

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

ERIK CROWL, KEITH WADE, ERIC O'REILLY, ALTON PARKER, STEVEN HEY, NATHAN COHEN, SAMUEL GLICK, FARSHID SEPASSI, ROBERT NEELY, ANTHONY WATSON, TYLER HANDLEY, QWNTM CAPITAL LIMITED LIABILITY LIMITED PARTNERSHIP, DAVID WARD, ANDRE PAEZ, and SALEM ALOBAID

Case No. 1:22-cv-7313

JURY TRIAL DEMANDED

Plaintiffs,

vs.

STRONGBLOCK, DAVID MOSS, BRIAN ABRAMSON, COREY LEDERER, KONSTANTIN SHKUT, AND JOHN DOE
DEFENDANTS 1-5,

Defendants.

COMPLAINT

Plaintiffs, ERIK CROWL (“Crowl”), KEITH WADE (“Wade”), ERIC O’REILLY (“O’Reilly”), ALTON PARKER (“Parker”), STEVEN HEY (“Hey”), NATHAN COHEN (“Cohen”), SAMUEL GLICK (“Glick”), FARSHID SEPASSI (“Sepassi”), ROBERT NEEELY (“Neely”), ANTHONY WATSON (“Watson”), TYLER HANDLEY (“Handley”), QWNTM CAPITAL LIMITED LIABILITY LIMITED PARTNERSHIP (“QWNTM”), DAVID WARD (“Ward”), ANDRE PAEZ (“Paez”), and SALEM ALOBAID (“Alobaid”) (collectively referred to as “Plaintiffs”) bring this Complaint against Defendants, STRONGBLOCK (“Strongblock”), DAVID MOSS (“Moss”), BRIAN ABRAMSON (“Abramson”), COREY LEDERER (“Lederer”), KOSTANTIN SHKUT

(“Shkut”), and potential John Doe entities and individuals (collectively referred to as “Defendants”), and allege as follows, upon personal knowledge as to Plaintiffs’ own acts and experiences, and, as to all other matters, upon information and belief, including an investigation conducted by Plaintiffs’ attorneys.

INTRODUCTION

1. Strongblock is an unincorporated general partnership operating within the United States of which the individual Defendants are partners. From at least September 29, 2020, to the present (the “Relevant Period”), Defendants sold various Strongblock securities to Plaintiffs without registering those securities or complying with any exemption from registration.

2. The securities sold by Defendants included Strongblock digital or crypto assets known as tokens and nodes. Defendants named the Strongblock tokens they sold STRNG and STRNGR. Defendants sold Strongblock nodes to Plaintiffs with the promise those nodes would provide daily token rewards in perpetuity. As an example, Strongblock sold “S1 nodes” to Plaintiffs for ten Strongblock tokens and promised those nodes would in turn earn Plaintiffs token rewards on a *per diem* basis in perpetuity with no cap or limitation, something Defendants marketed as Node Universal Basic Income (“NUBI”).

3. Based on the facts and circumstances set forth below, the Strongblock tokens and nodes were securities under the federal securities laws. Purchasers of STRNG and STRNGR tokens and Strongblock nodes, including Plaintiffs, had a reasonable expectation of future profit based upon Defendant’s efforts, including the development of the Strongblock network, its nodes, and its NUBI reward system, and the launch of a Strongchain blockchain Defendants are developing. Defendants violated at least Sections 5(a) and 5(c) of the Securities Act by offering and selling these securities without a registration statement or exemption from registration.

4. Crypto-assets exist on a blockchain, which is a decentralized digital ledger that records all transactions. Following the creation of Bitcoin, which was the first prominent digital asset, the number of digital assets in general circulation has increased dramatically. There are many different kinds of crypto-assets; some closely resemble Bitcoin or other commodities, in that they are decentralized. For decentralized commodities, prices may rise or fall based upon supply and demand, but there is no centralized mechanism for creating more such commodities.

5. In contrast, other digital assets are similar to traditional securities in that they represent one's investment in a project that is to be undertaken with the funds raised through the sale of the tokens and more specifically here, Nodes. Like traditional securities, investors purchase these tokens with the hope that their value will increase as the issuer that created the token uses its managerial efforts to create some use—typically described to investors in a “whitepaper”—that will give the token value.

6. But despite the fact that the Strongblock tokens and nodes are securities, none of them are registered with the U.S. Securities and Exchange Commission (“SEC”) or with state regulators. This means that purchasers including Plaintiffs did not have access to disclosures that accompany the issuances of traditional securities. Rather, investors including Plaintiffs received—at most—only whitepapers, flash papers, blogs, and other articles (“Promotional Materials”), which described the tokens and nodes, but which did not satisfy the requirements for a prospectus under the securities laws. These Promotional Materials were often supplemented by Defendants with advertisements, social media postings, and Ask me Anything or “AMA” sessions hosted by Moss himself, that further promoted the Strongblock tokens and nodes for sale.

7. Defendants promoted Strongblock as a “Blockchain Revolution” that provided consumers the ability to participate in, and profit from, the growth of blockchain infrastructure.

To participate, Defendants required Plaintiffs first purchase Strongblock tokens that they could then use to purchase Strongblock nodes. Once a Strongblock node was purchased, Plaintiffs were guaranteed lifetime uncapped rewards to be paid to Plaintiffs in Strongblock tokens.

8. Virtual networks like blockchains consist of groupings of data blocks stored on nodes that are linked together and exchange information between each other to ensure their information is contemporaneously maintained. As nodes store, distribute, and maintain blockchain data they are both common and vital to a blockchain's infrastructure. The more nodes a blockchain has, the more reliable, and thus valuable, that blockchain is to users and, in turn, owners of the nodes.

9. Generally, nodes are classified as either "Full" or "Lightweight" nodes. "Full Nodes" act analogously to servers for a decentralized network by: (1) establishing consensus between other nodes; (2) confirming transactions on a blockchain; and, (3) maintaining copies of a blockchain's data. "Full Nodes" are also often the only nodes that may vote on matters affecting the future of the blockchain and therefore play an integral role in the network's governance. Strongblock marketed and advertised the nodes purchased by Plaintiffs as Full Nodes.

10. The Strongblock nodes purchased by Plaintiffs were seen as a traditional securities investment in that Plaintiffs directly purchased nodes from Defendants for ten (10) Strongblock tokens¹ and were promised each node would then earn Plaintiffs a fractional amount of Strongblock token back on a per-diem basis in perpetuity, which Strongblock called NUBI rewards. Plaintiffs gave Defendants STRNG and STRNGR tokens in exchange for the creation of

¹ The native token currently used by the Strongblock system is the STRNGR token. STRNGR is a derivative of its predecessor native token STRNG which was retired from meaningful use upon the project's need for an "upgrade" to STRNGR. The upgrade to STRNGR was based upon, *inter alia*, a prevailing need to mint additional native tokens which was provided for in the STRNGR smart contract. Strongblock did not have the ability to mint new STRNG tokens under the STRNG smart contract.

a Strongblock nodes with a per-diem “lifetime” reward to be paid in STRNG or STRNGR tokens.

11. In February 2020, Strongblock appeared in the cryptocurrency space as a pioneer with the first working platform that incentivized individuals and entities alike to own nodes because it was the **only** platform providing rewards to node-holders. As Strongblock exploded with popularity, the Strongblock token price soared to an all-time high of approximately \$1,200.00 per token. Defendants have sold over 500,000 Strongblock nodes, some for over \$10,000 a piece. In selling their Strongblock nodes, Defendants promised daily rewards, in perpetuity, to Strongblock nodes owners.

12. As explained in further detail below, Defendants pulled the rug out from under every node holder by arbitrarily and unilaterally capping in April 2022 the cumulative rewards that could be generated by an individual node, without notice and in contravention to their own express statements that node rewards would never go to zero. Further, these egregious unilateral changes by Strongblock constituted a material alteration of the terms, representations, and circumstances under which Plaintiffs bought the Strongblock nodes from Defendants to the detriment of Plaintiffs, something Defendants knew or should have known would cause severe damage to Plaintiffs.

13. Defendants sold millions of dollars of nodes to Plaintiffs based on the promise they would earn “lifetime” NUBI rewards. Defendants willfully and intentionally, or negligently, misrepresented the NUBI reward system to Plaintiffs to the material detriment of Plaintiffs.

14. Because Defendants (1) sold nodes in violation of federal securities laws; (2) fraudulently induced Plaintiffs to buy Strongblock token and node securities; (3) fraudulently or negligently misrepresented Strongblock; (4) converted Plaintiffs assets; (5) defrauded Plaintiffs into transacting for nodes under the promise of “lifetime” rewards; (6) breached the promises

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