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13 UNITED STATES DISTRICT COURT
14 NORTHERN DISTRICT OF CALIFORNIA
15 OAKLAND DIVISION

16
17 In re RIPPLE LABS INC. LITIGATION,) Case No. 4:18-cv-06753-PJH
18) CLASS ACTION
19 This Document Relates To:) CONSOLIDATED FIRST AMENDED
20 ALL ACTIONS) COMPLAINT FOR VIOLATIONS OF
21) FEDERAL AND CALIFORNIA LAW
22) JURY TRIAL DEMANDED
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1 Lead Plaintiff Bradley Sostack (“Lead Plaintiff”), individually and on behalf of all others
2 similarly situated, by his undersigned attorneys, alleges the following against Defendants Ripple Labs,
3 Inc. (“Ripple” or “Ripple Labs”), its wholly owned subsidiary XRP II, LLC (“XRP II”), and Ripple
4 Labs’ CEO Bradley Garlinghouse (collectively, “Defendants”). Lead Plaintiff’s allegations herein are
5 based upon personal knowledge as to himself and his own acts, and upon information and belief as to
6 all other matters based on the investigation conducted by and through Lead Plaintiff’s attorneys, which
7 included, among other things, a review of press releases, media reports, and other publicly disclosed
8 reports and information about Defendants. Lead Plaintiff believes that substantial additional
9 evidentiary support will exist for the allegations set forth herein, after a reasonable opportunity for
10 discovery.

11 I. SUMMARY OF ACTION

12 1. This is a class action on behalf of all investors who purchased Ripple XRP tokens
13 issued and sold by Defendants. It arises out of a scheme by Defendants to raise hundreds of millions
14 of dollars through sales of XRP—an unregistered security—to retail investors in violation of the
15 registration provisions of federal and state securities laws. Additionally, in order to drive demand for
16 and thereby increase profits from the sale of XRP, Defendants have made a litany of false and
17 misleading statements regarding XRP in violation of California’s securities laws, and false advertising
18 and unfair competition laws.

19 2. Unlike cryptocurrencies such as Bitcoin and Ethereum, which are mined by those
20 validating transactions on their networks, all 100 billion of the XRP in existence were created out of
21 thin air by Ripple at its inception in 2013, before any distribution and without functionality except as
22 a speculative investment.¹ “In other words, unlike some virtual currencies, XRP was fully generated
23 prior to its distribution.”² Twenty billion XRP, or 20 percent of the total XRP supply, were given to
24 the individual founders of Ripple, with the remaining 80 billion XRP retained by Ripple.

25
26 ¹ Ripple was known as OpenCoin, Inc. until September 26, 2013, when it changed its name.

27 ² FinCEN Statement of Facts and Violations, https://www.fincen.gov/sites/default/files/shared/Ripple_Facts.pdf (last visited Aug. 2, 2019).

1 3. Moreover, XRP is not decentralized like Bitcoin. As recently stated by CoinMotion, a
2 crypto-token exchange that listed XRP, in a blog post entitled *XRP is a Centralized Virtual Currency*,
3 “the Ripple system appears to be *centralized* for all practical purposes. It probably lacks many
4 interesting technical features that Bitcoin has, such as resistance to censorship.”³

5 4. Defendants have since earned massive profits by selling off XRP to the general public,
6 in numerous offerings, having sold over \$1.1 billion in XRP to retail consumers in exchange for legal
7 tender or cryptocurrencies (most often Bitcoin and Ethereum). The value of XRP owned by
8 Defendants substantially exceeds the value of Ripple’s revenue or cashflow from all other sources.
9 Ripple’s dominant value proposition are the XRP tokens it owns and sells. Ripple’s value proposition
10 as a company depends upon the promotion of XRP, yet XRP is entirely or essentially pre-functional
11 and purchased by investors in anticipation of profit based on the efforts of Ripple.

12 5. In order to drive demand for XRP, and thereby increase the profits it can derive by
13 selling XRP, Ripple has portrayed XRP as a good investment, relayed optimistic price predictions,
14 and conflated Ripple’s enterprise business with usage of XRP. Ripple is inextricably linked to the
15 promotion of XRP. Ripple lines up crypto-exchanges to list XRP and pays substantial listing fees as
16 part of those promotional efforts, and Ripple’s website links to trading markets for XRP, to facilitate
17 additional purchases. Ripple also placed a substantial percentage of XRP that it owned into escrow
18 and developed a plan as to when XRP should be sold and in what quantities, all to limit selling pressure
19 on the market in order to prop-up the price of XRP. For example, in 2014, Ripple publicly stated on
20 its www.ripplelabs.com/xrp-distribution/ website that “we will engage in distribution strategies that
21 we expect will result in a stable or strengthening XRP exchange rate against other currencies.” (Ripple
22 has since deleted that web page, as if that somehow erases history.) Ripple greatly increased these
23 efforts to push XRP on the general public in 2017 and 2018. The price of XRP has fallen dramatically
24 since early 2018, leaving its investors, including Lead Plaintiff, with substantial financial losses.

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26 _____
27 ³ XRP is a Centralized Virtual Currency, Coinmotion (Feb. 11, 2019), [https://coinmotion.com/
blog/ripple-is-a-centralized-virtual-currency/](https://coinmotion.com/blog/ripple-is-a-centralized-virtual-currency/).

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

9 7. Federal securities laws require any security that is offered or sold to be registered with
10 the Securities and Exchange Commission (“SEC”). Similarly, the California Corporate Securities Law
11 requires that securities offered or sold be either qualified with the Commissioner of Corporations or
12 exempted from registration by a specific Rule of the Commissioner or law. These securities laws are
13 designed to protect the public by requiring various disclosures so that investors can better understand
14 the security that is being offered or sold, as well as risks associated with investment in that security.
15 Absent the disclosures required by law about those efforts and the progress and prospects of the
16 enterprise, significant informational asymmetries may exist between the management and promoters
17 of the enterprise on the one hand, and investors and prospective investors on the other hand. The
18 reduction of these information asymmetries through required disclosures protects investors and is one
19 of the primary purposes of the securities laws.

20 8. Under section 2(a)(1) of the Securities Act of 1933 (“Securities Act”), 15 U.S.C.
21 § 77b(a)(1), a “security” is defined to include an “investment contract.” Similarly, section 25019 of
22 the California Corporations Code defines a “security” to include an “investment contract.”

23 9. The SEC has made it clear that digital tokens, such as XRP, often constitute “securities
24 and may not be lawfully sold without registration with the SEC or pursuant to an exemption from
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1 registration.”⁴ One of the top financial regulators in President Obama’s administration has likewise
2 stated that there is a “strong case” to conclude that “particularly Ripple” has violated securities laws
3 by issuing and trading “noncompliant securities.”⁵

4 10. The SEC’s Strategic Hub for Innovation and Financial Technology (“FinHub”) has also
5 published the Framework for ‘Investment Contract’ Analysis of Digital Assets (“SEC Framework”),
6 providing guidance for assessing whether a crypto-token offering is a security under federal law.⁶ As
7 explained in more detail below, applying the analysis in the SEC Framework and applicable precedent,
8 the XRP tokens offered and sold by Defendants have all the traditional hallmarks of a security, as
9 reflected in *SEC v. W.J. Howey Co.*, 328 U.S. 293 (1946) (“*Howey*”), and subsequent case law. XRP
10 tokens also qualify as a security under California law.

11 11. XRP purchasers, including Lead Plaintiff, provided money consideration (in the form
12 of fiat, including U.S. dollars, or other cryptocurrencies) in exchange for XRP. XRP purchasers
13 reasonably expected to derive profits from their ownership of XRP, and Defendants themselves have
14 frequently highlighted this profit motive and have taken steps to accomplish it, including by promoting
15 XRP. Additionally, the development of the XRP Ledger, and the profits that investors expected to
16 derive therefrom, were, and are, based on the technical, managerial, and entrepreneurial efforts of
17 Defendants and other third parties employed by Defendants.

18 12. However, Defendants did not register XRP with the SEC or qualify it with the
19 California Commissioner of Corporations, and many of the representations Defendants made
20 regarding XRP were designed to drive demand of XRP, allowing Defendants to obtain greater returns
21

22 ⁴ See *Investor Bulletin: Initial Coin Offerings*, U.S. Securities and Exchange Commission (July 25,
23 2017), https://www.sec.gov/oiea/investor-alerts-and-bulletins/ib_coinofferings; see also *In re Matter*
24 *of Munchee, Inc.*, File No. 3-18304 (S.E.C. Dec. 11, 2017), [https://www.sec.gov/litigation/](https://www.sec.gov/litigation/admin/2017/33-10445.pdf)
25 [admin/2017/33-10445.pdf](https://www.sec.gov/litigation/admin/2017/33-10445.pdf) (“[T]okens, coins or other digital assets issued on a blockchain may be
26 securities under the federal securities laws, and, if they are securities, issuers and others who offer or
27 sell them in the United States must register the offering and sale with the Commission or qualify for
28 an exemption from registration.”).

⁵ *A Former Top Wall Street Regulator Turns to the Blockchain*, New York Times (Apr. 22, 2018),
<https://www.nytimes.com/2018/04/22/technology/gensler-mit-blockchain.html>.

⁶ Available at [https://www.sec.gov/news/public-statement/statement-framework-investment-contract-
analysis-digital-assets](https://www.sec.gov/news/public-statement/statement-framework-investment-contract-analysis-digital-assets).

1 on their XRP sales. It is situations exactly like this that federal and state securities laws were enacted
2 to prevent.

3 II. PARTIES

4 13. Lead Plaintiff Bradley Sostack is an individual who at all times mentioned, was and is
5 a resident of Saint Petersburg, Florida. Lead Plaintiff purchased 128,978.88 XRP between January 1,
6 2018 and January 16, 2018 for approximately \$307,700 in Bitcoin and USDT (a cryptocurrency issued
7 by Tether). Lead Plaintiff sold that XRP between January 9, 2018 and January 17, 2018 for
8 approximately \$189,600 in Bitcoin and USDT. Lead Plaintiff therefore sustained a loss of
9 approximately \$118,100 as a result of his XRP investments. Lead Plaintiff was motivated to purchase
10 XRP by the promotional activities of Defendants described herein. Lead Plaintiff saw and relied on
11 Defendants' repeated representations that adoption of XRP by financial institutions and banks would
12 drive demand for XRP.

13 14. Defendant Ripple Labs, Inc. is a Delaware corporation with its principal place of
14 business in San Francisco, California.

15 15. Defendant XRP II, LLC is a New York limited liability company with its principal
16 place of business in San Francisco, California.

17 16. Defendant Bradley Garlinghouse is the Chief Executive Officer of Ripple, a position
18 he has held since January 2017. Garlinghouse was Ripple's President and Chief Operating Officer
19 from April 2015 through December 2016. Garlinghouse is a resident of San Mateo, California.
20 Garlinghouse exercised control over Ripple and directed and/or authorized, directly or indirectly, the
21 sale and solicitation of XRP to the public.

22 III. JURISDICTION AND VENUE

23 17. This Complaint is filed, and these proceedings are instituted, to recover damages and
24 to obtain other relief that Lead Plaintiff has sustained due to Defendants' unregistered and unqualified
25 offers and sales of securities in violation of Sections 5, 12(a)(1), and 15 of the Securities Act, 15 U.S.C.
26 §§ 77e, 77l, and 77o, and Sections 25110, 25503, 25504, and 25401 of the California Corporations
27 Code; and false advertising and unfair competition under California law.

1 18. This Court has subject matter jurisdiction over claims under the Securities Act pursuant
2 to 15 U.S.C. § 78aa and 28 U.S.C. § 1331, and supplemental jurisdiction over the entire action under
3 28 U.S.C. § 1367.

4 19. This Court has personal jurisdiction over Defendants as a result of acts of Defendants
5 occurring in or aimed at the State of California in connection with Defendants' unregistered offers and
6 sales of securities in violation of Sections 5, 12(a)(1), and 15 of the Securities Act, 15 U.S.C. §§ 77e,
7 77l, and 77o, and Sections 25110, 25503, 25504, and 25401 of the California Corporations Code; and
8 California's false advertising and unfair competition laws.

9 20. This Court also has personal jurisdiction over Defendants because they reside or have
10 their principal places of business in California.

11 21. Venue is proper in the United States District Court for the Northern District of
12 California pursuant to 15 U.S.C. § 78aa and 28 U.S.C. § 1391(b) and (c).

13 IV. SUBSTANTIVE ALLEGATIONS

14 A. XRP's Genesis

15 22. Unlike cryptocurrencies such as Bitcoin and Ethereum, which are mined by those
16 validating transactions on their networks, all 100 billion XRP were created out of thin air by Ripple in
17 2013, prior to its distribution to investors and without any functionality. Twenty billion XRP, or 20
18 percent of the total XRP supply, were given to the individual founders of Ripple. Founders Chris
19 Larsen and Jed McCaleb each received 9.5 billion XRP, while Arthur Britto received 1 billion XRP.

20 23. Ripple retained the remaining 80 billion XRP, which it planned to sell to fund company
21 operations and to improve and promote the XRP Ledger.

22 24. Ripple's own wiki states that "Ripple Labs sells XRP to fund its operations and
23 promote the network. This allows Ripple to have a spectacularly skilled team to develop and promote
24 the Ripple protocol and network."⁷

25 25. In May 2015, regulatory authorities in the United States fined Ripple and XRP II

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27 ⁷ Ripple credits, https://wiki.ripple.com/Ripple_credits#XRP_funds_the_development_and_promotion_of_the_protocol_and_the_network (last visited Aug. 2, 2019).

1 \$700,000 for violating the Bank Secrecy Act by selling XRP without obtaining the required
2 authorization. As part of that settlement, Defendants acknowledged that they had sold XRP and agreed
3 to a number of remedial measures, including registration with FinCEN.

4 26. From December 2014 to July 2015, Ripple disclosed on its website the amount of XRP
5 it held and the amount in circulation. The disclosure for June 30, 2015 stated that Ripple held
6 approximately 67.51 billion XRP, more than double the approximately 32.49 billion XRP held by *all*
7 *others*. The XRP held by others also significantly overstates independent holdings of XRP because it
8 includes the 20 billion provided to founders and an undisclosed amount of XRP used in “business
9 development agreements that are still pending.”⁸

10 27. Ripple’s Project Manager for Risk and Compliance, Rebecca Schwartz, conceded this
11 in a May 14, 2015 affidavit, stating: “The 9 billion XRP initially retained by Mr. McCaleb is included
12 in the roughly 32 billion XRP that is available to the market.”⁹

13 **B. Defendants’ Primary Source of Income Is the Sales of XRP**

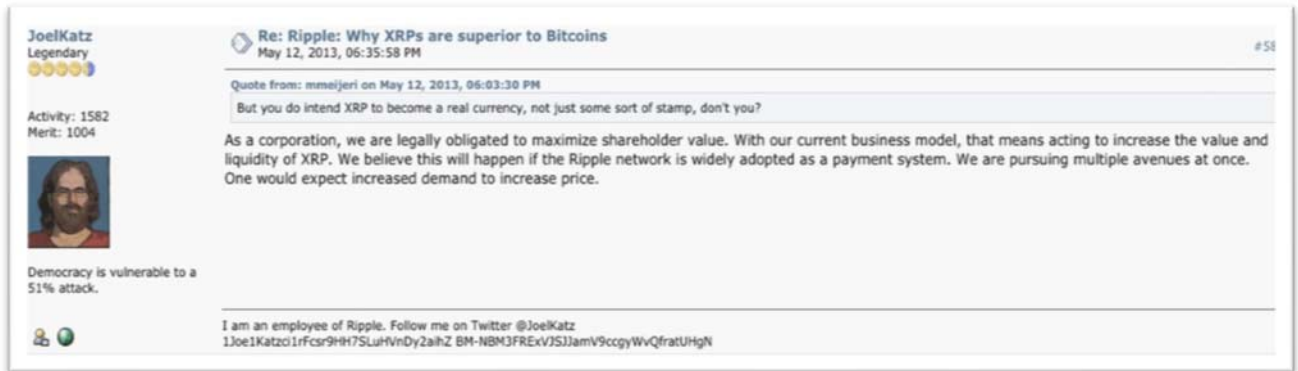
14 28. While Ripple sells and publicly touts its enterprise software products and solutions,
15 including xCurrent, xRapid, and xVia (collectively, “Ripple Enterprise Solutions”), Ripple’s primary
16 source of income is the sales of XRP.

17 29. Ripple’s Chief Technology Officer, David Schwartz, has conceded “[a]s a corporation,
18 we are legally obligated to maximize shareholder value. With our current business model, that means
19 acting to increase the value and liquidity of XRP. We believe this will happen if the Ripple network
20 is widely adopted as a payment system. We are pursuing multiple avenues at once. One would expect
21 increased demand to increase price.”¹⁰

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25 ⁸ Internet Archive, XRP Distribution, Ripple Labs (Aug. 6, 2016), <https://web.archive.org/web/20150806120942/https://www.ripplelabs.com/xrp-distribution/> (last visited Aug. 2, 2019).

26 ⁹ Decl. of Rebecca Schwartz, *Bitstamp Ltd. v. Ripple Labs Inc.*, Case No. 3:15-cv-01503-WHO (N.D. Cal. May 14, 2015), ECF No. 23-2.

27 ¹⁰ Bitcoin Forum, Re: Ripple: Why XRPs are superior to Bitcoins (May 12, 2013), <https://bitcointalk.org/index.php?action=profile;u=27870;sa=showPosts;start=760> (last visited Aug. 2, 2019).



30. Defendants’ sales of XRP to the public accelerated rapidly in 2017 and early 2018, and Defendants have earned over \$1.1 billion dollars through the sale of XRP since the beginning of 2017—XRP which costs Defendants nothing since they created it out of thin air. Defendants sell XRP wholesale to larger investors and also sell significant quantities of XRP directly to the general public on cryptocurrency exchanges.

31. According to Ripple itself, in the second quarter of 2019, XRP II “sold \$251.51 million XRP in Q2 2019, including \$106.87 million directly to institutional investors and \$144.64 in programmatic exchange sales.”¹¹

32. In the first quarter of 2019, XRP II “sold \$61.93 million of XRP in institutional direct sales and \$107.49 million of XRP in programmatic [exchange] sales.”¹²

33. In the fourth quarter of 2018, “Ripple sold \$88.88 million worth of XRP, programmatically,” and XRP II “sold \$40.15 million worth of XRP in institutional direct sales.”¹³

34. In the third quarter of 2018, “Ripple sold \$65.27 million worth of XRP programmatically,” and XRP II “sold \$16.87 million XRP in direct sales.”¹⁴

35. In the second quarter of 2018, “Ripple sold \$56.66 million worth of XRP

¹¹ Q2 2019 XRP Markets Report, <https://www.ripple.com/insights/q2-2019-xrp-markets-report/> (last visited Aug. 2, 2019)

¹² Q1 2019 XRP Markets Report, <https://ripple.com/insights/q1-2019-xrp-markets-report/> (last visited Aug. 2, 2019)

¹³ Q4 2018 XRP Markets Report, <https://ripple.com/insights/q4-2018-xrp-markets-report/> (last visited Aug. 2, 2019)

¹⁴ Q3 2018 XRP Markets Report, <https://ripple.com/insights/q3-2018-xrp-markets-report/> (last visited Aug. 2, 2019)

1 programmatically,” and XRP II “sold \$98.06 million worth of XRP in institutional direct sales.”¹⁵

2 36. In the first quarter of 2018, “market participants purchased \$16.6 million [of XRP]
3 directly from XRP II.” XRP II also “sold \$151.1 million worth of XRP” on exchanges.¹⁶

4 37. In the fourth quarter of 2017, “market participants purchased \$20.1 million directly
5 from XRP II,” and XRP II sold an additional “\$71.5 million worth of XRP” on exchanges.¹⁷

6 38. In the third quarter of 2017, “market participants purchased \$19.6 million directly from
7 XRP II,” and XRP II sold an additional “\$32.6 million worth of XRP” on exchanges.¹⁸

8 39. In the second quarter of 2017, “market participants purchased \$21M directly from XRP
9 II,” and XRP II sold an additional “\$10.3M worth of XRP” on exchanges.¹⁹

10 40. The money raised through the sales of XRP substantially exceeds the amount of money
11 needed to establish a functional network or digital asset. There is also little apparent correlation
12 between the purchase price of XRP and the market price of any goods or services that can be acquired
13 in exchange for XRP, which to date has not been functionally adopted nor used in any meaningful
14 way.

15 41. Ripple and its CEO, Garlinghouse, have repeatedly claimed that XRP has utility—like
16 currency—in its use as a “bridge currency” for international payments. For example, in an interview
17 that was published by Forbes on October 23, 2017, Garlinghouse was asked “Why do banks need
18 XRP” and responded “It’s about liquidity. If you have a utility token like XRP that has a real value
19 proposition.”²⁰ Similarly, in an interview with BNN, retweeted by Ripple on December 14, 2017,

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21 ¹⁵ Q2 2018 XRP Markets Report, <https://ripple.com/insights/q2-2018-xrp-markets-report/> (last visited
22 Aug. 2, 2019).

¹⁶ Q1 2018 XRP Markets Report, <https://ripple.com/insights/q1-2018-xrp-markets-report/> (last visited
23 Aug. 2, 2019).

¹⁷ Q4 2017 XRP Markets Report, <https://ripple.com/insights/q4-2017-xrp-markets-report/> (last visited
24 Aug. 2, 2019).

¹⁸ Q3 2017 XRP Markets Report, <https://ripple.com/xrp/q3-2017-xrp-markets-report/> (last visited
25 Aug. 2, 2019).

¹⁹ Q2 2017 XRP Markets Report, <https://ripple.com/insights/q2-2017-xrp-markets-report/> (last visited
26 Aug. 2, 2019).

²⁰ Is Ripple for Real? A Closer Look at the Company Behind the Third Most Valuable Digital
27 Currency, Fortune (Oct. 23, 2017), [https://fortune.com/2017/10/23/bitcoin-ripple-brad-
28 garlinghouse/](https://fortune.com/2017/10/23/bitcoin-ripple-brad-garlinghouse/).

1 Garlinghouse stated: “If they [digital tokens] are solving a real problem, and that problem has scale,
2 and that problem, you know there is real value there, then there will be demand for the tokens and the
3 price will go up. For XRP we have seen because *it’s required*, it’s something that can really reduce
4 the friction, and we’re talking about a multi-trillion dollar problem in how cross-border payments
5 flow. And so, I think if you drive real utility, yes there’s going to be demand for that.”²¹ In a December
6 27, 2017 interview with CNBC, Garlinghouse once again stated “we use XRP to settle liquidity
7 between banks.”²²

8 42. Similarly, in a February 14, 2015 Submission to the Conference of State Bank
9 Supervisors, submitted by Ripple’s Chief Compliance Officer Karen Gifford, Ripple claimed that it
10 “is designed to be used directly by (1) banks and financial services business, (2) payment networks,
11 and (3) liquidity providers.”²³ In that same Submission, Ripple stated that “it holds a substantial
12 amount of XRP, which it sells from time to time, to financial institutions and entities seeking to be
13 market makers. Through these sales, Ripple Labs is able to monetize these assets to fund its
14 operations, specifically the development and adoption of the protocol.”²⁴ Ripple posted this
15 submission on its website and publicized it through its Ripple Insights blog.²⁵

16 43. However, as discussed above, more than 60 percent of XRP is owned by Ripple and
17 none of that XRP is used for anything at all, other than to be sold in the future to investors. Moreover,
18 as for the XRP that was already sold or otherwise distributed by Defendants, the vast majority, if not
19 all, of it is not used for bridging international transactions, but for investment purpose. Accordingly,
20 Defendants’ claims that XRP has a utilitarian purpose are false and were false when made. These
21

22 ²¹ See @JonErlichman, TWITTER (Dec. 14, 2017, 9:11 AM), <https://twitter.com/jonerlichman/status/94135496422752261>.

23 ²² Ripple CEO explains why his digital currency can transform banking, CNBC (Dec. 27, 2017),
24 <https://www.cnbc.com/video/2017/12/27/ripple-ceo-explains-why-his-digital-currency-can-transform-banking.html>.

25 ²³ Ripple Labs, Inc., Submission to the Conference of State Bank Supervisors, p.8 (Feb. 14, 2015),
https://ripple.com/files/rl_csbs_letter.pdf.

26 ²⁴ *Id.* at 29.

27 ²⁵ Regulations & Compliance Update: U.S. Treasury, CSBS, and Canadian Senate, Ripple Insights
(Mar. 3, 2015), <https://ripple.com/insights/regulations-compliance-update-u-s-treasury-csbs-and-canadian-senate/>.

1 claims also omitted material information regarding XRP’s lack of utility that was within exclusive or
 2 superior knowledge of Defendants. These claims are misrepresentations and omissions of material
 3 facts to investors because the utility of XRP (or lack thereof) is pertinent to the value of XRP. Simply
 4 stated, these false claims about XRP’s utility are nothing but an attempt to avoid the application of
 5 securities laws and drive demand for XRP.

6 **C. Defendants Market XRP to Drive Demand and Increase Price**

7 44. Given its reliance on sales of XRP, it is unsurprising that Ripple aggressively markets
 8 XRP to prospective purchasers, including Lead Plaintiff and the Class, to drive demand, increase
 9 XRP’s price, and thus its own profits.

10 45. Ripple has an entire section of its website dedicated to providing advice on “How to
 11 Buy XRP.” This section provides links to exchanges and instructions on “how to buy XRP” on those
 12 exchanges.²⁶ It also has a section titled “Market Performance” which proclaims that Ripple is
 13 “committed to the long term health and stability of XRP markets.”²⁷

14 46. Ripple also consistently promotes the availability of XRP on exchanges. For example,
 15 on May 18, 2017, Ripple’s Senior Vice-President of Business Development, Patrick Griffin, tweeted
 16 a link to the Kraken exchange with the caption: “Kraken Introduces New Fiat Pairs for XRP Trading!
 17 USD, JPY, CAD, EUR @Ripple.”²⁸

18 47. Similarly, on or about December 21, 2017, Ripple tweeted in Japanese that XRP was
 19 now available on over 50 exchanges.²⁹ That tweet linked to an article on Ripple’s website which
 20 described XRP as “the fastest and most scalable [digital] asset on the market.”³⁰ It continued, “[t]he
 21 market is taking notice of XRP’s speed, reliability and scalability — which has strengthened the
 22 demand for XRP and where it’s listed. In fact, we’re proud to announce that XRP has gone from being

23
 24 ²⁶ XRP Buying Guide, <https://ripple.com/xrp/buy-xrp/> (last visited Aug. 2, 2019).

²⁷ Market Performance, <https://ripple.com/xrp/market-performance/> (last visited Aug. 2, 2019)

²⁸ @patgriffin9, TWITTER (May 18, 2017, 10:03 AM), <https://twitter.com/patgriffin9/status/865251321867231233>.

²⁹ @Ripple, TWITTER (Dec. 21, 2017, 4:20 PM), <https://twitter.com/Ripple/status/943999526783905792>.

³⁰ XRP Now Available on 50 Exchanges Worldwide, <https://ripple.com/insights/xrp-now-available-on-50-exchanges-worldwide/> (last visited Aug. 2, 2019).

1 listed on six exchanges earlier this year to more than 50 worldwide.” The article also linked to a
2 number of exchanges where XRP could be purchased, and stated that “XRP’s long-term value is
3 determined by its utility—including its ability to help financial institutions source liquidity for
4 payments into and out of emerging markets.”

5 48. Ripple’s representation that “XRP’s long-term value is determined by its utility—
6 including its ability to help financial institutions source liquidity for payments into and out of emerging
7 markets,” was misleading when made because demand for XRP from financial institutions did not
8 represent a significant portion of the demand for XRP and little, if any, XRP was used to “help
9 financial institutions source liquidity for payments into and out of emerging markets.” Ripple made
10 this misleading representation to retail investors in order to drive demand for XRP. As explained
11 above, the utility of XRP and its adoption (or lack thereof) are pertinent to the value of XRP and are
12 thus material to investors. Defendants also omitted material information within their exclusive or
13 superior knowledge regarding the utility of XRP and its adoption. Accordingly, this statement was a
14 misrepresentation and omission of material fact to investors.

15 49. Ripple also hosts conferences to generate interest in XRP. For example, between
16 October 16 and October 18, 2017, it hosted a conference named “Swell” in Toronto. Ripple
17 acknowledged that “[a]nticipation around the event spurred a meaningful spike in XRP, pushing it up
18 100 percent . . .”³¹

19 50. On that same day, CoinDesk, a subsidiary of Digital Currency Group, which has an
20 ownership interest in Ripple, published an article titled, “*Ripple Price Passes Historic \$1 Milestone*.”³²
21 This was just one of many instances in which Ripple would promote XRP price movements.

22 51. Ripple’s promotion of XRP’s price reached new highs in December 2017. In one
23 instance, Ripple’s XRP product manager retweeted a tweet exclaiming: “Wow, XRP at all time high!”
24

25 ³¹ Q3 2017 XRP Markets Report, <https://ripple.com/xrp/q3-2017-xrp-markets-report/> (last visited
26 Aug. 2, 2019).

27 ³² Ripple Price Passes Historic \$1 Milestone, <https://www.coindesk.com/ripple-price-passes-historic-1-milestone/> (last visited Aug. 2, 2019).
28

1 Forget about bitcoin, *we're all in on XRP!*" (emphasis added).³³

2 52. Ripple's CEO, Brad Garlinghouse, has also been a vocal advocate for investing in XRP.
3 In a December 14, 2017 interview with BNN, when asked if he is personally invested in XRP, the
4 CEO stated "I'm long XRP, I'm very, very long XRP as a percentage of my personal balance sheet."³⁴
5 He continued, stating that he is "not long on some of the other [digital] assets, because it is not clear
6 to me what's the real utility, what problem are they really solving." He ended by reiterating, "if you're
7 solving a real problem, if it's a scaled problem, then I think you have a huge opportunity to continue
8 to grow that. We have been really fortunate obviously, *I remain very, very, very long XRP*, there is
9 an expression in the industry HODL, instead of hold, it's HODL . . . I'm on the HODL side."
10 (emphasis added). HODL is a cryptocurrency meme, meaning to hold an asset for long term gains.

11 53. Garlinghouse's representation that he remained "very, very, very long XRP" and was
12 "on the HODL side"—holding XRP for long term gains—was false when made as throughout 2017
13 Garlinghouse sold millions of XRP on various cryptocurrency exchanges. Review of the XRP ledger
14 indicates that Garlinghouse sold at least 67 million XRP in 2017 and that he sold any XRP he received
15 from Ripple within days of such receipt. Garlinghouse was not "long XRP" or holding for long term
16 gains. Rather, he was dumping XRP on retail investors in exchange for dollars and other
17 cryptocurrency. Defendants had exclusive or superior knowledge of material information regarding
18 Garlinghouse's XRP sales, but omitted it from their representations to investors. Had investors known
19 the truth about Garlinghouse's sales of XRP, it would have significantly altered the total mix of
20 information made available to them. Accordingly, Garlinghouse's statement was a misrepresentation
21 and omission of material fact to investors.

22 54. Later that same day, Garlinghouse tweeted: "Bloomberg welcomes \$XRP to
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25 ³³ @yoshitaka_kitao TWITTER (Dec. 12, 2007, 7:29 PM), https://twitter.com/yoshitaka_kitao/status/940785785925709829.

26 ³⁴ See @JonErlichman, TWITTER (Dec. 14, 2017, 9:11 AM), <https://twitter.com/jonerlichman/status/94135496422752261>.

1 @theterminal and gets it right - #2 market cap behind \$BTC at ~\$80BB!”³⁵

2 55. About a week later, on or about December 22, 2017, Garlinghouse tweeted an article
3 titled, “*Bitcoin Is So 2017 as Ripple Soars at Year End*,” with the caption, “I’ll let the headline speak
4 for itself. \$xrp.”³⁶

5 56. On or about January 17, 2018, Garlinghouse tweeted a CNBC article titled, “*Ripple is
6 sitting on close to \$80 billion and could cash out hundreds of millions per month – but it isn’t*,”³⁷ with
7 the caption, “A good read on why fostering a healthy \$XRP ecosystem is a top priority at @Ripple.”³⁸

8 57. However, the reality was that Ripple was doing exactly the opposite of what CNBC
9 reported and sold—or “cashed out”—hundreds of millions of XRP tokens per month. As laid out in
10 Section IV(B), Defendants issued and sold at least \$167.7 million worth of XRP between January 1,
11 2018 and March 31, 2018. Based on the volume of XRP traded and the market price for XRP during
12 this timeframe, it is likely that Ripple sold over one hundred million dollars’ worth of XRP during the
13 month preceding January 17, 2018. Moreover, even if this statement were literally true, it was still
14 misleading as it created the false impression that Ripple was not cashing out significant amounts of
15 XRP. Significantly, this statement was unaccompanied by any qualifying language indicating that
16 Ripple was selling tens of millions of dollars of XRP per month or hundreds of millions of dollars of
17 XRP per quarter. Defendants had exclusive or superior knowledge of material information regarding
18 Ripple’s XRP sales, but omitted it from their representations to investors. Had investors known the
19 truth about Ripple’s sales of XRP, it would have significantly altered the total mix of information
20 made available to them. Accordingly, this statement was a misrepresentation and omission of material
21 fact to investors.

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23 ³⁵ @bgarlinghouse, TWITTER (Dec. 14, 2017, 10:33 AM), <https://twitter.com/bgarlinghouse/status/941375649549246464>.

24 ³⁶ @bgarlinghouse, TWITTER (Dec. 22, 2017, 1:56 PM), <https://twitter.com/bgarlinghouse/status/944325730338357248>.

25 ³⁷ *Ripple Is Sitting on \$80 Billion and Could Cash Out Hundreds of Millions Per Month – But Isn’t*,
26 Yahoo! Finance (Jan. 16, 2018), <https://finance.yahoo.com/news/ripple-sitting-80-billion-could-192927461.html>.

27 ³⁸ @bgarlinghouse, TWITTER (Jan. 17, 2018, 9:14 AM), <https://twitter.com/bgarlinghouse/status/953676992313872384>.

1 58. Recently, Defendants’ efforts to aggressively market and drive demand for XRP have
 2 bled into politics. In September 2018, Ripple and several other cryptocurrency companies with links
 3 to Ripple announced the founding of an advocacy group dubbed “Securing America’s Internet of
 4 Value Coalition.” The Coalition announced that it had retained the Klein/Johnson Group, a prominent
 5 Washington D.C. based lobbying firm, who is expected to help the Coalition in its efforts to lobby
 6 Congress and the SEC on issues critical to Ripple’s bottom-line, including whether XRP is a security
 7 subject to SEC regulation. For their expertise, the Klein/Johnson Group will receive \$25,000 and
 8 10,000 XRP tokens per month from the Coalition. Commenting on the decision to pay their lobbyists
 9 in XRP, Chris Larsen, explained: “It gives them some upside and gives them some risk . . . Hopefully
 10 it gives them a taste of the industry in a way that hits home.”³⁹

11 **1. Defendants Blur Differences Between Ripple’s Enterprise Solutions and**
 12 **XRP to Further Drive Demand**

13 59. Defendants’ advertising and social media postings also conflate adoption and use of
 14 Ripple Enterprise Solutions, such as xCurrent and xVia, with adoption and use of XRP, even though
 15 they often have little to no correlation. As one industry publication noted, most of Ripple’s product
 16 and partnership announcements “don’t have much to do with XRP.”⁴⁰ Defendants conflate statements
 17 regarding their other financial products with statements regarding XRP in a calculated scheme to drive
 18 demand for XRP and thereby maximize profits from XRP sales.

19 60. According to the Ripple website, “xCurrent is Ripple’s enterprise software solution that
 20 enables banks to instantly settle cross-border payments with end-to-end tracking. Using xCurrent,
 21 banks message each other in real-time to confirm payment details prior to initiating the transaction
 22 and to confirm delivery once it settles.”⁴¹

23 61. xCurrent does not operate on the same technology as XRP or even require the use of

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 25 ³⁹ Cryptos Fall as U.S. Lawmakers Ask SEC to Clarify ICO Regulation, Yahoo! Finance (Oct. 1,
 2018), <https://finance.yahoo.com/news/cryptos-fall-u-lawmakers-ask-172500437.html>.

26 ⁴⁰ Rachel Rose O’Leary, *How XRP’s Tech Differs from Other Crypto Assets*, CoinDesk (Mar. 11,
 2018), <https://www.coindesk.com/xrps-tech-differs-crypto-assets>.

27 ⁴¹ Process Payments, xCurrent, <https://ripple.com/solutions/process-payments/> (last visited Aug. 2,
 2019).

1 XRP. In short, there is no reason to believe that adoption of xCurrent would correlate in any way with
2 adoption of XRP.

3 62. Nor does use of Ripple's xVia product require adoption of XRP. Ripple states that its
4 xVia product is "for corporates, payment providers and banks who want to send payments across
5 various networks using a standard interface."⁴²

6 63. Ripple nevertheless conflates the adoption of these Enterprise Solutions with adoption
7 of XRP.

8 64. For example, on March 20, 2017, Ripple retweeted a Bloomberg article regarding
9 adoption of Ripple Enterprise Solutions, proclaiming, "Ripple is the only company in this space with
10 real customers who are really in production."⁴³

11 65. The price of XRP increased rapidly following this tweet and on March 24, 2017, Ripple
12 tweeted: "The price of #XRP continues to surge showing that people are looking for #bitcoin
13 alternatives."⁴⁴

14 66. On April 26, 2017, Ripple tweeted a link to an article on its own site, proclaiming:
15 "#Ripple welcomes 10 additional customers to our #blockchain #payments network."⁴⁵ Neither this
16 tweet nor the article it linked to informed readers that the blockchain payments network did not refer
17 to the XRP Ledger, but rather Ripple's xCurrent enterprise solution.

18 67. Just days later, on May 3, 2017, with the price of XRP continuing to rise, Ripple
19 tweeted: "#Ripple adoption is sparking interest in XRP 'which has had an impressive rally in the last
20 two months' via @Nasdaq."⁴⁶

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22 ³⁶ Send Payments, xVia, <https://ripple.com/solutions/send-payments/> (last visited Aug. 2, 2019).

23 ⁴³ @Ripple, TWITTER (May 20, 2007, 7:16 PM), <https://twitter.com/Ripple/status/844009778309357568>.

24 ⁴⁴ @Ripple, TWITTER (Mar. 24, 2017, 11:53 AM), <https://twitter.com/Ripple/status/845347809830195200>.

25 ⁴⁵ @Ripple, TWITTER (Apr. 26, 2017, 9:17 AM), <https://twitter.com/Ripple/status/857267304618278912>.

26 ⁴⁶ @Ripple, TWITTER (May 3, 2017, 3:54 PM), <https://twitter.com/Ripple/status/859904105916923904>.

1 68. Ripple conflated the adoption of its Enterprise Solutions and XRP again on May 16,
2 2017, tweeting: “The appeal that Ripple has towards traditional financial institutions is a big advantage
3 it has over Bitcoin.”⁴⁷

4 69. On June 29, 2017, Ripple tweeted a clip of an interview its CEO Brad Garlinghouse
5 gave on CNBC with the caption: “#XRP – up 4000% this year – has shown the market favors a real
6 use case for #digitalassets . . .”⁴⁸ In that interview, Garlinghouse proclaimed that “digital assets are in
7 a position to be more valuable than gold,” and described XRP as “solving a real-world use case, it’s
8 not just about speculators.”

9 70. On September 11, 2017, Garlinghouse stated in an interview with CNBC: “People are
10 looking at the success Ripple has been having as a company, *and I think that’s increased the value*
11 *of XRP.*” (emphasis added). He continued by stating that Ripple wanted “to keep focusing on making
12 XRP a valuable payments tool, and that value will increase accordingly,” and he was “voting with
13 [his] . . . pocketbook on the future increased value of cryptocurrencies.”

14 71. On November 27, 2017, Garlinghouse tweeted “Ripple & \$XRP are giving businesses
15 ‘what they want in a #blockchain,’” along with a link to a Motley Fool tweet.⁴⁹ That Motley Fool
16 tweet in turn stated that “AmEx and Banco Santander will use Ripple’s blockchain network for instant
17 intl. fund transfers. *Could be a big deal for Ripple’s XRP cryptocurrency.* \$AXP \$SAN.” (emphasis
18 added).⁵⁰

19 72. Similarly, on December 14, 2017 Ripple tweeted: “The Japan Bank Consortium
20 launched a Ripple pilot with two large Korean banks – the first time money moves from Japan to
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23 ⁴⁷ @Ripple, TWITTER (May 16, 2017, 5:16 PM), <https://twitter.com/Ripple/status/864635614020251649>.

24 ⁴⁸ @Ripple, TWITTER (Jun. 29, 2017, 2:03 PM), <https://twitter.com/Ripple/status/880532198025121793>.

25 ⁴⁹ @bgarlinghouse, TWITTER (Nov. 27, 2017, 11:16 AM). <https://twitter.com/bgarlinghouse/status/935225940845711366>.

26 ⁵⁰ @themotleyfool, TWITTER (Nov. 26, 2017, 10:25 AM), <https://twitter.com/themotleyfool/status/934850515640471553>.

1 Korea over RippleNet.”⁵¹ The tweet also linked to an article on Ripple’s site. Buried inside that article
 2 is the fact that “RippleNet” refers to Ripple’s xCurrent enterprise solution, which does not require use
 3 of XRP. Nevertheless, earlier on that day, Ripple tweeted “@bgarlinghouse [its CEO’s twitter handle]
 4 on why crypto prices will be driven by real utility, the multi-trillion \$ problem @Ripple is solving and
 5 why \$XRP will come out on top.”⁵²

6 73. Ripple would later acknowledge that “neither the AMEX news nor the Korean bank
 7 initiative involved XRP.”⁵³

8 74. Nevertheless, the December 14, 2017 Ripple tweet linked to a BNN interview with Mr.
 9 Garlinghouse, in which he said “the reason why XRP has performed so well this year, we’re solving
 10 a real problem, it’s a multi-trillion dollar problem around cross-border payments. There is a lot of
 11 friction it’s very slow it’s expensive, we’re working with the institutions to deal with that, so people
 12 have gotten excited. We now have over 100 customers we’ve announced publicly.”⁵⁴

13 75. Although few, if any of those 100 customers were using XRP, Garlinghouse continued,
 14 “at the end of the day the value of digital assets will be driven by their utility. If they are solving a
 15 real problem, and that problem has scale, and that problem, you know there is real value there, then
 16 there will be demand for the tokens and the price will go up. For XRP we have seen because *it’s*
 17 *required*, it’s something that can really reduce the friction, and we’re talking about a multi-trillion
 18 dollar problem in how cross-border payments flow. And so, I think if you drive real utility, yes there’s
 19 going to be demand for that.” “*XRP is up 100x this year*, and I think it’s *because the problem we are*
 20 *solving people realize is a real problem, it’s a big problem.*”

21 76. The statements in Paragraphs 64 through 75 falsely conflate adoption of Ripple
 22 Enterprise Solutions with adoption and use of XRP. These statements create an impression that

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 24 ⁵¹ @Ripple, TWITTER (Dec. 14, 217, 6:51 PM), <https://twitter.com/Ripple/status/941501026267316224>.

25 ⁵² @Ripple, TWITTER (Dec. 14, 2017, 8:59 AM), <https://twitter.com/Ripple/status/941352005058011137>.

26 ⁵³ Ripple Insights, Q4 2017 XRP Markets Report (Jan. 24, 2018), <https://www.ripple.com/insights/q4-2017-xrp-markets-report/>.

27 ⁵⁴ @Ripple, TWITTER (Dec. 14, 2017, 8:59 AM), <https://twitter.com/Ripple/status/941352005058011137>.

1 adoption of Ripple Enterprise Solutions by financial institutions will drive demand for XRP and
2 thereby allow investors to profit by holding XRP. Ripple and its CEO Garlinghouse repeatedly tied
3 Ripple’s Enterprise Solutions customers with the proposition that “the value of digital assets will be
4 driven by utility” and that the price of XRP was appreciating and would continue to appreciate because
5 XRP was solving a real problem for those customers. However, few, if any, of those customers were
6 actually using XRP. Defendants had exclusive or superior knowledge about use and utility of XRP
7 (or lack thereof), but omitted this information from their representations to investors. Had investors
8 known the truth, it would have significantly altered the total mix of information made available to
9 them. Accordingly, these statements were misrepresentations and omissions of material facts to
10 investors.

11 77. 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 to*
13 *Rival Zuckerberg*.”⁵⁵ Mr. Popper tweeted a link to this article with the caption: “On the rise of Ripple.
14 If this is a tulip fever, the fever has spread to chrysanthemums and poppies.”⁵⁶

15 78. 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 assume
17 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 absolutely
19 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 there really
21 aren’t banks signaling that yet.

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26 ⁵⁵ Rise of Bitcoin Competitor Ripple Creates Wealth to Rival Zuckerberg, <https://www.nytimes.com/2018/01/04/technology/bitcoin-ripple.html> (last visited Aug. 2, 2019).

27 ⁵⁶ @nathanielpopper, TWITTER (Jan. 4, 2018, 8:06 PM), <https://twitter.com/bgarlinghouse/status/949129952716234752>.

- 1 • I would be surprised if there have been any real bank to bank transactions done with it
2 (outside of maybe test transactions), despite people making claims to the contrary.
- 3 • It's not clear to me why XRP would be used by banks at all. XRP could potentially be
4 adopted by consumers as a payment rail, although they don't yet have meaningful traction
5 in that regard.
- 6 • I haven't seen a sufficiently large catalyst in the fundamentals of Ripple to justify a greater
7 than 10x move in the price of \$XRP in the last month.
- 8 • In a few years we're going to look back on 2017 and think WTF were we thinking."
9

10 79. Ripple's CEO Garlinghouse publicly responded to this, tweeting: "Over the last few
11 months I've spoken with ACTUAL banks and payment providers. They are indeed planning to use
12 xRapid (our XRP liquidity product) in a serious way. . ." ⁵⁷ He followed up stating, "I don't think you
13 want to hear about validation for XRP. The @NYTimes should be above spreading anonymous
14 FUD." FUD, which stands for fear, uncertainty, and doubt, is an expression frequently used among
15 crypto-investors to deride or undermine criticism of an asset. ⁵⁸

16 80. Ripple's XRP product manager also attacked Mr. Popper, tweeting: "Do you think I
17 left #Bitcoin and joined @Ripple to build bank software? Think again. \$XRP." ⁵⁹ This tweet linked to
18 a Ripple's tweet stating that "3 of the top 5 global money transfer companies plan to use XRP in
19 payment flows in 2018. Even more in the pipeline." ⁶⁰

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23 ⁵⁷ @bgarlinghouse, TWITTER (Jan. 4, 2018, 8:06 PM), <https://twitter.com/bgarlinghouse/status/949129952716234752>.

24 ⁵⁸ @bgarlinghouse, TWITTER (Jan. 4, 2018, 9:10 PM). <https://twitter.com/bgarlinghouse/status/949146029907062787>.

25 ⁵⁹ @warpaul, TWITTER (Jan. 4, 2018, 11:11 PM), <https://twitter.com/warpaul/status/949176533523902464>.

26 ⁶⁰ @Ripple, TWITTER (Jan. 4, 2018, 8:11 PM), <https://twitter.com/Ripple/status/949131179797626880>
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1 81. Despite publicly claiming that use of XRP by banks and financial institutions will drive
2 demand for XRP, Defendants sell XRP primarily to retail investors, and not banks or financial
3 institutions.

4 **2. Defendants Offer to Pay Exchanges to List XRP**

5 82. Illustrative of Defendants' attempts to promote XRP, in 2017, Ripple attempted to pay
6 two U.S. cryptocurrency exchanges to list XRP to further drive demand for the token and to make
7 XRP more easily available to a larger audience. Coinbase and Gemini provide the easiest ways for
8 U.S.-customers to buy crypto-assets with U.S. dollars.⁶¹ There is thus a perception that being listed
9 on one of these exchanges will accelerate demand for, and thus the price of, a crypto-asset.

10 83. A listing on Coinbase, in particular, is considered to be a crypto-asset's golden ticket.
11 This proved true when Coinbase listed Litecoin in August 2016 and Bitcoin Cash in December 2017.
12 As an example, when Coinbase agreed to list Bitcoin Cash, its price increased from approximately
13 \$2,500 to approximately \$3,400 just before Coinbase listed the asset. The price then briefly shot up
14 to \$9,500 upon Bitcoin Cash's being listed on Coinbase before Coinbase temporarily halted trading.

15 84. Recognizing that getting its XRP listed on these exchanges could spur demand for
16 XRP, and thereby allow it to maximize the profits it derives from XRP sales, Ripple offered to pay
17 each of these exchanges to list XRP.

18 85. Bloomberg reported that "a Ripple executive asked whether a \$1 million cash payment
19 could persuade Gemini to list XRP in the third quarter" of 2017.⁶²

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25 ⁶¹ Many other exchanges do not allow users to make purchases with cash, but rather accept only other
cryptocurrencies, like Bitcoin or Ethereum.

26 ⁶² Ripple is Said to Struggle to Buy U.S.-Listing for Popular Coin, Bloomberg (Apr. 4, 2018),
<https://www.bloomberg.com/amp/news/articles/2018-04-04/ripple-is-said-to-struggle-to-buy-u-s-listing-for-popular-coin>.
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1 86. Ripple also “said it would be willing to lend [Coinbase] more than \$100 million worth
2 of XRP to start letting users trade the asset. . . .”⁶³ Gemini and Coinbase both declined to pursue
3 Ripple’s proposal at that time.

4 87. On November 29, 2017, Ripple posted a link to a change.org petition to “Get Ripple
5 on Coinbase,” with the caption “[t]he community is mobilizing! [thumbs up emoji].”⁶⁴ Ripple’s Senior
6 Vice President of Business Development also tweeted a link to the petition.

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

10 89. During this same late-2017 and early-2018 time period, rumors that XRP would be
11 added to Coinbase fueled a massive price increase. Defendants were the source of these rumors.

12 3. Ripple Publicly Limits the Supply of XRP to Drive Price Appreciation

13 90. In May 2017, Ripple publicly announced that it would limit distribution of the
14 remaining 61.68 billion XRP owned by the company, from its original allotment of 80 billion XRP.
15 Ripple stated that it would place 55 billion XRP in a cryptographically secured escrow account, and
16 only offer and sell limited amounts of XRP at defined intervals. It established 55 contracts of 1 billion
17 XRP each that allowed it to sell up to 1 billion XRP per month, with any unsold XRP returned to
18 escrow for use in subsequent offerings.

19 91. On or about May 16, 2017, Ripple’s CEO posted an article on its website, titled “Ripple
20 to Place 55 Billion XRP in Escrow to Ensure Certainty of Total XRP Supply.”⁶⁵ Ripple promoted this
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23 ⁶³ Ripple Has Tried to Buy Its Way Onto Major Exchanges for Cryptocurrency, Bloomberg (Apr. 4,
24 2018), <https://www.bloomberg.com/news/articles/2018-04-04/ripple-is-said-to-struggle-to-buy-u-s-listing-for-popular-coin>.

25 ⁶⁴ @Ripple, TWITTER (Nov. 29, 2017, 9:28 AM), <https://twitter.com/Ripple/status/935923310080045056>.

26 ⁶⁵ Ripple 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 visited Aug. 2, 2019).
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1 article in a tweet stating: “We’re placing 55B #XRP into a cryptographically secured escrow account
2 to establish certainty around #XRP supply.”⁶⁶

3 92. In that article, Garlinghouse proclaimed, “Our goal in distributing XRP is to incentivize
4 actions that build trust, utility and liquidity. We engage in distribution strategies that we expect will
5 result in a *strengthening XRP exchange rate* against other currencies.” (emphasis added). He
6 continued, noting that “we have heard concerns in the market about uncertainty surrounding our
7 ongoing XRP distribution. The root of this uncertainty is the notion that Ripple might one day sell its
8 61.68B XRP in the market at any time – a scenario that would be bad for Ripple! Our self-interest is
9 aligned with building and maintaining a healthy XRP market.”

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

17 94. XRP’s price increased rapidly following this announcement, and Ripple’s “Q2 2017
18 XRP Markets Report” listed the escrow announcement as “instrumental in helping to drive XRP
19 interest and volume,” and noted that the “market responded favorably to the escrow” announcement.⁶⁷

20 95. On or about December 7, 2017, Ripple announced that it had followed through with its
21 promise and placed “55 billion XRP in a cryptographically-secured escrow account to create certainty
22 of XRP supply at any given time.”⁶⁸

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25 ⁶⁶ @Ripple, TWITTER (May 16, 2017, 9:05 AM), <https://twitter.com/Ripple/status/864512213289123840>.

26 ⁶⁷ Ripple Insights, Q2 2017 XRP Markets Report (Jul. 20, 2017), https://www.ripple.com/es_419/insights/q2-2017-xrp-markets-report/.

27 ⁶⁸ Ripple Escrows 55 Billion XRP for Supply Predictability, <https://ripple.com/insights/ripple-escrows-55-billion-xrp-for-supply-predictability/> (last visited Aug. 2, 2019).

1 96. It published an article detailing this escrow, which explained, “[b]y securing the lion’s
2 share of XRP in escrow, people can now mathematically verify the maximum supply that can enter
3 the market. While Ripple has proved to be a responsible steward of XRP supply for almost five years
4 – and has clearly demonstrated a tremendous track record of investing in and supporting the XRP
5 ecosystem – *this lockup eliminates any concern that Ripple could flood the market, which we’ve*
6 *pointed out before is a scenario that would be bad for Ripple!*”⁶⁹

7 97. The article contained a button to allow readers to share it on Twitter with the caption,
8 “Game changer for \$XRP! 55 billion XRP now in escrow.” Ripple also promoted this article through
9 its own tweet, which proclaimed: “55B \$XRP is now in escrow. Interested in what this means for
10 \$XRP markets?”⁷⁰ Ripple’s CEO was even more enthusiastic, tweeting: “Boom! 55B \$XRP now in
11 escrow. Good for supply predictability and trusted, healthy \$XRP markets. Glad to finally let this
12 #cryptokitty out of the bag!”⁷¹

13 98. Ripple’s public commitment to limit the supply of XRP had its intended effect. In the
14 weeks that followed, the price of XRP exploded upwards, from approximately 25 cents on December
15 7, 2017 to \$3.43 on January 3, 2018.

16 99. Ripple explains its escrow mechanism as follows:

17 The recently launched Escrow feature in XRP Ledger allows parties to secure
18 XRP for an allotted amount of time or until specific conditions are met. For
19 example, Escrow allows a sender of XRP to put conditions on exactly when a
20 payment can be completed, so the payment remains cryptographically locked
21 until the due date.

22 We’ll use Escrow to establish 55 contracts of 1 billion XRP each that will
23 expire on the first day of every month from months 0 to 54. As each contract
24 expires, the XRP will become available for Ripple’s use. You can expect us

25 ⁶⁹ *Id.* (emphasis added).

26 ⁷⁰ @Ripple, TWITTER (Dec. 7, 2017, 4:51 PM), <https://twitter.com/Ripple/status/938933967956389889>.

27 ⁷¹ @bgarlinghouse, TWITTER (Dec. 7, 2017, 4:50 PM), <https://twitter.com/bgarlinghouse/status/938933791145336832>.

1 to continue to use XRP for incentives to market makers who offer tighter
2 spreads for payments and selling XRP to institutional investors.⁷²

3 100. In other words, every month for 55 months, Ripple obtains from its cryptographic
4 escrow access to a new block of 1 billion XRP, some or all of which it can sell—during that month
5 only—in a separate offering. Any unsold XRP during any given month go into the back of the line in
6 the Escrow to be available to Ripple to sell in separate offerings after the first 55 months.

7 **4. Defendants’ Maintain that XRP is Not a Security**

8 101. Defendants made numerous statements to the public claiming that XRP is not a security
9 to prop up demand and its value.

10 102. For example, on approximately April 11, 2018, Ripple’s Chief Market Strategist, Cory
11 Johnson, told CNBC: “We absolutely are not a security. We don’t meet the standards for what a
12 security is based on the history of court law.” Mr. Johnson also said, “Coinbase never ever raised the
13 issue of whether or not XRP is a security in our discussions about listing XRP. We’re 100 percent
14 clear, it’s not a security. We don’t meet the standards.”⁷³

15 103. Ripple’s CEO Garlinghouse made similar comments, claiming XRP is not a security,
16 to the public through a variety of avenues and media channels, including at the CB Insights Future of
17 Fintech, live-streamed by Yahoo Finance.⁷⁴

18 **D. Development Of The XRP Ledger And The Success of XRP Are Dependent On 19 Defendants’ Efforts**

20 104. The development of the XRP Ledger and the success of XRP are dependent on
21 Defendants’ technical, entrepreneurial, and managerial efforts.

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23
24 ⁷² Brad Garlinghouse, Ripple to Place 55 Billion XRP in Escrow to Ensure Certainty of Total XRP
Supply (May 16, 2017), <https://www.ripple.com/insights/ripple-to-place-55-billion-xrp-in-escrow-to-ensure-certainty-into-total-xrp-supply/ss>.

25 ⁷³ CNBC, *Ripple says its cryptocurrency XRP is not a security* (Apr. 12, 2018), <https://www.cnbc.com/2018/04/12/ripple-says-its-cryptocurrency-xrp-is-not-a-security.html>.

26 ⁷⁴ Daniel Roberts, *Ripple CEO: 3 reasons XRP token is not a security*, Yahoo Finance (Jun. 21,
27 2018), <https://finance.yahoo.com/news/ripple-ceo-3-reasons-xrp-token-not-security-181455786.html>

1 105. For example, in February 2017, Ripple promoted a deal with BitGo to build an
2 enterprise wallet and treasury management platform for XRP.⁷⁵

3 106. Ripple also publishes a quarterly report detailing its efforts to grow the “XRP
4 ecosystem.”⁷⁶ In one of these reports, discussing its plan for “Q3 2017,” Ripple states that it “plans to
5 focus on three areas of liquidity development as we drive XRP towards its natural position as the
6 digital asset standard for international value transfer.” Ripple ends by saying, “[m]ost importantly,
7 we are accelerating the pace of *our investment* in the XRP Ledger to *build on its speed, uptime, and*
8 *scalability, to ensure XRP is the most trusted enterprise-grade digital asset.*”⁷⁷ (emphases added).

9 107. Three months later, in describing its goals for the fourth quarter of 2017, Ripple
10 proclaimed it would “continue to expand [its] xRapid partnerships.” It states that its “long-term goal
11 is, and always has been, usage of XRP as a liquidity solution for more and more corridors, and
12 partnerships are key to achieving this goal.”⁷⁸

13 108. In January 2018, Ripple touted “a partnership with MoneyGram—one of the world’s
14 largest money transfer companies—to use xRapid and XRP for near real-time cross-border payments.
15 In addition, there are a number of other xRapid deals at various stages of completion in the pipeline.”
16 It also stated that it wanted “to build the necessary markets infrastructure for eventual direct usage of
17 XRP by financial institutions.”⁷⁹

18 109. Ripple’s CEO commented on this partnership, stating: “And to be clear: @MoneyGram
19 announcement is one step in a marathon ahead to truly make \$XRP the global liquidity solution for
20 payment providers and banks.”⁸⁰

21 _____
22 ⁷⁵ @patgriffin9, TWITTER (Feb. 15, 2017, 11:17 AM), <https://twitter.com/patgriffin9/status/831945571736834048>.

23 ⁷⁶ Announcing Quarterly XRP Market Operations Report, <https://ripple.com/insights/announcing-quarterly-xrp-market-operations-report/> (last visited Aug. 2, 2019).

24 ⁷⁷ Ripple Insights, Q2 2017 XRP Markets Report (Jul. 20, 2017), <https://www.ripple.com/insights/q2-2017-xrp-markets-report/>.

25 ⁷⁸ Ripple Insights, Q3 2017 XRP Markets Report (Oct. 19, 2017), <https://ripple.com/xrp/q3-2017-xrp-markets-report/>.

26 ⁷⁹ Ripple Insights, Q3 2017 XRP Markets Report (Jan. 24, 2018), <https://www.ripple.com/insights/q4-2017-xrp-markets-report/>.

27 ⁸⁰ @bgarlinghouse, TWITTER (Jan. 11, 2018, 6:31 AM), <https://twitter.com/bgarlinghouse/status/951461582424358912>.

1 110. Ripple has also used XRP to enter into partnerships intended to drive the adoption of
2 XRP, and even structured these agreements so that their partner’s compensation is tied to appreciation
3 of XRP—just as companies often do with shares to ensure that their interests are aligned. In early
4 2016, Ripple promised R3 Holdco, LLC (“R3”), an enterprise software firm with a network of banks
5 and financial institutions, the option to purchase 5 billion XRP in exchange for R3 providing Ripple
6 with access to R3’s consortium of member banks and financial institutions—thereby driving adoption
7 of XRP.

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

11 **E. Ripple Updates XRP**

12 112. Defendants, and Ripple in particular, are also entirely responsible for updating and
13 maintaining the XRP Ledger.

14 113. Unlike cryptocurrencies such as Bitcoin and Ethereum, which use a Proof of Work
15 (“PoW”) consensus mechanism to verify the legitimacy of transactions on the network, the XRP
16 Ledger relies on trusted nodes operated by Ripple to verify the legitimacy of transactions and maintain
17 agreement on the network. The PoW mechanism utilized by Bitcoin and Ethereum helps to ensure
18 the network is decentralized by allowing anyone to use their own hardware and electricity to run the
19 PoW consensus algorithm to verify transactions on the public ledger and send them to be recorded
20 throughout the blockchain. The network’s decision-making process is thus placed entirely in the hands
21 of those who run the consensus algorithm with their own hardware and electricity, rather than being
22 centralized in any one entity or individual. Bitcoin currently has approximately 9,933 public nodes,
23 while Ethereum has 18,266.

24 114. The XRP Ledger consensus protocol, on the other hand, relies almost entirely on
25 “trusted nodes” on the Unique Node Lists (“UNL”). The UNL is the set of trusted nodes that
26 communicate “reliable” information to other nodes on the XRP Ledger. Like miners in Bitcoin and
27 Ethereum, these “trusted nodes” validate transactions. However, unlike those miners, the trusted
28

1 nodes are either selected or controlled by Ripple itself. Ripple provides its own default and
2 recommended UNL—currently comprised of only five Ripple-hosted nodes. Although Ripple claims
3 it plans someday in the future to eventually decentralize the network, it admits that it will only remove
4 its own “trusted nodes” if it decides that other validator nodes are reliable, reputable, stable, and
5 secure.⁸¹ Ripple’s view of potential decentralization of the XRP Ledger still involves Ripple
6 maintaining full control over the Ledger and deciding who owns and operates any third-party “trusted
7 nodes.”

8 115. In January 2018, BitMex Research, a blockchain research group, installed and ran a
9 copy of Rippled, the software that allows users to run nodes on the XRP Ledger.⁸² “The node operated
10 by downloading a list of five public keys from the server v1.ripple.com.” “The software indicates that
11 four of the five keys are required to support a proposal in order for it to be accepted [on the XRP
12 Ledger].” However, “[a]ll five keys are assigned to Ripple.com.” BitMex Research concludes that
13 “[s]ince the keys were all downloaded from the Ripple.com server, *Ripple is essentially in complete*
14 *control of moving the ledger forward*, so one could say *the system is centralized*.” (emphasis added).

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

18 117. Ripple is also constantly changing and seeking to improve the XRP network. These
19 changes have decreased transaction times and improved system security, compatibility, use cases and
20 other features of XRP. At the same time, Ripple has released new “white papers” touting these
21 upgrades and proposed upgrades to the cryptocurrency and its exchange network. For example,
22 Ripple released a white paper in February 2016 following a series of upgrades with the subtitle, “The
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25 ⁸¹ Decentralization Strategy Update, <https://ripple.com/dev-blog/decentralization-strategy-update/>
26 (last visited Aug. 2, 2019); 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/> (last visited Aug. 2, 2019).

27 ⁸² The Ripple Story, <https://blog.bitmex.com/the-ripple-story/> (last visited Aug. 2, 2019).

1 ROI of Using Ripple and XRP for Global Interbank Settlements.”⁸³ ROI stands for “return on
2 investment,” and the paper discussed at length the purported value of using XRP, compared to other
3 systems.

4 118. In May 2015, U.S. regulatory authorities fined Ripple and XRP II \$700,000 for
5 “willfully” violating the Bank Secrecy Act by selling XRP without obtaining the required
6 authorization. The failure to properly register as a money services business, or “MSB,” exposed XRP
7 for use by money launderers and criminals. As part of the settlement, Ripple and XRP II agreed to a
8 number of remedial measures, including registration with FinCEN within 30 days of the agreement
9 and to secure customer identification information within 180 days of the agreement. In the subsequent
10 months, Ripple updated the XRP network and ecosystem to attempt to comply with the settlement
11 agreement. In October 2015, Ripple underwent a rebranding after which it purported to fulfill its
12 obligations under the settlement agreement.

13 119. Ripple’s own XRP product manager, Warren Paul Anderson, frequently markets the
14 XRP Ledger’s dependence on Ripple’s continued commitment to it. For example, on December 14,
15 2016, he tweeted: “Thrilled to have the rippled team in town for a summit to discuss the future of
16 @Ripple Consensus Ledger & XRP as a native digital asset!”⁸⁴ Approximately one year later, in
17 December 2017, he retweeted his own tweet, saying, “It’s that time of year again, and what a year its
18 been! #XRP Ledger (rippled) core developers in town @Ripple for a summit to discuss planning for
19 2018.”⁸⁵

20 120. Later that same day he posted a picture of Ripple engineers with the caption, “A great
21 day of reflection & planning @Ripple w/ the greatest C++ engineering team in the world #XRP.”⁸⁶

23 ⁸³ The Cost-Cutting Case for Banks: The ROI of Using Ripple and XRP for Global Interbank
24 Settlements (Feb. 2016), https://ripple.com/files/xrp_cost_model_paper.pdf.

24 ⁸⁴ @warpaul, TWITTER (Dec. 14, 2016, 6:47 AM), <https://twitter.com/warpaul/status/809047284717469696>.

25 ⁸⁵ @warpaul, TWITTER (Dec. 13, 2017, 7:45 AM), <https://twitter.com/warpaul/status/940970970759573505>.

26 ⁸⁶ @warpaul, TWITTER (Dec. 13, 2017, 3:27 PM), <https://twitter.com/warpaul/status/941087297360994304>.

1 On that same day, Ripple’s head of cryptography tweeted: “Today, all the \$XRP Ledger developers
2 at @Ripple are in SF to reflect on 2017 and plan for 2018.”⁸⁷

3 121. Later in the month, on December 29, 2017, a Ripple software engineer, Nik Bougalis,
4 tweeted: “I’ve been working on code review for the last couple days. Excited to get rippled 0.90.0 out
5 the door,”⁸⁸ indicating that Ripple was working to release a new version of Rippled to further advance
6 the XRP Ledger.

7 122. On January 9, 2018, Anderson tacitly admits that the XRP Ledger remains centralized,
8 tweeting that the “[n]ew \$XRP Ledger (rippled) 0.81.0 release gets us one-step closer to executing on
9 our aforementioned decentralization strategy. . .”⁸⁹

10 123. Following, Ripple’s release of a Rippled upgrade, Bougalis tweeted, “[t]he C++ team
11 has released rippled 0.90.0. Cool new features: history sharding, deposit authorizations, checks and
12 more!”⁹⁰ When asked about Rippled, Bougalis continues, “[i]t’s the software one uses to run a server
13 that connects to the XRP Ledger.”

14 124. On March 5, 2015, Bougalis similarly reposted a tweet defending investing in XRP by
15 stating: “So you’d invest in Linux, not Microsoft. In UseNet, not Google. In MySQL, not Oracle.
16 Good luck with your portfolio. ***Ripple is the next Google.*** You’re stuck in the silly idea that ***a***
17 ***company can’t build a digital asset, even when it does this right under your nose,***” with the caption,
18 “[n]ow that’s a mic drop, if I’ve ever seen one.”⁹¹ (emphasis added).

19 125. Ripple also owns and maintains the page at github.com/ripple/rippled, a Git repository
20 used to update the XRP Ledger, and one location where Rippled can be downloaded.

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22 ⁸⁷ @JoelKatz, TWITTER (Dec. 13, 2017, 8:00 AM), <https://twitter.com/joelkatz/status/940974743733153792>.

23 ⁸⁸ @nbougalis, TWITTER (Dec. 29, 2017, 11:45 AM), <https://twitter.com/nbougalis/status/946829572145741824>.

24 ⁸⁹ @warpaul, TWITTER (Jan. 8, 2018, 9:20 PM), <https://twitter.com/warpaul/status/950598053509017600>.

25 ⁹⁰ @nbougalis, TWITTER (Feb. 20, 2018, 4:26 PM), <https://twitter.com/nbougalis/status/966106932925882368>.

26 ⁹¹ @nbougalis, TWITTER (Mar. 5, 2018, 10:52 AM), <https://twitter.com/nbougalis/status/970733741319503872>.

1 126. Ripple also pays bounties to those who identify bugs in their software, stating that “we
2 are very generous with the bug bounties we pay. Anyone that found and responsibly disclosed such a
3 bug would get a significant reward.”⁹²

4 **F. XRP Is A Security**

5 127. The SEC Framework provides guidance for analyzing whether a digital asset has the
6 characteristics of one particular type of security—an “investment contract.”

7 128. As explained in the SEC Framework:

8 The U.S. Supreme Court’s *Howey* case and subsequent case law have found
9 that an “investment contract” exists when there is the investment of money
10 in a common enterprise with a reasonable expectation of profits to be
11 derived from the efforts of others. The so-called “*Howey* test” applies to
12 any contract, scheme, or transaction, regardless of whether it has any of the
13 characteristics of typical securities. The focus of the *Howey* analysis is not
14 only on the form and terms of the instrument itself (in this case, the digital
15 asset) but also on the circumstances surrounding the digital asset and the
16 manner in which it is offered, sold, or resold (which includes secondary
17 market sales). Therefore, issuers and other persons and entities engaged in
18 the marketing, offer, sale, resale, or distribution of any digital asset will
19 need to analyze the relevant transactions to determine if the federal
20 securities laws apply.⁹³

21 129. The SEC Framework makes clear that “[w]hether a particular digital asset at the time
22 of its offer or sale satisfies the *Howey* test depends on the specific facts and circumstances.” The
23 specific facts and circumstances relating to XRP support the conclusion that XRP is a security under
24 the *Howey* test.

25 130. Purchasers who bought XRP have invested money or given valuable services to a
26 common enterprise, Defendants. These purchasers have had a reasonable expectation of profit based
27 upon the efforts of the promoter, Ripple, including, amongst other things, (i) Ripple’s CEO’s
28 admission that “To build XRP liquidity, we have been mindful over the years about how we distribute
XRP. . . . We engage in distribution strategies that we expect will result in a strengthening XRP

26 ⁹² @nbougalis, TWITTER (Apr. 19, 2018, 12:37 PM), <https://twitter.com/nbougalis/status/987052572283318273>.

27 ⁹³ SEC Framework § I (internal citations omitted).

1 exchange rate against other currencies,” (ii) that Ripple’s home page maintains metrics on the market
2 performance of XRP and a link to buy XRP on numerous exchanges, (iii) Ripple’s leadership in the
3 development of the platform, partnering with firms to use the network and influencing significant
4 control over which nodes can validate transactions, and (iv) the release of new white papers for the
5 payment network, all of which contributes to the value of XRP.

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

7 131. The SEC Framework states that, “The first prong of the *Howey* test is typically satisfied
8 in an offer and sale of a digital asset because the digital asset is purchased or otherwise acquired in
9 exchange for value, whether in the form of real (or fiat) currency, another digital asset, or other type
10 of consideration.”⁹⁴

11 132. Lead Plaintiff and the Class invested fiat and other digital currencies, such as Bitcoin
12 and Ethereum, to purchase XRP. As explained in the SEC Framework, investment of both fiat and
13 digital currency meets the first prong of *Howey*.

14 133. Defendants concede that they sell XRP tokens to the general public through
15 cryptocurrency exchanges.

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

19 135. The SEC Framework states that “[i]n evaluating digital assets, we have found that a
20 ‘common enterprise’ typically exists.”⁹⁵ The SEC Framework also elaborates: “Based on our
21 experiences to date, investments in digital assets have constituted investments in a common enterprise
22 because the fortunes of digital asset purchasers have been linked to each other or to the success of the
23 promoter’s efforts.”⁹⁶

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26 ⁹⁴ SEC Framework § II(A).

27 ⁹⁵ SEC Framework § II(B).

28 ⁹⁶ *Id.* at n.11 (citing *SEC v. Int’l Loan Network, Inc.*, 968 F.2d 1304, 1307 (D.C. Cir. 1992)).

1 136. XRP is no exception to the SEC Framework’s observation regarding the “common
2 enterprise” element of the *Howey* test. The prospective profits of Lead Plaintiff and the Class, if any,
3 are intertwined with the fortunes of Ripple. Ripple concedes that it “sells XRP to fund its operations
4 and promote the network. This allows Ripple to have a spectacularly skilled team to develop and
5 promote the Ripple protocol and network.”⁹⁷

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

8 138. As further explained in Section IV(E), the price of XRP is dependent on development
9 and adoption of the XRP Ledger, which in turn is dependent upon the efforts of Defendants and their
10 employees or agents.

11 2. XRP Investors Had a Reasonable Expectation of Profits

12 139. With respect to the element of “reasonable expectation of profits,” the SEC Framework
13 states that “[a] purchaser may expect to realize a return through participating in distributions or through
14 other methods of realizing appreciation on the asset, such as selling at a gain in a secondary market.”⁹⁸

15 140. Investors in XRP, including Lead Plaintiff and the Class, made their investment with a
16 reasonable expectation of profits.

17 141. Defendants themselves have recognized that XRP investors have a reasonable
18 expectation of profit, and publicly touted XRP’s price performance on numerous occasions. Ripple’s
19 website even contains an “XRP Buying Guide” that provides links to exchanges and instructions on
20 “how to buy XRP” on those exchanges.⁹⁹

21 142. Ripple’s CEO has publicly touted that he himself is “*very, very, very long XRP*,” and
22 criticized journalists who suggest that enterprise adoption of XRP may not be as high as Ripple
23 indicates.

24 143. Ripple also directly controls the inflation rate of XRP, going so far as to lock more than

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26 ⁹⁷ Ripple credits, [https://wiki.ripple.com/Ripple_credits#XRP_funds_the_development_and_promo
tion_of_the_protocol_and_the_network](https://wiki.ripple.com/Ripple_credits#XRP_funds_the_development_and_promotion_of_the_protocol_and_the_network) (last visited Aug. 2, 2019).

27 ⁹⁸ SEC Framework § II(C).

28 ⁹⁹ XRP Buying Guide, <https://ripple.com/xrp/buy-xrp/> (last visited Aug. 2, 2019).

1 half the supply of XRP in escrow to provide “supply predictability and trusted, healthy \$XRP
2 markets.” This announcement had its intended effect, driving the price of XRP rapidly upwards.

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

5 145. For example, on April 11, 2018, Ripple announced that it “had invested \$25 million in
6 XRP to Blockchain Capital Parallel IV, LP” to “support and develop additional [XRP] use cases
7 beyond payments.”¹⁰⁰ Ripple’s Senior Vice President of Business Development promoted this
8 investment, tweeting, “Ripple’s \$25 million investment in @blockchaincap’s new fund is the first and
9 not the last contribution to ventures that further develop the #blockchain and \$XRP ecosystems.”¹⁰¹

10 146. The SEC Framework lays out a number of characteristics informative of whether the
11 “reasonable expectation of profits” element is met. The SEC Framework states that “[t]he more the
12 following characteristics are present, the more likely it is that there is a reasonable expectation of
13 profit.”¹⁰² Based on the facts above, each and every characteristic identified by the SEC Framework
14 is present in the case of XRP:

- 15 • The digital asset gives the holder rights to share in the enterprise’s income or profits or to
16 realize gain from capital appreciation of the digital asset.
- 17 • The opportunity may result from appreciation in the value of the digital asset that comes, at
18 least in part, from the operation, promotion, improvement, or other positive developments in
19 the network, particularly if there is a secondary trading market that enables digital asset holders
20 to resell their digital assets and realize gains.
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- 23
- 24

25 ¹⁰⁰ Ripple 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 Aug. 2, 2019).

26 ¹⁰¹ @patgriffin9, TWITTER (Apr. 11, 2018, 6:31 AM), <https://twitter.com/Ripple/status/984061347078987776>.

27 ¹⁰² SEC Framework § II(C)(1).

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- The digital asset is transferable or traded on or through a secondary market or platform, or is expected to be in the future.
- Purchasers reasonably would expect that [the Defendants'] efforts will result in capital appreciation of the digital asset and therefore be able to earn a return on their purchase.
- The digital asset is offered broadly to potential purchasers as compared to being targeted to expected users of the goods or services or those who have a need for the functionality of the network.
- The digital asset is offered and purchased in quantities indicative of investment intent instead of quantities indicative of a user of the network. For example, it is offered and purchased in quantities significantly greater than any likely user would reasonably need, or so small as to make actual use of the asset in the network impractical.
- There is little apparent correlation between the purchase/offering price of the digital asset and the market price of the particular goods or services that can be acquired in exchange for the digital asset.
- There is little apparent correlation between quantities the digital asset typically trades in (or the amounts that purchasers typically purchase) and the amount of the underlying goods or services a typical consumer would purchase for use or consumption.
- The [Defendants have] raised an amount of funds in excess of what may be needed to establish a functional network or digital asset.
- The [Defendants are] able to benefit from [their] efforts as a result of holding the same class of digital assets as those being distributed to the public.
- The [Defendants] continue[] to expend funds from proceeds or operations to enhance the functionality or value of the network or digital asset.

- 1 • The digital asset is marketed, directly or indirectly, using any of the following:
 - 2 ○ The expertise of [Defendants] or [their] ability to build or grow the value of the network
 - 3 or digital asset.
 - 4 ○ The digital asset is marketed in terms that indicate it is an investment or that the
 - 5 solicited holders are investors.
 - 6 ○ The intended use of the proceeds from the sale of the digital asset is to develop the
 - 7 network or digital asset.
 - 8 ○ The future (and not present) functionality of the network or digital asset, and the
 - 9 prospect that [the Defendants] will deliver that functionality.
 - 10 ○ The promise (implied or explicit) to build a business or operation as opposed to
 - 11 delivering currently available goods or services for use on an existing network.
 - 12 ○ The ready transferability of the digital asset is a key selling feature.
 - 13 ○ The potential profitability of the operations of the network, or the potential appreciation
 - 14 in the value of the digital asset, is emphasized in marketing or other promotional
 - 15 materials.
 - 16 ○ The availability of a market for the trading of the digital asset, particularly where the
 - 17 [Defendants] implicitly or explicitly promises to create or otherwise support a trading
 - 18 market for the digital asset.
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22 **3. The Success of XRP Requires Efforts of Ripple and Others**

23 147. The SEC Framework explains:

24 When a promoter, sponsor, or other third party (or affiliated group of third
 25 parties) (each, an “Active Participant” or “AP”) provides essential managerial
 26 efforts that affect the success of the enterprise, and investors reasonably expect
 27 to derive profit from those efforts, then this prong of the test is met. Relevant
 28 to this inquiry is the “economic reality” of the transaction and “what character
 the instrument is given in commerce by the terms of the offer, the plan of
 distribution, and the economic inducements held out to the prospect.” The

1 inquiry, therefore, is an objective one, focused on the transaction itself and the
2 manner in which the digital asset is offered and sold.¹⁰³

3 148. Specifically, with respect to the element of “reliance on the efforts of others,” the SEC
4 Framework states:

5 The inquiry into whether a purchaser is relying on the efforts of others focuses
6 on two key issues:

- 7 ▪ Does the purchaser reasonably expect to rely on the efforts of a [promoter]?
- 8 ▪ Are those efforts “the undeniably significant ones, those essential
9 managerial efforts which affect the failure or success of the enterprise,” as
10 opposed to efforts that are more ministerial in nature?¹⁰⁴

11 149. Lead Plaintiff and the Class have entirely passive roles vis-à-vis the success of the XRP
12 Ledger and XRP. Rather, as Defendants’ own marketing makes clear, the success of the XRP Ledger,
13 and the profits the Class reasonably expected to derive from investing in XRP, are dependent on the
14 essential technical, entrepreneurial, and managerial efforts of Defendants and their agents and
15 employees.

16 150. Lead Plaintiff and the Class reasonably expected Defendants to provide significant
17 managerial efforts, to develop and improve the XRP Ledger, to develop and sustain a supportive
18 network, and to secure exchanges through which XRP can be traded or liquidated. Defendants
19 repeatedly represented that they would provide significant managerial efforts to achieve these
20 objectives and make the XRP Ledger a success.

21 151. Ripple created the XRP Ledger and all 100 billion XRP in circulation, and concedes
22 that it “sells XRP to fund its operations and promote the network,” in order “to have a spectacularly
23 skilled team to develop and promote the Ripple protocol and network.”¹⁰⁵ And as of April 22, 2018,
24 Ripple still holds at least 60.83 billion XRP—more than 60 percent of the XRP in circulation.¹⁰⁶

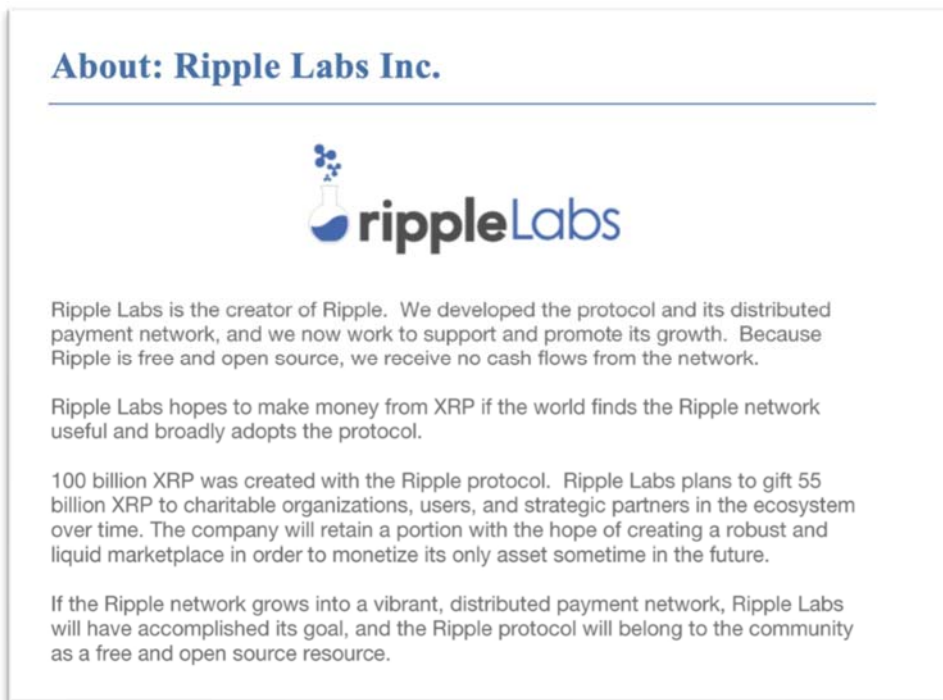
25 ¹⁰³ SEC Framework § II(C).

26 ¹⁰⁴ SEC Framework § II(C)(1).

27 ¹⁰⁵ Ripple credits, https://wiki.ripple.com/Ripple_credits#XRP_funds_the_development_and_promotion_of_the_protocol_and_the_network (last visited Aug. 2, 2019).

28 ¹⁰⁶ Market Performance, <https://ripple.com/xrp/market-performance/> (last visited Aug. 2, 2019).

1 152. Although it now claims that it “didn’t create XRP; 100 billion XRP was created before
 2 the company was formed,” Ripple previously admitted that it “is the creator of Ripple.”¹⁰⁷ “We
 3 developed the protocol and its distributed payment network, and we now work to support and promote
 4 its growth.” It acknowledged that “Ripple hopes to make money from XRP if the world finds the
 5 Ripple network useful and broadly adopts the protocol.” Ripple further acknowledged that it “will
 6 retain a portion [of XRP] with the hope of creating a robust and liquid marketplace in order to *monetize*
 7 *its only asset* sometime in the future.” (emphasis added).



20 153. Ripple touts its control over the XRP Ledger as an advantage for XRP, contending that
 21 governance “may be where XRP most significantly distinguishes itself [from Bitcoin, Ethereum, and
 22 Litecoin] going forward.”¹⁰⁸ “Building pivotal infrastructure on top of technology that does not have
 23 clear governance is not palatable for large established companies.”

24 154. Ripple also exercises near complete control over the XRP Ledger itself. XRP Ledger

25 ¹⁰⁷ Ripple’s changing narrative around the creation of \$XRP, The Block (Nov. 25, 2018),
<https://www.theblockcrypto.com/tiny/ripples-changing-narrative-around-the-creation-of-xrp/>.

26 ¹⁰⁸ Q4 2017 XRP Markets Report, <https://ripple.com/insights/q4-2017-xrp-markets-report/> (last
 27 visited Aug. 2, 2019).

1 nodes operate “by downloading a list of five public keys from the server v1.ripple.com.”¹⁰⁹ “The
2 software indicates that four of the five keys are required to support a proposal in order for it to be
3 accepted [on the XRP Ledger].” However, “[a]ll five keys are assigned to Ripple.com.” “Since the
4 keys were all downloaded from the Ripple.com server, *Ripple is essentially in complete control of*
5 *moving the ledger forward*, so one could say *the system is centralized.*” (emphasis added). “[T]he
6 Ripple system appears for all practical purposes to be centralized and is therefore perhaps devoid of
7 any interesting technical characteristics, such as censorship resistance, which coins like Bitcoin may
8 have. . . .”

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

13 156. Ripple’s CTO, David Schwartz, has similarly acknowledged that the “biggest risks” to
14 the price of XRP are:

15 a. “Someone else does almost exactly the same thing Ripple does, but does it
16 better. This is mitigated by the fact that Ripple has such talented people and has a lead. But you never
17 know.”

18 b. “Unfavorable regulatory changes make Ripple’s business model impractical.
19 Perhaps some regulators deem XRP to be a security and therefore only salable to sophisticated
20 investors or something like that. This is mitigated by the fact that Ripple can target friendlier
21 jurisdictions, but losing big ones would be damaging.”

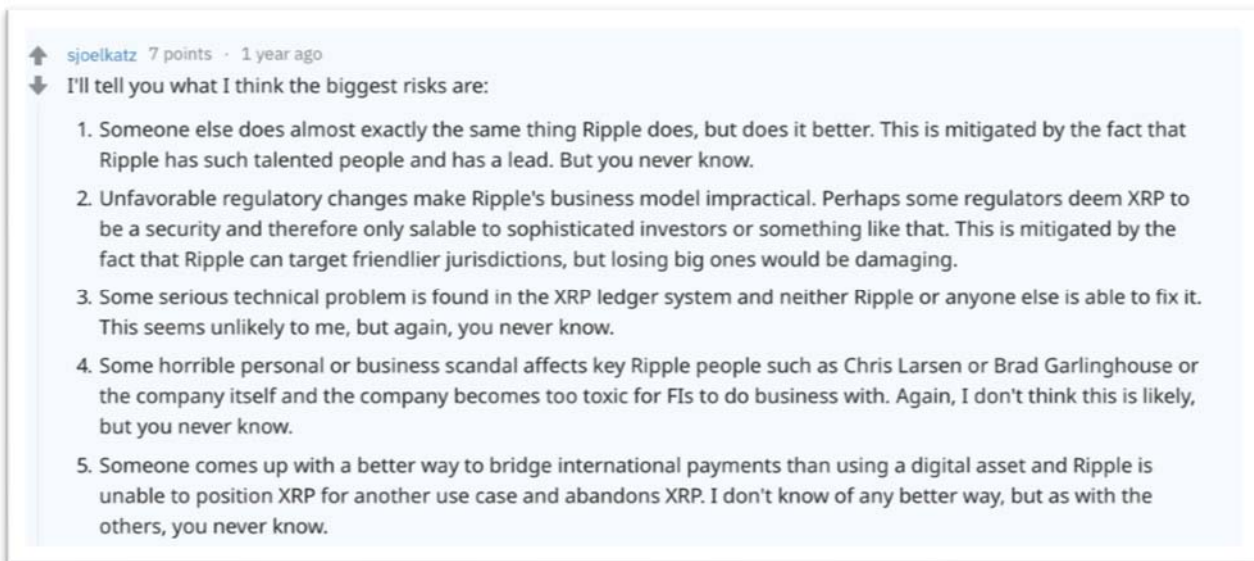
22 c. “Some serious technical problem is found in the XRP ledger system and neither
23 Ripple or anyone else is able to fix it.”

24 d. “Some horrible personal or business scandal affects key Ripple people such as
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27 ¹⁰⁹ The Ripple Story, <https://blog.bitmex.com/the-ripple-story/> (last visited Aug. 2, 2019).

1 Chris Larsen or Brad Garlinghouse or the company itself and the company becomes too toxic for FIs
2 [financial institutions] to do business with.”

3 e. “Someone comes up with a better way to bridge international payments than
4 using a digital asset and Ripple is unable to position XRP for another use case and abandons XRP.”



21 157. XRP therefore derives its value from the usefulness and popularity of the XRP Ledger,
22 which is in turn highly dependent on the significant technical, entrepreneurial, and managerial efforts
23 of Defendants. The purchase of XRP is thus an investment in a common enterprise, with an
24 expectation of profits, based upon the efforts of its promoter, the Defendants.

25 158. The SEC Framework lays out a number of characteristics informative of whether the
26 “reliance on the efforts of others” element is met. The SEC Framework notes that “although no one
27 of the following characteristics is necessarily determinative, the stronger their presence, the more
28 likely it is that a purchaser of a digital asset is relying on the ‘efforts of others.’”¹¹⁰ Based on the facts
above, each and every characteristic identified by the SEC Framework is present in the case of XRP:

- Defendants are “responsible for the development, improvement (or enhancement), operation,
or promotion of the network” and “purchasers of the digital asset expect [Defendants] to be

¹¹⁰ SEC Framework § II(C)(1).

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performing or overseeing tasks that are necessary for the network or digital asset to achieve or retain its intended purpose or functionality.”

- “Where the network or the digital asset is still in development and the network or digital asset is not fully functional at the time of the offer or sale”—both true of the XRP Ledger—“purchasers would reasonably expect [Defendants] to further develop the functionality of the network or digital asset (directly or indirectly).” “This particularly would be the case where an AP promises further developmental efforts in order for the digital asset to attain or grow in value,” as is true with Ripple.
- “There are essential tasks or responsibilities performed and expected to be performed by [Defendants], rather than an unaffiliated, dispersed community of network users (commonly known as a ‘decentralized’ network).”
- Defendants “create[] or support[] a market for, or the price of, the digital asset. This can include, for example, an AP that: (1) controls the creation and issuance of the digital asset; or (2) takes other actions to support a market price of the digital asset, such as by limiting supply or ensuring scarcity, through, for example, buybacks, ‘burning,’ or other activities.”
- Defendants have “a lead or central role in the direction of the ongoing development of the network or the digital asset. In particular, [Defendants] play[] a lead or central role in deciding governance issues, code updates, or how third parties participate in the validation of transactions that occur with respect to the digital asset.”
- Defendants have “a continuing managerial role in making decisions about or exercising judgment concerning the network or the characteristics or rights the digital asset represents including:

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- Determining whether and how to compensate persons providing services to the network or to the entity or entities charged with oversight of the network.
- Determining whether and where the digital asset will trade. For example, purchasers may reasonably rely on [Defendants] for liquidity, such as where the [Defendants have] arranged, or promised to arrange for, the trading of the digital asset on a secondary market or platform.
- Determining who will receive additional digital assets and under what conditions.
- Making or contributing to managerial level business decisions, such as how to deploy funds raised from sales of the digital asset.
- Playing a leading role in the validation or confirmation of transactions on the network, or in some other way having responsibility for the ongoing security of the network.
- Making other managerial judgements or decisions that will directly or indirectly impact the success of the network or the value of the digital asset generally.”
- “Purchasers would reasonably expect [Defendants] to undertake efforts to promote its own interests and enhance the value of the network or digital asset, such as where:”
 - Defendants have “the ability to realize capital appreciation from the value of the digital asset. This can be demonstrated, for example, if the [Defendants] retain[] a stake or interest in the digital asset. In these instances, purchasers would reasonably expect [Defendants] to undertake efforts to promote its own interests and enhance the value of the network or digital asset.”
 - Defendants “distribute the digital asset as compensation to management or [Defendants’] compensation is tied to the price of the digital asset in the secondary market. To the extent these facts are present, the compensated individuals can be

1 expected to take steps to build the value of the digital asset.”

- 2 ○ Defendants “own[] or control[] ownership of intellectual property rights of the network
3 or digital asset, directly or indirectly.”
- 4 ○ Defendants “monetize[] the value of the digital asset, especially where the digital asset
5 has limited functionality.”

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7 **4. XRP is a Security Under California Law**

8 159. California’s definition of a “security” in Corp. Code § 25019 was modeled after Section
9 2(a)(1) of the Securities Act of 1933, and includes some 23 instruments meeting the definition, such
10 as “any note; stock; treasury stock; . . . certificate of interest or participation in any profit-sharing
11 agreement; . . . transferable share; [and] investment contract. . . .” Court decisions interpreting the
12 scope of the definition of a “security” under the Securities Act of 1933 are persuasive authority under
13 the California statute, and courts have interpreted the term “security” to be synonymous in scope with
14 the term “investment contract” in federal securities law cases. *See* 1 Marsh & Volk, PRACTICE UNDER
15 THE CALIFORNIA CORPORATE SECURITIES LAWS § 5.19[1][b], [d] (2019).

16 160. In addition to meeting the definition of a “security” under the SEC Framework and the
17 federal *Howey* test, XRP also satisfies the four elements of the “risk capital test” as articulated by the
18 California Supreme Court in *Silver Hills Country Club v. Sobieski*, 55 Cal. 2d 811, 815 (1961) (“*Silver
19 Hills*”) to qualify as a “security” under California law.

20 161. California courts have held that that both the *Silver Hills* and *Howey* tests may be
21 applied, either separately or together, to determine whether a transaction is a security under California
22 law—in other words, a transaction is a security if it satisfies either test. *People v. Black*, 8 Cal. App.
23 5th 889, 900 (2007) (holding that California “proceed[s] under the framework of both tests, either
24 separately or together”); *Consol. Mgmt. Grp., LLC v. Dep’t of Corporations*, 162 Cal. App. 4th 598,
25 610 (2008) (same); *People v. Schock*, 152 Cal. App. 3d 379 (1984) (both tests applied, and transaction
26 held to be a security under federal test); *People v. Smith*, 215 Cal. App. 3d 230, 237 (while California
27 courts often use the risk capital test for defining a security, it is “a general test, and is not applicable

1 in all situations. Federal definitions of securities are also used in California when appropriate in
2 determining whether an investment vehicle is a security. . . .”).

3 162. In this case, Defendants attempted to raise funds for a business venture or enterprise—
4 Ripple and the development of the XRP Ledger—through the sale of XRP to the general public
5 through various cryptocurrency exchanges.

6 163. Because XRP is available on cryptocurrency exchanges, Defendants’ numerous
7 issuances of XRP are indiscriminate offerings to the public at large where the persons or investors
8 being solicited are selected at random, rather than specifically or individually targeted.

9 164. As investors in XRP, Lead Plaintiff and the Class who purchased XRP maintain a
10 passive position vis-à-vis the success of XRP and the XRP Ledger in that they are substantially
11 powerless to affect the success of the enterprise. Any money Lead Plaintiff and the Class invests in
12 XRP is also substantially at risk because it is inadequately secured.

13 165. This is because, as Defendants’ own marketing makes clear, the success of the XRP
14 Ledger, and the profits Lead Plaintiff and the Class reasonably expected to derive from investing in
15 XRP, are dependent on the conduct of Defendants and their agents and employees.

16 V. CLASS ACTION ALLEGATIONS

17 166. Lead Plaintiff brings this action as a class action pursuant to rules 23(a) and 23(b)(3)
18 of the Federal Rules of Civil Procedure on behalf of the following Class of persons.

19 All persons or entities who purchased XRP. Excluded from the Class are:
20 corporate officers, members of the boards of directors, and senior executives of
21 Defendants; members of their immediate families and their legal
representatives, heirs, successors or assigns; and any entity in which Defendants
have or had a controlling interest.

22 167. The members of the Class are so numerous that joinder of all members is impracticable.
23 Hundreds of millions of XRP have been sold by Defendants. While the exact number of Class
24 members are unknown to plaintiffs at this time and can only be ascertained through appropriate
25 discovery, Lead Plaintiff believes that there are thousands of members in the proposed Class.

26 168. The Class is readily ascertainable and identifiable. It can be identified by reference to
27 Defendants’ own databases, the XRP Ledger, and cryptocurrency exchange databases.

1 169. Lead Plaintiff will fairly and adequately protect the interests of the Class because Lead
2 Plaintiff's claims are typical and representative of the claims of all members of the Class. Lead
3 Plaintiff suffered injury in fact when he purchased 128,978.88 XRP between January 1, 2018 and
4 January 16, 2018 for approximately \$307,700 in Bitcoin and USDT and sold that XRP between
5 January 9, 2018 and January 17, 2018 for approximately \$189,600 in Bitcoin and USDT, sustaining a
6 loss of approximately \$118,100 as a result of his XRP investments.

7 170. Lead Plaintiff's claims are typical of the claims of all Class members, as all members
8 of the Class are similarly affected by Defendants' wrongful conduct in violation of state and federal
9 securities laws, as well as California's false advertising and unfair competition laws.

10 171. There are no unique defenses that may be asserted against Lead Plaintiff individually,
11 as distinguished from the other members of the Class, and the relief sought is common to the Class.
12 Lead Plaintiff is typical of other members of the Class, does not have any interest that is in conflict
13 with or is antagonistic to the interests of the members of the Class, and has no conflict with any other
14 members of the Class.

15 172. Lead Plaintiff has retained competent counsel experienced in securities, consumer
16 protection, and class action litigation to represent himself and the Class.

17 173. Questions of law and fact common to the Class that predominate over any questions
18 that may affect only individual members of the Class, include, but are not limited to:

- 19 a. Whether XRP is a security under the Securities Act;
- 20 b. Whether Defendants' offerings and sales of XRP violates the registration
21 provisions of the Securities Act;
- 22 c. Whether XRP is a security under the California Corporations Code;
- 23 d. Whether Defendants' offerings and sales of XRP violates the registration
24 provisions of the California Corporations Code;
- 25 e. Whether Defendants' advertisements and statements regarding the genesis of
26 XRP, the circulating supply of XRP, and adoption of XRP were false and misleading;
- 27 f. Whether the conduct of Defendants violated the California False Advertising

1 Law;

2 g. Whether the conduct of Defendants violated the California Unfair Competition

3 Law;

4 h. The type and measure of damages suffered by Lead Plaintiff and the Class.

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

10 **VI. CAUSES OF ACTION**

11 **FIRST CLAIM FOR RELIEF**

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

15 175. Lead Plaintiff, on behalf of himself and all others similarly situated, realleges and
16 incorporates herein by reference each and every allegation contained in the preceding paragraphs of
17 this Complaint.

18 176. Defendants, and each of them, made use of means or instruments of transportation or
19 communication in interstate commerce or of the mails, to offer to sell or to sell securities, or to carry
20 or cause such securities to be carried through the mails or in interstate commerce for the purpose of
21 sale or for delivery after sale.

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

24 178. Lead Plaintiff and members of the Class purchased XRP securities from Defendants.

25 179. No registration statements have been filed with the SEC or have been in effect with
26 respect to any of the offerings alleged herein.

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

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

4 **SECOND CLAIM FOR RELIEF**
5 **Violation of Section 15 of the Securities Act**
6 **(Against the Control Person Defendants)**

7 182. Lead 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 of
9 this Complaint:

10 183. This Count is asserted against Defendants Ripple Labs, Inc. and Bradley Garlinghouse
11 (together, the "Control Person Defendants") under Section 15 of the Securities Act, 15 U.S.C. § 77o.

12 184. 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 as
14 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 to
16 cause the unlawful offer and sale of XRP securities as described herein.

17 185. 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 ownership
19 of voting securities, by contract, subscription agreement, or otherwise.

20 186. All Control Person Defendants other than Ripple also has the power to direct or cause
21 the direction of the management and policies of Ripple.

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

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

26 189. By virtue of the conduct alleged herein, the Control Person Defendants are liable for
27 the wrongful conduct complained of herein and are liable to Lead Plaintiff and the Class for rescission

1 and/or damages suffered.

2 **THIRD CLAIM FOR RELIEF**

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

6 190. Lead 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 of
8 this Complaint.

9 191. XRP are securities within the meaning of the California Corporations Code.

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

12 193. Lead Plaintiff and members of the Class purchased XRP securities from Defendants.

13 194. No registration statements have been filed with any state or federal government entity
14 or have been in effect with respect to any of the offerings alleged herein.

15 195. By reason of the foregoing, each of the Defendants have violated Sections 25110 and
16 25503 of the California Corporations Code.

17 196. As a direct and proximate result of Defendants' unregistered sale of securities, Lead
18 Plaintiff and members of the Class have suffered damages in connection with their respective
19 purchases of XRP securities.

20 **FOURTH CLAIM FOR RELIEF**

21 **Violation of Section 25401 of the California Corporations Code**
22 **(Against All Defendants)**

23 197. Lead Plaintiff, on behalf of himself and all others similarly situated, realleges and
24 incorporates herein by reference each and every allegation contained in the preceding paragraphs of
25 this Complaint.

26 198. This Count is asserted against Defendants Ripple Labs, Inc. and XRP II, LLC for
27 violation of Section 25401 of the California Corporations Code.

28 199. The Count is asserted against Defendants Ripple Labs, Inc. and Garlinghouse because
they materially assist, and/or aid and abet, in the violation of Section 25401, with intent to deceive or

1 defraud, pursuant to Section 25504.1.

2 200. California Corporations Code section 25401 makes it illegal to “offer or sell a security
3 in this state . . . by means of any written or oral communications which includes an untrue statement
4 of a material fact or omits to state a material fact necessary in order to make the statements made . . .
5 not misleading.”

6 201. Defendants were, at the time of the wrongs alleged herein, and as set forth herein,
7 “persons” within the meaning of Section 25401 of the California Corporations Code.

8 202. Defendants, separately or together, directly or indirectly, caused a false statement or
9 omission to be made in connection with the offers or sales of a security. These false statements or
10 omissions are specifically set out in paragraphs 41-42, 47-48, 51-53, 56-57, 64-75 of this Complaint.

11 203. Defendants, separately or together, sold and offered to sell XRP, a security, in the state
12 of California.

13 204. Defendants, separately or together, had knowledge of the falsity or misleading nature
14 of a statement or omission made in connection with the offers or sales of XRP. Alternatively,
15 Defendants, separately or together, were negligent in failing to investigate and discover the falsity of
16 the statement or omission.

17 205. Defendants, separately or together, were aware that a fact being misrepresented or
18 omitted was material to the buyer’s decision to purchase XRP.

19 206. By virtue of the conduct alleged herein, Defendants are liable, jointly or severally, for
20 the wrongful conduct complained of herein and are liable to Lead Plaintiff and the Class for rescission
21 and/or damages suffered.

22 **FIFTH CLAIM FOR RELIEF**

23 **Violation of Sections 25110 and 25504 of the California Corporations Code**
24 **(Against the Control Person Defendants)**

25 207. Lead Plaintiff, on behalf of himself and all others similarly situated, realleges and
26 incorporates herein by reference each and every allegation contained in the preceding paragraphs of
27 this Complaint.

1 208. This Count is asserted against the Control Person Defendants under Section 25504 of
 2 the California Corporations Code.

3 209. The Control Person Defendants, by virtue of their offices, stock ownership, agency,
 4 agreements or understandings, and specific acts were, at the time of the wrongs alleged herein, and as
 5 set forth herein, controlling persons within the meaning of Section 25504 of the California
 6 Corporations Code. The Control Person Defendants, and each of them, had the power and influence
 7 and exercised the same to cause the unlawful offer and sale of XRP securities as described herein in
 8 violation of Section 25110 of the California Corporations Code.

9 210. The Control Person Defendants, separately or together, possess, directly or indirectly,
 10 the power to direct or cause the direction of the management and policies of XRP II, through ownership
 11 of voting securities, by contract, subscription agreement, or otherwise. Defendant Garlinghouse also
 12 has the power to direct or cause the direction of the management and policies of Ripple.

13 211. The Control Person Defendants, separately or together, have sufficient influence to
 14 have caused XRP II and/or Ripple to submit a registration or qualification statement.

15 212. The Control Person Defendants, separately or together, jointly participated in, and/or
 16 aided and abetted, XRP II and/or Ripple's failure to register XRP in violation of Section 25110.

17 213. By virtue of the conduct alleged herein, the Control Person Defendants are liable for
 18 the wrongful conduct complained of herein and are liable to Lead Plaintiff and the Class for rescission
 19 and/or damages suffered.

20 **SIXTH CLAIM FOR RELIEF**

21 **False Advertising in Violation of Business and Professions Code Section 17500, et seq**
 22 **(Against All Defendants)**

23 214. Lead Plaintiff, on behalf of himself and all others similarly situated, realleges and
 24 incorporates herein by reference each and every allegation contained in the preceding paragraphs of
 this Complaint.

25 215. Lead Plaintiff brings this sixth claim for relief for false advertising in violation of
 26 California Business and Professions Code Section 17500 under the alternative theory that XRP is not
 27

1 a security.

2 216. Defendants operate a business where they intended to, and did, sell XRP to members
3 of the general public, including Lead Plaintiff.

4 217. Defendants cause to be made or disseminated through California and the United States
5 through advertising, marketing and other publications, statements that were untrue or misleading, and
6 which were known, or which by the exercise of reasonable care should have been known to
7 Defendants, to be untrue and misleading to consumers and Lead Plaintiff.

8 218. Defendants have violated section 17500 because the misrepresentations and omissions
9 they made, as set forth in paragraphs 41-42, 47-48, 51-53, 56-57, 64-75 of this Complaint were
10 material and likely to deceive a reasonable consumer.

11 219. As a direct and proximate result of Defendants' false advertisements, Lead Plaintiff
12 and members of the class have suffered injury to their property and have been deprived of the benefits
13 of fair competition. Lead Plaintiff and members of the class paid artificially inflated prices for XRP.
14 Had the Lead Plaintiff known the truth, he would not have purchased XRP and/or paid as much for it.
15 As a result, Lead Plaintiff and members of the Class have suffered damages in an amount according
16 to proof at trial.

17 **SEVENTH CLAIM FOR RELIEF**

18 **Unfair Competition in Violation of Business and Professions Code Section 17200, *et seq.***
19 **(Against All Defendants)**

20 220. Lead Plaintiff, on behalf of himself and all others similarly situated, realleges and
21 incorporates herein by reference each and every allegation contained in the preceding paragraphs of
22 this Complaint.

23 221. Lead Plaintiff brings this seventh claim for relief for unfair competition in violation of
24 California Business and Professions Code Section 17200 under the alternative theory that XRP is not
25 a security.

26 222. California Business and Professions Code section 17200 prohibits any "unlawful,
27 unfair, or fraudulent business act or practices." Defendants have engaged in unlawful, fraudulent, and
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1 unfair business acts and practices in violation of the California Unfair Competition Law.

2 223. Defendants have violated the unlawful prong of section 17200 by their violations of
3 the federal and state securities laws, including Sections 5(a), 5(c), and 12(a) of the Securities Act, 15
4 U.S.C. §§ 77e(a), 77e(c), and 771(a), Sections 25401, 25110, and 25503 of the California Corporations
5 Code, and with respect to the Control Person Defendants, Section 15 of the Securities Act, 15 U.S.C.
6 § 77o and Sections 25504 and 25110 of the California Corporations Code.

7 224. Defendants have also violated the unlawful prong of section 17200 by their violations
8 of California's False Advertising Law (Bus. & Prof. Code §§ 17200, *et seq.*), as set forth above.

9 225. Defendants have also violated the "fraudulent" prong of section 17200 by making false
10 and misleading statements regarding XRP to drive demand for XRP in order to artificially inflate the
11 price at which they can sell XRP, as set forth in this Complaint. These false and misleading statements
12 include statements regarding the genesis of XRP, the circulating supply of XRP, adoption of XRP,
13 and are set forth in paragraphs 41-42, 47-48, 51-53, 56-57, 64-75.

14 226. Defendants have also violated the "unfair" prong of section 17200 because the acts and
15 practices set forth in this Complaint offend established public policy, and because the harm they cause
16 to investors and purchasers of XRP greatly outweighs any benefits associated with those practices.
17 Defendants' conduct has also prevented Lead Plaintiff and members of the Class from making fully
18 informed decisions about their purchases of XRP.

19 227. In purchasing XRP, the Lead Plaintiff relied on the misrepresentations made by
20 Defendants. Lead Plaintiff saw and relied on Ripple's repeated representations that adoption of XRP
21 by financial institutions and banks would drive demand for XRP. Had the Lead Plaintiff known the
22 truth about XRP, he would not have purchased XRP and/or paid as much for it.

23 228. The Lead Plaintiff has suffered an injury in fact, including the loss of money or
24 property, as a result of Defendants' unfair, unlawful and/or deceptive practices. As a result of the
25 aforementioned acts, Lead Plaintiff and the Class have suffered an injury in fact, including the loss of
26 money or property. Defendants received and continue to hold money and property belonging to Lead
27 Plaintiff and the Class.

229. All of the wrongful conduct alleged herein occurred, and continues to occur, in the conduct of Defendants’ business. Defendants’ wrongful conduct is part of a pattern or generalized course of conduct that is still perpetuated and repeated, both in the State of California and nationwide.

230. Lead Plaintiff and the Class have no adequate remedy at law for the injuries which they have suffered and will continue to suffer in the future.

VII. PRAYER FOR RELIEF

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

231. Declaring that this action may be maintained as a Class action under rules 23(a) and 23(b)(3) of the Federal Rules of Civil Procedure, certifying Lead Plaintiff as representative of the Class, and designating his counsel Susman Godfrey L.L.P. and Taylor-Copeland Law as Lead Counsel for the Class;

232. Declaring that XRP is a security and that Defendants’ unregistered sales of XRP violated applicable laws;

233. Awarding damages in favor of Lead Plaintiff and the other Class members against all defendants, jointly and severally, for all damages sustained as a result of Defendants’ wrongdoing, in an amount to be proven at trial, including prejudgment interest thereon;

234. Awarding such injunctive or other equitable relief as the Court may deem just and proper; and

235. Awarding plaintiffs and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees.

DATED: March 25, 2020

Respectfully submitted,

/s/James Taylor-Copeland
 James Q. Taylor-Copeland
 TAYLOR-COPELAND LAW
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DEMAND FOR JURY TRIAL

Lead Plaintiff demands a jury trial on all issues so triable.

DATED: March 25, 2020

Respectfully submitted,

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13 UNITED STATES DISTRICT COURT
14 NORTHERN DISTRICT OF CALIFORNIA
15 OAKLAND DIVISION

16
17 In re RIPPLE LABS INC. LITIGATION,) Case No. 4:18-cv-06753-PJH
18) CLASS ACTION
19 _____)
20 This Document Relates To:) CONSOLIDATED FIRST AMENDED
21 ALL ACTIONS) COMPLAINT FOR VIOLATIONS OF
22) FEDERAL AND CALIFORNIA LAW
23)
24) JURY TRIAL DEMANDED
25)
26)
27)
28)

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1 3. Moreover, XRP is not decentralized like Bitcoin. As recently stated by CoinMotion, a
2 crypto-token exchange that listed XRP, in a blog post entitled *XRP is a Centralized Virtual Currency*,
3 “the Ripple system appears to be *centralized* for all practical purposes. It probably lacks many
4 interesting technical features that Bitcoin has, such as resistance to censorship.”³

5 4. Defendants have since earned massive profits by selling off XRP to the general public,
6 in numerous offerings, having sold over \$1.1 billion in XRP to retail consumers in exchange for legal
7 tender or cryptocurrencies (most often Bitcoin and Ethereum). The value of XRP owned by
8 Defendants substantially exceeds the value of Ripple’s revenue or cashflow from all other sources.
9 Ripple’s dominant value proposition are the XRP tokens it owns and sells. Ripple’s value proposition
10 as a company depends upon the promotion of XRP, yet XRP is entirely or essentially pre-functional
11 and purchased by investors in anticipation of profit based on the efforts of Ripple.

12 5. In order to drive demand for XRP, and thereby increase the profits it can derive by
13 selling XRP, Ripple has portrayed XRP as a good investment, relayed optimistic price predictions,
14 and conflated Ripple’s enterprise business with usage of XRP. Ripple is inextricably linked to the
15 promotion of XRP. Ripple lines up crypto-exchanges to list XRP and pays substantial listing fees as
16 part of those promotional efforts, and Ripple’s website links to trading markets for XRP, to facilitate
17 additional purchases. Ripple also placed a substantial percentage of XRP that it owned into escrow
18 and developed a plan as to when XRP should be sold and in what quantities, all to limit selling pressure
19 on the market in order to prop-up the price of XRP. For example, in 2014, Ripple publicly stated on
20 its www.ripplelabs.com/xrp-distribution/ website that “we will engage in distribution strategies that
21 we expect will result in a stable or strengthening XRP exchange rate against other currencies.” (Ripple
22 has since deleted that web page, as if that somehow erases history.) Ripple greatly increased these
23 efforts to push XRP on the general public in 2017 and 2018. The price of XRP has fallen dramatically
24 since early 2018, leaving its investors, including Lead Plaintiff, with substantial financial losses.

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26
27 ³ XRP is a Centralized Virtual Currency, Coinmotion (Feb. 11, 2019), <https://coinmotion.com/blog/ripple-is-a-centralized-virtual-currency/>.

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

9 7. Federal securities laws require any security that is offered or sold to be registered with
10 the Securities and Exchange Commission (“SEC”). Similarly, the California Corporate Securities Law
11 requires that securities offered or sold be either qualified with the Commissioner of Corporations or
12 exempted from registration by a specific Rule of the Commissioner or law. These securities laws are
13 designed to protect the public by requiring various disclosures so that investors can better understand
14 the security that is being offered or sold, as well as risks associated with investment in that security.
15 Absent the disclosures required by law about those efforts and the progress and prospects of the
16 enterprise, significant informational asymmetries may exist between the management and promoters
17 of the enterprise on the one hand, and investors and prospective investors on the other hand. The
18 reduction of these information asymmetries through required disclosures protects investors and is one
19 of the primary purposes of the securities laws.

20 8. Under section 2(a)(1) of the Securities Act of 1933 (“Securities Act”), 15 U.S.C.
21 § 77b(a)(1), a “security” is defined to include an “investment contract.” Similarly, section 25019 of
22 the California Corporations Code defines a “security” to include an “investment contract.”

23 9. The SEC has made it clear that digital tokens, such as XRP, often constitute “securities
24 and may not be lawfully sold without registration with the SEC or pursuant to an exemption from
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1 registration.”⁴ One of the top financial regulators in President Obama’s administration has likewise
2 stated that there is a “strong case” to conclude that “particularly Ripple” has violated securities laws
3 by issuing and trading “noncompliant securities.”⁵

4 10. The SEC’s Strategic Hub for Innovation and Financial Technology (“FinHub”) has also
5 published the Framework for ‘Investment Contract’ Analysis of Digital Assets (“SEC Framework”),
6 providing guidance for assessing whether a crypto-token offering is a security under federal law.⁶ As
7 explained in more detail below, applying the analysis in the SEC Framework and applicable precedent,
8 the XRP tokens offered and sold by Defendants have all the traditional hallmarks of a security, as
9 reflected in *SEC v. W.J. Howey Co.*, 328 U.S. 293 (1946) (“*Howey*”), and subsequent case law. XRP
10 tokens also qualify as a security under California law.

11 11. XRP purchasers, including Lead Plaintiff, provided money consideration (in the form
12 of fiat, including U.S. dollars, or other cryptocurrencies) in exchange for XRP. XRP purchasers
13 reasonably expected to derive profits from their ownership of XRP, and Defendants themselves have
14 frequently highlighted this profit motive and have taken steps to accomplish it, including by promoting
15 XRP. Additionally, the development of the XRP Ledger, and the profits that investors expected to
16 derive therefrom, were, and are, based on the technical, managerial, and entrepreneurial efforts of
17 Defendants and other third parties employed by Defendants.

18 12. However, Defendants did not register XRP with the SEC or qualify it with the
19 California Commissioner of Corporations, and many of the representations Defendants made
20 regarding XRP were designed to drive demand of XRP, allowing Defendants to obtain greater returns
21

22 ⁴ See *Investor Bulletin: Initial Coin Offerings*, U.S. Securities and Exchange Commission (July 25,
23 2017), https://www.sec.gov/oiea/investor-alerts-and-bulletins/ib_coinofferings; see also *In re Matter*
24 *of Munchee, Inc.*, File No. 3-18304 (S.E.C. Dec. 11, 2017), [https://www.sec.gov/litigation/](https://www.sec.gov/litigation/admin/2017/33-10445.pdf)
25 [admin/2017/33-10445.pdf](https://www.sec.gov/litigation/admin/2017/33-10445.pdf) (“[T]okens, coins or other digital assets issued on a blockchain may be
26 securities under the federal securities laws, and, if they are securities, issuers and others who offer or
27 sell them in the United States must register the offering and sale with the Commission or qualify for
28 an exemption from registration.”).

⁵ *A Former Top Wall Street Regulator Turns to the Blockchain*, New York Times (Apr. 22, 2018),
<https://www.nytimes.com/2018/04/22/technology/gensler-mit-blockchain.html>.

⁶ Available at <https://www.sec.gov/news/public-statement/statement-framework-investment-contract-analysis-digital-assets>.

1 on their XRP sales. It is situations exactly like this that federal and state securities laws were enacted
2 to prevent.

3 II. PARTIES

4 13. Lead Plaintiff Bradley Sostack is an individual who at all times mentioned, was and is
5 a resident of Saint Petersburg, Florida. Lead Plaintiff purchased 128,978.88 XRP between January 1,
6 2018 and January 16, 2018 for approximately \$307,700 in Bitcoin and USDT (a cryptocurrency issued
7 by Tether). Lead Plaintiff sold that XRP between January 9, 2018 and January 17, 2018 for
8 approximately \$189,600 in Bitcoin and USDT. Lead Plaintiff therefore sustained a loss of
9 approximately \$118,100 as a result of his XRP investments. Lead Plaintiff was motivated to purchase
10 XRP by the promotional activities of Defendants described herein. Lead Plaintiff saw and relied on
11 Defendants' repeated representations that adoption of XRP by financial institutions and banks would
12 drive demand for XRP.

13 14. Defendant Ripple Labs, Inc. is a Delaware corporation with its principal place of
14 business in San Francisco, California.

15 15. Defendant XRP II, LLC is a New York limited liability company with its principal
16 place of business in San Francisco, California.

17 16. Defendant Bradley Garlinghouse is the Chief Executive Officer of Ripple, a position
18 he has held since January 2017. Garlinghouse was Ripple's President and Chief Operating Officer
19 from April 2015 through December 2016. Garlinghouse is a resident of San Mateo, California.
20 Garlinghouse exercised control over Ripple and directed and/or authorized, directly or indirectly, the
21 sale and solicitation of XRP to the public.

22 III. JURISDICTION AND VENUE

23 17. This Complaint is filed, and these proceedings are instituted, to recover damages and
24 to obtain other relief that Lead Plaintiff has sustained due to Defendants' unregistered and unqualified
25 offers and sales of securities in violation of Sections 5, 12(a)(1), and 15 of the Securities Act, 15 U.S.C.
26 §§ 77e, 77l, and 77o, and Sections 25110, 25503, 25504, and 25401 of the California Corporations
27 Code; and false advertising and unfair competition under California law.

18. This Court has subject matter jurisdiction over claims under the Securities Act pursuant to 15 U.S.C. § 78aa and 28 U.S.C. § 1331, and supplemental jurisdiction over the entire action under 28 U.S.C. § 1367.

19. This Court has personal jurisdiction over Defendants as a result of acts of Defendants occurring in or aimed at the State of California in connection with Defendants' unregistered offers and sales of securities in violation of Sections 5, 12(a)(1), and 15 of the Securities Act, 15 U.S.C. §§ 77e, 77l, and 77o, and Sections 25110, 25503, 25504, and 25401 of the California Corporations Code; and California's false advertising and unfair competition laws.

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

21. Venue is proper in the United States District Court for the Northern District of California pursuant to 15 U.S.C. § 78aa and 28 U.S.C. § 1391(b) and (c).

IV. SUBSTANTIVE ALLEGATIONS

A. XRP's Genesis ~~And Public Offerings~~

22. Unlike cryptocurrencies such as Bitcoin and Ethereum, which are mined by those validating transactions on their networks, all 100 billion XRP were created out of thin air by Ripple in 2013, prior to its distribution to investors and without any functionality. Twenty billion XRP, or 20 percent of the total XRP supply, were given to the individual founders of Ripple. Founders Chris Larsen and Jed McCaleb each received 9.5 billion XRP, while Arthur Britto received 1 billion XRP.

23. Ripple retained the remaining 80 billion XRP, which it planned to sell to fund company operations and to improve and promote the XRP Ledger.

24. Ripple's own wiki states that "Ripple Labs sells XRP to fund its operations and promote the network. This allows Ripple to have a spectacularly skilled team to develop and promote the Ripple protocol and network."⁷

25. In May 2015, regulatory authorities in the United States fined Ripple and XRP II

⁷ Ripple credits, https://wiki.ripple.com/Ripple_credits#XRP_funds_the_development_and_promotion_of_the_protocol_and_the_network (last visited Aug. 2, 2019).

1 \$700,000 for violating the Bank Secrecy Act by selling XRP without obtaining the required
2 authorization. As part of that settlement, Defendants acknowledged that they had sold XRP ~~to the~~
3 ~~general public~~ and agreed to a number of remedial measures, including registration with FinCEN.

4 26. From December 2014 to July 2015, Ripple disclosed on its website the amount of XRP
5 it held and the amount in circulation. The disclosure for June 30, 2015 stated that Ripple held
6 approximately 67.51 billion XRP, more than double the approximately 32.49 billion XRP held by *all*
7 *others*. The XRP held by others also significantly overstates independent holdings of XRP because it
8 includes the 20 billion provided to founders and an undisclosed amount of XRP used in “business
9 development agreements that are still pending.”⁸

10 27. Ripple’s Project Manager for Risk and Compliance, Rebecca Schwartz, conceded this
11 in a May 14, 2015 affidavit, stating: “The 9 billion XRP initially retained by Mr. McCaleb is included
12 in the roughly 32 billion XRP that is available to the market.”⁹

13 **B. Defendants’ Primary Source of Income Is the Sales of XRP**

14 28. While Ripple sells and publicly touts its enterprise software products and solutions,
15 including xCurrent, xRapid, and xVia (collectively, “Ripple Enterprise Solutions”), Ripple’s primary
16 source of income is the sales of XRP.

17 29. Ripple’s Chief Technology Officer, David Schwartz, has conceded “[a]s a corporation,
18 we are legally obligated to maximize shareholder value. With our current business model, that means
19 acting to increase the value and liquidity of XRP. We believe this will happen if the Ripple network
20 is widely adopted as a payment system. We are pursuing multiple avenues at once. One would expect
21 increased demand to increase price.”¹⁰

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25 ⁸ Internet Archive, XRP Distribution, Ripple Labs (Aug. 6, 2016), <https://web.archive.org/web/20150806120942/https://www.ripplelabs.com/xrp-distribution/> (last visited Aug. 2, 2019).

26 ⁹ Decl. of Rebecca Schwartz, *Bitstamp Ltd. v. Ripple Labs Inc.*, Case No. 3:15-cv-01503-WHO (N.D. Cal. May 14, 2015), ECF No. 23-2.

27 ¹⁰ Bitcoin Forum, Re: Ripple: Why XRPs are superior to Bitcoins (May 12, 2013), <https://bitcointalk.org/index.php?action=profile;u=27870;sa=showPosts;start=760> (last visited Aug. 2, 2019).



30. Defendants' sales of XRP to the public accelerated rapidly in 2017 and early 2018, and Defendants have earned over \$1.1 billion dollars through the sale of XRP since the beginning of 2017—XRP which costs Defendants nothing since they created it out of thin air. Defendants sell XRP wholesale to larger investors and also sell significant quantities of XRP directly to the general public on cryptocurrency exchanges.

31. According to Ripple itself, in the second quarter of 2019, XRP II "sold \$251.51 million XRP in Q2 2019, including \$106.87 million directly to institutional investors and \$144.64 in programmatic exchange sales."¹¹

32. In the first quarter of 2019, XRP II "sold \$61.93 million of XRP in institutional direct sales and \$107.49 million of XRP in programmatic [exchange] sales."¹²

33. In the fourth quarter of 2018, "Ripple sold \$88.88 million worth of XRP, programmatically," and XRP II "sold \$40.15 million worth of XRP in institutional direct sales."¹³

34. In the third quarter of 2018, "Ripple sold \$65.27 million worth of XRP programmatically," and XRP II "sold \$16.87 million XRP in direct sales."¹⁴

35. In the second quarter of 2018, "Ripple sold \$56.66 million worth of XRP

¹¹ Q2 2019 XRP Markets Report, <https://www.ripple.com/insights/q2-2019-xrp-markets-report/> (last visited Aug. 2, 2019)

¹² Q1 2019 XRP Markets Report, <https://ripple.com/insights/q1-2019-xrp-markets-report/> (last visited Aug. 2, 2019)

¹³ Q4 2018 XRP Markets Report, <https://ripple.com/insights/q4-2018-xrp-markets-report/> (last visited Aug. 2, 2019)

¹⁴ Q3 2018 XRP Markets Report, <https://ripple.com/insights/q3-2018-xrp-markets-report/> (last visited Aug. 2, 2019)

1 programmatically,” and XRP II “sold \$98.06 million worth of XRP in institutional direct sales.”¹⁵

2 36. In the first quarter of 2018, “market participants purchased \$16.6 million [of XRP]
3 directly from XRP II.” XRP II also “sold \$151.1 million worth of XRP” on exchanges.¹⁶

4 37. In the fourth quarter of 2017, “market participants purchased \$20.1 million directly
5 from XRP II,” and XRP II sold an additional “\$71.5 million worth of XRP” on exchanges.¹⁷

6 38. In the third quarter of 2017, “market participants purchased \$19.6 million directly from
7 XRP II,” and XRP II sold an additional “\$32.6 million worth of XRP” on exchanges.¹⁸

8 39. In the second quarter of 2017, “market participants purchased \$21M directly from XRP
9 II,” and XRP II sold an additional “\$10.3M worth of XRP” on exchanges.¹⁹

10 40. The money raised through the sales of XRP substantially exceeds the amount of money
11 needed to establish a functional network or digital asset. There is also little apparent correlation
12 between the purchase price of XRP and the market price of any goods or services that can be acquired
13 in exchange for XRP, which to date has not been functionally adopted nor used in any meaningful
14 way.

15 ~~41. _____ Ripple claims that XRP has utility—like currency—in its use as a “bridge currency”~~
16 ~~for international payments. But~~ and its CEO, Garlinghouse, have repeatedly claimed that XRP has
17 ~~utility—like currency—in its use as a “bridge currency” for international payments. For example, in~~
18 ~~an interview that was published by Forbes on October 23, 2017, Garlinghouse was asked “Why do~~
19 ~~banks need XRP” and responded “It’s about liquidity. If you have a utility token like XRP that has a~~

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22 ¹⁵ Q2 2018 XRP Markets Report, <https://ripple.com/insights/q2-2018-xrp-markets-report/> (last visited
Aug. 2, 2019)

23 ¹⁶ Q1 2018 XRP Markets Report, <https://ripple.com/insights/q1-2018-xrp-markets-report/> (last visited
Aug. 2, 2019).

24 ¹⁷ Q4 2017 XRP Markets Report, <https://ripple.com/insights/q4-2017-xrp-markets-report/> (last visited
Aug. 2, 2019).

25 ¹⁸ Q3 2017 XRP Markets Report, <https://ripple.com/xrp/q3-2017-xrp-markets-report/> (last visited
Aug. 2, 2019).

26 ¹⁹ Q2 2017 XRP Markets Report, <https://ripple.com/insights/q2-2017-xrp-markets-report/> (last visited
Aug. 2, 2019).

1 real value proposition.”²⁰ Similarly, in an interview with BNN, retweeted by Ripple on December 14,
 2 2017, Garlinghouse stated: “If they [digital tokens] are solving a real problem, and that problem has
 3 scale, and that problem, you know there is real value there, then there will be demand for the tokens
 4 and the price will go up. For XRP we have seen because *it’s required*, it’s something that can really
 5 reduce the friction, and we’re talking about a multi-trillion dollar problem in how cross-border
 6 payments flow. And so, I think if you drive real utility, yes there’s going to be demand for that.”²¹ In
 7 a December 27, 2017 interview with CNBC, Garlinghouse once again stated “we use XRP to settle
 8 liquidity between banks.”²²

9 42. Similarly, in a February 14, 2015 Submission to the Conference of State Bank
 10 Supervisors, submitted by Ripple’s Chief Compliance Officer Karen Gifford, Ripple claimed that it
 11 “is designed to be used directly by (1) banks and financial services business, (2) payment networks,
 12 and (3) liquidity providers.”²³ In that same Submission, Ripple stated that “it holds a substantial
 13 amount of XRP, which it sells from time to time, to financial institutions and entities seeking to be
 14 market makers. Through these sales, Ripple Labs is able to monetize these assets to fund its
 15 operations, specifically the development and adoption of the protocol.”²⁴ Ripple posted this
 16 submission on its website and publicized it through its Ripple Insights blog.²⁵

17 44.43. However, as discussed above, more than 60 percent of XRP is owned by Ripple and
 18 none of that XRP is used for anything at all, other than to be sold in the future to investors. Moreover,
 19 as for the XRP that was already sold or otherwise distributed by Defendants, the vast majority, if not

20 _____
 21 ²⁰ Is Ripple for Real? A Closer Look at the Company Behind the Third Most Valuable Digital
Currency, Fortune (Oct. 23, 2017), [https://fortune.com/2017/10/23/bitcoin-ripple-brad-](https://fortune.com/2017/10/23/bitcoin-ripple-brad-garlinghouse/)
[garlinghouse/](https://fortune.com/2017/10/23/bitcoin-ripple-brad-garlinghouse/).

22 ²¹ See @JonErlichman, TWITTER (Dec. 14, 2017, 9:11 AM), [https://twitter.com/jonerlichman/](https://twitter.com/jonerlichman/status/94135496422752261)
[status/94135496422752261](https://twitter.com/jonerlichman/status/94135496422752261).

23 ²² Ripple CEO explains why his digital currency can transform banking, CNBC (Dec. 27, 2017),
[https://www.cnbc.com/video/2017/12/27/ripple-ceo-explains-why-his-digital-currency-can-](https://www.cnbc.com/video/2017/12/27/ripple-ceo-explains-why-his-digital-currency-can-transform-banking.html)
[transform-banking.html](https://www.cnbc.com/video/2017/12/27/ripple-ceo-explains-why-his-digital-currency-can-transform-banking.html).

24 ²³ Ripple Labs, Inc., Submission to the Conference of State Bank Supervisors, p.8 (Feb. 14, 2015),
 25 https://ripple.com/files/rl_csbs_letter.pdf.

26 ²⁴ Id. at 29.

27 ²⁵ Regulations & Compliance Update: U.S. Treasury, CSBS, and Canadian Senate, Ripple Insights
(Mar. 3, 2015), [https://ripple.com/insights/regulations-compliance-update-u-s-treasury-csbs-and-](https://ripple.com/insights/regulations-compliance-update-u-s-treasury-csbs-and-canadian-senate/)
[canadian-senate/](https://ripple.com/insights/regulations-compliance-update-u-s-treasury-csbs-and-canadian-senate/).

1 all, of it is not used for bridging international transactions, but for investment purpose. Accordingly,
 2 Defendants' ~~claim~~claims that XRP has a utilitarian purpose are false and were false when made. These
 3 claims also omitted material information regarding XRP's lack of utility that was within exclusive or
 4 superior knowledge of Defendants. These claims are misrepresentations and omissions of material
 5 facts to investors because the utility of XRP (or lack thereof) is pertinent to the value of XRP. Simply
 6 stated, these false claims about XRP's utility are nothing but a red herring attempt to avoid the
 7 application of securities laws and drive demand for XRP.

8 C. Defendants Market XRP to Drive Demand and Increase Price

9 42.44. Given its reliance on sales of XRP, it is unsurprising that Ripple aggressively markets
 10 XRP to prospective purchasers, including Lead Plaintiff and the Class, to drive demand, increase
 11 XRP's price, and thus its own profits.

12 43.45. Ripple has an entire section of its website dedicated to providing advice on "How to
 13 Buy XRP." This section provides links to exchanges and instructions on "how to buy XRP" on those
 14 exchanges.²⁶ It also has a section titled "Market Performance" which proclaims that Ripple is
 15 "committed to the long term health and stability of XRP markets."²⁷

16 44.46. Ripple also consistently promotes the availability of XRP on exchanges. For example,
 17 on May 18, 2017, Ripple's Senior Vice-President of Business Development, Patrick Griffin, tweeted
 18 a link to the Kraken exchange with the caption: "Kraken Introduces New Fiat Pairs for XRP Trading!
 19 USD, JPY, CAD, EUR @Ripple."²⁸

20 45.47. Similarly, on or about December 21, 2017, Ripple tweeted in Japanese that XRP was
 21 now available on over 50 exchanges.²⁹ That tweet linked to an article on Ripple's website which
 22 described XRP as "the fastest and most scalable [digital] asset on the market."³⁰ It continued, "[t]he

23 _____
 24 ²⁶ XRP Buying Guide, <https://ripple.com/xrp/buy-xrp/> (last visited Aug. 2, 2019).

²⁷ Market Performance, <https://ripple.com/xrp/market-performance/> (last visited Aug. 2, 2019)

²⁸ @patgriffin9, TWITTER (May 18, 2017, 10:03 AM), <https://twitter.com/patgriffin9/status/865251321867231233>.

²⁹ @Ripple, TWITTER (Dec. 21, 2017, 4:20 PM), <https://twitter.com/Ripple/status/943999526783905792>.

³⁰ XRP Now Available on 50 Exchanges Worldwide, <https://ripple.com/insights/xrp-now-available-on-50-exchanges-worldwide/> (last visited Aug. 2, 2019).

1 market is taking notice of XRP’s speed, reliability and scalability — which has strengthened the
2 demand for XRP and where it’s listed. In fact, we’re proud to announce that XRP has gone from being
3 listed on six exchanges earlier this year to more than 50 worldwide.” The article also linked to a
4 number of exchanges where XRP could be purchased, and stated that “XRP’s long-term value is
5 determined by its utility—including its ability to help financial institutions source liquidity for
6 payments into and out of emerging markets.”

7 48. Ripple’s representation that “XRP’s long-term value is determined by its utility—
8 including its ability to help financial institutions source liquidity for payments into and out of emerging
9 markets,” was misleading when made because demand for XRP from financial institutions did not
10 represent a significant portion of the demand for XRP and little, if any, XRP was used to “help
11 financial institutions source liquidity for payments into and out of emerging markets.” Ripple made
12 this misleading representation to retail investors in order to drive demand for XRP. As explained
13 above, the utility of XRP and its adoption (or lack thereof) are pertinent to the value of XRP and are
14 thus material to investors. Defendants also omitted material information within their exclusive or
15 superior knowledge regarding the utility of XRP and its adoption. Accordingly, this statement was a
16 misrepresentation and omission of material fact to investors.

17 46.49. Ripple also hosts conferences to generate interest in XRP. For example, between
18 October 16 and October 18, 2017, it hosted a conference named “Swell” in Toronto. Ripple
19 acknowledged that “[a]nticipation around the event spurred a meaningful spike in XRP, pushing it up
20 100 percent . . .”³¹

21 47.50. On that same day, CoinDesk, a subsidiary of Digital Currency Group, which has an
22 ownership interest in Ripple, published an article titled, “*Ripple Price Passes Historic \$1 Milestone.*”³²
23 This was just one of many instances in which Ripple would promote XRP price movements.

24
25 ³¹ Q3 2017 XRP Markets Report, <https://ripple.com/xrp/q3-2017-xrp-markets-report/> (last visited
Aug. 2, 2019).

26 ³² Ripple Price Passes Historic \$1 Milestone, <https://www.coindesk.com/ripple-price-passes-historic-1-milestone/> (last visited Aug. 2, 2019).
27

1 48-51. Ripple’s promotion of XRP’s price reached new highs in December 2017. In one
2 instance, Ripple’s XRP product manager retweeted a tweet exclaiming: “Wow, XRP at all time high!
3 Forget about bitcoin, *we’re all in on XRP!*” (emphasis added).³³

4 49-52. Ripple’s CEO, Brad Garlinghouse, has also been a vocal advocate for investing in XRP.
5 In a December 14, 2017 interview with BNN, when asked if he is personally invested in XRP, the
6 CEO stated “I’m long XRP, I’m very, very long XRP as a percentage of my personal balance sheet.”³⁴
7 He continued, stating that he is “not long on some of the other [digital] assets, because it is not clear
8 to me what’s the real utility, what problem are they really solving.” He ended by reiterating, “if you’re
9 solving a real problem, if it’s a scaled problem, then I think you have a huge opportunity to continue
10 to grow that. We have been really fortunate obviously, *I remain very, very, very long XRP*, there is
11 an expression in the industry HODL, instead of hold, it’s HODL . . . I’m on the HODL side.”
12 (emphasis added). HODL is a cryptocurrency meme, meaning to hold an asset for long term gains.

13 53. Garlinghouse’s representation that he remained “very, very, very long XRP” and was
14 “on the HODL side”—holding XRP for long term gains—was false when made as throughout 2017
15 Garlinghouse sold millions of XRP on various cryptocurrency exchanges. Review of the XRP ledger
16 indicates that Garlinghouse sold at least 67 million XRP in 2017 and that he sold any XRP he received
17 from Ripple within days of such receipt. Garlinghouse was not “long XRP” or holding for long term
18 gains. Rather, he was dumping XRP on retail investors in exchange for dollars and other
19 cryptocurrency. Defendants had exclusive or superior knowledge of material information regarding
20 Garlinghouse’s XRP sales, but omitted it from their representations to investors. Had investors known
21 the truth about Garlinghouse’s sales of XRP, it would have significantly altered the total mix of
22 information made available to them. Accordingly, Garlinghouse’s statement was a misrepresentation
23 and omission of material fact to investors.

24
25 ³³ @yoshitaka_kitao TWITTER (Dec. 12, 2007, 7:29 PM), https://twitter.com/yoshitaka_kitao/status/940785785925709829.

26 ³⁴ See @JonErlichman, TWITTER (Dec. 14, 2017, 9:11 AM), <https://twitter.com/jonerlichman/status/94135496422752261>.

1 50-54. Later that same day, Garlinghouse tweeted: “Bloomberg welcomes \$XRP to
2 @theterminal and gets it right - #2 market cap behind \$BTC at ~\$80BB!”³⁵

3 51-55. About a week later, on or about December 22, 2017, Garlinghouse tweeted an article
4 titled, “*Bitcoin Is So 2017 as Ripple Soars at Year End*,” with the caption, “I’ll let the headline speak
5 for itself. \$xrp.”³⁶

6 52-56. On or about January 17, 2018, Garlinghouse tweeted a CNBC article titled, “*Ripple is
7 sitting on close to \$80 billion and could cash out hundreds of millions per month – but it isn’t*,”³⁷ with
8 the caption, “A good read on why fostering a healthy \$XRP ecosystem is a top priority at @Ripple.”³⁸

9 53-57. However, the reality was that Ripple was doing exactly the opposite of what CNBC
10 reported. ~~As laid out in Section IV(B), Defendants issued and sold at least \$167.7 million worth of
11 XRP between January 1, 2018 and March 31, 2018. and sold—or “cashed out”—hundreds of millions
12 of XRP tokens per month. As laid out in Section IV(B), Defendants issued and sold at least \$167.7
13 million worth of XRP between January 1, 2018 and March 31, 2018. Based on the volume of XRP
14 traded and the market price for XRP during this timeframe, it is likely that Ripple sold over one
15 hundred million dollars’ worth of XRP during the month preceding January 17, 2018. Moreover, even
16 if this statement were literally true, it was still misleading as it created the false impression that Ripple
17 was not cashing out significant amounts of XRP. Significantly, this statement was unaccompanied by
18 any qualifying language indicating that Ripple was selling tens of millions of dollars of XRP per month
19 or hundreds of millions of dollars of XRP per quarter. Defendants had exclusive or superior
20 knowledge of material information regarding Ripple’s XRP sales, but omitted it from their
21 representations to investors. Had investors known the truth about Ripple’s sales of XRP, it would~~

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23 ³⁵ @bgarlinghouse, TWITTER (Dec. 14, 2017, 10:33 AM), <https://twitter.com/bgarlinghouse/status/941375649549246464>.

24 ³⁶ @bgarlinghouse, TWITTER (Dec. 22, 2017, 1:56 PM), <https://twitter.com/bgarlinghouse/status/944325730338357248>.

25 ³⁷ *Ripple Is Sitting on \$80 Billion and Could Cash Out Hundreds of Millions Per Month – But Isn’t*,
26 Yahoo! Finance (Jan. 16, 2018), <https://finance.yahoo.com/news/ripple-sitting-80-billion-could-192927461.html>.

27 ³⁸ @bgarlinghouse, TWITTER (Jan. 17, 2018, 9:14 AM), <https://twitter.com/bgarlinghouse/status/953676992313872384>.

1 have significantly altered the total mix of information made available to them. Accordingly, this
2 statement was a misrepresentation and omission of material fact to investors.

3 54-58. Recently, Defendants' efforts to aggressively market and drive demand for XRP have
4 bled into politics. In September 2018, Ripple and several other cryptocurrency companies with links
5 to Ripple announced the founding of an advocacy group dubbed "Securing America's Internet of
6 Value Coalition." The Coalition announced that it had retained the Klein/Johnson Group, a prominent
7 Washington D.C. based lobbying firm, who is expected to help the Coalition in its efforts to lobby
8 Congress and the SEC on issues critical to Ripple's bottom-line, including whether XRP is a security
9 subject to SEC regulation. For their expertise, the Klein/Johnson Group will receive \$25,000 and
10 10,000 XRP tokens per month from the Coalition. Commenting on the decision to pay their lobbyists
11 in XRP, Chris Larsen, explained: "It gives them some upside and gives them some risk . . . Hopefully
12 it gives them a taste of the industry in a way that hits home."³⁹

13 **1. Defendants Blur Differences Between Ripple's Enterprise Solutions and**
14 **XRP to Further Drive Demand**

15 55-59. Defendants' advertising and social media postings also conflate adoption and use of
16 Ripple Enterprise Solutions, such as xCurrent and xVia, with adoption and use of XRP, even though
17 they often have little to no correlation. As one industry publication noted, most of Ripple's product
18 and partnership announcements "don't have much to do with XRP."⁴⁰ Defendants conflate statements
19 regarding their other financial products with statements regarding XRP in a calculated scheme to drive
20 demand for XRP and thereby maximize profits from XRP sales.

21 56-60. According to the Ripple website, "xCurrent is Ripple's enterprise software solution that
22 enables banks to instantly settle cross-border payments with end-to-end tracking. Using xCurrent,
23 banks message each other in real-time to confirm payment details prior to initiating the transaction
24

25 ³⁹ Cryptos Fall as U.S. Lawmakers Ask SEC to Clarify ICO Regulation, Yahoo! Finance (Oct. 1,
2018), <https://finance.yahoo.com/news/cryptos-fall-u-lawmakers-ask-172500437.html>.

26 ⁴⁰ Rachel Rose O'Leary, *How XRP's Tech Differs from Other Crypto Assets*, CoinDesk (Mar. 11,
2018), <https://www.coindesk.com/xrps-tech-differs-crypto-assets>.

1 and to confirm delivery once it settles.”⁴¹

2 ~~57.61.~~ xCurrent does not operate on the same technology as XRP or even require the use of
3 XRP. In short, there is no reason to believe that adoption of xCurrent would correlate in any way with
4 adoption of XRP.

5 ~~58.62.~~ Nor does use of Ripple’s xVia product require adoption of XRP. Ripple states that its
6 xVia product is “for corporates, payment providers and banks who want to send payments across
7 various networks using a standard interface.”⁴²

8 ~~59.63.~~ Ripple nevertheless conflates the adoption of these Enterprise Solutions with adoption
9 of XRP.

10 ~~60.64.~~ For example, on March 20, 2017, Ripple retweeted a Bloomberg article regarding
11 adoption of Ripple Enterprise Solutions, proclaiming, “Ripple is the only company in this space with
12 real customers who are really in production.”⁴³

13 ~~61.65.~~ The price of XRP increased rapidly following this tweet and on March 24, 2017, Ripple
14 tweeted: “The price of #XRP continues to surge showing that people are looking for #bitcoin
15 alternatives.”⁴⁴

16 ~~62.66.~~ On April 26, 2017, Ripple tweeted a link to an article on its own site, proclaiming:
17 “#Ripple welcomes 10 additional customers to our #blockchain #payments network.”⁴⁵ Neither this
18 tweet nor the article it linked to informed readers that the blockchain payments network did not refer
19 to the XRP Ledger, but rather Ripple’s xCurrent enterprise solution.

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22 _____
23 ⁴¹ Process Payments, xCurrent, <https://ripple.com/solutions/process-payments/> (last visited Aug. 2, 2019).

24 ³⁶ Send Payments, xVia, <https://ripple.com/solutions/send-payments/> (last visited Aug. 2, 2019).

25 ⁴³ @Ripple, TWITTER (May 20, 2007, 7:16 PM), <https://twitter.com/Ripple/status/844009778309357568>.

26 ⁴⁴ @Ripple, TWITTER (Mar. 24, 2017, 11:53 AM), <https://twitter.com/Ripple/status/845347809830195200>.

27 ⁴⁵ @Ripple, TWITTER (Apr. 26, 2017, 9:17 AM), <https://twitter.com/Ripple/status/857267304618278912>.

1 63-67. Just days later, on May 3, 2017, with the price of XRP continuing to rise, Ripple
 2 tweeted: “#Ripple adoption is sparking interest in XRP ‘which has had an impressive rally in the last
 3 two months’ via @Nasdaq.”⁴⁶

4 64-68. Ripple conflated the adoption of its Enterprise Solutions and XRP again on May 16,
 5 2017, tweeting: “The appeal that Ripple has towards traditional financial institutions is a big advantage
 6 it has over Bitcoin.”⁴⁷

7 65-69. On June 29, 2017, Ripple tweeted a clip of an interview its CEO Brad Garlinghouse
 8 gave on CNBC with the caption: “#XRP – up 4000% this year – has shown the market favors a real
 9 use case for #digitalassets . . .”⁴⁸ In that interview, Garlinghouse proclaimed that “digital assets are in
 10 a position to be more valuable than gold,” and described XRP as “solving a real-world use case, it’s
 11 not just about speculators.”

12 66-70. On September 11, 2017, Garlinghouse stated in an interview with CNBC: “People are
 13 looking at the success Ripple has been having as a company, *and I think that’s increased the value*
 14 *of XRP.*” (emphasis added). He continued by stating that Ripple wanted “to keep focusing on making
 15 XRP a valuable payments tool, and that value will increase accordingly,” and he was “voting with
 16 [his] . . . pocketbook on the future increased value of cryptocurrencies.”

17 67-71. On November 27, 2017, Garlinghouse tweeted “Ripple & \$XRP are giving businesses
 18 ‘what they want in a #blockchain,’” along with a link to a Motley Fool tweet.⁴⁹ That Motley Fool
 19 tweet in turn stated that “AmEx and Banco Santander will use Ripple’s blockchain network for instant
 20 intl. fund transfers. *Could be a big deal for Ripple’s XRP cryptocurrency.* \$AXP \$SAN.” (emphasis
 21
 22

23 ⁴⁶ @Ripple, TWITTER (May 3, 2017, 3:54 PM), <https://twitter.com/Ripple/status/859904105916923904>.

24 ⁴⁷ @Ripple, TWITTER (May 16, 2017, 5:16 PM), <https://twitter.com/Ripple/status/864635614020251649>.

25 ⁴⁸ @Ripple, TWITTER (Jun. 29, 2017, 2:03 PM), <https://twitter.com/Ripple/status/880532198025121793>.

26 ⁴⁹ @bgarlinghouse, TWITTER (Nov. 27, 2017, 11:16 AM). <https://twitter.com/bgarlinghouse/status/935225940845711366>.

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1 added).⁵⁰

2 ~~68.72.~~ Similarly, on December 14, 2017 Ripple tweeted: “The Japan Bank Consortium
3 launched a Ripple pilot with two large Korean banks – the first time money moves from Japan to
4 Korea over RippleNet.”⁵¹ The tweet also linked to an article on Ripple’s site. Buried inside that article
5 is the fact that “RippleNet” refers to Ripple’s xCurrent enterprise solution, which does not require use
6 of XRP. Nevertheless, earlier on that day, Ripple tweeted “@bgarlinghouse [its CEO’s twitter handle]
7 on why crypto prices will be driven by real utility, the multi-trillion \$ problem @Ripple is solving and
8 why \$XRP will come out on top.”⁵²

9 ~~69.73.~~ Ripple would later acknowledge that “neither the AMEX news nor the Korean bank
10 initiative involved XRP.”⁵³

11 ~~74.~~ Nevertheless, the December 14, 2017 Ripple tweet linked to a BNN interview with Mr.
12 Garlinghouse, in which he said “the reason why XRP has performed so well this year, we’re solving
13 a real problem, it’s a multi-trillion dollar problem around cross-border payments. There is a lot of
14 friction it’s very slow it’s expensive, we’re working with the institutions to deal with that, so people
15 have gotten excited. We now have over 100 customers we’ve announced publicly.”⁵⁴ He

16 ~~70.75.~~ Although few, if any of those 100 customers were using XRP, Garlinghouse continued,
17 “at the end of the day the value of digital assets will be driven by their utility. If they are solving a
18 real problem, and that problem has scale, and that problem, you know there is real value there, then
19 there will be demand for the tokens and the price will go up. For XRP we have seen because *it’s*
20 *required*, it’s something that can really reduce the friction, and we’re talking about a multi-trillion
21 dollar problem in how cross-border payments flow. And so, I think if you drive real utility, yes there’s

22 _____
23 ⁵⁰ @themotleyfool, TWITTER (Nov. 26, 2017, 10:25 AM), <https://twitter.com/themotleyfool/status/934850515640471553>.

24 ⁵¹ @Ripple, TWITTER (Dec. 14, 2017, 6:51 PM), <https://twitter.com/Ripple/status/941501026267316224>.

25 ⁵² @Ripple, TWITTER (Dec. 14, 2017, 8:59 AM), <https://twitter.com/Ripple/status/941352005058011137>.

26 ⁵³ Ripple Insights, Q4 2017 XRP Markets Report (Jan. 24, 2018), <https://www.ripple.com/insights/q4-2017-xrp-markets-report/>.

27 ⁵⁴ @Ripple, TWITTER (Dec. 14, 2017, 8:59 AM), <https://twitter.com/Ripple/status/941352005058011137>.

1 going to be demand for that.” “*XRP is up 100x this year*, and I think it’s *because the problem we are*
 2 *solving people realize is a real problem, it’s a big problem.*”

3 76. The statements in Paragraphs 64 through 75 falsely conflate adoption of Ripple
 4 Enterprise Solutions with adoption and use of XRP. These statements create an impression that
 5 adoption of Ripple Enterprise Solutions by financial institutions will drive demand for XRP and
 6 thereby allow investors to profit by holding XRP. Ripple and its CEO Garlinghouse repeatedly tied
 7 Ripple’s Enterprise Solutions customers with the proposition that “the value of digital assets will be
 8 driven by utility” and that the price of XRP was appreciating and would continue to appreciate because
 9 XRP was solving a real problem for those customers. However, few, if any, of those customers were
 10 actually using XRP. Defendants had exclusive or superior knowledge about use and utility of XRP
 11 (or lack thereof), but omitted this information from their representations to investors. Had investors
 12 known the truth, it would have significantly altered the total mix of information made available to
 13 them. Accordingly, these statements were misrepresentations and omissions of material facts to
 14 investors.

15 74-77. On January 4, 2018, following XRP’s rapid price increase, the New York Times
 16 published an article by Nathaniel Popper titled, “*Rise of Bitcoin Competitor Ripple Creates Wealth to*
 17 *Rival Zuckerberg.*”⁵⁵ Mr. Popper tweeted a link to this article with the caption: “On the rise of Ripple.
 18 If this is a tulip fever, the fever has spread to chrysanthemums and poppies.”⁵⁶

19 72-78. He further commented, “I’ve asked several people close to banks if banks are indeed
 20 planning to begin using Ripple’s token, XRP, in a serious way, which is what investors seem to assume
 21 when they buy in at the current XRP prices. This is a sampling of what I heard back:

- 22 • Actual use of XRP by banks is not something I’ve heard about, I find the run up absolutely
 23 baffling, as do all the blockchain folks I know at large FIs.

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 26 ⁵⁵ Rise of Bitcoin Competitor Ripple Creates Wealth to Rival Zuckerberg, <https://www.nytimes.com/2018/01/04/technology/bitcoin-ripple.html> (last visited Aug. 2, 2019).

27 ⁵⁶ @nathanielpopper, TWITTER (Jan. 4, 2018, 8:06 PM), <https://twitter.com/bgarlinghouse/status/949129952716234752>.

- 1 • XRP isn't used for anything. The hope is that some day it will be by banks, but there really
2 aren't banks signaling that yet.
- 3 • I would be surprised if there have been any real bank to bank transactions done with it
4 (outside of maybe test transactions), despite people making claims to the contrary.
- 5 • It's not clear to me why XRP would be used by banks at all. XRP could potentially be
6 adopted by consumers as a payment rail, although they don't yet have meaningful traction
7 in that regard.
- 8 • I haven't seen a sufficiently large catalyst in the fundamentals of Ripple to justify a greater
9 than 10x move in the price of \$XRP in the last month.
- 10 • In a few years we're going to look back on 2017 and think WTF were we thinking.”

11 73-79. Ripple's CEO Garlinghouse publicly responded to this, tweeting: “Over the last few
12 months I've spoken with ACTUAL banks and payment providers. They are indeed planning to use
13 xRapid (our XRP liquidity product) in a serious way. . .”⁵⁷ He followed up stating, “I don't think you
14 want to hear about validation for XRP. The @NYTimes should be above spreading anonymous
15 FUD.” FUD, which stands for fear, uncertainty, and doubt, is an expression frequently used among
16 crypto-investors to deride or undermine criticism of an asset.⁵⁸

17 74-80. Ripple's XRP product manager also attacked Mr. Popper, tweeting: “Do you think I
18 left #Bitcoin and joined @Ripple to build bank software? Think again. \$XRP.”⁵⁹ This tweet linked to
19 a Ripple's tweet stating that “3 of the top 5 global money transfer companies plan to use XRP in
20 payment flows in 2018. Even more in the pipeline.”⁶⁰

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24 ⁵⁷ @bgarlinghouse, TWITTER (Jan. 4, 2018, 8:06 PM), <https://twitter.com/bgarlinghouse/status/949129952716234752>.

25 ⁵⁸ @bgarlinghouse, TWITTER (Jan. 4, 2018, 9:10 PM). <https://twitter.com/bgarlinghouse/status/949146029907062787>.

26 ⁵⁹ @warpaul, TWITTER (Jan. 4, 2018, 11:11 PM), <https://twitter.com/warpaul/status/949176533523902464>.

27 ⁶⁰ @Ripple, TWITTER (Jan. 4, 2018, 8:11 PM), <https://twitter.com/Ripple/status/949131179797626880>

1 75:81. Despite publicly claiming that use of XRP by banks and financial institutions will drive
2 demand for XRP, Defendants sell XRP primarily to retail investors, and not banks or financial
3 institutions.

4 **2. Defendants Offer to Pay Exchanges to List XRP**

5 76:82. Illustrative of Defendants' attempts to promote XRP, in 2017, Ripple attempted to pay
6 two U.S. cryptocurrency exchanges to list XRP to further drive demand for the token and to make
7 XRP more easily available to a larger audience. Coinbase and Gemini provide the easiest ways for
8 U.S.-customers to buy crypto-assets with U.S. dollars.⁶¹ There is thus a perception that being listed
9 on one of these exchanges will accelerate demand for, and thus the price of, a crypto-asset.

10 77:83. A listing on Coinbase, in particular, is considered to be a crypto-asset's golden ticket.
11 This proved true when Coinbase listed Litecoin in August 2016 and Bitcoin Cash in December 2017.
12 As an example, when Coinbase agreed to list Bitcoin Cash, its price increased from approximately
13 \$2,500 to approximately \$3,400 just before Coinbase listed the asset. The price then briefly shot up
14 to \$9,500 upon Bitcoin Cash's being listed on Coinbase before Coinbase temporarily halted trading.

15 78:84. Recognizing that getting its XRP listed on these exchanges could spur demand for
16 XRP, and thereby allow it to maximize the profits it derives from XRP sales, Ripple offered to pay
17 each of these exchanges to list XRP.

18 79:85. Bloomberg reported that "a Ripple executive asked whether a \$1 million cash payment
19 could persuade Gemini to list XRP in the third quarter" of 2017.⁶²

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24 _____
25 ⁶¹ Many other exchanges do not allow users to make purchases with cash, but rather accept only other
cryptocurrencies, like Bitcoin or Ethereum.

26 ⁶² Ripple is Said to Struggle to Buy U.S.-Listing for Popular Coin, Bloomberg (Apr. 4, 2018),
<https://www.bloomberg.com/amp/news/articles/2018-04-04/ripple-is-said-to-struggle-to-buy-u-s-listing-for-popular-coin>.
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1 80-86. Ripple also “said it would be willing to lend [Coinbase] more than \$100 million worth
2 of XRP to start letting users trade the asset. . . .”⁶³ Gemini and Coinbase both declined to pursue
3 Ripple’s proposal at that time.

4 81-87. On November 29, 2017, Ripple posted a link to a change.org petition to “Get Ripple
5 on Coinbase,” with the caption “[t]he community is mobilizing! [thumbs up emoji].”⁶⁴ Ripple’s Senior
6 Vice President of Business Development also tweeted a link to the petition.

7 82-88. Weeks later, on December 13, 2017, Ripple’s Senior Vice President of Business
8 Development retweeted a tweet from Arrington XRP Capital (a hedge fund valued in XRP) stating:
9 “It’s stunning that coinbase hasn’t added XRP yet.”

10 83-89. During this same late-2017 and early-2018 time period, rumors that XRP would be
11 added to Coinbase fueled a massive price increase. Defendants were the source of these rumors.

12 **3. Ripple Publicly Limits the Supply of XRP to Drive Price Appreciation**

13 84-90. In May 2017, Ripple publicly announced that it would limit distribution of the
14 remaining 61.68 billion XRP owned by the company, from its original allotment of 80 billion XRP.
15 Ripple stated that it would place 55 billion XRP in a cryptographically secured escrow account, and
16 only offer and sell limited amounts of XRP at defined intervals. It established 55 contracts of 1 billion
17 XRP each that allowed it to sell up to 1 billion XRP per month, with any unsold XRP returned to
18 escrow for use in subsequent offerings.

19 85-91. On or about May 16, 2017, Ripple’s CEO posted an article on its website, titled “Ripple
20 to Place 55 Billion XRP in Escrow to Ensure Certainty of Total XRP Supply.”⁶⁵ Ripple promoted this
21
22

23 ⁶³ Ripple Has Tried to Buy Its Way Onto Major Exchanges for Cryptocurrency, Bloomberg (Apr. 4,
24 2018), [https://www.bloomberg.com/news/articles/2018-04-04/ripple-is-said-to-struggle-to-buy-u-s-](https://www.bloomberg.com/news/articles/2018-04-04/ripple-is-said-to-struggle-to-buy-u-s-listing-for-popular-coin)
[listing-for-popular-coin](https://www.bloomberg.com/news/articles/2018-04-04/ripple-is-said-to-struggle-to-buy-u-s-listing-for-popular-coin).

25 ⁶⁴ @Ripple, TWITTER (Nov. 29, 2017, 9:28 AM), [https://twitter.com/Ripple/status/9359233](https://twitter.com/Ripple/status/935923310080045056)
[10080045056](https://twitter.com/Ripple/status/935923310080045056).

26 ⁶⁵ Ripple 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-](https://ripple.com/insights/ripple-to-place-55-billion-xrp-in-escrow-to-ensure-certainty-into-total-xrp-supply/)
[supply/](https://ripple.com/insights/ripple-to-place-55-billion-xrp-in-escrow-to-ensure-certainty-into-total-xrp-supply/) (last visited Aug. 2, 2019).
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1 article in a tweet stating: “We’re placing 55B #XRP into a cryptographically secured escrow account
2 to establish certainty around #XRP supply.”⁶⁶

3 86-92. In that article, Garlinghouse proclaimed, “Our goal in distributing XRP is to incentivize
4 actions that build trust, utility and liquidity. We engage in distribution strategies that we expect will
5 result in a *strengthening XRP exchange rate* against other currencies.” (emphasis added). He
6 continued, noting that “we have heard concerns in the market about uncertainty surrounding our
7 ongoing XRP distribution. The root of this uncertainty is the notion that Ripple might one day sell its
8 61.68B XRP in the market at any time – a scenario that would be bad for Ripple! Our self-interest is
9 aligned with building and maintaining a healthy XRP market.”

10 87-93. He committed to remove “that uncertainty by committing to place 55 billion XRP into
11 a cryptographically-secured escrow account,” which will allow investors to “mathematically verify
12 the maximum supply of XRP that can enter the market.” He ended by stating that “XRP is the only
13 digital asset with a clear use case . . . Designed for enterprise use, XRP can be used by financial
14 institutions for on-demand liquidity for cross-border payments. Payment providers and banks using
15 XRP will gain greater access to emerging markets and much lower settlement costs, and this is why
16 we remain committed to increasing XRP liquidity and continued decentralization of its ledger.”

17 88-94. XRP’s price increased rapidly following this announcement, and Ripple’s “Q2 2017
18 XRP Markets Report” listed the escrow announcement as “instrumental in helping to drive XRP
19 interest and volume,” and noted that the “market responded favorably to the escrow” announcement.⁶⁷

20 89-95. On or about December 7, 2017, Ripple announced that it had followed through with its
21 promise and placed “55 billion XRP in a cryptographically-secured escrow account to create certainty
22 of XRP supply at any given time.”⁶⁸

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25 ⁶⁶ @Ripple, TWITTER (May 16, 2017, 9:05 AM), <https://twitter.com/Ripple/status/864512213289123840>.

26 ⁶⁷ Ripple Insights, Q2 2017 XRP Markets Report (Jul. 20, 2017), https://www.ripple.com/es_419/insights/q2-2017-xrp-markets-report/.

27 ⁶⁸ Ripple Escrows 55 Billion XRP for Supply Predictability, <https://ripple.com/insights/ripple-escrows-55-billion-xrp-for-supply-predictability/> (last visited Aug. 2, 2019).

1 90-96. It published an article detailing this escrow, which explained, “[b]y securing the lion’s
 2 share of XRP in escrow, people can now mathematically verify the maximum supply that can enter
 3 the market. While Ripple has proved to be a responsible steward of XRP supply for almost five years
 4 – and has clearly demonstrated a tremendous track record of investing in and supporting the XRP
 5 ecosystem – *this lockup eliminates any concern that Ripple could flood the market, which we’ve*
 6 *pointed out before is a scenario that would be bad for Ripple!*”⁶⁹

7 91-97. The article contained a button to allow readers to share it on Twitter with the caption,
 8 “Game changer for \$XRP! 55 billion XRP now in escrow.” Ripple also promoted this article through
 9 its own tweet, which proclaimed: “55B \$XRP is now in escrow. Interested in what this means for
 10 \$XRP markets?”⁷⁰ Ripple’s CEO was even more enthusiastic, tweeting: “Boom! 55B \$XRP now in
 11 escrow. Good for supply predictability and trusted, healthy \$XRP markets. Glad to finally let this
 12 #cryptokitty out of the bag!”⁷¹

13 92-98. Ripple’s public commitment to limit the supply of XRP had its intended effect. In the
 14 weeks that followed, the price of XRP exploded upwards, from approximately 25 cents on December
 15 7, 2017 to \$3.43 on January 3, 2018.

16 93-99. Ripple explains its escrow mechanism as follows:

17 The recently launched Escrow feature in XRP Ledger allows parties to secure
 18 XRP for an allotted amount of time or until specific conditions are met. For
 19 example, Escrow allows a sender of XRP to put conditions on exactly when a
 20 payment can be completed, so the payment remains cryptographically locked
 21 until the due date.

22 We’ll use Escrow to establish 55 contracts of 1 billion XRP each that will
 23 expire on the first day of every month from months 0 to 54. As each contract
 24 expires, the XRP will become available for Ripple’s use. You can expect us

24 _____
 25 ⁶⁹ *Id.* (emphasis added).

26 ⁷⁰ @Ripple, TWITTER (Dec. 7, 2017, 4:51 PM), <https://twitter.com/Ripple/status/938933967956389889>.

27 ⁷¹ @bgarlinghouse, TWITTER (Dec. 7, 2017, 4:50 PM), <https://twitter.com/bgarlinghouse/status/938933791145336832>.

to continue to use XRP for incentives to market makers who offer tighter spreads for payments and selling XRP to institutional investors.⁷²

94.100. In other words, every month for 55 months, Ripple obtains from its cryptographic escrow access to a new block of 1 billion XRP, some or all of which it can sell—during that month only—in a separate offering. Any unsold XRP during any given month go into the back of the line in the Escrow to be available to Ripple to sell in separate offerings after the first 55 months.

4. — ~~Defendants Make False Statements Claiming~~ Defendants’ Maintain that XRP is Not a Security

95.101. Defendants made numerous statements to the public ~~falsely~~ claiming that XRP is not a security to prop up demand and its value.

96.102. For example, on approximately April 11, 2018, Ripple’s Chief Market Strategist, Cory Johnson, told CNBC: “We absolutely are not a security. We don’t meet the standards for what a security is based on the history of court law.” Mr. Johnson also said, “Coinbase never ever raised the issue of whether or not XRP is a security in our discussions about listing XRP. We’re 100 percent clear, it’s not a security. We don’t meet the standards.”⁷³

97.103. Ripple’s CEO Garlinghouse made similar comments, claiming XRP is not a security, to the public through a variety of avenues and media channels, including at the CB Insights Future of Fintech, live-streamed by Yahoo Finance.⁷⁴

D. Development Of The XRP Ledger And The Success of XRP Are Dependent On Defendants’ Efforts

98.104. The development of the XRP Ledger and the success of XRP are dependent on Defendants’ technical, entrepreneurial, and managerial efforts.

⁷² Brad Garlinghouse, Ripple to Place 55 Billion XRP in Escrow to Ensure Certainty of Total XRP Supply (May 16, 2017), <https://www.ripple.com/insights/ripple-to-place-55-billion-xrp-in-escrow-to-ensure-certainty-into-total-xrp-supply/ss>.

⁷³ CNBC, *Ripple says its cryptocurrency XRP is not a security* (Apr. 12, 2018), <https://www.cnbc.com/2018/04/12/ripple-says-its-cryptocurrency-xrp-is-not-a-security.html>.

⁷⁴ Daniel Roberts, *Ripple CEO: 3 reasons XRP token is not a security*, Yahoo Finance (Jun. 21, 2018), <https://finance.yahoo.com/news/ripple-ceo-3-reasons-xrp-token-not-security-181455786.html>

1 ~~99.105.~~ For example, in February 2017, Ripple promoted a deal with BitGo to build an
2 enterprise wallet and treasury management platform for XRP.⁷⁵

3 ~~100.106.~~ Ripple also publishes a quarterly report detailing its efforts to grow the “XRP
4 ecosystem.”⁷⁶ In one of these reports, discussing its plan for “Q3 2017,” Ripple states that it “plans to
5 focus on three areas of liquidity development as we drive XRP towards its natural position as the
6 digital asset standard for international value transfer.” Ripple ends by saying, “[m]ost importantly,
7 we are accelerating the pace of *our investment* in the XRP Ledger to *build on its speed, uptime, and*
8 *scalability, to ensure XRP is the most trusted enterprise-grade digital asset.*”⁷⁷ (emphases added).

9 ~~101.107.~~ Three months later, in describing its goals for the fourth quarter of 2017, Ripple
10 proclaimed it would “continue to expand [its] xRapid partnerships.” It states that its “long-term goal
11 is, and always has been, usage of XRP as a liquidity solution for more and more corridors, and
12 partnerships are key to achieving this goal.”⁷⁸

13 ~~102.108.~~ In January 2018, Ripple touted “a partnership with MoneyGram—one of the
14 world’s largest money transfer companies—to use xRapid and XRP for near real-time cross-border
15 payments. In addition, there are a number of other xRapid deals at various stages of completion in the
16 pipeline.” It also stated that it wanted “to build the necessary markets infrastructure for eventual direct
17 usage of XRP by financial institutions.”⁷⁹

18 ~~103.109.~~ Ripple’s CEO commented on this partnership, stating: “And to be clear:
19 @MoneyGram announcement is one step in a marathon ahead to truly make \$XRP the global liquidity
20 solution for payment providers and banks.”⁸⁰

21 _____
22 ⁷⁵ @patgriffin9, TWITTER (Feb. 15, 2017, 11:17 AM), <https://twitter.com/patgriffin9/status/831945571736834048>.

23 ⁷⁶ Announcing Quarterly XRP Market Operations Report, <https://ripple.com/insights/announcing-quarterly-xrp-market-operations-report/> (last visited Aug. 2, 2019).

24 ⁷⁷ Ripple Insights, Q2 2017 XRP Markets Report (Jul. 20, 2017), <https://www.ripple.com/insights/q2-2017-xrp-markets-report/>.

25 ⁷⁸ Ripple Insights, Q3 2017 XRP Markets Report (Oct. 19, 2017), <https://ripple.com/xrp/q3-2017-xrp-markets-report/>.

26 ⁷⁹ Ripple Insights, Q3 2017 XRP Markets Report (Jan. 24, 2018), <https://www.ripple.com/insights/q4-2017-xrp-markets-report/>.

27 ⁸⁰ @bgarlinghouse, TWITTER (Jan. 11, 2018, 6:31 AM), <https://twitter.com/bgarlinghouse/status/951461582424358912>.

1 ~~104.110.~~ Ripple has also used XRP to enter into partnerships intended to drive the
2 adoption of XRP, and even structured these agreements so that their partner’s compensation is tied to
3 appreciation of XRP—just as companies often do with shares to ensure that their interests are aligned.
4 In early 2016, Ripple promised R3 Holdco, LLC (“R3”), an enterprise software firm with a network
5 of banks and financial institutions, the option to purchase 5 billion XRP in exchange for R3 providing
6 Ripple with access to R3’s consortium of member banks and financial institutions—thereby driving
7 adoption of XRP.

8 ~~105.111.~~ When the price of XRP rose rapidly, Ripple repudiated the deal, which had
9 provided R3 the option to purchase 5 billion XRP at \$0.085 per XRP. Ripple claimed that R3 had
10 failed to commercialize Ripple’s technology in connection with the use of XRP as the parties had
11 agreed.

12 **E. Ripple Updates XRP**

13 ~~106.112.~~ Defendants, and Ripple in particular, are also entirely responsible for updating
14 and maintaining the XRP Ledger.

15 ~~107.113.~~ Unlike cryptocurrencies such as Bitcoin and Ethereum, which use a Proof of
16 Work (“PoW”) consensus mechanism to verify the legitimacy of transactions on the network, the XRP
17 Ledger relies on trusted nodes operated by Ripple to verify the legitimacy of transactions and maintain
18 agreement on the network. The PoW mechanism utilized by Bitcoin and Ethereum helps to ensure
19 the network is decentralized by allowing anyone to use their own hardware and electricity to run the
20 PoW consensus algorithm to verify transactions on the public ledger and send them to be recorded
21 throughout the blockchain. The network’s decision-making process is thus placed entirely in the hands
22 of those who run the consensus algorithm with their own hardware and electricity, rather than being
23 centralized in any one entity or individual. Bitcoin currently has approximately 9,933 public nodes,
24 while Ethereum has 18,266.

25 ~~108.114.~~ The XRP Ledger consensus protocol, on the other hand, relies almost entirely
26 on “trusted nodes” on the Unique Node Lists (“UNL”). The UNL is the set of trusted nodes that
27 communicate “reliable” information to other nodes on the XRP Ledger. Like miners in Bitcoin and
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1 Ethereum, these “trusted nodes” validate transactions. However, unlike those miners, the trusted
2 nodes are either selected or controlled by Ripple itself. Ripple provides its own default and
3 recommended UNL—currently comprised of only five Ripple-hosted nodes. Although Ripple claims
4 it plans someday in the future to eventually decentralize the network, it admits that it will only remove
5 its own “trusted nodes” if it decides that other validator nodes are reliable, reputable, stable, and
6 secure.⁸¹ Ripple’s view of potential decentralization of the XRP Ledger still involves Ripple
7 maintaining full control over the Ledger and deciding who owns and operates any third-party “trusted
8 nodes.”

9 ~~109.115.~~ In January 2018, BitMex Research, a blockchain research group, installed and
10 ran a copy of Rippled, the software that allows users to run nodes on the XRP Ledger.⁸² “The node
11 operated by downloading a list of five public keys from the server v1.ripple.com.” “The software
12 indicates that four of the five keys are required to support a proposal in order for it to be accepted [on
13 the XRP Ledger].” However, “[a]ll five keys are assigned to Ripple.com.” BitMex Research
14 concludes that “[s]ince the keys were all downloaded from the Ripple.com server, *Ripple is essentially*
15 *in complete control of moving the ledger forward*, so one could say *the system is centralized.*”
16 (emphasis added).

17 ~~110.116.~~ BitMex Research continues, “the Ripple system appears for all practical
18 purposes to be centralized and is therefore perhaps devoid of any interesting technical characteristics,
19 such as censorship resistance, which coins like Bitcoin may have. . . .”

20 ~~111.117.~~ Ripple is also constantly changing and seeking to improve the XRP network.
21 These changes have decreased transaction times and improved system security, compatibility, use
22 cases and other features of XRP. At the same time, Ripple has released new “white papers” touting
23 these upgrades and proposed upgrades to the cryptocurrency and its exchange network. For example,

24 _____
25 ⁸¹ Decentralization Strategy Update, <https://ripple.com/dev-blog/decentralization-strategy-update/>
26 (last visited Aug. 2, 2019); 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/> (last visited Aug. 2, 2019).

27 ⁸² The Ripple Story, <https://blog.bitmex.com/the-ripple-story/> (last visited Aug. 2, 2019).
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1 Ripple released a white paper in February 2016 following a series of upgrades with the subtitle, “The
2 ROI of Using Ripple and XRP for Global Interbank Settlements.”⁸³ ROI stands for “return on
3 investment,” and the paper discussed at length the purported value of using XRP, compared to other
4 systems.

5 ~~112.118.~~ In May 2015, U.S. regulatory authorities fined Ripple and XRP II \$700,000 for
6 “willfully” violating the Bank Secrecy Act by selling XRP without obtaining the required
7 authorization. The failure to properly register as a money services business, or “MSB,” exposed XRP
8 for use by money launderers and criminals. As part of the settlement, Ripple and XRP II agreed to a
9 number of remedial measures, including registration with FinCEN within 30 days of the agreement
10 and to secure customer identification information within 180 days of the agreement. In the subsequent
11 months, Ripple updated the XRP network and ecosystem to attempt to comply with the settlement
12 agreement. In October 2015, Ripple underwent a rebranding after which it purported to fulfill its
13 obligations under the settlement agreement.

14 ~~113.119.~~ Ripple’s own XRP product manager, Warren Paul Anderson, frequently
15 markets the XRP Ledger’s dependence on Ripple’s continued commitment to it. For example, on
16 December 14, 2016, he tweeted: “Thrilled to have the rippled team in town for a summit to discuss
17 the future of @Ripple Consensus Ledger & XRP as a native digital asset!”⁸⁴ Approximately one year
18 later, in December 2017, he retweeted his own tweet, saying, “It’s that time of year again, and what a
19 year its been! #XRP Ledger (rippled) core developers in town @Ripple for a summit to discuss
20 planning for 2018.”⁸⁵

21 ~~114.120.~~ Later that same day he posted a picture of Ripple engineers with the caption,
22 “A great day of reflection & planning @Ripple w/ the greatest C++ engineering team in the world
23

24 ⁸³ The Cost-Cutting Case for Banks: The ROI of Using Ripple and XRP for Global Interbank
Settlements (Feb. 2016), https://ripple.com/files/xrp_cost_model_paper.pdf.

25 ⁸⁴ @warpaul, TWITTER (Dec. 14, 2016, 6:47 AM), <https://twitter.com/warpaul/status/809047284717469696>.

26 ⁸⁵ @warpaul, TWITTER (Dec. 13, 2017, 7:45 AM), <https://twitter.com/warpaul/status/940970970759573505>.
27

1 #XRP.”⁸⁶ On that same day, Ripple’s head of cryptography tweeted: “Today, all the \$XRP Ledger
2 developers at @Ripple are in SF to reflect on 2017 and plan for 2018.”⁸⁷

3 ~~115.121.~~ Later in the month, on December 29, 2017, a Ripple software engineer, Nik
4 Bougalis, tweeted: “I’ve been working on code review for the last couple days. Excited to get rippled
5 0.90.0 out the door,”⁸⁸ indicating that Ripple was working to release a new version of Rippled to
6 further advance the XRP Ledger.

7 ~~116.122.~~ On January 9, 2018, Anderson tacitly admits that the XRP Ledger remains
8 centralized, tweeting that the “[n]ew \$XRP Ledger (rippled) 0.81.0 release gets us one-step closer to
9 executing on our aforementioned decentralization strategy. . .”⁸⁹

10 ~~117.123.~~ Following, Ripple’s release of a Rippled upgrade, Bougalis tweeted, “[t]he C++
11 team has released rippled 0.90.0. Cool new features: history sharding, deposit authorizations, checks
12 and more!”⁹⁰ When asked about Rippled, Bougalis continues, “[i]t’s the software one uses to run a
13 server that connects to the XRP Ledger.”

14 ~~118.124.~~ On March 5, 2015, Bougalis similarly reposted a tweet defending investing in
15 XRP by stating: “So you’d invest in Linux, not Microsoft. In UseNet, not Google. In MySQL, not
16 Oracle. Good luck with your portfolio. *Ripple is the next Google*. You’re stuck in the silly idea that
17 *a company can’t build a digital asset, even when it does this right under your nose*,” with the caption,
18 “[n]ow that’s a mic drop, if I’ve ever seen one.”⁹¹ (emphasis added).

19 ~~119.125.~~ Ripple also owns and maintains the page at github.com/ripple/rippled, a Git
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21 ⁸⁶ @warpaul, TWITTER (Dec. 13, 2017, 3:27 PM), <https://twitter.com/warpaul/status/941087297360994304>.

22 ⁸⁷ @JoelKatz, TWITTER (Dec. 13, 2017, 8:00 AM), <https://twitter.com/joelkatz/status/940974743733153792>.

23 ⁸⁸ @nbougalis, TWITTER (Dec. 29, 2017, 11:45 AM), <https://twitter.com/nbougalis/status/946829572145741824>.

24 ⁸⁹ @warpaul, TWITTER (Jan. 8, 2018, 9:20 PM), <https://twitter.com/warpaul/status/950598053509017600>.

25 ⁹⁰ @nbougalis, TWITTER (Feb. 20, 2018, 4:26 PM), <https://twitter.com/nbougalis/status/966106932925882368>.

26 ⁹¹ @nbougalis, TWITTER (Mar. 5, 2018, 10:52 AM), <https://twitter.com/nbougalis/status/970733741319503872>.

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1 repository used to update the XRP Ledger, and one location where Rippled can be downloaded.

2 ~~120.126.~~ Ripple also pays bounties to those who identify bugs in their software, stating
3 that “we are very generous with the bug bounties we pay. Anyone that found and responsibly disclosed
4 such a bug would get a significant reward.”⁹²

5 **F. XRP Is A Security**

6 ~~121.127.~~ The SEC Framework provides guidance for analyzing whether a digital asset
7 has the characteristics of one particular type of security—an “investment contract.”

8 ~~122.128.~~ As explained in the SEC Framework:

9 The U.S. Supreme Court’s *Howey* case and subsequent case law have found
10 that an “investment contract” exists when there is the investment of money
11 in a common enterprise with a reasonable expectation of profits to be
12 derived from the efforts of others. The so-called “*Howey* test” applies to
13 any contract, scheme, or transaction, regardless of whether it has any of the
14 characteristics of typical securities. The focus of the *Howey* analysis is not
15 only on the form and terms of the instrument itself (in this case, the digital
16 asset) but also on the circumstances surrounding the digital asset and the
17 manner in which it is offered, sold, or resold (which includes secondary
18 market sales). Therefore, issuers and other persons and entities engaged in
19 the marketing, offer, sale, resale, or distribution of any digital asset will
20 need to analyze the relevant transactions to determine if the federal
21 securities laws apply.⁹³

22 ~~123.129.~~ The SEC Framework makes clear that “[w]hether a particular digital asset at
23 the time of its offer or sale satisfies the *Howey* test depends on the specific facts and
24 circumstances.” The specific facts and circumstances relating to XRP support the conclusion that
25 XRP is a security under the *Howey* test.

26 ~~124.130.~~ Purchasers who bought XRP have invested money or given valuable services
27 to a common enterprise, Defendants. These purchasers have had a reasonable expectation of profit
28 based upon the efforts of the promoter, Ripple, including, amongst other things, (i) Ripple’s CEO’s
admission that “To build XRP liquidity, we have been mindful over the years about how we distribute

92 @nbougalis, TWITTER (Apr. 19, 2018, 12:37 PM), <https://twitter.com/nbougalis/status/987052572283318273>.

93 SEC Framework § I (internal citations omitted).

1 XRP. . . . We engage in distribution strategies that we expect will result in a strengthening XRP
 2 exchange rate against other currencies,” (ii) that Ripple’s home page maintains metrics on the market
 3 performance of XRP and a link to buy XRP on numerous exchanges, (iii) Ripple’s leadership in the
 4 development of the platform, partnering with firms to use the network and influencing significant
 5 control over which nodes can validate transactions, and (iv) the release of new white papers for the
 6 payment network, all of which contributes to the value of XRP.

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

8 ~~125.131.~~ The SEC Framework states that, “The first prong of the *Howey* test is typically
 9 satisfied in an offer and sale of a digital asset because the digital asset is purchased or otherwise
 10 acquired in exchange for value, whether in the form of real (or fiat) currency, another digital asset, or
 11 other type of consideration.”⁹⁴

12 ~~126.132.~~ Lead Plaintiff and the Class invested fiat and other digital currencies, such as
 13 Bitcoin and Ethereum, to purchase XRP. As explained in the SEC Framework, investment of both
 14 fiat and digital currency meets the first prong of *Howey*.

15 ~~127.133.~~ Defendants concede that they sell XRP tokens to the general public through
 16 cryptocurrency exchanges.

17 ~~128.134.~~ The profits of each investor in XRP are inextricably intertwined with those of
 18 all other purchasers because XRP is fungible. As Defendants note, it can be bought or sold on over
 19 50 exchanges.

20 ~~129.135.~~ The SEC Framework states that “[i]n evaluating digital assets, we have found
 21 that a ‘common enterprise’ typically exists.”⁹⁵ The SEC Framework also elaborates: “Based on our
 22 experiences to date, investments in digital assets have constituted investments in a common enterprise
 23 because the fortunes of digital asset purchasers have been linked to each other or to the success of the
 24 promoter’s efforts.”⁹⁶

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 26 ⁹⁴ SEC Framework § II(A).

27 ⁹⁵ SEC Framework § II(B).

28 ⁹⁶ *Id.* at n.11 (citing *SEC v. Int’l Loan Network, Inc.*, 968 F.2d 1304, 1307 (D.C. Cir. 1992)).

1 ~~130.136.~~ XRP is no exception to the SEC Framework’s observation regarding the
2 “common enterprise” element of the *Howey* test. The prospective profits of Lead Plaintiff and the
3 Class, if any, are intertwined with the fortunes of Ripple. Ripple concedes that it “sells XRP to fund
4 its operations and promote the network. This allows Ripple to have a spectacularly skilled team to
5 develop and promote the Ripple protocol and network.”⁹⁷

6 ~~131.137.~~ Ripple’s CEO has conceded that, “Our self-interest is aligned with building and
7 maintaining a healthy XRP market.”

8 ~~132.138.~~ As further explained in Section IV(E), the price of XRP is dependent on
9 development and adoption of the XRP Ledger, which in turn is dependent upon the efforts of
10 Defendants and their employees or agents.

11 2. XRP Investors Had a Reasonable Expectation of Profits

12 ~~133.139.~~ With respect to the element of “reasonable expectation of profits,” the SEC
13 Framework states that “[a] purchaser may expect to realize a return through participating in
14 distributions or through other methods of realizing appreciation on the asset, such as selling at a gain
15 in a secondary market.”⁹⁸

16 ~~134.140.~~ Investors in XRP, including Lead Plaintiff and the Class, made their investment
17 with a reasonable expectation of profits.

18 ~~135.141.~~ Defendants themselves have recognized that XRP investors have a reasonable
19 expectation of profit, and publicly touted XRP’s price performance on numerous occasions. Ripple’s
20 website even contains an “XRP Buying Guide” that provides links to exchanges and instructions on
21 “how to buy XRP” on those exchanges.⁹⁹

22 ~~136.142.~~ Ripple’s CEO has publicly touted that he himself is “*very, very, very long*
23 *XRP*,” and criticized journalists who suggest that enterprise adoption of XRP may not be as high as
24 Ripple indicates.

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26 ⁹⁷ Ripple credits, [https://wiki.ripple.com/Ripple_credits#XRP_funds_the_development_and_promo
tion_of_the_protocol_and_the_network](https://wiki.ripple.com/Ripple_credits#XRP_funds_the_development_and_promotion_of_the_protocol_and_the_network) (last visited Aug. 2, 2019).

27 ⁹⁸ SEC Framework § II(C).

28 ⁹⁹ XRP Buying Guide, <https://ripple.com/xrp/buy-xrp/> (last visited Aug. 2, 2019).

1 ~~137.143.~~ Ripple also directly controls the inflation rate of XRP, going so far as to lock
2 more than half the supply of XRP in escrow to provide “supply predictability and trusted, healthy
3 \$XRP markets.” This announcement had its intended effect, driving the price of XRP rapidly upwards.

4 ~~138.144.~~ Defendants also pooled XRP investments to fund projects that would promote
5 “the XRP Ledger and Interledger Protocol,” thereby increasing the value of the XRP Ledger and XRP.

6 ~~139.145.~~ For example, on April 11, 2018, Ripple announced that it “had invested \$25
7 million in XRP to Blockchain Capital Parallel IV, LP” to “support and develop additional [XRP] use
8 cases beyond payments.”¹⁰⁰ Ripple’s Senior Vice President of Business Development promoted this
9 investment, tweeting, “Ripple’s \$25 million investment in @blockchaincap’s new fund is the first and
10 not the last contribution to ventures that further develop the #blockchain and \$XRP ecosystems.”¹⁰¹

11 ~~140.146.~~ The SEC Framework lays out a number of characteristics informative of
12 whether the “reasonable expectation of profits” element is met. The SEC Framework states that “[t]he
13 more the following characteristics are present, the more likely it is that there is a reasonable
14 expectation of profit.”¹⁰² Based on the facts above, each and every characteristic identified by the
15 SEC Framework is present in the case of XRP:

- 16 • The digital asset gives the holder rights to share in the enterprise’s income or profits or to
17 realize gain from capital appreciation of the digital asset.
- 18 • The opportunity may result from appreciation in the value of the digital asset that comes, at
19 least in part, from the operation, promotion, improvement, or other positive developments in
20 the network, particularly if there is a secondary trading market that enables digital asset holders
21 to resell their digital assets and realize gains.

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25 ¹⁰⁰ Ripple 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 Aug. 2, 2019).

26 ¹⁰¹ @patgriffin9, TWITTER (Apr. 11, 2018, 6:31 AM), <https://twitter.com/Ripple/status/984061347078987776>.

27 ¹⁰² SEC Framework § II(C)(1).

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- The digital asset is transferable or traded on or through a secondary market or platform, or is expected to be in the future.
- Purchasers reasonably would expect that [the Defendants'] efforts will result in capital appreciation of the digital asset and therefore be able to earn a return on their purchase.
- The digital asset is offered broadly to potential purchasers as compared to being targeted to expected users of the goods or services or those who have a need for the functionality of the network.
- The digital asset is offered and purchased in quantities indicative of investment intent instead of quantities indicative of a user of the network. For example, it is offered and purchased in quantities significantly greater than any likely user would reasonably need, or so small as to make actual use of the asset in the network impractical.
- There is little apparent correlation between the purchase/offering price of the digital asset and the market price of the particular goods or services that can be acquired in exchange for the digital asset.
- There is little apparent correlation between quantities the digital asset typically trades in (or the amounts that purchasers typically purchase) and the amount of the underlying goods or services a typical consumer would purchase for use or consumption.
- The [Defendants have] raised an amount of funds in excess of what may be needed to establish a functional network or digital asset.
- The [Defendants are] able to benefit from [their] efforts as a result of holding the same class of digital assets as those being distributed to the public.
- The [Defendants] continue[] to expend funds from proceeds or operations to enhance the functionality or value of the network or digital asset.

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- The digital asset is marketed, directly or indirectly, using any of the following:
 - The expertise of [Defendants] or [their] ability to build or grow the value of the network or digital asset.
 - The digital asset is marketed in terms that indicate it is an investment or that the solicited holders are investors.
 - The intended use of the proceeds from the sale of the digital asset is to develop the network or digital asset.
 - The future (and not present) functionality of the network or digital asset, and the prospect that [the Defendants] will deliver that functionality.
 - The promise (implied or explicit) to build a business or operation as opposed to delivering currently available goods or services for use on an existing network.
 - The ready transferability of the digital asset is a key selling feature.
 - The potential profitability of the operations of the network, or the potential appreciation in the value of the digital asset, is emphasized in marketing or other promotional materials.
 - The availability of a market for the trading of the digital asset, particularly where the [Defendants] implicitly or explicitly promises to create or otherwise support a trading market for the digital asset.

3. The Success of XRP Requires Efforts of Ripple and Others

~~141-147.~~ The SEC Framework explains:

When a promoter, sponsor, or other third party (or affiliated group of third parties) (each, an “Active Participant” or “AP”) provides essential managerial efforts that affect the success of the enterprise, and investors reasonably expect to derive profit from those efforts, then this prong of the test is met. Relevant to this inquiry is the “economic reality” of the transaction and “what character the instrument is given in commerce by the terms of the offer, the plan of distribution, and the economic inducements held out to the prospect.” The

inquiry, therefore, is an objective one, focused on the transaction itself and the manner in which the digital asset is offered and sold.¹⁰³

~~142-148.~~ Specifically, with respect to the element of “reliance on the efforts of others,” the SEC Framework states:

The inquiry into whether a purchaser is relying on the efforts of others focuses on two key issues:

- Does the purchaser reasonably expect to rely on the efforts of a [promoter]?
- Are those efforts “the undeniably significant ones, those essential managerial efforts which affect the failure or success of the enterprise,” as opposed to efforts that are more ministerial in nature?¹⁰⁴

~~143-149.~~ Lead Plaintiff and the Class have entirely passive roles vis-à-vis the success of the XRP Ledger and XRP. Rather, as Defendants’ own marketing makes clear, the success of the XRP Ledger, and the profits the Class reasonably expected to derive from investing in XRP, are dependent on the essential technical, entrepreneurial, and managerial efforts of Defendants and their agents and employees.

~~144-150.~~ Lead Plaintiff and the Class reasonably expected Defendants to provide significant managerial efforts, to develop and improve the XRP Ledger, to develop and sustain a supportive network, and to secure exchanges through which XRP can be traded or liquidated. Defendants repeatedly represented that they would provide significant managerial efforts to achieve these objectives and make the XRP Ledger a success.

~~145-151.~~ Ripple created the XRP Ledger and all 100 billion XRP in circulation, and concedes that it “sells XRP to fund its operations and promote the network,” in order “to have a spectacularly skilled team to develop and promote the Ripple protocol and network.”¹⁰⁵ And as of April 22, 2018, Ripple still holds at least 60.83 billion XRP—more than 60 percent of the XRP in circulation.¹⁰⁶

¹⁰³ SEC Framework § II(C).

¹⁰⁴ SEC Framework § II(C)(1).

¹⁰⁵ Ripple credits, https://wiki.ripple.com/Ripple_credits#XRP_funds_the_development_and_promotion_of_the_protocol_and_the_network (last visited Aug. 2, 2019).

¹⁰⁶ Market Performance, <https://ripple.com/xrp/market-performance/> (last visited Aug. 2, 2019).

1 146.152. Although it now claims that it “didn’t create XRP; 100 billion XRP was created
 2 before the company was formed,” Ripple previously admitted that it “is the creator of Ripple.”¹⁰⁷ “We
 3 developed the protocol and its distributed payment network, and we now work to support and promote
 4 its growth.” It acknowledged that “Ripple hopes to make money from XRP if the world finds the
 5 Ripple network useful and broadly adopts the protocol.” Ripple further acknowledged that it “will
 6 retain a portion [of XRP] with the hope of creating a robust and liquid marketplace in order to *monetize*
 7 *its only asset* sometime in the future.” (emphasis added).



24 147.153. Ripple touts its control over the XRP Ledger as an advantage for XRP,
 25 contending that governance “may be where XRP most significantly distinguishes itself [from Bitcoin,
 26 Ethereum, and Litecoin] going forward.”¹⁰⁸ “Building pivotal infrastructure on top of technology that
 27 does not have clear governance is not palatable for large established companies.”

28 148.154. Ripple also exercises near complete control over the XRP Ledger itself. XRP

¹⁰⁷ Ripple’s changing narrative around the creation of \$XRP, The Block (Nov. 25, 2018), <https://www.theblockcrypto.com/tiny/ripples-changing-narrative-around-the-creation-of-xrp/>.

¹⁰⁸ Q4 2017 XRP Markets Report, <https://ripple.com/insights/q4-2017-xrp-markets-report/> (last visited Aug. 2, 2019).

1 Ledger nodes operate “by downloading a list of five public keys from the server v1.ripple.com.”¹⁰⁹
2 “The software indicates that four of the five keys are required to support a proposal in order for it to
3 be accepted [on the XRP Ledger].” However, “[a]ll five keys are assigned to Ripple.com.” “Since
4 the keys were all downloaded from the Ripple.com server, *Ripple is essentially in complete control*
5 *of moving the ledger forward*, so one could say *the system is centralized*.” (emphasis added). “[T]he
6 Ripple system appears for all practical purposes to be centralized and is therefore perhaps devoid of
7 any interesting technical characteristics, such as censorship resistance, which coins like Bitcoin may
8 have. . . .”

9 149-155. Ripple and its CEO have acknowledged that the value of XRP will be driven by
10 the XRP Ledger’s usefulness in solving cross-border payments and its adoption by enterprises.
11 Defendants have similarly touted adoption of Ripple’s Enterprise Solutions, even when those
12 Enterprise Solutions do not actually utilize XRP.

13 150-156. Ripple’s CTO, David Schwartz, has similarly acknowledged that the “biggest
14 risks” to the price of XRP are:

15 a. “Someone else does almost exactly the same thing Ripple does, but does it
16 better. This is mitigated by the fact that Ripple has such talented people and has a lead. But you never
17 know.”

18 b. “Unfavorable regulatory changes make Ripple’s business model impractical.
19 Perhaps some regulators deem XRP to be a security and therefore only salable to sophisticated
20 investors or something like that. This is mitigated by the fact that Ripple can target friendlier
21 jurisdictions, but losing big ones would be damaging.”

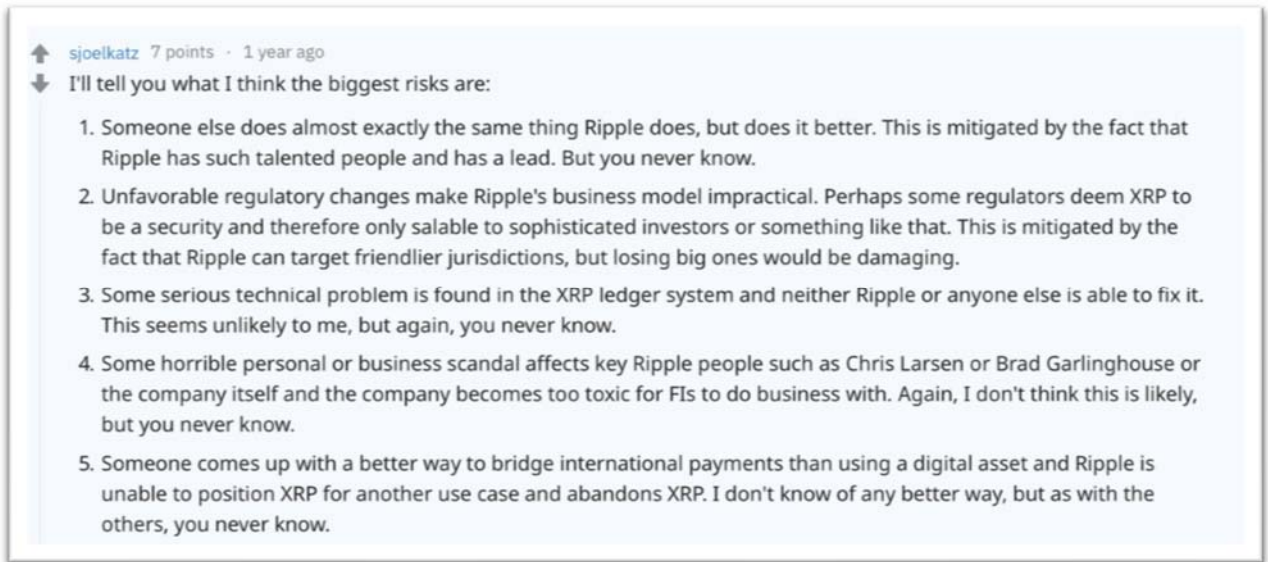
22 c. “Some serious technical problem is found in the XRP ledger system and neither
23 Ripple or anyone else is able to fix it.”

24 d. “Some horrible personal or business scandal affects key Ripple people such as
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27 ¹⁰⁹ The Ripple Story, <https://blog.bitmex.com/the-ripple-story/> (last visited Aug. 2, 2019).

1 Chris Larsen or Brad Garlinghouse or the company itself and the company becomes too toxic for FIs
2 [financial institutions] to do business with.”

3 e. “Someone comes up with a better way to bridge international payments than
4 using a digital asset and Ripple is unable to position XRP for another use case and abandons XRP.”



15 ~~151.157.~~ XRP therefore derives its value from the usefulness and popularity of the XRP
16 Ledger, which is in turn highly dependent on the significant technical, entrepreneurial, and managerial
17 efforts of Defendants. The purchase of XRP is thus an investment in a common enterprise, with an
18 expectation of profits, based upon the efforts of its promoter, the Defendants.

19 ~~152.158.~~ The SEC Framework lays out a number of characteristics informative of
20 whether the “reliance on the efforts of others” element is met. The SEC Framework notes that
21 “although no one of the following characteristics is necessarily determinative, the stronger their
22 presence, the more likely it is that a purchaser of a digital asset is relying on the ‘efforts of others.’”¹¹⁰
23 Based on the facts above, each and every characteristic identified by the SEC Framework is present in
24 the case of XRP:

- 25 • Defendants are “responsible for the development, improvement (or enhancement), operation,
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27 ¹¹⁰ SEC Framework § II(C)(1).

1 or promotion of the network” and “purchasers of the digital asset expect [Defendants] to be
2 performing or overseeing tasks that are necessary for the network or digital asset to achieve or
3 retain its intended purpose or functionality.”

- 4 • “Where the network or the digital asset is still in development and the network or digital asset
5 is not fully functional at the time of the offer or sale”—both true of the XRP Ledger—
6 “purchasers would reasonably expect [Defendants] to further develop the functionality of the
7 network or digital asset (directly or indirectly).” “This particularly would be the case where
8 an AP promises further developmental efforts in order for the digital asset to attain or grow in
9 value,” as is true with Ripple.
- 10 • “There are essential tasks or responsibilities performed and expected to be performed by
11 [Defendants], rather than an unaffiliated, dispersed community of network users (commonly
12 known as a ‘decentralized’ network).”
- 13 • Defendants “create[] or support[] a market for, or the price of, the digital asset. This can
14 include, for example, an AP that: (1) controls the creation and issuance of the digital asset; or
15 (2) takes other actions to support a market price of the digital asset, such as by limiting supply
16 or ensuring scarcity, through, for example, buybacks, ‘burning,’ or other activities.”
- 17 • Defendants have “a lead or central role in the direction of the ongoing development of the
18 network or the digital asset. In particular, [Defendants] play[] a lead or central role in deciding
19 governance issues, code updates, or how third parties participate in the validation of
20 transactions that occur with respect to the digital asset.”
- 21 • Defendants have “a continuing managerial role in making decisions about or exercising
22 judgment concerning the network or the characteristics or rights the digital asset represents
23 including:
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- Determining whether and how to compensate persons providing services to the network or to the entity or entities charged with oversight of the network.
- Determining whether and where the digital asset will trade. For example, purchasers may reasonably rely on [Defendants] for liquidity, such as where the [Defendants have] arranged, or promised to arrange for, the trading of the digital asset on a secondary market or platform.
- Determining who will receive additional digital assets and under what conditions.
- Making or contributing to managerial level business decisions, such as how to deploy funds raised from sales of the digital asset.
- Playing a leading role in the validation or confirmation of transactions on the network, or in some other way having responsibility for the ongoing security of the network.
- Making other managerial judgements or decisions that will directly or indirectly impact the success of the network or the value of the digital asset generally.”
- “Purchasers would reasonably expect [Defendants] to undertake efforts to promote its own interests and enhance the value of the network or digital asset, such as where:”
 - Defendants have “the ability to realize capital appreciation from the value of the digital asset. This can be demonstrated, for example, if the [Defendants] retain[] a stake or interest in the digital asset. In these instances, purchasers would reasonably expect [Defendants] to undertake efforts to promote its own interests and enhance the value of the network or digital asset.”
 - Defendants “distribute the digital asset as compensation to management or [Defendants’] compensation is tied to the price of the digital asset in the secondary market. To the extent these facts are present, the compensated individuals can be

1 expected to take steps to build the value of the digital asset.”

- 2 ○ Defendants “own[] or control[] ownership of intellectual property rights of the network
3 or digital asset, directly or indirectly.”
- 4 ○ Defendants “monetize[] the value of the digital asset, especially where the digital asset
5 has limited functionality.”

6
7 **4. XRP is a Security Under California Law**

8 ~~153.159.~~ California’s definition of a “security” in Corp. Code § 25019 was modeled after
9 Section 2(a)(1) of the Securities Act of 1933, and includes some 23 instruments meeting the definition,
10 such as “any note; stock; treasury stock; . . . certificate of interest or participation in any profit-sharing
11 agreement; . . . transferable share; [and] investment contract. . . .” Court decisions interpreting the
12 scope of the definition of a “security” under the Securities Act of 1933 are persuasive authority under
13 the California statute, and courts have interpreted the term “security” to be synonymous in scope with
14 the term “investment contract” in federal securities law cases. *See* 1 Marsh & Volk, PRACTICE UNDER
15 THE CALIFORNIA CORPORATE SECURITIES LAWS § 5.19[1][b], [d] (2019).

16 ~~154.160.~~ In addition to meeting the definition of a “security” under the SEC Framework
17 and the federal *Howey* test, XRP also satisfies the four elements of the “risk capital test” as articulated
18 by the California Supreme Court in *Silver Hills Country Club v. Sobieski*, 55 Cal. 2d 811, 815 (1961)
19 (“*Silver Hills*”) to qualify as a “security” under California law.

20 ~~155.161.~~ California courts have held that that both the *Silver Hills* and *Howey* tests may
21 be applied, either separately or together, to determine whether a transaction is a security under
22 California law—in other words, a transaction is a security if it satisfies either test. *People v. Black*, 8
23 Cal. App. 5th 889, 900 (2007) (holding that California “proceed[s] under the framework of both tests,
24 either separately or together”); *Consol. Mgmt. Grp., LLC v. Dep’t of Corporations*, 162 Cal. App. 4th
25 598, 610 (2008) (same); *People v. Schock*, 152 Cal. App. 3d 379 (1984) (both tests applied, and
26 transaction held to be a security under federal test); *People v. Smith*, 215 Cal. App. 3d 230, 237 (while
27 California courts often use the risk capital test for defining a security, it is “a general test, and is not
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1 applicable in all situations. Federal definitions of securities are also used in California when
2 appropriate in determining whether an investment vehicle is a security. . . .”).

3 ~~156.162.~~ In this case, Defendants attempted to raise funds for a business venture or
4 enterprise—Ripple and the development of the XRP Ledger—through the sale of XRP to the general
5 public through various cryptocurrency exchanges.

6 ~~157.163.~~ Because XRP is available on cryptocurrency exchanges, Defendants’ numerous
7 issuances of XRP are indiscriminate offerings to the public at large where the persons or investors
8 being solicited are selected at random, rather than specifically or individually targeted.

9 ~~158.164.~~ As investors in XRP, Lead Plaintiff and the Class who purchased XRP maintain
10 a passive position vis-à-vis the success of XRP and the XRP Ledger in that they are substantially
11 powerless to affect the success of the enterprise. Any money Lead Plaintiff and the Class invests in
12 XRP is also substantially at risk because it is inadequately secured.

13 ~~159.165.~~ This is because, as Defendants’ own marketing makes clear, the success of the
14 XRP Ledger, and the profits Lead Plaintiff and the Class reasonably expected to derive from investing
15 in XRP, are dependent on the conduct of Defendants and their agents and employees.

16 V. CLASS ACTION ALLEGATIONS

17 ~~160.166.~~ Lead Plaintiff brings this action as a class action pursuant to rules 23(a) and
18 23(b)(3) of the Federal Rules of Civil Procedure on behalf of the following Class of persons.

19 All persons or entities who purchased XRP. Excluded from the Class are:
20 corporate officers, members of the boards of directors, and senior executives of
21 Defendants; members of their immediate families and their legal
representatives, heirs, successors or assigns; and any entity in which Defendants
have or had a controlling interest.

22 ~~161.167.~~ The members of the Class are so numerous that joinder of all members is
23 impracticable. Hundreds of millions of XRP have been sold by Defendants. While the exact number
24 of Class members are unknown to plaintiffs at this time and can only be ascertained through
25 appropriate discovery, Lead Plaintiff believes that there are thousands of members in the proposed
26 Class.

1 ~~162.168.~~ The Class is readily ascertainable and identifiable. It can be identified by
2 reference to Defendants' own databases, the XRP Ledger, and cryptocurrency exchange databases.

3 ~~163.169.~~ Lead Plaintiff will fairly and adequately protect the interests of the Class
4 because Lead Plaintiff's claims are typical and representative of the claims of all members of the Class.
5 Lead Plaintiff suffered injury in fact when he purchased 128,978.88 XRP between January 1, 2018
6 and January 16, 2018 for approximately \$307,700 in Bitcoin and USDT and sold that XRP between
7 January 9, 2018 and January 17, 2018 for approximately \$189,600 in Bitcoin and USDT, sustaining a
8 loss of approximately \$118,100 as a result of his XRP investments.

9 ~~164.170.~~ Lead Plaintiff's claims are typical of the claims of all Class members, as all
10 members of the Class are similarly affected by Defendants' wrongful conduct in violation of state and
11 federal securities laws, as well as California's false advertising and unfair competition laws.

12 ~~165.171.~~ There are no unique defenses that may be asserted against Lead Plaintiff
13 individually, as distinguished from the other members of the Class, and the relief sought is common
14 to the Class. Lead Plaintiff is typical of other members of the Class, does not have any interest that is
15 in conflict with or is antagonistic to the interests of the members of the Class, and has no conflict with
16 any other members of the Class.

17 ~~166.172.~~ Lead Plaintiff has retained competent counsel experienced in securities,
18 consumer protection, and class action litigation to represent himself and the Class.

19 ~~167.173.~~ Questions of law and fact common to the Class that predominate over any
20 questions that may affect only individual members of the Class, include, but are not limited to:

- 21 a. Whether XRP is a security under the Securities Act;
- 22 b. Whether Defendants' offerings and sales of XRP violates the registration
23 provisions of the Securities Act;
- 24 c. Whether XRP is a security under the California Corporations Code;
- 25 d. Whether Defendants' offerings and sales of XRP violates the registration
26 provisions of the California Corporations Code;
- 27 e. Whether Defendants' advertisements and statements regarding the genesis of
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1 XRP, the circulating supply of XRP, and adoption of XRP were false and misleading;

2 f. Whether the conduct of Defendants violated the California False Advertising
3 Law;

4 g. Whether the conduct of Defendants violated the California Unfair Competition
5 Law;

6 h. The type and measure of damages suffered by Lead Plaintiff and the Class.

7 ~~168-174.~~ A class action is superior to other available methods for the fair and efficient
8 adjudication of this controversy since joinder of all Class members is impracticable. Furthermore, as
9 the damages suffered by individual Class members may be relatively small, the expense and burden
10 of individual litigation make it impossible for Class members to redress individually the wrongs done
11 to them. In the absence of a class action, Defendants will retain the benefits of their wrongful conduct.

12 **VI. CAUSES OF ACTION**

13 **FIRST CLAIM FOR RELIEF**

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

17 ~~169-175.~~ Lead Plaintiff, on behalf of himself and all others similarly situated, realleges
18 and incorporates herein by reference each and every allegation contained in the preceding paragraphs
19 of this Complaint.

20 ~~170-176.~~ Defendants, and each of them, made use of means or instruments of
21 transportation or communication in interstate commerce or of the mails, to offer to sell or to sell
22 securities, or to carry or cause such securities to be carried through the mails or in interstate commerce
23 for the purpose of sale or for delivery after sale.

24 ~~171-177.~~ XRP are securities within the meaning of Section 2(a)(1) of the Securities Act,
25 15 U.S.C. § 77b(a)(1).

26 ~~172-178.~~ Lead Plaintiff and members of the Class purchased XRP securities from
27 Defendants.

28 ~~173-179.~~ No registration statements have been filed with the SEC or have been in effect

1 with respect to any of the offerings alleged herein.

2 ~~174.180.~~ By reason of the foregoing, each of the Defendants have violated Sections 5(a),
3 5(c), and 12(a) of the Securities Act, 15 U.S.C. §§ 77e(a), 77e(c), and 77l(a).

4 ~~175.181.~~ As a direct and proximate result of Defendants' unregistered sale of securities,
5 Lead Plaintiff and members of the Class have suffered damages in connection with their respective
6 purchases of XRP securities.

7 **SECOND CLAIM FOR RELIEF**
8 **Violation of Section 15 of the Securities Act**
9 **(Against the Control Person Defendants)**

10 ~~176.182.~~ Lead Plaintiff, on behalf of himself and all others similarly situated, realleges
11 and incorporates herein by reference each and every allegation contained in the preceding paragraphs
12 of this Complaint:

13 ~~177.183.~~ This Count is asserted against Defendants Ripple Labs, Inc. and Bradley
14 Garlinghouse (together, the "Control Person Defendants") under Section 15 of the Securities Act, 15
15 U.S.C. § 77o.

16 ~~178.184.~~ The Control Person Defendants, by virtue of their offices, stock ownership,
17 agency, agreements or understandings, and specific acts were, at the time of the wrongs alleged herein,
18 and as set forth herein, controlling persons within the meaning of Section 15 of the Securities Act.
19 The Control Person Defendants, and each of them, had the power and influence and exercised the
20 same to cause the unlawful offer and sale of XRP securities as described herein.

21 ~~179.185.~~ The Control Person Defendants, separately or together, possess, directly or
22 indirectly, the power to direct or cause the direction of the management and policies of XRP II, through
23 ownership of voting securities, by contract, subscription agreement, or otherwise.

24 ~~180.186.~~ All Control Person Defendants other than Ripple also has the power to direct or
25 cause the direction of the management and policies of Ripple.

26 ~~181.187.~~ The Control Person Defendants, separately or together, have sufficient
27 influence to have caused XRP II and/or Ripple to submit a registration statement.

1 ~~182.188.~~ The Control Person Defendants, separately or together, jointly participated in,
2 and/or aided and abetted, XRP II and/or Ripple’s failure to register XRP.

3 ~~183.189.~~ By virtue of the conduct alleged herein, the Control Person Defendants are
4 liable for the wrongful conduct complained of herein and are liable to Lead Plaintiff and the Class for
5 rescission and/or damages suffered.

6 **THIRD CLAIM FOR RELIEF**
7 **Unregistered Offer and Sale of Securities in Violation of**
8 **California Corporations Code Section 25110 and 25503**
9 **(Against All Defendants)**

10 ~~184.190.~~ Lead Plaintiff, on behalf of himself and all others similarly situated, realleges
11 and incorporates herein by reference each and every allegation contained in the preceding paragraphs
12 of this Complaint.

13 ~~185.191.~~ XRP are securities within the meaning of the California Corporations Code.

14 ~~186.192.~~ Defendants, and each of them, by engaging in the conduct described above
15 within California, directly or indirectly, sold and offered to sell securities.

16 ~~187.193.~~ Lead Plaintiff and members of the Class purchased XRP securities from
17 Defendants.

18 ~~188.194.~~ No registration statements have been filed with any state or federal government
19 entity or have been in effect with respect to any of the offerings alleged herein.

20 ~~189.195.~~ By reason of the foregoing, each of the Defendants have violated Sections
21 25110 and 25503 of the California Corporations Code.

22 ~~190.196.~~ As a direct and proximate result of Defendants’ unregistered sale of securities,
23 Lead Plaintiff and members of the Class have suffered damages in connection with their respective
24 purchases of XRP securities.

25 **FOURTH CLAIM FOR RELIEF**
26 **Violation of Section 25401 of the California Corporations Code**
27 **(Against All Defendants)**

28 ~~191.197.~~ Lead Plaintiff, on behalf of himself and all others similarly situated, realleges
and incorporates herein by reference each and every allegation contained in the preceding paragraphs

1 of this Complaint.

2 ~~192.198.~~ This Count is asserted against Defendants Ripple Labs, Inc. and XRP II, LLC
3 for violation of Section 25401 of the California Corporations Code.

4 ~~193.199.~~ The Count is asserted against Defendants Ripple Labs, Inc. and Garlinghouse
5 because they materially assist, and/or aid and abet, in the violation of Section 25401, with intent to
6 deceive or defraud, pursuant to Section 25504.1.

7 ~~194.200.~~ California Corporations Code section 25401 makes it illegal to “offer or sell a
8 security in this state . . . by means of any written or oral communications which includes an untrue
9 statement of a material fact or omits to state a material fact necessary in order to make the statements
10 made . . . not misleading.”

11 ~~195.201.~~ Defendants were, at the time of the wrongs alleged herein, and as set forth
12 herein, “persons” within the meaning of Section 25401 of the California Corporations Code.

13 ~~196.202.~~ Defendants, separately or together, directly or indirectly, caused a false
14 statement or omission to be made in connection with the offers or sales of a security. These false
15 statements or omissions are specifically set out in paragraphs 41-42, 47-48, 51-53, 56-57, 64-75 of
16 this Complaint.

17 ~~197.203.~~ Defendants, separately or together, sold and offered to sell XRP, a security, in
18 the state of California.

19 ~~198.204.~~ Defendants, separately or together, had knowledge of the falsity or misleading
20 nature of a statement or omission made in connection with the offers or sales of XRP. Alternatively,
21 Defendants, separately or together, were negligent in failing to investigate and discover the falsity of
22 the statement or omission.

23 ~~199.205.~~ Defendants, separately or together, were aware that a fact being misrepresented
24 or omitted was material to the buyer’s decision to purchase XRP.

25 ~~200.206.~~ By virtue of the conduct alleged herein, Defendants are liable, jointly or
26 severally, for the wrongful conduct complained of herein and are liable to Lead Plaintiff and the Class
27 for rescission and/or damages suffered.

FIFTH CLAIM FOR RELIEF

**Violation of Sections 25110 and 25504 of the California Corporations Code
(Against the Control Person Defendants)**

~~201-207.~~ Lead Plaintiff, on behalf of himself and all others similarly situated, realleges and incorporates herein by reference each and every allegation contained in the preceding paragraphs of this Complaint.

~~202-208.~~ This Count is asserted against the Control Person Defendants under Section 25504 of the California Corporations Code.

~~203-209.~~ The Control Person Defendants, by virtue of their offices, stock ownership, agency, agreements or understandings, and specific acts were, at the time of the wrongs alleged herein, and as set forth herein, controlling persons within the meaning of Section 25504 of the California Corporations Code. The Control Person Defendants, and each of them, had the power and influence and exercised the same to cause the unlawful offer and sale of XRP securities as described herein in violation of Section 25110 of the California Corporations Code.

~~204-210.~~ The Control Person Defendants, separately or together, possess, directly or indirectly, the power to direct or cause the direction of the management and policies of XRP II, through ownership of voting securities, by contract, subscription agreement, or otherwise. Defendant Garlinghouse also has the power to direct or cause the direction of the management and policies of Ripple.

~~205-211.~~ The Control Person Defendants, separately or together, have sufficient influence to have caused XRP II and/or Ripple to submit a registration or qualification statement.

~~206-212.~~ The Control Person Defendants, separately or together, jointly participated in, and/or aided and abetted, XRP II and/or Ripple's failure to register XRP in violation of Section 25110.

~~207-213.~~ By virtue of the conduct alleged herein, the Control Person Defendants are liable for the wrongful conduct complained of herein and are liable to Lead Plaintiff and the Class for rescission and/or damages suffered.

SIXTH CLAIM FOR RELIEF

**False Advertising in Violation of Business and Professions Code Section 17500, et seq
(Against All Defendants)**

~~208-214.~~ Lead Plaintiff, on behalf of himself and all others similarly situated, realleges and incorporates herein by reference each and every allegation contained in the preceding paragraphs of this Complaint.

~~215.~~ Lead Plaintiff brings this sixth claim for relief for false advertising in violation of California Business and Professions Code Section 17500 under the alternative theory that XRP is not a security.

~~209-216.~~ Defendants operate a business where they intended to, and did, sell XRP to members of the general public, including Lead Plaintiff.

~~210-217.~~ Defendants cause to be made or disseminated through California and the United States through advertising, marketing and other publications, statements that were untrue or misleading, and which were known, or which by the exercise of reasonable care should have been known to Defendants, to be untrue and misleading to consumers and Lead Plaintiff.

~~211-218.~~ Defendants have violated section 17500 because the misrepresentations and omissions they made, as set forth in ~~this Complaint, including statements regarding the genesis of XRP, the circulating supply of XRP, adoption of XRP, and assertion that XRP is not a security subject to federal and state security laws, paragraphs 41-42, 47-48, 51-53, 56-57, 64-75 of this Complaint~~ were material and likely to deceive a reasonable consumer.

~~212-219.~~ As a direct and proximate result of Defendants' false advertisements, Lead Plaintiff and members of the class have suffered injury to their property and have been deprived of the benefits of fair competition. Lead Plaintiff and members of the class paid artificially inflated prices for XRP. Had the Lead Plaintiff known the truth, he would not have purchased XRP and/or paid as much for it. As a result, Lead Plaintiff and members of the Class have suffered damages in an amount according to proof at trial.

SEVENTH CLAIM FOR RELIEF

**Unfair Competition in Violation of Business and Professions Code Section 17200, et seq.
(Against All Defendants)**

1 ~~213-220.~~ Lead Plaintiff, on behalf of himself and all others similarly situated, realleges
2 and incorporates herein by reference each and every allegation contained in the preceding paragraphs
3 of this Complaint.

4 221. Lead Plaintiff brings this seventh claim for relief for unfair competition in violation of
5 California Business and Professions Code Section 17200 under the alternative theory that XRP is not
6 a security.

7 ~~214-222.~~ California Business and Professions Code section 17200 prohibits any
8 “unlawful, unfair, or fraudulent business act or practices.” Defendants have engaged in unlawful,
9 fraudulent, and unfair business acts and practices in violation of the California Unfair Competition
10 Law.

11 ~~215-223.~~ Defendants have violated the unlawful prong of section 17200 by their
12 violations of the federal and state securities laws, including Sections 5(a), 5(c), and 12(a) of the
13 Securities Act, 15 U.S.C. §§ 77e(a), 77e(c), and 77l(a), Sections 25401, 25110, and 25503 of the
14 California Corporations Code, and with respect to the Control Person Defendants, Section 15 of the
15 Securities Act, 15 U.S.C. § 77o and Sections 25504 and 25110 of the California Corporations Code.

16 ~~216-224.~~ Defendants have also violated the unlawful prong of section 17200 by their
17 violations of California’s False Advertising Law (Bus. & Prof. Code §§ 17200, *et seq.*), as set forth
18 above.

19 ~~217-225.~~ Defendants have also violated the “fraudulent” prong of section 17200 by
20 making false and misleading statements regarding XRP to drive demand for XRP in order to artificially
21 inflate the price at which they can sell XRP, as set forth in this Complaint. These false and misleading
22 statements include statements regarding the genesis of XRP, the circulating supply of XRP, adoption
23 of XRP, and ~~assertion that XRP is not a security subject to federal and state security laws, and they~~
24 ~~were likely to deceive a reasonable consumer and the information would be material to a reasonable~~
25 ~~purchaser of XRP~~ are set forth in paragraphs 41-42, 47-48, 51-53, 56-57, 64-75.

26 ~~218-226.~~ Defendants have also violated the “unfair” prong of section 17200 because the
27 acts and practices set forth in this Complaint offend established public policy, and because the harm
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1 they cause to investors and purchasers of XRP greatly outweighs any benefits associated with those
2 practices. Defendants' conduct has also prevented Lead Plaintiff and members of the Class from
3 making fully informed decisions about their purchases of XRP.

4 219-227. In purchasing XRP, the Lead Plaintiff relied on the misrepresentations made by
5 Defendants. Lead Plaintiff saw and relied on Ripple's repeated representations that adoption of XRP
6 by financial institutions and banks would drive demand for XRP. Had the Lead Plaintiff known the
7 truth about XRP, he would not have purchased XRP and/or paid as much for it.

8 220-228. The Lead Plaintiff has suffered an injury in fact, including the loss of money or
9 property, as a result of Defendants' unfair, unlawful and/or deceptive practices. As a result of the
10 aforementioned acts, Lead Plaintiff and the Class have suffered an injury in fact, including the loss of
11 money or property. Defendants received and continue to hold money and property belonging to Lead
12 Plaintiff and the Class.

13 221-229. All of the wrongful conduct alleged herein occurred, and continues to occur, in
14 the conduct of Defendants' business. Defendants' wrongful conduct is part of a pattern or generalized
15 course of conduct that is still perpetuated and repeated, both in the State of California and nationwide.

16 222-230. Lead Plaintiff and the Class have no adequate remedy at law for the injuries
17 which they have suffered and will continue to suffer in the future.

18 **VII. PRAYER FOR RELIEF**

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

21 223-231. Declaring that this action may be maintained as a Class action under rules 23(a)
22 and 23(b)(3) of the Federal Rules of Civil Procedure, certifying Lead Plaintiff as representative of the
23 Class, and designating his counsel Susman Godfrey L.L.P. and Taylor-Copeland Law as Lead Counsel
24 for the Class;

25 224-232. Declaring that XRP is a security and that Defendants' unregistered sales of XRP
26 violated applicable laws;

1 ~~225-233.~~ Awarding damages in favor of Lead Plaintiff and the other Class members
2 against all defendants, jointly and severally, for all damages sustained as a result of Defendants'
3 wrongdoing, in an amount to be proven at trial, including prejudgment interest thereon;

4 ~~226-234.~~ Awarding such injunctive or other equitable relief as the Court may deem just
5 and proper; and

6 ~~227-235.~~ Awarding plaintiffs and the Class their reasonable costs and expenses incurred
7 in this action, including counsel fees and expert fees.

8 DATED: March 25, 2020

Respectfully submitted,

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/s/James Taylor-Copeland

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Counsel for Lead Plaintiff Bradley Sostack

DEMAND FOR JURY TRIAL

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Lead Plaintiff demands a jury trial on all issues so triable.

DATED: March 25, 2020

Respectfully submitted,

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