

## Largest Crypto Hosting Facility Sues Texas Bitcoin Mining Operation

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The crypto mining company behind the largest Bitcoin hosting facility in North America has filed a multimillion-dollar securities fraud lawsuit in a Texas state court against joint venture partners and their officers.

A team of Am Law 100 firm partners at [Foley & Lardner](#), led by Robert T. Slovak, brought the lawsuit on behalf of the plaintiff, Whinstone US Inc., accusing the defendants—Imperium Investment Holding LLC, Rhodium Enterprises Inc. and their officers—of forming entities to divert revenue from the crypto mining company.

“The key takeaway is to craft better agreements,” said Ishmael Green, a partner at Diaz Reus in Miami, who is a crypto securities expert not involved in the matter. “What you need to include in any agreement is language that would protect you from any sort of dissipation of that bitcoin income based on a dilution of the company’s value or membership interest as it’s sold.”

The defendants did not respond to a request for comment.

Now, the action is pending before Tarrant County 153rd District Judge Susan McCoy, with Whinstone alleging five causes of action, including fraud, conspiracy and three counts under the Texas Securities Act.

Judge Susan McCoy (Courtesy Photo)

The case dates to 2019, when Whinstone commenced developing the largest Bitcoin hosting facility in North America, and secured power agreements at below-market rates for the facility’s operations, according to the lawsuit.

The next year, Whinstone and Imperium agreed to a joint venture, Rhodium, to mine cryptocurrency in Building C of the facility.

As part of the agreement, Imperium would fund the infrastructure build-out and acquire the equipment necessary to mine, per the lawsuit.

In return, Whinstone agreed to contribute a portion of the facility, provide services, and make up to 130 megawatts of electricity available at a rate below Whinstone’s discount rate, the complaint claimed.

Imperium would receive 87.5% and Whinstone would receive 12.5% of “all underlying economics” in the project, which was memorialized in

March 2020, it claimed. And consistent with the agreement, Whinstone and Rhodium executed twenty hosting agreements, the complaint stated.

However, Whinstone alleged in the lawsuit that Imperium and the officers contributed little, if any, of their own capital to the joint venture and attempted to raise capital from investors. But with no existing operations nor any track record in crypto mining, they could not quickly raise the needed capital from investors, Whinstone alleged.

As a result, Whinstone agreed to redeem its voting and non-voting units, and withdrew from membership in the joint venture, the suit claimed.

Critical to Whinstone's decision to withdraw from the project, was the Imperium defendants' alleged assurance that Whinstone, going forward, would receive its 12.5% of "all the underlying economics" generated from the crypto mining from Building C, in exchange for Whinstone to continue providing electricity capacity at a rate below Whinstone's discount rate, the suit claimed.

To do so, Whinstone would have sustained approximately \$2 million in net losses per month, which did not make "economic sense, nor [was] it sustainable," according to the lawsuit. Meanwhile, Whinstone accused Imperium of laying the groundwork to dilute Whinstone's share of "all underlying economics," using newly and later formed entities to divert revenue.

For instance, Imperium purportedly sold to investors 50% of the membership interest in an entity formed after the redemption, leaving Whinstone, at best, with 6.25% instead of 12.5%, generated from the operations, per the lawsuit. Whinstone claims Imperium repeated this

exercise again and again, and performed additional methods to divert revenue.

Whinstone further alleged in the lawsuit that the defendants funneled revenue generated from crypto mining operations conducted in Building C to prop up other financially distressed and floundering Rhodium subsidiaries to keep its operations as a separate mining facility afloat.

Without that support, Rhodium allegedly could not have survived the pre-halving Bitcoin prices at or below \$40,000, according to the lawsuit. Even now, “with post-halving Bitcoin prices hovering around \$60,000,” the defendants continue to “siphon revenues generated at the facility to provide life-support” to Rhodium.

“As any type of crypto operation becomes more mainstream and attracts a more diverse brand of outside investors or other business participants, you’re always going to have an increase in disputes related to those business arrangements,” said David A. Shargel, a partner at Bracewell in New York who is an uninvolved expert. “You might see it more in the digital asset space because of the presence of those businesses.”