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Via Electronic Submission

Securities Act of 1933 Sections 2(a)(1) and 5
Securities Exchange Act of 1934 Section 3(a)(10) and 12(g)

Office of Chief Counsel
Division of Corporation Finance
Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549

Re: DoubleZero

Dear Sir or Madam:

DoubleZero Foundation (the "Foundation"), a memberless Cayman Islands foundation company, was formed to support the development, decentralization, security and adoption of the DoubleZero Network (as defined below), a new purpose-built internet optimized for distributed systems, like blockchains. The Foundation, along with other participants in the Network, recently introduced a live, functional and programmatic protocol enabling a marketplace for underutilized private fiber links. They are currently preparing to launch the Protocol's (as defined below) native token, the 2Z token ("2Z" and, such event, the "Launch"). Upon Launch, 2Z tokens will be offered and sold to Network participants in two ways: (i) as compensation to Network Providers (as defined below) for their provision of high-performance network connectivity ("Provider Payments"), and (ii) as compensation to Resource Providers (as defined below) for their calculation of Provider Payment amounts ("Computation Payments" and together with Provider Payments, the "Programmatic Transfers"). As described in detail below, we do not believe that the offer and sale of 2Z tokens in Programmatic Transfers are required to be registered under the Securities Act of 1933, as amended (the "Securities Act"), and that the 2Z token does not need to be registered as a class of equity securities under the Securities Exchange Act of 1934, as amended (the "Exchange Act," and, together with the Securities Act, the "Securities Acts").

On behalf of the Foundation, Cooley LLP respectfully requests that the Division of Corporation Finance (the "Division") confirm that it will not recommend to the Securities and Exchange Commission (the "Commission") that the Commission take any enforcement action if Programmatic Transfers are conducted in the manner and under the circumstances described below, without registration under Section 5 of the Securities Act, and 2Z is not registered as a class of equity securities under Section 12(g) of the Exchange Act.[1]

[1] This no action request is limited to the Programmatic Transfers and does not extend to prior transactions involving 2Z, all of which were structured pursuant to various exemptions to registration under the Securities Act. Except as otherwise set forth herein, the information in this letter regarding the Foundation is as-provided to us by the Foundation. The Foundation has authorized us to make the statements set forth in this letter on its behalf.

I. Factual Background

A. The Problem

The bottleneck for blockchain today is not computing power—it is communication. Since the advent of Bitcoin, the software and computing capabilities of validators supporting decentralized systems have improved by leaps and bounds, but the hardware supporting them has remained largely the same. The firehose of inbound transactions on these networks keeps increasing, but the transactions are still flowing through the same pipes—the same fiber optic cables that make up the backbone of the global public internet. As a result, reaching consensus on these networks is slow, given that validators are limited to proposing blocks and voting over public internet paths prone to limited bandwidth, high jitter and inconsistent routing. This blockchain traffic must also compete with all other internet traffic.

Fortunately, the infrastructure to solve this problem already exists. Other industries need communications performance beyond what the public internet infrastructure can offer, so a faster alternative has been developed. Many large technology companies today own and operate private fiber networks that are more performant than the public internet and have capacity well beyond their own needs. Given the high costs of installing new wires in the future, many of these enterprises tend to over-provision capacity, building it for future peak demand scenarios rather than routine outcomes. Consequently, today there is substantial underutilized lit fiber (fiber that is used less than its capacity) or dark fiber (fiber that has been installed but is not used at all).[2] Each dedicated fiber link can support hundreds of terabits of data per second, making it significantly—several hundred times—faster than the average internet connection. Unlocking this underutilized lit fiber and dark fiber is the key to solving blockchain's performance issues.

B. DoubleZero Network

The DoubleZero network solves this problem. The DoubleZero protocol is a set of smart contracts that provide a framework for permissionlessly adding high-performance network connectivity, which others can pay for and use (the "Protocol"). The Protocol enables a marketplace for fiber capacity that allows anyone to monetize underutilized lit fiber and dark fiber by linking them together to form a single mesh network for faster and more efficient communication (the "Network").

Once fully functional, anyone around the world will be able to integrate their underutilized lit fiber and dark fiber optic cables into the mesh Network (such independent operators, "Network Providers").[3] There is no centralized party that is in charge of adding new fiber optic links or operating the relevant hardware, and another dispersed group of Network participants ("Resource Providers") perform the various maintenance and monitoring duties necessary to sustain the technical integrity and ongoing functionality of the Network. The more participants that contribute links connecting various locations, the more bandwidth and coverage the Network gains—creating powerful network effects where performance improves as participation increases. Blockchain validators and others ("Users") can then pay to send communications over the Network instead of through the congested and unreliable public internet.

In essence, the Network is a new "purpose-built internet" optimized for distributed systems like blockchains. These new pipes will provide a faster and more reliable channel for validators to communicate, easing the current bottleneck.

[2] For instance, the Federal Communications Commission estimated that only 35% of the fiber installed in the United States is being utilized, and 65% remains unutilized. FCC, STATISTICS OF COMMUNICATIONS COMMON CARRIERS (2006/2007).

[3] The Protocol's smart contracts and Network's fiber links have been deployed in phases—a private testnet was deployed in Q1 2025, followed by a permissioned public testnet in Q2 2025 where Solana validators can use network connectivity provided by initial Network Providers across eight data centers globally. The Network launched in Q3 2025, with Solana as the first integrated blockchain and other Layer 1 and 2 blockchains to follow. Launch of 2Z on the Network is expected to occur in the near future. At Launch, the Foundation will have a ministerial role assisting Network Providers in connecting to the Network, and will assist any such potential Network Provider subject only to their compliance with law and meeting minimum objective technical requirements necessary to integrate with the Network.

C. DoubleZero Ecosystem

The Network is operated, administered and developed by a diffuse ecosystem of global participants. There is no central promoter or sponsor responsible for operating the Network. The participants in the DoubleZero ecosystem are:

(i) Users, who pay to transmit communications over the Network,

(ii) Network Providers, who supply the fiber links and operate the hardware comprising the Network,

(iii) Resource Providers, who calculate Network Provider fees, maintain the DoubleZero Ledger (as defined below) and otherwise facilitate the administration of the Network,

(iv) the Foundation, which educates the public, coordinates communications among various other ecosystem stakeholders and supports the decentralization and development of the Protocol and Network, and

(v) several independent technology contributors, including Malbec Labs, Jump Crypto, Anza, and Galaxy Digital.

1. Users – Communicating over the Network

The Network can be useful for a broad spectrum of users who are willing to pay for high-performance connectivity in distributed systems. The most likely users in the short term are participants in blockchain's block-producing base layer, such as validators,[4] RPC node operators,[5] searchers,[6] builders,[7] and sequencers,[8] each of which have much to gain from decreased latency that the Network enables. Each of these Users makes an independent decision to use, or not use, the Network instead of the public internet. For example, a validator will use the Network if the improved connectivity it provides relative to the public internet increases the validator's revenue in excess of the associated costs of using the Network.

2. Network Providers – Supplying Fiber and Hardware

Network Providers are the enterprises that connect their underutilized lit fiber and dark fiber optic links to the Network. A typical Network Provider is a technology firm, data center operator, telecommunications company or other organization that already possesses underutilized lit fiber, dark fiber or other networking hardware assets and wants to monetize this excess capacity by contributing it to the Network, or in other instances enterprises that want to enter the business of monetizing fiber optic cables. These enterprises often learn of the Network independently or through a recommendation from an existing Network Provider, the independent technology contributors, or from the Foundation's outreach.

In any case, connecting a Network Provider's fiber links to the Network is an involved process, requiring a substantial commitment from and financial risk to the Network Provider. To determine feasibility, the Network Provider must conduct research into route topologies, latency requirements and regulatory considerations, engaging technical, legal and security personnel to review the opportunity. Once feasibility is confirmed, the Network Provider must negotiate with a number of external vendors to obtain relevant hardware, cable leases, arrange data center space, coordinate installation and connect to the Network. In particular, at each end of the fiber optic cable, Network Providers must install and operate specialized but publicly available hardware (switches and Field Programmable Gate Arrays (FPGA) devices) in order to

[4] Validators include miners in proof-of-work blockchains and stakers in proof-of-stake blockchains.
[5] An RPC node operator runs and maintains blockchain nodes (and supporting infrastructure) that expose a Remote Procedure Call endpoint, enabling wallets and dApps to query chain data and submit transactions reliably at scale.
[6] Searchers collect transactions and bundle them together to submit to builders or relays.
[7] Builders construct full blocks and send them (or their headers) to validators.
[8] Sequencers act like builders for "rollups," which are blockchains that are built on top of another blockchain.

contribute their fiber links to the Network.[9] Network Providers acquire the hardware from third party manufacturers, including Xilinx, an American semiconductor manufacturer acquired by AMD, another American company, in 2022.[10]

For example, one Network Provider has estimated that, in best case scenarios, it takes a team of five people from their company twelve days of concentrated effort to "go-live" with each new fiber cable link between two cities—despite the fact that they already possess and operate existing fiber infrastructure and have extensive experience operating private fiber optic networks.

Once a Network Provider has completed the installation work and connected their fiber optic cable links to the mesh network in data centers, Network Providers commit to a service level for each link, which is encoded into the Protocol's smart contract. This commitment includes the main characteristics of the link, including endpoint locations, bandwidth and compliant MTU (data packet) size. As an illustration, a Network Provider supplying fiber that links Los Angeles to Singapore may commit to 100 Gbps with 2048 MTU. Performance of the links, including latency attributes, is monitored and tested programmatically by the switches that Network Providers operate in the Network to ensure performant links earn fees, while non-performant links do not earn fees.[11] Thus, following activation, the Network Provider remains responsible for continuous monitoring, preventive maintenance and responses to outages to ensure that they remain eligible for fees. Network Providers maintain the ability to disconnect their fiber optic assets and hardware at any time, and also retain beneficial ownership of those assets at all times.

Altogether, the Network Providers are sophisticated, independent operators in this system. They are responsible for integrating their links with the Network, installing the relevant FPGA devices, setting and then meeting their service levels, maintaining their links and ultimately disconnecting from the Network if they choose. None of the Network Providers are affiliates of the Foundation and neither the Foundation nor any other contributor performs these efforts on their behalf (beyond educating them and coordinating among Network Providers).[12]

[9] The FPGA hardware devices installed and operated by Network Providers act as a common firewall for the Network and are the first point of contact for raw blockchain transaction data arriving from the public internet. The devices filter out transactions that are spam or duplicates (estimated to be roughly 70% of all blockchain traffic), and verify signatures before transactions reach blockchain validators. This feature is not expected to be functional at Launch. Network participants, including Malbec Labs and Jump Crypto, are contributing to the development, with functionality estimated to go live in 2026 (see Section I(C)(5) for more detail).

[10] The Foundation assists with facilitating bulk orders by Network Providers, but neither the Foundation nor any affiliates manufacture the hardware or earn any revenue from the sale of this hardware. The Foundation is also not developing the technology needed for the "common firewall."

[11] Links are eligible to earn fees to the extent that (i) the program confirms the link provides connectivity with reduced latency compared to the public internet, and (ii) there is potential for Network traffic flowing over such links (e.g., between Users in New York and London). This is confirmed programmatically, without monitoring or determinations by the Foundation or any other person.

[12] The Foundation plays a limited role in helping Network Providers physically connect new fiber optic links to the Network. The Foundation does not earn revenue for these services and, at Launch, will not exercise discretion in accepting or rejecting Network Providers. The Foundation intends that this process will become fully permissionless over time.

(map showing an estimate of the links that will be available on the network by December 31, 2025)

3. Resource Providers – Tracking the Network

Resource Providers are an unaffiliated and dispersed group of network participants that perform various maintenance and monitoring duties necessary to sustain the technical integrity and ongoing functionality of the Network. Specifically, they (i) track User transactions and payments, (ii) calculate fees for Network Providers; (iii) record the results of (i) and (ii) on a blockchain repository called the "DoubleZero Ledger" and validate that ledger; (iv) call (in a non-discretionary manner) the smart contracts that control Protocol tokenomics;[13] (v) relay attestations from the DoubleZero Ledger to the Solana blockchain so that 2Z can flow through the Protocol correctly; and (vi) publish telemetry data on the DoubleZero Ledger regarding link quality and utilization to provide transparent, real-time performance metrics for all Network Providers.[14] Resource Providers are an unaffiliated and dispersed group of operators running open source software in a non-discretionary manner that operate similarly to network validators in a Proof of Stake network.[15] None of the Resource Providers are affiliates of the Foundation.

4. Foundation – Supporting the Ecosystem

The Foundation is a non-profit entity formed to advance the adoption and decentralization of the Network. The Foundation retains a treasury of 2Z tokens (the "Token Treasury") that it uses to fund its efforts, which fall into eight categories:

(i) Community education through regularly scheduled whiteboard sessions, technical primers and multilingual documentation that demystify the Network and the Protocol;

(ii) Technical thought-leadership and advising, particularly in bridging physical network infrastructure with blockchain software systems;

[13] A set of smart contracts that controls the protocol token economics (e.g., minting of newly inflated 2Z), has been deployed to the Solana blockchain. Resource Providers are tasked with invoking these smart contracts so that the smart contracts execute, but they do not have any control over the economics or ability to upgrade such smart contracts. It is anticipated that upgrade authority for such smart contracts will be controlled by the Foundation at Launch, though the Foundation intends to decentralize control over time.
[14] Telemetry data informs the Shapley algorithm that is used to determine the contribution of each Network Provider to the Network's overall performance. In order to be verifiable, this data must be publicly accessible.
[15] Resource Providers are typically professional validator operations, who operate validators on other blockchains, including Solana.

(iii) Ecosystem coordination, whereby the Foundation hosts monthly roundtables and maintains a shared repository of best practices to connect current and potential Users, Network Providers, Resource Providers and other stakeholders;

(iv) Information sharing with regulators and other public sector parties conducting due diligence on the Network, such as telecommunication regulators globally, as well as this no action letter request;

(v) Upon request, sharing "lessons learned" amongst Network Providers, coordinating Network Providers' communications, introducing Network Providers to third-party manufacturers and helping them get preferential pricing and delivery times on new hardware (for example, in obtaining network switches);[16]

(vi) Non-profit initiatives, such as funding independent security audits, commissioning public-goods research into censorship resistance and stewarding development under a royalty-free license to safeguard decentralization;

(vii) Conference and event organization; and

(viii) Grants from the Token Treasury to support external teams that are independent from the Foundation (including certain of the technology contributors) in advancing the decentralization, security and usability of tools available in the Network.

The Foundation's public communications and marketing about the Network has been, and will always be, limited to factual, developer-oriented communications.[17] The Foundation has not and will not promote the Network or 2Z as a way for Network Providers, Resource Providers or other 2Z token holders to earn passive investment returns. Public communications regarding 2Z have and will always reinforce that 2Z is a digital asset for use in connection with the Network, emphasizing its utility. The Foundation has not and will never characterize 2Z as, or imply that 2Z is, an investment.[18]

As discussed below, marketing for the Validator Sale in particular was tailored toward active validators who are expected to be Users at Launch and will need 2Z to utilize the Network. Consistent with the rest of the Foundation's communications, the marketing for the Validator Sale did not present the Network or 2Z as a way for Validators to earn passive returns. In connection with those materials, the Foundation included technical descriptions of the Protocol and 2Z's utility therein, along with information about the various risks facing purchasers and the Network.

The Foundation may conduct future sales of 2Z from the Token Treasury that will be targeted at Users and other Network participants ("Treasury Sales") to allow such potential Users better access to the Network and also to fund the Foundation's ongoing operations. The Treasury Sales will be made subject to applicable terms and conditions that will require any purchasers to affirm that: (i) they are acquiring the 2Z for consumptive use in connection with the Network and not for distribution, (ii) they are not purchasing the 2Z on behalf of any other person or entity, and (iii) they are not purchasing the 2Z for any other purposes, including for speculative purposes. The Foundation's terms will also disclose to purchasers the full scope of available 2Z features, including the services that 2Z can be used to obtain, and will emphasize that 2Z is not and should not be viewed as an investment. Any sale of 2Z from the Token Treasury outside of these parameters will be structured to comply with registration exemptions under the Securities Act, including under Regulation D and Regulation S, out of an abundance of caution. No Treasury Sales will take place between the date of this letter and Launch.

[16] The Foundation does not earn any revenue from these activities.
[17] For example, blogs, technical explainer videos and sponsorship of industry podcasts.
[18] We acknowledge that the relief requested in this letter would not apply to any party that acts in a manner inconsistent with the Foundation's proposed public communications and marketing concerning the 2Z token or Network as articulated in this request.

None of the Foundation's activities described above, including its various coordination activities and grant-making, amount to management-level decision making that would impact the success or failure of any enterprise on which Network Providers, Resource Providers, or other 2Z token holders rely on for profits. The Foundation does not manage or operate the Network. The Network's ongoing operation, security, liveness and governance do not depend on the Foundation, which is facilitating operational know-how in a ministerial, ancillary capacity. In addition, the Foundation does not make decisions or take actions that directly yield profits to Network Providers, Resource Providers, or other holders of 2Z. As described in Sections I(D)(2)-(3), the Programmatic Transfers to Network Providers and Resource Providers are determined by those parties' own efforts, not by the Foundation's decisions or actions.

5. Technology Contributors – Advancing the Protocol

Multiple independent technology contributors which are unaffiliated with the Foundation support the development of the Protocol and related services. Each of these technology contributors has been independently financed and is building ancillary businesses related to the Network[19] or seeks to economically benefit from positive externalities of the Network for their existing businesses:[20]

- Malbec Labs prototypes the hardware and develops the software needed to weave independent network contributions into a unified high-performance network. Malbec Labs has purchased 2Z from the Foundation.
- Anza is incorporating redundancy mechanisms into its networking code for the Solana blockchain, which would provide resiliency in the event of a DoubleZero outage.
- Jump Crypto is working on incorporating DoubleZero support into Firedancer, the validator client that Jump Crypto is building for the Solana blockchain. Jump Crypto also holds 2Z, which it purchased from a third party, and is a Network Provider.
- Galaxy Digital develops some of the smart contracts needed to operate the Protocol and will be acting as a Network Provider that contributes fiber links.

D. 2Z Token

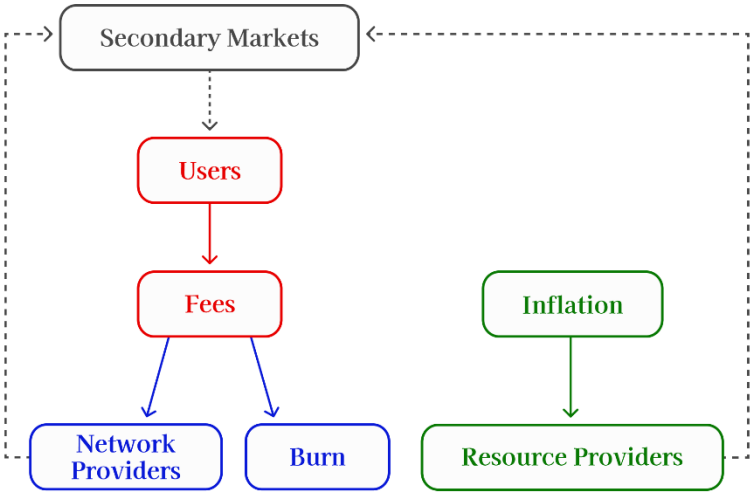
2Z is a token that enables Users to make payments for Network services and the core incentive mechanism of the Network.[21]

[19] Such ancillary businesses are for-profit enterprises run by the technology contributors that utilize the Network, such as operating a trading desk that transmits transactions over the Network. The Foundation does not play a role in those enterprises (or have contractual relationships relating thereto), nor does the Foundation coordinate any direct collaboration among the technology contributors.

[20] Examples of positive externalities of the Network for the technology contributors' existing business interests include (i) improved performance for any validators operated by technology contributors, or (ii) potential value accrual to their preexisting SOL holdings resulting from the improved performance of the Solana network due to the operation of the Network.

[21] 2Z will be deployed as a standard Solana Program Library (SPL) token created on the Solana blockchain. To be clear, 2Z is not the native token of the DoubleZero Ledger, which is a limited purpose blockchain repository created from a forked side chain of Solana.

There will be three primary flows of 2Z in the Protocol: User Payments (depicted in red), Provider Payments (depicted in blue) and Computation Payments (depicted in green). Participants may also transact in 2Z on secondary markets (depicted in gray).[22]



1. User Payments

Users who want to utilize the high-performance Network will acquire 2Z on secondary markets and use it to pay fees. For example, a Solana RPC node that wants to send and receive blocks faster will pay fees in 2Z to send traffic over the Network's fiber routes. As is common in the digital asset industry, it is expected that marketplaces will emerge at Launch where potential Users can access 2Z, which is a prerequisite for the proper functioning of the Network.[23] These marketplaces would allow Network Providers, Resource Providers and grant recipients to sell their earned 2Z to future Users.

Certain network participants also have the option to pay fees in the native token of the integrated blockchain (e.g., SOL on Solana), and those native tokens will be programmatically converted into 2Z. This is intended to ease onboarding for Users that otherwise may not have 2Z on hand, especially when the Network first begins operating. In summary, 2Z is the unit in which connectivity service fees are denominated and collected. This makes 2Z the "currency" of the Network, enabling value exchange between those who need high-performance communication networks and those who provide it. This is depicted by the flow in red in the above diagram.

2. Provider Payments

2Z will also be the vehicle for compensating Network Providers. 2Z paid by Users as fees for the Network service will be programmatically transferred on an effectively continuous basis (each epoch) via smart contract to the Network Providers.[24] In other words, the revenue flow (in 2Z) from Users will be passed through as payments to the Network Providers who actually carry the data, with a smart contract (instead of any company or person) distributing those 2Z payments.[25] Unlike in many other decentralized

[22] None of the Programmatic Transfers (or any of the 2Z flows depicted) will occur until Launch.
[23] The Foundation may provide technical information to certain marketplaces to facilitate listing, but will not pay any listing fees.
[24] The 2Z paid by Users is not pooled by any centralized party that has discretion over the use of such funds, but rather distributed programmatically.
[25] A small portion of the fees collected from Users will also be programmatically burned for Network integrity. Burning is a mechanism used to disincentivize Network Providers from self-sending artificial traffic over its own links to earn an outsized share of Provider Payments. Stated differently, this burning mechanism makes it economically irrational for a Network Provider to attempt to send transactions over their own links in order to game the algorithm. Some of the fees that they pay to send each transaction would be

physical infrastructure ("DePIN") projects, where contributors are incentivized with newly minted inflationary tokens, User payments are the sole source of reward and revenue for Network Providers.

Critically, the amount of 2Z transferred to each Network Provider depends on that Network Provider's own utility in the Network—not the amount of 2Z they hold, nor the entrepreneurial efforts of any third party. The Protocol uses a Shapley value algorithm[26] to calculate each Network Provider's contribution to the Network's overall performance (through increased bandwidth and reduced latency compared to the public internet and other Network Providers) and automatically allocates fees accordingly. Per the Shapley value algorithm, Network Providers who improve the Network's performance are programmatically and automatically rewarded with larger fees. Network Providers who do not improve the network's performance relative to the public internet earn little or no fees.

In this way, the Network Provider payments more closely resemble the rewards paid to miners in a Proof of Work network, as compared to the rewards paid to validators in a Proof of Stake network. Bitcoin's rewards, for example, are directly proportional to the amount of computational power (hashrate) that a miner adds to the network, not how many Bitcoin a miner holds. DoubleZero follows the same principle—those who contribute the most value to the Network graph receive the most rewards, irrespective of how many 2Z their wallets hold.[27]

Neither the Foundation nor any other ecosystem participant has any discretion over the amount of fees earned by a Network Provider. Ultimately, Network Providers will receive 2Z as payment for their own services, similar to the way that Bitcoin miners earn BTC by providing hashpower. By adding their fiber link resources to the Network, the Network Provider is providing the core data transmittal services at the heart of the Network, and will earn 2Z payments in exchange for the service. This is depicted by the flow in blue in the above diagram.

3. Computation Payments

Beyond being used to pay for Network services, 2Z will also be used to compensate Resource Providers for providing public goods necessary for the operation of the Network.[28] In return for performing the various tasks described above in Section I(C)(3), the Protocol will programmatically reward Resource Providers with newly minted 2Z. Neither the Foundation nor any other ecosystem participant has any discretion over the amount of fees earned by Resource Providers. The amount of newly minted 2Z that a Resource Provider will receive is directly dependent on the amount of computational resources they provide. This is depicted by the flow in green in the above diagram.

4. Staking Mechanism

2Z will also be used for staking mechanisms that secure the Protocol. In order to act as a Resource Provider, one must maintain a stake of 2Z, or be delegated a stake of 2Z by other 2Z holders. The amount of 2Z staked to a specific Resource Provider determines the amount of work such Resource Provider is offered to perform and the economic security it provides.

Network Providers must also temporarily accumulate any 2Z Provider Payments they earn after initially contributing a fiber link. These "deferred Provider Payments" act as a cryptoeconomic security

burned, meaning that the cost of sending that transaction will exceed the increase in the rewards they could expect to result from that incremental transaction travelling over their link.

[26] Shapley values come from the field of cooperative game theory, and in part earned their creator Lloyd Shapley the Nobel Prize in Economics in 2012. The Shapley values conceptually reward each Network Provider for its marginal contribution to a well-defined value function, under various counterfactual scenarios. The algorithm is publicly visible and verifiable by all Network Providers. The algorithm may be upgraded by the Foundation working in concert with certain technology contributors if necessary to resolve security vulnerabilities or otherwise address critical issues with the Network.

[27] To provide some level of economic security to the network links (including potential future slashability in case of bad action) Provider Payment distributions are delayed for several epochs, ensuring the 'assets at risk' balance is always proportional to a link's usefulness. Notably, this does not require Network Providers to hold or purchase existing 2Z.

[28] It is currently anticipated that payments to Network Providers will involve a much larger number of 2Z than payments to Resource Providers.

guarantee for the quality of fiber links contributed by such Network Providers. In the event that a Network Provider contributes a fiber link that fails to perform to the service level that they committed to, the deferred Provider Payments will be programmatically slashed by the Protocol.[29] This ensures that the Network Provider does not receive a windfall of unearned payments between when the link is connected to the Network and when the underperformance is detected. Thus, staking serves two purposes: (1) ensuring trust from those who maintain the DoubleZero Ledger and other protocol computations (Resource Providers), and (2) ensuring trust and commitment from those who supply connectivity (Network Providers). Both staking-related functions rely on 2Z as the staked asset.

5. Other Token Distributions

In keeping with its utility-first design, the distribution of 2Z that will be available at Launch has been carefully tailored to include actual Users rather than speculative investors. In April 2025, an affiliate of the Foundation conducted a 2Z sale to validators via CoinList (the "Validator Sale"). This sale was open only to eligible blockchain validators on Solana, Aptos, Sui, Avalanche and Celestia and restricted the number of 2Z available per validator to be commensurate with their stake weight (on their native blockchain), to match their usage profile and to avoid speculative purchases. The Validator Sale was not structured as a capital raising event; instead the intent was to restrict eligibility to active validators who will need 2Z to utilize the Network.[30] Nevertheless, out of an abundance of caution and to discourage speculation, the Validator Sale was structured to comply with registration exemptions. U.S. purchasers were required to be accredited investors to participate and their 2Z was subject to restrictions on transfer for one-year, while non-U.S. purchasers' 2Z have a lock-up until Launch (but in no case less than 40 days). The intent was to sell 2Z in a responsible way to actual Users, consistent with its nature as a utility means of exchange within the Network.

In addition to the Validator Sale, certain contributors to the Protocol, ecosystem and Network's initial development have also received or purchased allocations of 2Z subject to restrictions on transfer for up to four years. These transactions were all structured under various exemptions to registration. It is also expected that a secondary market for 2Z will develop, matching Network Providers and Resource Providers that wish to sell their accumulated 2Z fees with Users that want to purchase 2Z to use for Network services. The Validator Sale or other distributions described here, as well as any secondary market transactions in 2Z are not the subject of the relief sought.

6. Supply Dynamics

The Foundation expects that there will be a limited secondary market for 2Z tokens at Launch, consisting mostly of 2Z tokens earned by Resource Providers and Network Providers pursuant to Programmatic Transfers, which may be sold on decentralized exchanges and certain centralized exchanges. In addition, 2Z circulating supply at Launch will include 2Z tokens purchased by certain non-U.S. person Validators in the Validator Sale, 2Z held by the Foundation, and 2Z held by certain other technology contributors.

2Z has an initial fully diluted supply of 10 billion tokens, though this number will change over time for two reasons. First, new 2Z will be minted via inflation, specifically as Computation Payments, as described in Section I(D)(3) above. Second, as described above, existing 2Z will be burned for integrity purposes (to protect against sham transactions and self-dealing). In the long run, cumulative inflation will be bounded by cumulative burning but, in the short run, cumulative inflation may exceed cumulative burning. Much like with Bitcoin, Computation Payments (i.e., programmatically created rewards for Resource Providers) are the only way new 2Z come into existence.

[29] Slashing will not be functional at Launch but is expected to be incorporated in the future.
[30] Approximately 87 million 2Z were purchased in the Validator Sale, of which approximately 72 million are expected to be unlocked and available for use at Launch.

II. Legal Analysis

For the reasons set forth below, we are of the opinion that the proposed offer and sale of 2Z in the Programmatic Transfers, if conducted in the manner and under the circumstances described above, will not involve the offer and sale of a "security" within the meaning of Section 2(a)(1) of the Securities Act or Section 3(a)(10) of the Exchange Act and, therefore, that registration under the Securities Acts is not required. The Programmatic Transfers would not satisfy the fourth prong of the Howey test because neither the Network Providers nor the Resource Providers have a reasonable expectation of profits derived from the entrepreneurial or managerial efforts of a promoter or sponsor. Instead, the Network Providers and Resource Providers themselves provide the essential efforts for their own success. Neither the Foundation nor any other third party controls the activities that generate returns here—the Network Providers and Resource Providers do that themselves. They also are not relying on an expectation that the Foundation or any third party will provide such managerial efforts and instead expect to be paid based on their own efforts. Their business prospects rest in their own hands—they are not passively investing in order to earn a return from the entrepreneurial efforts of a sponsor or promoter.

A. The Programmatic Transfers are not transactions in "investment contracts" under *Howey*

Since the DAO Report,[31] the Commission and various courts have confirmed that, depending on the facts and circumstances, certain distributions of, or transactions in, cryptographic digital assets may meet the definition of an "investment contract" and thus constitute a "security" as defined under the Securities Act. An investment contract is an investment of money in a common enterprise with a reasonable expectation of profits to be derived from the entrepreneurial or managerial efforts of others. *SEC v. W.J. Howey Co*., 328 U.S. 293, 301 (1946).

The "investment contract" definition embodies a "flexible rather than a static principle" that looks to the economic reality of the arrangement over form. *Howey*, 328 U.S. at 299. At the same time, *Howey* and its progeny make clear that the definition is not without its limits. *See, e.g.*, *SEC v. SG Ltd.*, 265 F.3d 42, 50 (1st Cir. 2001) (expressing approval for a particular mode of analysis for the common enterprise prong of the *Howey* test because it places "ascertainable and predictable limits on the types of financial instruments that qualify as securities").

To satisfy the *Howey* test, courts review four prongs to determine whether there exists (i) an investment of money (or valuable consideration), (ii) in a common enterprise (either vertical or horizontal), (iii) with a reasonable expectation of profits, (iv) to be derived from the entrepreneurial or managerial efforts of promoters or sponsors.[32] If one of the prongs is not met, there is no transaction in an investment contract under *Howey*.

In the case of the Programmatic Transfers, as set forth below, the fourth prong of the *Howey* test is not satisfied.[33] For this reason, the Foundation respectfully submits that the Programmatic Transfers should not be classified as securities transactions.

B. Recipients of Programmatic Transfers are not motivated to acquire tokens by an expectation of profit based on the managerial efforts of others

To expect profits from the entrepreneurial or managerial efforts of others generally means that the failure or success of the enterprise depends upon the "undeniably significant" managerial efforts of others—usually the promoters or issuers of the securities sold. *SEC v. Glenn W. Turner Enters.*, 474 F.2d 476, 482 (9th Cir. 1973). By contrast, when the expected profits come from the holder's own efforts, as opposed to

[31] Report of Investigation Pursuant to Section 21(a) of the Securities Exchange Act of 1934: The DAO, Exchange Act Release No. 81207 (July 25, 2017) (the "DAO Report"). Given that Slock.it tokens provided holders with both voting and ownership rights, they are not directly comparable to 2Z.
[32] *Howey*, 328 U.S. at 301.
[33] While we believe that Howey's other prongs arguably are not met, the failure of the fourth prong is sufficient for purposes of the present analysis.

the promoter's efforts, there is no transaction in an investment contract. See, e.g., *Williamson v. Tucker*, 645 F.2d 404, 419 (1981) (holding that when investors retain power which they are capable of exercising, courts have uniformly refused to find securities).

In endeavors involving multiple participants, courts have looked to determine whose efforts are the "essential managerial conduct of an enterprise"—those efforts that are "the critical determinants of [its] success." *SEC v. Koscot Interplanetary, Inc.*, 497 F.2d 473, 485 (5th Cir.1974). The mere presence of efforts on the part of an investor is not sufficient, indeed "an investment contract can exist where the investor is required to perform some duties, as long as they are nominal or limited and would have 'little direct effect upon receipt by the participant of the benefits promised by the promoters.'" *Lino v. City Investing Co.*, 487 F.2d 689, 693 (3d Cir. 1973) (quoting *State v. Hawaii Market Center, Inc.*, 485 P.2d 105 (Hawaii 1971)). However, if a participant must make significant efforts in order to obtain the promised return, the SEC and courts have routinely found those transactions are not investment contracts. See Securities Act Release No. 5211 (Nov. 30, 1971); see also *Steinhardt Group Inc. v. Citicorp*, 126 F.3d 144, 155 (1997) (finding no investment contract where a participant's powers were not nominal but significant and directly affecting its profits).

In applying the fourth prong to crypto asset transactions, courts and regulators have considered whether a project's developers, operators, or other central parties are essential to the crypto asset or scheme's success. Courts have clarified that this inquiry is "an objective one focusing on the promises and offers made to investors; it is not a search for the precise motivation of each individual participant." *SEC v. Telegram Group, Inc.*, 448 F. Supp. 3d 352, 371 (S.D.N.Y. 2020) (citing *Warfield v. Alaniz*, 569 F.3d 1015, 1021 (9th Cir. 2009) (which notes *Howey* is an "objective inquiry into the character of the instrument or transaction offered based on what the purchasers were 'led to expect.'") Also paramount is whether the economic reality surrounding the offer or sale led the buyer to have a reasonable expectation of profits derived from the entrepreneurial or managerial efforts of others. *SEC v. Ripple Labs, Inc.*, 682 F. Supp. 3d 308, 326 (S.D.N.Y. 2023) (citing *United Housing Foundation, Inc. v. Forman*, 421 U.S. 837, 852 (1975)).

Here, the Programmatic Transfers would not satisfy the fourth prong of the *Howey* test. For the Provider Payments, the efforts resulting in profits are supplied by the Network Providers themselves, who install and operate the physical infrastructure. Similarly, the Resource Providers' computational work is the effort leading to the Computation Payments. In each case, the providers must expend significant time and resources to operate the Network and their own efforts are the "critical determinants of their success." The Foundation is merely acting as a facilitator and providing administrative and informational services.[34]

Courts have routinely found that commercial arrangements that may provide purchasers of an asset with profit based on their own significant efforts do not constitute a transaction in an investment contract.[35] In *Howey*'s orange grove scenario, investors did nothing but wait while the promoter's team cultivated oranges.[36] In DoubleZero, Network Providers and Resource Providers are the cultivators: they are the ones actively operating the Network and supplying the "undeniably significant" efforts for their own success.

[34] The development of a secondary market, and potential appreciation of 2Z in such markets, would not alter this conclusion. Courts have consistently upheld that where a contract involves the sale of a commodity and the expected profits arise primarily from resale on the secondary market, the expectation of profits prong of *Howey* is not satisfied. For example, in *Noa v. Key Futures*, a case involving a forward contract for silver bars, the Ninth Circuit held that there was no expectation of profits from the efforts of others because once the purchase of silver bars was made, the profits to the investor depended upon the fluctuations of the silver market—not the managerial efforts of the defendants. 638 F.2d 77, 79 (9th Cir. 1980).

[35] *See, e.g.*, *Boldy v. McConnell's Fine Ice Creams, Inc.*, 904 F.2d 710 (9th Cir. 1990) (holding that the agreement at issue was a franchise agreement not a security because "each franchisee's active management was essential to the success of his retail restaurant"); *Cordas v. Specialty Restaurants*, 470 F. Supp. 780, 788 (D. Or. 1979) ("[I]t is undeniable here that the plaintiff's managerial efforts were intended to have an important effect on her own success. Her efforts would also have some effect, however slight, on the success of the enterprise as a whole…. These factors are sufficient to preclude her from coverage under the Howey analysis.").

[36] *See Howey*, 328 U.S. at 296.

1. Provider Payments are based on the Network Providers' own efforts, not on the efforts of the Foundation or any other third party

The receipt of any Provider Payments, along with the magnitude of the payments, depends on a Network Provider's own efforts and their contributions to the Network, not the efforts of any promoter or manager.

Network Providers must expend significant efforts to participate in the Network. Connecting to the Network and maintaining a link require very real commitments of time, effort and expertise on the part of a Network Provider. As discussed, connecting to the Network requires technical expertise and willingness to assume financial risk, including a significant expenditure of resources. Even in best case scenarios, providers must purchase dedicated hardware, navigate the installation and connection process, and commit full teams of technical personnel to navigate the setup process. Once connected, those same providers must maintain those links and ensure that they meet the performance levels specified in their service level agreement in order to remain eligible for rewards. This is not simply plug-and-play and at no point are Network Providers passive participants in this endeavor.

Even once connected, their own performance is the "critical determinant of [their] success." *SEC v. Koscot Interplanetary, Inc.*, *supra* at 485. Once connected, the rewards distributions are determined algorithmically by calculating the Shapley value of the provider's contributions to the Network and applying that to the 2Z payments made by the Network's Users. This approach inherently ties payments to the incremental value that the Network Provider contributes to the Network's overall performance (through increased bandwidth and reduced latency). Network Providers do not passively earn a pro-rata share of any rewards pool. Instead, they must provide continuing efforts to meet their service levels in order to earn fees, and those fees they earn are directly determined by the value of their own efforts, similar to how hashpower determines rewards on a Proof of Work network.

At the same time, Network Providers are not relying on the managerial efforts of the Foundation or any other third party. The Foundation's role in a Network Provider's operations is nominal. The Foundation does not negotiate terms with Network Providers, engage in marketing campaigns to sell Network services, operate any fiber links, or otherwise perform the essential work of running the Network. The Foundation is also not a necessary person for the Network Providers to receive payment for their services. Provider Payments are determined programmatically—no sponsor or promoter calculates the returns, pays the returns or even plays a necessary role in their disbursement.

Instead, the Foundation's role focuses on educating the industry, coordinating among stakeholders and encouraging continued development of the Network by various contributors. Even where the Foundation's activities rise above the merely administrative, such as in making grants, interfacing with policymakers, or assisting Network Providers with onboarding, these activities are all fundamentally ancillary to the day-to-day services provided by the Network Providers.[37] While the Foundation's efforts may produce benefits enjoyed by Network Providers, they do not "give rise to the sort of dependence on others which underlies the [fourth] prong of the Howey test." *Williamson v. Tucker*, supra at 423.

Altogether, the Network Providers are not "[buying] a share" in the efforts of the Foundation or any other person, their own efforts are the "sine qua non of the [Network]." *SEC v. Glenn W. Turner Enters.*, supra at 482. At each step, the "undeniably significant" managerial efforts are performed by the Network Providers themselves.

[37] Facilitating bulk purchases of hardware devices, for example, is merely provided as a logistical convenience. It helps ensure that a new Network Provider may choose to enjoy faster delivery and preferential pricing for one step in the onboarding process. This is only a part of the Foundation's broader role in coordinating stakeholders across the DoubleZero ecosystem and, in any case, this assistance is insubstantial when compared with the broader set of efforts required to join the Network and maintain a link.

2. Computation Payments are based on the Resource Providers' own efforts, not on the efforts of the Foundation or any other third party

The same is true of the Computation Payments. The Resource Providers earn payments by contributing to the perpetuation of the Network with limited involvement by the Foundation or any other third party. As such, the "undeniably significant" managerial efforts are performed by the Resource Providers.

The Resource Providers themselves monitor and maintain the Network. Similar to the analysis in the Division's recent *Statement on Certain Proof-of-Work Mining Activities*, "[b]y adding their computational resources to the network" the Resource Provider is engaging in activities to secure the network, validate transactions on the DoubleZero Ledger, verify Network Providers' link performances and compute payment distributions, among other functions necessary for the network to function.[38] The Foundation has limited involvement in that process. Payments are also determined automatically by Protocol smart contracts. Further, the code relevant for the operations of the Resource Providers will be open sourced, not owned and provided by a third party. The Foundation does continue to support the development, security and adoption of the Protocol but, as with the Network Providers, those efforts are ancillary to the day-to-day operations of the Resource Providers.

Altogether, the "expectation to receive [Computation Payments] is not derived from any third party's "managerial or entrepreneurial efforts upon which the network's success depends."[39] Instead, the Computation Payments are "payments to the [Resource Provider] in exchange for services it provides to the network rather than profits derived from the entrepreneurial or managerial efforts of others."[40]

3. Neither group is relying on the efforts of the Foundation, any promoter or other third party

In either case, any efforts of the Foundation or other third parties do not rise to the level of the essential entrepreneurial or managerial efforts contemplated by *Howey*'s fourth prong.

As discussed above, any efforts by the Foundation or any other third party are nominal or limited, with little direct effect upon receipt by the participant of the benefits of the Network. *Lino v. City Investing Co.*, supra at 693. The Network Providers or Resource Providers are conducting their activities in the hopes of receiving payment in exchange for their services—not in order to earn passive returns from the Foundation's efforts. The Foundation's efforts are ministerial in nature and would not create an expectation of such profits. Additionally, the Foundation's marketing activities would not reasonably induce any such reliance. The Foundation's marketing has prioritized education and technical explanations. The Foundation has not promoted, and will not promote, the Network or 2Z as a way for Network Providers, Resource Providers or other 2Z holders to earn passive investment returns. As discussed in Section I(C)(4), the Foundation will never characterize 2Z as, or imply that 2Z is, an investment.

This is differentiable from past cases where the courts have found a transaction in an investment contract. For example, in *SEC v. Edwards*, the Supreme Court found a transaction in an investment contract was present where a payphone operator offered a sale-and-leaseback arrangement to the public, paying a fixed rate of return and marketing it as an "exciting business opportunity" with "potential for ongoing revenue generation." 540 US. 389 (2004). Purchasers "were not involved in the day-to-day operation of the payphones they owned" and the operator "selected the site for the phone, installed the equipment, arranged for connection and long-distance service, collected coin revenues, and maintained and repaired the phones." *Id.* In that case, the purchasers were acting under an expectation, encouraged by the operator, that the operator would perform the work to earn them returns.

[38] SEC, *Statement on Certain Proof-of-Work Mining Activities* (2025), https://www.sec.gov/newsroom/speeches-statements/statement-certain-proof-work-mining-activities-032025.
[39] *Id*.
[40] *Id*.

Here, the Foundation does nothing of the sort and neither Network Providers nor Resource Providers would have a similar expectation. Operating as a Network Provider or a Resource Provider does not require contracting with the Foundation. The Foundation does not install, operate, maintain, repair or otherwise have any operational involvement with the fiber optic links in the Network, beyond providing coordination and educational services, and facilitating group orders of equipment from third party manufacturers (without earning any revenue itself). The Foundation also does not, and will not, market or promote any opportunities for passive returns. Neither the Foundation's activities nor its marketing gives the Network Providers or the Resource Providers a reasonable expectation of profit primarily from the entrepreneurial or managerial efforts of the Foundation. They enter into these arrangements with the understanding that they will need to perform their own work.

Stated simply, participants do not rely on the Foundation to operate the Network, the Network Providers and Resource Providers do that themselves. Their own efforts are far weightier and the "sine qua non" without which the Network would not operate.

4. The potential development of a secondary market does not alter the analysis

As discussed in Section I(D)(6), it is likely that a secondary market will develop for 2Z, but purchases in that secondary market would not alter the analysis of the Programmatic Transfers.

2Z is designed for consumptive use on the Network, and not as an investment asset. It is well established law that a purchaser "purchas[ing] a commodity for personal consumption" is distinguishable from "a security transaction . . . where one parts with his money in the hope of receiving profits from the efforts of others…" *United Housing Foundation, Inc. v. Forman*, 421 U.S. 837, 853 (1975). To make this determination, courts conduct an objective inquiry into the character of the instrument or transaction offered based on what the purchasers were "led to expect." *Howey*, 328 U.S. at 293. *See also Landreth Timber Co. v. Landreth*, 471 U.S. 681, 689 (1985) (concluding that the "economic realities of the transaction" showed that the purchasers had purchased a commodity for personal consumption).

Marketing materials in particular have been critical to both courts and the Commission in examining the expectations of purchasers. For example, in *Munchee*, the Commission found an investment contract based on the promoter "emphasiz[ing] the economic benefits to the purchaser [of a token] to be derived from the managerial efforts of the [token's] promoter." *Munchee Inc.*, Securities Act Release No. 10445 at 10, Admin. Proc. File No. 3-18304 (Dec. 11, 2017). For comparison, in *Forman*, the apartment cooperative's marketing materials attracted investors "by the prospect of acquiring a place to live, and not by financial returns on their investments". 421 U.S. at 853. *See also TurnKey Jet, Inc.*, SEC Staff No-Action Letter (Apr. 3, 2019) (in SEC Staff response, noting that the token "is marketed in a manner that emphasizes the functionality" of the token and "not the potential for the increase in the market value" of the token).

Here, based on the characteristics of 2Z and its marketing, secondary purchasers will be primarily purchasing 2Z for consumption.

2Z is designed for consumptive use. As depicted in Section I(D), the primary sellers of 2Z on secondary markets would be Network Providers and Resource Providers desiring to sell the 2Z earned pursuant to the Programmatic Transfers, while the primary buyers would be Users intending to spend the 2Z to pay fees on the Network. The primary driver of demand for 2Z in such secondary marketplaces would be demand for the Network itself. The Network offers speeds well in excess of the public internet, which promises substantial utility for a broad group of participants in blockchain ecosystems. 2Z will help these participants access the Network and enjoy its benefits for their operations. At the same time, 2Z is specifically designed to exclude any passive value accrual mechanisms—it does not incorporate dividends, a deflationary token supply, programmatic buybacks, or any similar functionality.

The Foundation's marketing has been informational and educational in nature and, when discussing 2Z, invariably emphasizes its utility in the Network. Marketing has not presented, and will not present, the Token as an investment product and the Foundation has not claimed that 2Z will increase in

value. In fact, the Validator Sale was designed, and future Treasury Sales will be designed, to deter speculation and to limit participation to the Network's intended users. Thus, the marketing-related concerns expressed by the courts and the Commission in other circumstances are entirely absent and purchasers should be those attracted by "the prospect of acquiring [bandwidth on the Network]." *Forman*, 421 U.S. at 853.

Even though the primary purchasers of 2Z will be Users, it is still possible that speculators may also buy and sell 2Z on such secondary markets, notwithstanding 2Z's design and the Foundation's marketing efforts. Any such speculation would not be based on a reasonable expectation of profit from the entrepreneurial or managerial efforts of the Foundation, the Network Providers, the Resource Providers or any other third party. No one person is exerting the "undeniably significant" managerial efforts that determine the price of 2Z. Neither the Foundation nor any other person has sufficient discretionary control over the Network, or is otherwise engaging in individual efforts that could reasonably be called the "critical determinants of success" of the Network. Instead, the operation of the Network is made possible via a collective effort by a dispersed group of stakeholders without a centralized promoter providing the efforts contemplated by *Howey*'s fourth prong.

Speculators could alternatively hope for network effects to cause appreciation in the value of 2Z over time. If more Network Providers connect to the Network, its performance will improve, attracting more Users. Increased User demand for Network services could in turn drive demand for 2Z and affect its market price, thereby incentivizing more Network Providers to join the Network. However, even then, anticipation of such a price increase is not in reliance on the entrepreneurial or managerial efforts of others and does not render 2Z a security. Many non-security assets have network effects (for example, a social media handle may become more valuable if more users join a particular service), but that does not turn them into securities. As discussed above, courts have distinguished these kinds of shared fortunes due to market forces from deliberate pooling managed by a promoter. *See Noa v. Key Futures* 638 F.2d 77, 79 (9th Cir. 1980); *see also SEC v. Belmont Reid & Co.*, 794 F.2d 1388, 1391 (9th Cir. 1986) (the Ninth Circuit concluded that the final *Howey* prong was not satisfied since the investors expected profit from market fluctuations, not the promoter's managerial efforts).

III. Conclusion

Based on the foregoing, we hereby respectfully request that the Division confirm that it will not recommend that the Commission take any enforcement action if Programmatic Transfers are conducted in the manner and under the circumstances described above, without registration under Section 5 of the Securities Act, and 2Z is not registered as a class of equity securities under Section 12(g) of the Exchange Act.

If for any reason the Division does not concur with any of the views discussed in this letter, we would appreciate an opportunity to discuss the matter with the Division before it issues a written response to this letter. If the Division needs any additional information regarding this letter, or if we may otherwise be of assistance, please feel contact the undersigned by telephone at (305) 724-0529 or by email at dcolla@cooley.com with any questions or comments.

Sincerely,

/s/ Derek O. Colla

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