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4 UNITED STATES DISTRICT COURT
5 NORTHERN DISTRICT OF CALIFORNIA
6

7 IRON WORKERS LOCAL 580 JOINT
8 FUNDS, et al.,

9 Plaintiffs,

10 v.

11 NVIDIA CORPORATION, et al.,

12 Defendants.

Case No. [18-cv-07669-HSG](#)

**ORDER GRANTING MOTION TO
DISMISS AND DENYING MOTION TO
STRIKE**

Re: Dkt. Nos. 152, 154

13 This is a consolidated securities class action brought by Plaintiffs E. Öhman J:or Fonder
14 and Stichting Pensionenonds PGB (collectively, “Plaintiffs”) against Defendant NVIDIA
15 Corporation (“NVIDIA” or “the Company”) and Jensen Huang, co-founder and Chief Executive
16 Officer, Colette Kress, Chief Financial Officer and Executive Vice President, and Jeff Fisher,
17 Senior Vice President (collectively with NVIDIA, “Defendants”). In their initial complaint,
18 Plaintiffs alleged violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934
19 (the “Exchange Act”) and Rule 10b-5 promulgated thereunder. Dkt. No. 113 (Consolidated Class
20 Action Complaint or “CCAC”) ¶¶ 147–48. The Court dismissed the CCAC with leave to amend.
21 *Iron Workers Local 580 Joint Funds v. NVIDIA Corp.*, 2020 WL 1244936 (N.D. Cal. Mar. 16,
22 2020) (“Order”). Plaintiffs filed an amended complaint that reasserts the same claims. Dkt. No.
23 149 (First Amended Complaint or “FAC”).

24 Now pending before the Court is Defendants’ motion to dismiss the FAC. Dkt. Nos. 152
25 (“Mot.”), 159 (“Opp.”), 163 (“Reply”). Also pending before the Court is Defendants’ motion to
26 strike allegations in the FAC. Dkt. Nos. 154, 161, 165. For the following reasons, the Court
27 **GRANTS** Defendants’ motion to dismiss and **DENIES** Defendants’ motion to strike.

I. BACKGROUND

1 Plaintiffs bring this securities action individually and “on behalf of all others who
2 purchased or otherwise acquired common stock of NVIDIA Corporation” between May 10, 2017,
3 and November 14, 2018, inclusive (the “Class Period”). FAC at 1. The following facts are taken
4 from the FAC and judicially noticeable documents.

A. Graphic Processing Units

5
6 NVIDIA “is a multinational technology company” that produces graphic processing units
7 (“GPUs”), types of processors that are used in rendering computer graphics. FAC ¶ 1. NVIDIA’s
8 GPU business is reported by market platforms, two of which are at issue in this case. *Id.* ¶ 39.
9 The first platform is chips designed for videogames—the Gaming platform—comprised primarily
10 of the “GeForce” GPU product line. *Id.* ¶¶ 39–40. Original Equipment Manufacturer & IP
11 (“OEM”) is a second platform for chips designed for devices such as tablets and phones. *Id.* The
12 gaming platform is NVIDIA’s largest market: “[i]n every quarter of the Class Period, [g]aming
13 revenues exceeded those of the four other segments combined.” *Id.* ¶ 40. Generally, NVIDIA
14 does not sell GPUs directly to the end users, but rather to device manufacturers, referred to as
15 “partners,” that incorporate the GPUs into graphic or video cards. *Id.* ¶ 42.

16
17 Beginning in 2017, prices in the cryptocurrency market began to climb, creating a demand
18 for GPUs processing power. *Id.* ¶¶ 52, 62. Generally, cryptocurrencies refer to digital tokens
19 exchanged peer-to-peer through transactions facilitated by the Internet. *Id.* ¶¶ 44, 47. These
20 transactions are secured by modern cryptology and are reported on a “decentralized, immutable
21 ledger.” *Id.* ¶ 45. To maintain the integrity of this ledger, transactions must be verified by
22 network participants “by first consolidating and encrypting the data of a group of transactions
23 using a cryptographic technique of ‘hashing’—applying an algorithm to convert a string of text
24 into an inscrutable, random sequence of numbers and letters.” *Id.* ¶ 46. Users then compete to
25 solve a “mathematical puzzle through laborious trial-and-error work performed by their
26 computers” in order to verify transactions and receive a prize of the network’s token—a process
27 referred to as “crypto-mining,” or simply “mining.” *Id.* ¶¶ 46–47. This verification process
28 requires significant processing power. Because the mining process has essentially become a

1 computational race, miners turned to “GPUs, which could execute the computationally intensive
2 work of crypto-mining hundreds of times faster” than CPUs in home computers. *Id.* ¶ 52. Due to
3 the significant hardware costs, as well as electricity costs to run and cool the machines, crypto-
4 mining is only profitable when prices for cryptocurrencies are above a certain level. *Id.* ¶¶ 54–55.
5 Thus, “[b]ecause cryptocurrency prices have swung wildly over their short history,” this has also
6 led to a relatively volatile demand market for mining hardware, including GPUs. *Id.* ¶ 55.

7 In 2013, Advanced Micro Devices, Inc. (“AMD”), NVIDIA’s primary GPU competitor,
8 experienced this volatility when prices for Bitcoin, used on the most popular cryptocurrency
9 network, skyrocketed. *Id.* ¶¶ 57–58. AMD’s GPUs were in heavy demand during this time, “with
10 processors that usually sold for \$200-300 per unit selling for \$600-800 at the height of the
11 bubble.” *Id.* ¶ 57. However, when prices for Bitcoin later dropped more than 70%, so too did
12 demand for AMD GPUs—“a problem compounded by miners dumping their AMD GPUs on the
13 secondary market at steep discounts.” *Id.* ¶ 58. “AMD revenues suffered as its crypto-related
14 sales evaporated.” *Id.*

15 In 2016, the price of Bitcoin again rallied, and many new currencies entered the market.
16 Although Bitcoin miners moved away from GPUs to application specific integrated circuits
17 (“ASICs”), miners for these new currencies still relied on GPUs. *Id.* ¶¶ 56 n.4, 59. The Ethereum
18 network, “[t]he most significant” of the new cryptocurrency networks, also saw its cryptocurrency,
19 Ether, rise in price: it “temporarily peaked at over \$400 per token in June [2017] . . . [and s]everal
20 months later, in January 2018, Ether topped \$1,400 per token, an increase of more than 13,000%
21 in a single year.” *Id.* ¶ 60. “During this run up in GPU-mined cryptocurrency prices, miners
22 turned to NVIDIA—specifically, its enormously popular line of GeForce Gaming GPUs—and
23 began to purchase GeForce GPUs in droves.” *Id.* ¶ 61. In May 2017, NVIDIA launched a special
24 GPU designed specifically for cryptocurrency mining (“Crypto SKU”). *Id.* ¶ 6. Revenues from
25 Crypto SKU sales were reported in NVIDIA’s OEM segment, not the Gaming segment. *Id.*
26 Plaintiffs allege that “[l]aunching the Crypto SKU and reporting its sales in the OEM segment thus
27 allowed Defendants to claim that any mining-related revenues were cordoned off in OEM,

1 related volatility (and the crash in demand that would follow the cryptocurrency markets’
2 inevitable bust).” *Id.*

3 **B. Summary of Alleged False and Misleading Statements**

4 “Throughout the Class Period, NVIDIA reported skyrocketing revenues in its core Gaming
5 segment.” *Id.* ¶ 63. Plaintiffs allege that “investors and analysts alike questioned whether those
6 revenues truly derived from GeForce GPU sales to gamers or, rather, were from sales of GeForce
7 GPUs to cryptocurrency miners, whose demand was at risk of disappearing if the economics of
8 mining turned negative.” *Id.* ¶ 64. Plaintiffs allege that three general representations in
9 Defendants’ responses to these questions were materially false and misleading “and concealed
10 from investors the enormous risk to NVIDIA’s financial results posed by the Company’s outsized
11 exposure to crypto-mining:”

12 First, Defendants represented to investors that revenues from sales of
13 its products to cryptocurrency miners were insignificant overall.
14 Second, Defendants asserted that NVIDIA’s soaring Gaming
15 revenues indeed resulted from sales “for gaming”—not
16 cryptocurrency mining. And third, Defendants represented that
17 NVIDIA’s cryptocurrency-related revenues were contained primarily
18 in the Company’s OEM reporting segment, when in fact, almost two-
19 thirds of such revenue came from GeForce sales recorded in its
20 Gaming segment.

21 *Id.* ¶ 62 (emphasis omitted). When the purported truth was revealed, NVIDIA’s stock price fell
22 and the putative class members suffered financial losses. *See id.* ¶¶ 16–18. For example, on
23 November 15, 2018, NVIDIA cut its revenue guidance for the fiscal fourth quarter, allegedly
24 “[a]ttributing the reversal to a ‘sharp falloff in crypto demand’ . . . , and it became fully apparent to
25 the market that, contrary to Defendants’ earlier representations, NVIDIA’s revenues were unduly
26 dependent on cryptocurrency mining.” *Id.* ¶ 18. Following these alleged disclosures, NVIDIA
27 stock price “plummeted 28.5% over two trading sessions, from a close of \$202.39 per share on
28 November 15, 2018, to close at \$144.70 per share on November 19, 2018.” *Id.* ¶ 171.

29 **i. Overall revenues from miners were insignificant**

30 On August 12, 2017, *VentureBeat* published an article that included a transcript of an
interview with Defendant Huang. FAC ¶ 183. The interviewer asked if Defendant Huang “sa[id]
a hallelujah for cryptocurrency?” *Id.* Huang responded: “No? Cryptocurrency is around. But it

1 represented only a couple hundred million dollars, maybe \$150 million or so. There's still crypto
2 mining to go . . . [i]t comes and goes. It'll come again . . . [w]e're not opposed to it. But our core
3 business is elsewhere." Dkt. 153-5, Ex. D at 3; *see also* FAC ¶ 183. Defendant Huang responded
4 similarly in another *VentureBeat* article published on November 10, 2017, noting that
5 cryptocurrency "is small but not zero. For us it is small because our overall GPU business is so
6 large." Dkt. No. 153-12, Ex. M at 3; *see also* FAC ¶ 196. Defendant Huang again noted that
7 "crypto was a real part of our business this past quarter, even though small, overall," in an article
8 published by *Barron's* on February 9, 2018. Dkt. No. 153-19, Ex. T at 1; *see also* FAC ¶ 207. On
9 March 26, 2018, in an article published by *TechCrunch*, Defendant Huang was reported to have
10 said that "he still attributes crypto's demands as a small percentage of NVIDIA's overall
11 business." Dkt. No. 153-23, Ex. X at 4; *see also* FAC ¶ 210.

12 On March 29, 2018, Defendant Huang appeared on the CNBC show *Mad Money*. FAC
13 ¶ 213. When asked about the growth of cryptocurrency risks, Defendant Huang stated that "our
14 core growth drivers come from video games. It comes from professional graphics visualization
15 . . . [and] from our data center business, which is now a multi-billion dollar business doubling each
16 year, as well as in several years our autonomous vehicle business. So, those are our primary
17 growth drivers. . . . Cryptocurrency just gave it that extra bit of juice that caused all of our GPUs
18 to be in such great demand." Dkt. No. 153-22, Ex. Y at 3; *see also* FAC ¶ 213.

19 **ii. Soaring gaming revenues resulted from sales "for gaming"**

20 On May 10, 2017, NVIDIA held its 2017 Annual Investor Day in which Defendants
21 Huang, Kress, and Fisher participated. FAC ¶ 176. While presenting the "Gaming" portion,
22 Defendant Fisher said that "[t]he fundamentals of PC gaming . . . are also strong. What's driving
23 PC gaming, eSports, competitive gaming AAA gaming [and] notebook gaming, all those
24 fundamentals remain strong." Dkt. No. 153-2, Ex. A at 7; *see also* FAC ¶ 176.

25 On August 23, 2017, NVIDIA filed its Form 10-Q for the quarterly period ended July 30,
26 2017 ("Q2'17 10-Q") with the Securities and Exchange Commission ("SEC"), signed by
27 Defendants Huang and Kress. FAC ¶ 187. The Management's Discussion and Analysis of
28 Financial Condition and Results of Operations section discussed the GPU business. Specifically,

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