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

FORM 10-Q

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

For the quarterly period ended July 27, 2003

OR

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

Commission file number: 0-23985

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

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

2701 San Tomas Expressway
Santa Clara, California 95050
(408) 486-2000
(Address, including Zip Code, 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 ☒ No ☐

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

The number of shares of the registrant's common stock outstanding as of August 8, 2003 was 160,595,013 shares.

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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

NVIDIA CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)
(Unaudited)

	July 27, 2003	January 26, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	$ 274,297	$ 346,994
Marketable securities	737,290	681,419
Accounts receivable, net	190,213	154,501
Inventories	217,859	145,046
Prepaid expenses and other current assets	15,135	12,393
Prepaid and deferred taxes	11,249	11,249
Total current assets	1,446,043	1,351,602
Property and equipment, net	198,945	135,152
Deposits and other assets	12,720	10,473
Prepaid and deferred taxes	43,317	43,317
Goodwill	55,139	54,227
Intangible assets, net	23,949	22,244
	$ 1,780,113	$ 1,617,015
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 282,397	$ 141,129
Accrued liabilities	183,196	228,467
Current portion of note and capital lease obligations	6,528	5,676
Interest payable on convertible debenture	4,117	4,176
Total current liabilities	476,238	379,448
Capital lease obligations, less current portion	3,522	4,880
Long-term convertible debenture	300,000	300,000
Long-term liabilities	4,500	—
Stockholders' equity:		
Common stock	161	158
Additional paid-in capital	551,067	531,030
Accumulated other comprehensive income, net	2,989	3,760
Retained earnings	441,636	397,739
Total stockholders' equity	995,853	932,687
	$ 1,780,113	$ 1,617,015

See accompanying notes to condensed consolidated financial statements.

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NVIDIA CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)
(Unaudited)

	Three Months Ended		Six Months Ended	
	July 27, 2003	July 28, 2002	July 27, 2003	July 28, 2002
Revenue	$ 459,774	$ 427,285	$ 864,757	$ 1,010,190
Cost of revenue	329,800	327,983	608,215	703,723
Gross profit	129,974	99,302	256,542	306,467
Operating expenses:				
Research and development	65,620	57,229	124,930	109,721
Sales, general and administrative	39,722	35,908	80,632	73,390
Total operating expenses	105,342	93,137	205,562	183,111
Operating income	24,632	6,165	50,980	123,356
Interest and other income, net	2,029	1,340	3,891	3,071
Income before income tax expense	26,661	7,505	54,871	126,427
Income tax expense	2,511	2,251	10,974	37,928
Net income	$ 24,150	$ 5,254	$ 43,897	$ 88,499
Basic net income per share	$ 0.15	$ 0.03	$ 0.28	$ 0.58
Diluted net income per share	$ 0.14	$ 0.03	$ 0.26	$ 0.51
Shares used in basic per share computation	160,077	152,296	159,350	151,490
Shares used in diluted per share computation	174,551	168,770	170,653	172,628

See accompanying notes to condensed consolidated financial statements.

NVIDIA CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended	
	July 27, 2003	July 28, 2002
Cash flows from operating activities:		
Net income	$ 43,897	$ 88,499
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	35,568	26,899
Deferred income taxes	—	(120)
Stock-based compensation	156	(156)
Bad debt expense	1,195	1,987
Tax benefit from employee stock plans	—	9,120
Changes in operating assets and liabilities:		
Accounts receivable	(36,907)	12,323
Inventories	(72,813)	(71,473)
Prepaid expenses and other current assets	(3,654)	(5,174)
Deposits and other assets	(2,922)	629
Accounts payable	141,038	(48,624)
Accrued liabilities	11,318	43,306
Microsoft advance / deferred revenue	(57,634)	(7,773)
Net cash provided by operating activities	59,242	49,443
Cash flows from investing activities:		
Purchases of marketable securities	(456,921)	(267,546)
Sales and maturities of marketable securities	399,765	149,986
Acquisition of business	—	(3,901)
Purchases of property, equipment and intellectual property	(91,863)	(45,123)
Release of restricted cash	—	7,000
Net cash used in investing activities	(149,019)	(159,584)
Cash flows from financing activities:		
Common stock issued under employee stock plans	19,884	20,181
Sale lease back financing	—	5,734
Principal payments on capital leases	(2,804)	(1,958)
Net cash provided by financing activities	17,080	23,957
Change in cash and cash equivalents	(72,697)	(86,184)
Cash and cash equivalents at beginning of period	346,994	333,000
Cash and cash equivalents at end of period	$ 274,297	$ 246,816
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 7,472	$ 7,518
Cash paid (refund) for income taxes	$ (711)	$ (8,156)

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 condensed consolidated unaudited 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 ("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 26, 2003.

Reclassifications

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

Accounting for Asset Retirement Obligations

On January 27, 2003, we adopted Statement of Financial Accounting Standards No. 143 ("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. The standard 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. Under our current operating lease agreements for our headquarters facility, we may be obligated to return a minimal amount of property to its original condition upon lease termination based on the landlord's discretion at that time. We believe this obligation, if any, is immaterial.

Stock-Based Compensation

Statement of Financial Accounting Standards No. 148 ("SFAS No. 148"), *Accounting for Stock-Based Compensation—Transition and Disclosure*, amends the disclosure requirements of Statement of Financial Accounting Standards No. 123 ("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 to account for our stock-based employee compensation plans. Deferred compensation arising from stock-based awards is amortized in accordance with Financial Accounting Standards Board Interpretation No. 28, which generally accelerates the compensation expense as compared to the straight-line method. 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.

As permitted under SFAS No. 123*,* we have elected to follow Accounting Principles Board Opinion No. 25 and related Interpretations in accounting for stock-based awards to employees. Compensation cost for our stock-

NVIDIA CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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		Six Months Ended	
	July 27, 2003	July 28, 2002	July 27, 2003	July 28, 2002
	(In thousands, except per share data)			
Net income, as reported	$ 24,150	$ 5,254	$ 43,897	$ 88,499
Deduct: Stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(20,312)	(35,613)	(36,456)	(68,463)
Pro forma net income (loss)	$ 3,838	$ (30,359)	$ 7,441	$ 20,036
Basic net income per share—as reported	$ 0.15	$ 0.03	$ 0.28	$ 0.58
Basic net income (loss) per share—pro forma	$ 0.02	$ (0.20)	$ 0.05	$ 0.13
Diluted net income per share—as reported	$ 0.14	$ 0.03	$ 0.26	$ 0.51
Diluted net income (loss) per share—pro forma	$ 0.02	$ (0.20)	$ 0.04	$ 0.12

Note 2—New Accounting Pronouncements

In November 2002, the Emerging Issues Task Force reached a consensus on Issue No. 00-21 ("EITF No. 00-21"), *Revenue Arrangements with Multiple Deliverables.* EITF No. 00-21 provides guidance on how to account for certain arrangements that involve the delivery or performance of multiple products, services and/or rights to use assets. The provisions of EITF No. 00-21 will apply to revenue arrangements entered into in fiscal periods beginning after June 15, 2003. We believe the adoption of EITF No. 00-21 will not have a significant impact on our results of operations or financial position.

In January 2003, the Financial Accounting Standards Board issued Interpretation No. 46 ("FIN 46"), *Consolidation of Variable Interest Entities*. FIN 46 clarifies the application of Accounting Research Bulletin No. 51 and applies immediately to any variable interest entities created after January 31, 2003 and to variable interest entities in which an interest is obtained after that date. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003. We believe the adoption of FIN 46 will not have an impact on our results of operations or financial position.

In May 2003, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 150 ("SFAS No. 150"), *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003. It is to be implemented by reporting the cumulative effect of a change in an accounting principle for financial instruments created before the issuance date of SFAS No. 150 and still existing at the beginning of the interim period of adoption. We believe the adoption of SFAS No. 150 will not have an impact on our results of operations or financial position.

Note 3—Change in Accounting Estimate

We compute income taxes for interim reporting purposes using estimates of our effective annual income tax rate for the entire fiscal year. In the current quarter, we revised our estimated effective income tax rate for fiscal year 2004 to 20% from the 30% rate that we had used in the first quarter of fiscal 2004. The change in the rate is primarily due to federal and state tax credits and foreign tax differentials. As a result of the change in the estimated effective annual income tax rate for the fiscal year, the income tax rate for the current quarter was 9.4%. The effect of the change in the estimated annual effective income tax rate for fiscal 2004 was to increase net income by $5.5 million for both the three months and six months ended July 27, 2003. The effect of the change in estimate on basic and diluted earnings per share was $0.03 for the three months ended July 27, 2003. The effect of the change in estimate on earnings per share was $0.04 for basic earnings per share and $0.03 for diluted earnings per share for the six months ended July 27, 2003.

Note 4—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 as-if-converted method for the convertible debentures and the treasury stock method for stock options. Under the as-if-converted method and the treasury stock method, the convertible debentures and the effect of stock options outstanding, respectively, are 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		Six Months Ended	
	July 27, 2003	July 28, 2002	July 27, 2003	July 28, 2002
	(In thousands, except per share data)			
Numerator:				
Numerator for basic net income per share	$ 24,150	$ 5,254	$ 43,897	$ 88,499
Denominator:				
Denominator for basic net income per share, weighted average shares outstanding	160,077	152,296	159,350	151,490
Effect of dilutive securities:				
Stock options	14,474	16,474	11,303	21,138
Denominator for diluted net income per share	174,551	168,770	170,653	172,628
Net income per share:				
Basic net income per share	$ 0.15	$ 0.03	$ 0.28	$ 0.58
Diluted net income per share	$ 0.14	$ 0.03	$ 0.26	$ 0.51

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

	Three Months Ended		Six Months Ended	
	July 27, 2003	July 28, 2002	July 27, 2003	July 28, 2002
	(In thousands)			
Stock options	7,247	22,391	11,510	4,385
Convertible debentures (common equivalent shares)	6,472	6,472	6,472	6,472
	13,719	28,863	17,982	10,857

The weighted-average exercise price of stock options excluded from the computation of diluted earnings per share was $30.85 and $25.95 for the three and six months ended July 27, 2003, respectively. The weighted-

NVIDIA CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

average exercise price of stock options excluded from the computation of diluted earnings per share was $37.52 and $49.89 for the three and six months ended July 28, 2002, respectively. The convertible debentures are convertible into shares of common stock at a conversion price of $46.36 per share and were anti-dilutive for all periods shown.

Note 5—Guarantees

Financial Accounting Standards Board Interpretation No. 45 ("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 rollforward of the entity's product warranty liabilities.

We record a reduction to revenue for estimated product returns at the time revenue is recognized based on historical return rates. The reductions to revenue for estimated product returns for the three and six months ending July 27, 2003 and July 28, 2002 are as follows:

Description	Balance at Beginning of Period	Additions	Deductions	Balance at End of Period
		(In thousands)		
Three months ended July 27, 2003				
Allowance for sales returns and allowances	$ 12,080	$ 6,102	$ (6,823)	$ 11,359
Three months ended July 28, 2002				
Allowance for sales returns and allowances	$ 19,155	$ 6,648	$ (9,201)	$ 16,602
Six months ended July 27, 2003				
Allowance for sales returns and allowances	$ 13,228	$ 11,426	$ (13,295)	$ 11,359
Six months ended July 28, 2002				
Allowance for sales returns and allowances	$ 15,586	$ 15,488	$ (14,472)	$ 16,602

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 the terms of 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. We have not recorded any liability in our condensed consolidated financial statements for such indemnifications.

NVIDIA CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 6—Comprehensive Income

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

	Three Months Ended		Six Months Ended	
	July 27, 2003	July 28, 2002	July 27, 2003	July 28, 2002
	(In thousands)			
Net income	$ 24,150	$ 5,254	$ 43,897	$ 88,499
Change in cumulative translation adjustments	—	(353)	—	(302)
Reclassification adjustments for net realized gain on available-for-sale securities, net of tax	(256)	—	(458)	—
Net change in unrealized gains (losses) on available-for-sale securities, net of tax	(1,165)	2,698	(771)	2,373
Total comprehensive income	$ 22,729	$ 7,599	$ 42,668	$ 90,570

Note 7—Asset Purchases

During fiscal year 2002, we completed the purchase of certain assets from various businesses, including 3dfx Interactive, Inc. (“3dfx”) and other asset purchases, for an aggregate purchase price of approximately $79.1 million. These purchases have been accounted for under the purchase method of accounting. Excluding the 3dfx transaction, the aggregate purchase price for all other purchases is immaterial to our condensed consolidated financial statements.

On April 18, 2001, we completed the purchase of certain assets of 3dfx, including patents and patent applications. 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 certified to our satisfaction 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 certified to our satisfaction 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. On October 15, 2002, 3dfx filed for Chapter 11 bankruptcy protection. We believe that the bankruptcy filing by 3dfx will allow a determination of the full number and scope of 3dfx’s debts and liabilities. In the event of an adverse outcome, NVIDIA may be obligated under the Asset Purchase Agreement to pay 3dfx the contingent consideration subject to offsets for NVIDIA’s claims against 3dfx arising from the Asset Purchase Agreement. On March 12, 2003, we were served with a complaint by the Trustee for 3dfx seeking, among other things, additional payment for the purchased assets and the assumption by us of 3dfx’s liabilities. In addition, Carlyle Fortran Trust and CarrAmerica, former landlords of 3dfx, have filed suits against us seeking payment of the rents due by 3dfx.

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. Upon the adoption of Statement of Financial Accounting Standards

NVIDIA CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

No. 142 ("SFAS No. 142"), approximately $3.0 million of intangible assets previously allocated to workforce in place were reclassified into goodwill in fiscal 2003. In addition, amortization of goodwill ceased in accordance with SFAS No. 142.

	3dfx	Straight-Line Amortization Period
	(In thousands)	(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 8—Goodwill

The carrying amount of goodwill is as follows:

	July 27, 2003	January 26, 2003
	(In thousands)	
3dfx	$ 50,326	$ 50,326
Other	4,813	3,901
Total goodwill	$ 55,139	$ 54,227

Note 9—Amortizable Intangible Assets

We are currently amortizing our intangible assets with definite lives over periods ranging from 3 to 5 years. The components of our amortizable intangible assets are as follows:

	July 27, 2003			January 26, 2003		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(In thousands)					
Technology licenses	$ 14,219	$ (5,444)	$ 8,775	$ 7,028	$ (3,972)	$ 3,056
Patents	10,319	(6,143)	4,176	10,319	(4,478)	5,841
Acquired intellectual property	11,117	(6,398)	4,719	11,117	(5,236)	5,881
Trademarks	11,310	(5,177)	6,133	11,310	(4,021)	7,289
Other	250	(104)	146	250	(73)	177
Total intangible assets	$ 47,215	$ (23,266)	$ 23,949	$ 40,024	$ (17,780)	$ 22,244

Amortization expense associated with intangible assets for the three and six months ended July 27, 2003 was $3.6 million and $6.3 million, respectively. Amortization expense associated with intangible assets for the three and six months ended July 28, 2002 was $2.4 million and $4.8 million, respectively. Amortization expense for the net carrying amount of intangible assets at July 27, 2003 is estimated to be $5.5 million for the remainder of fiscal 2004, $9.1 million in fiscal 2005, $5.7 million in fiscal 2006, $2.0 million in fiscal 2007, $1.5 million in fiscal 2008 and $0.1 million thereafter.

NVIDIA CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 10—Marketable Securities

We account for our investment instruments in accordance with Statement of Financial Accounting Standards No. 115 (“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 of highly liquid investments with a maturity of greater than three months when purchased. We classify our marketable debt 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, 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 gains for the three and six months ended July 27, 2003 were $282,000 and $477,000, respectively. Net realized gains for the three and six months ended July 28, 2002 were $7,000 and $268,000, respectively.

Note 11—Balance Sheet Components

Certain balance sheet components are as follows:

	July 27, 2003	January 26, 2003
	(In thousands)	
Inventories:		
Raw materials	$ 29,192	$ 17,510
Work in-process	28,369	13,179
Finished goods	160,298	114,357
Total inventories	$ 217,859	$ 145,046

At July 27, 2003, we had outstanding inventory purchase obligations totaling $351.3 million.

	July 27, 2003	January 26, 2003
	(In thousands)	
Accrued Liabilities:		
Accrued customer programs	$ 43,179	$ 50,018
Customer advances	762	58,396
Taxes payable	94,075	82,952
Accrued payroll and related expenses	28,195	20,575
Other	16,985	16,526
Total accrued liabilities	$ 183,196	$ 228,467

Note 12—Segment Information

We operate in a single industry segment: the design, development and marketing of 3D graphics and media communication processors and related software for personal computers, or PCs, workstations and digital entertainment platforms. Our chief operating decision maker, the Chief Executive Officer, reviews financial information presented on a consolidated basis for purposes of making operating decisions and assessing financial performance. Revenue by geographical 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

NVIDIA CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

board and motherboard manufacturers' revenue is attributable to end customers located in a different location. The following table summarizes information pertaining to our operations in different geographic areas:

	Three Months Ended		Six Months Ended	
	July 27, 2003	July 28, 2002	July 27, 2003	July 28, 2002
	(In thousands)			
Revenue:				
United States and other Americas	$ 133,531	$ 160,771	$ 210,810	$ 352,507
Asia Pacific	295,032	258,127	602,833	634,854
Europe	31,211	8,387	51,114	22,829
Total revenue	$ 459,774	$ 427,285	$ 864,757	$ 1,010,190

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

	Three Months Ended		Six Months Ended	
	July 27, 2003	July 28, 2002	July 27, 2003	July 28, 2002
Revenue:				
Customer A	11%	16%	12%	15%
Customer B	19%	29%	14%	25%
Customer C	20%	18%	21%	17%
Customer D	12%	7%	11%	8%
Customer E	11%	5%	12%	6%

	As of July 27, 2003	As of January 26, 2003
Accounts Receivable:		
Customer A	15%	12%
Customer B	7%	—
Customer C	17%	18%
Customer D	11%	17%
Customer E	9%	11%

Note 13—Litigation

On February 19, 2002 an NVIDIA stockholder, Dominic Castaldo, on behalf of himself and purportedly on behalf of a class of our stockholders, filed an action in the United States District Court for the Northern District of California (the "Northern District") against NVIDIA and certain current and former NVIDIA officers, alleging violations of the federal securities laws arising out of our announcement on February 14, 2002 of an internal investigation of certain accounting matters. Approximately 13 similar actions were filed in the Northern District, and one additional individual action was filed in the Southern District of California, all of which were subsequently consolidated (together, the "Federal Class Actions"). In addition, three related derivative actions were filed against us, certain of our current and former executive officers, directors and our independent auditors, KPMG LLP, in California Superior Court and in Delaware Chancery Court (collectively the "Actions"). The Actions alleged claims in connection with various alleged statements and omissions to the public and sought damages together with interest and reimbursement of costs and expenses of the litigation. The derivative actions also sought disgorgement of alleged profits from insider trading by officers and directors. On March 28, 2003 the court granted NVIDIA's motion to dismiss the Federal Class Actions with prejudice as to some claims and without prejudice as to others giving plaintiffs leave to amend. On July 28, 2003, plaintiffs filed their first amended consolidated complaint. On August 8, 2003, NVIDIA filed motions to dismiss and to strike. On August 21, 2003, at the request of the plaintiffs, the court dismissed all of the remaining claims of the first amended consolidated complaint and dismissed these claims with prejudice as to the lead plaintiffs. On September 2, 2003, the plaintiffs in the two related derivative actions filed in California Superior Court moved to have their cases dismissed in their entirety. We expect the court will order such dismissal shortly. NVIDIA had also filed a motion to dismiss the derivative action filed in Delaware. On May 5, 2003, the Delaware Court granted NVIDIA's motion and dismissed the derivative action with prejudice.

The staff of the Enforcement Division of the Securities & Exchange Commission ("SEC") informed us in January 2002 that it had concerns relating to certain accounting matters and that the SEC along with the U.S. Attorney's Office for the Northern District of California had authorized investigations into such matters. In accordance with the suggestion and advice of the SEC staff, we launched a review of these matters. On April 29, 2002, we announced that the Audit Committee of our Board of Directors had, with assistance from the law firm of Cooley Godward LLP and forensic auditors from the accounting firm of KPMG LLP, concluded its review and determined that it was appropriate to restate our financial statements for fiscal 2000, 2001 and the first three quarters of fiscal 2002. Throughout the process the Audit Committee cooperated with the SEC. After receiving a Wells notice indicating the SEC staff intended to recommend to the SEC that an enforcement action be initiated, we reached an agreement with the SEC staff in April 2003 that would resolve the SEC's investigation of us in matters related to the restatement. The agreement is subject to final approval of the SEC. Under the terms of the agreement, NVIDIA, without admitting or denying liability or wrongdoing, would agree to an administrative cease and desist order prohibiting any future violations of certain non-fraud financial reporting, books and records, and internal control provisions of the federal securities laws. We would not be required to pay any fines or penalties. It may take several weeks or months for the SEC to complete its review of the agreement. Further, there can be no assurance that the agreement will be approved by the SEC. Notwithstanding the above, actions by the SEC or other governmental or regulatory agencies with respect to us or our personnel arising out of the restatement of our financial statements or other matters may take significant time, may be expensive and may divert management's attention from other business concerns and harm our business.

On April 18, 2001, we completed the purchase of certain assets of 3dfx, including patents and patent applications. 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 certified to our satisfaction 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 certified to our satisfaction 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. On October 15, 2002, 3dfx filed for Chapter 11 bankruptcy protection. We believe that the bankruptcy filing by 3dfx will allow a determination of the full number and scope of 3dfx's debts and liabilities. In the event of an adverse outcome, NVIDIA may be obligated under the Asset Purchase Agreement to pay 3dfx the contingent consideration subject to offsets for NVIDIA's claims against 3dfx arising from the Asset Purchase Agreement. On March 12, 2003, we were served with a complaint by the Trustee for 3dfx seeking, among other things, additional payment for the purchased assets and the assumption by us of 3dfx's liabilities. In addition, Carlyle Fortran Trust and CarrAmerica, former landlords of 3dfx, have filed suits against us seeking payment of the rents due by 3dfx.

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 14—Subsequent Event

On August 19, 2003, we completed the acquisition of MediaQ, Inc., a leading provider of graphics and multimedia technology for wireless mobile devices, for approximately $70.0 million in cash.

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. These forward-looking statements include but are not limited to: statements related to industry trends and future growth in the markets for 3D graphics processors; our product development efforts; the timing of our introduction of new products; industry and consumer acceptance of our products; and future profitability. These forward-looking statements involve risks and uncertainties that could cause our actual results to differ materially from those in the forward-looking statements. We undertake no obligation to publicly release any revisions to the forward-looking statements or reflect events or circumstances after the date of this document. The "Business Risks" section, among other things, should be considered in evaluating our prospects and future financial performance.

Overview

We are one of the world's largest "fabless" semiconductor companies, supplying graphics and media communications processors and related software that are integral to personal computers, or PCs, professional workstations and digital entertainment platforms. We provide an architecturally compatible "top-to-bottom" family of award-winning graphics processing units, or GPUs, which set the standard for performance, quality, compatibility and features for a broad range of personal computing platforms. Our graphics and communications processors are used for a wide variety of applications, including games, digital content creation, personal digital image editing, business productivity and product and industrial design. Our mission is to be the most important visual computing company in the world. We were incorporated in California in April 1993 and reincorporated in Delaware in April 1998.

New Developments

On August 19, 2003, we completed the acquisition of MediaQ, Inc., a leading provider of graphics and multimedia technology for wireless mobile devices, for approximately $70.0 million in cash.

On August 14, 2003, 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 the sale of Xbox processors to Microsoft is uncertain but it is not anticipated to have any significant impact for at least the next several quarters. Revenue from the sale of Xbox processors to Microsoft during fiscal 2002, fiscal 2003 and the first half of fiscal 2004 accounted for 9%, 23% and 14%, respectively, of our total revenue.

Critical Accounting Policies and Estimates

Management's discussion and analysis of financial condition and results of operations are based upon our 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, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to customer programs, revenue recognition, sales returns, allowance for doubtful accounts, inventories, investments, intangible assets, income taxes, financing operations 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 them in this MD&A.

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. 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. If market conditions decline, we may take actions to increase customer incentive offerings, possibly resulting in an incremental reduction of revenue at the time the incentive is offered. We also record a reduction to revenue for estimated product returns at the time revenue is recognized based on historical return rates.

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.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts and for estimated losses resulting from the financial 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 letters of credit. If the financial condition of our customers was to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required that could adversely affect our operating results.

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. No significant sales of such products have occurred to date.

Income Taxes

Statement of Financial Accounting Standards No. 109 ("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 liabilities or assets 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.

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		Six Months Ended	
	July 27, 2003	July 28, 2002	July 27, 2003	July 28, 2002
Revenue	100.0%	100.0%	100.0%	100.0%
Cost of revenue	71.7	76.8	70.3	69.7
Gross profit	28.3	23.2	29.7	30.3
Operating expenses:				
Research and development	14.3	13.4	14.4	10.9
Sales, general and administrative	8.6	8.4	9.3	7.3
Total operating expenses	22.9	21.8	23.7	18.2
Operating income	5.4	1.4	6.0	12.1
Interest and other income, net	0.4	0.3	0.4	0.3
Income before income tax expense	5.8	1.7	6.4	12.4
Income tax expense	0.5	0.5	1.3	3.8
Net income	5.3%	1.2%	5.1%	8.6%

Three Months and Six Months Ended July 27, 2003 and July 28, 2002

Revenue

Revenue consists of amounts recognized from the sale of graphics and media communication processors and related software for PCs, workstations and digital entertainment platforms. Revenue increased by 8% to $459.8 million for the three months ended July 27, 2003 when compared to $427.3 million for the three months ended July 28, 2002. The increase was primarily the result of increased sales of our platform, workstation, mobile and desktop processors offset by decreased sales of our two-processor chipset for use in the Xbox video game console. Revenue decreased by 14% to $864.8 million for the six months ended July 27, 2003 when compared to $1.01 billion for the six months ended July 28, 2002. The decrease was primarily the result of lower sales of our desktop graphics processors driven by a slow PC market and an increase in competitive product offerings. In addition, sales of our two-processor chipset for use in the Xbox video game console decreased from 25% of total revenue in the first half of fiscal 2003 to 14% of total revenue in the first half of fiscal 2004. Offsetting these decreases were increases in sales of our platform processor, workstation and mobile product lines.

Revenue from sales to customers outside of the United States and other Americas accounted for 71% of total revenue for the second quarter of fiscal 2004 and 76% for the first half of fiscal 2004. Revenue from sales to customers outside of the United States and other Americas accounted for 62% of total revenue for the second quarter of fiscal 2003 and 65% for the first half of fiscal 2003. Revenue by geographical region is allocated to individual countries based on the location to which the products are initially billed even if the foreign CEMs' and add-in board and motherboard manufacturers' revenue is attributable to end customers located in a different location. The increase in the percentage of revenue from sales to customers outside of the United States and other Americas is primarily attributable to decreased sales of the graphics and media communication processors used in the Microsoft Xbox product billed to Microsoft in the United States.

Sales to Microsoft accounted for approximately 19% of revenues for the second quarter of fiscal 2004 and 14% of revenues for the first half of fiscal 2004. Our other four largest customers accounted for approximately 54% of revenues for the second quarter of fiscal 2004 and 56% of revenues for the first half of fiscal 2004. In fiscal 2003, sales to Microsoft accounted for approximately 29% of revenues for the second quarter of fiscal 2003 and 25% of revenues for the first half of fiscal 2003. Our other two largest customers accounted for approximately 34% of revenues for the second quarter of fiscal 2003 and 32% of revenues for the first half of fiscal 2003.

Although we achieved growth in product revenue for the second quarter of fiscal 2004 from the same period a year ago, we do not expect to sustain this rate of growth in future periods. In addition, we expect that the average selling prices of our products will decline over the lives of the products. The declines in average selling prices of 3D graphics processors in general may accelerate as the market continues to develop and competition increases.

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 graphics processors sold. Our gross margins were 28.3% and 23.2% in the second quarter of fiscal 2004 and 2003, respectively. Our gross margins were 29.7% and 30.3% in the first half of fiscal 2004 and 2003, respectively. Gross margins for the second quarter of fiscal 2004 as compared to the second quarter of fiscal 2003 increased primarily due to the inventory write-down of approximately $21 million related to certain Xbox processors and nForce chipsets that was recorded during the second quarter of fiscal 2003. Gross margins for the first half of fiscal 2004 as compared to the first half of fiscal 2003 decreased primarily due to a reduction in demand for our desktop graphics processors and a shift in product mix to our new generation of GeForce FX products that have yet to achieve their optimum yields.

In the future, we could be subject to excess or obsolete inventories and be required to take inventory write-downs if growth slows or if we incorrectly forecast product demand. A reduction in demand could negatively impact our gross margins.

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 $8.4 million, or 15%, from the second quarter of fiscal 2003 to the second quarter of fiscal 2004 primarily due to a $7.5 million increase related to additional personnel, a $4.4 increase associated with lab equipment, software licenses, maintenance fees and depreciation charges, offset by a $3.5 million decrease related to new product development costs and other expenses during the period. Research and development expenses increased by $15.2 million, or 14%, from the first half of fiscal 2003 to the first half of fiscal 2004 primarily due to a $13.8 million increase related to additional personnel, a $7.5 increase associated with lab equipment, software licenses, maintenance fees and depreciation charges, offset by a $6.1 million decrease related to new product development costs and other expenses during the period.

We anticipate that we will continue to devote substantial resources to research and development, and we expect these expenses to increase in absolute dollars in the foreseeable future due to the increased complexity and the greater number of products under development. Research and development expenses are likely to fluctuate from time to time to the extent we make periodic incremental investments in research and development and these investments may be independent of our level of revenues.

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 such as facilities and equipment costs. Sales, general and administrative expenses increased $3.8 million, or 11%, from the second quarter of fiscal 2003 to the second quarter of fiscal 2004 primarily due to a $2.8 million increase related to additional personnel, a $1.7 million increase in computer software and equipment related to the enhancement of our computer systems and the depreciation and amortization of new equipment and a $1.3 million increase in marketing development and travel and entertainment expenses. These increases were offset by a $1.6 million decrease in legal expenses related to the SEC inquiry during the second quarter of fiscal 2003 and a $0.4 million decrease in general administrative activities. Sales, general and administrative expenses increased $7.2 million, or 10%, from the first half of fiscal 2003 to the first half of fiscal 2004 primarily due to a $6.2 million increase related to additional personnel, a $2.3 million increase in computer software and equipment related to the enhancement of our computer systems and the depreciation and amortization of new equipment and a $3.1 million increase in tradeshow, marketing development and general administrative activities. These increases were offset by a $4.4 million decrease related to the SEC inquiry during the first half of fiscal 2003.

We expect sales, general and administrative expenses to continue to increase in absolute dollars as we continue to support our operations, expand our sales and protect our business interests.

Interest and Other Income, Net

Interest and other income primarily consists of interest earned on cash, cash equivalents and marketable securities. Interest income remained flat at $5.7 million from the second quarter of fiscal 2003 to the second quarter of 2004 and increased $0.2 million from the first half of fiscal 2003 to the first half of fiscal 2004 due to higher average cash and marketable securities balances.

Interest and other expense primarily consists of interest incurred as a result of capital lease obligations and interest on our convertible debt. Interest and other expense remained flat at $4.1 million in the second quarter of fiscal 2004 and at $8.1 million in the first half of fiscal 2004 as compared to the same periods of fiscal 2003.

Income Taxes

We recognized income tax expense of $2.5 million and $2.3 million for the second quarter of fiscal 2004 and 2003, respectively. We recognized income tax expense of $11.0 million and $37.9 million for the first half of fiscal 2004 and 2003, respectively. The effective income tax rate for the three and six months ended July 27, 2003 was 9.4% and 20%, respectively. The effective income tax rate for the three and six months ended July 28, 2002 was 30%. Please refer to Note 3 of the Notes to Condensed Consolidated Financial Statements for further information regarding the change in our estimated effective annual income tax rate.

Liquidity and Capital Resources

As of July 27, 2003, we had $1.01 billion in cash, cash equivalents and marketable securities, a decrease of $16.8 million from the end of fiscal 2003. 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 $59.2 million and $49.4 million during the first half of fiscal 2004 and 2003, respectively. The increase in cash flows from operating activities in the first half of fiscal 2004 when compared to fiscal 2003 was primarily due an increase in accounts payable offset by the decrease in net income, the increase in accounts receivable and the draw-down of the Microsoft advance.

Cash used in investing activities has consisted primarily of investments in marketable securities, the purchase of certain assets from various businesses and purchases of property and equipment, which include leasehold improvements for our facilities. Net cash used in investing activities was $149.0 million in the first half of fiscal 2004, primarily due to $57.2 million of net purchases of marketable securities and $91.9 million in capital expenditures in the first half of fiscal 2004 primarily attributable to new research and development emulation equipment, as well as for purchases of technology licenses and software to support increased research and development. We expect to spend approximately $40 million to $50 million for capital expenditures during the remainder of fiscal 2004, primarily for software licenses, emulation equipment, computer and engineering workstations and future phases of our enterprise resource planning system implementation. In addition, we may continue to use cash in connection with the acquisition of businesses or assets.

Financing activities provided cash of $17.1 million during the first half of fiscal 2004 compared to $24.0 million in fiscal 2003. The decrease in the first half of fiscal 2004 when compared to fiscal 2003 was due to sale leaseback financing activity during the first half of fiscal 2003.

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, debt repurchase 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.

Other key factors that could affect our liquidity include:

MediaQ Acquisition

On August 19, 2003, we completed the acquisition of MediaQ, Inc., a leading provider of graphics and multimedia technology for wireless mobile devices, for approximately $70.0 million in cash.

Common Stock and Convertible Subordinated Debenture Offering

In October 2000, we sold 2,800,000 shares of our common stock and $300.0 million of convertible subordinated debentures due October 15, 2007 in a public offering. Proceeds from the offering were approximately $387.5 million after deducting underwriting discounts, commissions and offering expenses. Issuance costs related to the offering are being amortized to interest expense on a straight-line basis over the term of the debentures. Interest on the convertible subordinated debentures accrues at the rate of 4 3/4% per annum and is payable semiannually in arrears on April 15 and October 15 of each year, commencing April 15, 2001. The convertible subordinated debentures are redeemable at our option on or after October 20, 2003. The debentures are convertible at the option of the holder at any time prior to the close of business on the maturity date, unless previously redeemed or repurchased, into shares of common stock at a conversion price of $46.36 per share, subject to adjustment in certain circumstances.

3dfx Asset Purchase

On April 18, 2001, we completed the purchase of certain assets of 3dfx, including patents and patent applications. 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 certified to our satisfaction 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 certified to our satisfaction 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. On October 15, 2002, 3dfx filed for Chapter 11 bankruptcy protection. We believe that the bankruptcy filing by 3dfx will allow a determination of the full number and scope of 3dfx's debts and liabilities. In the event of an adverse outcome, NVIDIA may be obligated under the Asset Purchase Agreement to pay 3dfx the contingent consideration subject to offsets for NVIDIA's claims against 3dfx arising from the Asset Purchase Agreement. On March 12, 2003, we were served with a complaint by the Trustee for 3dfx seeking, among other things, additional payment for the purchased assets and the assumption by us of 3dfx's liabilities. In addition, Carlyle Fortran Trust and CarrAmerica, former landlords of 3dfx, have filed suits against us seeking payment of the rents due by 3dfx.

Contractual Cash Obligations

As of July 27, 2003, our outstanding inventory purchase obligations have increased to $351.3 million from $210.3 million as of January 26, 2003. There were no other material changes in our contractual cash obligations from those disclosed in our Annual Report on Form 10-K for the year ended January 26, 2003. 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 26, 2003.

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."

Recent Accounting Pronouncements

Information regarding recent accounting pronouncements is set forth in Note 2 of the Notes to Condensed Consolidated Financial Statements under the subheading "New Accounting Pronouncements," which information is hereby incorporated by reference.

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 U.S. 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 ("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 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. 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.

Our convertible subordinated debentures due 2007 have a fixed interest rate of 4 3/4% and are not subject to interest rate fluctuations.

Exchange Rate Risk

We consider our exposure to foreign exchange rate fluctuations to be minimal. Currently, sales and arrangements with third-party manufacturers 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

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 process technology for the GeForce4, Quadro4, GeForce3, Quadro DCC, Xbox and nForce families of graphics processors, and we believe that the transition of our products to increasingly smaller geometries will be important to our competitive position. Our newest GPUs, the GeForce FX 5600, GeForce FX 5900 and the GeForce FX Go products are manufactured in 0.13-micron process technology. We have experienced difficulty in migrating to new manufacturing processes 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.

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.

The risk of low yields is compounded by the offshore location of most of our manufacturers, increasing the effort and time required to identify, communicate and resolve manufacturing yield problems. 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, as well as revenue and 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.

We are dependent on key personnel and the loss of these employees could harm 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 these 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.

Our failure to estimate customer demand properly may result in excess or obsolete inventory that could adversely affect our gross margins.

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.

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. We believe that our quarterly and annual results of operations will 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 next-generation products;
- new product announcements or product introductions by our competitors;
- our ability to introduce new products in accordance with original equipment manufacturers', or 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 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;
- 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.

Our operating expenses are relatively fixed, and we order materials in advance of anticipated customer demand. Therefore, we have limited ability to reduce expenses quickly in response to any revenue shortfalls.

Most of our operating expenses are relatively fixed in the short term, and we may be unable to adjust spending sufficiently in a timely manner to compensate for any unexpected sales shortfall. 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 OEMs. We could be subject to excess or obsolete inventories and be required to take corresponding 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 may be required to reduce prices in response to competition or to pursue new market opportunities. 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 or sales and marketing efforts, our business could suffer. 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 indicative of results to be expected for a full fiscal year.

We may be unable to manage our growth and, as a result, may be unable to successfully implement our strategy.

Our rapid growth has placed, and is expected to continue to place, a significant strain on our managerial, operational and financial resources. As of July 27, 2003, we had 1,670 employees as compared to 1,513 employees as of January 26, 2003. We expect that the number of our employees will increase over the next 12 months. Our future growth, if any, will depend on our ability to continue to implement and improve operational, financial and management information and control systems on a timely basis, as well as our ability to maintain effective cost controls. Further, we will be required to manage multiple relationships with various customers and other third parties. Our systems, procedures or controls may not be adequate to support our operations and our management may be unable to achieve the rapid execution necessary to successfully implement our strategy.

Failure in operation or future enhancement or implementation of our enterprise resource planning system could harm our operations.

During fiscal 2003, we initiated an examination of SAP, our current enterprise resource planning, or ERP, system to enhance our information systems in business, finance, operations and service. During fiscal 2003 and 2004, we implemented certain additional functionalities based upon the results of the ERP examination. We may implement additional functionalities during the remainder of fiscal 2004. If we are not able to implement additional functionalities to our current ERP system or there are delays or downtime as a result of the implementation, the efficiency of our business applications and business operations could be harmed. We are heavily dependent upon the proper functioning of our internal systems to conduct our business. System failure or malfunctioning may result in disruptions of operations and inability to process transactions. Our results of operations and financial position could be harmed if we encounter unforeseen problems with respect to system operations or future implementations.

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 the 3D graphics market. Our add-in board and motherboard manufacturers 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 functionality into products that meet the exacting design requirements of PC OEMs, CEMs and add-in board and motherboard manufacturers;

- price our products competitively; and
- introduce the products to the market within the limited window for PC OEMs 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 International Business Machines, or IBM, Taiwan Semiconductor Manufacturing Company, or TSMC, and any additional third-party manufacturers to effectively manufacture our new products in a timely manner;
- 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.

Our strategy is to utilize 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 PC OEMs, add-in board and motherboard manufacturers and consumers of 3D graphics. In addition, we may not successfully develop or introduce new products in sufficient volumes within the appropriate time to meet both the PC 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 3D graphics products would harm our business. In particular, we experienced delays in the introduction of graphics processors using our next generation technology during the second half of fiscal 2003 and any such delays in the future or failure of these 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 3D graphics 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 3D graphics 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 3D graphics processors to achieve high volumes, leading PC OEMs and add-in board and motherboard manufacturers must select our 3D graphics 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 in a timely fashion new products. In addition, we cannot guarantee that new products we develop will be selected for design into PC OEMs' 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 3D graphics products non-competitive or obsolete or result in our holding excess inventory, any of which would harm our business.

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

Products as complex as those offered by us 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 in the future. Errors in new products or releases after commencement of commercial shipments could result in loss of market share or failure to achieve market acceptance. 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. These costs could be significant and could adversely affect our business and operating results.

Risks Related to Our Partners

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 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;
- 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.

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. 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, motherboard and add-in board manufacturers. These design wins in turn influence the retail and system builder channel that is serviced by CEMs, motherboard and add-in board manufacturers. Our distribution strategy is to work with a small number of leading independent CEMs, 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 graphics processors directly to stocking representatives, CEMs, 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. As a result, our business could be harmed by the loss of business from PC OEMs, CEMs, motherboard and add-in board manufacturers. In addition, revenue from PC OEMs, CEMs, motherboard and add-in board manufacturers that have directly or indirectly accounted for significant revenue in past periods, individually or as a group, may not continue, or may not reach or exceed historical levels in any future period.

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. 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 and IBM 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 TSMC. 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. These manufacturers may be unable to meet our near-term or long-term manufacturing requirements. We obtain manufacturing services on a purchase order basis. TSMC has no obligation to provide us with any specified minimum quantities of product. TSMC and IBM fabricate wafers for other companies, including certain of our competitors, and could choose to prioritize capacity for other users or reduce or eliminate deliveries to 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 and any other manufacturers used by us to ensure adequate product supply 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.

On March 26, 2003, we announced that we have formed a multi-year strategic alliance under which IBM will manufacture our next-generation GeForce GPUs. As part of the agreement, we will gain access to IBM's suite of foundry services and manufacturing technologies, including power-efficient copper wiring, and a roadmap that is designed to lead to 65nm (nanometer; a billionth of a meter) in the next several years, giving us valuable tools to advance our GPUs. IBM began manufacturing the next-generation GeForce graphics processor this summer at IBM's plant in East Fishkill, New York.

During the development of our relationship with IBM, 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 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 for assembly, testing and packaging of our products.

Our graphics processors are assembled and tested by Siliconware Precision Industries Company Ltd., Amkor Technology, ChipPAC Incorporated and Advanced Semiconductor Engineering. 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 or quality assurance problems could increase the costs of manufacture, assembly or testing of our products and could harm our business. 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 delays in delivery of our products could harm our business.

We rely on third-party vendors to supply us tools 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 3D graphics products 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.

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 provision could also delay or prevent a change in control of NVIDIA.

Risks Related to Our Competition

The 3D graphics industry is highly competitive and we may be unable to compete.

The market for 3D graphics processors for PCs in which we compete 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 APIs, manufacturing capabilities, price of graphics 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 our 3D graphics processors, or may provide better performance or additional features not provided by our products. We may be unable to compete successfully in the emerging PC graphics market.

Our primary source of competition is from companies that provide or intend to provide 3D graphics solutions for the PC market. Our competitors include the following:

- suppliers of integrated core logic chipsets that incorporate 3D graphics functionality as part of their existing solutions, such as Intel, Silicon Integrated Systems, ATI Technologies Inc. and VIA Technologies, Inc.;
- suppliers of graphics add-in boards that utilize their internally developed graphics chips, such as ATI Technologies Inc., Creative Technology and Matrox Electronics Systems Ltd.;
- suppliers of mobile graphics processors that incorporate 3D graphics functionality as part of their existing solutions, such as ATI Technologies Inc., Trident Microsystems, Inc. and the joint venture of a division of SONICblue Incorporated (formerly S3 Incorporated) and VIA Technologies, Inc.; and
- companies that have traditionally focused on the professional market and provide high end 3D solutions for PCs and workstations, including 3Dlabs (a Creative Technology company) and ATI Technologies Inc.

If and to the extent we offer products outside of the 3D graphics processor market, 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 as the 3D graphics processors for hardware components or subassemblies designed by PC OEMs and add-in board and motherboard manufacturers. Our add-in board and motherboard manufacturers and major OEM 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 a PC 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.

Risks Related to Market Conditions

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

During fiscal 2003 and the first half of fiscal 2004, we derived most of our revenue from the sale of products for use in the desktop PC market, from professional workstations to low-cost PCs. We expect to continue to derive most of our revenue from the sale or license of products for use in the desktop PC market in the next several years. The PC market is characterized by rapidly changing technology, evolving industry standards, frequent new product introductions and significant price competition. These factors result in short product life cycles and regular reductions of average selling prices over the life of a specific product. 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. The slowing of both the domestic and international economy has led to a reduction in the demand for PCs and to a reduction in inventory purchases by PC manufacturers, which adversely impacted our revenue during fiscal 2003. Any continued reduction in the demand for PCs generally, or for a particular product that incorporates our 3D graphic processors, could harm our business.

The acceptance of next generation products in business PC 3D graphics may not continue to develop.

Our success will depend in part upon the demand for performance 3D graphics for business PC applications. The market for performance 3D graphics on business PCs has only recently begun to emerge and is dependent on the future development of, and substantial end-user and OEM demand for, 3D graphics functionality. As a result, the market for business PC 3D graphics computing may not continue to develop or may not grow at a rate sufficient to support our business. The development of the market for performance 3D graphics in business PCs will in turn depend on the development and availability of a large number of business PC software applications that support or take advantage of performance 3D graphics capabilities. Currently, there are only a limited number of software applications like this, most of which are games, and a broader base of software applications may not develop in the near term or at all. Consequently, a broad market for full function performance 3D graphics on business PCs may not develop. Our business prospects will suffer if the market for business PC 3D graphics fails to develop or develops more slowly than expected.

Our 3D graphics solution may not continue to be accepted by the PC market.

Our success will depend in part upon continued broad adoption of our 3D graphics processors for high performance 3D graphics in PC applications. The market for 3D graphics 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. Since the PC market is our core business, our business would suffer if for any reason our current or future 3D graphics processors do not continue to achieve widespread acceptance in the PC market. 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 market, our business would be harmed.

The semiconductor industry is cyclical in nature and an industry downturn could harm our business.

The semiconductor industry historically has been characterized by the following factors:

- rapid technological change;
- cyclical market patterns;
- significant average selling price erosion;
- fluctuating inventory levels;
- alternating periods of overcapacity and capacity constraints; and
- variations in manufacturing costs and yields and significant expenditures for capital equipment and product development.

In addition, the industry has experienced significant economic downturns at various times, characterized by diminished product demand and accelerated erosion of average selling prices. We may experience substantial period-to-period fluctuations in results of operations due to general semiconductor industry conditions.

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

Our reliance on foreign third-party manufacturing, assembly, testing and packaging operations subjects us to a number of risks associated with conducting business outside of the United States, including the following:

- unexpected changes in, or impositions of, legislative or regulatory requirements;
- delays resulting from difficulty in obtaining export licenses for certain technology, tariffs, quotas and other trade barriers and restrictions;
- longer payment cycles;
- imposition of additional taxes and penalties;
- the burdens of complying with a variety of foreign laws; and
- other factors beyond our control, including terrorism and war, which may delay the shipment of our products.

We also are subject to general political risks in connection with our international trade relationships. In addition, 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 do the laws of the United States. This makes the possibility of piracy of our technology and products more likely.

Currently, all of our arrangements with third-party manufacturers provide for pricing and payment in U.S. dollars, and 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 have led to a weakening of the global economy. Recent economic data, such as the United States unemployment rate and consumer confidence measures, appear to indicate that international hostilities involving the United States has further weakened the global economy. The reduction in business and investor confidence is also reflected in the weakening equity markets. Subsequent terrorist acts and/or the threat of future outbreak or continued escalation of hostilities involving the United States 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 adversely affect our business, financial condition or results of operations.

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

Because of our reliance on TSMC, 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 U.S. and The People's Republic of China are strained due to foreign relations events. Furthermore, any substantial disruption in our suppliers' operations, either 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.

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. 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 U.S., 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 above in these risk factors. In the past, following periods of volatility in the market price of a company's stock, securities class action litigation has been initiated against the issuing company. Since February 2002, multiple securities class action lawsuits and several derivative suits have been filed against us. See Part II, Item 1 "Legal Proceedings" of this Form 10-Q for a description of this litigation.

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

For additional information regarding risks associated with the market value of portfolio investments and interest rates, see Item 3 "Quantitative and Qualitative Disclosures About Market Risk—Interest Rate Risk."

Risks Related to Intellectual Property, Litigation and Government Action

Future actions by the SEC or other governmental or regulatory agencies and resolution of related litigation arising out of the restatement of our financial statements or other matters could harm our business.

The staff of the Enforcement Division of the Securities & Exchange Commission ("SEC") informed us in January 2002 that it had concerns relating to certain accounting matters and that the SEC along with the U.S. Attorney's Office for the Northern District of California had authorized investigations into such matters. In accordance with the suggestion and advice of the SEC staff, we launched a review of these matters. On April 29, 2002, we announced that the Audit Committee of our Board of Directors had, with assistance from the law firm of Cooley Godward LLP and forensic auditors from the accounting firm of KPMG LLP, concluded its review and determined that it was appropriate to restate our financial statements for fiscal 2000, 2001 and the first three quarters of fiscal 2002. Throughout the process the Audit Committee cooperated with the SEC. After receiving a Wells notice indicating the SEC staff intended to recommend to the SEC that an enforcement action be initiated, we reached an agreement with the SEC staff in April 2003 that would resolve the SEC's investigation of us in matters related to the restatement. The agreement is subject to final approval of the SEC. Under the terms of the agreement, NVIDIA, without admitting or denying liability or wrongdoing, would agree to an administrative cease and desist order prohibiting any future violations of certain non-fraud financial reporting, books and records, and internal control provisions of the federal securities laws. We would not be required to pay any fines or penalties. It may take several weeks or months for the SEC to complete its review of the agreement. Further, there can be no assurance that the agreement will be approved by the SEC. Notwithstanding the above, actions by the SEC or other governmental or regulatory agencies with respect to us or our personnel arising out of the restatement of our financial statements or other matters may take significant time, may be expensive and may divert management's attention from other business concerns and harm our business.

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 3D graphics market 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 revenues 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. We have agreed to indemnify certain customers for certain claims of infringement arising out of sale of our products.

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. 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 graphics 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. We do not believe that current actions will have a material impact on our business or financial condition. However, these claims and any future lawsuits could divert our resources and result in the payment of substantial damages.

ITEM 4. CONTROLS AND PROCEDURES

Controls and Procedures

Based on their evaluation as of July 27, 2003, our Chief Executive Officer and Chief Financial Officer, have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) were sufficiently effective to ensure that the 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 Form 10-Q.

There were no changes in our internal controls over financial reporting during the quarter ended July 27, 2003 that have materially affected, or are reasonably likely to materially affect our internal controls over financial reporting.

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 NVIDIA have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of 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 the 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.

PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On February 19, 2002 an NVIDIA stockholder, Dominic Castaldo, on behalf of himself and purportedly on behalf of a class of our stockholders, filed an action in the United States District Court for the Northern District of California (the "Northern District") against NVIDIA and certain current and former NVIDIA officers, alleging violations of the federal securities laws arising out of our announcement on February 14, 2002 of an internal investigation of certain accounting matters. Approximately 13 similar actions were filed in the Northern District, and one additional individual action was filed in the Southern District of California, all of which were subsequently consolidated (together, the "Federal Class Actions"). In addition, three related derivative actions were filed against us, certain of our current and former executive officers, directors and our independent auditors, KPMG LLP, in California Superior Court and in Delaware Chancery Court (collectively the "Actions"). The Actions alleged claims in connection with various alleged statements and omissions to the public and sought damages together with interest and reimbursement of costs and expenses of the litigation. The derivative actions also sought disgorgement of alleged profits from insider trading by officers and directors. On March 28, 2003 the court granted NVIDIA's motion to dismiss the Federal Class Actions with prejudice as to some claims and without prejudice as to others giving plaintiffs leave to amend. On July 28, 2003, plaintiffs filed their first amended consolidated complaint. On August 8, 2003, NVIDIA filed motions to dismiss and to strike. On August 21, 2003, at the request of the plaintiffs, the court dismissed all of the remaining claims of the first amended consolidated complaint and dismissed these claims with prejudice as to the lead plaintiffs. On September 2, 2003, the plaintiffs in the two related derivative actions filed in California Superior Court moved to have their cases dismissed in their entirety. We expect the court will order such dismissal shortly. NVIDIA had also filed a motion to dismiss the derivative action filed in Delaware. On May 5, 2003, the Delaware Court granted NVIDIA's motion and dismissed the derivative action with prejudice.

The staff of the Enforcement Division of the Securities & Exchange Commission ("SEC") informed us in January 2002 that it had concerns relating to certain accounting matters and that the SEC along with the U.S. Attorney's Office for the Northern District of California had authorized investigations into such matters. In accordance with the suggestion and advice of the SEC staff, we launched a review of these matters. On April 29, 2002, we announced that the Audit Committee of our Board of Directors had, with assistance from the law firm of Cooley Godward LLP and forensic auditors from the accounting firm of KPMG LLP, concluded its review and determined that it was appropriate to restate our financial statements for fiscal 2000, 2001 and the first three quarters of fiscal 2002. Throughout the process the Audit Committee cooperated with the SEC. After receiving a Wells notice indicating the SEC staff intended to recommend to the SEC that an enforcement action be initiated, we reached an agreement with the SEC staff in April 2003 that would resolve the SEC's investigation of us in matters related to the restatement. The agreement is subject to final approval of the SEC. Under the terms of the agreement, NVIDIA, without admitting or denying liability or wrongdoing, would agree to an administrative cease and desist order prohibiting any future violations of certain non-fraud financial reporting, books and records, and internal control provisions of the federal securities laws. We would not be required to pay any fines or penalties. It may take several weeks or months for the SEC to complete its review of the agreement. Further, there can be no assurance that the agreement will be approved by the SEC. Notwithstanding the above, actions by the SEC or other governmental or regulatory agencies with respect to us or our personnel arising out of the restatement of our financial statements or other matters may take significant time, may be expensive and may divert management's attention from other business concerns and harm our business.

On April 18, 2001, we completed the purchase of certain assets of 3dfx, including patents and patent applications. 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 certified to our satisfaction 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 certified to our satisfaction 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. On October 15, 2002, 3dfx filed for Chapter 11 bankruptcy protection. We believe that the bankruptcy filing by 3dfx will allow a determination of the full number and scope of 3dfx's debts and liabilities. In the event of an adverse outcome, NVIDIA may be obligated under the Asset Purchase Agreement to pay 3dfx the contingent consideration subject to offsets for NVIDIA's claims against 3dfx arising from the Asset Purchase Agreement. On March 12, 2003, we were served with a complaint by the Trustee for 3dfx seeking, among other things, additional payment for the purchased assets and the assumption by us of 3dfx's liabilities. In addition, Carlyle Fortran Trust and CarrAmerica, former landlords of 3dfx, have filed suits against us seeking payment of the rents due by 3dfx.

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. CHANGES IN SECURITIES AND USE OF PROCEEDS

Not applicable.

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 July 10, 2003, 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, as amended, and there was no solicitation in opposition of management's solicitation.

(a) To elect two directors, Tench Coxe and Mark A. Stevens, to hold office until the 2006 Annual Meeting of Stockholders.

Nominee	For	Withheld
Tench Coxe	128,062,627	4,297,435
Mark A. Stevens	130,110,076	2,249,986

(b) To ratify the selection of KPMG LLP as our independent accountants for our fiscal year ending January 25, 2004.

For	129,593,964
Against	1,973,419
Abstain	792,679

ITEM 5. OTHER INFORMATION

Consistent with Section 10A(i)(2) of the Securities Exchange Act of 1934, as added by Section 202 of the Public Company Accounting Reform and Investor Protection Act of 2002, NVIDIA is responsible for disclosing the nature of the non-audit services approved by our Audit Committee during a quarter to be performed by KPMG LLP, our independent auditor. Non-audit services are services other than those provided by KPMG LLP in connection with an audit or a review of NVIDIA's financial statements. During the second quarter of fiscal 2004, our Audit Committee approved recurring income tax services with KPMG LLP.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

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.

* 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, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Form 10-Q, irrespective of any general incorporation language contained in such filing.

(b) Reports on Form 8-K

(i) On May 8, 2003, NVIDIA filed a report of Form 8-K dated May 8, 2003 reporting under "Item 9 Regulation FD Disclosure" rather than "Item 12 Disclosure of Results of Operations and Financial Condition" its financial information for the quarter ended April 27, 2003, as permitted by SEC Release No. 33-8216.

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SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) 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 September 9, 2003.

NVIDIA CORPORATION

By: /s/ MARVIN D. BURKETT

Marvin D. Burkett
Chief Financial Officer
(Principal Financial and Accounting Officer)