

**UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK**

ALEXANDER CLIFFORD and CHASE  
WILLIAMS, individually and on behalf of all others  
similarly situated,

Plaintiffs,

v.

TRON FOUNDATION, JUSTIN SUN, and  
ZHIQIANG (LUCIEN) CHEN,

Defendants.

No. \_\_\_\_\_

**JURY DEMANDED**

**CLASS ACTION COMPLAINT**

Plaintiffs Alexander Clifford and Chase Williams, individually and on behalf of all others similarly situated, bring this action against Defendants TRON Foundation (“TRON”), Justin Sun, and Zhiqiang (Lucien) Chen. Plaintiffs’ allegations are based upon personal knowledge as to themselves and their own acts, and upon information and belief as to all other matters based on the investigation conducted by and through Plaintiffs’ attorneys, which included, among other things, a review of relevant whitepapers, press releases, media reports, and other publicly disclosed reports and information about Defendants. Plaintiffs believe that substantial additional evidentiary support will exist for the allegations set forth herein, after a reasonable opportunity for discovery. Plaintiffs hereby allege as follows:

**I. INTRODUCTION**

1. Within the Class Period, which is from June 26, 2017, through the present, TRON and individual defendants Justin Sun and Zhiqiang (Lucien) Chen (the “Individual Defendants”) promoted, offered, and sold TRON’s securities, called TRX tokens, throughout the United States, in violation of federal and state securities laws. Plaintiffs individually and on behalf of investors who purchased TRX in the United States (the “Class”) bring claims to recover the consideration paid for the TRX tokens, together with interest thereon, as well as attorneys’ fees and costs.

2. A digital token is a type of digital asset that exists on what is called a “blockchain,” which is essentially a decentralized digital ledger that records transactions. Various digital assets can reside on blockchains, including cryptocurrencies, such as Bitcoin and Ethereum (both discussed in greater detail below), as well as so-called “smart contracts” that operate under a set of predetermined conditions agreed to by users. With smart contracts, the terms of the contract are automatically carried out by the software underlying the digital tokens (which, as relevant here, are referred to as “ERC-20 tokens” and exist on the Ethereum blockchain) when the agreed conditions are met.

3. Certain of these digital tokens are sometimes classified as “utility tokens” and are associated with particular projects. Their primary purpose is to allow the holder to use or access the associated project. For example, one private-jet company issues utility tokens to participants in its membership program, who can then use them to charter flights on the company’s planes. A utility token presumes a functional network on which the token can be used.

4. Other tokens are more speculative, and are referred to as “security tokens,” and like a traditional security essentially represent one’s investment in a project. Although they take value from the startup behind the project, they do not give the holder ownership in that startup. Rather, investors purchase these tokens with the idea that their value will increase in the future as the network in which the token can be used is expanded based upon the managerial efforts of the issuer and those developing the project. Because such “security tokens” are properly classified as securities under federal and state law, the issuers of these tokens, including TRON, were required to file registration statements with the U.S. Securities and Exchange Commission (“SEC”). TRON, however, failed to do so. By selling these unregistered tokens to investors, TRON reaped millions of dollars in profits.

5. The scheme worked as follows: First, TRON issued a “whitepaper” to investors that described in highly technical terms the supposed utility to which TRX would be placed. The TRON whitepaper, however, omitted the disclosures that securities laws and the SEC have long deemed essential to investor protections in initial public offerings, including use of “plain English” to describe the offering; a description of key information and incentives concerning management; warnings about relying on forward-looking statements; an explanation of how the proceeds from the offering would be used; and a standardized format that investors could readily follow. Without

these critical disclosures, investors in TRX tokens were thus left to fend for themselves—precisely the opposite of what the securities laws require.

6. TRON then sold the TRX tokens to investors through an “initial coin offering” (or “ICO”). TRON kept 35 percent of the TRX tokens for itself and solicited online exchanges of digital assets (known as “cryptocurrency exchanges”) to list TRX tokens on their platforms and encourage purchases by a wide universe of investors. Although TRX was a security, TRON did not register it as a security with the SEC and did not qualify for an exemption from registration requirements.

7. TRON did not disclose at issuance that TRX was a security. In fact, the TRON whitepaper expressly stated that “TRX is not a security” and that “owning TRX does not mean that its owner has been afforded with the proprietary right, controlling right, and/or policy-making right regarding the TRON platform.” Misleadingly, the whitepaper identified potential “risks after supervisory regulations are formed.” This disclaimer merely contemplated potential *future* regulations that could impact the status of the TRX offering, indicating the regulations did not apply at the time:

Risks after supervisory regulations are formed: It cannot be denied that in the near future, supervisory regulations will be formed to restrain the fields of blockchain and electronic tokens. If supervisory and regulatory bodies perform a standard management over these fields, the electronic tokens purchased during the ICO period may be affected. The impacts include, but are not limited to, price and stability fluctuations and restraints.

Investors thus reasonably understood that TRX was not subject, at issuance, to U.S. securities laws. In addition, TRON further confirmed to investors at issuance that TRX was not a security by failing to file a registration statement for it with the SEC.

8. TRON promoted, offered, and sold TRX through generalized solicitations using statements posted on the Internet and distributed throughout the United States and the rest of the world, such that TRON offered and sold the securities to Plaintiffs and the general public in the United States. Although TRON described the TRX tokens as something other than securities, they were securities. This was not clear to a reasonable investor at purchase, however, and would not have been reasonably apparent until, at the earliest, April 3, 2019, when the SEC released a detailed “Framework” to analyze digital assets, indicating that TRX and other similar digital tokens are “investment contracts” and therefore securities under Section 2 of the Securities Act of 1933 (the “Securities Act”), 15 U.S.C. § 77b(a)(1).<sup>1</sup> Prior to that time, based on statements of TRON and the SEC, a reasonable investor would not have concluded that such tokens were securities under federal and state law. But TRX *was* a security under the applicable SEC Framework. TRON thus engaged in transactions that consisted of the solicitation, offer, and sale of securities without registering them as federal and state laws require for the protection of investors.

9. On September 30, 2019, nearly six months after releasing its Framework, the SEC found that another major issuer of digital tokens, Block.one, which had issued a token called EOS between June 2017 and June 2018, had likewise violated the Securities Act by selling unregistered securities to the public. The EOS token was functionally identical to TRX—both tokens were not described as securities to investors, but are securities under the SEC’s April 2019 Framework. As a result of an SEC enforcement action, Block.one was required to pay a \$24 million fine.<sup>2</sup> The SEC’s determination that EOS is a security applies with equal force to TRX.

---

<sup>1</sup> *Framework for “Investment Contract” Analysis of Digital Assets*, SEC (April 3, 2019), [https://www.sec.gov/corpfin/framework-investment-contract-analysis-digital-assets#\\_ednref1](https://www.sec.gov/corpfin/framework-investment-contract-analysis-digital-assets#_ednref1).

<sup>2</sup> Press Release, *SEC Orders Blockchain Company to Pay \$24 Million Penalty for Unregistered ICO* (Sept. 30, 2019), <https://www.sec.gov/news/press-release/2019-202>; Block.one, Exchange Act Release No. 10714, 2019 WL 4793292 (Sept. 30, 2019).

# Explore Litigation Insights

Docket Alarm provides insights to develop a more informed litigation strategy and the peace of mind of knowing you're on top of things.

## Real-Time Litigation Alerts



Keep your litigation team up-to-date with **real-time alerts** and advanced team management tools built for the enterprise, all while greatly reducing PACER spend.

Our comprehensive service means we can handle Federal, State, and Administrative courts across the country.

## Advanced Docket Research



With over 230 million records, Docket Alarm's cloud-native docket research platform finds what other services can't. Coverage includes Federal, State, plus PTAB, TTAB, ITC and NLRB decisions, all in one place.

Identify arguments that have been successful in the past with full text, pinpoint searching. Link to case law cited within any court document via Fastcase.

## Analytics At Your Fingertips



Learn what happened the last time a particular judge, opposing counsel or company faced cases similar to yours.

Advanced out-of-the-box PTAB and TTAB analytics are always at your fingertips.

## API

Docket Alarm offers a powerful API (application programming interface) to developers that want to integrate case filings into their apps.

## LAW FIRMS

Build custom dashboards for your attorneys and clients with live data direct from the court.

Automate many repetitive legal tasks like conflict checks, document management, and marketing.

## FINANCIAL INSTITUTIONS

Litigation and bankruptcy checks for companies and debtors.

## E-DISCOVERY AND LEGAL VENDORS

Sync your system to PACER to automate legal marketing.