

1 James Q. Taylor-Copeland (284743)
james@taylorcopelandlaw.com
2 TAYLOR-COPELAND LAW
501 W. Broadway, Suite 800
3 San Diego, CA 92101
Telephone: (619) 400-4944
4 Facsimile: (619) 566-4341

5 Marc M. Seltzer (54534)
mseltzer@susmangodfrey.com
6 Steven G. Sklaver (237612)
ssklaver@susmangodfrey.com
7 Oleg Elkhunovich (269238)
oelkhunovich@susmangodfrey.com
8 Meng Xi (280099)
mxi@susmangodfrey.com
9 SUSMAN GODFREY L.L.P.
1900 Avenue of the Stars, 14th Floor
10 Los Angeles, CA 90067
Telephone: (310) 789-3100
11 Facsimile: (310) 789-3150

12 *Counsel for Lead Plaintiff Bradley Sostack*

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

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

11 I. SUMMARY OF ACTION

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

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

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

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

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

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

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

25
26
27 ³ XRP is a Centralized Virtual Currency, Coinmotion (Feb. 11, 2019), <https://coinmotion.com/blog/ripple-is-a-centralized-virtual-currency/>.

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

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

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

23 9. The SEC has made it clear that digital tokens, such as XRP, often constitute “securities
24 and may not be lawfully sold without registration with the SEC or pursuant to an exemption from
25 registration.”⁴ One of the top financial regulators in President Obama’s administration has likewise

26 _____
27 ⁴ See *Investor Bulletin: Initial Coin Offerings*, U.S. Securities and Exchange Commission (July 25,
2017), https://www.sec.gov/oiea/investor-alerts-and-bulletins/ib_coinofferings; see also *In re Matter*

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