

**IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK**

CRYPTO ASSETS OPPORTUNITY
FUND LLC and JOHNNY HONG,
individually and on behalf of all others
similarly situated,

Plaintiffs,

v.

BLOCK.ONE, BRENDAN BLUMER,
DANIEL LARIMER, IAN GRIGG, and
BROCK PIERCE,

Defendants.

Civ. No. 1:20-cv-3829

JURY TRIAL DEMANDED

**CLASS ACTION COMPLAINT FOR VIOLATIONS
OF THE FEDERAL SECURITIES LAWS**

Plaintiffs Crypto Assets Opportunity Fund LLC and Johnny Hong, together and on behalf of all others similarly situated, by their undersigned attorneys, bring this action against Defendants Block.one, Brendan Blumer, Daniel Larimer, Ian Grigg, and Brock Pierce (collectively, “Defendants”). With knowledge of their own acts and acts taking place in their presence, and upon information and belief as to all other matters, Plaintiffs allege the following:

I. SUMMARY OF THE ACTION

1. This is a federal securities class action that asserts claims under the Securities Act of 1933 (the “Securities Act”) and the Exchange Act of 1934 (the “Exchange Act”). This action is brought on behalf of all investors who purchased securities issued by Block.one called “EOS Tokens” (the “EOS Securities”) during the period of June 26, 2017 to the present (the “Class Period”). This action asserts claims arising under Sections 5 and 12(a)(1) of the Securities Act for failure to register the EOS Securities pursuant to the federal securities laws; Section 12(a)(2) of the Securities Act for issuing the EOS Securities pursuant to a materially false and misleading prospectus; Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder for disseminating materially false and misleading statements concerning the EOS Securities during the Class Period; and Section 15 of the Securities Act and Section 20(a) of the Exchange Act for control person liability.

2. This case arises out of a fraudulent scheme, fueled by a global frenzy over cryptocurrencies and unchecked human greed, to raise billions of dollars through sales of a cryptocurrency called EOS – an unregistered security – to investors in violation of the United States federal securities laws. To drive the demand for and increase profit from the sales of EOS Securities, Defendants further violated the securities laws by making materially false and

misleading statements about EOS, which artificially inflated the prices for the EOS Securities and damaged unsuspecting investors.

3. Block.one was founded in early 2017 by Brock Pierce, Brendan Blumer, and Daniel Larimer. They sought to capitalize on the investor fervor for cryptocurrencies by promising that they would develop software to run a new highly decentralized blockchain (the “EOS Blockchain”). Blockchains are ledgers that record digital transactions between two parties. Access rights to the assets in those transactions are represented by cryptographic tokens, which are commonly referred to as “cryptocurrency.” The most prominent cryptocurrency is bitcoin, but many others exist, including ether.

4. The most important feature of blockchains is that they are “decentralized.” Centralized platforms are controlled by a centralized authority. Some prominent digital examples are Yahoo! and Facebook. The centralized authority has the power to collect and store user data, can set the rules of engagement for the platform, and can make unilateral determinations that affect all users. Centralization requires inherent trust in the central authority controlling the platform, including that it will ensure that users’ data remains secure. But since all the information flows through a single, central authority, centralized platforms are relatively easy to hack.

5. Decentralized systems spread the power and authority among many users. The more users that are tied to a particular system, the more decentralized the platform becomes. Specifically, decentralized platforms such as blockchain depend on many users to verify information, and information flows directly from person to person, rather than through a centralized authority. The main benefits are efficiency (from the elimination of transaction intermediaries); transparency (from ability to access entire record of transactions by any user); and security (from lack of central point of failure).

6. Decentralization occurs in degrees, and Block.one hyped its ability to create a more decentralized system that was superior to the blockchains already in existence: the EOS Blockchain. In order to fund the development of software that would underlie its new blockchain (i.e., the “EOSIO software”), Block.one began to devise a plan to offer and sell EOS Securities in an “initial coin offering,” or “ICO.” Defendants first publicly announced this plan on or about May 22, 2017, at a conference in New York City. The announcement was accompanied by a flashy, expensive ad purchase on a large billboard overlooking Times Square.

7. On June 5, 2017, Block.one published a White Paper, which touted “a new blockchain architecture designed to enable vertical and horizontal scaling of decentralized applications. This is achieved by creating an operating system-like construct upon which applications can be built. . . . The resulting technology is a blockchain architecture that may ultimately scale to millions of transactions per second, eliminates user fees, and allows for quick and easy deployment and maintenance of decentralized applications, in the context of a governed blockchain.” The White Paper included a section called “Governance,” which highlighted the features that purportedly would enhance decentralization of the EOS Blockchain.

8. On June 26, 2017, Defendants began selling the EOS Securities in a year-long ICO aimed at both wealthy investors and the general public. Block.one kept 10 percent of the EOS Securities for itself and solicited online exchanges of digital assets (known as “cryptocurrency exchanges”) to list EOS Securities on their platforms and encourage purchases by a wide universe of investors. Block.one offered and sold EOS Securities using the “EOS Purchase Agreement,” which did not comply with the requirements for a registered offering of securities, nor did the EOS Securities qualify for an exemption to the registration requirements under the federal securities laws. By failing to prepare and file a registration statement, Block.one did not provide critical

information to purchasers of EOS Securities, such as information about Block.one's financial condition, future plans of operation and budget, the proposed uses of investor proceeds, and detailed disclosures of material trends and the most significant factors that made the ICO speculative and risky. Block.one thus failed to disclose information that was relevant to investors' evaluation of Block.one's promises about the EOS Securities and EOSIO software.

9. Following their initial sale, the EOS Securities also traded in a secondary market, including on the U.S. exchanges Coinbase and Kraken, which are cryptocurrency trading platforms. Since July 2017, just one month after the start of its public sale of EOS Securities, EOS has been trading on these exchanges, soaring to a high of \$22.89 on April 29, 2018.

10. While Block.one did not provide a registration statement, the Individual Defendants, who promoted the sale of the EOS Securities, made dozens of materially false and misleading statements to induce investors to purchase the EOS Securities. These statements were disseminated both prior to the launch of the ICO and throughout its duration, inflating the price of the EOS Securities sold both in the ICO and on the secondary market. The false statements concerned the capabilities of the anticipated EOSIO software that Block.one was developing, including in particular its ability to support a "decentralized" blockchain. Block.one's founders declared the EOS Blockchain superior to existing cryptocurrency blockchains. Contrary to Defendants' false statements, as was slowly revealed throughout the Class Period, the EOS Blockchain was highly *centralized* and was not superior to the other blockchains already in use.

11. Defendants' efforts to generate demand for, and inflate the price of, the EOS Securities through their use of false statements were successful. By the end of the offering and sale of EOS Securities, Block.one raised over \$4 billion from investors worldwide, including from the United States-based investors.

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