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**UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA
SAN FRANCISCO DIVISION**

AMANDA HOUGHTON, CHARLES
DOUGLAS, and SUSAN FRANKLIN, on
behalf of themselves and all others
similarly situated,

Plaintiffs,

vs.

COMPOUND DAO, a California general
partnership; ROBERT LESHNER;
GEOFFREY HAYES; AH CAPITAL
MANAGEMENT, LLC; POLYCHAIN
ALCHEMY, LLC; BAIN CAPITAL
VENTURES (GP), LLC; GAUNTLET
NETWORKS, INC; PARADIGM
OPERATIONS LP,

Defendants.

Case No. 22-cv-7781

**COMPLAINT
CLASS ACTION
JURY TRIAL DEMANDED**

Date: December 8, 2022

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Preliminary Statement

1
2 1. Compound is a business that allows users to borrow and lend crypto
3 assets, in much the same way that a traditional bank allows customers to borrow and
4 lend traditional currencies. Like a traditional bank, Compound earns money on the
5 spread between the rate borrowers pay and the rate lenders earn. As of the date of
6 this filing, the aggregate loans made through Compound are worth a little under
7 three billion dollars.

8 2. Compound was created in 2017 by Compound Labs, Inc., a corporation
9 headquartered in San Francisco. In May 2020, Compound Labs transferred control
10 over the Compound business to Defendant Compound DAO, a California general
11 partnership. Compound DAO is governed by the holders of a security called COMP.
12 In this respect, the DAO is analogous to a traditional company governed by its
13 shareholders, except in crypto terminology, a unit of COMP is referred as a “token”
14 instead of a “share.” More than 50% of COMP tokens are controlled by fewer than ten
15 people, including Defendants here. As Compound Labs’ general counsel put it when
16 the company passed control to Compound DAO, these people now “manage” the
17 Compound business.

18 3. Shortly after Compound Labs transferred control of its business to
19 Compound DAO, the DAO began offering COMP tokens to the public. It did so
20 through a process known as “yield farming”: Users who borrowed or loaned crypto
21 assets with Compound were provided with COMP proportional to the amount they
22 borrowed or loaned. COMP immediately exploded in value, creating a speculative
23 frenzy of users borrowing and lending assets not because they had a need for those
24 services, but solely to obtain COMP from the DAO with the expectation of making a
25 profit by immediately selling it on the secondary market. The price of COMP
26 skyrocketed—but has since plummeted.

27 4. COMP is a security. Users purchase COMP to gain an ownership share
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1 in the Compound business, expecting to earn profits based on the efforts of the
2 Partner Defendants and a handful of other people who together control and manage
3 the business. No registration statements have been filed with the SEC or have been
4 in effect with respect to the offering of COMP tokens.

5 5. Compound DAO and the Partner Defendants sell COMP directly to
6 investors through the Compound protocol, in exchange for using the service and
7 paying fees. Compound DAO and the Partner Defendants also solicit sales of COMP
8 on the secondary market through their extensive promotion of COMP, their efforts to
9 facilitate and encourage a robust secondary market for COMP, and their performance
10 of other steps necessary to the widespread distribution of COMP to investors.

11 6. Because Compound DAO and the Partner Defendants offer and sell
12 COMP to the public and solicit such sales without registration or qualification,
13 Plaintiffs bring this class action for rescission or rescissory damages.

14 **Parties**

15 7. Defendant Compound DAO is a general partnership headquartered in
16 San Francisco, California. It is governed by the holders of COMP. Nine people control
17 at least 51.56% of the COMP currently issued. Eight are Defendants here.

18 8. Defendant Robert Leshner is a co-founder of Compound Labs, which
19 created the Compound protocol now owned by Compound DAO. He is domiciled in
20 San Francisco. He controls at least 2.65% of the COMP votes currently issued and
21 has voted his shares at least 50 times.

22 9. Defendant Geoffrey Hayes is a co-founder of Compound Labs, which
23 created the Compound protocol now owned by Compound DAO. He is domiciled in
24 San Francisco. He controls at least 3.82% of the COMP votes currently issued and
25 has voted his shares at least 26 times.

26 10. Defendant Bain Capital Ventures (GP) LLC (Bain) is a private-equity
27 firm headquartered in Boston, Massachusetts. Bain manages its crypto businesses
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1 and investments, including Compound, from San Francisco. Both managing directors
2 of its crypto division are based in the Bay Area and most of the employees of its crypto
3 division work in California. Bain controls at least 9.71% of the COMP votes currently
4 issued and has voted its shares at least five times.

5 11. Defendant Polychain Alchemy LLC (Polychain) is an investment fund
6 headquartered in San Francisco. It controls at least 11.58% of the COMP votes
7 currently issued and has voted its shares at least 28 times.

8 12. Defendant AH Capital Management, LLC, doing business as Andreessen
9 Horowitz, is a venture-capital and investment firm headquartered in Palo Alto,
10 California. It controls at least 9.68% of the COMP votes currently issued and has
11 voted its shares at least 40 times.

12 13. Defendant Paradigm Operations LP is an investment firm
13 headquartered in San Francisco. It controls at least 4.2% percent of the COMP votes
14 currently issued and has voted its shares at least five times.

15 14. Defendant Gauntlet Networks, Inc. (Gauntlet), is an investment firm
16 headquartered in Brooklyn, New York. Two of three of its top executives are based in
17 San Francisco, including its co-founder and Chief Technology Officer. It controls at
18 least 4.77% of the COMP votes currently issued and has voted its shares at least 30
19 times.

20 15. Plaintiff Charles Douglas lives in San Ysidro, California. He purchased
21 approximately \$75 of COMP on the Coinbase exchange in January 2022 when the
22 price was approximately \$130. He sold some of his COMP at a loss and continues to
23 hold some.

24 16. Plaintiff Amanda Houghton lives in Townsend, Delaware. She
25 purchased approximately \$3 worth of COMP in November 2022 on Coinbase when
26 the price of COMP was approximately \$42 and continues to hold that COMP. She
27 previously was compensated with approximately \$9 of COMP via Coinbase Earn
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(explained in more detail below) in February 2021 when the price of COMP was approximately \$426 and continues to hold that COMP which is now worth less than \$1.

17. Plaintiff Susan Franklin lives in Bismarck, Illinois. She purchased approximately \$2 worth of COMP on the Coinbase exchange on December 26, 2021, when the price of COMP was about \$230 and continues to hold that COMP. She also was compensated with approximately \$9 of COMP via Coinbase Earn in July 2021 when the price of COMP was approximately \$400 and continues to hold that COMP.

Jurisdiction and Venue

18. This Court has subject-matter jurisdiction over this Action under 28 U.S.C. § 1331.

19. This Court has general personal jurisdiction over Compound DAO because it is headquartered in this District, and this Court has specific personal jurisdiction over the Partner Defendants because their partnership is headquartered here and because they have all conducted significant partnership business here.

20. This Court has general personal jurisdiction over Polychain, Andreessen Horowitz, Leshner, and Hayes because they are domiciled in California.

21. Venue lies in this District because a substantial portion of the acts leading to this Action were done in this District and because the Defendant partnership and four Partner Defendants are headquartered in or residents of this District.

Background on Blockchains And Relevant Terminology

22. A crypto asset is a form of digital asset. Crypto assets, at least right now, are not issued by central governments or authorities. Bitcoin is the most well-known type of crypto asset. The value of some crypto assets fluctuates with respect to the U.S. Dollar and all other fiat currencies. Other crypto assets, such as U.S. Dollar Coin, are so-called “stablecoins” because their value is pegged to a fiat

1 currency—for U.S. Dollar Coin, the U.S. Dollar.

2 23. Crypto assets are typically designated by three- or four-letter symbols,
3 as stocks are. Bitcoin’s is BTC. U.S. Dollar Coin’s is USDC. Compound’s is COMP.

4 24. The network of computers that securely and publicly record transactions
5 of crypto assets is called a “blockchain.” A blockchain is essentially a ledger of
6 transactions that, for all practical purposes, cannot be reversed or altered. There are
7 several different blockchains that record transactions of a variety of different crypto
8 assets. The blockchain at issue in this case—*i.e.*, the blockchain that records
9 transactions of COMP—is called Ethereum.

10 25. A crypto asset “token” is a unit of a specific asset. These tokens are
11 fungible and tradeable.

12 26. A “protocol” is computer code on the blockchain that is roughly
13 analogous to software on a personal computer. The creators of a protocol write code
14 that instructs the protocol how to operate. Compound is one such protocol; it is
15 programmed to operate Compound’s savings-and-loan business. Protocols are
16 designed to function autonomously, but human intervention remains necessary to
17 alter, enhance, or improve the protocol.

18 27. DeFi stands for “Decentralized Finance.” DeFi uses blockchains
19 ostensibly to remove third parties, like traditional banking institutions and
20 regulators, from financial transactions. Thus, using DeFi protocols like Compound,
21 users can transact using crypto assets, including lending or borrowing crypto assets,
22 without interacting with traditional banks or other established, regulated
23 intermediaries.

24 28. DAO stands for “Decentralized Autonomous Organization.” This is
25 increasingly the organizational form that crypto businesses take, including the one
26 at issue here. In a DAO, there is no formal corporate structure, no explicit liability
27 protection, and no distinction between, say, managers and directors, or between
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1 general and limited partners. Instead, holders of specific tokens—such as the COMP
2 token at issue here—have governance rights that allow them to suggest actions that
3 the associated DAO will take. Those suggestions are then voted on and implemented
4 if the required number of tokenholders support the actions. Actions include many of
5 those typically done by corporate officers, boards, or employees, such as spending
6 treasury funds to hire people; changing organizational goals and policies; and even
7 distributing treasury assets to tokenholders, like how corporations can authorize
8 distributions to owners. Holders of governance tokens thus may participate in the
9 governance of a protocol and have a potential claim on its profits.

10 **Compound Labs Creates the Compound Protocol**

11 29. In 2017, Robert Leshner and Geoffrey Hayes founded Compound Labs.
12 Their stated goal was “to establish properly functioning money markets for
13 blockchain assets.”

14 30. To do this, Compound Labs created a protocol on the Ethereum
15 blockchain called Compound. Compound is essentially a savings-and-loan business.
16 Through Compound, users can “lock” (essentially deposit) assets into a “pool” from
17 which other users can borrow after posting sufficient collateral. Unlike a traditional
18 savings-and-loan, though, Compound requires a collateral ratio of well above 100%.
19 For example, a user with \$15,000 worth of BTC can post her BTC in Compound as
20 collateral and borrow approximately \$10,000 of USDC at a market-determined
21 interest rate, currently approximately 3.2% annual percentage rate (“APR”).
22 Alternatively, a user with USDC can deposit it to Compound and get paid a market-
23 determined interest rate for lending it out to the pool of collateralized borrowers,
24 currently 1.58% APR. The required collateral ratios are not market-determined—
25 they are set by whomever controls the Compound protocol.

26 31. Compound loans are not executed on a peer-to-peer basis. Rather,
27 depositors put their money into a “liquidity pool,” as explained above. When they do
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1 so, they are issued “cTokens” in exchange. These cTokens essentially track the
2 depositor’s earned interest: The “exchange rate” between cTokens and the underlying
3 deposited assets is programmed to change over time (with updates applied
4 approximately every 15 seconds), such that when depositors redeem their cTokens
5 they get more of the underlying asset back than they put in. Depositors may cash in
6 their cTokens at any time—Compound loans have no fixed maturity dates or pre-
7 payment penalties—and the market balances itself out accordingly, resulting in a
8 market-determined interest rate. cTokens are freely tradeable on the secondary
9 market.

10 32. The spread between the borrowing and lending APRs is collected and
11 controlled by whomever controls the Compound protocol. As Salil Deshpande, a
12 managing director at Bain put it, “[t]he owners of the protocol . . . collect a protocol-
13 defined commission on each outstanding loan.”

14 33. The Compound protocol was built with an “admin key.” Whoever
15 controls the admin key is empowered to do whatever she wishes with the protocol.

16 34. In May 2018, Compound Labs raised \$8.2 million in seed funding led by
17 Bain, Andreessen Horowitz, Polychain, and Paradigm.

18 35. Compound Labs opened the Compound business to the public on
19 September 27, 2018, initially allowing users to borrow and lend a handful of assets.

20 36. The vast majority of people who borrow and lend using Compound do so
21 by accessing a website maintained by Compound Labs. This website is referred to in
22 the DeFi world as Compound’s “front-end interface.” To borrow or lend with
23 Compound, users navigate to compound.finance, link a crypto wallet (essentially an
24 account on a blockchain) to Compound, and send their assets.

25 37. In November 2019, Compound Labs raised \$25 million in a Series A
26 funding round led by Bain, Andreessen Horowitz, Polychain, and Paradigm.

27 38. Throughout 2018 and 2019, Compound Labs ran the Compound
28

1 business, evidently successfully. In 2019, Leshner wrote that he was “blown away”
2 by the market’s response to Compound.

3 **Compound Labs Transfers Control to Compound DAO**

4 39. On February 26, 2020, Leshner announced that he was beginning the
5 process of transferring the Compound business from Compound Labs to a soon-to-be-
6 formed DAO.

7 40. To facilitate this transition, Compound Labs created a crypto token
8 called COMP. It described COMP as a “governance token,” and said that “COMP
9 empowers community governance—it isn’t a fundraising device or investment
10 opportunity.” COMP was programmed so that only 10,000,000 COMP tokens may
11 ever be issued.

12 41. Together, the holders of COMP would be tasked, as Compound Labs’s
13 then-general counsel Jake Chervinsky put it, with “manag[ing] the protocol.”

14 42. As a technological matter, the holders of COMP were given all of the
15 powers previously held by whomever controlled the “admin key.” Holders of COMP
16 can together do with the protocol whatever they wish by majority vote.

17 43. Leshner announced the creation of COMP in a public message in
18 February 2020, explaining that issuing COMP would help Compound achieve its
19 “goal . . . to create financial infrastructure that applications and developers can rely
20 on, *forever*.” After touting the Compound’s long-term prospects, Leshner urged
21 readers to obtain COMP, telling them that “[p]articipation” in the DAO “starts with
22 the Compound governance token, COMP.” Leshner told readers that owning the
23 COMP token would “allow[] you to suggest, debate, and implement changes to
24 Compound” and to “participate in shaping the direction of Compound.” At the same
25 time, Leshner made clear that individuals could purchase COMP without
26 participating in community governance, explaining that “[i]n addition to being a
27 standard ERC-20 asset, COMP allows the owner to delegate voting rights to the
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1 address of their choice.”

2 44. In early 2020, the first COMP tokens were issued to Compound Labs’
3 shareholders, including the Partner Defendants. These holders “trialed” the COMP
4 governance process for a few months.

5 45. In April 2020, Leshner announced in a public message that “community
6 governance has replaced the administrator of the Compound protocol.” Leshner
7 stated that COMP allows “Compound’s most important stakeholders [to] share the
8 ability to upgrade the protocol.” Leshner again made clear that people could buy
9 COMP without participating in community governance: “Possessing COMP and
10 participating in Compound governance are not the same; COMP token-holders
11 can delegate voting authority to any address.” Leshner stated that after COMP is
12 issued to tokenholders, “the protocol will truly be governed by the community,
13 without any foundation, the original developers, or other centralized middleman in
14 charge.”

15 46. In May 2020, Leshner stated in a public message that he was “excited
16 to announce that Governance is ready to scale from our core team and shareholders,
17 to the entire Compound ecosystem.” He proclaimed that COMP would help “create
18 unstoppable, upgradable financial infrastructure.” He stated that “[a]llowing every
19 user to participate in governance will be the most important milestone in Compound
20 history” and that “COMP holders” would soon “have complete, censorship-resistant
21 control over the protocol.”

22 47. Despite these statements touting “community governance” and the
23 attractiveness of COMP, Compound Labs’ plan was always to ensure that insiders
24 kept control of the business into the distant future. When COMP was first issued,
25 Compound Labs released a planned “supply schedule.” According to the initial supply
26 schedule, “founders and team,” “shareholders,” and “future team members” will
27 together hold 57.8% of the outstanding COMP supply when COMP is fully
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distributed. In another version of the schedule, this group would eventually hold very slightly less than 50% of the outstanding COMP, but given that the overwhelming majority of COMP holders predictably do not vote, that would be more than enough to exercise effective control indefinitely.

Compound DAO Sells COMP to The Public But Maintains Control

48. Once the trial period was over, Compound Labs ostensibly turned the keys over to the holders of the COMP token (the majority of whom were insiders). Instead of selling tokens directly for cash or crypto assets in an Initial Coin Offering (which is analogous to a traditional company's Initial Public Offering), Compound Labs sold COMP to Compound's users in exchange for their use of the business and payment of the business's fees.

49. On June 10, 2020, Compound Labs announced that the trial governance period for Compound DAO would end on June 16, and that COMP would become available to the public on that day.

50. On June 16, 2020, the overwhelming majority of COMP—more than 65%—was held by the Partner Defendants and a few other Compound Labs shareholders.

51. Those people voted to begin distributing COMP under the supply schedule, which provides that all 10,000,000 possible COMP would be distributed by 2026 or so.

52. Compound DAO distributed COMP to the users of the Compound business in exchange for their use of the service and payment of fees to the DAO. These distributions are sometimes referred to as “emissions.”

53. This is an example of a strategy called “yield farming” or “liquidity mining,” which Compound essentially pioneered. By providing “governance” tokens proportionally to deposited and borrowed assets—and, therefore, proportionally to the fees users pay—the protocol creates incentives for users to deposit or borrow

1 funds, and to pay fees. One ostensible incentive is the so-called “governance rights”
2 that the tokens provide its holders, and that Leshner and other defendants
3 extensively promoted. But, as explained above, this benefit is an illusion in COMP’s
4 case: retail token holders will never meaningfully control the business.

5 54. The real incentive is financial: Because COMP tokens (like shares in a
6 traditional company) represent a claim on the DAO’s future earnings, COMP tokens
7 have value. And because COMP tokens are fungible and tradeable on secondary
8 markets, those who received COMP tokens for using the protocol and paying fees
9 were able to immediately turn around and sell their COMP tokens for a profit. The
10 influx of users borrowing and lending assets on Compound so that they could obtain
11 COMP and then immediately sell it, in turn, increased the value of COMP tokens on
12 the secondary market, as those tokens represent a claim on the DAO’s future
13 earnings, and the rapid growth in the protocol’s user base gave the impression of
14 rapidly increasing demand. The increase of the value of COMP tokens on the
15 secondary market, in turn, increased the realizable interest rates for depositors (who
16 receive COMP with each deposit they make), incentivizing them to deposit even more,
17 which in turn increases the value of the tokens, and so on.

18 55. Although the Compound DAO did not allow the public to exchange pure
19 cash for COMP directly with Compound DAO—users instead purchased COMP by
20 using the DAO’s service and paying its fees—the tokens immediately became
21 tradeable on the secondary market, through decentralized exchanges, which, like
22 Compound, are governed by DAOs. Compound DAO actively solicited these
23 secondary-market transactions and, as detailed below, soon took additional steps to
24 ensure that COMP would be tradeable on centralized crypto exchanges as well.

25 56. In the first week that COMP was available to the public, the total value
26 of the assets in the Compound business and under the DAO’s control increased from
27 approximately \$100 million to approximately \$500 million. The price of COMP
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1 skyrocketed too in a speculative frenzy: In its first five days of trading, COMP
2 increased in price from \$93.30/token to \$335.82/token. At those prices, the effective
3 interest rate for lending assets in Compound was stratospheric, often above 50%. And
4 the effective price of borrowing became negative for many assets.

5 57. Traders very quickly—if not immediately—realized that so long as the
6 value of COMP was high enough to make the distributed amount worth more than
7 the fees paid for borrowing or lending, wash trading was profitable. Users quickly
8 borrowed from one wallet address and loaned the same amount from another. Then
9 they got more creative and began lending and borrowing the cTokens (effectively the
10 receipts for deposits) in addition to the deposits themselves; using other protocols to
11 borrow assets and send them through wash trades in Compound; borrowing on
12 margin to lend and borrow with Compound; and buying perpetual futures and using
13 large spot purchases to manipulate price increases, which was easy to do in COMP's
14 early days, when the total supply was quite low.

15 58. All this was great news for Compound DAO and the Partner Defendants
16 even though it resulted in transactions with no economic substance. As a news report
17 at the time succinctly put it: “Lest this [distribution plan] sound too altruistic, keep
18 in mind that the people who created it (the team and the investors) owned more than
19 half of the equity. By giving away a healthy proportion to users, that was very likely
20 to make it a much more popular place for lending. In turn, that would make
21 everyone's stake worth much more.”

22 59. COMP, after all, represents an ownership share in a business that
23 charged healthy fees on a very large volume of transactions. One major investor
24 explained, as Bain had earlier, that “[g]iven that COMP represents a potential claim
25 on future interest paid, as more collateral onboards to Compound, this should make
26 COMP more valuable as more lenders/borrowers show up.”

27 60. This was, of course, the plan all along: Liquidity mining or yield farming
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1 works only if there is a robust secondary market for trading in the “governance”
2 tokens distributed to users because absent such a market the governance tokens
3 would have no ascribable value and would not contribute to the increased profitability
4 of borrowing and lending on the platform.

5 61. Gauntlet thus explained to the other Partner Defendants that the
6 COMP distribution plan was created to, among other reasons, create “liquidity
7 incentivization” and “recursive leverage.” By “recursive leverage” Gauntlet means
8 COMP’s capacity to encourage investors to borrow and lend on Compound, which in
9 turn increases the price of COMP, and so on.

10 62. Compound quickly proved to be an extraordinarily good investment for
11 the Partnership Defendants. In exchange for their relatively modest investment (by
12 Silicon Valley standards, at least) in Compound Labs, the Partner Defendants, and
13 the rest of the shareholders of the corporation were given 2,396,307 COMP tokens.
14 At COMP’s peak (in May 2021), that share was worth \$2,047,189,033.

15 63. About two weeks after COMP’s launch to the public, its price took a
16 nosedive, dropping from about \$372 per token to about \$200 per token. In response,
17 Compound DAO and, on information and belief, at least one of the Partner
18 Defendants endeavored to persuade a major, regulated U.S.-based crypto asset
19 exchange, Coinbase, Inc., to list COMP for trading.

20 64. Indeed, according to CoinDesk, a crypto news publication, this move
21 “was one of the fastest Coinbase listings to date following the launch of a digital
22 asset.”

23 65. Because Coinbase is one of the largest “centralized” exchanges for crypto
24 assets, a listing there almost always results in a significant increase in price and,
25 perhaps more importantly, a deeper and more liquid market for the asset.

26 66. This speed was not surprising because Coinbase made a 2018
27 investment in Compound Labs. It thus was easily able to coordinate with the DAO
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1 and the other investor partners to quickly list the new digital asset.

2 67. Coinbase’s website advertises a means by which “asset issuers” can “list,
3 launch, and grow.” On that page, Coinbase tells issuers that it will “[h]elp new
4 customers learn about your asset . . . to help you reach and grow an audience.” The
5 page ends reading: “Trusted By . . . Compound.”

6 68. Compound DAO, then, actively solicited purchasers of COMP by (among
7 other things) working together with Coinbase shortly after beginning its liquidity-
8 mining and yield-farming program to encourage and facilitate secondary-market
9 purchases.

10 69. The plan worked: shortly after Coinbase announced that it would make
11 COMP available on its trading platforms, the price increased more than 20%.

12 70. With the help of Compound Labs, Coinbase also added COMP to a
13 feature called “Earn” where users of Coinbase would receive COMP in exchange for
14 watching an advertisement promoting the Compound protocol. Coinbase explained
15 the “Earn” program in its public disclosures as follows: “We provide asset issuers with
16 a platform to engage with our users through education videos and tasks where users
17 can earn crypto assets that they learned about. We earn a commission based on the
18 amount of crypto assets distributed to our users.” Thus, Compound Labs and/or one
19 or more Partner Defendants agreed to pay Coinbase a commission to sell or provide
20 COMP to its investors, to encourage those investors to invest in COMP through
21 “education videos,” to encourage investors to use the Compound protocol and thereby
22 obtain more COMP, and to ensure a robust secondary market for COMP. Leshner
23 also personally encouraged others to “try” this program to gain COMP.

24 71. The Coinbase webpage on which users could access the “education
25 videos” about COMP listed the amount of COMP they could “earn” by watching the
26 videos in terms of the value of those COMP tokens in U.S. dollars: “Earn \$3 COMP.”
27 The same webpage also listed the price, market capitalization, and recent market
28

1 activity for COMP on the secondary market, and provided a link for users to “[v]iew
2 price charts, get live market data, and trade Compound.”

3 72. Users who store their COMP tokens on Coinbase cannot exercise
4 governance rights or vote on any governance proposals because Coinbase formally
5 holds those tokens itself and distributes those tokens to investors only when the
6 investors withdraw the tokens from Coinbase.

7 73. One of the educational videos on Coinbase Earn states that “100 years
8 from now, Compound hopes for the protocol and its interest rates to be integrated
9 into many applications around the globe, enabling entirely new products to come to
10 life across a wide range of industries and use cases.”

11 74. By August 2020, the price of COMP evidently was not where the DAO
12 wanted it to be. And so, led by Gauntlet, the Compound DAO debated a proposal to
13 reduce the rate of COMP distributed to Compound users. The debate over this
14 proposal highlights the true purpose of distributing COMP to the public: making
15 money for the Partner Defendants.

16 75. At the beginning of August 2020, Gauntlet released Compound Proposal
17 22, by which the Compound DAO would “systematically reduce [the] emission
18 quantity” of COMP. Gauntlet contended that its goal in doing this was to (a) free up
19 more COMP for other purposes (paying people to help with the protocol, for example),
20 (b) encouraging more “real” borrowing activity, and (c) to “incentivize long-term
21 holding of COMP.” The purpose of incentivizing long-term holding is supposedly to
22 encourage increased governance participation.

23 76. But in August 2020 the Partner Defendants and other insiders
24 controlled at least 65% of the outstanding COMP. Nothing they did could possibly
25 encourage meaningful “governance” participation by anyone other than themselves,
26 as they well knew.

27 77. Furthermore, as Forbes has reported, for COMP holders “who store their
28

1 . . . tokens on exchanges like Coinbase [on which the Compound DAO had just actively
2 worked to list COMP] there isn't even a mechanism to allow voting."

3 78. One user, with the username sbarinov, explained to Gauntlet, Leshner,
4 and the other Partner Defendants: "With COMP a basic question remains—why
5 would anyone keep COMP? As I see it now, the current answer is to govern the
6 protocol by an elite few and the majority is on for the ride, for whom it won't matter
7 anyway as we cannot get enough of it to voice our point of view." Instead, wrote
8 another user, "Gauntlet's ill-considered proposal seems like nothing more than a
9 thinly veiled attempt to cause a short term pump in COMP prices" by restricting the
10 released supply.

11 79. Meanwhile, of course, slowing down the rate of COMP distribution
12 would slow down the schedule by which the Partner Defendants could even
13 theoretically fear no longer holding a majority of COMP tokens. Another user, going
14 by Sirokko, explained that "decreasing emission is just a way to preserve [the] current
15 status-quo, delay transition to community governance[,] and hold voting power by
16 initial voters, who probably should vote yes." Sirokko further explained to Leshner
17 and the Partner Defendants that "[i]t's worth noting that pretty much none of [the]
18 controlling entities actually got their voting power from 'user distribution.'" Sirokko
19 encouraged the community to "pay close attention to who will vote yes"

20 80. Andreesen Horowitz, Polychain, and Gauntlet all voted yes. None of the
21 Partner Defendants voted no. And on August 29, 2020, the proposal passed and the
22 rate of COMP distribution was cut.

23 81. Again the plan worked: On August 26, 2020, COMP traded at
24 approximately \$165 per token; on September 1, 2020, it traded at approximately \$245
25 per token.

26 82. Partner Defendants also worked to enable easier trading of COMP
27 tokens. For example, in 2021, in response to a Compound user asking for a solution
28

1 “to enable low-cost trading of COMP” on a different platform called Arbitrum,
2 Leshner wrote that “I’ve reached out to the Arbitrum team to add COMP as a
3 supported asset.”

4 83. COMP is currently listed on several major cryptocurrency exchanges,
5 including Coinbase, Kraken, Bitstamp, Uphold, Nexo, Binance, KuCoin, and more.

6 84. Until recently, COMP was also listed for trading with FTX. On June 18,
7 2020, FTX’s founder, Sam Bankman-Fried, announced on Twitter that “Compound
8 spot markets are going live!” Bankman-Fried touted COMP in a 20-tweet Twitter
9 thread, noting that the value of COMP would be tied to the success of the Compound
10 protocol: “COMP has also skyrocketed in price; it’s now the highest market cap DeFi
11 token (if you look at fully diluted value), having surpassed MKR. Will it sustain that?
12 I don’t know! I guess a lot of it comes down to whether it’s going to set the new
13 standard for DeFi lending.” Similarly, the former CEO of Alameda Research, a crypto
14 hedge fund associated with FTX, quoted Bankman-Fried’s Twitter thread and
15 tweeted that “COMP’s future will mostly come down to whether the people who think
16 DeFi (and COMP) are the future turn out to be correct.”

17 85. Crypto exchanges generally do not list a new token or asset on their
18 exchanges without the cooperation or intervention of the developers of that token or
19 asset. For example, Binance’s website has a page titled “How to Get Your Coin Listed
20 on Binance.com” that links to an application for listing on Binance. Similarly,
21 Kraken’s website has a page titled “New coin listing requests” through which
22 developers can submit a listing request. The website also notes that Kraken “will
23 reach out to the project developers” before listing a new crypto asset on the exchange.

24 86. On information and belief, one or more of the Partner Defendants took
25 actions to ensure that COMP would be available for trading on the above-listed
26 exchanges, including directly contacting the exchanges, requesting that COMP be
27 listed on those exchanges, and/or compensating those exchanges.
28

1 87. On June 25, 2020—the same day that COMP was first listed on Binance
2 for trading—a wallet associated with Compound Labs and/or one or more of the
3 Partner Defendants transferred approximately 62,498 COMP tokens to a wallet
4 associated with Binance. At the time of the transfer, those tokens were worth
5 approximately \$14.4 million.

6 88. Investors who purchase COMP on the secondary market do so with a
7 reasonable expectation that COMP will be a profitable investment. Investors
8 frequently discuss COMP as an investment asset on social media, in the official
9 Compound Discord server, and in other crypto forums, repeatedly sharing their
10 expectation that owning the COMP token will be profitable for them personally.

11 89. Because of the Partner Defendants’ extensive efforts to promote COMP
12 and Compound and tout them as revolutionary products, investors reasonably
13 expected that the value of COMP would appreciate over time and that they would
14 make a profit on their investment.

15 90. Retail COMP purchasers generally have not fared well. The value of
16 COMP peaked in May 2021 at nearly \$500 per token, which created a total market
17 capitalization of about \$4 billion. It soon halved in value, and in the fall of 2021,
18 COMP’s market capitalization was a little more than \$2 billion. In the year preceding
19 the filing of this Action, COMP has fallen in value by another 90%. Its market
20 capitalization is approximately \$278 million.

21 **Compound DAO Is a General Partnership**

22 91. Compound is business: It charges fees to facilitate borrowing and
23 lending of crypto assets. No entity that has ever registered with any state authority
24 for any type of limited liability controls Compound.

25 92. The Partner Defendants, plus one other person or entity, collectively
26 control more than 50% of the COMP voting power currently outstanding. They use
27 that power to operate Compound jointly as a business for profit. They accordingly
28

1 have created a general partnership (or an unincorporated association, which is
 2 materially identical) under California law and are jointly and severally liable for
 3 illegally selling unregistered securities.

4 93. Each of the Partner Defendants has actively and publicly participated
 5 in the governance of the Compound business. They talk openly about the Compound
 6 business model, and they use their expertise to coordinate to run the business the
 7 way they see fit.

8 *Partner Defendants' Expertise in Crypto Businesses*

9 94. Each of the Partner Defendants has deep expertise in crypto business
 10 and brings that knowledge to the partnership. This type of expertise was crucial for
 11 the growth and management of Compound, which at its peak was a \$4 billion
 12 business.

13 95. Leshner and Hayes initially sought out Bain, Andreessen Horowitz,
 14 Paradigm, and Polychain as investors in Compound Labs because these companies
 15 are some of the largest and most experienced investors in crypto. In fact, Forbes
 16 recently described these firms as “among a handful of big hedge funds and [venture
 17 capital firms] . . . which, behind the scenes, centrally control many of the biggest
 18 decentralized platforms.”

19 96. As Paradigm’s website explains, it “take[s] a deeply hands-on approach
 20 to help projects reach their full potential, from the technical (mechanism design,
 21 smart contract security, engineering) to the operational (recruiting, regulatory
 22 strategy).”

23 97. Bain advertises its active governance participation as a key
 24 “advantage.” According to its website, “Crypto protocols require a dedicated level of
 25 active participation on topics related to code contribution, risk parameter adjustment,
 26 DAO organization, and management. We participate actively in these ecosystems.”
 27
 28

1 Bain can do this because its crypto team is comprised of “a dedicated team of hackers,
2 tinkerers, and builders, powered by a deeply technical, collaborative approach from
3 the earliest stages.”

4 98. Andreessen Horowitz’s crypto fund advertises that it supports the
5 businesses it invests in with its “research organization,” “[e]ngineering and security
6 teams,” “[l]egal and regulatory teams,” “[g]o-to-market expertise,” “[r]ecruiting
7 services,” “[e]ducational content,” and a “Crypto Startup School.”

8 99. Polychain’s C.E.O. has stated that his team was “definitely involved in
9 the high-level design of the entire Compound token system.”

10 100. Defendant Gauntlet, meanwhile, not only invests in and co-controls
11 large governing shares in crypto businesses like Compound, it is also a large “risk
12 management” company for those businesses. Gauntlet, Polychain, Andreessen
13 Horowitz, and Bain have all voted to pay Gauntlet for providing this service for
14 Compound.

15 101. In September 2022, Gauntlet’s Protocol Program Manager, Paul Lei,
16 described Gauntlet’s ongoing contributions to developing, improving, and enhancing
17 Compound as follows: “For the past three years, Gauntlet has worked with Compound
18 to maximize the protocol’s capital efficiency given an acceptable level of market risk.
19 Over the past year, Gauntlet has . . . [p]rovided 16 sets of parameter
20 recommendations, including 45 total parameter changes to 13 total assets, . . . initial
21 risk parameter recommendations to support the launch of Compound III[,] . . .
22 [b]uilt Risk Dashboard 14 to provide insight on risk and capital efficiency for the
23 community[,] [u]pdated the community on risk developments during Compound
24 Developer Calls[,] [p]ublished educational resources including VaR/LaR
25 Deepdive, Model Methodology, Parameter Recommendation Methodology,
26 and CMA/ES[,] . . . [c]ontinuously monitored market risk including publishing 2
27 Market Downturn Reports (May 2022 and January 2022)[,] [p]rovided analysis and
28

1 recommendations on critical initiatives including ETH Merge, Reserve Factors, Asset
 2 Listing Framework, and MKR Borrow Cap[,] [p]rovided analysis for Compound’s S&P
 3 rating, the first credit rating in DeFi history.” Lei stated that over the past year,
 4 “Gauntlet increased collateral factors for the majority of assets while incurring no
 5 major insolvencies despite large market crashes. As a result, borrowers increased
 6 their utilization, which generated an additional \$5.15m of borrow interest income and
 7 an additional \$96m+ in total borrow.”

8 *Partner Defendants Make, Discuss, and Vote on Governance Proposals*

9 102. Each of the Partner Defendants has also actively and publicly
 10 participated in the governance of the Compound business, working together to make
 11 crucial decisions for the business.

12 103. Often, Partner Defendants publicly discuss governance decisions with
 13 each other on the Compound forum.

14 104. For example, in August 2020, Leshner, Polychain, and Gauntlet publicly
 15 discussed a proposal to reduce the number of COMP that would issue to Compound
 16 users, as discussed above. All three argued on the Compound forum that the proposal
 17 should pass and wrote lengthy posts in support.

18 105. Overall, it was clear from the forum conversations that the “community”
 19 (i.e., ordinary COMP holders interested in governance but without millions of dollars
 20 to spend) did not like the proposal. This did not matter; the vote passed 1,119,629 to
 21 195,969. Polychain, Gauntlet, and Andreessen Horowitz alone accounted for nearly
 22 800,000 votes, which were worth over \$150 million at the time.

23 106. Partner Defendants also frequently discuss and vote on business details
 24 like which crypto assets to add to the protocol and whether to change parameters in
 25 the markets of particular assets. For example, in December 2021, a proposal passed
 26 changing the parameters governing some markets, with Hayes, Gauntlet, and
 27
 28

1 Andreesen Horowitz alone accounting for 58 percent of the total votes cast. Before
2 the vote, Leshner asked some questions about the proposal on the forum, which
3 Gauntlet answered.

4 107. Similarly, in September 2021, three assets were added to the Compound
5 marketplace, with Leshner, Andreesen Horowitz, Polychain, and Gauntlet
6 accounting for 62 percent of the total vote. Polychain proposed the addition of the
7 three assets, and before the assets were added, Leshner, Gauntlet, and Polychain
8 signaled their support on the forum, with Leshner and Gauntlet writing detailed
9 posts about their support.

10 108. Partner Defendants rarely disagree. But when they do, they often
11 discuss their disagreements publicly. For example, in July 2020, Paradigm,
12 Andreesen Horowitz, and Leshner publicly debated a proposal involving changing the
13 parameters of certain crypto assets and reducing COMP distributions to users.
14 Leshner, Paradigm, and Andreesen Horowitz came out voting on opposite sides, but
15 agreed that in the future proposals like this one should be split into multiple
16 proposals. The proposal passed 1,198,438 to 189,177, with Andreesen Horowitz,
17 Polychain, and Leshner accounting for 65 percent of the yes votes and Paradigm and
18 Gauntlet accounting for 80 percent of the no votes.

19 109. Another contentious vote occurred in March 2021. This proposal would
20 liquidate a large portion of certain crypto assets. On the public forum, some argued
21 that liquidating some Compound users' positions would drive people away from the
22 platform. Gauntlet, Polychain, and Andreesen Horowitz all argued for the proposal.
23 Polychain wrote, "While this may end up liquidating users who don't adjust collateral
24 in time, this is a tradeoff we should be willing to make to ensure protocol security."
25 Andreesen Horowitz agreed, and thanked Gauntlet for "rightly elevating this risk to
26 a vote." Seeing this, one forum member noted that, with Polychain and Andreesen
27 Horowitz supporting it, the proposal "looks like it's a pass regardless." This turned
28

1 out to be true: even with Leshner opposing, for reasons he also outlined in the public
2 forum, the proposal passed 952,359 to 411,686.

3 110. In addition to publicly discussing governance with one another, Partner
4 Defendants also work together to control Compound behind the scenes. As Andre
5 Cronje, a crypto leader whose work, according to an industry profile, helped “shape
6 the world of decentralized finance” has explained, “[a] decision does not pass
7 on . . . Compound unless it is approved by the founding team. . . . As much as there is
8 talk of decentralization, unless it is back-channeled there will be no approval.”

9 111. Forbes reported that, as it relates to Compound, “[Polychain CEO Olaf]
10 Carlson-Wee openly admits that his team works with founders on all major
11 proposals.” The founders of Compound are Leshner and Hayes. And Carlson-Wee
12 stated “I think that we plan to be and have been, frankly, in Compound and other
13 systems quite engaged in the governance and decision making around the design of
14 those systems.”

15 *Partner Defendants’ Management Response to a Business Crisis*

16 112. That Defendants see themselves as managers for Compound even
17 beyond official governance voting procedures was apparent during a business crisis
18 in Fall 2021.

19 113. In September 2021, a routine update to Compound’s software was put
20 up for a vote. In the forum discussion, Gauntlet wrote that “Gauntlet has reviewed
21 the [update] and will be voting FOR.” The proposal passed, with Gauntlet and
22 Polychain accounting for 59 percent of the total votes.

23 114. Unfortunately, the update introduced a bug that accidentally gave away
24 additional COMP to users of the protocol. Because under governance procedures a
25 new proposal to fix the bug could not be passed for at least seven days, the bug
26 ultimately gave away about \$90 million in COMP to various users.

1 115. Leshner, Compound’s founder and effective leader, immediately went
2 into crisis mode. He took to social media and began doing press interviews.

3 116. On Twitter, Leshner released a statement attempting to strike a deal
4 with the users who had accidentally received COMP. He wrote “Please return it to
5 the Compound Timelock. . . . Keep 10% as a white-hat [i.e., a reward].” He then added
6 “[o]therwise, it’s being reported as income to the IRS, and most of you are doxed [i.e.,
7 have your identities revealed to Compound and, therefore, Leshner].”

8 117. Users viewed this as a threat to force users to pay income taxes, in an
9 allusion to the fact that crypto investors frequently attempt to hide income generated
10 by trades—on average, they pay less than half of the taxes they owe to the United
11 States government.

12 118. This threat outraged the crypto community. As one user put it, “[t]elling
13 your user base that you can dox [expose] them to the IRS at will seems like a great
14 way to scare off customers.” Leshner quickly apologized for the comment.

15 119. Meanwhile, other Defendants jumped into action. The same day the bug
16 was executed, Gauntlet posted on the Compound forum that “[t]he current plan is to
17 temporarily disable COMP claims until a full patch can be tested. More info coming
18 soon.”

19 120. The proposal to fix the bug and temporarily disable COMP claims passed
20 unanimously, with Gauntlet, Andreessen Horowitz, and Leshner accounting for more
21 than half the total votes.

22 *Leshner’s and Hayes’s Shadow Management through Compound Labs*

23 121. In addition to regularly participating in Compound’s official governance,
24 Leshner and Hayes founded and continue to lead Compound Labs, with Leshner
25 serving as the C.E.O. and Hayes as the C.T.O.

26 122. Compound Labs is the entity responsible for running Compound’s front-
27
28

1 end interface, which is the website through which the overwhelming majority of
2 users—who generally lack the technological sophistication to send money to smart
3 contracts directly—interact with the Compound protocol.

4 123. Through Compound Labs, Leshner and Hayes continue to manage
5 various aspects of Compound behind the scenes. Compound Labs has over 20
6 employees, many of whom work on tweaking and improving the protocol’s codebase
7 and making sure that the front-end interface functions properly, which is crucial to
8 the success of Compound DAO and, in turn, COMP.

9 124. In June 2021, Compound Labs released a new product designed to pump
10 liquidity into the protocol, thereby increasing its size and value. The product was
11 called “Compound Treasury.”

12 125. Compound Treasury operates like a bond: institutions and sufficiently
13 wealthy individuals (but not regular people) can invest their money and Compound
14 Labs guarantees a four percent fixed interest rate—far higher than average savings
15 account returns. Compound Labs does this by funneling the money into the
16 Compound protocol. If the returns are higher than 4 percent, Compound Labs pockets
17 the difference; if they are lower, Compound Labs pays out the difference.

18 126. Compound Labs did not share any information about its plans for
19 Compound Treasury on the Compound forum in advance of its release. In fact, there
20 were no posts about Compound Treasury at all until months after its release.

21 127. However, Compound Labs did issue a statement on Medium.com about
22 Compound Treasury on June 28, 2021.

23 128. That same day, the trade volume of the Compound protocol jumped from
24 \$81.5 million the previous day to over \$2 billion.

25 129. The price of COMP also began to surge. On June 28, 2021, COMP was
26 worth \$250. One week later, it was worth \$462.

27 130. In June 2022, Compound Labs announced its creation of Compound III.
28

1 Through its vice president, it stated that it was “excited to release a code repository
2 to the Compound community, which we hope can form the basis of a multi-chain
3 deployment strategy: comet, which the community has been referring to as
4 Compound III. Compound III is designed with borrowers in mind, to be capital
5 efficient, gas efficient, safe, and simple to govern.” In a public post in August 2022,
6 Leshner described Compound III as “a next-generation collateralized borrowing
7 protocol, designed for security, capital efficiency, low gas costs, and streamlined
8 governance.” In another post in August 2022, Leshner touted Compound III as “the
9 most effective tool for borrowers in DeFi” and described the ways in which Compound
10 III was an improvement on prior versions of the protocol.

11 131. In September 2022, Compound Labs announced another financial
12 product: a lending service for financial institutions, allowing “[a]ccredited
13 institutions” to borrow U.S. dollars by depositing crypto assets as collateral, “with
14 fixed interests rate starting at 6% APR.”

15 132. Compound Labs told a news publication that the product was being
16 offered “in response to recent market volatility, which has created a more robust
17 demand for liquidity.”

18 133. As Compound Labs’ Vice President and General Manager explained in
19 a statement, “Compound Treasury can now address demand for liquidity with a
20 simple, reliable borrowing solution, while continuing to provide the same trusted
21 service we’ve delivered to clients earning interest over the past year.”

22 134. It is unclear whether the lending product was popular or whether it
23 successfully led to a significant boost to trade volume or the price of COMP.

24 *Partner Defendants’ Statements on the Compound Business Model*

25 135. Defendants manage Compound because they view it as a business run
26 for profit.

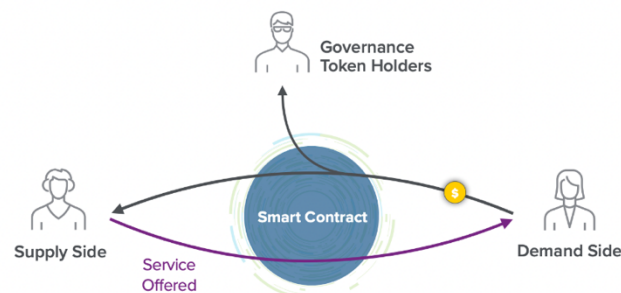
136. Indeed, the Defendants, together and individually, have frequently promoted COMP tokens as assets that are good investments—at times explicitly noting the similarity of owning COMP tokens to owning shares of stock in public companies. For partners, the value of a COMP token is directly tied to its value on the secondary market as a speculative asset and to the success of the protocol itself.

137. A senior investor at Andreessen Horowitz, for example, has explained on its website that COMP tokens “are an instrument for effectively distributing the fundamental value of [the Compound business], including a fee stream.”

138. A section of an Andreessen Horowitz presentation titled “Compound Case Study” outlined how the firm viewed the Compound “Business Model” as one where “Governance Token Holders” can “Capture a Revenue Stream.”

Core Layer 2 Business Model

Capture a Revenue Stream



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139. Likewise, the C.E.O. of Polychain has said that COMP tokens are an “attempt to extract revenues from [the Compound protocol] in some manner and basically apply what we would traditionally think of as like a business model to an underlying smart contract system.” Separately, the C.E.O. of Polychain promoted COMP tokens as a “reward” for those contributing capital to the protocol: “in two of the cases we talked about, Compound and Uniswap, both of those have network-mining systems, where if you contribute capital into those pools . . . you’re rewarded

1 with some of the DAO tokens.”

2 140. The C.E.O. and founder of Gauntlet has said that all DAO votes are “tied
3 to future [expected] cash flows.”

4 141. Leshner and the Partner Defendants also recognize that most COMP
5 holders will treat COMP as a passive investment, and Partner Defendants are very
6 motivated by the value of COMP on the secondary market.

7 142. In June 2021, Leshner wrote on Twitter that people should stop
8 complaining to him about the falling price of COMP, because he “too would be happier
9 if it were higher.”

10 143. Similarly, Polychain CEO Olaf Carlson-Wee stated “we’re running a
11 fund, we want these tokens to be as valuable as possible.”

12 144. Leshner stated that “all of the returns” for protocol users come from
13 either the interest they earn for lending their assets or “from the distribution of
14 governance tokens.”

15 145. In 2020, Leshner explained his rationale for creating COMP tokens: “We
16 were also inspired by a lot of like what I’ll call, like, traditional real world use cases
17 so you know everyone owns shares of stock. How many people are voting on those
18 shares of stock? And how many people actually want to exert governance over the
19 companies that they’re investors in? Very few, right, like you probably hold stock and
20 you probably don’t vote your stock. Instead people essentially appoint others you
21 know to have their back and to represent them. This happens with board of directors
22 that’s, you know, the one governance use case of stock is to appoint other people to
23 manage the system on your behalf. And so that was one of the primary motivations
24 for us as, you know, we basically looked and said well how do people use real-world
25 voting assets right, like? Most people aren’t showing up at the shareholder meetings,
26 they’re not voting the proxies. They’re just trying to find people who are smart and
27 paying attention and are focused on maximizing the outcome. And so that was a big
28

1 design decision for us is enabling that exact behavior. It's directly related to
2 participation rates but we anticipate that over time most token holders don't want to
3 be in the business of voting. They want to find the people that do want to be in the
4 business of voting, who care the most, who spend the most time, who put in the best
5 research to helping to guide the protocol forward."

6 146. In Leshner's view, most holders would be passive investors, trusting
7 others to run the business, and treat the COMP tokens just like they would any other
8 security.

9 147. Indeed, many COMP tokenholders were even less involved than holders
10 of shares in public companies, and by design. As Forbes reported, with COMP tokens,
11 "unlike voting for common stocks, there is no mandate to notify token holders of
12 upcoming votes, and for those who store their DeFi tokens on exchanges like Coinbase
13 there isn't even a mechanism to allow voting." The implication is that holders of
14 COMP token on those platforms can do little more than hold their tokens as assets
15 or trade them to others for value.

16 148. Others involved in the protocol confirmed this approach. Polychain CEO
17 Olaf Carlson-Wee agreed with an interviewer that holding COMP tokens is a way "to
18 have ownership and get part of the revenue that the platform is generating." He
19 called this idea "very similar to many traditional web businesses" and compared the
20 growth model of Compound to that of Facebook. He continued the analogy and
21 elsewhere said that "instead of owning shares in a legal entity, [holders] are now
22 owners of Compound tokens."

23 149. Carlson-Wee continued to make the comparison between the DAO and
24 a corporation, and between COMP tokens and shares in corporations. "That base [of
25 COMP tokenholders] looks and feels a bit like a corporation that owns a financial
26 product, but both the corporation itself and all the relationships between the people,
27 as well as the financial products itself, are defined not with pen and paper legal
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1 contracts, but with pure software contracts embedded in the blockchain,” he said. At
2 that point, he touted that the “Compound DAO [was] worth over a billion dollars.”

3 150. Carlson-Wee further promoted the Compound product by comparing it
4 to other established corporations. “[O]ne way that startups bootstrap growth is to
5 basically hand out equity or cash,” he noted. He continued that “the blockchain
6 version of it is you actually have the protocol give out programmatically future
7 ownership of that underlying system to the users of the system [i.e., COMP tokens],
8 basically pro rata, based on the amount of capital they contribute.” So, in his view,
9 the “Compound token represents . . . ownership over that lending pool. It is like
10 giving, I think a crude metaphor is it is like giving equity grants to early users of your
11 service in order to bootstrap use.”

12 151. Carlson-Wee later confirmed his belief that COMP tokens were a part of
13 an “asset class” that “represent an ownership stake in that underlying financial
14 product.”

15 152. In 2021, Leshner compared the distribution of COMP tokens to the
16 distribution of ownership shares in Nike. “If Nike was giving out ownership of the
17 Nike-everything to its customers with every shoe purchased, that would be sort of
18 akin to distributing ownership and control to the users,” he stated. He continued by
19 saying that because COMP tokens are tied to “an important and valuable product”—
20 that is, Compound lending marketplace—they could work similarly.

21 153. On the Compound Discord site—Discord is a social-media service that
22 DAOs often use to discuss business issues—when users indicate an interest in
23 discussing COMP as a speculative investment, Leshner regularly shares with them
24 a link to a forum that Leshner explains can be used “for speculative discussion.”

25 154. The value of COMP is fundamentally tied to the efforts of others to
26 develop a product that grows in usage thus increasing fees and revenue streams, in
27 a way indistinguishable from how the value of a share of a publicly listed company is
28

1 tied to the future earnings stream of the underlying company and reliant on its
2 management to achieve those earnings.

3 155. In 2020, Leshner said that, for users to want tokens, there “has be
4 something of value there in the first place.” That is, “at the end of the day,” the
5 Compound marketplace “has to be an important and valuable product” for the COMP
6 tokens to have any value.

7 COMP Collapses in Value

8 156. The last eighteen months have not been kind to the passive holders of
9 COMP that Defendants have convinced to invest in their security.

10 157. On May 11, 2021, the value of a COMP token was \$854, and the total
11 market capitalization was over \$4 billion.

12 158. Six weeks later, COMP experienced its first crash. The value of a token
13 fell to \$222 on June 25, 2021, and the total market capitalization was \$1.18 billion.

14 159. The price of COMP then experienced substantial volatility for the next
15 year or so. Its value recovered somewhat and the market capitalization was about
16 \$2.8 billion on September 6, 2021.

17 160. Since November 2021, it has experienced a consistent decline in value.
18 The market capitalization was \$1.33 billion on January 1. It was \$1.06 billion on April
19 1. It was \$423 million August 1. On November 1, 2022, it was \$360 million. On
20 December 1, 2022, it was \$276 million.

21 COMP Is a Security

22 161. The securities laws define the term “security” to include any
23 “investment contract.”

24 162. Under the Supreme Court’s decision in *SEC v. WJ Howey Co.*, 328 U.S.
25 293 (1946), an investment contract is an investment of money in a common enterprise
26 with a reasonable expectation of profits to be derived from the entrepreneurial or
27 managerial efforts of others.
28

1 163. The SEC’s Strategic Hub for Innovation and Financial Technology has
2 published the Framework for ‘Investment Contract’ Analysis of Digital Assets (“SEC
3 Framework”), which provides guidance for assessing whether a crypto token is a
4 security under federal law.

5 164. The SEC Framework states that the first prong of the *Howey* test—an
6 investment of money—“is typically satisfied in an offer and sale of a digital asset
7 because the digital asset is purchased or otherwise acquired in exchange for value,
8 whether in the form of real (or fiat) currency, another digital asset, or other type of
9 consideration.”

10 165. Investors in COMP use various forms of money, including various forms
11 of crypto assets, to make their investments. Some investors obtained their COMP
12 tokens in exchange for borrowing or lending cryptocurrencies through the Compound
13 protocol, and for fees they paid to engage in such transactions. Some investors
14 obtained their COMP tokens on the secondary market in exchange for cash or various
15 cryptocurrencies or other digital assets. Some investors obtained their COMP tokens
16 by participating in programs like Coinbase Earn.

17 166. The SEC Framework states that “a ‘common enterprise’ typically exists”
18 with respect to “digital assets.”

19 167. COMP is no exception. Investors who purchase COMP tokens are
20 investing in a common enterprise—the Compound DAO and the Compound
21 protocol—and the value of their COMP tokens are interwoven with and dependent
22 upon the success of the DAO and the protocol, as well as the efforts of those who
23 control the DAO and the protocol.

24 168. Partner Defendants each own or control a substantial share of COMP,
25 such that they share a common financial interest in the COMP token with Plaintiffs
26 and the members of the class.

27 169. Increases in the value of the COMP token make the Compound protocol
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1 more attractive to users (because receipt of a more valuable COMP token reduces the
2 effective cost of borrowing and increases the return for lending). In this respect as
3 well, Partner Defendants have a financial stake in COMP.

4 170. With respect to the element of “reasonable expectation of profits,” the
5 SEC Framework states that “[a] purchaser may expect to realize a return through
6 participating in distributions or through other methods of realizing appreciation on
7 the asset, such as selling at a gain in a secondary market.”

8 171. As detailed more fully above, investors in COMP, including Plaintiffs,
9 make their investment with a reasonable expectation of profit.

10 172. The COMP token represents a claim on the DAO’s future earnings, and
11 COMP tokenholders can authorize distributions and thereby share in the DAO’s
12 income and profits.

13 173. There is a robust secondary market for COMP, which is traded on
14 multiple major crypto exchanges. This secondary market allows COMP tokenholders
15 to sell their COMP tokens and realize gains if the price of COMP increases.

16 174. COMP is designed in a way that allows investors to hold the token
17 without participating in governance, facilitating investors’ use of COMP solely as an
18 investment asset.

19 175. The widespread availability of COMP on the secondary market allows
20 investors to purchase COMP even if they do not use, and do not plan to ever use, the
21 Compound protocol to borrow or lend crypto assets.

22 176. The functionality of the token as a governance mechanism is illusory, as
23 the Partner Defendants control the majority of tokens and ordinary investors like
24 Plaintiffs are unable to exert any meaningful influence on governance issues.

25 177. Investors reasonably expect that the efforts of the Partner Defendants
26 and other insiders will result in appreciation of the COMP token and that they will
27 therefore be able to earn a return on their investment.

1 178. Some or all of the Partner Defendants have promoted COMP in terms
2 that indicate it is an investment and that the value of the investment will increase
3 with the success of the Compound DAO and the Compound protocol.

4 179. The SEC Framework explains that the “reliance on the efforts of others”
5 prong focuses on two key issues: “Does the purchaser reasonably expect to rely on the
6 efforts of [a promoter]?” And are those efforts “the undeniably significant ones, those
7 essential managerial efforts which affect the failure or success of the enterprise,” as
8 opposed to efforts that are more ministerial in nature?

9 180. As detailed more fully above, the success of the DAO, and the profits
10 that Plaintiffs reasonably expected to derive from investing in COMP, are dependent
11 on essential technical, entrepreneurial, and managerial efforts of the Partner
12 Defendants and their agents and employees.

13 181. The value of COMP is derived from or influenced by the value,
14 operability, and success of the Compound protocol and its effective implementation of
15 DeFi.

16 182. Plaintiffs reasonably expect the Partner Defendants and their
17 employees to provide significant managerial efforts, to develop and improve the
18 protocol, to make governance proposals for the improvement of the protocol, to
19 promote the DAO in public forums, and to get COMP listed on several exchanges. The
20 Partner Defendants have made multiple modifications, upgrades, and improvements
21 to the Compound protocol and related products since its launch, and investors
22 reasonably expect them to continue to do so. No major changes can realistically be
23 made to the protocol or the business model without the participation and approval of
24 the Partner Defendants.

25 183. The Partner Defendants play the lead role in the ongoing development
26 of the protocol and of the COMP token.

27 184. The governance proposals through which the Partner Defendants and
28

1 their employees propose, vote on, and execute modifications, upgrades, and
2 improvements to the protocol are all available on the Compound website at
3 <https://compound.finance/governance/>. Partner Defendants have proposed, voted on,
4 and otherwise influenced all or substantially all changes to the protocol, and investors
5 reasonably expect them to do so given that they control the majority of COMP shares
6 and stand to personally benefit from the success of the DAO business.

7 185. Until recently, the only members of the “community” who could directly
8 create a live governance proposal were those who owned or were delegated at least
9 100,000 COMP. Partner Defendants were among the small number of individuals and
10 entities who met that threshold. Indeed, most governance proposals have been
11 created by the Partner Defendants and their agents or employees. Accordingly,
12 investors reasonably expected that the Partner Defendants would make governance
13 proposals to continue to improve the protocol and thereby enhance the value of
14 COMP, and Partner Defendants in fact did so on many occasions.

15 186. The Partner Defendants have taken actions to limit the supply of COMP
16 or to ensure the scarcity of COMP, including by proposing or casting deciding votes
17 on proposals to decrease COMP emissions.

18 187. Partner Defendants play a continuing managerial role in making
19 decisions and exercising judgment about the protocol, the COMP token, and the DAO
20 business.

21 **Class Action Allegations**

22 188. Plaintiffs propose to move and certify the following class: All people who
23 purchased or obtained COMP on or after December 8, 2021. Excluded from the class
24 are Defendants; corporate officers, members of the boards of directors, and senior
25 executives of Defendants; members of their immediate families and their legal
26 representatives, heirs, successors or assigns; and any entity in which Defendants
27 have or had a controlling interest.

1 189. The proposed class meets Federal Rule of Civil Procedure 23's
2 requirements, called respectively numerosity, commonality, typicality, adequacy,
3 predominance, and superiority.

4 *Numerosity*

5 190. The class is so large that joinder of all parties would be impracticable.

6 191. There are approximately 7.3 million COMP tokens in circulating supply.
7 While many of those tokens are held by the Partner Defendants, thousands of other
8 investors hold COMP tokens, and they trade hundreds of thousands of tokens each
9 day.

10 192. The class likely contains thousands of members and therefore satisfies
11 the numerosity requirement.

12 193. There are questions of law and fact common to members of the class,
13 including, without limitation: whether COMP is a security; whether Defendants'
14 offerings, sales, and solicitations, of COMP violate the registration provisions of the
15 Securities Act; whether Defendants sold or solicited sales of COMP; and whether
16 Defendants are liable to the class members for rescissory damages.

17 *Typicality*

18 194. The Plaintiffs each received COMP tokens for value, even though
19 Defendants did not register COMP tokens as a security. The claims of the named
20 Plaintiffs are, therefore, typical of—indeed identical to—the claims of all the
21 unnamed class members.

22 *Adequacy*

23 195. As explained above, the named Plaintiffs' claims are identical to the
24 claims of other class members, and there are no known conflicts of interest with any
25 other class member.

26 196. The named Plaintiffs will adequately protect the interests of absent
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1 class members.

2 197. Plaintiffs propose Gerstein Harrow, LLP, and Fairmark Partners, LLP,
3 as class counsel.

4 198. Both founding partners of Gerstein Harrow have significant experience
5 litigating complex cases and major class actions, including class actions involving
6 crypto.

7 199. Charles Gerstein has, among other things, served as lead counsel in a
8 class action case against the City of Houston that settled for \$1.175 million, and has
9 served as counsel or lead counsel in several complex class actions seeking prospective
10 relief against public entities and officers throughout the country. As a law clerk for
11 the U.S. District Court of the Southern District of New York and the U.S. Court of
12 Appeals for the Second Circuit, Gerstein advised the courts on several complex class-
13 action cases.

14 200. Jason Harrow has litigated complex cases on behalf of New York State
15 and its agencies as an Assistant Solicitor General, as an associate at the national law
16 firm Davis Wright Tremaine, LLP, and as lead counsel in the U.S. Supreme Court in
17 *Colorado Dep't of State v. Baca*, No. 19-518 (argued May 13, 2020; decided July 6,
18 2020). As a law clerk for the U.S. District Court for the Southern District of New
19 York and the U.S. Court of Appeals for the Ninth Circuit, Harrow advised the courts
20 on several complex class-action cases.

21 201. Emily Gerrick has litigated complex cases, including a class action case
22 against Dallas County in which she helped to secure a preliminary injunction on
23 behalf of multiple nonprofit organizations and thousands of individuals jailed without
24 sufficient due process. At Gerstein Harrow, Gerrick is co-counseling on multiple cases
25 involving cryptocurrency.

26 202. Gerstein Harrow serves as counsel in two putative class actions
27 involving DAOs, *Kent v. Pooltogether, Inc.*, No. 21-CV-6025 (E.D.N.Y.) and *Ometak v.*
28

1 *bZx DAO*, No. 22-CV-618 (S.D. Cal.).

2 203. Fairmark Partners' attorneys have significant experience litigating
3 complex cases, including major class actions, including class actions involving
4 cryptocurrency.

5 204. James Crooks, a founding partner of Fairmark Partners, has significant
6 experience litigating complex cases, including major class actions. After clerking for
7 the U.S. Court of Appeals for the Ninth Circuit and the U.S. Supreme Court, where
8 he advised the courts on several complex class-action cases, Crooks joined the
9 international law firm O'Melveny & Myers, LLP, where he was a litigation associate
10 for several years. There, he litigated complex commercial cases, including class
11 actions, relating to financial products, insurance, products liability, and consumer
12 protection at the federal trial, court of appeals, and Supreme Court levels.

13 205. Michael Lieberman has litigated dozens of complex cases as an associate
14 and partner at the international law firm Kirkland & Ellis LLP, including class
15 actions and multi-district litigation involving products liability, constitutional law,
16 employment law, and administrative law, and has done so at every level of the federal
17 court system. As a law clerk for the U.S. District Court for the District of Maryland
18 and the U.S. Court of Appeals for the Fifth Circuit, Lieberman advised the courts on
19 several complex class-action cases.

20 206. Several of Fairmark's other attorneys have years of experience in
21 complex commercial litigation, including class actions, at major U.S. and
22 international law firms, including Williams & Connolly, LLP, Proskauer Rose, LLP,
23 and O'Melveny & Myers, LLP.

24 207. Class counsel will fairly and adequately represent the interests of the
25 class.
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Predominance and Superiority

208. The questions of fact and law common to the class predominate in this Action over any questions affecting only individual members of the class.

209. The classes in this case will be easily managed and ascertained. COMP transactions are recorded on the Ethereum blockchain or in the blockchains or transaction logs used by the secondary-market exchanges on which COMP is bought and sold. Accordingly, although Defendants may not know the legal identities of all COMP investors, those investors can be communicated with (to ensure the provision of notice), the amounts of money the investors spent on COMP tokens is easily ascertainable, and the investors can easily be made whole through the accounts associated with the transactions.

Claims for Relief

***Count One:
Unregistered Offer and Sale of Securities in Violation of
Sections 5 and 12(a)(1) of the Securities Act of 1933
(Against All Defendants)***

210. Plaintiffs incorporate all prior paragraphs by reference.

211. 15 U.S.C. § 77l(a)(1) provides that “any person who . . . offers or sells a security in violation of section 77e of this title . . . shall be liable, subject to subsection (b), to the person purchasing such security from him.”

212. 15 U.S.C. § 77e(a) (Section 5(a) of the ’33 Act) states: “Unless a registration statement is in effect as to a security, it shall be unlawful for any person, directly or indirectly (1) to make use of any means or instruments of transportation or communication in interstate commerce or of the mails to sell such security through the use or medium of any prospectus or otherwise; or (2) to carry or cause to be carried through the mails or in interstate commerce, by any means or instruments of transportation, any such security for the purpose of sale or for delivery after sale.”

213. 15 U.S.C. § 77e(c) (Section 5(c) of the ’33 Act) states: “It shall be unlawful

1 for any person, directly or indirectly, to make use of any means or instruments of
2 transportation or communication in interstate commerce or of the mails to offer to
3 sell or offer to buy through the use or medium of any prospectus or otherwise any
4 security, unless a registration statement has been filed as to such security, or while
5 the registration statement is the subject of a refusal order or stop order or (prior to
6 the effective date of the registration statement) any public proceeding or examination
7 under section 77h of this title.”

8 214. When issued, COMP tokens were securities within the meaning of
9 Section 2(a)(1) of the '33 Act, 15 U.S.C. § 77b(a)(1).

10 215. During the Class Period, Defendants sold COMP tokens to Plaintiff and
11 the Class members.

12 216. Defendants sold COMP tokens both by transferring title to COMP
13 tokens directly to class members and/or by soliciting the purchase of COMP tokens
14 by Plaintiffs and the class members with a self-interested financial motive.

15 217. Defendants therefore directly or indirectly made use of means or
16 instruments of transportation or communication in interstate commerce or of the
17 mails, to offer to sell or to sell securities, or to carry or cause such securities to be
18 carried through the mails or in interstate commerce for the purpose of sale or for
19 delivery after sale.

20 218. No registration statements have been filed with the SEC or have been
21 in effect with respect to the offering of COMP tokens.

22 219. Accordingly, Defendants violated Section 5 of the '33 Act, 15 U.S.C.
23 §§ 77e(a), 77e(c), and are liable under Section 12(a)(1), 15 U.S.C. § 77l(a)(1).

24 220. As a direct and proximate result of Defendants' unregistered sale of
25 securities, Plaintiffs and members of the class have suffered damages in connection
26 with their respective purchases of COMP.
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Prayer for Relief

Plaintiffs respectfully request that the Court:

- Certify the proposed class, the named Plaintiffs as class representatives, and the undersigned counsel as class counsel, and allow Plaintiffs and the class to have trial by jury;
- Enter judgment against all Defendants, jointly and severally, and in favor of Plaintiffs and the class, awarding rescission or rescissory damages as defined by relevant law;
- Award reasonable attorneys' fees, costs, expenses, prejudgment and postjudgment interest, to the extent allowable by law;
- Award equitable, injunctive, and declaratory relief, including but not limited to declaring that COMP is a security and that Defendants joined a general partnership that sold COMP without registration, and enjoining Defendants from continuing to sell COMP without registration;
- Award any other relief deemed just and proper.

Respectfully submitted,

/s/ Jason Harrow

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6 *Attorneys for Plaintiffs*

7
8 ** Admitted to practice in Texas only. Not*
9 *admitted in the District of Columbia; practice*
10 *limited pursuant to D.C. App. R. 49(c)(8), with*
11 *supervision by Charles Gerstein.*
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DECLARATION OF AMANDA HOUGHTON

1. My name is Amanda Houghton. I am a resident of Townsend, Delaware. I am over 18 years old.

2. On November 8, 2022, I purchased approximately 0.07 COMP tokens on Coinbase exchange for \$41.63 price. I also received approximately 0.02 COMP tokens from the Coinbase Earn program on February 22, 2021 when the price was approximately \$426.

3. I did not make these purchases at the direction of any attorney or for the purpose of participating in any legal action of any kind.

4. I have reviewed the above complaint and authorized its filing.

5. I have never served or sought to serve as a lead or representative plaintiff in any class or collective action arising under any securities laws or regulations.

6. I will not accept payment for serving as a representative party in this Action other than my pro rata share of any recovery and an award, as authorized by the Court, for my reasonable costs and expenses (including lost wages) for my efforts in prosecuting this action.

7. I agree to serve as lead plaintiff in this action, including, if necessary, to provide testimony at a deposition or at trial.

8. I declare verify under penalty of perjury under the laws of the United States of America that the foregoing is true and correct. Executed on December 7, 2022.

Amanda Houghton

Amanda Houghton

DECLARATION OF SUSAN FRANKLIN

1. My name is Susan Franklin. I am a resident of Bismarck, Illinois. I am over 18 years old.

2. I purchased approximately 0.008 COMP tokens on Coinbase on December 26, 2021 when COMP was at a price of approximately \$230. I also received approximately \$9 of COMP tokens via Coinbase Earn on July 28, 2021 when the price of COMP was approximately \$400.

3. I did not make these purchases at the direction of any attorney or for the purpose of participating in any legal action of any kind.

4. I have reviewed the above complaint and authorized its filing.

5. I have never served or sought to serve as a lead or representative plaintiff in any class or collective action arising under any securities laws or regulations.

6. I will not accept payment for serving as a representative party in this Action other than my pro rata share of any recovery and an award, as authorized by the Court, for my reasonable costs and expenses (including lost wages) for my efforts in prosecuting this action.

7. I agree to serve as lead plaintiff in this action, including, if necessary, to provide testimony at a deposition or at trial.

8. I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct. Executed on December 7, 2022.

Susan Franklin

Susan Franklin

DECLARATION OF CHARLES DOUGLAS

1. My name is Charles Douglas. I am a resident of San Ysidro, California. I am over 18 years old.

2. I purchased approximately 0.58 COMP tokens on Coinbase exchange at a price of approximately \$129 on January 23, 2022.

3. I did not make these purchases at the direction of any attorney or for the purpose of participating in any legal action of any kind.

4. I have reviewed the above complaint and authorized its filing.

5. I have never served or sought to serve as a lead or representative plaintiff in any class or collective action arising under any securities laws or regulations.

6. I will not accept payment for serving as a representative party in this Action other than my pro rata share of any recovery and an award, as authorized by the Court, for my reasonable costs and expenses (including lost wages) for my efforts in prosecuting this action.

7. I agree to serve as lead plaintiff in this action, including, if necessary, to provide testimony at a deposition or at trial.

8. I declare verify under penalty of perjury under the laws of the United States of America that the foregoing is true and correct. Executed on December 7, 2022.

A handwritten signature in cursive script, appearing to read "Mr. Charles D. Douglas", written over a horizontal line.

Charles Douglas

CIVIL COVER SHEET

The JS-CAND 44 civil cover sheet and the information contained herein neither replace nor supplement the filing and service of pleadings or other papers as required by law, except as provided by local rules of court. This form, approved in its original form by the Judicial Conference of the United States in September 1974, is required for the Clerk of Court to initiate the civil docket sheet. (SEE INSTRUCTIONS ON NEXT PAGE OF THIS FORM.)

I. (a) PLAINTIFFS

Amanda Houghton, Charles Douglas, Susan Franklin

(b) County of Residence of First Listed Plaintiff New Castle, Delaware
(EXCEPT IN U.S. PLAINTIFF CASES)

(c) Attorneys *(Firm Name, Address, and Telephone Number)*

Gerstein Harrow LLP, 3243B S. La Cienega Blvd., Los Angeles, CA 90016, 323-744-5293

DEFENDANTS
COMPOUND DAO, ROBERT LESHNER; GEOFFREY HAYES; AH CAPITAL MANAGEMENT, LLC; POLYCHAIN ALCHEMY, LLC; BAIN CAPITAL VENTURES (GP), LLC; GAUNTLET NETWORKS, INC; PARADIGM OPERATIONS LP

County of Residence of First Listed Defendant
(IN U.S. PLAINTIFF CASES ONLY)

NOTE: IN LAND CONDEMNATION CASES, USE THE LOCATION OF THE TRACT OF LAND INVOLVED.

Attorneys *(If Known)*

II. BASIS OF JURISDICTION *(Place an "X" in One Box Only)*

☐ 1 U.S. Government Plaintiff

☒ 3 Federal Question *(U.S. Government Not a Party)*

☐ 2 U.S. Government Defendant

☐ 4 Diversity *(Indicate Citizenship of Parties in Item III)*

III. CITIZENSHIP OF PRINCIPAL PARTIES *(Place an "X" in One Box for Plaintiff and One Box for Defendant)*

	PTF	DEF		PTF	DEF
Citizen of This State	<input type="checkbox"/> 1	<input type="checkbox"/> 1	Incorporated or Principal Place of Business In This State	<input type="checkbox"/> 4	<input type="checkbox"/> 4
Citizen of Another State	<input type="checkbox"/> 2	<input type="checkbox"/> 2	Incorporated and Principal Place of Business In Another State	<input type="checkbox"/> 5	<input type="checkbox"/> 5
Citizen or Subject of a Foreign Country	<input type="checkbox"/> 3	<input type="checkbox"/> 3	Foreign Nation	<input type="checkbox"/> 6	<input type="checkbox"/> 6

IV. NATURE OF SUIT *(Place an "X" in One Box Only)*

CONTRACT	TORTS	FORFEITURE/PENALTY	BANKRUPTCY	OTHER STATUTES
110 Insurance	PERSONAL INJURY	625 Drug Related Seizure of Property 21 USC § 881	422 Appeal 28 USC § 158	375 False Claims Act
120 Marine	310 Airplane	690 Other	423 Withdrawal 28 USC § 157	376 Qui Tam (31 USC § 3729(a))
130 Miller Act	315 Airplane Product Liability	LABOR	PROPERTY RIGHTS	400 State Reapportionment
140 Negotiable Instrument	320 Assault, Libel & Slander	710 Fair Labor Standards Act	820 Copyrights	410 Antitrust
150 Recovery of Overpayment of Veteran's Benefits	330 Federal Employers' Liability	720 Labor/Management Relations	830 Patent	430 Banks and Banking
151 Medicare Act	340 Marine	740 Railway Labor Act	835 Patent—Abbreviated New Drug Application	450 Commerce
152 Recovery of Defaulted Student Loans (Excludes Veterans)	345 Marine Product Liability	751 Family and Medical Leave Act	840 Trademark	460 Deportation
153 Recovery of Overpayment of Veteran's Benefits	350 Motor Vehicle	790 Other Labor Litigation	880 Defend Trade Secrets Act of 2016	470 Racketeer Influenced & Corrupt Organizations
160 Stockholders' Suits	355 Motor Vehicle Product Liability	791 Employee Retirement Income Security Act	SOCIAL SECURITY	480 Consumer Credit
190 Other Contract	360 Other Personal Injury	IMMIGRATION	861 HIA (1395ff)	485 Telephone Consumer Protection Act
195 Contract Product Liability	362 Personal Injury -Medical Malpractice	462 Naturalization Application	862 Black Lung (923)	490 Cable/Sat TV
196 Franchise	CIVIL RIGHTS	465 Other Immigration Actions	863 DIWC/DIWW (405(g))	<input checked="" type="checkbox"/> 850 Securities/Commodities/Exchange
REAL PROPERTY	PRISONER PETITIONS		864 SSID Title XVI	890 Other Statutory Actions
210 Land Condemnation	HABEAS CORPUS		865 RSI (405(g))	891 Agricultural Acts
220 Foreclosure	440 Other Civil Rights		FEDERAL TAX SUITS	893 Environmental Matters
230 Rent Lease & Ejectment	441 Voting		870 Taxes (U.S. Plaintiff or Defendant)	895 Freedom of Information Act
240 Torts to Land	442 Employment		871 IRS—Third Party 26 USC § 7609	896 Arbitration
245 Tort Product Liability	443 Housing/Accommodations			899 Administrative Procedure Act/Review or Appeal of Agency Decision
290 All Other Real Property	445 Amer. w/Disabilities—Employment			950 Constitutionality of State Statutes
	446 Amer. w/Disabilities—Other			
	448 Education			
	OTHER			
	540 Mandamus & Other			
	550 Civil Rights			
	555 Prison Condition			
	560 Civil Detainee—Conditions of Confinement			

V. ORIGIN *(Place an "X" in One Box Only)*
☒ 1 Original Proceeding ☐ 2 Removed from State Court ☐ 3 Remanded from Appellate Court ☐ 4 Reinstated or Reopened ☐ 5 Transferred from Another District *(specify)* ☐ 6 Multidistrict Litigation—Transfer ☐ 8 Multidistrict Litigation—Direct File

VI. CAUSE OF ACTION
Cite the U.S. Civil Statute under which you are filing *(Do not cite jurisdictional statutes unless diversity):*
15 U.S.C. § 771
Brief description of cause:
Sale of unregistered securities

VII. REQUESTED IN COMPLAINT: ☒ CHECK IF THIS IS A CLASS ACTION UNDER RULE 23, Fed. R. Civ. P. **DEMAND \$** **CHECK YES only if demanded in complaint: JURY DEMAND:** ☒ Yes ☐ No

VIII. RELATED CASE(S), IF ANY *(See instructions):* JUDGE DOCKET NUMBER

IX. DIVISIONAL ASSIGNMENT (Civil Local Rule 3-2)
(Place an "X" in One Box Only) ☒ SAN FRANCISCO/OAKLAND ☐ SAN JOSE ☐ EUREKA-MCKINLEYVILLE

DATE 12/07/2022 SIGNATURE OF ATTORNEY OF RECORD /s/ Jason Harrow

INSTRUCTIONS FOR ATTORNEYS COMPLETING CIVIL COVER SHEET FORM JS-CAND 44

Authority For Civil Cover Sheet. The JS-CAND 44 civil cover sheet and the information contained herein neither replaces nor supplements the filings and service of pleading or other papers as required by law, except as provided by local rules of court. This form, approved in its original form by the Judicial Conference of the United States in September 1974, is required for the Clerk of Court to initiate the civil docket sheet. Consequently, a civil cover sheet is submitted to the Clerk of Court for each civil complaint filed. The attorney filing a case should complete the form as follows:

- I. a) Plaintiffs-Defendants.** Enter names (last, first, middle initial) of plaintiff and defendant. If the plaintiff or defendant is a government agency, use only the full name or standard abbreviations. If the plaintiff or defendant is an official within a government agency, identify first the agency and then the official, giving both name and title.
- b) County of Residence.** For each civil case filed, except U.S. plaintiff cases, enter the name of the county where the first listed plaintiff resides at the time of filing. In U.S. plaintiff cases, enter the name of the county in which the first listed defendant resides at the time of filing. (NOTE: In land condemnation cases, the county of residence of the “defendant” is the location of the tract of land involved.)
- c) Attorneys.** Enter the firm name, address, telephone number, and attorney of record. If there are several attorneys, list them on an attachment, noting in this section “(see attachment).”
- II. Jurisdiction.** The basis of jurisdiction is set forth under Federal Rule of Civil Procedure 8(a), which requires that jurisdictions be shown in pleadings. Place an “X” in one of the boxes. If there is more than one basis of jurisdiction, precedence is given in the order shown below.
 - (1) United States plaintiff. Jurisdiction based on 28 USC §§ 1345 and 1348. Suits by agencies and officers of the United States are included here.
 - (2) United States defendant. When the plaintiff is suing the United States, its officers or agencies, place an “X” in this box.
 - (3) Federal question. This refers to suits under 28 USC § 1331, where jurisdiction arises under the Constitution of the United States, an amendment to the Constitution, an act of Congress or a treaty of the United States. In cases where the U.S. is a party, the U.S. plaintiff or defendant code takes precedence, and box 1 or 2 should be marked.
 - (4) Diversity of citizenship. This refers to suits under 28 USC § 1332, where parties are citizens of different states. When Box 4 is checked, the citizenship of the different parties must be checked. (See Section III below; **NOTE: federal question actions take precedence over diversity cases.**)
- III. Residence (citizenship) of Principal Parties.** This section of the JS-CAND 44 is to be completed if diversity of citizenship was indicated above. Mark this section for each principal party.
- IV. Nature of Suit.** Place an “X” in the appropriate box. If the nature of suit cannot be determined, be sure the cause of action, in Section VI below, is sufficient to enable the deputy clerk or the statistical clerk(s) in the Administrative Office to determine the nature of suit. If the cause fits more than one nature of suit, select the most definitive.
- V. Origin.** Place an “X” in one of the six boxes.
 - (1) Original Proceedings. Cases originating in the United States district courts.
 - (2) Removed from State Court. Proceedings initiated in state courts may be removed to the district courts under Title 28 USC § 1441. When the petition for removal is granted, check this box.
 - (3) Remanded from Appellate Court. Check this box for cases remanded to the district court for further action. Use the date of remand as the filing date.
 - (4) Reinstated or Reopened. Check this box for cases reinstated or reopened in the district court. Use the reopening date as the filing date.
 - (5) Transferred from Another District. For cases transferred under Title 28 USC § 1404(a). Do not use this for within district transfers or multidistrict litigation transfers.
 - (6) Multidistrict Litigation Transfer. Check this box when a multidistrict case is transferred into the district under authority of Title 28 USC § 1407. When this box is checked, do not check (5) above.
 - (8) Multidistrict Litigation Direct File. Check this box when a multidistrict litigation case is filed in the same district as the Master MDL docket. Please note that there is no Origin Code 7. Origin Code 7 was used for historical records and is no longer relevant due to changes in statute.
- VI. Cause of Action.** Report the civil statute directly related to the cause of action and give a brief description of the cause. **Do not cite jurisdictional statutes unless diversity.** Example: U.S. Civil Statute: 47 USC § 553. Brief Description: Unauthorized reception of cable service.
- VII. Requested in Complaint.** Class Action. Place an “X” in this box if you are filing a class action under Federal Rule of Civil Procedure 23. Demand. In this space enter the actual dollar amount being demanded or indicate other demand, such as a preliminary injunction. Jury Demand. Check the appropriate box to indicate whether or not a jury is being demanded.
- VIII. Related Cases.** This section of the JS-CAND 44 is used to identify related pending cases, if any. If there are related pending cases, insert the docket numbers and the corresponding judge names for such cases.
- IX. Divisional Assignment.** If the Nature of Suit is under Property Rights or Prisoner Petitions or the matter is a Securities Class Action, leave this section blank. For all other cases, identify the divisional venue according to Civil Local Rule 3-2: “the county in which a substantial part of the events or omissions which give rise to the claim occurred or in which a substantial part of the property that is the subject of the action is situated.”

Date and Attorney Signature. Date and sign the civil cover sheet.