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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 COMPLAINT FOR  
21 ALL ACTIONS ) VIOLATIONS OF FEDERAL AND  
CALIFORNIA LAW  
22 ) JURY TRIAL DEMANDED  
23 )  
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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.”<sup>3</sup>

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/](http://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.

25  
26 \_\_\_\_\_  
27 <sup>3</sup> 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  
25 registration.”<sup>4</sup> One of the top financial regulators in President Obama’s administration has likewise

26 \_\_\_\_\_  
27 <sup>4</sup> See *Investor Bulletin: Initial Coin Offerings*, U.S. Securities and Exchange Commission (July 25,  
28 2017), [https://www.sec.gov/oiea/investor-alerts-and-bulletins/ib\\_coinofferings](https://www.sec.gov/oiea/investor-alerts-and-bulletins/ib_coinofferings); see also *In re Matter*

1 stated that there is a “strong case” to conclude that “particularly Ripple” has violated securities laws  
2 by issuing and trading “noncompliant securities.”<sup>5</sup>

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

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

17 12. However, Defendants did not register XRP with the SEC or qualify it with the  
18 California Commissioner of Corporations, and many of the representations Defendants made  
19 regarding XRP were designed to drive demand of XRP, allowing Defendants to obtain greater returns  
20 on their XRP sales. It is situations exactly like this that federal and state securities laws were enacted  
21 to prevent.

22  
23 *of Munchee, Inc.*, File No. 3-18304 (S.E.C. Dec. 11, 2017), [https://www.sec.gov/litigation/  
24 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  
25 securities under the federal securities laws, and, if they are securities, issuers and others who offer or  
sell them in the United States must register the offering and sale with the Commission or qualify for  
an exemption from registration.”).

26 <sup>5</sup> *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>.

27 <sup>6</sup> 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).

## II. PARTIES

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

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

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

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

## III. JURISDICTION AND VENUE

20  
21 17. This Complaint is filed, and these proceedings are instituted, to recover damages and  
22 to obtain other relief that Lead Plaintiff has sustained due to Defendants' unregistered and unqualified  
23 offers and sales of securities in violation of Sections 5, 12(a)(1), and 15 of the Securities Act, 15 U.S.C.  
24 §§ 77e, 77l, and 77o, and Sections 25110, 25503, 25504, and 25401 of the California Corporations  
25 Code; and false advertising and unfair competition under California law.

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

1 28 U.S.C. § 1367.

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

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

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

#### 11 IV. SUBSTANTIVE ALLEGATIONS

##### 12 A. XRP's Genesis And Public Offerings

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

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

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

23 25. In May 2015, regulatory authorities in the United States fined Ripple and XRP II  
24 \$700,000 for violating the Bank Secrecy Act by selling XRP without obtaining the required  
25 authorization. As part of that settlement, Defendants acknowledged that they had sold XRP to the

26 \_\_\_\_\_  
27 <sup>7</sup> Ripple credits, [https://wiki.ripple.com/Ripple\\_credits#XRP\\_funds\\_the\\_development\\_and\\_promotion\\_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).

1 general public and agreed to a number of remedial measures, including registration with FinCEN.

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

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

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

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

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

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<sup>8</sup> 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).

25  
26  
<sup>9</sup> 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  
28  
<sup>10</sup> 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.”<sup>11</sup>

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.”<sup>12</sup>

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.”<sup>13</sup>

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.”<sup>14</sup>

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

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

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

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

<sup>14</sup> 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.”<sup>15</sup>

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.<sup>16</sup>

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.<sup>17</sup>

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.<sup>18</sup>

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.<sup>19</sup>

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, as discussed above, more than 60 percent of XRP is owned by Ripple  
17 and none of that XRP is used for anything at all, other than to be sold in the future to investors.  
18 Moreover, as for the XRP that was already sold or otherwise distributed by Defendants, the vast  
19 majority of it is not used for bridging international transactions, but for investment purpose.  
20 Accordingly, Defendants’ claim that XRP has a utilitarian purpose is nothing but a red herring attempt  
21 to avoid the application of securities laws.

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

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

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

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

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

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

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

5           43. Ripple has an entire section of its website dedicated to providing advice on “How to  
6 Buy XRP.” This section provides links to exchanges and instructions on “how to buy XRP” on those  
7 exchanges.<sup>20</sup> It also has a section titled “Market Performance” which proclaims that Ripple is  
8 “committed to the long term health and stability of XRP markets.”<sup>21</sup>

9           44. Ripple also consistently promotes the availability of XRP on exchanges. For example,  
10 on May 18, 2017, Ripple's Senior Vice-President of Business Development, Patrick Griffin, tweeted  
11 a link to the Kraken exchange with the caption: “Kraken Introduces New Fiat Pairs for XRP Trading!  
12 USD, JPY, CAD, EUR @Ripple.”<sup>22</sup>

13           45. Similarly, on or about December 21, 2017, Ripple tweeted in Japanese that XRP was  
14 now available on over 50 exchanges.<sup>23</sup> That tweet linked to an article on Ripple's website which  
15 described XRP as “the fastest and most scalable [digital] asset on the market.”<sup>24</sup> It continued, “[t]he  
16 market is taking notice of XRP's speed, reliability and scalability — which has strengthened the  
17 demand for XRP and where it's listed. In fact, we're proud to announce that XRP has gone from being  
18 listed on six exchanges earlier this year to more than 50 worldwide.” The article also linked to a  
19 number of exchanges where XRP could be purchased, and stated that “XRP's long-term value is  
20 determined by its utility—including its ability to help financial institutions source liquidity for  
21 payments into and out of emerging markets.”

22           46. Ripple also hosts conferences to generate interest in XRP. For example, between

23 \_\_\_\_\_  
24 <sup>20</sup> XRP Buying Guide, <https://ripple.com/xrp/buy-xrp/> (last visited Aug. 2, 2019).

<sup>21</sup> Market Performance, <https://ripple.com/xrp/market-performance/> (last visited Aug. 2, 2019)

<sup>22</sup> @patgriffin9, TWITTER (May 18, 2017, 10:03 AM), <https://twitter.com/patgriffin9/status/865251321867231233>.

<sup>23</sup> @Ripple, TWITTER (Dec. 21, 2017, 4:20 PM), <https://twitter.com/Ripple/status/943999526783905792>.

<sup>24</sup> XRP Now Available on 50 Exchanges Worldwide, <https://ripple.com/insights/xrp-now-available-on-50-exchanges-worldwide/> (last visited Aug. 2, 2019).

1 October 16 and October 18, 2017, it hosted a conference named “Swell” in Toronto. Ripple  
2 acknowledged that “[a]nticipation around the event spurred a meaningful spike in XRP, pushing it up  
3 100 percent . . .”<sup>25</sup>

4 47. On that same day, CoinDesk, a subsidiary of Digital Currency Group, which has an  
5 ownership interest in Ripple, published an article titled, “*Ripple Price Passes Historic \$1 Milestone*.”<sup>26</sup>  
6 This was just one of many instances in which Ripple would promote XRP price movements.

7 48. Ripple’s promotion of XRP’s price reached new highs in December 2017. In one  
8 instance, Ripple’s XRP product manager retweeted a tweet exclaiming: “Wow, XRP at all time high!  
9 Forget about bitcoin, *we’re all in on XRP!*” (emphasis added).<sup>27</sup>

10 49. Ripple’s CEO, Brad Garlinghouse, has also been a vocal advocate for investing in XRP.  
11 In a December 14, 2017 interview with BNN, when asked if he is personally invested in XRP, the  
12 CEO stated “I’m long XRP, I’m very, very long XRP as a percentage of my personal balance sheet.”<sup>28</sup>  
13 He continued, stating that he is “not long on some of the other [digital] assets, because it is not clear  
14 to me what’s the real utility, what problem are they really solving.” He ended by reiterating, “if you’re  
15 solving a real problem, if it’s a scaled problem, then I think you have a huge opportunity to continue  
16 to grow that. We have been really fortunate obviously, *I remain very, very, very long XRP*, there is  
17 an expression in the industry HODL, instead of hold, it’s HODL . . . I’m on the HODL side.”  
18 (emphasis added).

19 50. Later that same day, Garlinghouse tweeted: “Bloomberg welcomes \$XRP to  
20 @theterminal and gets it right - #2 market cap behind \$BTC at ~\$80BB!”<sup>29</sup>

21 51. About a week later, on or about December 22, 2017, Garlinghouse tweeted an article

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

<sup>26</sup> Ripple Price Passes Historic \$1 Milestone, [https://www.coindesk.com/ripple-price-passes-historic-  
24 1-milestone/](https://www.coindesk.com/ripple-price-passes-historic-1-milestone/) (last visited Aug. 2, 2019).

<sup>27</sup> @yoshitaka kitao TWITTER (Dec. 12, 2007, 7:29 PM), [https://twitter.com/yoshitaka\\_kitao/status/940785785925709829](https://twitter.com/yoshitaka_kitao/status/940785785925709829).

<sup>28</sup> See @JonErlichman, TWITTER (Dec. 14, 2017, 9:11 AM), <https://twitter.com/jonerlichman/status/94135496422752261>.

<sup>29</sup> @bgarlinghouse, TWITTER (Dec. 14, 2017, 10:33 AM), <https://twitter.com/bgarlinghouse/status/941375649549246464>.

1 titled, “*Bitcoin Is So 2017 as Ripple Soars at Year End*,” with the caption, “I’ll let the headline speak  
2 for itself. \$xrp.”<sup>30</sup>

3 52. On or about January 17, 2018, Garlinghouse tweeted a CNBC article titled, “*Ripple is*  
4 *sitting on close to \$80 billion and could cash out hundreds of millions per month – but it isn’t*,”<sup>31</sup> with  
5 the caption, “A good read on why fostering a healthy \$XRP ecosystem is a top priority at @Ripple.”<sup>32</sup>

6 53. However, the reality was that Ripple was doing exactly the opposite of what CNBC  
7 reported. As laid out in Section IV(B), Defendants issued and sold at least \$167.7 million worth of  
8 XRP between January 1, 2018 and March 31, 2018.

9 54. Recently, Defendants’ efforts to aggressively market and drive demand for XRP have  
10 bled into politics. In September 2018, Ripple and several other cryptocurrency companies with links  
11 to Ripple announced the founding of an advocacy group dubbed “Securing America’s Internet of  
12 Value Coalition.” The Coalition announced that it had retained the Klein/Johnson Group, a prominent  
13 Washington D.C. based lobbying firm, who is expected to help the Coalition in its efforts to lobby  
14 Congress and the SEC on issues critical to Ripple’s bottom-line, including whether XRP is a security  
15 subject to SEC regulation. For their expertise, the Klein/Johnson Group will receive \$25,000 and  
16 10,000 XRP tokens per month from the Coalition. Commenting on the decision to pay their lobbyists  
17 in XRP, Chris Larsen, explained: “It gives them some upside and gives them some risk . . . Hopefully  
18 it gives them a taste of the industry in a way that hits home.”<sup>33</sup>

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

21 55. Defendants’ advertising and social media postings also conflate adoption and use of  
22

23 <sup>30</sup> @bgarlinghouse, TWITTER (Dec. 22, 2017, 1:56 PM), <https://twitter.com/bgarlinghouse/status/944325730338357248>.

24 <sup>31</sup> *Ripple Is Sitting on \$80 Billion and Could Cash Out Hundreds of Millions Per Month – But Isn’t*,  
25 Yahoo! Finance (Jan. 16, 2018), <https://finance.yahoo.com/news/ripple-sitting-80-billion-could-192927461.html>.

26 <sup>32</sup> @bgarlinghouse, TWITTER (Jan. 17, 2018, 9:14 AM), <https://twitter.com/bgarlinghouse/status/953676992313872384>.

27 <sup>33</sup> *Cryptos Fall as U.S. Lawmakers Ask SEC to Clarify ICO Regulation*, Yahoo! Finance (Oct. 1,  
28 2018), <https://finance.yahoo.com/news/cryptos-fall-u-lawmakers-ask-172500437.html>.

1 Ripple Enterprise Solutions, such as xCurrent and xVia, with adoption and use of XRP, even though  
2 they often have little to no correlation. As one industry publication noted, most of Ripple’s product  
3 and partnership announcements “don’t have much to do with XRP.”<sup>34</sup> Defendants conflate statements  
4 regarding their other financial products with statements regarding XRP in a calculated scheme to drive  
5 demand for XRP and thereby maximize profits from XRP sales.

6 56. According to the Ripple website, “xCurrent is Ripple’s enterprise software solution that  
7 enables banks to instantly settle cross-border payments with end-to-end tracking. Using xCurrent,  
8 banks message each other in real-time to confirm payment details prior to initiating the transaction  
9 and to confirm delivery once it settles.”<sup>35</sup>

10 57. xCurrent does not operate on the same technology as XRP or even require the use of  
11 XRP. In short, there is no reason to believe that adoption of xCurrent would correlate in any way with  
12 adoption of XRP.

13 58. Nor does use of Ripple’s xVia product require adoption of XRP. Ripple states that its  
14 xVia product is “for corporates, payment providers and banks who want to send payments across  
15 various networks using a standard interface.”<sup>36</sup>

16 59. Ripple nevertheless conflates the adoption of these Enterprise Solutions with adoption  
17 of XRP.

18 60. For example, on March 20, 2017, Ripple retweeted a Bloomberg article regarding  
19 adoption of Ripple Enterprise Solutions, proclaiming, “Ripple is the only company in this space with  
20 real customers who are really in production.”<sup>37</sup>

21 61. The price of XRP increased rapidly following this tweet and on March 24, 2017, Ripple  
22 tweeted: “The price of #XRP continues to surge showing that people are looking for #bitcoin  
23

24 <sup>34</sup> 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>.

25 <sup>35</sup> Process Payments, xCurrent, <https://ripple.com/solutions/process-payments/> (last visited Aug. 2,  
2019).

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

27 <sup>37</sup> @Ripple, TWITTER (May 20, 2007, 7:16 PM), <https://twitter.com/Ripple/status/844009778309357568>.

1 alternatives.”<sup>38</sup>

2 62. On April 26, 2017, Ripple tweeted a link to an article on its own site, proclaiming:  
3 “#Ripple welcomes 10 additional customers to our #blockchain #payments network.”<sup>39</sup> Neither this  
4 tweet nor the article it linked to informed readers that the blockchain payments network did not refer  
5 to the XRP Ledger, but rather Ripple’s xCurrent enterprise solution.

6 63. Just days later, on May 3, 2017, with the price of XRP continuing to rise, Ripple  
7 tweeted: “#Ripple adoption is sparking interest in XRP ‘which has had an impressive rally in the last  
8 two months’ via @Nasdaq.”<sup>40</sup>

9 64. Ripple conflated the adoption of its Enterprise Solutions and XRP again on May 16,  
10 2017, tweeting: “The appeal that Ripple has towards traditional financial institutions is a big advantage  
11 it has over Bitcoin.”<sup>41</sup>

12 65. On June 29, 2017, Ripple tweeted a clip of an interview its CEO Brad Garlinghouse  
13 gave on CNBC with the caption: “#XRP – up 4000% this year – has shown the market favors a real  
14 use case for #digitalassets . . .”<sup>42</sup> In that interview, Garlinghouse proclaimed that “digital assets are in  
15 a position to be more valuable than gold,” and described XRP as “solving a real-world use case, it’s  
16 not just about speculators.”

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

22 \_\_\_\_\_  
23 <sup>38</sup> @Ripple, TWITTER (Mar. 24, 2017, 11:53 AM), <https://twitter.com/Ripple/status/845347809830195200>.

24 <sup>39</sup> @Ripple, TWITTER (Apr. 26, 2017, 9:17 AM), <https://twitter.com/Ripple/status/857267304618278912>.

25 <sup>40</sup> @Ripple, TWITTER (May 3, 2017, 3:54 PM), <https://twitter.com/Ripple/status/859904105916923904>.

26 <sup>41</sup> @Ripple, TWITTER (May 16, 2017, 5:16 PM), <https://twitter.com/Ripple/status/864635614020251649>.

27 <sup>42</sup> @Ripple, TWITTER (Jun. 29, 2017, 2:03 PM), <https://twitter.com/Ripple/status/880532198025121793>.

1           67.     On November 27, 2017, Garlinghouse tweeted “Ripple & \$XRP are giving businesses  
2 ‘what they want in a #blockchain,’” along with a link to a Motley Fool tweet.<sup>43</sup> That Motley Fool  
3 tweet in turn stated that “AmEx and Banco Santander will use Ripple’s blockchain network for instant  
4 intl. fund transfers. *Could be a big deal for Ripple’s XRP cryptocurrency.* \$AXP \$SAN.” (emphasis  
5 added).<sup>44</sup>

6           68.     Similarly, on December 14, 2017 Ripple tweeted: “The Japan Bank Consortium  
7 launched a Ripple pilot with two large Korean banks – the first time money moves from Japan to  
8 Korea over RippleNet.”<sup>45</sup> The tweet also linked to an article on Ripple’s site. Buried inside that article  
9 is the fact that “RippleNet” refers to Ripple’s xCurrent enterprise solution, which does not require use  
10 of XRP. Nevertheless, earlier on that day, Ripple tweeted “@bgarlinghouse [its CEO’s twitter handle]  
11 on why crypto prices will be driven by real utility, the multi-trillion \$ problem @Ripple is solving and  
12 why \$XRP will come out on top.”<sup>46</sup>

13           69.     Ripple would later acknowledge that “neither the AMEX news nor the Korean bank  
14 initiative involved XRP.”<sup>47</sup>

15           70.     Nevertheless, the December 14, 2017 Ripple tweet linked to a BNN interview with Mr.  
16 Garlinghouse, in which he said “the reason why XRP has performed so well this year, we’re solving  
17 a real problem, it’s a multi-trillion dollar problem around cross-border payments. There is a lot of  
18 friction it’s very slow it’s expensive, we’re working with the institutions to deal with that, so people  
19 have gotten excited. We now have over 100 customers we’ve announced publicly.”<sup>48</sup> He continued,  
20 “at the end of the day the value of digital assets will be driven by their utility. If they are solving a

21 \_\_\_\_\_  
22 <sup>43</sup> @bgarlinghouse, TWITTER (Nov. 27, 2017, 11:16 AM), <https://twitter.com/bgarlinghouse/status/935225940845711366>.

23 <sup>44</sup> @themotleyfool, TWITTER (Nov. 26, 2017, 10:25 AM), <https://twitter.com/themotleyfool/status/934850515640471553>.

24 <sup>45</sup> @Ripple, TWITTER (Dec. 14, 2017, 6:51 PM), <https://twitter.com/Ripple/status/941501026267316224>.

25 <sup>46</sup> @Ripple, TWITTER (Dec. 14, 2017, 8:59 AM), <https://twitter.com/Ripple/status/941352005058011137>.

26 <sup>47</sup> Ripple Insights, Q4 2017 XRP Markets Report (Jan. 24, 2018), <https://www.ripple.com/insights/q4-2017-xrp-markets-report/>.

27 <sup>48</sup> @Ripple, TWITTER (Dec. 14, 2017, 8:59 AM), <https://twitter.com/Ripple/status/941352005058011137>.

1 real problem, and that problem has scale, and that problem, you know there is real value there, then  
 2 there will be demand for the tokens and the price will go up. For XRP we have seen because *it's*  
 3 *required*, it's something that can really reduce the friction, and we're talking about a multi-trillion  
 4 dollar problem in how cross-border payments flow. And so, I think if you drive real utility, yes there's  
 5 going to be demand for that." "*XRP is up 100x this year*, and I think it's *because the problem we are*  
 6 *solving people realize is a real problem, it's a big problem.*"

7 71. On January 4, 2018, following XRP's rapid price increase, the New York Times  
 8 published an article by Nathaniel Popper titled, "*Rise of Bitcoin Competitor Ripple Creates Wealth to*  
 9 *Rival Zuckerberg.*"<sup>49</sup> Mr. Popper tweeted a link to this article with the caption: "On the rise of Ripple.  
 10 If this is a tulip fever, the fever has spread to chrysanthemums and poppies."<sup>50</sup>

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

- 14 • Actual use of XRP by banks is not something I've heard about, I find the run up absolutely
- 15 baffling, as do all the blockchain folks I know at large FIs.
- 16 • XRP isn't used for anything. The hope is that some day it will be by banks, but there really
- 17 aren't banks signaling that yet.
- 18 • I would be surprised if there have been any real bank to bank transactions done with it
- 19 (outside of maybe test transactions), despite people making claims to the contrary.
- 20 • It's not clear to me why XRP would be used by banks at all. XRP could potentially be
- 21 adopted by consumers as a payment rail, although they don't yet have meaningful traction
- 22 in that regard.
- 23
- 24

25 \_\_\_\_\_  
 26 <sup>49</sup> 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 <sup>50</sup> @nathanielpopper, TWITTER (Jan. 4, 2018, 8:06 PM), <https://twitter.com/bgarlinghouse/status/949129952716234752>.

- 1 • I haven't seen a sufficiently large catalyst in the fundamentals of Ripple to justify a greater
- 2 than 10x move in the price of \$XRP in the last month.
- 3 • In a few years we're going to look back on 2017 and think WTF were we thinking."

4 73. Ripple's CEO Garlinghouse publicly responded to this, tweeting: "Over the last few  
5 months I've spoken with ACTUAL banks and payment providers. They are indeed planning to use  
6 xRapid (our XRP liquidity product) in a serious way. . ." <sup>51</sup> He followed up stating, "I don't think you  
7 want to hear about validation for XRP. The @NYTimes should be above spreading anonymous  
8 FUD." FUD, which stands for fear, uncertainty, and doubt, is an expression frequently used among  
9 crypto-investors to deride or undermine criticism of an asset. <sup>52</sup>

10 74. Ripple's XRP product manager also attacked Mr. Popper, tweeting: "Do you think I  
11 left #Bitcoin and joined @Ripple to build bank software? Think again. \$XRP." <sup>53</sup> This tweet linked to  
12 a Ripple's tweet stating that "3 of the top 5 global money transfer companies plan to use XRP in  
13 payment flows in 2018. Even more in the pipeline." <sup>54</sup>

14 75. Despite publicly claiming that use of XRP by banks and financial institutions will drive  
15 demand for XRP, Defendants sell XRP primarily to retail investors, and not banks or financial  
16 institutions.

## 17 2. Defendants Offer to Pay Exchanges to List XRP

18 76. Illustrative of Defendants' attempts to promote XRP, in 2017, Ripple attempted to pay  
19 two U.S. cryptocurrency exchanges to list XRP to further drive demand for the token and to make  
20 XRP more easily available to a larger audience. Coinbase and Gemini provide the easiest ways for  
21 U.S.-customers to buy crypto-assets with U.S. dollars. <sup>55</sup> There is thus a perception that being listed

22 \_\_\_\_\_  
23 <sup>51</sup> @bgarlinghouse, TWITTER (Jan. 4, 2018, 8:06 PM), <https://twitter.com/bgarlinghouse/status/949129952716234752>.

24 <sup>52</sup> @bgarlinghouse, TWITTER (Jan. 4, 2018, 9:10 PM). <https://twitter.com/bgarlinghouse/status/949146029907062787>.

25 <sup>53</sup> @warpaul, TWITTER (Jan. 4, 2018, 11:11 PM), <https://twitter.com/warpaul/status/949176533523902464>.

26 <sup>54</sup> @Ripple, TWITTER (Jan. 4, 2018, 8:11 PM), <https://twitter.com/Ripple/status/949131179797626880>

27 <sup>55</sup> Many other exchanges do not allow users to make purchases with cash, but rather accept only other  
cryptocurrencies, like Bitcoin or Ethereum.

1 on one of these exchanges will accelerate demand for, and thus the price of, a crypto-asset.

2 77. A listing on Coinbase, in particular, is considered to be a crypto-asset's golden ticket.  
3 This proved true when Coinbase listed Litecoin in August 2016 and Bitcoin Cash in December 2017.  
4 As an example, when Coinbase agreed to list Bitcoin Cash, its price increased from approximately  
5 \$2,500 to approximately \$3,400 just before Coinbase listed the asset. The price then briefly shot up  
6 to \$9,500 upon Bitcoin Cash's being listed on Coinbase before Coinbase temporarily halted trading.

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

10 79. Bloomberg reported that "a Ripple executive asked whether a \$1 million cash payment  
11 could persuade Gemini to list XRP in the third quarter" of 2017.<sup>56</sup>

12 80. Ripple also "said it would be willing to lend [Coinbase] more than \$100 million worth  
13 of XRP to start letting users trade the asset. . . ." <sup>57</sup> Gemini and Coinbase both declined to pursue  
14 Ripple's proposal at that time.

15 81. On November 29, 2017, Ripple posted a link to a change.org petition to "Get Ripple  
16 on Coinbase," with the caption "[t]he community is mobilizing! [thumbs up emoji]." <sup>58</sup> Ripple's Senior  
17 Vice President of Business Development also tweeted a link to the petition.

18 82. Weeks later, on December 13, 2017, Ripple's Senior Vice President of Business  
19 Development retweeted a tweet from Arrington XRP Capital (a hedge fund valued in XRP) stating:  
20 "It's stunning that coinbase hasn't added XRP yet."

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

23 \_\_\_\_\_  
24 <sup>56</sup> 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>.

25 <sup>57</sup> Ripple Has Tried to Buy Its Way Onto Major Exchanges for Cryptocurrency, Bloomberg (Apr. 4,  
26 2018), <https://www.bloomberg.com/news/articles/2018-04-04/ripple-is-said-to-struggle-to-buy-u-s-listing-for-popular-coin>.

27 <sup>58</sup> @Ripple, TWITTER (Nov. 29, 2017, 9:28 AM), <https://twitter.com/Ripple/status/935923310080045056>.

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

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

85. On or about May 16, 2017, Ripple’s CEO posted an article on its website, titled “Ripple to Place 55 Billion XRP in Escrow to Ensure Certainty of Total XRP Supply.”<sup>59</sup> Ripple promoted this article in a tweet stating: “We’re placing 55B #XRP into a cryptographically secured escrow account to establish certainty around #XRP supply.”<sup>60</sup>

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

87. He committed to remove “that uncertainty by committing to place 55 billion XRP into a cryptographically-secured escrow account,” which will allow investors to “mathematically verify the maximum supply of XRP that can enter the market.” He ended by stating that “XRP is the only digital asset with a clear use case . . . Designed for enterprise use, XRP can be used by financial institutions for on-demand liquidity for cross-border payments. Payment providers and banks using

<sup>59</sup> 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).

<sup>60</sup> @Ripple, TWITTER (May 16, 2017, 9:05 AM), <https://twitter.com/Ripple/status/864512213289123840>.

1 XRP will gain greater access to emerging markets and much lower settlement costs, and this is why  
2 we remain committed to increasing XRP liquidity and continued decentralization of its ledger.”

3 88. XRP’s price increased rapidly following this announcement, and Ripple’s “Q2 2017  
4 XRP Markets Report” listed the escrow announcement as “instrumental in helping to drive XRP  
5 interest and volume,” and noted that the “market responded favorably to the escrow” announcement.<sup>61</sup>

6 89. On or about December 7, 2017, Ripple announced that it had followed through with its  
7 promise and placed “55 billion XRP in a cryptographically-secured escrow account to create certainty  
8 of XRP supply at any given time.”<sup>62</sup>

9 90. It published an article detailing this escrow, which explained, “[b]y securing the lion’s  
10 share of XRP in escrow, people can now mathematically verify the maximum supply that can enter  
11 the market. While Ripple has proved to be a responsible steward of XRP supply for almost five years  
12 – and has clearly demonstrated a tremendous track record of investing in and supporting the XRP  
13 ecosystem – *this lockup eliminates any concern that Ripple could flood the market, which we’ve*  
14 *pointed out before is a scenario that would be bad for Ripple!*”<sup>63</sup>

15 91. The article contained a button to allow readers to share it on Twitter with the caption,  
16 “Game changer for \$XRP! 55 billion XRP now in escrow.” Ripple also promoted this article through  
17 its own tweet, which proclaimed: “55B \$XRP is now in escrow. Interested in what this means for  
18 \$XRP markets?”<sup>64</sup> Ripple’s CEO was even more enthusiastic, tweeting: “Boom! 55B \$XRP now in  
19 escrow. Good for supply predictability and trusted, healthy \$XRP markets. Glad to finally let this  
20 #cryptokitty out of the bag!”<sup>65</sup>

21 92. Ripple’s public commitment to limit the supply of XRP had its intended effect. In the  
22

23 <sup>61</sup> Ripple Insights, Q2 2017 XRP Markets Report (Jul. 20, 2017), [https://www.ripple.com/es\\_419/  
insights/q2-2017-xrp-markets-report/](https://www.ripple.com/es_419/insights/q2-2017-xrp-markets-report/).

24 <sup>62</sup> Ripple Escrows 55 Billion XRP for Supply Predictability, [https://ripple.com/insights/ripple-  
escrows-55-billion-xrp-for-supply-predictability/](https://ripple.com/insights/ripple-escrows-55-billion-xrp-for-supply-predictability/) (last visited Aug. 2, 2019).

25 <sup>63</sup> *Id.* (emphasis added).

26 <sup>64</sup> @Ripple, TWITTER (Dec. 7, 2017, 4:51 PM), [https://twitter.com/Ripple/status/938933967  
956389889](https://twitter.com/Ripple/status/938933967956389889).

27 <sup>65</sup> @bgarlinghouse, TWITTER (Dec. 7, 2017, 4:50 PM), [https://twitter.com/bgarlinghouse/status/  
938933791145336832](https://twitter.com/bgarlinghouse/status/938933791145336832).

1 weeks that followed, the price of XRP exploded upwards, from approximately 25 cents on December  
2 7, 2017 to \$3.43 on January 3, 2018.

3 93. Ripple explains its escrow mechanism as follows:

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

9 We'll use Escrow to establish 55 contracts of 1 billion XRP each that will  
10 expire on the first day of every month from months 0 to 54. As each contract  
11 expires, the XRP will become available for Ripple's use. You can expect us  
12 to continue to use XRP for incentives to market makers who offer tighter  
13 spreads for payments and selling XRP to institutional investors.<sup>66</sup>

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

#### 18 4. Defendants Make False Statements Claiming XRP is Not a Security

19 95. Defendants made numerous statements to the public falsely claiming XRP is not a  
20 security to prop up demand and its value.

21 96. For example, on approximately April 11, 2018, Ripple's Chief Market Strategist, Cory  
22 Johnson, told CNBC: "We absolutely are not a security. We don't meet the standards for what a  
23 security is based on the history of court law." Mr. Johnson also said, "Coinbase never ever raised the  
24 issue of whether or not XRP is a security in our discussions about listing XRP. We're 100 percent  
25 clear, it's not a security. We don't meet the standards."<sup>67</sup>

26 97. Ripple's CEO Garlinghouse made similar comments, claiming XRP is not a security,  
27 to the public through a variety of avenues and media channels, including at the CB Insights Future of

28 <sup>66</sup> 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>.

<sup>67</sup> 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>.

1 Fintech, live-streamed by Yahoo Finance.<sup>68</sup>

2 **D. Development Of The XRP Ledger And The Success of XRP Are Dependent On**  
 3 **Defendants' Efforts**

4 98. The development of the XRP Ledger and the success of XRP are dependent on  
 5 Defendants' technical, entrepreneurial, and managerial efforts.

6 99. For example, in February 2017, Ripple promoted a deal with BitGo to build an  
 7 enterprise wallet and treasury management platform for XRP.<sup>69</sup>

8 100. Ripple also publishes a quarterly report detailing its efforts to grow the “XRP  
 9 ecosystem.”<sup>70</sup> In one of these reports, discussing its plan for “Q3 2017,” Ripple states that it “plans to  
 10 focus on three areas of liquidity development as we drive XRP towards its natural position as the  
 11 digital asset standard for international value transfer.” Ripple ends by saying, “[m]ost importantly,  
 12 we are accelerating the pace of *our investment* in the XRP Ledger to *build on its speed, uptime, and*  
 13 *scalability, to ensure XRP is the most trusted enterprise-grade digital asset.*”<sup>71</sup> (emphases added).

14 101. Three months later, in describing its goals for the fourth quarter of 2017, Ripple  
 15 proclaimed it would “continue to expand [its] xRapid partnerships.” It states that its “long-term goal  
 16 is, and always has been, usage of XRP as a liquidity solution for more and more corridors, and  
 17 partnerships are key to achieving this goal.”<sup>72</sup>

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

22 \_\_\_\_\_  
 23 <sup>68</sup> 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>

24 <sup>69</sup> @patgriffin9, TWITTER (Feb. 15, 2017, 11:17 AM), <https://twitter.com/patgriffin9/status/831945571736834048>.

25 <sup>70</sup> Announcing Quarterly XRP Market Operations Report, <https://ripple.com/insights/announcing-quarterly-xrp-market-operations-report/> (last visited Aug. 2, 2019).

26 <sup>71</sup> Ripple Insights, Q2 2017 XRP Markets Report (Jul. 20, 2017), <https://www.ripple.com/insights/q2-2017-xrp-markets-report/>.

27 <sup>72</sup> Ripple Insights, Q3 2017 XRP Markets Report (Oct. 19, 2017), <https://ripple.com/xrp/q3-2017-xrp-markets-report/>.

1 XRP by financial institutions.”<sup>73</sup>

2 103. Ripple’s CEO commented on this partnership, stating: “And to be clear: @MoneyGram  
3 announcement is one step in a marathon ahead to truly make \$XRP the global liquidity solution for  
4 payment providers and banks.”<sup>74</sup>

5 104. Ripple has also used XRP to enter into partnerships intended to drive the adoption of  
6 XRP, and even structured these agreements so that their partner’s compensation is tied to appreciation  
7 of XRP—just as companies often do with shares to ensure that their interests are aligned. In early  
8 2016, Ripple promised R3 Holdco, LLC (“R3”), an enterprise software firm with a network of banks  
9 and financial institutions, the option to purchase 5 billion XRP in exchange for R3 providing Ripple  
10 with access to R3’s consortium of member banks and financial institutions—thereby driving adoption  
11 of XRP.

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

#### 15 **E. Ripple Updates XRP**

16 106. Defendants, and Ripple in particular, are also entirely responsible for updating and  
17 maintaining the XRP Ledger.

18 107. Unlike cryptocurrencies such as Bitcoin and Ethereum, which use a Proof of Work  
19 (“PoW”) consensus mechanism to verify the legitimacy of transactions on the network, the XRP  
20 Ledger relies on trusted nodes operated by Ripple to verify the legitimacy of transactions and maintain  
21 agreement on the network. The PoW mechanism utilized by Bitcoin and Ethereum helps to ensure  
22 the network is decentralized by allowing anyone to use their own hardware and electricity to run the  
23 PoW consensus algorithm to verify transactions on the public ledger and send them to be recorded  
24 throughout the blockchain. The network’s decision-making process is thus placed entirely in the hands

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26 <sup>73</sup> Ripple Insights, Q3 2017 XRP Markets Report (Jan. 24, 2018), <https://www.ripple.com/insights/q4-2017-xrp-markets-report/>.

27 <sup>74</sup> @bgarlinghouse, TWITTER (Jan. 11, 2018, 6:31 AM), <https://twitter.com/bgarlinghouse/status/951461582424358912>.

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

4 108. The XRP Ledger consensus protocol, on the other hand, relies almost entirely on  
5 “trusted nodes” on the Unique Node Lists (“UNL”). The UNL is the set of trusted nodes that  
6 communicate “reliable” information to other nodes on the XRP Ledger. Like miners in Bitcoin and  
7 Ethereum, these “trusted nodes” validate transactions. However, unlike those miners, the trusted  
8 nodes are either selected or controlled by Ripple itself. Ripple provides its own default and  
9 recommended UNL—currently comprised of only five Ripple-hosted nodes. Although Ripple claims  
10 it plans someday in the future to eventually decentralize the network, it admits that it will only remove  
11 its own “trusted nodes” if it decides that other validator nodes are reliable, reputable, stable, and  
12 secure.<sup>75</sup> Ripple’s view of potential decentralization of the XRP Ledger still involves Ripple  
13 maintaining full control over the Ledger and deciding who owns and operates any third-party “trusted  
14 nodes.”

15 109. In January 2018, BitMex Research, a blockchain research group, installed and ran a  
16 copy of Rippled, the software that allows users to run nodes on the XRP Ledger.<sup>76</sup> “The node operated  
17 by downloading a list of five public keys from the server v1.ripple.com.” “The software indicates that  
18 four of the five keys are required to support a proposal in order for it to be accepted [on the XRP  
19 Ledger].” However, “[a]ll five keys are assigned to Ripple.com.” BitMex Research concludes that  
20 “[s]ince the keys were all downloaded from the Ripple.com server, *Ripple is essentially in complete*  
21 *control of moving the ledger forward*, so one could say *the system is centralized.*” (emphasis added).

22 110. BitMex Research continues, “the Ripple system appears for all practical purposes to be  
23 centralized and is therefore perhaps devoid of any interesting technical characteristics, such as  
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25 <sup>75</sup> 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 <sup>76</sup> The Ripple Story, <https://blog.bitmex.com/the-ripple-story/> (last visited Aug. 2, 2019).

1 censorship resistance, which coins like Bitcoin may have. . . .”

2 111. Ripple is also constantly changing and seeking to improve the XRP network. These  
3 changes have decreased transaction times and improved system security, compatibility, use cases and  
4 other features of XRP. At the same time, Ripple has released new “white papers” touting these  
5 upgrades and proposed upgrades to the cryptocurrency and its exchange network. For example,  
6 Ripple released a white paper in February 2016 following a series of upgrades with the subtitle, “The  
7 ROI of Using Ripple and XRP for Global Interbank Settlements.”<sup>77</sup> ROI stands for “return on  
8 investment,” and the paper discussed at length the purported value of using XRP, compared to other  
9 systems.

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

19 113. Ripple’s own XRP product manager, Warren Paul Anderson, frequently markets the  
20 XRP Ledger’s dependence on Ripple’s continued commitment to it. For example, on December 14,  
21 2016, he tweeted: “Thrilled to have the rippled team in town for a summit to discuss the future of  
22 @Ripple Consensus Ledger & XRP as a native digital asset!”<sup>78</sup> Approximately one year later, in  
23 December 2017, he retweeted his own tweet, saying, “It’s that time of year again, and what a year its  
24 been! #XRP Ledger (rippled) core developers in town @Ripple for a summit to discuss planning for

25 \_\_\_\_\_  
26 <sup>77</sup> 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](https://ripple.com/files/xrp_cost_model_paper.pdf).

27 <sup>78</sup> @warpaul, TWITTER (Dec. 14, 2016, 6:47 AM), <https://twitter.com/warpaul/status/809047284717469696>.

1 2018.”<sup>79</sup>

2 114. Later that same day he posted a picture of Ripple engineers with the caption, “A great  
3 day of reflection & planning @Ripple w/ the greatest C++ engineering team in the world #XRP.”<sup>80</sup>

4 On that same day, Ripple’s head of cryptography tweeted: “Today, all the \$XRP Ledger developers  
5 at @Ripple are in SF to reflect on 2017 and plan for 2018.”<sup>81</sup>

6 115. Later in the month, on December 29, 2017, a Ripple software engineer, Nik Bougalis,  
7 tweeted: “I’ve been working on code review for the last couple days. Excited to get rippled 0.90.0 out  
8 the door,”<sup>82</sup> indicating that Ripple was working to release a new version of Rippled to further advance  
9 the XRP Ledger.

10 116. On January 9, 2018, Anderson tacitly admits that the XRP Ledger remains centralized,  
11 tweeting that the “[n]ew \$XRP Ledger (rippled) 0.81.0 release gets us one-step closer to executing on  
12 our aforementioned decentralization strategy. . .”<sup>83</sup>

13 117. Following, Ripple’s release of a Rippled upgrade, Bougalis tweeted, “[t]he C++ team  
14 has released rippled 0.90.0. Cool new features: history sharding, deposit authorizations, checks and  
15 more!”<sup>84</sup> When asked about Rippled, Bougalis continues, “[i]t’s the software one uses to run a server  
16 that connects to the XRP Ledger.”

17 118. On March 5, 2015, Bougalis similarly reposted a tweet defending investing in XRP by  
18 stating: “So you’d invest in Linux, not Microsoft. In UseNet, not Google. In MySQL, not Oracle.  
19 Good luck with your portfolio. ***Ripple is the next Google.*** You’re stuck in the silly idea that ***a***  
20 ***company can’t build a digital asset, even when it does this right under your nose,***” with the caption,

21 \_\_\_\_\_  
22 <sup>79</sup> @warpaul, TWITTER (Dec. 13, 2017, 7:45 AM), <https://twitter.com/warpaul/status/940970970759573505>.

23 <sup>80</sup> @warpaul, TWITTER (Dec. 13, 2017, 3:27 PM), <https://twitter.com/warpaul/status/941087297360994304>.

24 <sup>81</sup> @JoelKatz, TWITTER (Dec. 13, 2017, 8:00 AM), <https://twitter.com/joelkatz/status/940974743733153792>.

25 <sup>82</sup> @nbougalis, TWITTER (Dec. 29, 2017, 11:45 AM), <https://twitter.com/nbougalis/status/946829572145741824>.

26 <sup>83</sup> @warpaul, TWITTER (Jan. 8, 2018, 9:20 PM), <https://twitter.com/warpaul/status/950598053509017600>.

27 <sup>84</sup> @nbougalis, TWITTER (Feb. 20, 2018, 4:26 PM), <https://twitter.com/nbougalis/status/966106932925882368>.

1 “[n]ow that’s a mic drop, if I’ve ever seen one.”<sup>85</sup> (emphasis added).

2 119. Ripple also owns and maintains the page at [github.com/ripple/rippled](https://github.com/ripple/rippled), a Git repository  
3 used to update the XRP Ledger, and one location where Rippled can be downloaded.

4 120. Ripple also pays bounties to those who identify bugs in their software, stating that “we  
5 are very generous with the bug bounties we pay. Anyone that found and responsibly disclosed such a  
6 bug would get a significant reward.”<sup>86</sup>

7 **F. XRP Is A Security**

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

10 122. As explained in the SEC Framework:

11 The U.S. Supreme Court’s *Howey* case and subsequent case law have found  
12 that an “investment contract” exists when there is the investment of money  
13 in a common enterprise with a reasonable expectation of profits to be  
14 derived from the efforts of others. The so-called “*Howey* test” applies to  
15 any contract, scheme, or transaction, regardless of whether it has any of the  
16 characteristics of typical securities. The focus of the *Howey* analysis is not  
17 only on the form and terms of the instrument itself (in this case, the digital  
18 asset) but also on the circumstances surrounding the digital asset and the  
19 manner in which it is offered, sold, or resold (which includes secondary  
20 market sales). Therefore, issuers and other persons and entities engaged in  
21 the marketing, offer, sale, resale, or distribution of any digital asset will  
22 need to analyze the relevant transactions to determine if the federal  
23 securities laws apply.<sup>87</sup>

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

23 124. Purchasers who bought XRP have invested money or given valuable services to a  
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25 <sup>85</sup> @nbougalis, TWITTER (Mar. 5, 2018, 10:52 AM), <https://twitter.com/nbougalis/status/970733741319503872>.

26 <sup>86</sup> @nbougalis, TWITTER (Apr. 19, 2018, 12:37 PM), <https://twitter.com/nbougalis/status/987052572283318273>.

27 <sup>87</sup> SEC Framework § I (internal citations omitted).

1 common enterprise, Defendants. These purchasers have had a reasonable expectation of profit based  
2 upon the efforts of the promoter, Ripple, including, amongst other things, (i) Ripple’s CEO’s  
3 admission that “To build XRP liquidity, we have been mindful over the years about how we distribute  
4 XRP. . . . We engage in distribution strategies that we expect will result in a strengthening XRP  
5 exchange rate against other currencies,” (ii) that Ripple’s home page maintains metrics on the market  
6 performance of XRP and a link to buy XRP on numerous exchanges, (iii) Ripple’s leadership in the  
7 development of the platform, partnering with firms to use the network and influencing significant  
8 control over which nodes can validate transactions, and (iv) the release of new white papers for the  
9 payment network, all of which contributes to the value of XRP.

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

11 125. The SEC Framework states that, “The first prong of the *Howey* test is typically satisfied  
12 in an offer and sale of a digital asset because the digital asset is purchased or otherwise acquired in  
13 exchange for value, whether in the form of real (or fiat) currency, another digital asset, or other type  
14 of consideration.”<sup>88</sup>

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

18 127. Defendants concede that they sell XRP tokens to the general public through  
19 cryptocurrency exchanges.

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

23 129. The SEC Framework states that “[i]n evaluating digital assets, we have found that a  
24 ‘common enterprise’ typically exists.”<sup>89</sup> The SEC Framework also elaborates: “Based on our  
25 experiences to date, investments in digital assets have constituted investments in a common enterprise

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<sup>88</sup> SEC Framework § II(A).

27 <sup>89</sup> SEC Framework § II(B).

1 because the fortunes of digital asset purchasers have been linked to each other or to the success of the  
2 promoter’s efforts.”<sup>90</sup>

3 130. XRP is no exception to the SEC Framework’s observation regarding the “common  
4 enterprise” element of the *Howey* test. The prospective profits of Lead Plaintiff and the Class, if any,  
5 are intertwined with the fortunes of Ripple. Ripple concedes that it “sells XRP to fund its operations  
6 and promote the network. This allows Ripple to have a spectacularly skilled team to develop and  
7 promote the Ripple protocol and network.”<sup>91</sup>

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

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

## 13 2. XRP Investors Had a Reasonable Expectation of Profits

14 133. With respect to the element of “reasonable expectation of profits,” the SEC Framework  
15 states that “[a] purchaser may expect to realize a return through participating in distributions or through  
16 other methods of realizing appreciation on the asset, such as selling at a gain in a secondary market.”<sup>92</sup>

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

19 135. Defendants themselves have recognized that XRP investors have a reasonable  
20 expectation of profit, and publicly touted XRP’s price performance on numerous occasions. Ripple’s  
21 website even contains an “XRP Buying Guide” that provides links to exchanges and instructions on  
22 “how to buy XRP” on those exchanges.<sup>93</sup>

23 136. Ripple’s CEO has publicly touted that he himself is “*very, very, very long XRP*,” and  
24

25 <sup>90</sup> *Id.* at n.11 (citing *SEC v. Int’l Loan Network, Inc.*, 968 F.2d 1304, 1307 (D.C. Cir. 1992)).

26 <sup>91</sup> 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 <sup>92</sup> SEC Framework § II(C).

28 <sup>93</sup> XRP Buying Guide, <https://ripple.com/xrp/buy-xrp/> (last visited Aug. 2, 2019).

1 criticized journalists who suggest that enterprise adoption of XRP may not be as high as Ripple  
2 indicates.

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

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

8 139. For example, on April 11, 2018, Ripple announced that it “had invested \$25 million in  
9 XRP to Blockchain Capital Parallel IV, LP” to “support and develop additional [XRP] use cases  
10 beyond payments.”<sup>94</sup> Ripple’s Senior Vice President of Business Development promoted this  
11 investment, tweeting, “Ripple’s \$25 million investment in @blockchaincap’s new fund is the first and  
12 not the last contribution to ventures that further develop the #blockchain and \$XRP ecosystems.”<sup>95</sup>

13 140. The SEC Framework lays out a number of characteristics informative of whether the  
14 “reasonable expectation of profits” element is met. The SEC Framework states that “[t]he more the  
15 following characteristics are present, the more likely it is that there is a reasonable expectation of  
16 profit.”<sup>96</sup> Based on the facts above, each and every characteristic identified by the SEC Framework is  
17 present in the case of XRP:

- 18 • The digital asset gives the holder rights to share in the enterprise’s income or profits or to  
19 realize gain from capital appreciation of the digital asset.
- 20 • The opportunity may result from appreciation in the value of the digital asset that comes, at  
21 least in part, from the operation, promotion, improvement, or other positive developments in  
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25 <sup>94</sup> 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 <sup>95</sup> @patgriffin9, TWITTER (Apr. 11, 2018, 6:31 AM), <https://twitter.com/Ripple/status/984061347078987776>.

27 <sup>96</sup> SEC Framework § II(C)(1).

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the network, particularly if there is a secondary trading market that enables digital asset holders to resell their digital assets and realize gains.

- 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.

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

25 141. The SEC Framework explains:

26 When a promoter, sponsor, or other third party (or affiliated group of third  
27 parties) (each, an “Active Participant” or “AP”) provides essential managerial

1 efforts that affect the success of the enterprise, and investors reasonably expect  
2 to derive profit from those efforts, then this prong of the test is met. Relevant  
3 to this inquiry is the “economic reality” of the transaction and “what character  
4 the instrument is given in commerce by the terms of the offer, the plan of  
5 distribution, and the economic inducements held out to the prospect.” The  
6 inquiry, therefore, is an objective one, focused on the transaction itself and the  
7 manner in which the digital asset is offered and sold.<sup>97</sup>

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

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

- 12 ▪ Does the purchaser reasonably expect to rely on the efforts of a [promoter]?
- 13 ▪ Are those efforts “the undeniably significant ones, those essential  
14 managerial efforts which affect the failure or success of the enterprise,” as  
15 opposed to efforts that are more ministerial in nature?<sup>98</sup>

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

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

26 145. Ripple created the XRP Ledger and all 100 billion XRP in circulation, and concedes  
27 that it “sells XRP to fund its operations and promote the network,” in order “to have a spectacularly  
28 skilled team to develop and promote the Ripple protocol and network.”<sup>99</sup> And as of April 22, 2018,

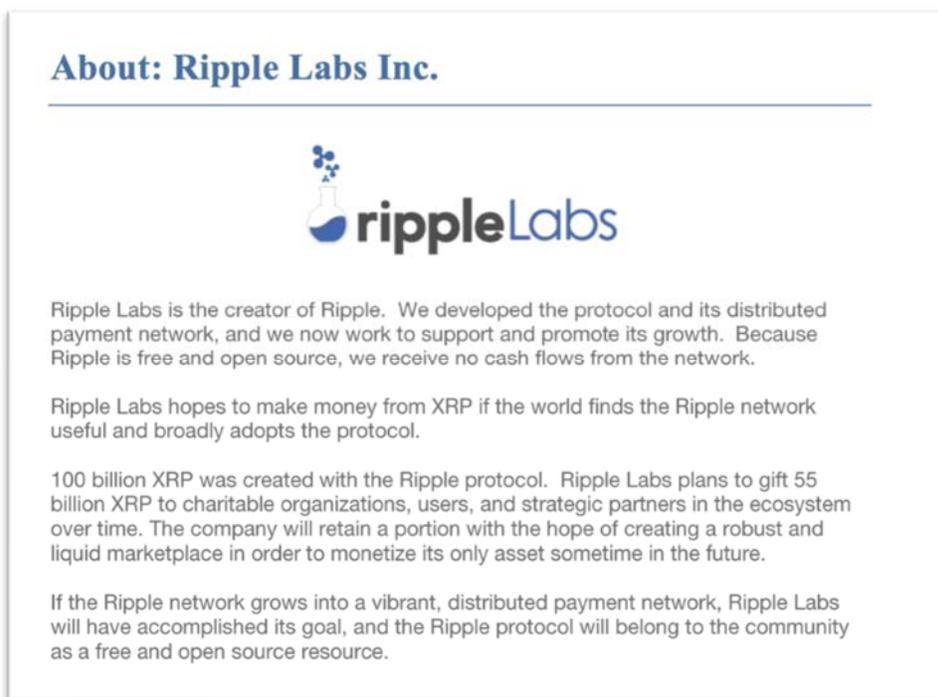
<sup>97</sup> SEC Framework § II(C).

<sup>98</sup> SEC Framework § II(C)(1).

<sup>99</sup> Ripple credits, [https://wiki.ripple.com/Ripple\\_credits#XRP\\_funds\\_the\\_development\\_and\\_promotion\\_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).

1 Ripple still holds at least 60.83 billion XRP—more than 60 percent of the XRP in circulation.<sup>100</sup>

2 146. Although it now claims that it “didn’t create XRP; 100 billion XRP was created before  
3 the company was formed,” Ripple previously admitted that it “is the creator of Ripple.”<sup>101</sup> “We  
4 developed the protocol and its distributed payment network, and we now work to support and promote  
5 its growth.” It acknowledged that “Ripple hopes to make money from XRP if the world finds the  
6 Ripple network useful and broadly adopts the protocol.” Ripple further acknowledged that it “will  
7 retain a portion [of XRP] with the hope of creating a robust and liquid marketplace in order to *monetize*  
8 *its only asset* sometime in the future.” (emphasis added).



25 147. Ripple touts its control over the XRP Ledger as an advantage for XRP, contending that  
26 governance “may be where XRP most significantly distinguishes itself [from Bitcoin, Ethereum, and  
27 Litecoin] going forward.”<sup>102</sup> “Building pivotal infrastructure on top of technology that does not have  
28 clear governance is not palatable for large established companies.”

<sup>100</sup> Market Performance, <https://ripple.com/xrp/market-performance/> (last visited Aug. 2, 2019).

<sup>101</sup> 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/>.

<sup>102</sup> Q4 2017 XRP Markets Report, <https://ripple.com/insights/q4-2017-xrp-markets-report/> (last visited Aug. 2, 2019).

1 148. Ripple also exercises near complete control over the XRP Ledger itself. XRP Ledger  
2 nodes operate “by downloading a list of five public keys from the server v1.ripple.com.”<sup>103</sup> “The  
3 software indicates that four of the five keys are required to support a proposal in order for it to be  
4 accepted [on the XRP Ledger].” However, “[a]ll five keys are assigned to Ripple.com.” “Since the  
5 keys were all downloaded from the Ripple.com server, *Ripple is essentially in complete control of*  
6 *moving the ledger forward*, so one could say *the system is centralized*.” (emphasis added). “[T]he  
7 Ripple system appears for all practical purposes to be centralized and is therefore perhaps devoid of  
8 any interesting technical characteristics, such as censorship resistance, which coins like Bitcoin may  
9 have. . . .”

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

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

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

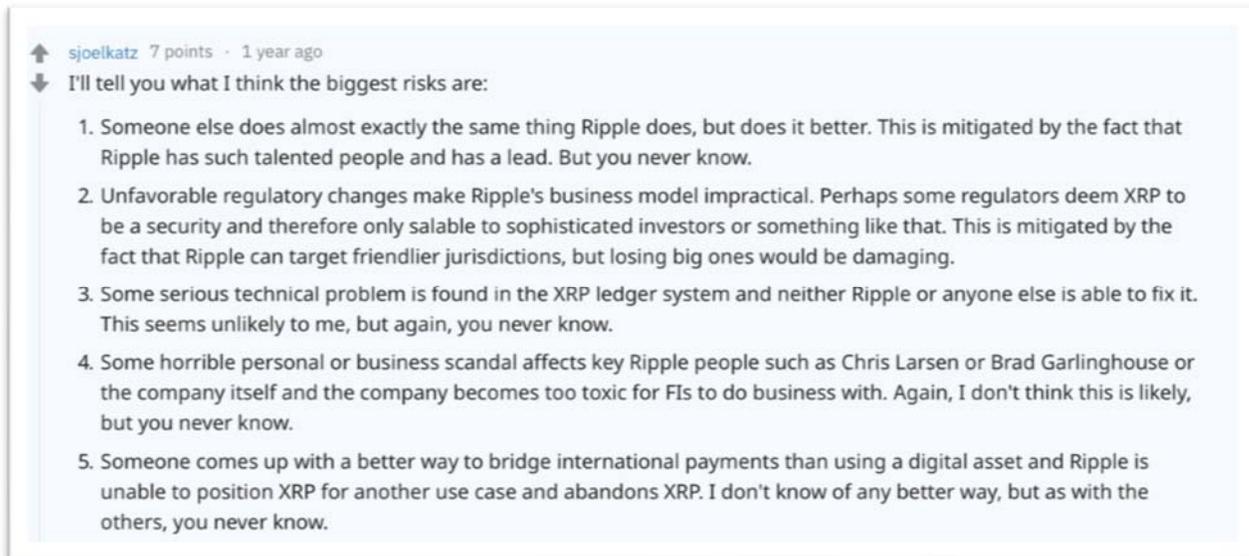
19 b. “Unfavorable regulatory changes make Ripple’s business model impractical.  
20 Perhaps some regulators deem XRP to be a security and therefore only salable to sophisticated  
21 investors or something like that. This is mitigated by the fact that Ripple can target friendlier  
22 jurisdictions,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

23 c. “Some serious technical problem is found in the XRP ledger system and neither  
24 Ripple or anyone else is able to fix it.”  
25

26  
27 <sup>103</sup> The Ripple Story, <https://blog.bitmex.com/the-ripple-story/> (last visited Aug. 2, 2019).

1 d. “Some horrible personal or business scandal affects key Ripple people such as  
2 Chris Larsen or Brad Garlinghouse or the company itself and the company becomes too toxic for FIs  
3 [financial institutions] to do business with.”

4 e. “Someone comes up with a better way to bridge international payments than  
5 using a digital asset and Ripple is unable to position XRP for another use case and abandons XRP.”  
6



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

27 152. The SEC Framework lays out a number of characteristics informative of whether the  
28 “reliance on the efforts of others” element is met. The SEC Framework notes that “although no one  
of the following characteristics is necessarily determinative, the stronger their presence, the more  
likely it is that a purchaser of a digital asset is relying on the ‘efforts of others.’”<sup>104</sup> 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,

<sup>104</sup> SEC Framework § II(C)(1).

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or promotion of the network” and “purchasers of the digital asset expect [Defendants] to be 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:

- 1           ○ Determining whether and how to compensate persons providing services to the network  
2           or to the entity or entities charged with oversight of the network.
- 3           ○ Determining whether and where the digital asset will trade. For example, purchasers  
4           may reasonably rely on [Defendants] for liquidity, such as where the [Defendants have]  
5           arranged, or promised to arrange for, the trading of the digital asset on a secondary  
6           market or platform.
- 7           ○ Determining who will receive additional digital assets and under what conditions.
- 8           ○ Making or contributing to managerial level business decisions, such as how to deploy  
9           funds raised from sales of the digital asset.
- 10           ○ Playing a leading role in the validation or confirmation of transactions on the network,  
11           or in some other way having responsibility for the ongoing security of the network.
- 12           ○ Making other managerial judgements or decisions that will directly or indirectly impact  
13           the success of the network or the value of the digital asset generally.”
- 14
- 15       • “Purchasers would reasonably expect [Defendants] to undertake efforts to promote its own  
16       interests and enhance the value of the network or digital asset, such as where:”
- 17
- 18           ○ Defendants have “the ability to realize capital appreciation from the value of the digital  
19           asset. This can be demonstrated, for example, if the [Defendants] retain[] a stake or  
20           interest in the digital asset. In these instances, purchasers would reasonably expect  
21           [Defendants] to undertake efforts to promote its own interests and enhance the value of  
22           the network or digital asset.”
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- 24           ○ Defendants “distribute the digital asset as compensation to management or  
25           [Defendants’] compensation is tied to the price of the digital asset in the secondary  
26           market. To the extent these facts are present, the compensated individuals can be  
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- 28

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. 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).

16 154. 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.

20 155. 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. . . .”).

3 156. 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.

6 157. 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. 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.

13 159. 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

17 160. 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.

22 161. 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.

26 162. 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           163. 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           164. 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           165. 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           166. Lead Plaintiff has retained competent counsel experienced in securities, consumer  
16 protection, and class action litigation to represent himself and the Class.

17           167. 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.

5 168. 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)**

15 169. 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.

18 170. 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.

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

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

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

27 174. 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).

1 175. 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)**

7 176. 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:

10 177. 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.

12 178. 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.

17 179. 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.

20 180. 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.

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

24 182. 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.

26 183. 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  
28

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)**

6 184. 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.

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

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

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

13 188. 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.

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

17 190. 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)**

23 191. 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.

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

28 193. 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.

2 194. 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.”

6 195. 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.

8 196. 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.

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

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

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

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

21 **FIFTH CLAIM FOR RELIEF**

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

24 201. Lead Plaintiff, on behalf of himself and all others similarly situated, realleges and  
25 incorporates herein by reference each and every allegation contained in the preceding paragraphs of  
26 this Complaint.  
27  
28





1 § 77o and Sections 25504 and 25110 of the California Corporations Code.

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

4 217. Defendants have also violated the "fraudulent" prong of section 17200 by making false  
5 and misleading statements regarding XRP to drive demand for XRP in order to artificially inflate the  
6 price at which they can sell XRP, as set forth in this Complaint. These false and misleading statements  
7 include statements regarding the genesis of XRP, the circulating supply of XRP, adoption of XRP,  
8 and assertion that XRP is not a security subject to federal and state security laws, and they were likely  
9 to deceive a reasonable consumer and the information would be material to a reasonable purchaser of  
10 XRP.

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

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

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

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



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**DEMAND FOR JURY TRIAL**

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

DATED: August 5, 2019

Respectfully submitted,

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