



---

**PROGRAM MATERIALS**  
**Program #29191**  
**December 18, 2019**

## **Digital Currency and its Evolving Future of Litigation**

**Copyright ©2019 by Joel Wertman, Esq. and Allison  
Beatty, Esq. - Winget, Spadafora & Schwartzberg, LLP  
All Rights Reserved.  
Licensed to Celesq®, Inc.**

---

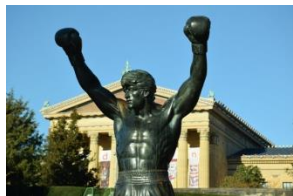
**Celesq® AttorneysEd Center**  
**[www.celesq.com](http://www.celesq.com)**

**5301 North Federal Highway, Suite 180, Boca Raton, FL 33487**  
**Phone 561-241-1919      Fax 561-241-1969**



Winget | Spadafora | Schwartzberg | LLP

# Digital Currency and Its Evolving Future of Litigation



Joel M. Wertman  
Allison Beatty



# What we will be talking about

Virtual currency and related litigation is a history that is being written in real time and may, like evolving technology tends to do, take us to places that we can't now imagine. This presentation will discuss the evolving landscape of virtual currency and, in particular, its possible future in litigation. We will broadly discuss different types of virtual currency as a basic primer. We also delve into recent notable state, SEC and FINRA regulatory matters and guidance as well as speculating on the future of litigation from securities regulators and public customers related to virtual currency.



# What are virtual currencies?

“According to the Commodity Futures Trading Commission, virtual currencies are ‘a digital representation of value that functions as a medium of exchange, a unit of account and/or a store of value.’ In other words, each currency is represented by alphanumeric codes that may be generated and recorded on a blockchain network and recognized as a method of payment by users on that network.”

*[https://www.cftc.gov/sites/default/files/idc/groups/public/@customerprotection/documents/file/oceo\\_aivc0218.pdf](https://www.cftc.gov/sites/default/files/idc/groups/public/@customerprotection/documents/file/oceo_aivc0218.pdf)*



# What is virtual currency?

- Electronic Money
- Not issued or backed by U.S. Government
- Nobody is required to accept but...
- Some people will agree to accept and treat like other forms of money



# Cryptocurrency?

“One popular type of virtual currency is known as cryptocurrency, or simply crypto. The term crypto refers to the process of cryptography, which is a mathematically intensive encryption process designed to enhance data protection and authentication. Some people are interested in cryptocurrencies for their perceived anonymity and ability to keep transactions secret, and one of the earliest and perhaps most well-known cryptocurrencies is bitcoin.”

*<https://www.finra.org/investors/insights/virtual-currencies>*



# How does it work?

## FINRA Guidance?

<https://www.finra.org/investors/insights/bitcoin-basics-9-things-you-should-know-about-digital-currency>

<https://www.finra.org/investors/alerts/bitcoin-more-bit-risky>

<https://www.finra.org/investors/alerts/cryptocurrency-related-stock-scams>

<https://www.finra.org> › [investors](#) › [insights](#) › [virtual-currencies](#)

# Why does any of this matter?

## Bitcoin Historic Prices (BTC)

- 1/16/15 \$201 per Bitcoin
- 12/15/17 \$18,479 per Bitcoin

If you bought \$11,000 worth of Bitcoin on 1/16/15, it was worth \$1,011,288 on 12/15/17

NOTE: fell below \$4,000 by early 2019





## Bitcoin: the example that you already (sort of) know

Bitcoin is a cryptocurrency developed in 2009 by an anonymous person or group of persons operating under the nickname Satoshi Nakamoto. Like other cryptocurrencies, bitcoin is distinct from "fiat currencies" such as the dollar, euro, renminbi or yen. Unlike a fiat currency, bitcoin isn't represented or organized by a physical paper unit or coin. Rather, each bitcoin is a unique alphanumeric string of computer code. Rather than being issued like fiat currencies by a central bank, a currency such as bitcoin is controlled by technology that determines how many bitcoins are produced and how transactions that use bitcoin are recorded. Proponents of the crypto world believe that bitcoin can be an attractive alternative to fiat currencies because it is not controlled by any central bank or government.

<https://www.finra.org/investors/insights/virtual-currencies>



# More Bitcoin

Bitcoin is exchanged on the Bitcoin Network, a peer-to-peer payment system that operates using cryptography. Users can send and receive bitcoins by broadcasting digitally signed messages to the network using a cryptocurrency wallet. Transactions on the Bitcoin Network are recorded on a publicly distributed ledger called a blockchain, and validated by a proof-of-work system called mining.

*[https://www.cftc.gov/sites/default/files/idc/groups/public/@customerprotection/documents/file/oceo\\_aivc0218.pdf](https://www.cftc.gov/sites/default/files/idc/groups/public/@customerprotection/documents/file/oceo_aivc0218.pdf)*



# Blockchain

Blockchain, also known as distributed ledger technology, is the technology that powers bitcoin and many other virtual currencies. In the case of bitcoin, blockchain functions through the participation of many individuals who offer their computing power to maintain the Bitcoin Network and record transactions (for instance, when someone trades or spends bitcoins). Those who employ math and technology to create new bitcoins are known as "miners."

Miners engage in complex computing problems to facilitate verification and posting of bitcoin transactions. As a reward for solving these computing problems, a bitcoin miner is awarded a new bitcoin. All of this computing takes a lot of energy, which is why today's mining centers tend to be located in regions where energy is inexpensive.

Blockchain technology is the critical feature of bitcoin because it prevents users of bitcoin from double-spending their coins and creates a permanent record of transactions.

*[https://www.cftc.gov/sites/default/files/idc/groups/public/@customerprotection/documents/file/oceo\\_aivc0218.pdf](https://www.cftc.gov/sites/default/files/idc/groups/public/@customerprotection/documents/file/oceo_aivc0218.pdf)*



# Blockchain (continued)

- ❑ It's a distributed ledger—a database of all transactions that is decentralized and immutable. Anyone can download and see the database. No one person can rewrite it. Transactions will never suddenly disappear.
- ❑ “You can only add to it, you can't edit it” - Dr. Campbell Harvey (Duke University)
- ❑ Transactions are grouped in blocks and then “chained” together through cryptographic links. If you break any of the individual components, it's immediately detected and the correct block is substituted in. The system helped solve a problem that plagued early cryptocurrencies—people spending the same money more than once.

*<https://www.finra.org/investors/insights/bitcoin-basics-9-things-you-should-know-about-digital-currency>*



# Blockchain (more)

## What's in a block?

- hasher point as a link to a previous block
- timestamp
- transaction data

[<< Previous](#) **Blocks mined on:08/10/2019** [Next >>](#)

Height	Time	Relayed By	Hash	Size (kB)
<a href="#">598498</a> (Main Chain)	2019-10-08 19:01:01	<a href="#">BTC.com</a>	0000000000000000009e125e2a5a2b0fd9b42cb61489dfe74fda4eb2b0bd8c	1,241.44
<a href="#">598497</a> (Main Chain)	2019-10-08 18:52:16	<a href="#">BitClub Network</a>	00000000000000000004806fed847db6810d540795a8fb8886c383b57c787839	1,254.4
<a href="#">598496</a> (Main Chain)	2019-10-08 18:48:54	<a href="#">AntPool</a>	0000000000000000000144bc0097e40d16f887fa69973977dd321d566ce29d621	1,349.27



# Are the Regulators Interested?

**<https://www.sec.gov/spotlight/cybersecurity-enforcement-actions>**



# SEC actions

## **In the Matter of Paragon Coin, SEC administrative proceeding 3-18897**

- Order was issued on November 16, 2018 imposing \$250,000 monetary penalty and a cease and desist order.
- Paragon is an online entity that was purportedly established to implement blockchain technology in the cannabis industry.
- It sold digital coins issued on a blockchain but did not register the offering nor attempt to qualify for a registration exemption. Digital tokens were sold to the general public via private agreements.



# SEC actions

There are unregistered securities actions dating back a number of years

- June 2014 SEC charged the co-owner of two Bitcoin-related websites for publicly offering shares in the two ventures without registering them.
- An SEC investigation found that Erik T. Voorhees published prospectuses on the Internet and actively solicited investors to buy shares but he failed to register the offerings with the SEC as required under the federal securities laws.
- Investors paid for their shares using Bitcoin, a virtual currency that can be used to purchase real-world goods and services and exchanged for fiat currencies on certain online exchanges. The profits ultimately earned by Voorhees through the unregistered offerings totaled more than \$15,000.

*<https://www.investor.gov/additional-resources/news-alerts/press-releases/sec-charges-bitcoin-entrepreneur-offering>*





# SEC actions

There are unregistered securities actions dating back a number of years

- December 2014 sanctioned a computer programmer for operating two online venues that traded securities using virtual currencies Bitcoin or Litecoin without registering the venues as broker-dealers or stock exchanges.
- The programmer also was sanctioned for conducting unregistered offerings.
- He significantly cooperated with the SEC's investigation and agreed to settle the case by paying more than \$68,000 comprising his profits from the unregistered venues plus interest and a penalty. He also is barred from the securities industry.

<https://www.investor.gov/additional-resources/news-alerts/press-releases/sec-sanctions-operator-bitcoin-related-stock>



# SEC actions

## **Securities and Exchange Commission v. Jonathan C. Lucas, No. 19-civ-08771**

- SEC charged the former founder of a purported online adult entertainment marketplace with orchestrating a fraudulent initial coin offering
- According to the SEC's complaint, Defendant raised approximately \$63,000 in cryptocurrency from more than 100 investors through the fraudulent offer and sale of unregistered digital securities
- As alleged in the complaint, Defendant made numerous materially false statements in a whitepaper and online to induce investors to participate in the ICO. He claimed that a "working-beta" version of the company's adult-entertainment platform existed when one did not, presented a fictitious management team, and misrepresented his own experience.



# SEC actions

## **Securities and Exchange Commission v. Reginald Middleton, No. 19-cv-4625 (S.D. NY)**

- obtained a final judgment against the proprietors of the VERI Initial Coin Offering (ICO), who consented to an injunction against future violations of the antifraud provisions of the federal securities laws and are ordered to disgorge \$7,891,600 in ill-gotten gains from the VERI ICO plus \$582,535 in prejudgment interest, and Middleton is ordered to pay a \$1,000,000 civil penalty.
- fraudulently raised millions of dollars in virtual currency from the unregistered sales of securities called "VERI" based on a series of false and misleading statements to potential and actual investors, including misrepresentations about the potential profitability and viability of Veritaseum's purported operations, the use of funds raised in the VERI ICO, and the amount of funds raised in the VERI IC
- EC also alleged that Middleton manipulated the price and volume of VERI on secondary digital-asset trading platforms during the VERI ICO



# SEC actions

## SEC v Telegram Group, U.S.D.C. for S.D. N.Y., case no. 19-CIV-9439

- Obtained temporary restraining order against two offshore entities conducting an alleged unregistered, ongoing digital token offering in the U.S. and overseas that has raised more than \$1.7 billion of investor funds.
- Sold approximately 2.9 billion digital tokens called “Grams” at discounted prices to 171 initial purchasers worldwide, including more than 1 billion Grams to 39 U.S. purchasers. Telegram promised to deliver the Grams to the initial purchasers upon the launch of its blockchain by no later than October 31, 2019,
- “We have repeatedly stated that issuers cannot avoid the federal securities laws just by labeling their product a cryptocurrency or a digital token,”
- “Telegram seeks to obtain the benefits of a public offering without complying with the long-established disclosure responsibilities designed to protect the investing public.”



# SEC actions

## SEC v. Shavers

- federal district court entered final judgment against an online entity created and used to operate a Ponzi scheme through which investors were defrauded out of at least 764,000 bitcoins which, at the time, were worth more than \$4.5 million.
- The defendant solicited investors in online chat rooms and an online forum dedicated to Bitcoin. The defendant promised returns of 7% per week (!) based on trading Bitcoin against the U.S. Dollar.
- He actually just used the new bitcoin received from investors to pay supposed returns and his personal use.
- This matter also resulted in the first U.S. criminal securities fraud case related to digital currency as the perpetrator was sentenced to 1 ½ years in prison.



# SEC actions

## Trading Suspension

### Sunshine Capital - April 12-26, 2017

- “lack of current and accurate information concerning the securities of Sunshine Capital”
- “questions regarding the accuracy of assertions by [Sunshine Capital] in press releases to investors concerning, among other things, the liquidity and value of the company’s assets, namely DIBCOINS, a cryptocurrency.”
- “The Commission is of the opinion that the public interest and the protection of investors require a suspension of trading in the securities of the above-listed company.”



# SEC actions

## Why Might There Be a Trading Suspension?

- unrealistic predictions of returns and claims made through press releases, spam email, telemarketing calls or posted online or in social media threads; “pump and dump”
- questioned the accuracy of liquidity and value of a company’s assets in cryptocurrency
- huge spikes in price: this could signal potential manipulation or fraud



# SEC Guidance

## Thinking About Buying the Latest New Cryptocurrency or Token?

<https://www.investor.gov/additional-resources/specialized-resources/directors-take/cryptocurrency>

- Trendy investments are especially ripe for fraudsters so be aware there is a real risk of fraud.
- If you do choose to purchase digital currencies or tokens, recognize that they are new. There may be significant risk involved in putting your money into something that hasn't been around very long.
- Proceed with caution, do your research, evaluate your financial goals and most importantly, don't flip a coin when you're making investment decisions.





# SEC Guidance

## Ponzi schemes Using virtual Currencies

[https://www.sec.gov/investor/alerts/ia\\_virtualcurrencies.pdf](https://www.sec.gov/investor/alerts/ia_virtualcurrencies.pdf)

- High investment returns with little or no risk
- Overly consistent returns
- Unregistered investments
- Unlicensed sellers
- Secretive and/or complex strategies and fee structures
- No minimum investor qualifications
- Issues with paperwork
- Difficulty receiving payments



# SEC Guidance

## Statement on Cryptocurrencies and Initial Coin Offerings by Chairman Jay Clayton

<https://www.sec.gov/news/public-statement/statement-clayton-2017-12-11>

- Who exactly am I contracting with?
  - Who is issuing and sponsoring the product, what are their backgrounds, and have they provided a full and complete description of the product? Do they have a clear written business plan that I understand?
  - Who is promoting or marketing the product, what are their backgrounds, and are they licensed to sell the product? Have they been paid to promote the product?
  - Where is the enterprise located?
- Where is my money going and what will it be used for? Is my money going to be used to “cash out” others?
- What specific rights come with my investment?
- Are there financial statements? If so, are they audited, and by whom?
- Is there trading data? If so, is there some way to verify it?
- How, when, and at what cost can I sell my investment? For example, do I have a right to give the token or coin back to the company or to receive a refund? Can I resell the coin or token, and if so, are there any limitations on my ability to resell?
- If a digital wallet is involved, what happens if I lose the key? Will I still have access to my investment?
- If a blockchain is used, is the blockchain open and public? Has the code been published, and has there been an independent cybersecurity audit?
- Has the offering been structured to comply with the securities laws and, if not, what implications will that have for the stability of the enterprise and the value of my investment?
- What legal protections may or may not be available in the event of fraud, a hack, malware, or a downturn in business prospects? Who will be responsible for refunding my investment if something goes wrong?
- If I do have legal rights, can I effectively enforce them and will there be adequate funds to compensate me if my rights are violated?



# SEC Guidance

## Framework for “Investment Contract” Analysis of Digital Assets, Issued April 3, 2019

- Guidance under the *Howey test*.
  - An investment of money
  - Common Enterprise
  - Reasonable Expectation of Profits Derived from Efforts of Others



# SEC Actions

## In the matter of Block.one, Sept. 30, 2019, Release no. 10714

- SEC settled charges against Block.one for conducting an unregistered initial coin offering of digital tokens (ICO) that raised the equivalent of several billion dollars over approximately one year. The company agreed to settle the charges by paying a \$24 million civil penalty.
- “Block.one did not provide ICO investors the information they were entitled to as participants in a securities offering,” said Steven Peikin, Co-Director of the SEC’s Division of Enforcement. “The SEC remains committed to bringing enforcement cases when investors are deprived of material information they need to make informed investment decisions.”
- SEC’s order finds that Block.one violated the registration provisions of the federal securities laws and requires it to pay a \$24 million civil monetary penalty. Block.one consented to the order without admitting or denying its findings.
- **Concluded that securities laws violated by offering unregistered securities**
  - BUT
    - Did not have to make rescission offer; or
    - Register tokens under the Securities Exchange Act of 1934

<https://www.sec.gov/litigation/admin/2019/33-10714.pdf>



# FINRA actions

**FINRA v Ayre**, disciplinary proceeding no. 2016049307801

- FINRA's first disciplinary action involving cryptocurrencies
- charging him with securities fraud and the unlawful distribution of an unregistered cryptocurrency security called HempCoin
- In the complaint, FINRA alleges that, from January 2013 through October 2016, Ayre attempted to lure public investment in his worthless public company, Rocky Mountain Ayre, Inc. (RMTN) by issuing and selling HempCoin – which he publicized as “the first minable coin backed by marketable securities” – and by making fraudulent, positive statements about RMTN's business and finances.



# FINRA Guidance

## Bitcoin: More than a Bit Risky

<https://www.finra.org/investors/alerts/bitcoin-more-bit-risky>

- Risks? (not legal tender, hacking, illegality)
- Speculation? (impossible to predict)
- Scams? (newsletters or press releases might claim a company has a viable product or service, but the company's own filings with the SEC show low revenues and describe the company as a development stage entity)



# FINRA Guidance

## Here's How to Avoid Crypto Stock Scams

<https://www.finra.org/investors/insights/avoid-crypto-stock-scams>

- Do not say "yes" to cryptocurrency stock purchases from an aggressive cold caller
- Be suspicious of anyone who makes guarantees that an investment will perform a certain way, or makes pushy sales pitches
- Check registration status
- Be wary of stocks with huge spikes in price



# FINRA Guidance

## FINRA Regulatory Notice 19-24

- In 2018, FINRA undertook a multifaceted outreach initiative to engage with member firms regarding current and planned activities relating to digital assets, such as cryptocurrencies and other virtual coins and tokens.
- FINRA requested that communication be ongoing and asked that, until July 31, 2019, each member keep its Regulatory Coordinator informed of new activities or plans regarding digital assets, including cryptocurrencies and other virtual coins and tokens
- Until July 31, 2020, FINRA encourages firms to promptly notify their Regulatory Coordinator in writing (including email) of these activities





# Regulators' Reaction: Operation Cryptosweep

- Joint effort between securities regulators in North America to coordinate investigations of cryptocurrency offerings
  - Started in April 2018 – led to more than 330 inquiries and investigations and at least 85 enforcement actions related to ICOs or cryptocurrency investment products



# New Jersey

## Grewal v Pocketinns, Inc., civil action no. C-151-19

- State of NJ filed a three-count lawsuit against a Princeton-based blockchain-driven online rental marketplace, and its president.
- The lawsuit alleges that Defendants offered and sold more than \$400,000 of unregistered securities in the form of a cryptocurrency to 217 investors.
- Such was sold pursuant to an exemption from registration that requires all purchasers to be verified as accredited investors.
- It is alleged that Defendants failed to take reasonable steps to comply with the requirement to ensure that the investors were accredited.
- Only 11 of the 217 investors who purchased the PINNS Tokens provided documentation to substantiate their accredited investor status, according to the State's Complaint.



# Maryland

## In the Matter of Browsers Lab, LLC., case no. 2018-0312

- Attorney General's office issued a cease-and-desist order against Browsers Lab, LLC ("BL") that was operating out of an apartment in Windsor Mill
- Found to have been selling unregistered securities in the form of initial coin offerings called BAL Tokens
  - BL was not a registered broker-dealer
  - Misrepresented Tokens as non-securities



# Canada

- Also analyzing whether crypto is subject to Canada's securities legislation

[https://www.osc.gov.on.ca/en/SecuritiesLaw\\_csa\\_20190314\\_21-402\\_crypto-asset-trading-platforms.htm](https://www.osc.gov.on.ca/en/SecuritiesLaw_csa_20190314_21-402_crypto-asset-trading-platforms.htm)

- Regulatory Actions:
  - **PlexCoin** - subject of regulatory action by both Canadian and U.S. regulators since 2017
  - **ZZZ Coin** – aimed to fight against “volatility on the cryptocurrency markets”



# Customer Complaints

- In addition to regulatory matters, customers will complain
- Causes of Actions:
  - Unregistered Offer and Sale of Securities in violation of State and Federal Securities Laws
  - Suitability Claims
  - Selling Away
- In re Ripple Labs Inc. Litigation, Case no. 4:18-cv-06753 (N.D. Cal., 2019)



# Industry Reaction: Crypto Rating Council

- An organization created to help crypto traders comply with U.S. securities laws
  - SEC does not endorse, but is aware of the rating.
  - Do not publish 5-rated assets.
- Sample assets tested & their scores:
  - Bitcoin Score: 1.00.
    - Absence of marketed token sale and corresponding marketing efforts
    - Decentralized usage and development
  - XRP Score: 4.00.
    - Usage of securities-like language
    - Marketing of token suggesting an opportunity to earn profits
    - Sale of token prior to the existence of token usage



# What's next?

- Crypto-backed loans

Bitrue is a Singapore based cryptocurrency exchange that recently started offering crypto-backed loans to users that pledge cryptocurrencies held on the platform

Users will be able to pledge bitcoin (BTC), XRP and stablecoins to receive loans in BTC, XRP, ether (ETH) and Tether (USDT), per the announcement. Bitrue said it will add support for more altcoins in the future.

The interest rate on these loans will be 0.04% daily, with no limit to the repayment period of the collateral



# Spencer Dinwiddie

- In partnership with crypto firm Paxos, NBA guard Spencer Dinwiddie is looking to raise between \$4.95-\$13.5 million by tokenizing the first year of his three-year, \$34.5 million contract via a Reg. D 506(C) offering.
- As part of Dinwiddie's plan, he would give up some of his future earnings in exchange for a lump sum payment. His goal is to get others to invest in his on-court performance. If Dinwiddie were to decline his \$12.3 million option for the 2021-22 season and land a bigger contract, both he and his investors would benefit.
- Dubbed the DREAM Fan Shares platform, investors in the securities offering will earn interest through Dinwiddie's bi-monthly paycheck. The minimum buy-in is \$150,000. <https://dreamfanshares.com/sd8/>
- Only accredited investors – those with a net worth of at least \$1 million or income of at least \$200,000 in each of the last two years – can participate in the token sale.
- “I think blockchain lets us do that more [efficiently], it's more transparent. No one's going to think we're going to run off with their money.”





# Spencer Dinwiddie



## Spencer Dinwiddie

Invest in the first ever security represented by a Professional Athlete Investment Token (PAInT), based upon Spencer's contract with the Brooklyn Nets.

Apply to Invest

Investments in the securities represented by Spencer's PAInT are illiquid and carry the risk of complete loss of capital. Investors should review the risk factors within the offering documents before considering an investment.

### Highlights

2nd round pick in 2014 NBA Draft  
Currently playing for Brooklyn Nets (#8, Point Guard)  
2018 All-Star Weekend "Skills Challenge" winner  
First player in NBA history to record 35-plus points, 10-plus assists, and seven 3-point field goals made off the bench in a game  
Recently signed 3-year contract extension beginning in October 2019  
Blockchain enthusiast who believes that this emerging technology offers the potential to help generate and preserve wealth for athletes, artists, and influencers

### Terms

Minimum Investment  
\$150,000

Open Date  
October 14, 2019

Minimum Offering Amount  
\$4,950,000 (33 tokens)

Maximum Offering Amount  
\$13,500,000 (90 tokens)

Offering  
Reg. D 506(C)

Funds Accepted In\*  
BTC, ETH, USD

\*Please review the terms and conditions of subscriptions in cryptocurrency and the risk factors.



# Spencer Dinwiddie

You should carefully review the Offering Memorandum for a full discussion of the terms, conditions, and risk factors associated with this offering.

## Apply to Invest

Accredited investors who would like to participate in Spencer's PAInT offering can learn more by signing up below.

[Sign Up to Learn More](#)



Enabling fans to  
invest in their  
favorite stars



[Privacy Policy](#) | [Terms](#)

This site is operated by DREAM Fan Shares LLC ("DREAM Fan Shares" or "DFS"), which has developed a platform to support the issuance of securities by athletes, artists, and influencers that are represented by digital tokens. DFS is not the issuing entity, is not a registered broker-dealer, and is not acting in a regulated capacity in any way in connection with the proposed issuance of the securities referenced on this website. Securities referenced on this site are offered through North Capital Private Securities ("NCPS"), a registered Broker-Dealer and member of [FINRA](#) and [SIPC](#), located at 623 East Ft. Union Blvd., Suite 101, Salt Lake City, UT 84047, and any securities referenced on this site will be offered through NCPS. You can view the NCPS [BrokerCheck](#) record here. Neither DREAM Fan Shares nor NCPS nor any of their respective officers, directors, agents and employees gives investment advice, endorses, or provides analysis or recommendations with respect to any securities referred to on the DFS platform. Nothing on this website should be construed as an offer to sell, a distribution, or a solicitation of an offer to buy any securities. Investments on DREAM Fan Shares are illiquid and loss of invested capital is possible. Please review risk factors for private placements [here](#).



# Spencer Dinwiddie

## PRIVATE PLACEMENT RISKS

INVESTMENTS IN PRIVATE PLACEMENTS ARE HIGHLY SPECULATIVE AND INVOLVE A HIGH DEGREE OF RISK. INTERESTS SHOULD NOT BE PURCHASED BY ANY PERSON WHO CANNOT AFFORD THE LOSS OF ITS ENTIRE INVESTMENT. YOU SHOULD CAREFULLY CONSIDER THE RISKS DESCRIBED BELOW, AS WELL AS SPECIFIC RISKS IN THE OFFERING MATERIALS, WHEN EVALUATING WHETHER TO MAKE AN INVESTMENT. THE RISKS DESCRIBED BELOW ARE NOT THE ONLY RISKS ASSOCIATED WITH AN INVESTMENT. YOU SHOULD ALSO CONSULT WITH YOUR OWN LEGAL, TAX AND FINANCIAL ADVISORS ABOUT AN INVESTMENT IN THE INTERESTS. IF ANY OF THE FOLLOWING RISKS ACTUALLY OCCUR, THE FINANCIAL CONDITION AND RESULTS OF OPERATION COULD BE MATERIALLY AND ADVERSELY AFFECTED AND YOU COULD LOSE ALL OR PART OF YOUR INVESTMENT.



# Spencer Dinwiddie

**Reliance on Blockchain Technology** The securities offered via the Dream Fan Shares platform are expected to be represented by digital blockchain-based tokens that supplement and are redundant with traditional shareholder records maintained by us or our Transfer Agent in closed, proprietary systems. They will be effectively entries in a distributed ledger maintained on a blockchain network for information purposes. The blockchain networks used to manage and transfer such digital tokens are highly technical and complex. The software used to maintain these networks is typically open source and subject to changes that are outside of our control. This software may also contain “bugs” or vulnerabilities which could adversely impact the accessibility or transferability of such digital tokens, or which could subject the tokens to loss or theft. Successful transfer of these digital tokens is dependent on the ability of a blockchain network to store, retrieve, process and manage a sufficient amount of data to allow for such transactions, and may rely upon other systems and infrastructure on which the blockchain network depends. There is also no guarantee that any particular blockchain will continue to exist or be successful. This could lead to disruptions that could negatively affect the value of the securities.



# Spencer Dinwiddie

- If the initial offering is a success, Dinwiddie might later utilize offering methods that are not limited to accredited investors. Regulation A of the Securities Act of 1933, for example, permits a limited involvement of non-accredited investors.
- Marc Stein of the *New York Times* reported in September that the NBA rejected Dinwiddie's proposal because the collective bargaining agreement states "no player shall assign or otherwise transfer to any third party his right to receive compensation from the team under his uniform player contract."
- According to Shams Charania of The Athletic, the league is attempting to work with Dinwiddie and "find common ground," but if Dinwiddie goes through with his plan without league approval, he could be subject to contract termination, fines or suspension without pay.



# Tokenized Athlete Contracts continued...

## Could this work in other sports?

- NBA contracts are guaranteed but what if there is a labor dispute? Bad conduct voids the contract?
- Leagues could worry about potential liability to it and teams. An investor could eye the league and teams as “deep pocket” co-defendants.
- Most NFL contracts are not guaranteed
- What about prize based sports like golf?
- What about single event payoffs like UFC?
- Could you tokenize multi-year endorsement deals?



# Other forms of entertainment?

## David Bowie?

- In 1997, Bowie issued the so-called “**Bowie Bonds**,” with a life of 10 years and an annual interest rate of 7.9%. The bonds were backed by the rights from the 25 records Bowie recorded before 1990
- Bowie raised \$55 million, part of which he used to buy out his former manager’s rights over some of his songs.
- The Internet and online music helped caused record sales to plummet and undermined the bond’s profitability. In 2004 Moody’s downgraded the bond to just one notch above junk bond.



# Tax Issues

- IRS Notice 2014-21
- U.S. v Coinbase, 2017 WL 5890053 (N.D. Cal. 2017)
- <https://www.irs.gov/newsroom/irs-has-begun-sending-letters-to-virtual-currency-owners-advising-them-to-pay-back-taxes-file-amended-returns-part-of-agencys-larger-efforts>





# Tax Issues

- Argentina's financial regulator introduced cryptocurrency tax rulings in 2019
- Requires crypto exchanges to provide details of account holders' wallet balances
  - On a monthly basis
  - In Argentine pesos, not cryptocurrencies



# Litigation in Other Countries

## Norwich Crown Court v. Elliot Gunton

- U.K. matter involving sale of stolen data
- 20 month prison term and \$485,000 paid back
- discovery reportedly made during a routine visit to Gunton's home due to a Sexual Harm Prevention Order imposed by the court for previous offenses
- police also allegedly found that he advertised compromised data and blackhat hacking services for \$3,000 in Bitcoin
- he is explicitly prohibited from using incognito mode, private browsing or other similar privacy-protecting measures, alongside VPNs or the Tor network



# Litigation in Other Countries

## Leumi Bank v. Bits of Gold

- Israeli Supreme Court matter
- Leumi Bank unsuccessfully attempted to block account of crypto currency exchange due to regulatory concerns
- In 2017, the Israeli Supreme Court previously ruled in favor of Leumi in a separate case against Bits of Gold, in which the bank restricted the exchange's account on the grounds that bitcoin transactions could not comply with the country's anti-money laundering laws
- this ruling sets precedent for Israeli cryptocurrency firms to legally use traditional banking services in the region



# Litigation in Other Countries

## Israeli Law continued....

- A special committee formed in 2017 to develop proper regulations for cryptocurrencies
- Early 2019 presented its report to Israel Securities Authority designed to develop the crypto sector and protect the rights of investors
- Committee recommends imposing disclosure requirements under the Securities Law on offerings of cryptographic assets that constitute a security, consideration of creating a special platform for trading in cryptographic assets, and the implementation of a model with similar characteristics to crowd funding for cryptographic assets offerings.



# Litigation in Other Countries

## Israeli Law continued....

- With respect to the cryptocurrency exchanges, the report states, "Up until now, no granting of regulatory approval in any country whatsoever to operate a supervised cryptocurrency exchange for the public has been reported. The platforms in this area are designed solely for sophisticated investors. At the same time, there are old trading platforms for cryptographic assets in the US market, such as Coinbase, which are developing this sector (through licensed broker-dealers, with SEC approval) and supervised conventional exchanges that have announced their intention of facilitating trading in these assets in the coming years. These include the stock exchanges of Gibraltar, Malta, Switzerland, Australia, and the London Stock Exchange, which is developing such a platform in cooperation with other companies in coordination with the FCA."



# Litigation in Other Countries

## Israeli Law continued....

- cryptographic asset offerings to have disclosure requirements similar securities offerings
- recommends create a special platform for trading cryptographic assets via more suitable regulatory infrastructure for this trading activity
- recommended the establishment of an easier and adjusted regulatory framework for companies using new technology to provide new financial products and services



# Canada

## Quadriga CX and Gerald Cotton

- Once Canada's largest crypto exchange
- \$135M in crypto belonging to 115,000 users was lost
- Now in bankruptcy protection



# MT Gox

- By January 2014, Mt Gox was the largest bitcoin exchange in the world, handling over 70% of all bitcoin transactions worldwide. By the end of February 2014, it was bankrupt.
- Mt. Gox lost about 740,000 bitcoins (6-7% of all bitcoin in existence at the time)
- 200,000 bitcoins were eventually recovered, the remaining 650,000 have never been recovered.





# MT Gox...what happened?

- On 2/7/14, Mt. Gox stopped all bitcoin withdrawals, claiming that it was merely pausing withdrawal requests “to obtain a clear technical view of the currency process.”
- On 2/24/14, suspended all trading and the website went offline
- On 2/24/14, filed for bankruptcy in Japan and similar protection in the US in March 2014
- a leaked corporate document claimed that hackers had raided that Mt. Gox exchange and stole 744,408 bitcoins belonging to Mt. Gox customers, as well as an additional 100,000 bitcoins belonging to the company, resulting in the exchange being declared to be insolvent



# MT Gox...what happened?

- Investigations later showed that the hack began in September 2011 and had actually lost all of its bitcoins by mid-2013!
- Appears that the Mt Gox private key was stolen either by hack or an insider
- Once hacked, could access bitcoins gradually from wallets associated with the private key without detection
- System interpreted this as deposits being moved to more secure addresses



# Presenter Info



## **Joel M. Wertman**

Partner

*Admitted: PA, NJ*

E-mail: [Wertman.J@wssllp.com](mailto:Wertman.J@wssllp.com)

### **Philadelphia, PA**

P (215) 433-1500

F (215) 433-1501

### **River Edge, NJ**

P (973) 221-8200

F (973) 221-8201



# Presenter Info



## **Allison Beatty**

Senior Associate

*Admitted: PA, NJ*

E-mail: [Beatty.A@wssllp.com](mailto:Beatty.A@wssllp.com)

### **Philadelphia, PA**

P (215) 433-1500

F (215) 433-1501

### **River Edge, NJ**

P (973) 221-8200

F (973) 221-8201



# Thank You

 **Winget | Spadafora | Schwartzberg | LLP**



# About the Firm

**Discerning Advice.  
Powerful Advocacy.  
Optimal Results.**

Winget, Spadafora & Schwartzberg, LLP was founded in 1993, with the intention of bringing sophisticated capabilities to its clients while maintaining a personalized and collaborative approach.

More than a quarter of a century later, our commitment to those values has developed Winget, Spadafora & Schwartzberg, LLP into a nationally recognized firm. Our dynamic attorneys remain dedicated to providing the focus, attention, and efficiency required to achieve optimal results for our clients in the most cost-effective manner possible.

Our attorneys call upon a broad range of experience and are supported by a dedicated staff and advanced technologies. We distinguish ourselves by providing an intensely personalized approach and by immediately responding to the needs of our clients.

We are proud to include among our clients many of the leading insurance companies and financial institutions in the United States, together with numerous other businesses, not-for-profit organizations and professionals.



# Locations

## New York

45 Broadway  
32nd Floor  
New York, NY 10006  
P (212) 221-6900  
F (212) 221-6989

## Florida

14 NE 1st Avenue,  
Suite 600  
Miami, FL 33132  
P (305) 830-0600  
F (305) 830-0601

## Texas

Two Riverway  
Suite 725  
Houston, TX 77056  
P (713) 343-9200  
F (713) 343-9201

## New Jersey

2500 Plaza 5  
Harborside Financial Center  
Jersey City, NJ 07311  
P (201) 633-3630  
F (201) 633-3631

## Massachusetts

745 Boylston Street,  
7th Floor  
Boston, MA 02116  
P (617) 544-9900  
F (617) 544-9901

## California

1900 Avenue of the Stars,  
Suite 450  
Los Angeles, CA 90067  
P (310) 836-4800  
F (310) 836-4801

## Connecticut

One Canterbury Green  
201 Broad St, Suite 1000  
Stamford, CT 06901  
P (203) 328-1200  
F (203) 328-1212

## Pennsylvania

1528 Walnut Street,  
Suite 1502  
Philadelphia, PA 19102  
P (215) 433-1500  
F (215) 433-1501

## Colorado

1113 Spruce Street,  
Suite 502  
Boulder, CO 80302  
P (303) 482-1046  
F (303) 482-2601