as amended.
10.5#	1998 Equity Incentive Plan ISO, as amended.
10.6#	1998 Equity Incentive Plan NSO, as amended
10.7#	Certificate of Stock Option Grant
31.1	Certification of Chief Executive Officer as required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
31.2	Certification of Chief Financial Officer as required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
32.1*	Certification of Chief Executive Officer as required by Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended.
32.2*	Certification of Chief Financial Officer as required by Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended.

# Indicates management contract or compensatory plan arrangement.

* The certifications attached as Exhibit 32.1 and Exhibit 32.2 accompany this Quarterly Report on Form 10-Q, are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of NVIDIA Corporation under the Securities Act of 1933, or the Securities Exchange Act of 1934, whether made before or after the date of this Form 10-Q, irrespective of any general incorporation language contained in such filing.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on November 22, 2004.

NVIDIA Corporation

By: /s/ MARVIN D. BURKETT
Marvin D. Burkett
Chief Financial Officer
(Duly Authorized Officer and
Principal Financial and Accounting Officer)

EXHIBIT INDEX

Exhibit No.	Description
10.1#	1998 Non-Employee Directors' Stock Option Plan (Annual Grant - Board Service), as amended.
10.2#	1998 Non-Employee Directors' Stock Option Plan (Committee Grant - Committee Service), as amended.
10.3#	1998 Non-Employee Directors' Stock Option Plan (Initial Grant).
10.4#	1998 Equity Incentive Plan, as amended.
10.5#	1998 Equity Incentive Plan ISO, as amended.
10.6#	1998 Equity Incentive Plan NSO, as amended.
10.7#	Certificate of Stock Option Grant
31.1	Certification of Chief Executive Officer as required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
31.2	Certification of Chief Financial Officer as required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
32.1*	Certification of Chief Executive Officer as required by Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended.
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