



IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

R3 HOLDCO LLC,
a Delaware Limited Liability Company,

Plaintiff,

v.

C.A. No.

RIPPLE LABS, INC., a Delaware
Corporation, and XRP II LLC,
a New York Limited Liability Company,

Defendants.

VERIFIED COMPLAINT

Plaintiff R3 HoldCo LLC (“R3” or “Plaintiff”), for its Verified Complaint against Ripple Labs Inc. and XRP II LLC (collectively “Ripple” or “Defendants”) alleges as follows:

INTRODUCTION

1. This action arises from Ripple’s breach of the “Ripple Labs Inc. Option to Purchase XRP” (“Option Contract”). XRP is an electronic cryptocurrency developed by Ripple. The fully executed Option Contract granted R3 the right to purchase, or transfer the right to purchase, up to 5,000,000,000 (five billion) XRP at an exercise price of \$0.0085 per unit. At the time the parties executed the Option Contract, the average daily value of XRP was less than the exercise price of the option. Colloquially, the option was not “in the money.”

2. Over the last year, the value of XRP has risen substantially moving the option into the money. As of the date of filing of this Verified Complaint, XRP is trading in a range between \$0.226990 and \$0.231710.

3. On June 13, 2017, Ripple's CEO informed R3 that Ripple was purporting to unilaterally terminate the Option Contract prior to any attempt by R3 to exercise its right to purchase XRP or transfer that right to another party. The Option Contract does not give Ripple the right to unilaterally terminate the Option Contract. Ripple has declared that it will not fulfill its obligations under the Option Contract, and has thus anticipatorily repudiated and/or breached the Option Contract. Accordingly, R3 brings this action seeking equitable relief compelling Ripple to perform its obligations and honor R3's rights under the Option Contract.

THE PARTIES

4. Plaintiff R3 is an enterprise software firm working with over 100 banks, financial institutions, regulators, trade associations, professional services firms, and technology companies to develop a new financial services platform to reduce or eliminate the inefficiencies in the current banking system.

5. Defendant Ripple Labs, Inc. is the creator and a developer of the Ripple payment protocol and XRP digital cryptocurrency. According to Ripple's website, "Ripple provides global financial settlement solutions" with a goal of "enabling banks to transact directly, instantly and with certainty of settlement." *See*

<https://ripple.com/company/>. An important aspect of Ripple’s business model is to encourage banks and other financial institutions to use XRP and the Ripple financial network to reduce transaction costs and time for transactions between financial institutions. See <https://ripple.com/insights/ten-new-customers-join-ripples-global-payment-network/>.

6. Defendant XRP II LLC is a wholly owned subsidiary of Ripple Labs, Inc. and is Ripple’s registered and licensed money service business (MSB) that sells XRP.

JURISDICTION

7. This Court has jurisdiction over the subject matter of this action pursuant to 10 *Del. C.* § 341.

8. The Court has personal jurisdiction over Defendant Ripple Labs, Inc., a Delaware Corporation, pursuant to 8 *Del. C.* § 321.

9. XRP II LLC, a limited liability company formed and existing under New York law, is a wholly owned subsidiary of Ripple Labs, Inc. Ripple’s website states that XRP II LLC is “Ripple’s registered and licensed money service business (MSB).” See <https://ripple.com/insights/q1-2017-xrp-markets-report/>. In other words, XRP II LLC sells XRP. Buyers of XRP from XRP II LLC “tend to be institutional in nature.” *Id.* On information and belief, XRP II LLC has sold and continues to sell XRP to corporations and individuals in Delaware. In addition, on

information and belief, XRP II LLC conspired with Ripple to breach the Option Contract with knowledge of the harmful effect that breach would have on R3, a Delaware corporation. Accordingly, this Court has personal jurisdiction over XRP II LLC, *inter alia*, pursuant to 10 *Del. C.* § 3104(c).

FACTUAL BACKGROUND

The Option Contract

10. In the spring of 2016, Ripple began discussing a number of potential projects with R3. On information and belief, Ripple believed that exposure to R3 and its large consortium of member banks and financial institutions would benefit the adoption of XRP and increase the value of XRP.

11. On or about September 26, 2016, Ripple and R3 executed the Option Contract. A true and correct copy of the Option Contract is attached hereto as Exhibit A. Under the terms of the Option Contract, the agreement is “governed by and construed under the laws of the State of New York”

12. The Option Contract was executed by R3’s CEO David Rutter and XRP II LLC’s CEO, Chris Larsen. Chris Larsen is the co-founder of Ripple Labs, Inc. At the time the Option Contract was executed Chris Larsen was the CEO of Ripple Labs, Inc. as well as XRP II LLC.

13. The Option Contract granted R3 the right to purchase up to 5,000,000,000 (five billion) XRP at an exercise price of \$0.0085 per unit, at any point

between September 26, 2016 and September 14, 2019, and to exercise that right by simply surrendering its option to Ripple:

Subject to the terms and conditions set forth herein, the Holder is entitled, upon surrender of this Option at the principal office of the Company (or at such other place as the Company shall notify the Holder in writing), to purchase from the Company up to 5,000,000,000 (five billion) XRP. . . . The exercise price for the XRP issuable pursuant to this Section 1 shall be \$0.0085 per unit of XRP (the “**Exercise Price**”). This Option shall be exercisable, in whole or in part, during the term commencing on the date hereof and ending at 5:00 p.m. Pacific time on September 14, 2019 (the “**Exercise Period**”).

(Option Contract, ¶¶ 1, 2)

14. The Option Contract also granted R3 the right to transfer the ability to exercise the option. Paragraph 8 states:

[T]his Option and all rights hereunder are transferable in whole or in part by [R3] to any person or entity upon written notice to the Company. . . . In the event of a partial transfer [Ripple] shall issue to the new holders one (1) or more appropriate new options.

15. The Option Contract does not impose any conditions or obligations on R3 prior to R3’s exercise or transfer of the option.

16. The Option Contract specifically acknowledges Ripple’s receipt of sufficient consideration for the grant of the option as of the date of execution of the Option Contract, and Ripple represented and warranted that the Option Contract constituted Ripple’s “valid and legally binding obligation” that was “enforceable in accordance with its terms:”

[Ripple] represents that it has full power and authority to enter into this Option. This Option constitutes [Ripple's] valid and legal binding obligation, enforceable in accordance with its terms, except as may be limited by (i) applicable bankruptcy, insolvency, reorganization, or similar laws relating to or affecting the enforcement of creditor's rights and (ii) laws relating to the availability of specific performance, injunctive relief or other equitable remedies.

(*Id.* at ¶ 4(b)).

17. If legal proceedings are required to enforce rights granted by the Option Contract, the parties also agreed that the “prevailing party” would be entitled to attorneys’ fees and costs: “If any action at law or in equity is necessary to enforce or interpret the terms of this Option, the prevailing party shall be entitled to reasonable attorneys’ fees, costs and necessary disbursements in addition to any other relief to which such party may be entitled.” (*Id.* at ¶ 14).

Ripple’s Repudiation of the Option Contract

18. When the Option Contract was executed in September 2016, the average daily market value of XRP was less than the strike price of the option. In other words, the option would have future intrinsic value only if the market value of XRP increased.

19. On October 20, 2016, R3 and Ripple put out a joint press release describing a successful test of Ripple’s financial technology and XRP with twelve R3 member banks.

20. Upon information and belief, Ripple's exposure to banks and financial institutions, such as R3 and its member financial institutions, has led to the market's growing perception of potential future adoption of XRP by financial institutions, which has contributed to the significant increase in the market value of XRP over the last year.

21. As of the date of the filing of this Verified Complaint, the average daily value of XRP is approximately \$0.2293505.

22. On June 13, 2017, Brad Garlinghouse, Ripple's current CEO, sent an email to David Rutter, R3's CEO, improperly repudiating the Option Contract. In that email, Ripple purported to unilaterally terminate the Option Contract prior to any attempt by R3 to exercise its right to purchase XRP or transfer that right to another party. The Option Contract does not give Ripple the right to unilaterally terminate the Option Contract. Nevertheless, Ripple has unambiguously and unequivocally declared that it will not fulfill its obligations under the Option Contract. That repudiation of the contract constitutes an anticipatory breach.

23. On information and belief, Ripple holds over 60,000,000,000 (sixty billion) of the 100 billion XRP total that Ripple has stated will be the maximum amount of XRP produced. Ripple has not declared bankruptcy, is not insolvent, and has not reorganized since the parties executed the Option Contract. Therefore,

Ripple has the ability to grant the option to purchase or transfer set forth in the Option Contract.

24. At all times between September 26, 2016 and through the present, R3 has been ready, willing, and able to exercise its rights under the Option Contract.

COUNT ONE

(Breach of Contract and Request for Specific Performance – Against Both Defendants)

25. Plaintiff repeats and realleges each allegation set forth in Paragraphs 1 through 24 of this Verified Complaint as if fully set forth herein.

26. The Option Contract created a contractual obligation for Ripple to sell up to 5,000,000,000 (five billion) XRP to R3 at a price of \$0.0085 per unit of XRP or to transfer that right to purchase any amount up to 5,000,000,000 (five billion) XRP to a party designated by R3. The Option Contract was executed by the parties on or about September 26, 2016 and does not expire until at the earliest September 14, 2019.

27. The face of the Option Contract states that R3's option was "issued for good and valid consideration, the receipt and sufficiency of which is hereby acknowledged," and Ripple acknowledged that the Option Contract "constitutes [Ripple's] valid and legal binding obligation, enforceable in accordance with its terms"

28. The Option Contract does not grant Ripple the right to unilaterally terminate the Option Contract.

29. In an email dated June 13, 2017, Brad Garlinghouse, Ripple's CEO, stated that Ripple was terminating the Option Contract over two years prior to its expiration date. By purportedly terminating the Option Contract and refusing to allow R3 to exercise or transfer the option, Ripple has repudiated, and thus breached, the Option Contract.

30. R3 has been damaged by Ripple's breach of the Option Contract because it is unable to purchase or transfer the ability to purchase XRP at the price granted in the Option Contract. The Option Contract price of \$0.0085 is significantly lower than the current price of XRP.

31. By reason of the foregoing, Plaintiff has sustained and will continue to sustain irreparable injury for which it has no adequate remedy at law

COUNT TWO

(Tortious Interference with Contract – Against Defendant Ripple Labs, Inc.)

32. Plaintiff repeats and realleges each allegation set forth in Paragraphs 1 through 31 of this Complaint as if fully set forth herein.

33. The Option Contract is a legally binding agreement between at least XRP II LLC and R3.

34. Ripple Labs, Inc. was aware of the Option Contract.

35. On June 13, 2017, Ripple Labs, Inc., through its CEO, Brad Garlinghouse, improperly “terminated” and thus repudiated the Option Contract. Accordingly, Ripple Labs, Inc. intentionally caused XRP II LLC to breach the Option Contract.

36. Ripple Labs, Inc.’s interference with the Option Contract caused harm to R3 because R3 is unable to purchase or transfer the right to purchase XRP at the price granted in the Option Contract.

37. By reason of the foregoing, Plaintiff has sustained and will continue to sustain irreparable injury for which it has no adequate remedy at law.

WHEREFORE, by reason of the foregoing, Plaintiff respectfully requests that this Court enter an order:

(a) declaring that Ripple has repudiated and breached the Option Contract by refusing to honor the Option Contract and precluding R3 from exercising its rights under the Option Contract;

(b) declaring that R3 is entitled to all rights granted by the Option Contract; including the right to elect to purchase, or transfer the right to purchase, on any day or days of R3’s choosing before September 14, 2019, up to 5,000,000,000 (five billion) XRP from Ripple at a price of \$0.0085 per unit of XRP pursuant to the conditions in the Option Contract;

(c) dependent upon R3's election, ordering Ripple to (i) sell up to 5,000,000,000 (five billion) XRP at a price of \$0.0085 per unit of XRP on the day or days that R3 elects to exercise any portion of the option; and/or (ii) reissue the option or any portion of the option to a third party if R3 elects to transfer the option or any portion of the option pursuant to the conditions in the Option Contract; and/or (iii) in the event of a transfer of the option or any portion of the option to a third party, to sell up to 5,000,000,000 (five billion) XRP at a price of \$0.0085 per unit of XRP on the day or days that the transferee third party elects to exercise any portion of the option pursuant to the conditions in the Option Contract.

(d) permanently enjoining Ripple from interfering with the execution of the Option Contract;

(e) in the event the Court finds that the remedy of specific performance of the Option Contract is not available, awarding Plaintiff compensatory damages in an amount to be determined at trial;

(f) awarding Plaintiff pre- and post-judgment interest, to the extent permitted by law;

(g) awarding Plaintiff all costs and disbursements incurred in connection with this action, including all attorneys' fees, costs and expenses; and

(h) granting Plaintiff such other and further relief as this Court may deem just and equitable.

Dated: September 8, 2017

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