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**ENDORSED
FILED**
San Francisco County Superior Court

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7 SUPERIOR COURT OF THE STATE OF CALIFORNIA
8 COUNTY OF SAN FRANCISCO, CIVIC CENTER COURTHOUSE

9
10 RYAN COFFEY, individually and on behalf of all
others similarly situated

11 Plaintiff,

12 v.

13 RIPPLE LABS, INC., a Delaware corporation,
14 XRP II, LLC, a South Carolina limited liability
company, BRADLEY GARLINGHOUSE, an
15 individual, and DOES 1 through 10, inclusive,

16 Defendants.

Case No. **CGC-18-566271**

CLASS ACTION

COMPLAINT FOR:

- 17 (1) UNREGISTERED OFFER AND SALE
OF SECURITIES IN VIOLATION OF
SECTIONS 5 AND 12(a)(1) OF THE
SECURITIES ACT
- 18 (2) UNREGISTERED OFFER AND SALE
OF SECURITIES IN VIOLATION OF
SECTIONS 25110 AND 25503
CALIFORNIA CORPORATIONS CODE
- 19 (3) VIOLATION OF SECTION 15 OF THE
SECURITIES ACT
- 20 (4) VIOLATION OF CALIFORNIA
CORPORATIONS CODE SECTION
25504

21 **JURY TRIAL DEMANDED**

22 **DEMAND EXCEEDS \$25,000**

23
24
25 **BY FAX**
26 **05/03/2018**

27
28
COMPLAINT

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1 Plaintiff RYAN COFFEY, individually and on behalf of all others similarly situated
2 (“Plaintiff”) complains against defendants RIPPLE LABS, INC. (“Ripple Labs”), its wholly owned
3 subsidiary XRP II, LLC (“XRP II”), Ripple Labs’ CEO, BRADLEY GARLINGHOUSE
4 (“Garlinghouse”) and Does 1-10 (collectively, “Defendants”) as follows:

5 **I. SUMMARY OF ACTION**

6 1. This is a securities class action on behalf of all investors who purchased Ripple tokens
7 (“XRP”) issued and sold by Defendants. It arises out of a scheme by Defendants to raise hundreds
8 of millions of dollars through the unregistered sale of XRP to retail investors in violation of the
9 registration provisions of state and federal securities laws.

10 2. Unlike cryptocurrencies such as Bitcoin and Ethereum, which are mined by those
11 validating transactions on their networks, all 100 billion of the XRP in existence were created out
12 of thin air by Ripple Labs at its inception in 2013.¹ “In other words, unlike some virtual currencies,
13 XRP was fully generated prior to its distribution.”² 20 billion XRP, or 20 percent of the total XRP
14 supply, were given to the individual founders of Ripple Labs, with the remaining 80 billion retained
15 by Ripple Labs.

16 3. Defendants have since earned massive profits by quietly selling off this XRP to the
17 general public, in what is essentially a never-ending initial coin offering (“ICO”). Like the better-
18 known initial public offering (“IPO”), in an ICO, digital assets are sold to consumers in exchange
19 for legal tender or cryptocurrencies (most often Bitcoin and Ethereum). These tokens generally give
20 the purchaser various rights on the blockchain network and resemble the shares of a company sold
21 to investors in an IPO. Unfortunately, these ICOs have become a magnet for unscrupulous practices
22 and fraud.

23 4. In order to increase demand for XRP, and thereby increase the profits it can derive by
24 selling XRP, Ripple Labs has consistently portrayed XRP as a good investment, relayed optimistic
25 price predictions, and conflated Ripple Labs’ enterprise customers with usage of XRP. For example,

26 _____
27 ¹Plaintiff is informed and believes that Ripple was known as OpenCoin, Inc. until September 26, 2013 when it
changed its name.

28 ²FinCEN Statement of Facts and Violations, https://www.fincen.gov/sites/default/files/shared/Ripple_Facts.pdf (last
visited May 3, 2018).

1 in 2014, Ripple Labs publicly stated that “we will engage in distribution strategies that we expect
2 will result in a stable or strengthening XRP exchange rate against other currencies.” Ripple Labs
3 greatly increased these efforts to push XRP on the general public in 2017 and 2018.

4 5. Defendants also reportedly offered to bribe popular U.S.-based cryptocurrency
5 exchanges Coinbase, Inc. (“Coinbase”) and Gemini Trust Company, LLC (“Gemini”) to list XRP.
6 In or about the fall of 2017, Ripple Labs is reported to have offered Coinbase more than \$100 million
7 worth of XRP to start letting users trade XRP. A Ripple executive is also reported to have asked
8 whether a \$1 million cash payment could persuade Gemini to list XRP in the third quarter of 2017.
9 Although both Gemini and Coinbase declined to pursue these proposals, in late 2017 and early 2018
10 rumors that XRP would be added to Coinbase fueled its price increase. Plaintiff is informed and
11 believed and based thereon alleges that Ripple Labs was the source of these rumors.

12 6. Federal securities laws require any security that is offered or sold to be registered with
13 the Securities and Exchange Commission (“SEC”). These laws are designed to protect the public
14 by requiring various disclosures so that investors can better understand the security that is being
15 offered or sold, and risks associated with investment in that security. Under section 2(a)(1) of the
16 Securities Act of 1933 (“Securities Act”), a “security” is defined to include an “investment
17 contract.”

18 7. The SEC has made it clear that digital tokens, such as XRP, often constitute “securities
19 and may not be lawfully sold without registration with the SEC or pursuant to an exemption from
20 registration.” *See Investor Bulletin: Initial Coin Offerings*, U.S. Securities and Exchange
21 Commission (July 25, 2017); *see also In re Munchee, Inc.* (No. 3-18304) (“[T]okens, coins or other
22 digital assets issued on a blockchain may be securities under the federal securities laws, and, if they
23 are securities, issuers and others who offer or sell them in the United States must register the offering
24 and sale with the Commission or qualify for an exemption from registration.”).

25 8. Here the XRP offered and sold by Defendants have all the traditional hallmarks of a
26 security. XRP purchasers, including Plaintiff, provided consideration (in the form of fiat, including
27 U.S. dollars, or other cryptocurrencies) in exchange for XRP. XRP purchasers reasonably expected
28

1 to derive profits from their ownership of XRP, and Defendants themselves have frequently
2 highlighted this profit motive. Finally, the development of the XRP Ledger, and the profits that
3 investors expected to derive therefrom, were, and are, based entirely on the technical, managerial,
4 and entrepreneurial efforts of Defendants and other third parties employed by Defendants.

5 9. However, Defendants did not register XRP with the SEC, and many of the
6 representations Defendants made regarding XRP were designed to drive demand of XRP, allowing
7 Defendants to obtain greater returns on their XRP sales.

8 **II. PARTIES**

9 10. Lead Plaintiff Ryan Coffey is an individual who at all times mentioned, was and is a
10 resident of San Diego, California. Plaintiff purchased 650 XRP on or about January 6, 2018 at a
11 rate of \$2.60 per XRP and sold that same XRP for approximately \$1.70 per XRP on or about January
12 18, 2018.

13 11. Plaintiff is informed and believes, and based thereon alleges, that Defendant Ripple
14 Labs, Inc. is a Delaware corporation with its principal place of business in San Francisco, California.

15 12. Plaintiff is informed and believes, and based thereon alleges, that Defendant XRP II,
16 LLC is a South Carolina limited liability company with its principal place of business in San
17 Francisco, California.

18 13. Plaintiff is informed and believes, and based thereon alleges, that Defendant Brad
19 Garlinghouse, is an individual who resides in San Francisco, California. Garlinghouse is the CEO
20 of Ripple Labs, a position he has held since in or about 2015.

21 14. At all times mentioned herein, each of the defendants named herein, including DOES
22 1 through 10 were the co-conspirators, agents, representatives, alter egos, employers, and/or joint
23 venturers of the other defendants, and, in doing the acts and things herein alleged, were acting within
24 the course, scope, and authority of said agency, service, or employment with knowledge,
25 permission, and consent of the other defendants and each of them.

26 15. Plaintiff alleges on information and belief that DOES 1-10, inclusive, were
27 individuals, corporations, companies, partnerships, or other business entities. DOES 1-10 were co-

28

1 conspirators with, or alter egos of, other Defendants in the violations alleged in this Complaint and
2 performed acts or made statements in furtherance thereof. Plaintiff are presently unaware of the
3 true names and identities of DOES 1-10. Plaintiff will amend this Complaint to allege the true
4 names of the DOE defendants when they are able to ascertain them.

5 **III. JURISDICTION AND VENUE**

6 16. This Complaint is filed, and these proceedings are instituted, to recover damages and
7 to obtain other relief that Plaintiff has sustained due to Defendants' unregistered offer and sale of
8 securities in violation of Sections 5, 12(a)(1), and 15 of the Securities Act and Sections 25110,
9 25503, and 25504 of the California Corporations Code.

10 17. Venue is proper in this jurisdiction pursuant to the provisions of California Code of
11 Civil Procedure section 395(a) because all Defendants reside in San Francisco.

12 18. This Court has personal jurisdiction over Defendants as a result of acts of Defendants
13 occurring in and/or aimed at the state of California in connection with Defendants' unregistered
14 offer and sale of securities in violation of Sections 5, 12(a)(1), and 15 of the Securities Act and
15 Sections 25110, 25503 and 25504 of the California Corporations Code.

16 19. This Court also has personal jurisdiction over Defendants because they reside or have
17 their principal places of business in California.

18 **IV. SUBSTANTIVE ALLEGATIONS**

19 **A. XRP GENESIS AND THE NEVER-ENDING ICO**

20 20. Unlike cryptocurrencies such as Bitcoin and Ethereum, which are mined by those
21 validating transactions on their networks, all 100 billion XRP were created out of thin air by Ripple
22 Labs in 2013. 20 billion XRP, or 20 percent of the total XRP supply, were given to the individual
23 founders of Ripple Labs,³ with the remaining 80 billion retained by Ripple Labs.

24 21. As for the 80 billion XRP held by Ripple Labs, the plan was to sell them and use funds
25 received to fund company operations and improve the XRP Ledger. Ripple Labs' own wiki notes
26 that "Ripple Labs sells XRP to fund its operations and promote the network. This allows Ripple
27

28 ³Chris Larsen and Jed McCaleb each received 9.5 billion XRP, with Arthur Britto receiving 1 billion.

1 Labs to have a spectacularly skilled team to develop[e] and promote the Ripple protocol and
2 network.”⁴

3 22. From 2013 to the present Defendants have been engaged in an ongoing scheme to sell
4 XRP to the general public in a never ending ICO.

5 23. In May 2015, regulatory authorities in the United States fined Ripple Labs and XRP
6 II \$700,000 for violating the Bank Secrecy Act by selling XRP without obtaining the required
7 authorization. As part of that settlement, Defendants acknowledged that they had sold XRP to the
8 general public and agreed to a number of remedial measures, including registration with FinCEN.

9 24. From December 2014 to July 2015, Ripple Labs disclosed on its website the amount
10 of XRP it held and the amount in circulation. The disclosure for June 30, 2015 stated that Ripple
11 Labs held approximately 67.51 billion XRP, more than double the approximately 32.49 billion XRP
12 held by *all others*. The XRP held by others also significantly overstates independent holdings of
13 XRP because it includes the 20 billion provided to founders and an undisclosed amount of XRP
14 used in “business development agreements that are still pending.”

15 25. Defendants sales of XRP to the public accelerated rapidly in 2017 and early 2018.

16 **B. DEFENDANTS’ PRIMARY SOURCE OF INCOME IS THE SALE OF XRP**

17 26. While publicly touting its xCurrent, xRapid, and xVia enterprise solutions
18 (collectively, “Ripple Enterprise Solutions”), Ripple Labs’ primary source of income is, and has
19 been, the sale of XRP. Defendants earned over \$342.8 million through XRP sales in the last year
20 alone—XRP which costs Defendants nothing since they created it out of thin air. Defendants sell
21 XRP wholesale to larger investors and also sell significant quantities of XRP directly to the general
22 public on cryptocurrency exchanges.

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26 _____
27 ⁴Ripple credits,
28 https://wiki.ripple.com/Ripple_credits#XRP_funds_the_development_and_promotion_of_the_protocol_and_the_network (last visited May 3, 2018).

1 27. According to Ripple Labs itself, in the first quarter of 2018, “market participants
2 purchased \$16.6 million [of XRP] directly from XRP II. XRP II also “sold \$151.1 million worth of
3 XRP” on exchanges.⁵

4 28. Similarly, in the fourth quarter of 2017, “market participants purchased \$20.1 million
5 directly from XRP II,” and XRP II sold an additional “\$71.5 million worth of XRP” on exchanges.⁶

6 29. In the third quarter of 2017, “market participants purchased \$19.6 million directly
7 from XRP II,” and XRP II sold an additional “\$32.6 million worth of XRP” on exchanges.⁷

8 30. In the second quarter of 2017, “market participants purchased \$21M directly from
9 XRP II,” and XRP II sold an additional “\$10.3M worth of XRP” on exchanges.⁸

10 **C. DEFENDANTS MARKET XRP TO DRIVE DEMAND AND INCREASE**
11 **PRICE**

12 31. Given its reliance on sales of XRP, it is unsurprising that Ripple Labs aggressively
13 markets XRP to drive demand, increase XRP’s price, and thus its own profits.

14 32. Ripple Labs has an entire section of its website dedicated to providing advice on “How
15 to Buy XRP.” This section provides links to exchanges and instructions on “how to buy XRP” on
16 those exchanges.⁹ It also has a section titled “Market Performance” which proclaims that Ripple
17 Labs is “committed to the long term health and stability of XRP markets.”¹⁰

18 33. Ripple Labs also consistently promotes the availability of XRP on exchanges. For
19 example, on May 18, 2017, it’s Senior Vice-President for Business Development, Patrick Griffin,
20 tweeted a link to the Kraken exchange with the caption: “Kraken Introduces New Fiat Pairs for XRP
21 Trading! USD, JPY, CAD, EUR @Ripple.”¹¹

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24 _____
25 ⁵ Q1 2018 XRP Markets Report, <https://ripple.com/insights/q1-2018-xrp-markets-report/> (last visited May 3, 2018).

26 ⁶ Q4 2017 XRP Markets Report, <https://ripple.com/insights/q4-2017-xrp-markets-report/> (last visited May 3, 2018).

27 ⁷ Q3 2017 XRP Markets Report, <https://ripple.com/xrp/q3-2017-xrp-markets-report/> (last visited May 3, 2018).

28 ⁸ Q2 2017 XRP Markets Report, <https://ripple.com/insights/q2-2017-xrp-markets-report/> (last visited May 3, 2018).

⁹ XRP Buying Guide, <https://ripple.com/xrp/buy-xrp/> (Last visited May 3, 2018).

¹⁰ Market Performance, <https://ripple.com/xrp/market-performance/> (Last visited May 3, 2018)

¹¹ @patgriffin9, <https://twitter.com/patgriffin9/status/865251321867231233> (last visited May 3, 2018).

1 34. Similarly, on or about December 21, 2017 Ripple Labs tweeted in Japanese that XRP
2 was now available on over 50 exchanges.¹² That tweet linked to an article on Ripple Labs’ website
3 which described XRP as “the fastest and most scalable [digital] asset on the market.”¹³ It continued,
4 “[t]he market is taking notice of XRP’s speed, reliability and scalability — which has strengthened
5 the demand for XRP and where it’s listed. In fact, we’re proud to announce that XRP has gone from
6 being listed on six exchanges earlier this year to more than 50 worldwide.” The article also links to
7 a number of exchanges where XRP can be purchased, and states that “XRP’s long-term value is
8 determined by its utility — including its ability to help financial institutions source liquidity for
9 payments into and out of emerging markets.”

10 35. Ripple Labs also hosts conferences to generate interest in XRP. For example, between
11 October 16 and October 18, 2017 it hosted a conference named “Swell” in Toronto. Ripple Labs
12 acknowledged that “[a]nticipation around the event spurred a meaningful spike in XRP, pushing it
13 up 100 percent . . .”¹⁴

14 36. On that same day, CoinDesk, a subsidiary of Digital Currency Group, which has an
15 ownership interest in Ripple Labs, published an article titled “Ripple Price Passes Historic \$1
16 Milestone.”¹⁵ This was just one of many instances in which Ripple Labs would promote price
17 movements of XRP.

18 37. Ripple Labs’ promotion of XRP’s price reached new highs in December 2017. In one
19 instance Ripple’s XRP product manager retweeted a tweet exclaiming: “Wow, XRP at all time high!
20 Forget about bitcoin, *we’re all in on XRP!*” (emphasis added).¹⁶

21 38. Ripple Labs’ CEO, Brad Garlinghouse, has also been a vocal advocate for investing
22 in XRP. In a December 14, 2017 interview with BNN, when asked if he is personally invested in
23 XRP, the CEO stated “I’m long XRP, I’m very, very long XRP as a percentage of my personal
24

25 ¹²@Ripple, <https://twitter.com/Ripple/status/943999526783905792> (last visited May 3, 2018).

26 ¹³XRP Now Available on 50 Exchanges Worldwide, <https://ripple.com/insights/xrp-now-available-on-50-exchanges-worldwide/> (last visited May 3, 2018).

27 ¹⁴Q3 2017 XRP Markets Report, <https://ripple.com/xrp/q3-2017-xrp-markets-report/> (last visited May 3, 2018).

28 ¹⁵Ripple Price Passes Historic \$1 Milestone, <https://www.coindesk.com/ripple-price-passes-historic-1-milestone/> (last visited May 3, 2018).

¹⁶@warpan, https://twitter.com/yoshitaka_kitao/status/940785785925709829 (last visited May 3, 2018).

1 balance sheet.” He continued, stating that he is “not long some of the other [digital] assets, because
2 it is not clear to me what’s the real utility, what problem are they really solving.” And ended by
3 reiterating “if you’re solving a real problem, if it’s a scaled problem, then I think you have a huge
4 opportunity to continue to grow that. We have been really fortunate obviously, *I remain very, very,*
5 *very long XRP*, there is an expression in the industry HODL, instead of hold, its HODL . . . I’m on
6 the HODL side.” (emphasis added).

7 39. Later that same day, Garlinghouse tweeted: “Bloomberg welcomes \$XRP to
8 @theterminal and gets it right - #2 market cap behind \$BTC at ~\$80BB!”¹⁷

9 40. About a week later, on or about December 22, 2017, Garlinghouse tweeted an article
10 titled “Bitcoin Is So 2017 as Ripple Soars at Year End,” with the caption “I’ll let the headline speak
11 for itself. \$xrp.”¹⁸

12 41. On or about January 17, 2018, Garlinghouse tweeted a CNBC article titled “Ripple is
13 sitting on close to \$80 billion and could cash out hundreds of millions per month – but it isn’t,” with
14 the caption “A good read on why fostering a healthy \$XRP ecosystem is a top priority at @Ripple.”

15 42. However, the reality was that Ripple Labs was doing exactly that. As laid out in
16 Section IV(B), Defendants sold at least \$167.7 million worth of XRP between January 1, 2018 and
17 March 31, 2018.

18 **1. Defendants Blur Differences Between Ripple Labs’ Enterprise Solutions**
19 **and XRP to Further Drive Demand**

20 43. Defendants’ advertising and social media postings also conflate adoption and use of
21 Ripple Labs’ xCurrent and xVia enterprise solutions (collectively, “Ripple Enterprise Solutions”)
22 with adoption and use of XRP, even though they often have little to no correlation. Plaintiff is
23 informed and believes and based thereon alleges that Defendants do this to drive demand for XRP
24 and thereby maximize profits from XRP sales.

25 44. According to its site, “xCurrent is Ripple’s enterprise software solution that enables
26 banks to instantly settle cross-border payments with end-to-end tracking. Using xCurrent, banks

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28 ¹⁷@bgarlinghouse, <https://twitter.com/bgarlinghouse/status/941375649549246464> (last visited May 3, 2018).

¹⁸@bgarlinghouse, <https://twitter.com/bgarlinghouse/status/944325730338357248> (last visited May 3, 2018).

1 message each other in real-time to confirm payment details prior to initiating the transaction and to
2 confirm delivery once it settles.”¹⁹

3 45. xCurrent doesn’t operate on the same technology as XRP or even require the use of
4 XRP. In short, there is no reason to believe that adoption of xCurrent would correlate in any way
5 with adoption of XRP.

6 46. Nor does use of Ripple Labs’ xVia product require adoption of XRP. Ripple Labs
7 states that its xVia product is “for corporates, payment providers and banks who want to send
8 payments across various networks using a standard interface.”²⁰

9 47. Ripple labs nevertheless conflates the adoption of these Enterprise Solutions with
10 adoption of XRP.

11 48. For example, on March 20, 2017, Ripple Labs retweeted a Bloomberg article
12 regarding adoption of Ripple Enterprise Solutions, proclaiming “Ripple is the only company in this
13 space with real customers who are really in production.”²¹

14 49. The price of XRP increased rapidly following this tweet and on March 24, 2017
15 Ripple labs tweeted: “The price of #XRP continues to surge showing that people are looking for
16 #bitcoin alternatives.”²²

17 50. On April 26, 2017, Ripple labs tweeted a link to an article on its own site, proclaiming:
18 “#Ripple welcomes 10 additional customers to our #blockchain #payments network.”²³ Neither this
19 tweet nor the article it linked to informed readers that the blockchain payments network did not refer
20 to the XRP Ledger, but rather Ripple’s xCurrent enterprise solution.

21 51. Just days later, on May 3, 2017, with the price of XRP continuing to rise, Ripple Labs
22 tweeted: “#Ripple adoption is sparking interest in XRP ‘which has had an impressive rally in the
23 last two months’ via @Nasdaq.”²⁴

24
25 ¹⁹ Process Payments, xCurrent, <https://ripple.com/solutions/process-payments/> (last visited May 3, 2018).

^SSend Payments, xVia, <https://ripple.com/solutions/send-payments/> (last visited May 3, 2018).

26 ²¹@Ripple, <https://twitter.com/Ripple/status/844009778309357568> (last visited May 3, 2018).

²²@Ripple, <https://twitter.com/Ripple/status/845347809830195200> (last visited May 3, 2018).

27 ²³@Ripple, <https://twitter.com/Ripple/status/857267304618278912> (last visited May 3, 2018).

28 ²⁴@Ripple, <https://twitter.com/Ripple/status/859904105916923904> (last visited May 3, 2018).

1 52. Ripple Labs conflated the adoption of its Enterprise Solutions and XRP again on May
2 16, 2017, tweeting: “The appeal that Ripple has towards traditional financial institutions is a big
3 advantage it has over Bitcoin.”²⁵

4 53. On June 29, 2017, Ripple Labs tweeted a clip of an interview its CEO Brad
5 Garlinghouse gave on CNBC with the caption: “#XRP – up 4000% this year – has shown the market
6 favors a real use case for #digitalassets . . .”²⁶ In that interview, Garlinghouse proclaims that “digital
7 assets are in a position to be more valuable than gold,” and describes XRP as “solving a real-world
8 use case, it’s not just about speculators.”

9 54. On November 27, 2017, Garlinghouse tweeted “Ripple & \$XRP are giving businesses
10 ‘what they want in a #blockchain,’” along with a link to a Motley Fool tweet.²⁷ That Motley Fool
11 tweet in turn stated that “AmEx and Banco Santander will use Ripple’s blockchain network for
12 instant intl. fund transfers. *Could be a big deal for Ripple’s XRP cryptocurrency.* \$AXP \$SAN.”
13 (emphasis added).²⁸

14 55. Similarly, on December 14, 2017 Ripple Labs tweeted: “The Japan Bank Consortium
15 launched a Ripple pilot with two large Korean banks – the first time money moves from Japan to
16 Korea over RippleNet.”²⁹ The tweet also linked to an article on Ripple Labs’ site. Buried inside
17 that article is the fact that “RippleNet” refers to Ripple’s xCurrent enterprise solution, which does
18 not require use of XRP. Nevertheless, on that same day Ripple Labs tweeted “@bgarlinghouse [its
19 CEO’s twitter handle] on why crypto prices will be driven by real utility, the multi-trillion \$ problem
20 @Ripple is solving and why \$XRP will come out on top.”³⁰

21 56. Ripple Labs would later acknowledge that “neither the AMEX news nor the Korean
22 bank initiative involved XRP.”

23 57. Nevertheless, this tweet linked to a BNN interview with Mr. Garlinghouse, in which
24 he says “the reason why XRP has performed so well this year, we’re solving a real problem, it’s a

25 _____
²⁵@Ripple, <https://twitter.com/Ripple/status/864635614020251649> (last visited May 3, 2018).

26 ²⁶@Ripple, <https://twitter.com/Ripple/status/880532198025121793> (last visited May 3, 2018).

27 ²⁷@bgarlinghouse, <https://twitter.com/bgarlinghouse/status/935225940845711366> (last visited May 3, 2018).

28 ²⁸@themotleyfool, <https://twitter.com/themotleyfool/status/934850515640471553> (last visited May 3, 2018).

²⁹@Ripple, <https://twitter.com/Ripple/status/941501026267316224> (last visited May 3, 2018).

³⁰@Ripple, <https://twitter.com/Ripple/status/941352005058011137> (last visited May 3, 2018).

1 multi-trillion dollar problem around cross-border payments. There is a lot of friction its very slow
2 its expensive, we're working with the institutions to deal with that, so people have gotten excited.
3 We now have over 100 customers we've announced publicly." He continues, "at the end of the day
4 the value of digital assets will be driven by their utility. If they are solving a real problem, and that
5 problem has scale, and that problem, you know there is real value there, then there will be demand
6 for the tokens and the price will go up. For XRP we have seen because *its required*, its something
7 that can really reduce the friction, and we're talking about a multi-trillion dollar problem in how
8 cross-border payments flow. And so, I think if you drive real utility, yes there's going to be demand
9 for that." "*XRP is up 100x this year*, and I think it's *because the problem we are solving people*
10 *realize is a real problem, it's a big problem.*" (emphasis added).

11 58. On January 4, 2018, following XRP's rapid price increase, the New York Times
12 published an article by Nathaniel Popper titled: "Rise of Bitcoin Competitor Ripple Creates Wealth
13 to Rival Zuckerberg."³¹ Mr. Popper tweeted a link to this article with the caption: "On the rise of
14 Ripple. If this is a tulip fever, the fever has spread to chrysanthemums and poppies."³²

15 59. He further commented, "I've asked several people close to banks if banks are indeed
16 planning to begin using Ripple's token, XRP, in a serious way, which is what investors seem to
17 assume when they buy in at the current XRP prices. This is a sampling of what I heard back:

- 18 • Actual use of XRP by banks is not something I've heard about, I find the run up
19 absolutely baffling, as do all the blockchain folks I know at large FIs.
- 20 • XRP isn't used for anything. The hope is that some day it will be by banks, but
21 there really aren't banks signaling that yet.
- 22 • I would be surprised if there have been any real bank to bank transactions done
23 with it (outside of maybe test transactions), despite people making claims to the
24 contrary.

25
26
27 ³¹Rise of Bitcoin Competitor Ripple Creates Wealth to Rival Zuckerberg,
<https://www.nytimes.com/2018/01/04/technology/bitcoin-ripple.html> (last visited May 3, 2018).

28 ³²@nathanielpopper, <https://twitter.com/bgarlinghouse/status/949129952716234752> (last visited May 3, 2018).

- 1 • It's not clear to me why XRP would be used by banks at all. XRP could potentially
- 2 be adopted by consumers as a payment rail, although they don't yet have
- 3 meaningful traction in that regard.
- 4 • I haven't seen a sufficiently large catalyst in the fundamentals of Ripple to justify
- 5 a greater than 10x move in the price of \$XRP in the last month.
- 6 • In a few years we're going to look back on 2017 and think WTF were we
- 7 thinking."

8 60. Ripple Labs' CEO Garlinghouse publicly responded to this, tweeting: "Over the last
9 few months I've spoken with ACTUAL banks and payment providers. They are indeed planning to
10 use xRapid (our XRP liquidity product) in a serious way. . ." He follows up stating, "I don't think
11 you want to hear about validation for XRP. The @NYTimes should be above spreading anonymous
12 FUD." FUD, which stands for fear, uncertainty, and doubt, is an expression frequently used among
13 crypto-investors to deride or undermine criticism of an asset.

14 61. Ripple's XRP product manager, also attacked Mr. Popper, tweeting: "Do you think I
15 left #Bitcoin and joined @Ripple to build bank software? Think again. \$XRP."³³ This tweet
16 linked to a Ripple Labs tweet stating that "3 of the top 5 global money transfer companies plan to
17 use XRP in payment flows in 2018. Even more in the pipeline."

18 2. RIPPLE LABS ATTEMPTS TO PAY OFF EXCHANGES TO LIST 19 XRP

20 62. Ripple Labs even attempted to bribe two U.S. cryptocurrency exchanges to list XRP
21 to further drive demand for the token. Coinbase and Gemini provide the easiest ways for U.S.-
22 customers to buy crypto-assets with U.S. dollars.³⁴ There is thus a perception that being listed on
23 one of these exchanges will accelerate demand for, and thus the price of, a crypto-asset.

24 63. A listing on Coinbase, in particular, is considered to be a crypto-asset's golden ticket.
25 This proved true when Coinbase listed Litecoin in August 2016 and Bitcoin Cash in December

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27 ³³@Warren Paul Anderson, <https://twitter.com/warpaul> (last visited May 3, 2018).

28 ³⁴Many other exchanges do not allow users to make purchases with cash, but rather accept only other
cryptocurrencies, like Bitcoin or Ethereum.

1 2017. When Coinbase listed Bitcoin Cash, its price increased from approximately \$2,500 to
2 approximately \$3,400 just before Coinbase listed the asset. It then briefly shot up to \$9,500 upon
3 being listed on Coinbase before Coinbase temporarily halted trading.

4 64. Recognizing that getting its XRP listed on these exchanges could spur demand for
5 XRP, and thereby allow it to maximize the profits it derives from XRP sales, Ripple Labs offered
6 to bribe these exchanges to list XRP.

7 65. Bloomberg reported that “a Ripple executive asked whether a \$1 million cash
8 payment could persuade Gemini to list XRP in the third quarter,” of 2017.³⁵

9 66. Ripple Labs also, “said it would be willing to lend [Coinbase] more than \$100 million
10 worth of XRP to start letting users trade the asset . . .” Gemini and Coinbase both declined to pursue
11 Ripple Labs’ proposal.

12 67. On November 29, 2017 Ripple Labs posted a link to a change.org petition to “Get
13 Ripple on Coinbase,” with the caption “[t]he community is mobilizing! [thumbs up emoji].”³⁶
14 Ripple’s Senior Vice President of Business Development also tweeted a link to the petition.

15 68. Weeks later on December 13, 2017 Ripple Labs’ Senior Vice President of Business
16 Development retweeted a tweet from Arrington XRP Capital (a hedge fund valued in XRP) stating:
17 “It’s stunning that coinbase hasn’t added XRP yet.”³⁷

18 69. During this same late 2017 and early 2018 time period, rumors that XRP would be
19 added to Coinbase fueled a massive price increase. Plaintiff is informed and believed and based
20 thereon alleges that Defendants were the source of these rumors.

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26 ³⁵Ripple is Said to Struggle to Buy U.S.-Listing for Popular Coin,
<https://www.bloomberg.com/amp/news/articles/2018-04-04/ripple-is-said-to-struggle-to-buy-u-s-listing-for-popular-coin> (last visited May 3, 2018).

27 ³⁶@Ripple, <https://twitter.com/Ripple/status/935923310080045056> (last visited May 3, 2018).

28 ³⁷@patgriffin9, <https://twitter.com/arrington/status/941377930994769920> (last visited May 3, 2018).

1 **3. Ripple Labs Publicly Limits the Supply of XRP to Drive Price**
2 **Appreciation**

3 70. Ripple Labs has also publicly limited the available supply of XRP in order to drive
4 price appreciation and allow it to maximize profits from XRP sales.

5 71. On or about May 16, 2017, Ripple Labs’ CEO posted an article on its website, titled
6 “Ripple to Place 55 Billion XRP in Escrow to Ensure Certainty of Total XRP Supply.”³⁸ Ripple
7 Labs promoted this article in a tweet stating: “We’re placing 55B #XRP into a cryptographically
8 secured escrow account to establish certainty around #XRP supply.”³⁹

9 72. In that article Garlinghouse proclaims, “Our goal in distributing XRP is to incentivize
10 actions that build trust, utility and liquidity. We engage in distribution strategies that we expect will
11 result in a *strengthening XRP exchange rate* against other currencies.” (emphasis added). He
12 continues, noting that “we have heard concerns in the market about uncertainty surrounding our
13 ongoing XRP distribution. The root of this uncertainty is the notion that Ripple might one day sell
14 its 61.68B XRP in the market at any time – a scenario that would be bad for Ripple! Our self-interest
15 is aligned with building and maintaining a healthy XRP market.”

16 73. He commits to remove “that uncertainty by committing to place 55 billion XRP into
17 a cryptographically-secured escrow account,” which will allow investors to “mathematically verify
18 the maximum supply of XRP that can enter the market.” He ends by stating that “XRP is the only
19 digital asset with a clear use case . . . Designed for enterprise use, XRP can be used by financial
20 institutions for on-demand liquidity for cross-border payments. Payment providers and banks using
21 XRP will gain greater access to emerging markets and much lower settlement costs, and this is why
22 we remain committed to increasing XRP liquidity and continued decentralization of its ledger.”

23 74. XRP’s price increased rapidly following this announcement, and Ripple Labs’ “Q2
24 2017 XRP Markets Report” listed the escrow announcement as “instrumental in helping to drive
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27 ³⁸Ripple to Place 55 Billion XRP in Escrow to Ensure Certainty of Total XRP Supply,
<https://ripple.com/insights/ripple-to-place-55-billion-xrp-in-escrow-to-ensure-certainty-into-total-xrp-supply/> (last
28 visited May 3, 2018).

³⁹@Ripple, <https://twitter.com/Ripple/status/864512213289123840> (last visited May 3, 2018).

1 XRP interest and volume,” and noted that the “market responded favorably to the escrow”
2 announcement.

3 75. On or about December 7, 2017, Ripple Labs announced that it had followed through
4 with its promise and placed “55 billion XRP in a cryptographically-secured escrow account to create
5 certainty of XRP supply at any given time.”⁴⁰

6 76. It published an article detailing this escrow, which explained, “[b]y securing the lion’s
7 share of XRP in escrow, people can now mathematically verify the maximum supply that can enter
8 the market. While Ripple has proved to be a responsible steward of XRP supply for almost five
9 years – and has clearly demonstrated a tremendous track record of investing in and supporting the
10 XRP ecosystem – *this lockup eliminates any concern that Ripple could flood the market, which
11 we’ve pointed out before is a scenario that would be bad for Ripple!*” (emphasis added).

12 77. The article contained a button to allow readers to share it on twitter with the caption,
13 “Game changer for \$XRP! 55 billion XRP now in escrow.” Ripple Labs also promoted this article
14 through its own tweet, which proclaimed: “55B \$XRP is now in escrow. Interested in what this
15 means for \$XRP markets?”⁴¹ Ripple’s CEO was even more enthusiastic, tweeting: “Boom! 55B
16 \$XRP now in escrow. Good for supply predictability and trusted, healthy \$XRP markets. Glad to
17 finally let this #cryptokitty out of the bag!”⁴²

18 78. Ripple Labs’ public commitment to limit the supply of XRP had its intended effect.
19 In the weeks that followed the price of XRP exploded upwards, from approximately 25 cents on
20 December 7, 2017 to \$3.43 on January 3, 2018. It would then shed nearly all its value in just over
21 three months, falling to a low of approximately 46 cents on April 6, 2018.

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27 ⁴⁰Ripple Escrows 55 Billion XRP for Supply Predictability, [https://ripple.com/insights/ripple-escrows-55-billion-xrp-
for-supply-predictability/](https://ripple.com/insights/ripple-escrows-55-billion-xrp-for-supply-predictability/) (last visited May 3, 2018).

⁴¹@Ripple, <https://twitter.com/Ripple/status/938933967956389889> (last visited May 3, 2018).

28 ⁴²@bgarlinghouse, <https://twitter.com/bgarlinghouse/status/938933791145336832> (last visited May 3, 2018).

1 **D. Defendants Acknowledge that Development of the XRP Ledger is Dependent on**
2 **their Technical, Entrepreneurial, and Managerial Efforts**

3 79. Defendants acknowledge that development of the XRP Ledger and success of XRP is
4 Dependent on their technical, entrepreneurial, and managerial efforts.

5 80. For example, in February 2017 Ripple Labs promoted a deal with BitGo to build an
6 enterprise wallet and treasury management platform for XRP.⁴³

7 81. Ripple Labs also publishes a quarterly report detailing its efforts grow the “XRP
8 ecosystem.”⁴⁴ In one of these reports, discussing its plan for “Q3 2017,” Ripple Labs states that it
9 “plans to focus on three areas of liquidity development as we drive XRP towards its natural position
10 as the digital asset standard for international value transfer.” And ends by saying, “[m]ost
11 importantly, we are accelerating the pace of *our investment* in the XRP Ledger to *build on its speed,*
12 *uptime, and scalability, to ensure XRP is the most trusted enterprise-grade digital asset.*”
13 (emphases added).

14 82. Three months later, in describing its goals for the fourth quarter of 2017, Ripple Labs
15 proclaimed it would “continue to expand [its] xRapid partnerships.” It states that its “long-term
16 goal is, and always has been, usage of XRP as a liquidity solution for more and more corridors, and
17 partnerships are key to achieving this goal.”⁴⁵

18 83. In January 2018, Ripple Labs touted “a partnership with MoneyGram—one of the
19 world’s largest money transfer companies—to use xRapid and XRP for near real-time cross-border
20 payments. In addition, there are a number of other xRapid deals at various stages of completion in
21 the pipeline.” It also stated that it wanted “to build the necessary markets infrastructure for eventual
22 direct usage of XRP by financial institutions.”

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26 ⁴³@patgriffin9, <https://twitter.com/patgriffin9/status/831945571736834048> (last visited May 3, 2018).
27 ⁴⁴Announcing Quarterly XRP Market Operations Report, <https://ripple.com/insights/announcing-quarterly-xrp-market-operations-report/> (last visited May 3, 2018).
28 ⁴⁵Q3 2017 XRP Markets Report, <https://ripple.com/xrp/q3-2017-xrp-markets-report/> (last visited May 3, 2018).

1 84. Its CEO commented on this partnership, saying: “And to be clear: @MoneyGram
2 announcement is one step in a marathon ahead to truly make \$XRP the global liquidity solution for
3 payment providers and banks.”⁴⁶

4 **1. Ripple Labs Promises R3 a 5 Billion XRP Option to Drive Adoption of**
5 **XRP**

6 85. Ripple Labs has also used XRP to enter into partnerships intended to drive the
7 adoption of XRP, and even structured these agreements so that their partners compensation is tied
8 to appreciation of XRP—just as companies often do with shares to ensure that their interests are
9 aligned. In early 2016 Ripple Labs promised R3 Holdco, LLC (“R3”), an enterprise software firm
10 with a network of banks and financial institutions, the option to purchase five billion XRP in
11 exchange for R3 providing Ripple Labs with access to R3’s consortium of member banks and
12 financial institutions—thereby driving adoption of XRP.

13 86. When the price of XRP rose rapidly, Ripple Labs repudiated the deal, which had
14 provided R3 the option to purchase 5 billion XRP at \$0.085 per XRP. Ripple Labs claimed that
15 R3 had failed to commercialize Ripple’s technology in connection with the use of XRP as the
16 parties had agreed.

17 **E. Ripple Labs Maintains the Centralized XRP Ledger**

18 87. Defendants, and Ripple Labs in particular, are also entirely responsible for
19 maintaining the XRP Ledger.

20 88. Unlike cryptocurrencies such as Bitcoin and Ethereum, which use a Proof of Work
21 (“PoW”) consensus mechanism to verify the legitimacy of transactions on the network, the XRP
22 Ledger relies on trusted nodes operated by Ripple Labs to verify the legitimacy of transactions and
23 maintain agreement on the network. The PoW mechanism utilized by Bitcoin and Ethereum helps
24 to ensure the network is decentralized by allowing anyone to use their own hardware and electricity
25 to run the PoW consensus algorithm to verify transactions on the public ledger and send them to be
26 recorded throughout the blockchain. The network’s decision-making process is thus placed entirely
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28 ⁴⁶@bgarlinghouse, <https://twitter.com/bgarlinghouse/status/951461582424358912> (last visited May 3, 2018).

1 in the hands of those who run the consensus algorithm with their own hardware and electricity,
2 rather than any one entity or individual. Bitcoin currently has approximately 9,933 public nodes,
3 while Ethereum has 18,266.

4 89. The XRP Ledger consensus protocol, on the other hand, relies almost entirely on
5 “trusted nodes” on the Unique Node Lists (“UNL”). The UNL is the set of trusted nodes that
6 communicate “reliable” information to other nodes on the XRP Ledger. Like miners in Bitcoin and
7 Ethereum, these “trusted nodes” validate transactions. However, unlike those miners, the trusted
8 nodes are either selected or controlled by Ripple Labs itself. Ripple Labs provides its own default
9 and recommended UNL—currently comprised of only five Ripple Labs-hosted nodes. Although
10 Ripple Labs claims it plans to decentralize the network, it admits that it will only remove its own
11 “trusted nodes” if it decides that other validator nodes are reliable, reputable, stable, and secure.⁴⁷
12 Ripple Labs’ view of decentralization of the XRP Ledger still involves Ripple Labs maintaining full
13 control over the Ledger and deciding who owns and operates any third-party “trusted nodes.”

14 90. In January 2018, BitMex Research, a blockchain research group, installed and ran a
15 copy of Rippled (the software that allows users to run nodes on the XRP Ledger).⁴⁸ “The node
16 operated by downloading a list of five public keys from the server v1.ripple.com.” “The software
17 indicates that four of the five keys are required to support a proposal in order for it to be accepted
18 [on the XRP Ledger].” However, “[a]ll five keys are assigned to Ripple.com.” BitMex Research
19 concludes that “[s]ince the keys were all downloaded from the Ripple.com server, *Ripple is*
20 *essentially in complete control of moving the ledger forward*, so one could say *the system is*
21 *centralized.*” (emphasis added).

22 91. BitMex Research continues, “the Ripple system appears for all practical purposes to
23 be centralized and is therefore perhaps devoid of any interesting technical characteristics, such as
24 censorship resistance, which coins like Bitcoin may have. . .”

26 ⁴⁷Decentralization Strategy Update, <https://ripple.com/dev-blog/decentralization-strategy-update/> (last visited May 3,
27 2018); How We Are Further Decentralizing the Ripple Consensus Ledger, [https://ripple.com/insights/how-we-are-
further-decentralizing-the-ripple-consensus-ledger-rcl-to-bolster-robustness-for-enterprise-use/](https://ripple.com/insights/how-we-are-further-decentralizing-the-ripple-consensus-ledger-rcl-to-bolster-robustness-for-enterprise-use/) (last visited May 3,
2018).

28 ⁴⁸The Ripple Story, <https://blog.bitmex.com/the-ripple-story/> (last visited May 3, 2018).

1 92. Ripple’s own XRP product manager, Warren Paul Anderson, frequently markets the
2 XRP Ledger’s dependence on Ripple Labs’ continued commitment to it. For example on December
3 14, 2016, he tweeted: “Thrilled to have the rippled team in town for a summit to discuss the future
4 of @Ripple Consensus Ledger & XRP as a native digital asset!”⁴⁹ Approximately a year later, in
5 December 2017 he retweeted that, saying “It’s that time of year again, and what a year its been!
6 #XRP Ledger (rippled) core developers in town @Ripple for a summit to discuss planning for
7 2018.”⁵⁰

8 93. Later that same day he posted a picture of Ripple Labs engineers with the caption, “A
9 great day of reflection & planning @Ripple w/ the greatest C++ engineering team in the world
10 #XRP.”⁵¹ On that same day, Ripple’s head of cryptography posted: “Today, all the \$XRP Ledger
11 developers at @Ripple are in SF to reflect on 2017 and plan for 2018.”⁵²

12 94. Later in the month, on December 29, 2017, a Ripple software engineer, Nik Bougalis,
13 tweeted: “I’ve been working on code review for the last couple days. Excited to get rippled 0.90.0
14 out the door,”⁵³ indicating that Ripple Labs was working to get a new version of Rippled out and
15 thereby advance the XRP Ledger.

16 95. On January 9, 2018, Anderson tacitly admits that the XRP Ledger remains centralized,
17 tweeting that the “[n]ew \$XRP Ledger (rippled) 0.81.0 release gets us one-step closer to executing
18 on our aforementioned decentralization strategy. . .”

19 96. Following, Ripple’s release of a Rippled upgrade, Bougalis tweeted, “[t]he C++ team
20 has released rippled 0.90.0. Cool new features: history sharding, deposit authorizations, checks and
21 more!”⁵⁴ When asked about Rippled, Bougalis continues, “[i]t’s the software one uses to run a
22 server that connects to the XRP Ledger.”

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25 ⁴⁹@warpaul, <https://twitter.com/warpaul/status/809047284717469696> (last visited May 3, 2018).

26 ⁵⁰@warpaul, <https://twitter.com/warpaul/status/940970970759573505> (last visited May 3, 2018).

27 ⁵¹@warpaul, <https://twitter.com/warpaul/status/941087297360994304> (last visited May 3, 2018).

28 ⁵²@JoelKatz, <https://twitter.com/JoelKatz> (last visited May 3, 2018).

⁵³@nbougalis, <https://twitter.com/nbougalis/status/946829572145741824> (last visited May 3, 2018).

⁵⁴@nbougalis, <https://twitter.com/nbougalis/status/966106932925882368> (last visited May 3, 2018).

1 97. On March 5, 2015, Bougalis similarly reposted a tweet defending investing in XRP
2 by stating: “So you’d invest in Linux, not Microsoft. In UseNet, not Google. In MySQL, not Oracle.
3 Good luck with your portfolio. *Ripple is the next Google*. You’re stuck in the silly idea that *a*
4 *company can’t build a digital asset, even when it does this right under your nose,*” with the
5 caption, “[n]ow that’s a mic drop, if I’ve ever seen one.”⁵⁵ (emphasis added).

6 98. Ripple Labs also owns and maintains the github.com/ripple/rippled GitHub which is
7 used to update the XRP Ledger, and one location where Rippled can be downloaded.

8 99. Ripple Labs also pays bounties to those who identify bugs in their software, stating
9 that “we are very generous with the bug bounties we pay. Anyone that found and responsibly
10 disclosed such a bug would get a significant reward.”⁵⁶

11 **F. XRP IS A SECURITY**

12 **1. XRP Purchasers Made an Investment of Money in A Common Enterprise**

13 100. Plaintiff and the Class invested fiat and other digital currencies, such as Bitcoin and
14 Ethereum, to purchase XRP. Investment of both fiat and digital currency meets the first prong of
15 *Howey*.

16 101. Defendants concede that they sell XRP tokens to the general public through
17 cryptocurrency exchanges.

18 102. The profits of each investor in XRP are inextricably intertwined with those of all other
19 purchasers because XRP is fungible. As Defendants note, it can be bought or sold on over 50
20 exchanges.

21 103. The profits of Plaintiff and the Class are also intertwined with the fortunes of Ripple
22 Labs. Ripple Labs concedes that it “sells XRP to fund its operations and promote the network. This
23 allows Ripple Labs to have a spectacularly skilled team to develop[e] and promote the Ripple
24 protocol and network.”⁵⁷

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26 ⁵⁵@nbougalis, <https://twitter.com/nbougalis/status/970733741319503872> (last visited May 3, 2018).

27 ⁵⁶@nbougalis, <https://twitter.com/nbougalis/status/987052572283318273> (last visited May 3, 2018).

28 ⁵⁷Ripple credits, https://wiki.ripple.com/Ripple_credits#XRP_funds_the_development_and_promotion_of_the_protocol_and_the_network (last visited May 3, 2018).

1 104. Ripple’s CEO has conceded that, “Our self-interest is aligned with building and
2 maintaining a healthy XRP market.”

3 105. As further explained in Section IV(F)(3) below the price of XRP is dependent on
4 development and adoption of the XRP Ledger, which in turn is entirely dependent on the efforts of
5 Defendants and their employees or agents.

6 **2. XRP Investors Had a Reasonable Expectation of Profits**

7 106. Investors in XRP, including Plaintiff and the Class, made their investment with a
8 reasonable expectation of profits.

9 107. Defendants themselves have recognized that XRP investors have a reasonable
10 expectation of profit, and publicly touted XRP’s price performance on numerous occasions. Ripple
11 Labs’ website even contains an “XRP Buying Guide” that provides links to exchanges and
12 instructions on “how to buy XRP” on those exchanges.⁵⁸

13 108. Ripple’s CEO has publicly touted that he himself is “*very, very, very long XRP*,” and
14 criticized journalists who suggest that enterprise adoption of XRP may not be as high as Ripple
15 Labs indicates.

16 109. Ripple Labs also directly controls the inflation rate of XRP, going so far as to lock
17 more than half the supply of XRP in escrow to provide “supply predictability and trusted, healthy
18 \$XRP markets.” This announcement had its intended effect, driving the price of XRP rapidly
19 upwards.

20 110. Defendants also pooled XRP investments to fund projects that would promote “the
21 XRP Ledger and Interledger Protocol,” thereby increasing the value of the XRP Ledger and XRP.

22 111. For example, on April 11, 2018, Ripple Labs announced that it “had invested \$25
23 million in XRP to Blockchain Capital Parallel IV, LP,” to “support and develop additional [XRP]
24 use cases beyond payments.”⁵⁹ Ripple Labs’ Senior Vice President of Business Development
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⁵⁸ XRP Buying Guide, <https://ripple.com/xrp/buy-xrp/> (Last visited May 3, 2018).

27 ⁵⁹ Ripple Invests \$25 Million to Drive Innovation in Blockchain and Digital Assets, [https://ripple.com/insights/ripple-
28 invests-25-million-to-drive-innovation-in-blockchain-and-digital-assets/](https://ripple.com/insights/ripple-invests-25-million-to-drive-innovation-in-blockchain-and-digital-assets/) (Last visited May 3, 2018).

1 promoted this investment, tweeting, “Ripple’s \$25 million investment in @blockchaincap’s new
2 fund is the first and not the last contribution to ventures that further develop the #blockchain and
3 \$XRP ecosystems.”⁶⁰

4 **3. The Success of XRP Requires Efforts of Ripple Labs and Others**

5 112. Lead Plaintiff and the Class have entirely passive roles vis-à-vis the success of the
6 XRP Ledger and XRP. Rather, as Defendants’ own marketing makes clear, the success of the XRP
7 Ledger, and the profits the Class reasonably expected to derive from investing in XRP are dependent
8 solely on the technical, entrepreneurial, and managerial efforts of Defendants and their agents and
9 employees.

10 113. Lead Plaintiff and the Class reasonably expected defendants to provide significant
11 managerial efforts, to develop and improve the XRP Ledger, to develop and sustain a supportive
12 network, and to secure exchanges through which XRP can be traded or liquidated. Defendants
13 repeatedly represented that they would provide significant managerial efforts to achieve these
14 objectives and make the XRP Ledger a success.

15 114. Ripple Labs created the XRP Ledger and all 100 billion XRP in circulation, and
16 concedes that it “sells XRP to fund its operations and promote the network,” in order “to have a
17 spectacularly skilled team to develop[e] and promote the Ripple protocol and network.”⁶¹ And as
18 of April 22, 2018, Ripple Labs still holds at least 60.83 billion XRP—more than 60 percent of the
19 XRP in circulation.⁶²

20 115. Ripple Labs touts its control over the XRP Ledger as an advantage for XRP,
21 contending that governance “may be where XRP most significantly distinguishes itself [from
22 Bitcoin, Ethereum, and Litecoin] going forward.” “Building pivotal infrastructure on top of
23 technology that does not have clear governance is not palatable for large established companies.”
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26 ⁶⁰@patgriffin9, <https://twitter.com/Ripple/status/984061347078987776> (last visited May 3, 2018).

27 ⁶¹Ripple credits, https://wiki.ripple.com/Ripple_credits#XRP_funds_the_development_and_promotion_of_the_protocol_and_the_network
28 [ork](https://wiki.ripple.com/Ripple_credits#XRP_funds_the_development_and_promotion_of_the_protocol_and_the_network) (last visited May 3, 2018).

⁶²Market Performance, <https://ripple.com/xrp/market-performance/> (last visited May 3, 2018).

1 116. Ripple Labs also exercises near complete control over the XRP Ledger itself. XRP
2 Ledger nodes operate “by downloading a list of five public keys from the server v1.ripple.com.”
3 “The software indicates that four of the five keys are required to support a proposal in order for it
4 to be accepted [on the XRP Ledger].” However, “[a]ll five keys are assigned to Ripple.com.”
5 “Since the keys were all downloaded from the Ripple.com server, *Ripple is essentially in complete*
6 *control of moving the ledger forward*, so one could say *the system is centralized*.” (emphasis
7 added). “[T]he Ripple system appears for all practical purposes to be centralized and is therefore
8 perhaps devoid of any interesting technical characteristics, such as censorship resistance, which
9 coins like Bitcoin may have. . .”

10 117. Ripple Labs and its CEO have acknowledged that the value of XRP will be driven by
11 the XRP Ledger’s usefulness in solving cross-border payments and its adoption by enterprises.
12 Defendants have similarly touted adoption of Ripple Labs’ Enterprise Solutions, even when those
13 Enterprise Solutions do not actually utilize XRP.

14 118. XRP therefore derives its value entirely from the usefulness and popularity of the XRP
15 Ledger, which is in turn dependent entirely on the technical, entrepreneurial, and managerial efforts
16 of Defendants. The purchase of XRP is thus an investment in a common enterprise, with an
17 expectation of profits, solely from the efforts of Defendants.

18 **V. PLAINTIFF RYAN COFFEY’S PURCHASE OF XRP**

19 119. Plaintiff Coffey purchased 650 XRP on or about January 5, 2018 at a price of \$2.60
20 each, paying a total of \$1,690.

21 120. Plaintiff Coffey then sold 649.98 XRP on or about January 18, 2018 at a price of
22 approximately \$1.70 each, receiving a total of 1,104.96 USDTs for the XRP he paid \$1,690 for.

23 121. USDT is an acronym for U.S. Dollar Tether, a cryptocurrency which is purportedly
24 backed by U.S. dollars and whose price thus generally tracks that of the actual dollar closely.
25 Records taken from coinmarketcap.com show that one USDT was valued at approximately \$1.03
26 on January 18, 2018. Mr. Coffey thus received approximately \$1,138.15 (1,104.96*1.03) in
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28

1 exchange for the XRP he sold, sustaining a loss of approximately \$551.89, or over 32 percent his
2 initial investment.

3 **VI. CLASS ACTION ALLEGATIONS**

4 122. This suit is brought as a Class action pursuant to section 382 of the California Code
5 of Civil Procedure, on behalf of a Class of:

6 **All persons or entities who purchased XRP from January 1, 2013**
7 **through the present. Excluded from the Class are: retail employees; corporate**
8 **officers, members of the boards of directors, and senior executives of**
9 **Defendants; and any and all judges and justices, and chambers' staff, assigned**
10 **to hear or adjudicate any aspect of this litigation.**

11 123. Plaintiff reserve the right to maned the Class definition if further investigation and/or
12 discovery indicate that the Class definition should be narrowed, expanded, or otherwise modified.

13 124. Plaintiff does not, as of yet, know the exact size of the Class. However, Plaintiff is
14 informed and believes that there are thousands of Class members. The members of the Class are
15 thus so numerous that joinder of all members is impracticable.

16 125. The Class is readily ascertainable and identifiable. It can be identified by reference
17 to Defendants' own databases, the XRP Ledger, and cryptocurrency exchange databases.

18 126. Questions of law and fact common to the Class that predominate over any questions
19 that may affect only individual members of the Class, including, but not limited to:

- 20 (a) Whether XRP are securities under the Securities Act;
- 21 (b) Whether Defendants' ongoing sale of XRP violates the registration provisions of the
22 Securities Act;
- 23 (c) Whether Defendants' ongoing sale of XRP violates the registration provisions of the
24 California Corporations Code; and
- 25 (d) The type and measure of damages suffered by Plaintiff and the Class.

26 127. Lead Plaintiff will fairly and adequately protect the interests of the Class because
27 Plaintiff's claims are typical and representative of the claims of all members of the Class. Lead
28 Plaintiff suffered injury in fact when he purchased 650 XRP on or about January 6, 2018 at a rate

1 of \$2.60 per XRP and sold that same XRP for approximately \$1.70 per XRP on or about January
2 18, 2018—a total loss of approximately \$551.89.

3 128. Lead Plaintiff’s claims are typical of the claims of all Class members, as all members
4 of the Class are similarly affected by Defendants’ wrongful conduct in violation of state and federal
5 securities laws.

6 129. There are no unique defenses that may be asserted against Lead Plaintiff individually,
7 as distinguished from the other members of the Class, and the relief sought is common to the Class.
8 Plaintiff is typical of other members of the Class, does not have any interest that is in conflict with
9 or is antagonistic to the interests of the members of the Class, and has no conflict with any other
10 members of the Class. Plaintiff has retained competent counsel experienced in securities, consumer
11 protection, and Class action litigation to represent himself and the Class.

12 130. A class action is superior to other available methods for the fair and efficient
13 adjudication of this controversy since joinder of all Class members is impracticable. Furthermore,
14 as the damages suffered by individual Class members may be relatively small, the expense and
15 burden of individual litigation make it impossible for Class members to redress individually the
16 wrongs done to them. In the absence of a class action, Defendants will retain the benefits of their
17 wrongful conduct.

18 **VII. CAUSES OF ACTION**

19 **FIRST CAUSE OF ACTION**

20 **Unregistered Offer and Sale of Securities in Violation of Sections 5 and 12(a)(1) of the**
21 **Securities Act (Against All Defendants)**

22 131. Plaintiff, on behalf of himself and all others similarly situated, realleges and
23 incorporates herein by reference each and every allegation contained in the preceding paragraphs of
24 this Complaint, and further alleges as follows:

25 132. Defendants, and each of them, by engaging in the conduct described above, directly
26 or indirectly, made use of means or instruments of transportation or communication in interstate
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1 commerce or of the mails, to offer to sell or to sell securities, or to carry or cause such securities to
2 be carried through the mails or in interstate commerce for the purpose of sale or for delivery after
3 sale.

4 133. XRP are securities within the meaning of Section 2(a)(1) of the Securities Act, 15
5 U.S.C. § 77b(a)(1).

6 134. Plaintiff and members of the Class purchased XRP securities from Defendants.

7 135. No registration statements have been filed with the SEC or have been in effect with
8 respect to any of the offerings alleged herein.

9 136. By reason of the foregoing, each of the Defendants have violated Sections 5(a), 5(c),
10 and 12(a) of the Securities Act, 15 U.S.C. §§ 77e(a) , 77e(c), and 77l(a).

11 137. As a direct and proximate result of Defendants' unregistered sale of securities,
12 Plaintiff and members of the Class have suffered damages in connection with their respective
13 purchases of XRP securities.

14 **SECOND CAUSE OF ACTION**

15 **Unregistered Offer and Sale of Securities in Violation of California Corporations Code** 16 **Section 25110 and 25503 (Against All Defendants)**

17 138. Plaintiff, on behalf of himself and all others similarly situated, realleges and
18 incorporates herein by reference each and every allegation contained in the preceding paragraphs of
19 this Complaint, and further alleges as follows:

20 139. XRP are securities within the meaning of the California Corporations Code.

21 140. Defendants, and each of them, by engaging in the conduct described above within
22 California, directly or indirectly, sold and offered to sell securities.

23 141. Plaintiff and members of the Class purchased XRP securities from Defendants.

24 142. No registration statements have been filed with any state or federal government entity
25 or have been in effect with respect to any of the offerings alleged herein.

26 143. By reason of the foregoing, each of the Defendants have violated Sections and 25110
27 and 25503 of the California Corporations Code.

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1 144. As a direct and proximate result of Defendants’ unregistered sale of securities,
2 Plaintiff and members of the Class have suffered damages in connection with their respective
3 purchases of XRP securities.

4 **THIRD CAUSE OF ACTION**

5 **Violation of Section 15 of the Securities Act (Against Ripple Labs and Brad Garlinghouse)**

6 145. Plaintiff, on behalf of himself and all others similarly situated, realleges and
7 incorporates herein by reference each and every allegation contained in the preceding paragraphs
8 of this Complaint, and further alleges as follows:

9 146. This Count is asserted against Defendants Ripple Labs and Brad Garlinghouse
10 (collectively, the “Control Person Defendants”) under Section 15 of the Securities Act, 15 U.S.C. §
11 77o.

12 147. The Control Person Defendants, by virtue of their offices, stock ownership, agency,
13 agreements or understandings, and specific acts were, at the time of the wrongs alleged herein, and
14 as set forth herein, controlling persons within the meaning of Section 15 of the Securities Act. The
15 Control Person Defendants, and each of them, had the power and influence and exercised the same
16 to cause the unlawful offer and sale of XRP securities as described herein.

17 148. The Control Person Defendants, separately or together, possess, directly or indirectly,
18 the power to direct or cause the direction of the management and policies of XRP II, through
19 ownership of voting securities, by contract, subscription agreement, or otherwise.

20 149. Defendant Garlinghouse also has the power to direct or cause the direction of the
21 management and policies of Ripple Labs.

22 150. The Control Person Defendants, separately or together, have sufficient influence to
23 have caused XRP II and/or Ripple Labs to submit a registration statement.

24 151. The Control Person Defendants, separately or together, jointly participated in, and/or
25 aided and abetted, XRP II and/or Ripple Labs’ failure to register XRP.

1 152. By virtue of the conduct alleged herein, the Control Person Defendants are liable for
2 the wrongful conduct complained of herein and are liable to Lead Plaintiff and the Class for
3 recession and/or damages suffered.

4 **FOURTH CAUSE OF ACTION**

5 **Violation of Section 25504 of the California Corporations Code (Against Ripple Labs and**
6 **Brad Garlinghouse**

7 153. Plaintiff, on behalf of himself and all others similarly situated, realleges and
8 incorporates herein by reference each and every allegation contained in the preceding paragraphs
9 of this Complaint, and further alleges as follows:

10 154. This Count is asserted against the Control Person Defendants under Section 25504 of
11 the California Corporations Code.

12 155. The Control Person Defendants, by virtue of their offices, stock ownership, agency,
13 agreements or understandings, and specific acts were, at the time of the wrongs alleged herein, and
14 as set forth herein, controlling persons within the meaning of Section 25504 of the California
15 Corporations Code. The Control Person Defendants, and each of them, had the power and
16 influence and exercised the same to cause the unlawful offer and sale of XRP securities as
17 described herein.

18 156. The Control Person Defendants, separately or together, possess, directly or indirectly,
19 the power to direct or cause the direction of the management and policies of XRP II, through
20 ownership of voting securities, by contract, subscription agreement, or otherwise. Defendant
21 Garlinghouse also has the power to direct or cause the direction of the management and policies of
22 Ripple Labs.

23 157. The Control Person Defendants, separately or together, have sufficient influence to
24 have caused XRP II and/or Ripple Labs to submit a registration statement.

25 158. The Control Person Defendants, separately or together, jointly participated in, and/or
26 aided and abetted, XRP II and/or Ripple Labs' failure to register XRP.

1 159. By virtue of the conduct alleged herein, the Control Person Defendants are liable for
2 the wrongful conduct complained of herein and are liable to Lead Plaintiff and the Class for
3 recession and/or damages suffered.

4 **VIII. PRAYER FOR RELIEF**

5 WHEREFORE, Plaintiff demands judgment on his behalf and that of the Class as follows:

6 1. Declaring that this action may be maintained as a Class action under California Code
7 of Civil Procedure section 382 and California Rule of Court 3.670, *et seq.*, certifying Plaintiff as
8 representative of the Class and designating his counsel as counsel for the Class;

9 2. Declaring that Defendants offered and sold unregistered securities in violation of
10 Sections 5(a), 12 (a), and 15 of the Securities Act;

11 3. Declaring that Defendants offered and sold unregistered securities in violation of
12 Section 25110, 25503, and 25504 of the California Corporations Code;

13 4. That judgment be entered against Defendants and in favor of Plaintiff and each
14 member of the Class he represents, granting the remedy of recession, and/or awarding compensatory
15 damages in favor of Plaintiff and the Class against all Defendants, jointly and severally, for all
16 damages sustained as a result of Defendants' wrongdoing, in an amount to be proven at trial;

17 5. Requiring an accounting of all remaining assets and funds raised by Defendants
18 through the sale of XRP;

19 6. Imposing a constructive trust over the assets and funds raised by Defendants through
20 the sale of XRP;

21 7. Enjoining and restraining Defendants from violating the securities laws through the
22 continued unregistered sale of XRP;

23 8. For punitive damages;

24 9. For pre and post-judgment interest;

25 10. For equitable relief, including a judicial determination of the rights and
26 responsibilities of the parties;

27 11. For attorneys' fees;


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- 12. For costs of suit; and
- 13. For such other and further relief as may be deemed just and proper.

Dated: May 3, 2018

TAYLOR-COPELAND LAW

By: 
James Q. Taylor-Copeland

Attorney for Lead Plaintiff Ryan Coffey