



IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

ADAM GRABSKI, derivatively on
behalf of COINBASE GLOBAL, INC.,

Plaintiff,
v.

MARC ANDREESSEN, BRIAN
ARMSTRONG, SUROJIT
CHATTERJEE, EMILIE CHOI,
FREDERICK ERNEST EHRSAM III,
ALESIA J. HAAS, KATHRYN HAUN,
JENNIFER JONES, and FRED
WILSON,

Defendants,
and

COINBASE GLOBAL, INC.,

Nominal Defendant.

C.A. No. 2023-0464-KSJM

**PUBLIC [REDACTED]
VERSION AS FILED
ON MAY 18, 2023**

VERIFIED STOCKHOLDER DERIVATIVE COMPLAINT

Plaintiff Adam Grabski (“Plaintiff”), derivatively on behalf of Coinbase Global, Inc. (“Coinbase” or the “Company”), brings this Verified Stockholder Derivative Complaint (the “Complaint”) against certain of the Company’s officers and directors: Marc Andreessen, Brian Armstrong, Surojit Chatterjee, Emilie Choi, Frederick Ernest Ehrsam III, Alesia J. Haas, Kathryn Haun, Jennifer Jones, and Fred Wilson.

The allegations herein are based on Plaintiff’s knowledge as to himself and, as to all other matters, on information and belief, including counsels’ investigation,

review of publicly available information, and the review of certain books and records produced by Coinbase in response to Plaintiff’s demand made under *8 Del. C.* § 220 (the “Demand”).¹

INTRODUCTION

1. No matter how much regulatory and financial innovations create opportunity for personal profit, some people cannot help but push the boundaries beyond their breaking point. This case arises because the board of directors of Coinbase (the “Board”) saw the opportunity for themselves and their designees to sell some or all of their shares in Coinbase by taking the Company public through a so-called “direct listing” in lieu of the more typical initial public offering (“IPO”).

2. Even though most companies that go public via IPO impose trading lock-ups on directors and officers, since those insiders inevitably possess material non-public information (“MNPI”), the Board made a self-interested decision to forego any such trading restrictions. Within days of Coinbase’s direct listing, Defendants sold over \$2.9 billion of their Coinbase stock. Within five weeks, those shares declined in value by over \$1 billion, and Coinbase’s market capitalization plummeted by more than \$37 billion.

¹ Unless otherwise noted, all emphasis is added.

3. When, as here, a majority of a corporate board trades stock on the basis of MNPI, the trading directors face potential liability under the teachings of *Brophy v. Cities Service Co.*² and its progeny, and demand is excused.

* * * * *

4. Coinbase provides technologies and a platform through which individuals and entities can invest in or otherwise engage in commercial transactions through various cryptocurrencies, such as Bitcoin and Ethereum. Founded in 2012, Coinbase grew immensely with the boom in the cryptocurrency space. Still a privately-held company in the summer of 2020, Coinbase needed capital to continue its rapid growth, and its management team and the Board began exploring options to take the Company public.

5. The traditional method for going public – the IPO – implicates the filing of a federal securities law-compliant registration statement that requires extensive disclosures about the company at issue. Because the primary seller of shares in an IPO is the issuing company itself, the practical ability of insiders to liquidate their investments is typically constrained. Moreover, the company's IPO shares are sold to underwriters, who conduct extensive diligence for market pricing purposes and to limit their own risk exposure for their subsequent sales to the investing public. Such

² 70 A.2d 5 (Del. Ch. 1949).

underwriters also contractually constrain company insiders through “lock-ups” for a period following the IPO in order to prevent trading on the basis of MNPI. Finally, issuance of new company shares to support an IPO dilutes the existing stockholders’ relative ownership stakes.

6. In recent years, the U.S. Securities Exchange Commission (“SEC”) approved a path for private companies to permit direct sales from pre-listing investors to public market investors through a streamlined process. In lieu of the demanding IPO underwriting and disclosure process, private company investors could follow a streamlined path to establish a “market reference price” at which the shares can become listed, and then market powers would set the trading price. Through this process, pre-listing investors are able to monetize their stakes but no capital flows to the company.

7. In the summer of 2020, Coinbase management recommended to the Board that it approve taking the Company public via a direct listing of its shares (the “Direct Listing”). Although the Company needed to raise new capital to continue its growth, the Board endorsed management’s stated dual primary objectives of achieving “liquidity” and avoiding “dilution” that is typically associated with issuing new company shares in an IPO, thus focusing on the benefits to existing investors rather than the Company itself.

8. Two key steps in the direct listing process play pivotal roles in this case. First, tax accountants (in this case, from Andersen Tax LLC (“Andersen”)) conducted a valuation analysis that informed the initial trading reference price at which Coinbase’s shares would be sold on the Nasdaq exchange. Second, but relatedly, Coinbase chose (as many companies performing direct listings had done) to create market pricing data by listing a small number of its shares for trade on a private investor trading portal, through which the Company could allow certain of its existing investors to sell a limited number of shares through a market-like auction pricing mechanism.

9. When it came time for Coinbase to decide which of its existing investors could sell shares on the private market portal, the Board did the right thing: despite express requests from certain members of the Board and senior management to be permitted to sell some of their shares, the Board refused the request, recognizing the obvious fact that senior management (and the directors themselves) had ongoing access to MNPI and that it would be unfair and potentially unlawful to allow them to sell through the private portal that did not require extensive public disclosures.

10. Once a private market pricing mechanism was effected, it was time for Andersen to perform its valuation analysis, which took the market pricing into account, but also relied heavily on traditional valuation techniques incorporating

management's internal projections. Notably, management's internal projections indicated value per share and an overall equity value that was dramatically lower than the pricing being realized on the private trading portal. In other words, there was a strong divergence between investor perceptions of Coinbase's worth (including from the investors permitted to buy on the private market portal system) and the value indicated by management's own internal projections.

11. After blending the various data points and analyses that were required, Andersen concluded that Coinbase's most likely value was [REDACTED] per share. While substantially above Andersen's discounted cash flow analysis and other valuations of Coinbase based on management's internal projections, this figure was well below the trading prices expected based on the private trading portal. Andersen's valuation report was provided to the entire Board.

12. Before the Board could launch the Direct Listing, two further developments converged. These facts should have made clear to the Board that it should prevent fiduciary insiders and their designated private investment funds from selling shares immediately upon launch of the Direct Listing, just like the Board banned fiduciaries from participating in the earlier private trading portal.

13. First, it became clear the Company would need a near-term infusion of at least [REDACTED] of new capital,³ but the Board accepted management's recommendation to delay any such financing transaction so as not to cause the much-dreaded "dilution" to the Board and management.

14. Second, Coinbase's principal growth driver, retail investor fee revenue, took a negative turn as more retail investors began to use the "Coinbase Pro" brokerage fee system for higher-volume traders. Indeed, the Board knew about the "inevitability of fee compression."⁴ While market analysts were already publishing valuations of and forward projections for the Company that were dramatically higher than the Andersen valuation based on management's internal and unpublished forecasts, some analysts were articulating questions about the sustainability of Coinbase's strong revenue margins to date.

15. Knowing of both the need for capital and the business headwinds they were facing, management approached the Board yet again, asking to eliminate any lock-up period for them (and for the Board in general) in connection with the planned Direct Listing.⁵ The self-interested Coinbase Board abandoned its own prior decision and accepted the self-interested recommendation, deciding to proceed with

³ COINBASE_GRABSKI_002294.

⁴ COINBASE_GRABSKI_004183.

⁵ COINBASE_GRABSKI_002917.

the Direct Listing without imposing any insider trading restrictions. For example, it was only in the days *after* the Direct Listing that management and the Board would be required to sell stock exclusively through 10b5-1 trading plans.⁶

16. On April 14, 2021, Coinbase became a Nasdaq-listed company, with its stock trading over \$380 per share at the outset and as high as \$429 per share in a volatile first day on the public markets.

17. Defendants took full advantage of the absence of any lock-up in the Direct Listing, rapidly selling over \$2.9 billion of Coinbase stock on the first day and in the days that followed, from April 14, 2021 through April 22, 2021.

18. Having sold off massive amounts of stock to an unsuspecting public, Coinbase management only then proceeded to reveal material, negative information that destroyed market optimism from the Company's first quarterly earnings release forward. By May 18, 2021, both the compression of the Company's revenue margins during the first fiscal quarter and the issuance of a dilutive convertible offering were publicly disclosed. Neither detail was disclosed in the offering prospectus or the preliminary results provided by the company prior to the Direct Listing on April 6, 2021. By May 18, the stock had declined by more than 37% since its listing, wiping out just over \$37 billion in value. By positioning themselves

⁶ COINBASE_GRABSKI_005162-63.

to sell their shares immediately after the Direct Listing but before revealing crucial information to the public, Defendants avoided \$1.09 billion in losses. Coinbase continued to decline after these events. As of April 20, 2023 the stock has declined 84% since the Direct Listing.

PARTIES

19. **Plaintiff Adam Grabski** (as defined above, “Plaintiff”) has been a beneficial owner of Coinbase common stock since April 14, 2021, *i.e.*, the day of the Direct Listing.

20. **Nominal Defendant Coinbase Global, Inc.** (as defined above, “Coinbase” or the “Company”) builds technology and financial infrastructure products and services that enable people using the internet to transact and engage with cryptocurrency-related assets and related decentralized applications. Coinbase was started in 2012 and is incorporated in Delaware. On April 14, 2021, the Company’s shares debuted on the Nasdaq exchange, via the Direct Listing, under the ticker “COIN.”

21. **Defendant Marc Andreessen** (“Andreessen”) has served as a member of the Board since December 2020. Andreessen is a co-founder and has been a general partner of Andreessen Horowitz, a venture capital firm, since July 2009. Andreessen Horowitz first invested in Coinbase in 2013, leading a \$25 million Series B round. Thereafter, Andreessen Horowitz invested in each of Coinbase’s

significant funding rounds. Andreessen Horowitz's exit of its investment in the Company in connection with the Direct Listing represented the firm's largest exit in its history and, in the process, sold \$118,655,765.50 worth of Coinbase stock.

22. **Defendant Brian Armstrong** ("Armstrong") is Coinbase's co-founder, has served as the Company's Chief Executive Officer and a member of the Board since Coinbase's inception in May 2012, and has served as Chairman of the Board since February 2021. In connection with the Direct Listing, Armstrong sold \$291,827,965.50 worth of Coinbase stock.

23. **Defendant Surojit Chatterjee** ("Chatterjee") served as Coinbase's Chief Product Officer from February 2020 until February 2023. In connection with the Direct Listing, Chatterjee sold \$61,885,000.00 worth of Coinbase stock.

24. **Defendant Emilie Choi** ("Choi") has served as Coinbase's Chief Operating Officer since June 2019 and its President since November 2020. Choi previously served as the Company's Vice President of Business, Data and International, from March 2018 to June 2019. In connection with the Direct Listing, Choi sold \$223,967,939.54 worth of Coinbase stock.

25. **Defendant Frederick Ernest Ehrsam III** ("Ehrsam") is Coinbase's co-founder and has served as a member the Board since March 2013. Ehrsam served as the Company's President from November 2012 until January 2017. In connection with the Direct Listing, Ehrsam sold \$219,496,913.77 worth of Coinbase stock.

26. **Defendant Alesia J. Haas** (“Haas”) has served as Coinbase’s Chief Financial Officer since April 2018. In connection with the Direct Listing, Haas sold \$99,320,793.18 worth of Coinbase stock.

27. **Defendant Kathryn Haun** (“Haun”) has served as a member the Board since May 2017. From June 2018 to January 2022, Haun served as a general partner at Andreessen Horowitz. In connection with the Direct Listing, Haun sold \$52,606,693.76 worth of Coinbase stock.

28. **Defendant Jennifer Jones** (“Jones”) has served as Coinbase’s Chief Accounting Officer since July 2018. In connection with the Direct Listing, Jones sold \$43,435,000.00 worth of Coinbase stock.

29. **Defendant Fred Wilson** (“Wilson”) has served as a member of the Board since January 2017. Since June 2003, Wilson has served as a Partner at Union Square Ventures, a venture capital firm. Union Square Ventures led Coinbase’s Series A funding round, investing \$5 million at 20 cents per share for a valuation of around \$20 million. Union Square Ventures’ exit of its investment in the Company in connection with the Direct Listing represented the firm’s largest exit in its history, selling \$1,816,773,943.24 worth of Coinbase stock.

SUBSTANTIVE ALLEGATIONS

I. THE BOARD DETERMINES TO PURSUE THE DIRECT LISTING WHILE WITHHOLDING MATERIAL, NON-PUBLIC INFORMATION FROM THE MARKET

A. Overview of Direct Listings

30. With the Board’s choice to pursue the Direct Listing, Coinbase followed the path of several other large technology companies – including Spotify, Slack, Palantir, and Roblox – that opted to access the public markets via a direct listing, thus circumventing the traditional IPO route.

31. Direct listings allow companies to skip meaningful elements of the traditional IPO process by removing the need to price and sell a block of new equity backed by an underwriting investment bank.

32. During an IPO, an underwriter will conduct thorough diligence prior to taking the company public, in no small part because the underwriter has agreed, if necessary, to support the IPO price with its own capital.

33. In a direct listing, on the other hand, a company merely lists for sale issued and outstanding shares already held by pre-existing stockholders, without the use of an underwriter gatekeeper (with its own money at stake) scrutinizing the registration statement and the disclosures leading up to the going-public event.

34. The federal securities law-based disclosure rules surrounding a direct listing are also meaningfully less demanding than the disclosures required for an IPO

registration statement (which is governed by the Securities Act of 1933). In fact, some law firms have gone so far as to claim that an “important advantage of the direct listing [process is] . . . the potential to deter private plaintiffs from bringing claims under Section 11 of the Securities Act of 1933, which imposes strict liability for material misstatements or omissions in registration statements . . . [because a direct listing] restrict[s] the class of persons who have standing to sue under Section 11.”⁷ Thus, by limiting the mechanism to enforce the federal securities laws, a direct listing effectively curbs the ability of stockholders to hold management accountable for any of its actions during the direct listing, and management may behave accordingly. Indeed, “in a Direct Listing, the company, its officers and directors, will feel emboldened to play ‘fast and loose’ with the facts to go public at an inflated valuation.”⁸

35. Direct listings allow pre-existing stockholders to monetize some or all of their holdings of the company’s stock as soon as it becomes available for public trading. During a traditional IPO, underwriters typically insist on lock-up

⁷ Latham & Watkins, *Complex and Novel Section 11 Liability Issues of Direct Listings* (Dec. 20, 2019), <https://www.lw.com/admin/upload/SiteAttachments/CC01022020XXXXXLATHAM.pdf>.

⁸ Brent J. Horton, *Direct Listings and the Weakening of Investor Protections*, 50 F.L.A. ST. L. REV. (forthcoming).

agreements that restrict insiders from selling their stock for 180 days post-listing, both to minimize concerns that corporate insiders might be selling shares shortly after the listing on the basis of material, non-public information, and to signal incentive alignment to other market participants.

36. In a direct listing, on the other hand, the company's board of directors decides for itself whether to enforce a lock-up period on corporate insiders. Unsurprisingly, boards of directors conducting direct listings generally choose to not lock themselves up, given that they stand to realize massive monetization events by selling immediately upon the public trading of their companies' shares.⁹

37. Notably, direct listings do not provide any new capital to companies entering the public markets; proceeds from stock sales in direct listings go directly and only to the pre-existing stockholders who choose to sell their shares. Because no new equity is issued, direct listings also allow pre-existing stockholders to monetize their own positions while avoiding dilution of their remaining stakes.

38. Accordingly, direct listings benefit the subject companies only to the extent that being publicly traded provides those companies with attendant benefits. The direct gains from a direct listing flow to the selling insiders, who personally

⁹ There have been, however, exceptions: In Palantir's, Spotify's, and Watford's direct listings, certain of the companies' directors, officers, and/or large shareholders were subject to lock-ups.

capitalize on the market’s excitement – unbounded by the more rigorous regulatory and diligence guardrails of the traditional IPO process – to trade in the stock of their own previously private company.

B. The Board Decides to Take Coinbase Public Without Raising New Capital, But Providing Liquidity to – and Avoiding Dilution of – Defendants

39. In the summer of 2020, the Board began to explore going-public alternatives. Throughout this process, which culminated with the Direct Listing, corporate insiders—including Defendants—continued to receive material, non-public financial and operational information about the Company’s performance. Ultimately, these insiders were able to rapidly capitalize on this informational asymmetry. In sum, Defendants were able to offload nearly \$3 billion in personally-held Company stock based on uninformed market expectations, and thus avoid \$1.09 billion in losses that the Company’s non-fiduciary investors suffered, as detailed below.

40. On August 4, 2020, the Board met, with Defendants Armstrong, Chatterjee, Choi, Ehrsam, Haas, Haun, and Wilson present. The Board discussed a potential going public transaction, code-named “Project Fall Fruits.” In considering a going-public transaction, the Board expressly stated their two main objectives for

the transaction as “liquidity (first to employees, then to existing investors)” and “no dilution”;¹⁰

Coinbase Global – Board of Directors Meeting - Deck

Fall Fruits Objectives (August 2020)

- 1. Liquidity (first to employees, then to existing investors)
- 2. No dilution
- 3. Set up for long-term success (directionally trading up and to the right)
 - o Drive optimal story of being once in a lifetime crypto company to ensure premium valuation
 - o Attract long-term investors and committed partners to our cap table
- 4. Symbolize maturation of crypto ecosystem and adhere to core values of the industry
 - o Open Financial System -- equal access and opportunity
 - o Transparency
- 5. Leverage tools to create transparency and stable supply and demand on a best efforts basis
 - o Enable robust price discovery to support stable initial trading
 - o Flexible or staggered lock ups / standstill agreements
 - o Transparency into investor demand

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41. Notably, while the principal objectives were liquidity and avoiding dilution for the insiders and investors, the second sub-bullet under point “5” flagged the need for “Flexible or staggered lock ups/standstill agreements.” As set forth below, however, Defendants disregarded this “objective” and chose to open the

¹⁰ Red boxes added for emphasis.

floodgates for all fiduciaries to sell their shares immediately, thus fully exploiting their insider knowledge that the market was misunderstanding (and overestimating) the Company’s value.

42. Defendants – given their vast holdings of Coinbase stock – had personal interests in achieving liquidity without dilution. A direct listing apparently met these objectives. Thus:

[T]he Board empowered the Company’s management to pursue a direct listing of the Company’s capital stock on a securities exchange code-named Project Persimmon, a potential private placement prior to such direct listing and following the Company’s upcoming planned Investor Day, and the listing of cryptographic tokens code-named Project Clementine.¹¹

43. On September 4, 2020, the Board met, with Defendants Andreessen, Armstrong, Chatterjee, Ehrsam, Haas, Haun, and Wilson present. Hass “led the Board in a review of the Company’s recent decisions related to a public listing of its capital stock, *including various capital-raising opportunities.*”¹² Haas also led a discussion concerning Coinbase’s “valuation, feedback from the Company’s Investor Day, Company positioning and initial philosophy for guidance.”¹³

¹¹ COINBASE_GRABSKI_001963.

¹² COINBASE_GRABSKI_002121.

¹³ COINBASE_GRABSKI_002121.

44. Importantly, the Company determined *not* to provide specific guidance to the market on key financial metrics such as revenue and earnings, leading research firm Compass Point to later complain, in connection with the Direct Listing: “Given somewhat limited financial information at present and the inherent volatility in cryptocurrency, we fully expect that we will need to update estimates, likely in a material manner and possibly frequently, as we move forward.”

45. Ultimately, the Board determined not to raise capital through the initially contemplated “private placement,” and instead decided that the Company would raise dilutive capital *after* the Direct Listing – as opposed to merely after the investor day – meaning that the selling stockholders (including Defendants) would not suffer any dilution in connection with the public listing.¹⁴

46. Thereafter, the Board and management pursued the Direct Listing, all the while receiving regular financial and operational updates. Put another way, Defendants were privy to material, non-public information about the health of the Company ahead of their multi-billion-dollar liquidity event. Of course, Delaware law expects that fiduciaries remain apprised of the business of the subject company. What Delaware law does not permit, however, is fiduciaries trading on the basis of, and profiting from, such material, non-public information.

¹⁴ COINBASE_GRABSKI_002275.

47. On October 2, 2020, the Board met, with Defendants Andreessen, Armstrong, Chatterjee, Choi, Ehrsam, Haas, Haun, and Wilson present. Haas provided the Board with an update on the Company’s financial statements. Thereafter, the Board approved the confidential submission of Coinbase’s registration statement (the “Registration Statement”) to the SEC in connection with the Direct Listing.

48. The Board met again on October 28, 2020, with Defendants Andreessen, Armstrong, Chatterjee, Choi, Ehrsam, Haas, Haun, and Wilson present. Haas provided the Board with an update on the Company’s financial performance in the third quarter of 2020, including performance against the quarterly and annual plans and a revenue breakdown across products. Haas also led a discussion with the Board about proposed updates to the Registration Statement.

49. Moreover, Wilson, on behalf of the Board’s compensation committee, reviewed a valuation report, prepared by Andersen. The Board commissioned Andersen to prepare valuation reports for tax and financial planning and reporting purposes in connection with the Section 409A regulations of the Internal Revenue Code, as well as Financial Accounting Standards Board Accounting Standards Codification Topic 718 – Compensation.

50. As discussed below, these types of reports also are used to help inform a company’s reference price in connection with a direct listing, and both the SEC

and Nasdaq require the determination of a reference price ahead of such a public listing.

C. The Board Discusses the Need to Establish a Reference Price in Connection with the Direct Listing

51. Under both SEC and Nasdaq rules, a “reference price” for a company going public through a direct listing must be published prior to the listing of the shares. The reference price is calculated based on a number of factors, such as the company’s public financial information, previous private market valuations, and the value of the company’s public competitors. Nasdaq requires listing companies to provide extensive data so it can determine the price to use for purposes of certain rules related to the opening auction for shares in a direct listing. Nasdaq works in concert with the company’s financial advisor to determine such reference price, which is the closest analog to an initial filing range in an IPO process.

52. On November 13, 2020, the Board met, with Defendants Andreessen, Armstrong, Chatterjee, Choi, Ehrsam, Haas, Haun, and Wilson present. Haas provided the Board with an update on the Direct Listing, and then reviewed the need to establish a reference price for the Company’s common stock in connection with the Direct Listing. Haas thereafter led a discussion regarding the possibility of allowing secondary trading in the Company’s stock to facilitate price discovery in connection with the establishment of a reference price for the Direct Listing.

53. As further discussed below, a number of Coinbase's officers and directors wanted to participate in a secondary trading program ahead of the Direct Listing, allowing them to monetize their equity even faster. Upon considering this request, however, the Board expressly determined not to allow insiders to participate in the secondary trading program *because they has access to material, non-public information.*

54. As further explained below, the Board disregarded this simple logic in connection with the Direct Listing itself, permitting Defendants to immediately sell their stock without any sort of lock-up period. Perhaps the fact that a majority of the Board were themselves participating in the Direct Listing without the restriction of any lock-up explains their reversal.

D. The Board Realizes that the Company Needs to Raise Capital But Prioritizes the Direct Listing

55. The Board met again on December 11, 2020, with Defendants Andreessen, Armstrong, Chatterjee, Choi, Ehrsam, Haas, and Wilson in attendance. Haas provided the Board with an update on the Direct Listing, including the SEC's initial comments on the Registration Statement. Immediately thereafter, Haas

“provided the Board with an update on the Company’s 2021 financial planning, *including the potential capital raising opportunities and structures.*”¹⁵

56. The Board recognized that the Company needed to raise capital, at that time estimated to be a [REDACTED] financing. The Board decided to “deprioritize[]” a dilutive offering because such a route can be “an ‘and’ not an ‘or’ and [Coinbase can] do this in addition to an equity raise *at the right time.*”¹⁶ Completing the Direct Listing before any dilutive offering was consistent with management’s presentation, in which the first-listed objective for capital-raising alternatives was “minimize dilution.”¹⁷

57. Specifically, the Board reviewed the following slide:¹⁸

¹⁵ COINBASE_GRABSKI_000346.

¹⁶ COINBASE_GRABSKI_002294.

¹⁷ COINBASE_GRABSKI_002294.

¹⁸ Colored boxes added for emphasis.

Capital Raise

- Coinbase is evaluating a [REDACTED] equity raise
- Objectives
 - Minimize dilution and cost of issuance (i.e. bankers fees and discount)
 - Benefit from public market price discovery and broad based marketing
 - Limit additional near term work (same team is working on investor education, turning SEC comments, YE 2020 audit, Banana and other M&A)
- Based on the above objectives - we recommend that we focus on the Direct Listing ("DL") and establish a shelf registration to open the door to a fast follow private placement / overnight offering once there is price discovery
- Other options considered and deprioritized
 - Private placement in Q1: higher cost of issuance (i.e. perceived fair value discount) due to no benefit of broad marketing and price discovery, significant lift for a stretched team.
 - Convert to modified IPO from DL: concern over recent material discounts, day 1 price movements and leaving \$ on the table.
 - Convertible Note issuance post DL: Would consider an "and" not an "or" and do this in addition to an equity raise at the right time

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58. As shown in the blue box above, the second to last bullet conceded that the Board could convert the Direct Listing plan — which would raise no new money for the Company — to a modified IPO plan — which would raise money. But management did not want to go that path due, in part, to the risk of “leaving \$ on the table.” Management did not specify whether they were concerned with the Company leaving money on the table, or themselves, the Board, and lead investors.

59. What the Board did prioritize was the Direct Listing, which would not raise any capital for the Company but would line Defendants’ pockets. In particular,

the Board returned to its prior discussion of the establishment of a reference price. As the Board learned from the below slide, secondary trading activity is one factor used to inform the reference price:¹⁹

Coinbase Global – Board of Directors Meeting – Deck

Context

Context on Reference Price

- Required by SEC and Nasdaq
- Determined by Nasdaq, with input from Goldman, using various inputs including recent secondary trades, 409A, and qualitative input
- From a marketing and investor psychology perspective, roughly equivalent to price of shares sold in IPO
- Does not bind any seller or buyer, as each submits orders on their own to Nasdaq on morning of direct listing, who will then determine the opening price
- Example: Palantir's reference price was \$7.25 a share, with the opening trade at \$9.50, currently at ~\$25 per share
- Per financial advisors, reference price will be a mental anchor for investors (so, higher is better)
- Will receive media attention (Palantir example)

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COINBASE_GRABSKI_002296

60. Thereafter, the Board approved the establishment of a secondary trading program (the “Secondary Trading Program”) in the Company’s stock to

¹⁹ Red box added for emphasis.

facilitate the requisite price discovery in connection with the establishment of a reference price for the Direct Listing.

61. A company instituting a secondary trading program such as Coinbase's will typically hire an investment bank to run a "mini-exchange" process, whereby stock from corporate insiders is taken and sold off on a regularized basis via an auction process. This construct differs meaningfully from a privately arranged, direct purchase, where a specific stockholder negotiates for the purchase of a block of shares (and hence can also negotiate terms surrounding material, non-public information).

62. Notably, the Board determined that Company officers and directors would *not* be able to participate in the Secondary Trading Program, due to their presumed and ongoing access to material, non-public information:²⁰

²⁰ Red boxes added for emphasis.

Parameters – Sellers, Buyers and Information

Sellers

- Stockholders – Able to participate with respect to shares held as of the earlier of 12/31/20 or the day we announce our S-1 filing (option holders may not participate; reduces complexity)
- D&O and Affiliates – Not allowed to participate due to MNPI
- FF Working Group – Not allowed to participate due to MNPI

Buyers

- Eligibility – Determined in sole discretion of management (CEO, CFO or COO can approve)
- D&O, Sec. 16 and Affiliates – Not allowed to participate due to MNPI and Section 16 limitations
- Buying Limits – None

Disclosure Materials

- Investor Deck
- Financials (2019 and most recent 2020 stub period)
- Risk Factors (S-1, without Class T)
- Investor Day Snippets (TBD, if any)

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E. The Company Announces the Direct Listing and Launches the Secondary Trading Program

63. On December 17, 2020, the Company announced that it had determined to go public via the Direct Listing.

64. On January 7, 2021, the Board met, with Defendants Andreessen, Armstrong, Chatterjee, Choi, Ehrsam, Haas, Haun, and Wilson present. Haas provided the Board with an update on the Direct Listing, including the status of the draft Registration Statement, review by the SEC, and the proposed timeline.

65. Haas then led a discussion regarding the Secondary Trading Program, during which “various eligibility considerations” were noted, “including limitations on buying shares by members of the Board and their affiliates.”²¹ Despite the Board’s unambiguous determination to exclude them from the Secondary Trading Program, “[c]ertain directors have expressed interest in being either a buyer or seller in the secondary program.”²²

66. The Board thereafter reconfirmed its decision that Company officers and directors were “*not . . . allow[ed] to participate in the [private] secondary program [in January 2021] due to Section 16 restrictions and MNPI.*”²³ In particular, in light of the information the Board regularly received concerning the Company’s financial and operational performance, “*there is a high risk of material information asymmetry between directors and observers and purchasers in light of information . . . [including] regular monthly board updates (which include key metric and financial updates)*”:

²¹ COINBASE_GRABSKI_000540.

²² COINBASE_GRABSKI_002349.

²³ COINBASE_GRABSKI_002349.

D&O Eligibility Update

- Certain directors have expressed interest in being either a buyer or a seller in the secondary program
- Management recommendation is not to allow for this participation in secondary program due to Section 16 restriction & MNPI (at this time).
- Section 16 Limitations
 - In order for direct listing to be successful, need to have sufficient supply for day 1 trading
 - Supply to come from large stockholders (e.g. most members of Board and/or affiliated funds)
 - REDACTED ATTORNEY-CLIENT PRIVILEGE
- MNPI Limitations
 - There is high risk of material information asymmetry between directors & observers and purchasers in light of information that will not be disclosed in the secondary disclosures--e.g. M&A activity (Project Banana), potential litigation updates, regular monthly board updates (which include key metric and financial updates)
 - *Note: trading window for directors may open during secondary, subsequent to public disclosure of Banana and provided directors are not exposed to additional MNPI not disclosed in the TTW deck (e.g. flash Jan financials or Q1 projections).
- Acceptable Alternative: one-off negotiated transaction between seller and buyer that are both in the boardroom

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COINBASE_GRABSKI_002349

67. Notably, the Board recognized that an “Acceptable Alternative” would be a “one-off negotiated transaction between seller and buyer that are both in the boardroom.”²⁴ Put differently, the Board recognized that private transactions between parties with the same access to Company information could be permissible. Of course, such a level playing field would not exist in the Direct Listing for Defendants *vis-à-vis* the market.

²⁴ COINBASE_GRABSKI_002349.

F. The Board Is Reminded (Again) that the Company Needs to Raise Capital But Prioritizes (Again) the Direct Listing

68. Before formally approving the Direct Listing, the Board revisited the decision to pursue an IPO versus a direct listing.

69. On January 14, 2021, the Board met, with Defendants Andreessen, Armstrong, Chatterjee, Choi, Ehrsam, Haas, Haun, and Wilson present. Haas provided the Board with an update on the Direct Listing, “including the pending decision between utilizing a direct listing or an initial public offering and the considerations related to each potential alternative.”²⁵

70. As part of its determination, the Board reviewed the following objectives which, again, listed “Liquidity (to employees, then investors)” and “No dilution” as the top two goals.²⁶

²⁵ COINBASE_GRABSKI_000545.

²⁶ Red box added for emphasis.

Coinbase Objectives

Discussion: Confirmations, modifications, additions and deletions of objectives.

Initial Objective	Change?	Modification	Direct Listing	Modified IPO	Comments
Liquidity (employees, then to investors)	No		Yes	Maybe	There is less liquidity in IPO with lock-up
No dilution	Yes	Raise [REDACTED] in capital	Maybe	Yes	Nasdaq seeking SEC approval for direct listing primary raise (NYSE approved)
Set up for long-term success (directionally up and to the right)	No		Maybe	Yes	Slack traded sideways. Asana was up on day one, then down for 3 months. Spotify was up for 3 months, then down and flat for 2 years until recent rally. Palantir has been consistently trading up from reference price.
<ul style="list-style-type: none"> Drive optimal story of being once in a lifetime crypto company (valuation) Attract long-term investors and committed partners to our cap table 	No		Yes	Yes	
Symbolize maturation of crypto and adhere to crypto core values	No		Maybe	Yes	While large, long-term investors have participated in DLs to date, investors prefer IPOs with the allocation as they can guarantee their allocation.
<ul style="list-style-type: none"> Open Financial System --> equal access and opportunity Transparency 	No		Yes	Maybe	Not all investors can be accommodated with the initial IPO allocation. Especially if we are seeking to limit dilution and not raise material primary \$
Leverage tools to create transparency and stable supply and demand	No		Yes	No	
<ul style="list-style-type: none"> Enable robust price discovery to support stable initial trading Flexible or staggered lock-ups / standstill agreements Transparency into investor demand 	No		Yes	No	A DL will give us the opportunity to hold an earnings call where we can provide scenario guidance to investors. Post S1 and Investor meetings, pre-orders.
	No		Yes	Yes	Modified IPOs allow for lockup flexibility (including early release, price-based release, staggered release or a combination of such) whereas traditional IPOs typically required a 6 month lock up

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COINBASE_GRABSKI_002368

71. Again, the Board knew that “[t]here is less liquidity in IPO with lock-up.” To be clear, an IPO permitting lower level employees to sell their stock and a robust IPO market would provide more than sufficient liquidity to ensure market pricing and trading. The liquidity concern referenced in this slide is plainly personal to Defendants: an IPO-related lock-up would restrict officers and directors with access to material, non-public information from monetizing their investments, regardless of how robust the post-IPO trading market became.

72. Ultimately, the Board determined to pursue the Direct Listing, and not a modified IPO, despite acknowledging that (a) the Company needed to raise capital and (b) “few [direct listings] have been viewed successfully or achieved our trading objective”:

Coinbase Global – Board of Directors Meeting - Deck													
DL vs. Modified IPO: Benefits and Risks													
Trade-offs involved with both; our approach is dependent on which of our objectives we're optimizing for													
<table border="1"> <thead> <tr> <th></th> <th>Direct Listing</th> <th>Modified IPO</th> </tr> </thead> <tbody> <tr> <td>Benefits</td> <td> <ul style="list-style-type: none"> Robust price discovery with initial launch price representing broad set of investor viewpoints (free market driven pricing) More open, accessible, and transparent; aligned with our objective to adhere to crypto core values Potentially non/less dilutive (currently evolving) Lower advisor fees (but typically a material difference) </td> <td> <ul style="list-style-type: none"> Greater control over composition of our cap table (i.e., able to “choose your investors” and secure allocations) Greater visibility into initial launch price - may leave \$ on table Banks able to coordinate investor roadshow (i.e., less burdensome for core working team) Bank supports (e.g., “greenshoe” to stabilize trading) No investor day - i.e. less work, but note that traditional IPO roadshow is similar to DL investor day (will shoot video and put online) but banks can help with coordination and take heavier pen on drafting materials Many successful precedent examples and preferred by institutional investors </td> </tr> <tr> <td>Risks</td> <td> <ul style="list-style-type: none"> Liquidity risk (potentially insufficient selling shareholders) Less control over composition of our cap table (e.g., retail/hedge funds could outbid long only institutions and create a cap table that isn't optimized for long term patient investors) Some investors may choose to not participate in a direct listing Choppy initial trading or mispriced opening due to wide range in investor valuation models (more diverse universe of investors) and lack of bank supports (e.g., greenshoe) Few DLs have been viewed successfully or achieved our trading objective </td> <td> <ul style="list-style-type: none"> Initial launch price reflects limited portion of the market (less reflective of the open market) Less open, accessible, and transparent Will require investor lock-ups (but growing flexibility for alternative structures to accommodate company needs) Typically more dilutive Highest advisor fees </td> </tr> <tr> <td>What We're Optimizing For</td> <td> <ul style="list-style-type: none"> Most “fair” Day 1 price Core values (open, accessible, transparent) </td> <td> <ul style="list-style-type: none"> Greater control and certainty over: <ul style="list-style-type: none"> Selecting the investors we want in our cap table (and to interact with) Initial launch price More tools available (e.g., greenshoe) to aid in trading stabilization (though not always effective) More pre-IPO investor education support from banks </td> </tr> </tbody> </table>			Direct Listing	Modified IPO	Benefits	<ul style="list-style-type: none"> Robust price discovery with initial launch price representing broad set of investor viewpoints (free market driven pricing) More open, accessible, and transparent; 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COINBASE_GRABSKI_002369

73. Just a few weeks after choosing insider liquidity over Company-level capital raising, at the February 3, 2021 Board meeting, Defendants learned that Coinbase could require additional funding *by year end* to continue operating:²⁷

Coinbase Global – Board of Directors Meeting - Pre-Read

2021 Plan: Cash Runway Sensitivity - Scenario 1 (Lowest case)

Monthly Revenue	Annualized Revenue	Cash Runway at Scenario 1 2021 Ending Cash	Cash Runway at Scenario 2021 Ending Cash STRESS
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

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COINBASE_GRABSKI_002409

Commentary:

- Assumes 2021 ending headcount of [REDACTED] with fully loaded run rate expenses and constant Transaction Expenses as a % of Revenue
- Assumes [REDACTED] minimum cash balance requirement (excluding post trade settlement)
- Assumes that marketing spend is [REDACTED] in future years for cash sensitivity
- Revenue scenarios [REDACTED] + cash runways
- Scenarios exclude strategic initiatives (including cash M&A, share repurchases and tenders)
- Under the Stress scenario (additional [REDACTED] of cash needs), we will need funding by the end of 2021

74. Defendants Andreessen, Armstrong, Chatterjee, Choi, Ehksam, Haas, Haun, and Wilson were in attendance at this February 3, 2021 Board meeting.

²⁷ Red box added for emphasis.

75. At bottom, the Board continued to pursue the Direct Listing *first* – so that Company insiders could monetize *billions of dollars* of their equity, *without suffering dilution* – with none of the proceeds flowing to Coinbase, despite Coinbase’s known need for new capital.

G. As the Board Learns the Company Needs Capital, It Also Sees that Coinbase’s Fee Rate is Falling

76. At its February 3, 2021 meeting, the Board received a “present[ation] on various FY2021 financial matters, including January 2021 performance, key financial metrics forecasts, revenue projections, user growth and cash flows.”²⁸

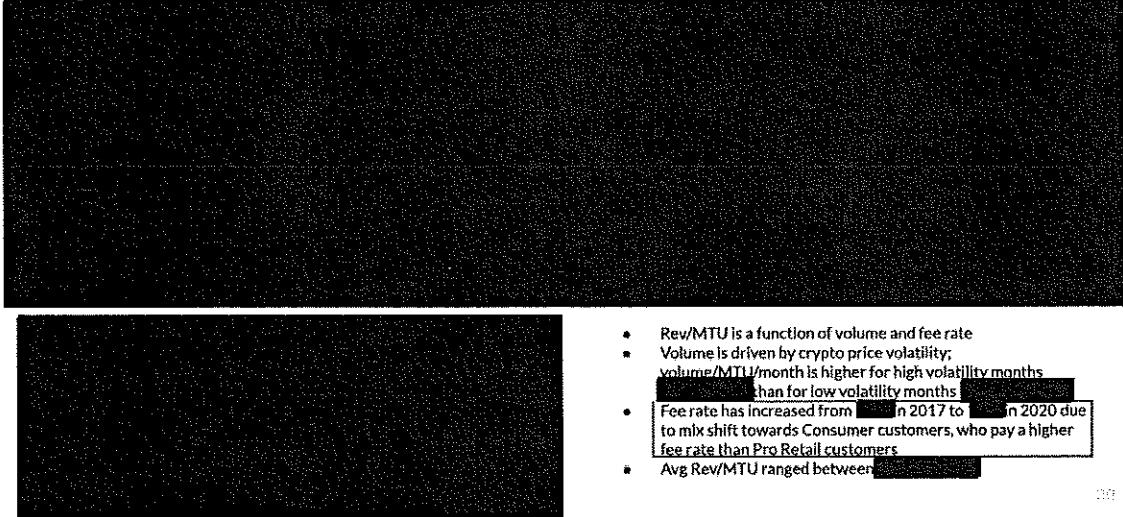
77. The Board, but not the market, also had material information regarding how Coinbase earned money through its fees, particularly from retail customers. Retail customer revenues comprised over 90% of Coinbase’s historical net revenues. And, the Board knew the Company’s average retail fee rate from 2020, which had increased from [REDACTED] in 2017 to [REDACTED] in 2020 “due to a mix towards Consumer customers, who pay a higher fee rate than Pro Retail customers”.²⁹

²⁸ COINBASE_GRABSKI_000671.

²⁹ Red box added for emphasis.

2021 Plan: Retail Transaction Fee Revenue

2021 Retail Transaction Revenue based on various scenarios of retail MTU growth and revenue/MTU



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COINBASE_GRABSKI_002401

78. And, going into the Direct Listing, the Board knew of market participants' strong interest in Coinbase's fee structure and updated fee rates. For instance, following discussions with potential investors, the primary question that the Company was receiving from the market regarding the "Competitive Environment" was the "Sustainability of retail fees?", and the biggest "Financials"

question that the Company was receiving was “Institutional and retail fee structure?”,³⁰

Coinbase Global – Board of Directors Meeting - Pre-Read

Key Areas of Questions

Coinbase 5-10 Year Vision	Competitive Environment	Financials	Regulation
<ul style="list-style-type: none">• What does crypto enable beyond trading?• Real world applications?• What other products & services can you build?• How will you grow market share?	<ul style="list-style-type: none">• Sustainability of retail fees?• Differentiation from bigger and emerging market participants?• How do you keep assets secure?• What is the stablecoin opportunity?	<ul style="list-style-type: none">• Institutional and retail fee structure?• Revenue diversification strategy?• How will you grow Subscription & Services revenues?• Dependence on Bitcoin?• How will borrow/lend product work?	<ul style="list-style-type: none">• How do you decide which assets to list on Coinbase?• What regulatory risks do you see over time?• Impact of a new Administration?• Risk around assets being classified as securities?

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COINBASE_GRABSKI_002412

79. Analysts, too, noted the importance of retail fee trends to Coinbase’s value. For instance, on April 6, 2021 (shortly before the Direct Listing), Compass Point noted that Coinbase had a “[r]etail driven model,” given that “[t]ransaction revenues accounted for 96% of FY20 net revenues and retail accounted for 95%.”

³⁰ Red box added for emphasis.

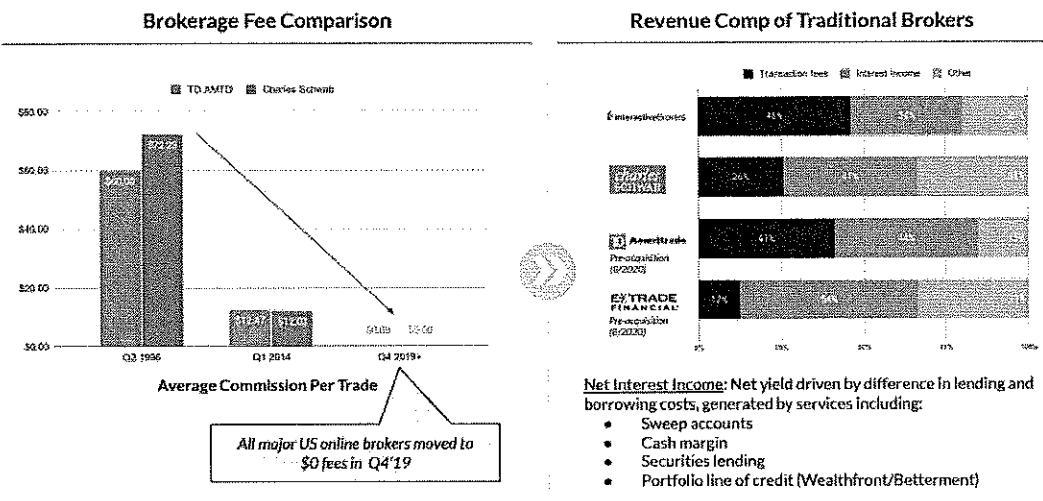
Compass Point also highlighted that “[r]etail rev. spreads as a % of vols. running at ~140 bps” and warned that “[s]ustainability of pricing will be a clear question for investors moving forward.” As such, “trends for retail client fees” and “changes in pricing strategy for different retail products” could have material impacts on the Company’s business.

80. Put simply, the Board and management knew *before* the Direct Listing what the market would only learn *after*: Coinbase was suffering from fee compression, which, upon public disclosure, caused its stock price to sink.

81. For instance, on April 28, 2021 – two weeks after the Direct Listing, the Board met, with Defendants Andreessen, Armstrong, Chatterjee, Choi, Ehrsam, Haas, Haun, and Wilson present. At this meeting, the Board discussed “Pricing,” and acknowledged that “Traditional brokerages have faced dramatic fee compression”:

Traditional brokerages have faced dramatic fee compression

Brokerages have diversified revenue streams and emphasized NIM in response to fee compression



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COINBASE_GRABSKI_004180

82. The very next slide that the Board reviewed demonstrates that the Board closely tracked fees over time that it and its competitors in the crypto industry charged:

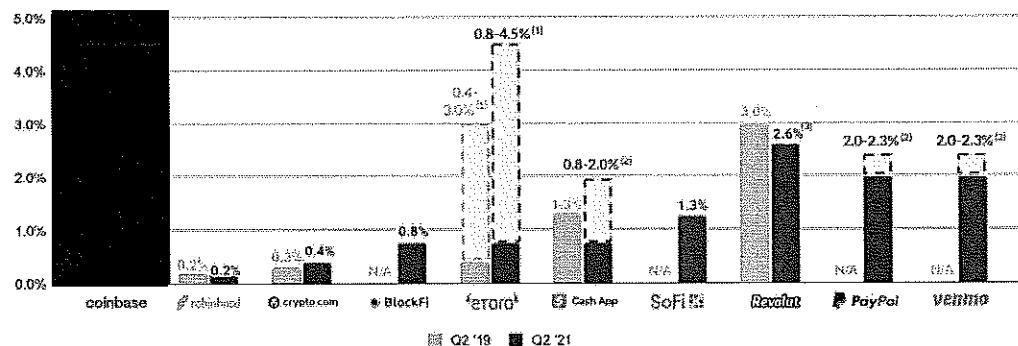
US crypto peer-level fees approximately flat since Q2'19

Few overall declines; some variability observed but may be attributable to sampling.

Competitor Observed F2C fees

Effective F2C Fee By Platform (Base + Spread)

Excludes discounts for premium accounts only
applies to purchase amounts



Notes Analysis of Q3 2019: Comparison for purchases **not** accounted for Calabrese's 5% fee below this threshold. Block, Self, PayPal and Venmo didn't have a crypto offering or were not included in Q2 '19 analysis. **103**
 (1) Net charged deposit or fees from 0.75% for LTC to 1.5% for DASH. Spreads are applied to fixed price, you can't set a limit for it, so it might be applied to a purchase after initial purchase depending on whether it is sold at a profit or loss.
 (2) Free based on a 10% average annual rate for purchases.

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COINBASE_GRABSKI_004181

83. Thereafter, the Board discussed that the Company “Must prepare for inevitability of fee compression”:

Must prepare for inevitability of fee compression

While exact pace of fee compression in crypto is unknown, preparing strategy to respond now

Initiative	Description
Ⓐ Growing non-trading revenue	<ul style="list-style-type: none"> Investing in non-trading revenue streams via products like Staking, Earn, and Coinbase Cloud (Bison Trails+)
Ⓑ Pricing experiments	<ul style="list-style-type: none"> Ongoing Unified Retail pricing experiment to explore bundling larger part of fee into spread Improved branding & representation of pricing to customers Programmatic experiments to optimize pricing across surfaces & geos
Ⓒ Testing alternative business models (e.g., premium subscription)	<ul style="list-style-type: none"> Exploring premium subscription model option to improve revenue predictability while improving user retention Includes bundled services with enhanced functionality
Ⓓ Other ideas for experimentation	<ul style="list-style-type: none"> Selective monetization (e.g., give away security / Yubikeys) Brand as moat

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COINBASE_GRABSKI_004183

84. Tellingly, under the “Description” of “Initiative B,” *i.e.*, “Pricing experiments,” Coinbase had been exploring “*Ongoing* Unified Retail pricing.” And, under the “Description” of “Initiative C,” *i.e.*, “*Testing* alternative business models (e.g., premium subscription),” the Company had been “*exploring* premium subscription model option.” In other words, these “Initiatives” were ongoing and it is reasonably conceivable that Coinbase officers and directors had known for some time that the Company “must prepare for inevitability of fee compression.”

H. The Board Formally Approves the Direct Listing – Without Lock-Ups – and With Andersen’s Final Valuation

85. The Board’s Audit and Compliance Committee met on February 19, 2021, with Defendants Ehrsam, Haas, Jones, and Wilson in attendance. During this meeting, the committee received an update “regarding the Company’s finance matters, including highlights on financial conditions.”³¹

86. The full Board thereafter met on February 23, 2021, with Defendants Andreessen, Armstrong, Chatterjee, Choi, Ehrsam, Haas, Haun, Jones, and Wilson in attendance. Hass provided the Board with an update on the Direct Listing, including the status of the SEC’s review of the Registration Statement.

87. As part of this discussion, the Board learned that the “[e]xecutive team [is] aligned on no lock-ups for all stockholders (investors and employees).”³² Abandoning its prior concern about the misuse of MNPI, the Board decided that directors and officers would not be subject to a lock-up and could sell immediately into the Directly Listing despite having access to material, non-public information:

³¹ COINBASE_GRABSKI_005151.

³² COINBASE_GRABSKI_002917.

D&O Trading Plans

- At initial direct listing trading window Direct Listing through ~April 9; *
 - Initially, D&Os will be unrestricted from selling in the direct listing.
 - During the first open trading window, we expect all D&Os to enter into 10b5-1 Trading Plans.
- After the first trading window, ~April 9 Onward
 - All subsequent personal trades of D&Os to occur via 10b5-1 Plans only.
 - We expect to release a draft copy of the 10b5-1 Plan next week for you to begin reviewing.
 - The process of entering into the 10b5-1 Plan will entail review and filling out a trading program form, a meeting with our brokers at Morgan Stanley, and your personal tax, wealth consultants (as applicable).
 - 10b5-1 Plans to be submitted to the company in March. Go into effect in subsequent trading period.

*Note - advisors suggest first trading window following DL without a lockup is typically 7-10 days.

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COINBASE_GRABSKI_002945

88. The Board's decision to allow directors and officers to participate, unrestricted, in the Direct Listing was, simply put, a self-interested breach of fiduciary duty. The Board *knew* that insiders had access to material, non-public information. Indeed, the very same access to MNPI is why the Board prohibited directors and officers from participating in the Secondary Trading Program. And, following the Direct Listing, the Company would require insiders to trade solely through 10b5-1 trading plans, which effectively recognizes management's ongoing access to MNPI. Yet, the Board determined to allow directors and officers this one

opportunity to capitalize on their inside information and offload *billions* of dollars of personally-held Coinbase stock.

89. Thereafter, the Board formally approved the Direct Listing, which notably did not provide for any lock-up period for Company insiders. Importantly, while Coinbase may not be the only company to effect a direct listing without an insider lock-up, Defendants knew or should have known that lock-ups are imposed in the vast majority of public listings, especially of technology companies with difficult-to-value businesses.

90. Additionally, during that February 23, 2021 meeting, Goldman Sachs & Co. LLC led a discussion with the Board concerning “an update on market perspectives, including updates on the timing of the Company’s direct listing.”³³ The Board also received a presentation on “market trends, valuation over time and an analysis of potential outcomes, including first day trading.”³⁴ Of course, the issue of first day trading was of the utmost importance to Defendants, since such trading would dictate the quantum of fortunes realized by selling their Coinbase stock in the Direct Listing.

³³ COINBASE_GRABSKI_000955.

³⁴ COINBASE_GRABSKI_000955.

91. On March 26, 2021, the Board approved, by unanimous written consent, Andersen’s final valuation report before the Direct Listing. Using a valuation date as of March 15, 2021 and a report date of March 24, 2021, Andersen determined that the fair value of the Company’s Class A Common Stock was [REDACTED] per share.

92. As discussed above, the Board had retained Andersen to prepare valuation reports for tax and financial planning and reporting purposes in connection with the Section 409A regulations of the Internal Revenue Code, as well as Financial Accounting Standards Board Accounting Standards Codification Topic 718 – Compensation. Such reports were also used to help inform the Company’s reference price in connection with the Direct Listing, as required by both the SEC and Nasdaq.

93. In arriving at this valuation, Andersen applied [REDACTED] to its analysis under a probability weighted expected return method, or “PWERM.” Andersen explained:

This approach involves the estimation of future potential outcomes for the company, as well as values and probabilities associated with each respective potential outcome. The common stock per share value determined using this approach is ultimately based upon probability-weighted per share values resulting from the various future scenarios, which can include an IPO, merger or sale, dissolution, or continued operation as a private company.³⁵

³⁵ COINBASE_GRABSKI_001546.

94. Under this approach, Coinbase management estimated:

Value per common share per PWERM	██████████	██████████	██████████
Weighted average price per share from secondary transactions*	██████████	██████████	██████████
Concluded value per common share (non-controlling, non-marketable basis) (rounded)	██████████	██████████	██████████

95. Based on the above probabilities and valuations, Andersen valued Coinbase at ██████████.

96. Additionally, Andersen applied a 50% weight to the weighted average price per share for the transactions in the Secondary Trading Program, which was \$343.58 per share,³⁹ yielding a final Andersen valuation of █████ per share:

	Common Share Value	Weighting	Weighted Common Share Value
Value per common share per PWERM	██████████	██████████	██████████
Weighted average price per share from secondary transactions*	343.58	50.0%	██████████
Concluded value per common share (non-controlling, non-marketable basis) (rounded)	██████████	██████████	██████████

97. Notably, Andersen's discounted cash flow, or "DCF," valuation of Coinbase █████.

³⁶ COINBASE_GRABSKI_001547.

³⁷ COINBASE_GRABSKI_001547.

³⁸ COINBASE_GRABSKI_001547-48.

³⁹ COINBASE_GRABSKI_001554.

As Delaware courts recognize, “[i]n many situations, the discounted cash flow technique is in theory the single best technique to estimate the value of an economic asset,”⁴⁰ *especially* in the absence of a reliable market-based indicator.

98. Using management’s projections, which were far lower than Wall Street consensus estimates, Andersen arrived at a DCF valuation of Coinbase of [REDACTED] meaningfully below the [REDACTED] valuation using PWERM, which in turn was below the Company valuation implied by the Secondary Trading Program.⁴¹ Notably, management was projecting [REDACTED] in revenue and [REDACTED] in net income for FY2022,⁴² while the Wall Street consensus at the time of the Direct Listing was for \$5.2 billion in revenue and \$2 billion in net income for FY2022.

99. Moreover, prior to the Direct Listing, management also “recently received an inbound offer from an external party with regards to a pre-IPO funding round . . . offer[ing] to invest \$400-600 million . . . at a *pre-money valuation of \$25-30 billion.*”⁴³ Thus, some of the most valuable inside information Defendants

⁴⁰ *In re Appraisal of Regal Entm’t Grp.*, 2021 WL 1916364, at *18 (Del. Ch. May 13, 2021) (quoting *Cede & Co. v. Technicolor, Inc.*, 1990 WL 161084, at *7 (Del. Ch. Oct. 19, 1990)).

⁴¹ COINBASE_GRABSKI_001576.

⁴² COINBASE_GRABSKI_001576.

⁴³ COINBASE_GRABSKI_001529.

learned through the Andersen report itself was that the Direct Listing option suggested trading prices (and public market analyst estimates based solely on public disclosures) that grossly overvalued the Company, based on management's own projections and the incoming investment interests from sophisticated market participants.

I. The Board Chose Not to Disclose Material, Non-Public Information to the Market

100. Coinbase chose to disclose only partial information to the market, but not sufficient information for market participants to perform the normal work involved in financial valuation. On April 6, 2021, for instance, Coinbase voluntarily chose to announce estimated first quarter 2021 results, as well as to provide full-year 2021 guidance on Monthly Transacting Users (“MTUs”), revenue, and expenses.

101. Specifically, in its April 6, 2021 guidance on earnings, prior to the Direct Listing, Coinbase made no reference to any shifts in the average retail fee. Nor was any reference made to the average retail fee. Instead, the Company gave guidance in MTU growth without noting that they were collecting a lower average fee from each Monthly Transacting User, *i.e.*, the fee compression that Defendants knew about.

102. Indeed, market participants recognized this information asymmetry. As noted above, in connection with the Direct Listing, Compass Point wrote: “Given

somewhat limited financial information at present and the inherent volatility in cryptocurrency, we fully expect that we will need to update estimates, likely in a material manner and possibly frequently, as we move forward.” Compass Point also noted that “COIN did not provide a breakdown of its revenues beyond total revenues” prior to the Direct Listing, which limited the ability of market participants to properly analyze the value of the Company.

II. COINBASE’S STOCK PRICE COLLAPSES FOLLOWING THE DIRECT LISTING

A. Coinbase Effectuates the Direct Listing While the Defendants Sell Coinbase Stock In a Manner Consistent with Their Material Non-Public Information

103. On April 13, 2021, Nasdaq gave Coinbase a reference price of \$250 per share ahead of the Company’s Direct Listing on April 14, 2021. That reference price reflected recent private market trades and input from investment bankers, but it did not indicate where the stock would open.

104. The Direct Listing occurred on April 14, 2021. Coinbase’s stock opened at \$381 per share and quickly shot up as high as \$429.54 per share—reflecting a market cap of over \$100 billion. The stock ultimately closed its first trading day at \$328.28 per share.

105. Thus, Defendants knew that parties without material, non-public information likely were vastly overvaluing Coinbase. And, through the Direct

Listing, Defendants – while in possession of material, non-public information – would be able to sell billions of dollars of Company stock at inflated prices.

106. Indeed, thanks to the Board’s decision to impose no lock-ups in connection with the Direct Listing, Defendants cashed out ***\$2,927,970,014.49 worth of their Coinbase stock:***

Name	Role	Transaction Date	Amount Sold
Marc Andreessen	Director	04/14/21	\$112,309,275.00
		04/15/21	\$6,346,490.50
		Total:	\$118,655,765.50
Surojit Chatterjee	Chief Product Officer	04/14/21	\$61,885,000.00
Emilie Choi	Chief Operating Officer	04/14/21	\$219,775,751.54
		4/15/21	\$4,192,188.00
		Total:	\$223,967,939.54
Brian Armstrong	Co-Founder, Chief Executive Officer, and Chairman of the Board	04/14/21	\$291,827,965.50
Fred Ehrsam	Co-Founder and Director	04/14/21	\$90,367,162.05
		04/15/21	\$21,616,562.33
		04/16/21	\$23,443,332.13
		04/19/21	\$19,949,246.22
		04/20/21	\$22,582,377.03
		04/21/21	\$20,579,185.40
		04/22/21	\$20,959,048.61
		Total:	\$219,496,913.77
Alesia Haas	Chief Financial Officer	04/14/21	\$99,320,793.18
Katie Haun	Director	04/14/21	\$52,606,693.76
Jennifer Jones	Chief Accounting Officer	04/14/21	\$43,435,000.00
Fred Wilson	Director	04/14/21	\$1,750,005,000.00
		04/15/21	\$66,768,943.24
		Total:	\$1,816,773,943.24

		Grand Total:	\$2,927,970,014.49
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107. Reflecting Defendants' knowledge of Andersen's undisclosed valuation of Coinbase, and a desire to sell quickly before their material non-public information would be disclosed to the market, all of these trades were open-market trades, and not pursuant to 10b5-1 trading plans, as the Company's insider trading policies thereafter would mandate.⁴⁴

108. Defendants ceased executing open-market sales of their Company stock on April 22. Notably, by April 23, 2021, Coinbase's stock price had fallen below ██████████ per share, the valuation of the Company produced internally by Andersen, opening at \$282.75 per share and closing at \$291.60 per share. Thus, it is at least reasonably conceivable that Defendants improperly used the confidential Andersen report – an asset of the Company – to inform their own personal trading strategies.

B. After Defendants Complete Offloading Billions of Dollars in Coinbase Stock, the Board Approves the Dilutive Note Offering

109. On April 28, 2021, the Board met, with Defendants Andreessen, Armstrong, Chatterjee, Choi, Ehrsam, Haas, Haun, and Wilson present. Haas provided the Board with a finance update, including a summary of Coinbase's financial performance in the first quarter of 2021, revised 2021 forecast scenarios,

⁴⁴ COINBASE_GRABSKI_005162-63.

cost trends, proposed increase in venture spending, and potential increases in mergers and acquisitions spending.

110. Thereafter, Hass provided the Board with a 2021 forecast for cash flow and profitability, and she then led a “discussion regarding *capital raising through the sale and issuance of convertible notes*” and “described the proposed process [sic] a convertible note financing, including timing.”⁴⁵

111. Having achieved the primary objective of allowing themselves and other insiders to achieve maximum liquidity without any dilution through the unrestricted Direct Listing, the Board then approved the issuance and sale of up to [REDACTED] in convertible senior notes (the “Notes Offering”):

⁴⁵ COINBASE_GRABSKI_001634.

Capital Raise

Objective: Raise [REDACTED] in capital to build balance sheet for working capital and acquisition capacity

Security Criteria:

- Speed and efficiency (i.e. time to market)
- Business flexibility (i.e. no covenants, call features)
- Optimize for cost of capital and / or dilution

Seeking Authorization:

- Issue up to [REDACTED] of convertible notes
- Form pricing committee
- Engage Matthews South as advisor, and JPM / GS as bookrunners

Timing:

- Targeting issuance on May 18, 2021
- Factors that may lead to a delay:
 - Availability and pricing of stock borrow
 - Currently have sufficient depth of stock borrow, however pricing is at [REDACTED] and we would want to see [REDACTED] before we launch. Cautiously optimistic that this will develop over next 3 weeks
 - MNPI - a material unannounced acquisition may delay the issuance

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COINBASE_GRABSKI_004013

112. Notably, this capital raise greatly exceeded the previously contemplated [REDACTED] raise. Thus, by delaying the capital raise for personal purposes, the Board left the Company even more cash-constrained.

113. The Board then discussed that such a capital raise could lead to dilution and have a negative impact on Coinbase's stock price, *i.e.*, the precise things the Board wanted to avoid with the Direct Offering:⁴⁶

⁴⁶ Red boxes added for emphasis.

Capital raise

Convertible Note

Benefits	Considerations
<ul style="list-style-type: none"> • Low Coupon: Zero or near-zero coupon achievable • Lower Cost of Capital than Equity on Upside: Due to conversion premium and potential use of call spread to raise the effective conversion premium, cost of capital / dilution is much lower than equity if stock appreciates • Unsecured Status / No Subsidiary Guarantees: Unsecured holding-company bond does not encumber assets or require subsidiary credit support • No Covenants / Ratings: Does not include any financial covenants or negative covenants (other than change of control protection) or require ratings • Execution Efficiency: Preparation can be completed in 2-3 weeks (with simpler, non-EGC disclosure requirement vs. common equity offering); public marketing process is 1 day only • Some Call Flexibility: Can structure bonds to enable issuer to effectively force conversion after 3-4 years, if stock price performs significantly • New Investors: Broadens capital access to a discrete new investor base 	<ul style="list-style-type: none"> • Refinancing Risk: Must be prepared to repay principal at maturity if bond does not convert into equity (or if conversion is structured as partially cash-settled), as with other debt • Possible Dilution: Potential dilution in the future at a premium to current share price • Variable Cost of Capital: Final cost of capital is dependent on future stock price performance • Day 1 Stock Price Impact: Like equity, impact to stock price during deal marketing • Call Spread Complexity: If call spread is used to raise the effective conversion premium, it adds some structural complexity both at inception and if bonds are extinguished early through buyback, conversion or M&A

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COINBASE_GRABSKI_004015

114. Indeed, at that April 28, 2021 meeting, the Board already had documents prepared involving J.P. Morgan Securities LLC and Goldman Sachs & Co. LLC regarding the convertible note issuance, indicative of the Board's planning for the dilutive issuance *prior* to their \$2.9 billion in stock sales *just four business days earlier*.⁴⁷

⁴⁷ COINBASE_GRABSKI_001635, -38-46.

115. Further, after enjoying the massive monetization event afforded by the unrestricted Direct Listing before the market learned about how retail fees were becoming a problem for the Company, “Chatterjee then led the Board in a discussion of *trends for retail client fees*, including trend lines among retail fees, efforts to diversify retail revenue through non-trading services, growth in non-trading revenue, *changes in pricing strategy for different retail products* and products for institutional users.”⁴⁸ See ¶¶81-84, *supra*.

116. As noted above, retail revenues comprised over 90% of Coinbase’s historical net revenues. As such, “trends for retail client fees” and “changes in pricing strategy for different retail products” would necessarily have material impacts on the Company’s business. And, as noted above, the Company had engaged in various ongoing initiatives to “prepare of the inevitability of fee compression.”⁴⁹

117. As discussed below, the market would soon learn that Coinbase was suffering from fee compression, which in turn caused its stock price to sink. Of course, the regular updates received by the Board, the fact that the Board was considering the “sustainability of retail fees” as it prepared the Direct Listing,⁵⁰ and

⁴⁸ COINBASE_GRABSKI_001635.

⁴⁹ COINBASE_GRABSKI_004183.

⁵⁰ COINBASE_GRABSKI_002412.

the fact that the Board soon after the Direct Listing expressly discussed the “inevitability of fee compression,” at a minimum, support an inference that Defendants knew about this trend prior to the Direct Listing.

C. Coinbase’s Stock Price Collapses as Negative Information Emerges

i. Coinbase Announces Disappointing Earnings

118. At 4:00 p.m. on May 13, 2021 Coinbase announced its first quarterly earnings as a publicly traded company, revealing that it had “miss[ed] on top and bottom line in [its] first earnings report as a public company.”

119. The Company declined to provide specific guidance on its projected revenues and earnings. Instead, it acknowledged that its retail transaction fee rate had fallen from 140 basis points (“bps”) to approximately 120 bps per transaction. Defendant Haas attributed the lower transaction fee rate to customers moving to the Coinbase Pro platform, which offered volume-based pricing.

120. Notably, the market had not anticipated downward adjustments to retail fee revenues so close to the Direct Listing. Indeed, just a few days before the first earnings release, on May 10, 2021, Oppenheimer wrote: “[W]e believe that . . . [the] fee compression concern is overblown.”

121. Predictably, the market reacted negatively to Coinbase’s earnings announcement. As illustrated by the table below, Wall Street consensus estimates dropped drastically for both fiscal year 2021 and fiscal year 2022:

	Before Earnings Announcement (4/15/2021)	After Earnings Announcement (5/20/2021)
<i>Fiscal year 2021</i>		
Median pro forma EPS consensus	\$7.60 per share	\$6.71 per share
Median GAAP EPS consensus	\$9.41 per share	\$8.14 per share
<i>Fiscal year 2022</i>		
Median pro forma EPS consensus	\$8.25 per share	\$4.97 per share
Median GAAP EPS consensus	\$7.81 per share	\$6.24 per share

122. Compass Point had issued a research report providing FY2021, FY2022, and FY2023 estimates on May 13, 2021, immediately prior to the earnings announcement. The very next day, following the earnings announcement, Compass Point “adjust[ed] our EPS to reflect updated volume mix and pricing assumptions and tweaks to our expense forecast, lowering our 2Q21 EPS estimate to \$2.57 from \$2.73 and our 2021/2022 EPS estimates to \$9.28/\$4.25 from \$9.53/\$4.76.”

123. The market was taken aback by Coinbase’s falling transaction fee rate. The market had expressly assumed at the time of the Direct Listing a retail transaction fee rate of 140 bps: Compass Point noted, on April 6, 2021, “Retail rev. spreads as a % of vols. running at ~140bps.” Wall Street did not expect a drop in this percentage, especially not immediately following Coinbase going public.

124. Following the May 13, 2021 earnings call, Rosenblatt Securities commented:

Fee rates were a focal point during the conference call, with 1Q21 revenue capture rates falling compared to 2020 and consensus estimates, largely driven by retail mix shift towards Coinbase Pro which has tiered pricing.

125. Similarly, Compass Point noted, “we continue to have questions on the level of pricing compression moving forward and how the transition from a transaction based platform to subscription and services plays out over time.”

126. The change in fee rates remained a major point of discussion in the days to come, with one analyst noting at the May 20, 2021 Barclays Emerging Payments and Fintech Forum: “There’s a lot of conversation around Coinbase fees and just their trajectory over time. I think your average retail and institutional fees were actually down slightly in Q1 versus full year ’20.”

127. The ensuing movement in Coinbase’s stock reflected the announcement of this material, negative information. *Just 15 business days after the Board and management had dumped a record \$2.9 billion in stock on the market*, Coinbase announced earnings at 4:00 p.m. on May 13, 2021, and on the following day (May 14, 2021), Coinbase stock was down 2.54%, while the companies that Coinbase identified as peers were up 5.42% and the S&P Cryptocurrency Broad Digital Market Index was up 6.62%. The drop in stock price during a day when peer firms and the broader crypto market was surging is consistent with management disclosing

negative, material, non-public information about the past quarter, as well as disappointing guidance.

ii. Coinbase Announces the Dilutive Convertible Notes Offering

128. At 4:00 p.m. on May 17, 2021, Coinbase announced a private offering of up to \$1.25 billion in aggregate principal amount of senior unsecured convertible notes due 2026, plus up to an additional \$187.5 million of such notes at the option of the initial purchasers.

129. As the Board anticipated when deciding to prioritize the unrestricted Direct Listing over the needed capital raise, market analysts reacted negatively to the Notes Offering. For instance, on May 17, 2021 at 5:54 p.m., a *Barron's* article entitled “Coinbase is Issuing a Convertible Bond. Why Its Stock Is Dropping” explained:

Coinbase (ticker: COIN) is raising about \$1.3 billion in a convertible bond sale. Shares are down about 2.6% in after-hours trading . . . The offering comes about a month after the company completed its direct stock listing. Coinbase didn’t pursue a traditional initial public offering because, presumably, it didn’t need the cash. The company generates positive cash flow, is growing rapidly, and analysts are upbeat about earnings prospects. So why raise money now? And why with a bond? Those questions don’t really have answers yet.

130. This stock price drop was clearly and identifiably caused by Coinbase’s announcement: the press release announcing the convertible note was issued at

exactly 4:00 p.m. on May 17, 2021. Within a single minute of this release, Coinbase stock fell 2.16% in aftermarket trading. Within five minutes, that price fall had reached 2.9%. The next full trading day, on May 18, 2021, the raw return of Coinbase stock was -3.72%, while Coinbase’s peers were up 1.24% and the S&P Cryptocurrency Broad Digital Market Index was relatively flat at -0.48%.

D. Defendants’ Sales Allowed them to Avoid Major Material Losses

131. As countless academic studies have shown, public markets are generally much more efficient at price discovery than private markets.⁵¹

132. As noted above, the Board recognized that it regularly received all sorts of material, non-public financial and operational information, including “regular monthly board updates (which include key metric and financial updates)” and “flash . . . financials or [quarterly] projections.”⁵²

133. Of particular note was: (a) the Company’s largest source of revenue – retail fees – was suffering from rate compression and (b) Coinbase needed to raise capital, and it was planning to do so following the Direct Listing via an offering that would be dilutive to common stockholders. Defendants used this knowledge from

⁵¹ René M Stulz, *Public versus private equity*, 36 OXFORD REV. ECON. POL’Y, Issue 2, Summer 2020, at 275-90.

⁵² COINBASE_GRABSKI_002349.

their access to insider information that the Company was overvalued in order to take the Company public and sell their stock.

134. Through the scrutiny and disciplining effects of the public market, market participants began to learn and incorporate into their valuations the same information that told Defendants that Coinbase was overvalued at the time of its Direct Listing.

135. In total, Defendants, comprising a majority of the Board, sold **\$2.93 billion of stock**. COIN stock dropped from the opening price of \$381 on the day of the Direct Listing, to \$239 on May 18, 2021, when Coinbase disclosed the dilutive Notes Offering. This accounts for a stock price drop of 37.27% in approximately five weeks.

136. Once Coinbase went public, it became subject to the scrutiny and discipline of the public markets, and the stock price began to reflect the lower valuation that Defendants knew all along.

137. In total, computing damages as the difference between the price of each sale by Defendants and \$239, the price at which the stock finally settled following Coinbase's disclosures of negative information, Defendants' sales, facilitated by their decision not to implement a lock-up period, allowed them to **avoid \$1.09 billion in losses**.

DERIVATIVE DEMAND FUTILITY ALLEGATIONS

138. Plaintiff acquired Coinbase shares on the day of the Direct Listing, and thus was a Company stockholder at the time the wrongdoing complained of was effectuated, constituted the actual misuse of Company information, and deprived other stockholders of the same benefits as Defendants exploited. Plaintiff has continuously been a stockholder since that time, and is a current Company stockholder.

139. Plaintiff will adequately and fairly represent the interests of Coinbase in enforcing and prosecuting its rights, and Plaintiff has retained counsel experienced in litigating this type of derivative action.

140. Plaintiff did not make a demand on the Board to institute this action because pre-suit demand is excused.

141. Plaintiff repeats and realleges each allegation above as if set forth in full in this Derivative Demand Futility Allegations section.

142. Demand is excused because there exists a reasonable doubt that, at a minimum, at least half of the Board at the time that this complaint was filed could properly exercise independent and disinterested business judgment in responding to a demand.

143. The demand Board has eight members: Andreessen, Armstrong, Ehrsam, Haun, Wilson, Kelly Kramer, Tobias “Tobi” Lütke, and Gokul Rajaram

(the “Demand Board”). Demand is therefore futile if at least four of the eight directors on the Demand Board either lack independence, are not disinterested, or both. Here, at least five of the directors are not disinterested because they face a substantial likelihood of liability.

144. Defendants Andreessen, Armstrong, Ehrsam, Haun, and Wilson, who alone comprise a five-person majority of the eight-person Demand Board, collectively sold nearly ***\$2.93 billion*** of personally-held Company stock in connection with the Direct Listing, all the while in possession of material, non-public information.

145. The decision to not utilize some form of lock-up of Company insiders was a self-interested one. In particular, through the Direct Listing, Defendants’ primary goals were to realize liquidity without suffering any dilution.

146. Defendants also improperly used the confidential Andersen report – an asset of the Company – to inform their own personal trading strategies.

147. Moreover, prior to the Direct Listing, Defendants (but not the market) knew meaningful material information about the Company’s financial and operational performance, including, but not limited to, that (a) Coinbase could potentially run out of funds in 2021 and intended to raise dilutive capital following the Direct Listing and (b) Coinbase was projecting – and currently suffering from – fee compression.

148. Following the revelation to the market of this information, including that concerning the Notes Offering and fee compression, Coinbase's stock price fell dramatically, from a high of \$429.54 per share to \$239 per share. By selling stock in the Direct Listing, Defendants were able to avoid approximately \$1.09 billion in losses.

149. Accordingly, it is reasonably conceivable that at least five of Coinbase's eight directors, *i.e.*, a majority of the Demand Board, face a substantial likelihood of liability in connection with the claims described in this complaint. Therefore, demand is futile as to the subject matter of the allegations contained herein.

COUNT I

**Breach of Fiduciary Duty
(Derivatively Against All Defendants)**

150. Plaintiff repeats and realleges each and every allegation above as if set forth in full herein.

151. By reason of their fiduciary roles as officers and/or directors of the Company, Defendants specifically owed and owe Coinbase the highest obligation of good faith, fair dealing, loyalty, due care, and disclosure.

152. Defendants breached their fiduciary duties by disloyally prioritizing their own personal financial interests above the interests of Coinbase and its

stockholders. In particular, Defendants (a) determined to pursue the Direct Listing so as to enable them to monetize their Coinbase equity stakes without suffering dilution and (b) sold nearly \$2.93 billion worth of personally-held Company stock in the Direct Listing while in possession of negative, material, non-public information regarding Coinbase, as well as Andersen's confidential report.

153. As a result of these sales in connection with the Direct Listing, Defendants were able to avoid approximately \$1.09 billion in losses due to declines in the Company's stock price once the negative information reached the public market.

154. As a result of these breaches of fiduciary duty, Coinbase suffered harm and is entitled to recover damages from Defendants in an amount to be determined at trial.

155. Plaintiff and the Company do not have an adequate remedy at law.

COUNT II

Unjust Enrichment (Derivatively Against All Defendants)

156. Plaintiff repeats and realleges each and every allegation above as if set forth in full herein.

157. Defendants collectively sold nearly \$2.93 billion worth of Company stock in the Direct Listing while in possession of material, non-public information

about Coinbase's negative prospects, as well as Andersen's confidential report. Through these sales, Defendants were able to avoid approximately \$1.09 billion in losses, due to declines in the Company's stock prices once that negative information emerged.

158. Defendants' loss avoidance was derived from improper means and was to the detriment of Coinbase.

159. Plaintiff and the Company do not have an adequate remedy at law.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff demands judgment in favor of the Company and against Defendants as follows:

- A. Declaring that this action is properly maintainable as a stockholder derivative action;
- B. Declaring that demand against the Board is excused as futile;
- C. Declaring that Defendants breached their fiduciary duties and were unjustly enriched;
- D. Awarding monetary damages to the Company, including pre- and post-judgment interest;
- E. Requiring Defendants to return to the Company the ill-gotten gains they realized as a result of their improper trading;

F. Awarding Plaintiff the costs and disbursements of this action, including attorneys' and experts' fees and expenses; and

G. Granting such further relief as the Court deems just and proper.

**BERNSTEIN LITOWITZ BERGER
& GROSSMANN LLP**

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Attorneys for Plaintiff

Dated: April 26, 2023

CERTIFICATE OF SERVICE

Daniel E. Meyer hereby certifies that on May 18, 2023, a copy of the foregoing
Public [Redacted] Version of the Verified Stockholder Derivative Complaint was
filed and served via File & ServeXpress upon the following counsel of record:

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