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UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

SECURITIES AND EXCHANGE
COMMISSION,

Plaintiff,

vs.

DROPIL INC., JEREMY MCALPINE,
ZACHARY MATAR, AND PATRICK
O'HARA

Defendants.

Case No.

COMPLAINT

Plaintiff Securities and Exchange Commission ("SEC") alleges:

JURISDICTION AND VENUE

1. The Court has jurisdiction over this action pursuant to Sections 20(b),
20(d)(1), and 22(a) of the Securities Act of 1933 ("Securities Act"), 15 U.S.C. §§
77t(b), 77t(d)(1), and 77v(a), and Sections 21(d)(1), 21(d)(3)(A), 21(e), and 27(a) of
the Securities Exchange Act of 1934 ("Exchange Act"), 15 U.S.C. §§ 78u(d)(1),
78u(d)(3)(A), 78u(e), and 78aa(a).

2. Defendants have, directly or indirectly, made use of the means or instrumentalities of interstate commerce, of the mails, or of the facilities of a national securities exchange in connection with the transactions, acts, practices, and courses of business alleged in this complaint.

3. Venue is proper in this district pursuant to Section 22(a) of the Securities Act, 15 U.S.C. § 77v(a), and Section 27(a) of the Exchange Act, 15 U.S.C. § 78aa(a), because certain of the transactions, acts, practices, and courses of conduct constituting violations of the federal securities laws occurred within this district. In addition, venue is proper in this district because defendants Jeremy McAlpine (“McAlpine”), Zachary Matar (“Matar”), and Patrick O’Hara (“O’Hara”) reside in this district and defendant Dropil Inc. (“Dropil”) has its principal place of business in this district.

SUMMARY

4. This action concerns defendants McAlpine’s, Matar’s, and O’Hara’s fraudulent and unregistered offering of securities through their privately owned company, defendant Dropil. From January 2018 through March 2020, McAlpine, Matar, O’Hara, and Dropil raised more than \$2.5 million from investors, including those in the U.S., through the sale of DROP tokens (“DROPs”), which are digital asset securities.

5. McAlpine, Matar, O’Hara, and Dropil purported to raise \$54 million from 34,000 investors in the United States and around the world through the sale of its DROPs during their so-called “Initial Coin Offering” (“ICO”), the initial phase of their unregistered offering of securities. They further claimed, in their White Paper and on the Dropil website, that investor funds would be pooled to trade various digital assets using “Dex,” a “trading bot” or trading platform using an algorithm purportedly designed and tested by Dropil. Dropil and its founders claimed that Dex would generate profits that would be distributed to investors as additional DROPs every 15 days.

1 6. None of this was true, however. In reality, the sale of DROPs during the
2 ICO phase raised less than \$1.9 million, not the \$54 million claimed. There were only
3 2,472 investors, not the 34,000 claimed. Furthermore, there is no record that Dex,
4 which Dropil promoted as a differentiating feature of DROPs, ever operated or
5 generated any trading profits. The DROPs that Dropil distributed to investors as
6 purported Dex trading profits were really just previously generated DROPs that
7 Dropil had retained or funds generated from additional sales of DROPs on third-party
8 digital asset trading platforms after the ICO phase.

9 7. Dropil and its founders misled investors about their use of investor funds
10 and misappropriated investor monies by paying themselves undisclosed
11 compensation out of the funds raised in the sale of DROPs. Of the nearly \$1.9 million
12 raised in the ICO phase, approximately \$1.4 million was transferred to McAlpine's,
13 Matar's, and O'Hara's personal digital asset accounts.

14 8. Finally, McAlpine, Matar, and O'Hara attempted to cover up their fraud
15 by producing falsified documents to the SEC staff, which were intended to give the
16 appearance that (i) Dex had a record of trading activity which matched Dropil's
17 claims (it did not) and (ii) the number of investors in DROPs matched Dropil's claims
18 (it did not).

19 9. By engaging in a fraudulent scheme through Dropil's offer and sale of
20 DROPs, McAlpine, Matar, and O'Hara and Dropil violated the antifraud provisions
21 of Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act and
22 Rule 10b-5 thereunder, as well as the securities offering registration provisions of
23 Section 5 of the Securities Act.

24 10. The SEC seeks permanent injunctions prohibiting future violations of the
25 federal securities laws by defendants, conduct-based injunctions permanently
26 enjoining each defendant from directly or indirectly participating in the offer,
27 purchase, or sale of digital asset securities, and an order requiring defendants to
28 disgorge their ill-gotten gains, along with pre-judgment interest, and imposing a civil

1 penalty on the defendants.

2 **THE DEFENDANTS**

3 11. **Jeremy McAlpine** resides in Fountain Valley, California. He co-
4 founded Dropil in late 2017 and is listed on Dropil's website as its founder and
5 developer. McAlpine owns at least 45% of Dropil. McAlpine co-developed all of
6 Dropil's software and reviewed and approved all marketing materials related to
7 Dropil. McAlpine has never been registered with the SEC in any capacity or
8 associated with any registered broker-dealers.

9 12. **Zachary Matar** resides in Huntington Beach, California. He co-founded
10 Dropil in late 2017 and is listed on Dropil's website as its founder and developer.
11 Matar owns at least 45% of Dropil. Matar co-developed all of Dropil's software and
12 reviewed and approved all marketing materials related to Dropil. Matar has never
13 been registered with the SEC in any capacity or associated with any registered
14 broker-dealers.

15 13. **Patrick O'Hara** resides in Fountain Valley, California. He co-founded
16 Dropil in late 2017 and was its chief operating officer. He was responsible for
17 drafting and reviewing all marketing materials related to Dropil until December 2019,
18 when he resigned. As of December 2019, O'Hara owned 10% of Dropil. O'Hara has
19 never been registered with the SEC in any capacity or associated with any registered
20 broker-dealers.

21 14. **Dropil Inc.** is a privately-owned corporation formed in Belize City,
22 Belize on January 26, 2018. Dropil's principal places of business are the residences
23 of founders McAlpine and Matar, in Orange County, California. Dropil has never
24 been registered with the SEC in any capacity, or associated with any registered
25 broker-dealers; nor have any Dropil securities offerings or classes of securities been
26 registered with the SEC.

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THE ALLEGATIONS

A. Background on Digital Token Offerings

15. The term “digital asset” or “digital token” generally refers to an asset that is issued and transferred using distributed ledger or blockchain technology, including, but not limited to, so-called “cryptocurrencies,” “coins,” and “tokens.”¹ Entities have offered and sold digital tokens in fundraising events, often called “ICOs”, in exchange for consideration.

16. Generally, digital tokens may entitle holders to certain rights related to a venture underlying the fundraising event, such as rights to profits, shares of assets, rights to use certain services provided by the issuer, and/or voting rights. These digital tokens may also be traded on digital asset trading platforms where they are tradeable for other digital assets or fiat currency. The coins or tokens are often tradeable upon delivery to investors.

17. Issuers of digital tokens typically release a “whitepaper” or marketing materials describing the project and the terms of the offering. To participate, investors typically transfer funds to the issuer’s accounts. After a sale of a digital token, the issuer typically will deliver the token to the investor’s unique address on a distributed ledger or blockchain.

18. In some instances, the digital tokens may continue to be sold by the issuer after a so-called ICO. In others, they may only be obtained from third parties after the ICO by purchasing them in secondary markets.

19. On July 25, 2017, the SEC issued what is often called the “DAO Report,” advising “those who would use . . . distributed ledger or blockchain-enabled

¹ A blockchain or distributed ledger is a peer-to-peer database spread across a network, that records all transactions in theoretically unchangeable, digitally recorded data packages. The system relies on cryptographic techniques for secure recording of transactions. Blockchains or distributed ledgers can also record “smart contracts,” essentially computer programs designed to execute the terms of a contract when certain triggering conditions are met.

1 means for capital raising, to take appropriate steps to ensure compliance with the U.S.
2 federal securities laws,” and finding that the offering of digital assets at issue in that
3 report were investment contracts.

4 **B. Dropil’s Digital Asset Securities Offering of DROPs in the “ICO”
5 Phase**

6 20. Beginning in late 2017, defendants launched an unregistered offer and
7 sale of DROPs on Dropil’s website: www.dropil.com.

8 21. On or around January 20, 2018, Dropil first published a White Paper
9 describing the Dropil offering.

10 22. From mid-2018 to early 2020, the White Paper was available to the
11 public without restriction on Dropil’s website.

12 23. The contents of the White Paper and of Dropil’s website were drafted,
13 reviewed, and approved by McAlpine, Matar, and O’Hara.

14 24. The White Paper solicited investment in DROPs, which investors could
15 purchase through Dropil’s website using, as forms of payment, digital assets
16 including Ether (“ETH”), Bitcoin (“BTC”), Litecoin (“LTC”), Bitcoin Cash
17 (“BCH”), Neo (“NEO”), Dash (“DASH”), Zcash (“ZEC”), and Monero (“XMR”).

18 25. According to the White Paper, Dropil’s primary service was the
19 automated digital asset trading bot, Dex, which was described as a “carefully curated
20 and tested set of automated bots – all designed and programmed 100% in house.”

21 26. According to the White Paper, Dex “does all the heavy lifting for you
22 while our expertly managed portfolio balancing algorithm manages risk and our
23 proprietary DROp tokens ensure privacy while also offering added value and
24 exclusivity.”

25 27. The White Paper also stated that, “[a]ll transaction [sic] into and out of
26 the Dex system requires the use of DROp tokens exclusively.”

27 28. Additionally, the White Paper noted that Dex was “perfect” for investors
28 seeking a “stable investment” in a “diversified cryptocurrency portfolio” without

1 having “advanced trading skills, time, and capital.”

2 29. The White Paper also stated that DROPs would be a good investment for
 3 anyone “who want[s] to combine the benefits of algorithm trading with the benefits
 4 of holding (Hodl) a coin that increases in value in a single product.”

5 30. Dropil’s White Paper stated that Dex’s design allowed investors to trade
 6 matched pairs of different digital assets and “make returns in nearly any market
 7 condition.” Dex purportedly used a “pooling approach” that aggregated all investor
 8 funds allowing “a massive advantage to all traders” because there would be
 9 “sufficient capital to allow maximum diversification.”

10 31. Dropil’s White Paper also stated that Dropil designed Dex to allow
 11 investors to select either a “Safe, Moderate, or Aggressive risk profile,” and claimed
 12 that that the safe mode would “average an annual time weighted return of 24-45% of
 13 the principal;” that “Moderate moves the returns estimate to 39-63%;” and that
 14 “Aggressive Mode will return 57-83% [of] the principal funding.”

15 32. Dropil’s White Paper also stated that Dex “has proven to be very stable
 16 in returns.”

17 33. Additionally, in the White Paper, Dropil stated that “[A]ny principal
 18 DROPs may be withdrawn . . . at any point without penalty . . . [T]he principal never
 19 has a hold on it and may be withdrawn at any time.”

20 34. According to the White Paper, Dropil and its founders would be paid
 21 from DROPs created during the ICO phase, but retained by the company: “35% of
 22 the total supply will be owned by Dropil in the company wallet, which will be used
 23 for future project capital as well as distribution to team and founders.”

24 35. The White Paper made no other reference to sources of payment for the
 25 founders.

26 36. On its website, Dropil distinguished DROPs from other digital assets by
 27 emphasizing its “real and functional bot system” that had been “backtested...to
 28 present to the public, certifying the existence and outstanding functioning of [the]

1 trading bots.”

2 37. Dropil and its founders also promoted the offering on social media
3 channels.

4 38. Dropil’s Twitter page, @DropilCoin, Dropil promoted on January 20,
5 2018 that the “ICO Presale Goes Live January 24th register on Dropil.com today to
6 apply for the presale.”

7 39. During the ICO phase of the offering, Dropil displayed a counter on its
8 website purportedly tracking the number and U.S. dollar value of DROPs sold.

9 40. The ICO phase began with, and included, a “presale” on January 26,
10 2018 and ran from February 7 through March 7, 2018.

11 41. Dropil’s website and the White Paper directed investors to send their
12 funds in eight different digital assets to CoinPayments.com, a digital asset payment
13 service.

14 42. During the ICO phase of the offering, Dropil received from DROPs
15 investors a total amount of digital assets worth \$1,907,861.91; less CoinPayments’
16 fees, the total amount raised was \$1,896,965.78.

17 43. During the ICO phase, which ended March 7, 2018, approximately 2,472
18 DROPs investors bought a total of 629,561,017 DROPs, in approximately 3,451
19 transactions.

20 44. In March 2018, however, Dropil publicly announced that it had sold 12
21 billion DROPs, worth approximately \$54 million, in the ICO phase of its offering.

22 45. Dropil represented publicly that, following an audit, the investors’
23 DROPs would be deposited in a specific digital asset wallet for the investors.
24 Investors’ DROPs would then be used to invest in digital assets using Dex.

25 46. Dex was to carry out its trading on the third-party digital asset trading
26 platform Binance.

27 47. Defendants did not ask for any information from the investors who
28 purchased DROPs in the ICO phase of the offering, other than the wallet addresses

1 for the digital assets paid as consideration for the DROPs.

2 48. Defendants did not collect and do not have information as to DROPs
3 investors' names, addresses, occupations, annual income, net worth, or total assets
4 held.

5 **C. Defendants' "Post-ICO" Sales of DROPs**

6 49. Defendants' offering continued after the ICO phase. Defendants
7 continued to sell DROPs on third-party digital asset trading platforms following the
8 ICO phase's stated end date.

9 50. By mid-2018, Dropil began to create and offer various purported
10 ancillary services, including a subscription for a smart wallet for digital assets, and a
11 trading bot to automate digital asset trades directly in a user's own wallet.

12 51. Dropil currently offers these purported ancillary services in exchange for
13 fees paid in the form of DROPs.

14 52. Until recently, Dropil sold DROPs to the public on three digital asset
15 trading platforms, BitMart, Tidex, and IDAX.

16 53. From October 2018 through January 2020, Dropil obtained digital assets
17 worth at least \$683,747 from the post-ICO phase sale of DROPs, of which
18 approximately \$390,387 in digital assets was transferred to the founders' personal
19 accounts at the digital asset trading platform Coinbase.

20 **D. Defendants' Material Misstatements and Other Fraudulent Conduct**

21 54. In its offering, Dropil and its founders made multiple material
22 misrepresentations in the White Paper and on the Dropil website to investors and
23 potential investors, and undertook actions directly contrary to claims it made in the
24 White Paper and on the website.

25 **1. Misrepresentations of the Amount Raised in the Offering**

26 55. Both during and after the ICO phase of the offering, Dropil, McAlpine,
27 Matar, and O'Hara misstated how many DROPs had been sold and how much money
28 the offering had raised.

56. For example, on February 3, 2018, while the ICO phase of the offering was ongoing, @DropilCoin tweeted: “We just passed 1 BILLION DROPS sold! Thank you to everyone that has participated so far and we look forward to the coming days and weeks as new users join and the official ICO begins.”

57. Then on February 4, 2018, through @DropilCoin, Dropil claimed, “We passed over 50,000 users today! Let’s keep this momentum going!”

58. On February 12, 2018, @DropilCoin on Twitter promoted that Dropil had “passed 3 billion drops sold today! 12 billion drops are still available for sell [sic]. Get started on the first automated cryptocurrency investment platform today!”

59. A few days later, on February 21, 2018, @DropilCoin tweeted, “Over 6 billion / 40% DROP tokens sold! Only 2 weeks left to get your hands on Dropil (DROP) during the ICO.”

60. In reality, defendants sold approximately 629 million DROPS for \$1,896,657 from 2,472 investors from January 11, 2018 through March 7, 2018.

61. McAlpine and Matar coded an algorithm for a chart on the Dropil website that automatically inflated the number and value of DROPs being sold.

62. Defendants inflated the number and value of DROPs being sold in the offering in order to increase the interest and investments in DROPs.

2. Misrepresentations of Dex Trading Activity and Returns

63. Both during and after the ICO phase of the offering, Dropil, McAlpine, Matar, and O’Hara misrepresented that Dex was engaged in ongoing, profitable trading.

64. Defendants represented to the public, through Twitter, YouTube, and the Dropil.com website, that Dex's trading activity was ongoing and profitable from before the completion of the ICO phase of the offering through the beginning of 2020.

65. For example, on February 26, 2018, during the ICO phase of the offering, Dropil tweeted via @DropilCoin a YouTube video link under the following

1 representation: “You asked to see it, we delivered! Time Lapse of Dropil’s Dex
 2 trading bot against a live market as shown through one of our in-house monitoring
 3 tools – Dex Tracker.”

4 66. After the ICO phase, Dropil continued to falsely promote Dex and
 5 purported improvements to it; for example, on March 11, 2018, @DropilCoin
 6 tweeted, “Drop distribution and Dex platform is now live!! We will be rolling out
 7 more features for Dex and the portal wallet in the coming days.”

8 67. On May 8, 2018, Dropil tweeted “We are excited to announce the
 9 official release of Dex Platform 2.0. The Dex page will be offline for approximately
 10 four hours starting at 10PM Thursday, May 10th for maintenance, and the subsequent
 11 rollout of the new Dex platform update.”

12 68. On May 22, 2018, Dropil tweeted a link to a YouTube video of co-
 13 founder Matar demonstrating the “Dex 2.0” platform.

14 69. On January 16, 2019, Dropil continued to promote new updates to Dex,
 15 and tweeted a link to another YouTube video showing, “A first look at Dex 3.0.”

16 70. On May 11, 2019, Dropil tweeted, “Bitcoin is rising, Drops are up 20%,
 17 Jade trading is killing it. Dex is on always. It’s great having everything automated
 18 with Dropil.”

19 71. In reality, Dex operated for at most a limited time and, as of sometime in
 20 2018, stopped operating at all.

21 72. At least as of sometime in 2018, Dex was non-operational and there was
 22 no existing trading activity.

23 73. To the extent Dex did operate, it did not achieve profitable trading.

24 74. Trading records from Binance reflect no trading activity by Dex.

25 **3. Misrepresentations of the Sources of Investors’ Returns**

26 75. Throughout the offering, Dropil, McAlpine, Matar, and O’Hara
 27 misrepresented the sources of the returns that were being distributed and that would
 28 be distributed in the future to investors in DROPs.

1 76. In their White Paper, Defendants represented to the public that investors
 2 would earn recurring returns from Dex's trading activity, and that these profits would
 3 be deposited in the investor's wallet in the form of additional DROPs.

4 77. In reality, any so-called returns paid to investors were not derived from
 5 Dex trading activity.

6 78. Instead, the purported returns paid to investors were paid from two
 7 sources: (1) the DROPs retained by Dropil in the ICO phase; and (2) the DROPs
 8 members of the public paid back to Dropil to purchase the ancillary services sold on
 9 the platform.

10 **4. Defendants' Misuse and Misappropriation of Investors' Funds**

11 79. In addition to their fraudulent representations about the amount of funds
 12 raised, the existence of profitable Dex trading, and the sources of returns paid to
 13 DROPs investors, Dropil, McAlpine, Matar and O'Hara misused investor monies and
 14 paid themselves from the funds raised in the offering.

15 80. The White Paper stated that Dropil would fund capital expenses and pay
 16 its founders through the DROPs it retained in the ICO phase of the offering.

17 81. Of the nearly \$1.9 million raised in the ICO, defendants transferred
 18 approximately \$1.3 million to McAlpine's, Matar's, and O'Hara's personal digital
 19 asset holdings.

20 82. Investor payments were transferred from Dropil's CoinPayments
 21 account to McAlpine's, Matar's, and O'Hara's personal digital asset accounts at
 22 Coinbase.

23 83. From Coinbase, investor funds were converted to U.S. dollars and then
 24 transferred to McAlpine's, Matar's, and O'Hara's personal bank accounts.

25 84. The founders' personal digital asset accounts also received about
 26 \$390,000 in digital assets from Dropil's sale of DROPs on digital asset trading
 27 platforms after the offering.

28 85. As of October 31, 2019, at least a total of \$987,294 was received into the

1 personal bank accounts of the founders from their personal digital asset accounts at
2 Coinbase.

3 **E. Defendants' Efforts to Conceal Their Fraud**

4 86. In addition to making material misrepresentations to investors and
5 engaging in a scheme to defraud investors, defendants took deliberate steps to
6 conceal their fraud from detection.

7 87. In response to SEC investigative subpoenas, defendants fabricated and
8 produced to the SEC thousands of pages of trade activity documents purporting to
9 show Dex's trading, in an effort to portray Dex's trading as existent, ongoing, and
10 profitable.

11 88. At the time they fabricated these trade activity documents, defendants
12 knew that Dex's trading had either ceased sometime in 2018 or never existed at all.

13 89. Defendants fabricated these trade activity documents and produced them
14 to the SEC staff in an attempt to conceal their fraudulent activities.

15 90. Also in response to SEC investigative subpoenas, defendants fabricated
16 and produced to the SEC staff an investor spreadsheet purporting to show 34,000
17 investments in DROPs amounting to \$54 million raised in the ICO phase.

18 91. At the time they fabricated this investor spreadsheet, defendants knew
19 that they had raised no more than \$1.9 million in the ICO phase.

20 92. Defendants fabricated this investor spreadsheet and produced it to the
21 SEC staff in an attempt to conceal their fraudulent activities.

22 93. In response to an SEC investigative subpoena, defendant McAlpine gave
23 knowingly false sworn testimony concerning the amount raised in the ICO phase, as
24 well as the existence of ongoing, profitable Dex trading, which testimony he later
25 admitted was false.

26 94. Defendants McAlpine, Matar, and O'Hara have each admitted under
27 oath that they fabricated the documents they produced to the SEC staff concerning
28 the existence and profitability of Dex's trading and the amount raised in the ICO

1 phase.

2 **F. Defendants' Offers and Sales of DROPs Were Not Registered with**
 3 **the SEC**

4 95. Federal securities laws require that companies disclose to investors
 5 certain information through the registration of the offer or sale of securities with the
 6 SEC. This information allows investors to make informed investment decisions about
 7 whether to purchase a company's securities.

8 96. Dropil offered and sold securities, in the form of DROPs digital assets,
 9 and the offering was required to be registered with the SEC unless an exemption
 10 applies.

11 97. No registration exemption applies to the Dropil offering. The Dropil
 12 offering was not limited by number of investors, or investor accreditation status, and
 13 involved a general solicitation of investors.

14 98. Dropil, McAlpine, Matar, and O'Hara offered and sold digital asset
 15 securities in the form of DROPs to the general public, including to investors
 16 throughout the United States.

17 99. Dropil is liable for these registration violations as the issuer of the
 18 DROPs digital asset securities. Both during the ICO phase of the offering and after
 19 the ICO phase, investors sent funds and digital assets to Dropil's accounts to purchase
 20 the DROPs.

21 100. McAlpine, Matar, and O'Hara are liable under for these registration
 22 violations because they directly and indirectly offered and sold DROPs, and are
 23 necessary participants and substantial factors in the unregistered offer and sale of
 24 securities in the form of DROPs digital assets.

25 101. In the offering, the DROPs digital assets were sold to the public through
 26 the Dropil ICO website that McAlpine, Matar, and O'Hara set up to attract investors.
 27 McAlpine, Matar, and O'Hara created, reviewed Dropil's White Paper and website.
 28 McAlpine and Matar control the private keys to the DROPs digital asset wallets.

1 McAlpine is the signatory on Dropil's Binance account. O'Hara created Dropil's
 2 social media accounts, but the content of those accounts was reviewed and approved
 3 by McAlpine and Matar. But for McAlpine's, Matar's, and O'Hara's actions and
 4 substantial participation, the unregistered offers and sales of DROPs would not have
 5 occurred.

6 102. After the ICO phase of the offering, Dropil sold DROPs to the public
 7 through third-party digital asset trading platforms. McAlpine and Matar directed
 8 these sales on behalf of Dropil, as did O'Hara prior to his December 2019
 9 resignation.

10 103. Defendants' offer and sale of DROPs digital asset securities was not
 11 registered with the SEC in any way.

12 **FIRST CLAIM FOR RELIEF**

13 **Fraud in Connection with the Purchase or Sale of Securities**

14 **Violations of Section 10(b) of the Exchange Act and Rule 10b-5
 15 (Against All Defendants)**

16 104. The SEC realleges and incorporates by reference paragraphs 1 through
 17 103 above.

18 105. Defendants Dropil, McAlpine, Matar, and O'Hara engaged in a
 19 fraudulent scheme in which they raised over \$2.5 million through the sale of DROPs
 20 by, among other things, (i) falsely representing on Dropil's website the amount and
 21 value of the DROPs sold in the ICO phase, (ii) falsely representing in the White
 22 Paper posted on Dropil's website that defendants would be paid from Dropil's
 23 retained DROPs created during the ICO phase, when they instead paid themselves
 24 directly from funds raised from investors, and (iii) misleading investors as to the
 25 source of payments of DROPs to investors in order to make it appear that Dex was
 26 operating and generating returns, as represented, when in fact it had ceased operating
 27 or had never operated at all. Defendants knew they were misrepresenting the number
 28 of investors, amounts raised, sources of funds paid to investors, and the allocation of

investor funds to themselves.

106. By engaging in the conduct described above, Defendants, and each of them, directly or indirectly, in connection with the purchase or sale of a security, and by the use of means or instrumentalities of interstate commerce, of the mails, or of the facilities of a national securities exchange: (a) employed devices, schemes, or artifices to defraud; (b) made untrue statements of a material fact or omitted to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; or (c) engaged in acts, practices, or courses of business which operated or would operate as a fraud or deceit upon other persons.

107. By engaging in the conduct described above, Defendants each violated, and unless restrained and enjoined will continue to violate, Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5 thereunder, 17 C.F.R. § 240.10b-5.

SECOND CLAIM FOR RELIEF

Fraud in the Offer or Sale of Securities

Violations of Sections 17(a) of the Securities Act

(Against All Defendants)

108. The SEC realleges and incorporates by reference paragraphs 1 through 103 above.

109. Defendants Dropil, McAlpine, Matar, and O’Hara engaged in a fraudulent scheme in which they raised over \$2.5 million through the sale of DROPs by, among other things, (i) falsely representing on Dropil’s website the amount and value of the DROPs sold in the ICO phase, (ii) falsely representing in the White Paper posted on Dropil’s website that defendants would be paid from Dropil’s retained DROPs created during the ICO phase, when they instead paid themselves directly from funds raised from investors, and (iii) misleading investors as to the source of payments of DROPs to investors in order to make it appear that Dex was operating and generating returns, as represented, when in fact it had ceased operating

1 or had never operated at all. Defendants knew they were misrepresenting the number
 2 of investors, amounts raised, sources of funds paid to investors, and the allocation of
 3 investor funds to themselves.

4 110. By engaging in the conduct described above, Defendants, and each of
 5 them, directly or indirectly, in the offer or sale of securities, and by the use of means
 6 or instruments of transportation or communication in interstate commerce or by use
 7 of the mails directly or indirectly: (a) employed devices, schemes, or artifices to
 8 defraud; (b) made untrue statements of a material fact or by omitting to state a
 9 material fact necessary in order to make the statements made, in light of the
 10 circumstances under which they were made, not misleading; and (c) engaged in
 11 transactions, practices, or courses of business which operated or would operate as a
 12 fraud or deceit upon the purchaser.

13 111. By engaging in the conduct described above, Defendants each violated,
 14 and unless restrained and enjoined will continue to violate, Sections 17(a)(1),
 15 17(a)(2), and 17(a)(3) of the Securities Act, 15 U.S.C. § 77q(a)(1), (2), and (3).

16 **THIRD CLAIM FOR RELIEF**

17 **Unregistered Offer and Sale of Securities**

18 **Violations of Sections 5(a) and 5(c) of the Securities Act
 19 (Against All Defendants)**

20 112. The SEC realleges and incorporates by reference paragraphs 1 through
 21 103 above.

22 113. Defendants Dropil, McAlpine, Matar, and O’Hara directly or indirectly
 23 offered and sold securities in an offering that was not registered with the SEC and
 24 that was not subject to a valid exemption from registration

25 114. Defendants’ offer and sale of DROPs was not registered with the SEC
 26 and the securities were offered and sold through interstate commerce. No exemption
 27 applied to Defendants’ offers and sales of DROPs.

28 115. Dropil, as the issuer of the securities, directly offered and sold

1 securities through a general solicitation, raising over \$2.5 million from over 2,400
2 investors from 2018 to the present. Dropil took no steps to verify whether purchasers
3 were accredited or sophisticated. Dropil investors were not furnished with financial
4 statements or an audited balance sheet or its equivalent.

5 116. McAlpine, Matar, and O’Hara, directly and indirectly offered and sold
6 DROPs, and were necessary participants and substantial factors in Dropil’s offers and
7 sales of DROPs. They co-founded Dropil and created, reviewed and approved the
8 promotional materials for Dropil’s offering. They approved the contents of Dropil’s
9 White Paper, website, and social media. They controlled Dropil’s financial accounts.

10 117. By engaging in the conduct described above, Defendants, and each of
11 them, directly or indirectly, singly and in concert with others, has made use of the
12 means or instruments of transportation or communication in interstate commerce, or
13 of the mails, to offer to sell or to sell securities, or carried or caused to be carried
14 through the mails or in interstate commerce, by means or instruments of
15 transportation, securities for the purpose of sale or for delivery after sale, when no
16 registration statement had been filed or was in effect as to such securities, and when
17 no exemption from registration was applicable.

18 118. By engaging in the conduct described above, Defendants each violated,
19 and unless restrained and enjoined, will continue to violate, Sections 5(a) and 5(c) of
20 the Securities Act, 15 U.S.C. §§ 77e(a) & 77e(c).

21 **PRAYER FOR RELIEF**

22 WHEREFORE, the SEC respectfully requests that the Court:

23 **I.**

24 Issue findings of fact and conclusions of law that the defendants committed the
25 alleged violations.

26 **II.**

27 Issue judgments, in forms consistent with Rule 65(d) of the Federal Rules of
28 Civil Procedure, permanently enjoining defendants Dropil, McAlpine, Matar, and

1 O'Hara and their officers, agents, servants, employees and attorneys, and those persons
2 in active concert or participation with any of them, who receive actual notice of the
3 judgment by personal service or otherwise, and each of them, from violating Section
4 10(b) of the Exchange Act [15 U.S.C. §§ 78j(b)] and Rule 10b-5 thereunder [17 C.F.R.
5 § 240.10b-5] and Sections 5(a) and (c) of the Securities Act [15 U.S.C. §§ 77e] and
6 17(a) of the Securities Act [15 U.S.C. § 77q(a)], and permanently enjoining Dropil,
7 McAlpine, Matar, and O'Hara from participating, directly or indirectly, in an offering
8 of digital or other securities.

9 **III.**

10 Order defendants to disgorge all funds received from their illegal conduct,
11 together with prejudgment interest thereon.

12 **IV.**

13 Order defendants to pay civil penalties under Section 20(d) of the Securities Act
14 [15 U.S.C. § 77t(d)] and Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)].

15 **V.**

16 Retain jurisdiction of this action in accordance with the principles of equity and
17 the Federal Rules of Civil Procedure in order to implement and carry out the terms of
18 all orders and decrees that may be entered, or to entertain any suitable application or
19 motion for additional relief within the jurisdiction of this Court.

20 **VI.**

21 Grant such other and further relief as this Court may determine to be just and
22 necessary.

23 Dated: April 23, 2020

24 */s/ Daniel Blau*
25 _____

26 Daniel Blau

27 Jacob Regenstreif

28 Attorneys for Plaintiff

Securities and Exchange Commission