IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

ALAMEDA RESEARCH LTD.,	)	
	)	
Plaintiff,	)	
	)	
v.	)	C.A. No. ___________
	)	
GRAYSCALE INVESTMENTS, LLC,	)	
DIGITAL CURRENCY GROUP, INC.,	)	
MICHAEL SONNENSHEIN, and	)	
BARRY SILBERT,	)	
	)	
Defendants.	)	

VERIFIED COMPLAINT

Plaintiff Alameda Research Ltd. ("Plaintiff" or "Alameda"), a debtor in possession that has filed a petition for relief under chapter 11 of the United States Bankruptcy Code, by and through its undersigned attorneys, brings this Verified Complaint against Defendants Grayscale Investments, LLC ("Grayscale"), Digital Currency Group, Inc. ("DCG"), Michael Sonnenshein, and Barry Silbert (collectively "Defendants"), and alleges as follows:

NATURE OF THE CASE

1. This action arises out of Defendants' brazen abuse of their control over nearly $19 billion of digital assets held in two trusts to enrich themselves at the expense of trust shareholders. Due to Defendants' malfeasance and refusal to allow redemptions, the only way for shareholders to exit their investments is by selling

their shares in the trusts in the secondary market, where shares are trading at a fraction of their proportionate interest in trust assets. Meanwhile, with investor capital trapped, Defendants have siphoned off over a billion dollars in fee income over the last two years alone. As a significant trust shareholder, Alameda brings this action for the benefit of its chapter 11 bankruptcy estate to recover the hundreds of millions of dollars in harm that it is suffering at Defendants' hands. Remedying the harm to the Alameda debtor will also unlock approximately $9 billion or more in value for over one million other trust shareholders, many of whom are small retail investors that Defendants are continuing to exploit.

2. The Grayscale Bitcoin Trust (the "Bitcoin Trust") and Grayscale Ethereum Trust (the "Ethereum Trust" and, together, the "Trusts"), are two Delaware statutory trusts that Grayscale formed and manages for the ostensible purpose of permitting investors to mimic investments in Bitcoin or Ether, without being burdened by the complexities of holding digital assets themselves. The Trusts were designed to accomplish this goal by issuing shares to investors that are backed by a proportional interest in the Trusts' portfolios, which are comprised entirely of Bitcoin (for the Bitcoin Trust) and Ether (for the Ethereum Trust). As the sponsor of the Trusts, Grayscale compensates itself with an annual "Sponsor's Fee" calculated as a percentage of the net asset value in the Trusts. The Sponsor's Fee

that Grayscale has pocketed at the expense of the Trusts' shareholders has historically been 2% for the Bitcoin Trust and 2.5% for the Ethereum Trust.

3. The fundamental investment objective for each of the Trusts is for the value of issued shares to reflect the value of the Trusts' Bitcoin and Ether holdings. In this respect, the Trusts are similar to other "tracking funds" that allow investors to gain exposure to commodities or other assets through investment in the fund rather than the underlying commodity or assets themselves. These products appeal to investors because they provide exposure to types of assets—such as gold, the entire S&P 500 index, or digital currencies—that are difficult to invest in directly.

4. For years, the Trusts proved to be very popular investments, especially among retail investors seeking to capitalize on the appreciation of Bitcoin and Ether. For much of their history, this popularity resulted in shares of the Trusts being in such demand that they traded in the secondary market at prices reflecting a premium to the value of Bitcoin and Ether in the Trusts' portfolios. Exploiting this pricing premium, Grayscale rapidly grew the Trusts through repeated issuances of new shares backed by ever-expanding portfolios. By the end of 2020, the Bitcoin Trust had grown to hold approximately 3.3% of the world's Bitcoin while the Ethereum Trust had grown to hold approximately 2.6% of the world's Ether. And, as Grayscale intended, its Sponsor's Fees grew exponentially with this increase in the Trusts' holdings, hitting nearly $110 million in 2020.

5. Starting in February 2021, the market for the Trusts started to change. As competing products emerged with more favorable fee structures, demand for the Trusts waned and their shares began trading at a discount to the value of the Trusts' assets. Over the ensuing two years, that discount has widened to about 50%—meaning the shares are trading at a price that is roughly half the value of the Bitcoin and Ether that are backing them. Today, that discount equates to a loss in market capitalization of over $6 billion for investors in the Bitcoin Trust (which presently holds about $14 billion in Bitcoin) and nearly $3 billion for investors in the Ethereum Trust (which presently holds about $5 billion in Ether). For the Alameda debtor alone, the discount equates to a loss in the market value of its holdings in the Trusts of over $250 million.

6. The Trusts have a built-in mechanism to eliminate this discount. Under the Trust Agreements,[1] Grayscale can authorize share redemptions through which

[1] The term "Trust Agreement" as used herein refers to the currently operative Bitcoin Trust agreement. The Bitcoin Trust agreement that Grayscale contends to be currently operative is the Fifth Amended and Restated Trust Agreement, dated September 12, 2018 (the "Fifth Amended Bitcoin Trust Agreement"), which is attached as Exhibit 1 hereto. However, as explained in Section III *infra*, due to Grayscale's failure to obtain contractually required authorizations for certain amendments, the actual currently operative Bitcoin Trust agreement is the Third Amended and Restated Trust Agreement, dated January 1, 2016 (the "Third Amended Bitcoin Trust Agreement"), which is attached as Exhibit 2 hereto. For consistency and clarity, citations herein to provisions of the "Trust Agreement" reference the provisions and language used in the Fifth Amended Bitcoin Trust Agreement. In almost all instances, the Trust Agreement provisions cited herein are

(footnote continued)

Trust investors could exchange their Bitcoin Trust or Ethereum Trust shares for their corresponding interest in the underlying Bitcoin or Ether. By allowing these redemption transactions, the Trusts can effectively tether the price of the Trusts' shares to the value of the assets backing them, because shares trading below net asset value will be purchased by arbitrageurs who will then exchange those shares for their full, proportionate value in digital assets. As for the impact of Grayscale's excessive fee structure on the Trusts' shareholders, the Trust Agreements included a fix for that, too. They require that Grayscale monitor the Trusts' fee structures and negotiate competitive rates.

7. Yet, possessed by self-interest, Defendants have shamelessly operated the Trusts solely to maximize their own fee income, without regard to the impact on the Trusts' investors. Through this disloyal campaign of greed, Defendants have secured over a billion dollars of fees for themselves while driving the trading prices of the Trusts' shares almost nine billion dollars below their intrinsic value. All of

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materially identical in relevant respects to provisions in the Third Amended Bitcoin Trust Agreement (though section numbers may differ). Where there are substantive differences between the versions of the agreements—notably in respect of redemptions—they are noted and discussed. Similarly, the term "Trust Agreements" refers to the Trust Agreement together with the currently operative Ethereum Trust agreement, the Amended and Restated Trust Agreement, dated July 3, 2018 (itself the "Ethereum Trust Agreement"), which is attached as Exhibit 3 hereto. Likewise, while the section numbering may differ, the Trust Agreement provisions cited herein are materially identical in relevant respects to provisions in the Ethereum Trust Agreement, unless otherwise indicated.

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