

SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK

THE PEOPLE OF THE STATE OF NEW YORK, by
LETITIA JAMES, Attorney General of the State of
New York,

Plaintiff,

- against -

COINSEED, INC., DELGERDALAI
DAVAASAMBU, and SUKHBAT
LKHAGVADORJ,

Defendants.

Index No.:

COMPLAINT

1. Plaintiff, the People of the State of New York, by Letitia James, Attorney General of the State of New York (“OAG”) alleges the following against Coinseed, Inc. (“Coinseed”), its Chief Executive Officer Delgerdalai Davaasambu (“Davaasambu” or “CEO”), and its former Chief Financial Officer Sukhbat Lkhagvadorj (“Lkhagvadorj” or “CFO”) (collectively “Defendants”).

NATURE OF THE ACTION

2. Since October 2017, Defendants, through their mobile application and securities offerings have repeatedly violated New York’s Martin Act. To raise capital for their fledging virtual currency business, Defendants unlawfully sold unregistered securities in the form of a digital token, while making material misrepresentations about their management team. Through their virtual currency based mobile application, Defendants have also unlawfully acted as

unregistered commodities broker-dealers. Along the way, Defendants misrepresented the full extent of trading fees charged to investors.

3. Coinseed's business is a mobile phone application that functions as a virtual currency trading platform geared towards millennials with little or no virtual currency trading experience. To support this nascent mobile application, Defendants sold their own unregistered security in the form of a virtual currency. Defendants made this initial offering of securities without being registered with the OAG as New York law requires.

4. In soliciting investors for the securities offering, Defendants made false and misleading statements about the make-up, responsibilities, and professional experience of the management team. Before launching Coinseed, Defendants Davaasambu and Lkhagvadorj had little financial services experience. Lkhagvadorj nonetheless misrepresented himself as a former Wall Street trader, when in truth he had never traded securities or commodities. Defendants also represented that Coinseed was managed by well-credentialed professionals who, in truth, had only tangential and very limited involvement with the company.

5. While the securities offering did not meet fundraising goals, Coinseed continued to be operational via the mobile application. Coinseed's premise is to have investors link their debit and credit cards through its mobile application and allow Coinseed to "round-up" everyday purchases to the nearest dollar. Once the "round-ups" reach five dollars, Coinseed debits the investor's bank account, transfers the money into an omnibus bank account controlled by Coinseed, and then deposits the money into a New York-based virtual currency trading platform where Coinseed holds an institutional trading account. From there, Defendants execute trades based on the investor's selection of virtual currencies offered by Coinseed, which are

commodities. In doing so, Defendants operate as a commodities broker-dealer but have not registered as such as required by New York law.

6. In operating as an unregistered commodities broker-dealer, Defendants made material misrepresentations and omissions to investors about the fees they would incur for trade execution. Unknown to investors, Coinseed applied an undisclosed markup to the price of the virtual currencies they traded on behalf of investors and pocketed that markup for themselves.

7. When asked about Defendants' lack of registration, Davaasambu stated that Defendants did not register (or obtain related licenses) because "we don't have that much time to pursue that kind of [sic] licenses." Nonetheless, three years later Defendants Coinseed and Davaasambu have sole control over thousands of investors' portfolios and at least one million dollars in assets under management.

8. The Attorney General seeks an order: (i) permanently enjoining Coinseed, Davaasambu, and Lkhagvadorj from engaging in any business related to the issuance, distribution, exchange, advertisement, negotiation, purchase, investment advice, or the offer or sale of securities and commodities within or from the State of New York; (ii) enjoining acts in furtherance of the fraudulent practices including operating the Coinseed mobile application and making it available through online application stores; (iii) appointing a receiver to wind-down Coinseed's operations, take control of and return investor assets maintained by the company, return all funds raised in the offering, issue all outstanding dividends to known offering investors, and oversee the recall and destruction of all virtual currencies issued by Coinseed; and (iv) obtaining further relief as the Court deems appropriate.

PARTIES

Plaintiff

9. This action is brought by Attorney General Letitia James on behalf of the People of the State of New York. The Attorney General is charged by law with protecting the integrity of the securities marketplace in the State, as well as the economic health and well-being of investors and consumers who reside or transact business in the State. The Attorney General brings this enforcement action in the name of the People of the State of New York pursuant to General Business Law § 352, *et seq.* and Executive Law § 63(12).

Defendants

10. Coinseed, Inc. (“Coinseed”) is a Delaware corporation with its principal place of business in New York City. The company is headquartered at 1460 Broadway, New York, NY 10036.

11. Delgerdalai Davaasambu is the founder, developer and Chief Executive Officer of Coinseed. He controls all of Coinseed’s operations. The last address Davaasambu provided to the Attorney General is in Manhattan, New York. He later stated an intention to return to Mongolia. Public records indicate he continues to maintain a residence in Long Island City, New York.

12. Sukhbat Lkhagvadorj is the former Chief Financial Officer of Coinseed. From the inception of Coinseed around November 2017 through December 2020, he oversaw operations, finances and marketing. He currently resides in Long Island City, New York.

JURISDICTION AND VENUE

13. The OAG has an interest in the economic health and well-being of those who reside or transact business within its borders. In addition, the OAG has an interest in ensuring

that the marketplace for securities and other financial products functions honestly and fairly with respect to all who participate or consider participating in it. The OAG, moreover, has an interest in upholding the rule of law generally. Defendants' conduct injured these interests.

14. This Court has jurisdiction over the subject matter of this action, personal jurisdiction over Defendants, and authority to grant the relief requested pursuant to General Business Law § 352 *et seq.*, and Executive Law § 63(12).

15. Pursuant to C.P.L.R. § 503, venue is proper in New York County, because Plaintiff resides in that county and because a substantial part of the events and omissions giving rise to the claims occurred in that county.

FACTUAL ALLEGATIONS

I. Overview of Coinseed

16. Coinseed operates a virtual currency trading platform through a mobile application available for download through the Apple App Store and Google Play. At all times relevant to this proceeding, Coinseed maintained its principal place of business operations in New York.

17. Coinseed's management team is presently comprised of one individual, the Chief Executive Officer, Delgerdalai Davaasambu. Davaasambu owns eighty percent of the company and is also the sole board member of the company. He wrote and maintains all the coding for the mobile application, he controls the internal trading ledger, has sole custody of all of Coinseed's virtual currency accounts and wallets, and he controls all of Coinseed's bank accounts.

18. From at least October 2017 through December 2020, Sukhbat Lkhagvadorj was the Chief Financial Officer of Coinseed. Before his departure, Lkhagvadorj oversaw all the company's financial filings, handled the marketing, dealt with customer complaints, and from

time-to-time carried out investor deposits and trades. Lkhagvadorj still holds a twenty percent ownership stake in Coinseed.

19. Coinseed's mobile application allows investors to round-up everyday purchases from their linked credit and debit cards to the nearest dollar, and once a five-dollar threshold is met Coinseed automatically debits the investor's bank account and invest the money into the available virtual currencies of the investor's choosing.

20. Coinseed allows investors to choose from at least 17 different virtual currencies (up from eight when the business began in October 2017). Investors have the option to invest in one virtual currency or split their investments among multiple virtual currencies. The selected virtual currencies become the investor's "portfolio." Investors can make virtual currency allocations by reviewing Coinseed's algorithmic ranking of all the investor portfolios on the application, which is purportedly based on the profitability generated by each investor's trading account. Defendants execute all the trades on behalf of the investors. Defendants also maintain an internal ledger of all trades made and will internally match trades when possible, akin to the operation of regulated trading platforms.

21. Coinseed has secured between 4,000 and 5,000 active investors, and averages about \$50,000 a day in total trade volume.

II. Coinseed Conducted an Unregistered Securities Offerings Through an Initial Coin Offering

22. From December 2017 through approximately May 2018, Defendants – who were not registered to do so – sold securities in the form of a digital token named a "CSD token" through an initial coin offering ("ICO") to raise capital for the Defendants' fledging mobile application business. Under New York State law, these CSD tokens are securities in that

purchasers of CSD tokens invested in a common enterprise and were led to expect profits solely from the efforts of the Coinseed.

23. An ICO is the virtual equivalent of an initial public offering. Rather than selling stock, Coinseed sold digital tokens to raise funds to support the growth of its business. Defendants represented to investors that money raised in the ICO would be used to “accelerate [Coinseed’s] growth and global expansion.” Investors were led to expect profits solely from the Defendants’ efforts to establish, operate and expand the Coinseed mobile application. Defendants, however, were not registered as securities dealers with the OAG as required by General Business Law § 359-e.

24. As part of its unregistered offering, Coinseed conducted both a Pre-Sale ICO and an ICO. A Pre-Sale ICO can take place allowing a certain number of investors to buy the digital token at a discounted rate to create a greater opportunity for profit.

25. In December 2017, Defendants announced a plan to sell 10 million CSD tokens. According to Coinseed’s whitepaper, which is the ICO version of offering materials, only 5 million of the 10 million were earmarked for sale between the Pre-Sale ICO and ICO. The other 5 million tokens were set aside for a fraudulent management team, a two-person advisory board, non-existent private investors, and an unused bounty program. Of the five million CSD tokens actually available for sale between the Pre-Sale ICO and the ICO, Coinseed sold approximately 200,000 of the tokens for an estimated total revenue of only \$141,410, including to individuals in New York.

26. According to the whitepaper, the CSD token has no functionality in the mobile application. The token was not required to use the trading platform, or to manage one’s account.

The CSD token only entitles the investor to a monthly dividend that is based on the fees generated from the mobile application.

27. The whitepaper also described how the dividend amount is determined. At the end of every month, Coinseed would calculate the total amount of monthly trading fees accumulated on the trading platform and designate for distribution 50% of that total to all CSD token holders. The distributions, or dividends, are allocated based on the number of CSD tokens an investor holds, meaning the more tokens held the greater the dividend received.

28. In the whitepaper and multiple ICO marketing campaigns, Coinseed additionally stated that it would attempt to get the CSD token listed on virtual currency trading platforms. This would allow investors to trade the tokens on the secondary market with the hopes of reaping a profit on their investment.

29. To illustrate, in an online post entitled *Invest in Coinseed ICO and Reap Big!*, Coinseed wrote:

This is a great opportunity for young people who want to make money in the crypto market. Many of them are likely to take advantage of the app as a stepping stone to bigger investments in the virtual currency space. *This is guaranteed to play a role in pushing up the value of the Coinseed token once it hits the market.* (emphasis added)

30. In truth, nearly three years later, the CSD token has not been listed anywhere.

III. Coinseed Made False and Misleading Statements About its Management Team During the Promotion of its Unregistered Securities Offering

31. Coinseed actively promoted the CSD token sale on websites it maintained as well as through blog posts, social media posts, online videos, online discussion boards, and paid advertisements. In these promotions, Coinseed repeatedly made materially false and misleading statements about the makeup of its management team.

32. During the height of the ICO boom in 2017 and 2018, companies with experienced, respected management teams often signaled future success.

33. In its whitepaper and related promotional materials, Defendants highlighted that Coinseed was founded and managed by technical experts who had significant academic and professional experiences. This was not true.

34. Coinseed falsely represented that, above and beyond the CEO, who had no successful business of record, and the CFO, who was only a part-time employee, the management team included: (1) a Blockchain Specialist with a financial engineering degree from New York University, (2) a Back-end Developer graduate from MIT who worked at Microsoft, and (3) a Chief Marketing Officer who “worked for the first [virtual reality] cinema in the [United States].”

35. These statements were false and misleading. Other than the CEO and CFO, not one of these individuals were ever employees or independent contractors of Coinseed, let alone vital members of the management team.

36. Indeed, in sworn testimony, Davaasambu admitted that, aside from the CFO, not one of the other members of the management team was ever substantially involved with Coinseed or the CSD token sale.

37. First, as to the purported Blockchain Specialist, Davaasambu said that he provided only limited technical advice on how to create a token and gave opinions on which blockchain to issue the token.

38. Second, regarding the purported Back-end Developer, about which the whitepaper said that his “technical expertise is crucial for the development of the Coinseed platform,” Davaasambu said he did not actually perform any technical development work. In truth,

Davaasambu himself wrote all the code for the token sale and the mobile application, and the purported Backend Developer was nothing more than a beta tester who communicated options for the token transfer process with Davasammbu.

39. Third, as for the purported Chief Marketing Officer (“CMO”), the CEO testified that he was not sure “what [the CMO] did...He didn’t stay long, and he didn’t have an active role.” In truth, the CFO handled all the marketing, so the purported “Chief Marketing Officer” functionally had no role.

40. Further, the purported CMO, himself, has stated under oath that he did not consider himself an employee of Coinseed, let alone part of the management team. According to the purported CMO himself, he had no prior knowledge or dealings with virtual currencies, trading, or ICO promotions. He believed himself to be a “thought partner.” He was paid no salary or compensation, signed no contracts, never had a Coinseed email address, and stopped interacting with the Defendants (even in a “brainstorming” capacity) well before the ICO ended.

41. Indeed, the purported CMO, whom the whitepaper described as having “vision and marketing skills” vital to Coinseed, never assisted in marketing the Pre-Sale ICO or ICO, did no online marketing for Coinseed, solicited no investors, and had “no involvement with the mobile application.”

42. Thus, contrary to the representations made to prospective investors, the management team was comprised of just two individuals, the CEO and CFO. Neither had any professional trading experience, nor was certified as a broker-dealer or investment advisor. Additionally, neither had any experience creating or issuing a virtual currency.

43. Even more, in the whitepaper Defendant Lkhagvadorj untruthfully held himself out as previously working as a Wall Street trader. In fact, Lkhagvadorj had been merely a

summer analyst at a trading firm with primary responsibilities of summarizing trades at the end of each day and shadowing actual traders. Not once did Lkhagvadorj execute a trade himself on behalf of any trading firm.

44. In sum, the representations about Coinseed's management team were false and misleading. Defendant Lkhagvadorj falsely represented his own trading credentials, and three of the other "members" of the management team were not substantially involved or financially invested in Coinseed's development, the Pre-Sale ICO, or the ICO. None of the three purported management team members entered into employment contracts, received any form of compensation, or had Coinseed email addresses.

IV. Coinseed Is Operating as An Unregistered Commodities Broker-Dealer Through Its Mobile Application

45. In violation of New York State law, the Defendants have been trading commodities, to wit virtual currencies, within and from the State of New York from at least October 2017 to the present without being registered as a commodities broker-dealer with the Attorney General.¹

46. Under New York State law, a broker-dealer is a person or company that trades securities or commodities on behalf of its customers or for its own account, and those who trade within or from the State of New York must register with the OAG pursuant to § 359-e of the Martin Act.

47. Virtual currencies that Defendants trade for investors on their mobile application are commodities under the Martin Act. Coinseed's mobile platform is the mechanism by which

¹ Bitcoin and other virtual currencies identified as commodities are not numismatic coins pursuant to 13 NYCRR 13.1.

it holds and trades virtual currency on behalf of its investors. On behalf of Coinseed, Davaasambu and Lkhagvadorj handle all the accounts and trades.

48. Defendants are not registered with the Attorney General as commodities broker-dealers. Failure to register is a fraudulent practice under the Martin Act.

49. Davaasambu testified that Defendants sought no advice on the setup of the company, how it should lawfully function, and ignored certain licenses and registrations because he did not believe the regulations were clear and “we don’t have that much time to pursue that kind of licenses.”

V. Coinseed Made Material Misstatements and Omissions Concerning the Fees Charged for Trading on Behalf of Investors

50. In the “Frequently Asked Questions” section of Coinseed’s mobile application and the “Legal” page of its website, Defendants made false and misleading statements and omissions about fees associated with their product from October 2017 through at least December 2018, concealing material information about the costs incurred by investors.

51. Coinseed uses third-party virtual currency trading platforms to execute many trades for their investor’s portfolios. The price that Coinseed quoted to its investors however was not the same as the price quoted to Coinseed by the third-party platforms.

52. Instead, according to Davaasambu, Coinseed took the current market price of the virtual currencies as quoted by the third-party platform and added 0.5% to that price. During this period, Coinseed told investors there were only two fees charged, a \$1.00 monthly fee and a one percent deposit fee. Defendants fraudulently failed to disclose that they were adding an additional fee to the market rate for every single trade Coinseed executed on their behalf.

FIRST CAUSE OF ACTION

Martin Act Securities Fraud – General Business Law §§ 352 *et seq.* (Against All Defendants)

53. The Attorney General repeats and re-alleges the paragraphs above as if fully stated herein.

54. Defendants together, and each of them individually, made materially false and misleading representations and statements, and omitted material information in disclosures to investors, about the nature of Coinseed's securities in connection with the offer, purchase, sale, and issuance of the Pre-Sale ICO and ICO.

55. Defendants together, and each of them individually, through the mobile application employed deception, misrepresentations, concealment, suppression, fraud, and false promises regarding the exchange, sale, and purchase within or from this state of commodities.

56. The foregoing acts and practices of Defendants, consisting of materially false and misleading representations, statements, promises, omissions, and lack of registration constitute fraudulent acts and practices as defined in GBL §§ 352 *et seq.*, and are subject to equitable remedies of permanent injunctive relief and restitution set forth in GBL § 353.

SECOND CAUSE OF ACTION

Repeated and Persistent Illegality – Executive Law § 63(12) Violation of the Martin Act - General Business Law §§ 352 *et seq.* (Against All Defendants)

57. Attorney General repeats and re-alleges the paragraphs above as if fully stated herein.

58. The acts and practices of Defendants alleged herein constitute conduct proscribed by § 63(12) of the Executive Law, in that Defendants engaged in repeated illegality by

repeatedly violating the Martin Act in the carrying on, conducting or transaction of business within the meaning and intent of Executive Law § 63(12).

THIRD CAUSE OF ACTION

Violation of New York Registration Provisions of the Martin Act GBL§ 359-e and Regulations thereunder, 13 NYCRR § 10 (Against All Defendants)

59. The Attorney General repeats and re-alleges the paragraphs above as if fully stated herein.

60. The acts and practices of Defendants alleged above violated New York General Business Law §§ 359-e and regulations promulgated thereunder including provisions of Official Compilation of Codes, Rules, and Regulations of the State of New York Title 13, Chapter II, Subchapter A, Part 10, insofar as such acts and practices amount to activity requiring registration thereunder.

FOURTH CAUSE OF ACTION

Repeated and Persistent Illegality – Executive Law § 63(12) Violation of New York Registration Provisions of the Martin Act GBL§ 359-e and Regulations thereunder, 13 NYCRR § 10 (Against All Defendants)

61. The Attorney General repeats and re-alleges the paragraphs above as if fully stated herein.

62. The acts and practices of Defendants alleged herein constitute conduct proscribed by § 63(12), in that Defendants engaged in repeated illegal acts, in violation of New York General Business Law §§ 359-e and regulations promulgated thereunder including provisions of Official Compilation of Codes, Rules, and Regulations of the State of New York Title 13, Chapter II, Subchapter A, Part 10, insofar as such acts and practices amount to activity requiring registration thereunder.

FIFTH CAUSE OF ACTION**Repeated and Persistent Fraud – Executive Law § 63(12)
(Against All Defendants)**

63. The Attorney General repeats and re-alleges the paragraphs above as if fully stated herein.

64. The acts and practices of Defendants alleged herein constitute conduct proscribed by § 63(12) of the Executive Law, in that Defendants engaged in repeated fraudulent or illegal acts or otherwise demonstrated persistent fraud in the carrying on, conducting or transaction of business within the meaning and intent of Executive Law § 63(12).

PRAYER FOR RELIEF

WHEREFORE, the Attorney General demands judgment against Defendants as follows:

- A. Enjoining Defendants from engaging in any ongoing or future violations of New York Law;
- B. Directing Defendants to pay damages caused, directly or indirectly, by the fraudulent and deceptive acts and repeated fraudulent acts and persistent illegality complained of herein plus applicable pre-judgment interest;
- C. Directing Defendants to disgorge all amounts obtained in connection with or as a result of the violations of law alleged herein, all moneys obtained in connection with or as a result of the fraud alleged herein, and all amounts by which Defendants have been unjustly enriched in connection with or as a result of the acts, practices, and omissions alleged herein;
- D. Directing that Defendants make restitution of all funds obtained from investors in connection with the fraudulent and deceptive acts complained of herein;
- E. Directing Defendants to pay costs and additional allowances in the maximum

amount allowable under General Business Law § 353(1) and Civil Practice Law and Rules § 8303(a)(6);

F. Directing that Defendants be permanently barred from engaging in the issuance, offer, exchange, sale, promotion, negotiation, advertisement, investment advice, or distribution of securities or commodities within or from the State of New York.

G. Pursuant to GBL § 353-a or otherwise, directing the appointment of a receiver to Coinseed, to receive, for the benefit of defrauded investors, all payments of restitution and damages made by the Defendants, and all moneys obtained by the Defendants, and to take to, and liquidate for the benefit of defrauded investors, all money and property derived by the Defendants by means of any of the fraudulent acts and practices alleged herein, including also all moneys and property with which such moneys and property have been mingled, because such moneys and property cannot be identified in kind because of such commingling, together with any or all books of account and papers relating to such moneys and property;

H. Enjoining Defendants from engaging in any act or acts in furtherance of the fraudulent practices including, but not limited to (a) an order directing that they cease operating the Coinseed mobile application, and (b) an order directing them to remove the application, and all associated applications, from all online application stores, including but not limited to the Apple App Store and Google Play;


I. Directing that Defendants pay Plaintiff's costs and fees;

J. Directing such other equitable relief as may be necessary to redress Defendants' violations of New York Law; and

K. Granting such other and further relief as may be just and proper.

Dated: New York, New York
February 17, 2021

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