

NVIDIA 1% Convertible Senior Notes Due 2018 (Convertible Notes) | Conversion Rate Adjustments

FAQ:

1. What are conversion rate adjustments?

The indenture of the 1.00% Convertible Senior Notes (CUSIP [67066GAC8]), dated 12/2/2013, (the “Convertible Notes”) provides for a conversion privilege based on a specified conversion rate that is subject to adjustment by NVIDIA Corporation if any of the events described in Section 14.04 of the indenture occur. The conversion rate adjustment events are triggered when certain distributions are made to our shareholders in excess of the defined thresholds.

That is, when NVIDIA makes a quarterly cash dividend to its shareholders in excess of certain thresholds, a conversion rate adjustment is triggered, resulting in a potential deemed distribution to the Convertible Note holder.

2. What are the U.S. federal income tax implications of a conversion rate adjustment with respect to NVIDIA’s Convertible Note holders?

For each quarterly cash dividend NVIDIA made to shareholders in calendar year 2016, a conversion rate adjustment was triggered. Therefore, a deemed distribution was considered made to NVIDIA’s Convertible Note holders.

Please refer to the applicable Internal Revenue Service (IRS) Form 8937 (Report of Organizational Actions Affecting Basis of Securities) for an explanation of the calculation of the deemed distribution.

In 2016, NVIDIA Corporation had positive current earnings and profits and a deficit in accumulated earnings and profits. As a result, 40 percent of the distributions were treated as a dividend and 60 percent as a return of capital.

Please note, for U.S. income tax purposes, holders of the Convertible Note should increase their tax basis by the amount of the dividend and decrease it by the amount of return of capital.

Accordingly, Convertible Note holders should refer to Forms 1099-DIV and/or 1042-S received from their broker or custodian for U.S. income tax reporting of the deemed distribution amounts.

3. What is a return of capital and how is it taxed?

A return of capital is a distribution by a company that is treated, for U.S. income tax purposes, as not made from its earnings or profits, and is non-taxable to the extent of a Convertible Note holder’s basis in NVIDIA shares. Instead, the basis in NVIDIA shares is reduced by the amount of the return of capital received, down to, but not below, zero. Any return of capital that exceeds the basis in shares may be treated as a capital gain.

Any return of capital payments will be separately identified in tax statements.

Specifically, IRS Form 1099-DIV, issued no later than January 31st of each tax year (or as allowed by IRS procedures), issued by the Convertible Note holders' broker or custodian should reflect deemed distributions as follows:

- Box 1a "Total ordinary dividends": the amount of distributions that are treated as an ordinary dividend.
- Box 3 "Nondividend distributions": the amount of distributions that are treated as a return of capital.

See the Instructions to Recipients on Form 1099-DIV and IRS Publication 550, *Investment Income and Expenses*, for additional information.

4. How is the deemed distribution reported for U.S. federal income tax purposes?

In calendar year 2016, IRS regulations became effective requiring NVIDIA to provide IRS Form 8937 (Report of Organizational Actions Affecting Basis of Securities), reporting the amount of the deemed distribution. For each quarterly deemed distribution, NVIDIA will post the Form 8937 on its website and also provide a copy directly to Depository Trust Corporation (DTC), the holder of record of NVIDIA's Convertible Notes.

DTC will forward this information to brokers and custodians, who as reporting/withholding agents, will provide the necessary information reporting (and any withholding) to Convertible Note holders on Form 1099-DIV, Dividends and Distributions, and/or Form 1042-S, Foreign Person's US Source Income Subject to Withholding, as applicable.

Accordingly, as noted above, Convertible Note holders will need to refer to Forms 1099-DIV and/or 1042-S received from their broker or custodian for U.S. income tax reporting of the deemed distribution amounts.

5. What about the Form 8937 reporting on applicable quarterly dividend payments to shareholders?

Please note that the Forms 8937 provided to DTC relate only to deemed distributions arising from conversion ratio adjustments on NVIDIA's 1.00% Convertible Senior Notes (CUSIP 67066GAC8).

NVIDIA has published a separate Form 8937 relating to quarterly distributions paid to common stock holders, where a portion of such distribution is a "return of capital" for U.S. income tax purposes. Please refer to the Corporate Distributions FAQ for further information regarding quarterly dividends.