



Is the VERI Token an Unregistered Security?

Introduction

This document is a brief analysis by the VeriDAO members regarding the SEC vs. Reggie Middleton, Veritaseum et al Complaint which settled in November 2019. As the alleged defrauded the VeriDAO members are providing an introductory overview that will focus primarily on the SEC Complaint and the Settlement outcome. Reggie Middleton's response to the Complaint will be addressed in future VeriDAO evaluations of the case. We will briefly mention the constraints imposed by the Settlement and clarify for the readers an understanding of just why Reggie Middleton's personal defense has been silenced by threats of every alleged violation within the Complaint becoming an adjudicated reality. It is the reason that he cannot utter a word in his own defense and claim innocence without admitting guilt. Even SEC Commissioner Hester Pierce said, "The SEC used a heavy hand against Reggie Middleton in its judgment". Constitutional questions regarding this adjudicated jeopardizing outcome are raised by many, but that is not the focus of this analysis and is for the Congress and Courts to decide. Since Reggie cannot address the issues publicly the VeriDAO members have taken it upon themselves to intercede on his behalf. All members of the VeriDAO, as well as every VERI token holder, have been classified by the SEC as victims of fraud and manipulation by Reggie Middleton in the offering of unregistered securities via the digital asset labeled VERI.

There is no better witness to the veracity of any defense than the alleged defrauded defending the alleged fraud at their own expense.

Did Reggie Middleton sell unregistered securities? Did the SEC satisfy the basis of the legal allegations within the Complaint to satisfy a judicially acceptable outcome in the Final Judgment? This document attempts to provide possible answers to those questions, and hopefully raise new ones, based on the accusations within the Complaint, the Settlement and the actions and behavior of the SEC in subsequent communications with the VeriDAO as the members attempted to obtain clarity regarding the legal status of the VERI token. The evidence contained within the Complaint and the Settlement just might surprise you as it did the members of the VeriDAO.

The Historical Context

In August of 2019 the SEC filed the Complaint against Reggie Middleton, Veritaseum et al and was one of the earliest of approximately thirty-two historical complaints brought against cryptocurrency startups by the agency to date. The SEC invited Reggie to “come in, sit down and talk. Have a show and tell.”

After months of demonstrations and a considerable amount of cooperation and compliance with the SEC regulators over a significant period Reggie provided detailed information regarding the foundational technology he had conceived, developed, (a working model that was demonstrated at a Bitcoin auction across from the NY Stock Exchange in 2014) and had applied for patents in multiple jurisdictions with two of those jurisdictions having granted those patents in the past two years. He was criticized for not having a “white paper”, yet he had a working prototype that allowed peer-to-peer trading internationally i.e., without any mediation such as an exchange, bank or any other financial institution would provide. The patent applications contained far more details both in text and diagrams than most white papers with promises of future operability and success.

The SEC has filed enforcement actions against various crypto startups and has claimed that it does not regulate by enforcement. The agency states the Howey Test as well as the Securities Act are “quite clear” and leave no questioning ambiguity regarding the SEC position and the agency’s statutory authority. The SEC considers these actions taken against these startup crypto projects based on the historical record of the Howey test and subsequent judicial confirmations over the past one hundred years. The agency assumes that the crypto space should understand that the SEC knows what a security is but won’t define it unless it’s token specific in a judicial complaint against the companies who came in, sat down, and talked...then had and a Wells notice presented in honor of their cooperation and compliance. “Come in, sit down and talk” is actually the SEC conducting an investigation to glean information that would otherwise not be available to the agency without a legal statutory basis requiring such evidence. Some would label these actions as “fishing expeditions”.

A **Wells notice** is a letter that the [U.S. Securities and Exchange Commission](#) (SEC) sends to people or firms when it is planning to bring an enforcement action against them. It is issued at the conclusion of an SEC Investigation notifying the people or firm in question that the SEC has concluded that they should be charged with violation of the [securities laws](#).

The SEC Complaint against Reggie Middleton, Veritaseum et al, and secondarily the VERI token holders, is a prime case example of the deliberate continuation of the confusion, ambiguity, and unlawful enforcement outcomes by the agency. The Middleton suit also testifies to the fact that the SEC does not really consider the secondary market VERI tokens registered securities or otherwise it would have been adjudicated in the Settlement as such. It is apparent from the Settlement that considering the extreme duress that the SEC put upon Reggie Middleton that the agency could have without resistance or question have the VERI token adjudicated as a security in this enforcement action. If the agency did not take the opportunity to do so, why not?

The VeriDAO is going to posit that the SEC had an opportunity to adjudicate and set case precedence in the Middleton/Veritaseum suit regarding the relationship between VERI tokens and securities. And we believe the agency failed to do so with intent to privately maintain the regulation by enforcement status quo. This was accomplished via ambiguity and obfuscation by utilizing new creative terminology and designations while at the same time publicly appearing to be remaining within the statutory language and limitations imposed by Congress and the Securities Exchange Act.

Let us now examine the written evidence in the Complaint and then compare the Settlement outcomes to the Complaint in our analysis. The Complaint and Settlement documents are attached, and the bulleted items below have been highlighted for your convenience.

The SEC Complaint

The Complaint contains about 150 direct references to the VERI token as well as other additional various securities related terminology using the following identifiers within the narrative of the Complaint.

- VERI
- VERI tokens
- Offering Cryptographic Tokens
- Veri are securities
- Digital assets called VERI tokens, Veri or Veritas
- Offering digital asset securities

- Offer and sale of securities
- Unregistered securities they offered
- Sale of such securities
- In a security
- In an unregistered offering
- Price of such security
- Trading in such security
- Sell securities
- Securities price
- Without a registration statement in effect as to that security
- Securities
- In reality, VERI are securities
- In any offering of digital asset securities

The SEC Complaint leaves no ambiguity only certain clarity as to whether the agency itself considers the VERI token a security. If the Complaint is taken at face value, would you doubt any judge evaluating the Complaint would find that disputable?

The Complaint is the basis for the Settlement, and the VeriDAO would consider it appropriate that the Settlement would reference the VERI token as it is the foundation of the Complaint. Without the VERI token the SEC Complaint would not have been filed giving the SEC a basis for designating the VERI token an unregistered security, a digital asset security or any other new and creative designation applied by the agency.

Now let us move our attention to the Settlement where the SEC dispenses its punishment upon Reggie Middleton for the “illegal and fraudulent” sale of the VERI token as unregistered securities as delineated in the Complaint.

The SEC Settlement

The Settlement utilizes the following terms when describing the limitations and consequences Reggie Middleton will incur for violating the following:

- Violations of the Federal Securities Laws
- Unregistered offer and sale of securities
- Offering of digital securities

- Enjoined from violating directly, or indirectly section 10(b) of the Securities Exchange Act
- The purchase and sale of any security
- From violating section 17(a) of the securities act in the offer and sale of any security
- Any security not so registered
- In connection with any security-based swap, security-based swap agreement
- Such security
- Security
- As to a security
- A Class of securities
- In any offering of digital securities
- By the turnover of “Frozen Digital Assets”
- The digital assets
- All digital assets identified in schedule A as “Ether” or “Bitcoin”
- All frozen digital assets identified in schedule A as “Veritaseum”
- All frozen digital assets identified in schedule A as VeGold G1, VeGold K1, VGLZ1, VGLK1, VSLK1, VPMZ1, VGLG1, VSLC1 shall be returned to defendants.
- All other digital assets held by the intermediary shall be returned to the originating addresses.
- Defendants Will Be Precluded From arguing that they did not violate the federal securities laws as alleged in the Complaint.
- Violation by Defendant Middleton of the federal securities laws

Digital Asset or Unregistered Security?

So, if you read the Settlement, how many times is the VERI token mentioned? It is not directly identified nor linked to any of the violations addressed in the Settlement. The token only appears as “Veritaseum” page 16 XVII(b) “All Frozen Digital Assets identified in Schedule A as Veritaseum shall be held permanently at their current blockchain address”.

Other than the Complaint saying “Veritaseum Ultra Coin” there is no statement calling the VERI token Veritaseum, as the title Veritaseum is always referred to as the company and Ultra Coin were always Ultra Coin in the Complaint. Why was

the company name “Veritaseum” used in place of the VERI token so prominently identified in the complaint? Simple error? Deliberate misplacement?

Also, notice that the Veritaseum tokens mentioned in schedule A above are called Digital Assets, just as “Ether” and “Bitcoin” above them and the VeGold and other precious metal tokens below. Both Eth and Btc have been declared non-securities by the SEC, as well as the Veritaseum precious metals products identified in this Settlement. They are all called Digital Assets and there is no designation differentiating between the Veritaseum token “securities” and non-security ETH, Btc and Ve precious metals products. Why?

The Veri Fair Fund

There was another missed opportunity to provide clarity regarding the VERI token status that directly involves the 2.15M circulating secondary market VERI tokens held by the public. The 97.85M tokens held by Reggie Middleton were entombed in their current ETH address via the Settlement. However, the circulating tokens were omitted from the Settlement completely. Why? Could the SEC have incorporated into the Settlement that the circulating VERI tokens be returned? According to the Complaint they are unregistered securities and even trading them is a violation of the Securities Act. In the Settlement there was a Veri Fair Fund (VFF) set up to compensate investors for their loss. Why didn't the SEC stipulate, and have adjudicated that to receive restitution from the VFF the claimants would have to relinquish their VERI tokens? The blockchain was used by the VFF administrators to transfer a control token to validate a claimant's ownership of the address(s) holding the VERI tokens. Instead of surrendering the tokens the VFF claimants were told they could keep them. So, the SEC considers the circulating VERI tokens to be unregistered securities but allows those unregistered securities to be traded on the open secondary market? Is that not a contributing factor in violating the Securities Exchange Act according to the SEC?

This was a golden but missed opportunity to provide clarifying case precedence by directly having token holders relinquish the “unregistered securities” by sending them to the same address entombing the 97.85M adjudicated tokens. However, instead it was used as a golden opportunity for exacerbating the ambiguity via obfuscation and thus continuing regulation by enforcement openly and in secret behind closed doors.

Is VERI a “Secret” Unregistered Security?

The uncomfortable reality is that Reggie Middleton is hesitant about utilizing the VERI tokens is not based on the Settlement, or the Securities Exchange Act, but on the threats by the SEC that the VERI token is an unregistered security as the agency defined it in the Complaint and the agency will seek enforcement actions that currently he cannot financially afford to defend.

The VERI token holders have these same reservations and fears about handling the tokens as well and for the same reason. The SEC failed to identify the VERI token in the Settlement as an unregistered security and actually encouraged the token’s use when the VFF administrative process allowed the VERI token to remain on the market.

However, in private behind closed doors the VERI token holders were threatened with enforcement retaliation if the VERI tokens were traded. Even though the very public Settlement does not mention the token being a security, the SEC admonishes the VERI holders privately the circulating secondary market VERI tokens are unregistered securities. This is an indicator of continuing intentional ambiguity and aggressive purposeful statutory baseless enforcement.

The VERI token holders FOIA requests regarding that conversation between our lawyer and four SEC lawyers have been fruitless. Perhaps the SEC used the Signal App to maintain secrecy and that’s why it can’t be found?

A Summary of Facts and Questions

Fact: There is no reference to VERI the token being a security in the Settlement. So, why was the connection between the token and security designation omitted in the Settlement?

Fact: The Settlement does not preclude Reggie Middleton/Veritaseum or VERI holders from holding, trading, or utilizing the VERI tokens, only threats of SEC enforcement actions. All without any clarifying guidance for future sales.

Fact: There was no adjudication, or mention, of the current 2.15M circulating VERI tokens in the Settlement or being identified as securities.

Fact: The Final Judgment *does* prevent Reggie Middleton from dealing in true securities, not in cryptocurrencies nor the VERI token. The consequences

contained within the narrative of the Settlement only prevents Reggie Middleton's companies from going public, or handling true securities such as stocks etc. There is no reference in the Settlement indicating any token is a security, let alone the VERI token itself.

Fact: If the SEC was so adamant that the VERI token as defined by the agency in the Complaint was a security based on congressional and judicial law, the VERI token would have been directly identified in the Settlement as a security. Instead, the Settlement utilizes general securities-based language that could be applied to anything traded on the NYSE, NASDAQ etc. There is literally no linkage between the VERI token and the violation of securities laws. Perhaps this quote might shed light on just why as the VERI token may not been defined as a security by the SEC.

“To be clear, the SEC hasn't labeled XRP a security, nor does it have the power to do so. One Judge put it this way: the SEC can only ask the question and the court ultimately answers.” – Stuart Aldiroty, Ripple Attorney

Conclusion

In the SEC vs Middleton\Veritaseum case the SEC presented a Complaint permeated with cryptographic language regarding security designations attributed to the VERI token to 1) a crypto illiterate judge. Or 2) a judge who perhaps was willfully complicit for any number of reasons. What is alleged by the VeriDAO is that the judicial system allowed the SEC to make allegations they knew they would never have to prove. The duress inflicted upon the defendant to either settle or lose everything gave the SEC full assurance of a counterfeit victory with impunity. Whatever the reason the Middleton Settlement was carefully crafted to not violate the statutory basis of law by omitting any reference to the VERI token being a security as alleged in the Complaint.

The SEC never labeled the VERI token as a security despite its allegations, nor does it have the power to do so. Stuart Aldiroty is right.