

**UNITED STATES DISTRICT COURT  
EASTERN DISTRICT OF NEW YORK**

SECURITIES AND EXCHANGE  
COMMISSION,

Plaintiff,

-v.-

REGINALD (“REGGIE”) MIDDLETON,  
VERITASEUM, INC., and VERITASEUM,  
LLC,

Defendants.

Case No. 19-cv-04625 (WFK)

**DECLARATION OF REGINALD MIDDLETON**

I, Reginald Middleton, pursuant to 28 U.S.C. § 1746, declare as follows:

1. I am the founder of defendants Veritaseum, Inc., and Veritaseum, LLC. I am also a defendant in this action.

2. I submit this declaration in opposition to the SEC’s Emergency Application for a Temporary Restraining Order Freezing Assets and Granting Other Relief, dated August 12, 2019.

3. The facts set forth herein are based on my personal knowledge, and I would testify as follows if called upon to do so.

**My Background and Experience as a Financial Analyst**

4. I grew up on Long Island, earned a bachelor’s degree in business management at Howard University in 1990, and have lived in Brooklyn for 26 years.

5. I started working in the financial industry in 1990. My first job was at Prudential Insurance, where I was trained in financial product sales. I later worked in the financial securities and risk management fields.

6. I gained recognition in 2008 for research reports I authored that anticipated the financial crisis. (Exs. 1-3)

7. One reporter described me as having “been startlingly accurate in the past. He forecast the collapse of the housing market in 2007, and in early 2008 warned of the demise of Bear Stearns weeks before it happened. Earlier this year, he said that Ireland's finances were in terrible shape long before Standard & Poor's got around to downgrading that nation's credit rating.” Elstein, *Crain's New York Business* (Aug. 29, 2010). (Ex. 4)

8. In 2007, I founded “Boom Bust Blog,” a commercial financial advisory with thousands of subscribers.

9. In 2013 and 2014, I won CNBC's “Stock Draft.”

10. My views on the financial markets have been published on HuffPost, to which I was a regular contributor, and broadcast on CNBC as a regular contributor, Bloomberg, and RT News as a regular contributor.

### **My Initial Blockchain Start-up Venture**

11. In 2013, I decided to apply my research background and skills to the emerging digital asset and cryptocurrency industry. I conceived of an idea for a software platform that would use the blockchain to facilitate swap transactions directly between two or more parties at very low cost, without the need for brokers, agents, exchanges, banks, or other intermediaries. The transactions would occur on the Bitcoin (BTC) blockchain, the dominant blockchain technology at the time.

12. I raised “angel” capital and recruited six individuals, including software developers, engineers, and financial analysts, to model and create this software platform, which ultimately required 54,000 lines of code.

13. To create this product, the company eventually paid approximately \$346,000 to software developers and engineers and to cover other development-related expenses, such as financial and macro analysis, strategy and design.

14. By around January 2014, the platform had become functional and was ready to be used by outside parties unconnected with its development. This final stage of software development is commonly known as “beta testing.” Beta testing occurred throughout 2014. Although the testing took place on an anonymous basis, I estimate that the number of users was over 100.

15. On July 23, 2014, I demonstrated the functionality of this platform with the lead software developer on the project. A video of this demonstration can be found on YouTube at <https://youtu.be/dV27kQnUKHc?t=144>.

16. Like many start-up ventures, my initial, BTC-based platform did not make it to market. Although the platform was functional, I became concerned that it could encounter regulatory obstacles because of guidance from the Commodity Futures Trading Commission that indicated that it could potentially be regulated as a Swap Execution Facility. (Ex. 5)

17. The venture’s capital had also become depleted. In addition, I became aware of limitations inherent in the BTC blockchain that restricted future development and expansion of the platform. I decided to halt further work on the project.

### **My Second Blockchain Venture and Sale of “VERI” Utility Tokens**

18. Around April 2017, I launched a second venture. I envisioned this business to

include the sale of proprietary research reports on digital assets and the development of a software platform on the Ethereum (ETH) blockchain. The platform was later named the VeADIR (pronounced “Vader”), shorthand for Veritaseum Autonomous Dynamic Interactive Research.

19. The Ethereum blockchain, unlike the Bitcoin blockchain, allows for more efficient development and the direct use of a technology known as “smart contracts,” which automatically execute transactions in a cryptographically secure manner according to terms determined by the parties. The VeADIR platform was intended to be a flexible system that permitted “peer to peer” exchanges of a potentially wide range of assets. (Peer-to-peer is a technical term referring to a distributed software application architecture that allows users to deal with each other directly.)

20. The initial version of the platform would allow users to obtain financial exposure to a portfolio of blockchain-based digital assets, as determined by ongoing Veritaseum research.

21. I assembled a talented global team to develop and execute my business plan, including software developers; financial and research analysts; engineers; database, clerical, operations, and administrative personnel; compliance experts; hedge fund deal acquisition specialists; customer relations personnel; legal counsel; and business development personnel. The VeADIR platform required an entirely new code base, architecture, and concept.

22. I publicly stated that, while our bitcoin-based platform “was functional now as beta,” (Ex. 6 at 16), “[w]e are porting our Veritaseum platform over to Ethereum,” (*id.* at 2), and did not expect to release the new platform until the first quarter of 2018, at the earliest (*id.* at 42). I cautioned prospective customers to expect “delays” and “snafus.” (*id.* at 37.)

23. I sold digital utility tokens (Veritas, or VERI), in what is commonly referred to as an Initial Coin Offering, or ICO, from April 25 through May 26, 2017.

24. Token purchasers could use them immediately to purchase Veritaseum research reports. In fact, 24 token purchasers bought research reports, beginning on June 12, 2017, shortly after the initial token sale. (Ex. 32)

25. In addition, the tokens could later be, and in fact were, used to access the VeADIR. Until the asset freeze, VERI tokens had been in active use within the VeADIR. One use allowed average retail users from around the world to purchase pure gold at spot prices, prices that were previously the sole purview of large institutions such as global banks.

26. Unlike the sponsors of most ICOs, which are documented solely by vague “white papers,” I and other Veritaseum personnel directed all potential purchasers of VERI utility tokens to two agreements describing in detail the terms of sale and uses of the tokens: (1) Terms and Conditions of the Veritas (VERI) Sale (Ex. 7), and (2) the Veritas Product Purchase Agreement (Ex. 8).

27. On April 24, 2017—the day before the ICO began—I explained these documents to potential purchasers in a video tutorial that is available on YouTube at <https://youtu.be/toiZuroVvjk?t=20>.

28. These legal documents explicitly state that the tokens represented prepayment for Veritaseum products and services and were not investments:

- “Veritas are redeemable solely to Veritaseum LLC for various products and services offered by Veritaseum LLC, or to access various features or aspects of the Veritaseum Platform or other Veritaseum LLC software products.” (Ex. 7 at 1.)
- “Purchasers [should not] expect income, profits, or economic cash flows to be derived from the ownership of Veritas.” (*Id.* at 2.)
- The purchaser “represents and warrants that Purchaser is not exchanging bitcoin (BTC) for Veritas for the purpose of speculative investment.” (Ex. 8 at 1.)

The documents also explicitly warn purchasers that the company may be unable to

develop or may abandon the software platform, and would not provide refunds:

- “[W]hile Veritaseum LLC will make reasonable efforts to continue developing features of the Veritaseum Platform software, it is possible that a desired version of the Veritaseum Platform may not be released and there may never be an operational Veritaseum Platform with the desired features. It is also possible that even if Veritaseum LLC releases a desired version of the Veritaseum Platform, due to a lack of public interest in decentralized applications or the Veritaseum Platform itself, the Veritaseum Platform could potentially be abandoned or shut down for lack of interest.” (*Id.* at 2.)
- “Purchaser also understands that Veritaseum LLC will not provide any refund of the purchase price for Veritas under any circumstances.” (*Id.* at 1.)

29. I marketed the tokens via the company’s website (<https://veritas.veritaseum.com>), YouTube videos, social media, in-person presentations, and communications with individual purchasers. I consistently emphasized the potential uses of the blockchain-based software platform Veritaseum was developing and that the tokens should not be purchased as an investment or for speculation.

30. For example, in one YouTube video, titled “VERI, VeADIRs & Disruption: Utility Trumps Speculation,” I discussed the research reports being sold by Veritaseum. This video can be accessed on YouTube at <https://www.youtube.com/watch?v=vY5CRJcNlCs>.

31. In addition, on more than 20 occasions, I reminded people that VERI tokens are not investments. (Exs. 9-10)

32. For example, I posted on Twitter, “Veritas is software, not . . . an investment. If you don’t understand it then it’s best you don’t purchase it.” (Ex. 11) On another occasion, when an individual offered to “invest in [my] project,” I quickly informed him that “[w]e are not taking investors.” (Ex. 12) I and other Veritaseum personnel consistently sent the same message to anyone who told them that they thought the tokens presented an investment opportunity.

33. The SEC cites a few examples where I referred to the potential for the tokens to

increase in value as Veritaseum developed and improved the products and services available to token holders. (SEC Br. at 8-10) These occasional statements were always made in the context of my presentations and communications focusing on the utility of the tokens to access cutting-edge technology and warning prospective buyers not to view the tokens as an investment. The increased value of the tokens stems directly from the increase in the things you were able to use the tokens for. These points were well understood by token purchasers.

34. The SEC took several of my quotes out of context and distorted their meaning. For example, the SEC cherry picks quotes from an extensive blog post to imply that I touted VERI as outperforming returns on two cryptocurrencies (Bitcoin and Ethereum) when I wrote that “Veritaseum and its Veritas tokens offer the best of both worlds.” SEC Br. 8. In fact, the blog makes clear that I was talking about technology (Bitcoin’s “network effect” and Ethereum’s “smart contracts engine”), not investment returns. (Ex. 13)

35. In another example, the SEC implies that I touted VERI’s potential investment return when I referred in a video to “30,000x returns in the ICO space.” (SEC Br. 8.) In fact, the statement refers to the potential for VERI holders to achieve high returns by *using* our research or software platform (VeADIR), which would enable them to gain exposure to a basket of other digital assets. I said in the video that “if you want expertise on say finding the next 30,000 percent banger, *you can redeem that token back to us* and we can help you, you could buy research or development from us, or you could participate in our machines.” Suthammanont Dec. Ex. 7 (video at 4:30-5:00). I did not liken VERI utility token to an investment or refer to possible appreciation in its value. That is not how I marketed the VERI. As demonstrated by the video, I consistently emphasized the token’s utility—how it could be *used* to access our research and technology.

### **My Test Trades on a New Cryptocurrency Exchange**

36. After the initial sale of VERI tokens in April and May 2017, I planned to reserve future sales for bulk purchases and did not wish to make direct sales of small amounts of the tokens. I discovered a new cryptocurrency exchange called EtherDelta, which, to my knowledge, was the first-ever “decentralized exchange.” *See* [https://en.m.wikipedia.org/wiki/Decentralized\\_exchange](https://en.m.wikipedia.org/wiki/Decentralized_exchange).

37. I thought that EtherDelta could serve as an alternative source of tokens for small purchases. I also thought that, with sufficient volume, it could potentially be a reliable indicator of efficient token pricing, which Veritaseum could use to set fair prices for its own bulk token sales. In essence, I wanted to price bulk sales of the utility tokens based on the “wisdom of the crowd.” *See* [https://en.wikipedia.org/wiki/Wisdom\\_of\\_the\\_crowd](https://en.wikipedia.org/wiki/Wisdom_of_the_crowd).

38. Before directing prospective retail token purchasers to EtherDelta, I viewed it as imperative to test the exchange to determine if it worked as intended and did not create undue risk for users. Testing was especially important because the exchange was built on a new type of software using a new exchange model that was extremely different from any other software I had used previously, and because there had been little to no activity on the exchange.

39. At that time, I did not believe the market was accurate because of its low liquidity. Reflecting this concern, I commented that “the Etherdelta market is not accurate because of the very, very low volume. I will try to push more volume in.” (Ex. 14) To help improve EtherDelta’s liquidity, I encouraged small purchasers to buy tokens on that exchange.

40. On May 31, 2017, I publicly announced that Veritaseum is “[t]esting EtherDelta as a method of distributing post-Offering Veritas tokens.” (Ex. 15) And on June 3, 2017, I publicly announced, “We setup the Etherdelta VERI ticker as an experiment....Please be aware that



Etherdelta has very little traffic and liquidity... hence the trade results there will be very different from something like Kraken or Bittrex [established cryptocurrency exchanges]... Etherdelta will not reflect any of this liquidity or demand.” (Ex. 16)

41. On June 4, 2017, I did exactly what I had broadcast to token holders that I would do. To explore the functionality of the various options on the EtherDelta site, I entered a number of buy transactions in VERI tokens on EtherDelta. Some were limit orders and some were market orders. The prices went up and down, not just up as the SEC contends.

42. My purchases were nothing more than the testing of a new exchange, which I believed would benefit VERI holders. I did not trade to induce anyone else to buy tokens.

43. After my last purchase on EtherDelta on June 4, the prices of VERI on EtherDelta were set by other buyers and sellers, not by me.

44. The sales of VERI tokens after June 4 (totaling approximately 10,117 tokens through the end of June) represented only a minuscule portion of my holdings of approximately 98 million tokens.

45. In addition, I detected a flaw in EtherDelta’s trading platform that I believed created an opportunity for others to manipulate it. In response, I devised a solution for the problem and directed a Veritaseum colleague to bring it to the attention of EtherDelta’s founder, who said that he implemented it. (Ex. 17)

#### **Sales of VERI Following the Initial Token Sale**

46. Around the time of the initial VERI offering, I received questions regarding how Veritaseum would handle the tokens that were not sold during this initial sale. I responded that, after the initial sale, the unsold tokens would be held in reserve for bulk purchases by institutions and high net worth individuals. (Ex. 18) I used the term “institutional purchases” as it is

understood in the software industry, *i.e.*, bulk purchases rather than retail purchases.

47. After the initial token sale, I received inquiries from individuals who missed the sale but still wished to acquire tokens. I consistently informed these individuals that at that point Veritaseum would sell tokens only in bulk. (Ex. 19)

48. I declined to sell post-initial sale tokens to some prospective purchasers. I instructed a Veritaseum worker to tell one prospective purchaser, “I am afraid I cannot accept your payment because you are trying to invest (this is a software purchase not an investment, please read the terms and conditions as well as the product purchase agreement below) . . . .” (Ex. 20) The same employee rejected another prospective purchaser that did not meet our minimum for a bulk purchase (which varied over time), telling him, “Sorry we cannot accept purchases under 20,000 USD.” (Ex. 21)

### **The Development of the VeADIR Software Platform**

49. In the months following Veritaseum’s initial token sales, the company worked intensively to develop the VeADIR platform. This version could use none of the original code from the BTC-based platform and therefore required a new code base. As a result, I hired a new set of developers.

50. Veritaseum met the production schedule I had forecast at the time of the initial token sale. By the first quarter of 2018, VeADIR was operational and in beta testing by outside users.

51. On March 20, 2018, I gave a detailed demonstration of the system to a large number of SEC staff members, who attended in person in New York and by telephone from Washington. I explained how VERI token holders could use the platform to purchase financial exposure to a portfolio of digital assets, borrow tokens, and benefit from research fed into the system by Veritaseum. (Ex. 22)

52. At the conclusion of the presentation, the SEC staff did not question the functionality or utility of the system. Rather, they demanded that I stop making the system available to beta testers, because in the SEC's view the testers' use of even nominal amounts of VERI tokens required Veritaseum to register as a regulated securities firm. I did not agree with the SEC's position because I understood that VERI tokens are not securities. However, in deference to the ongoing SEC investigation, I terminated beta testing.

53. Later in 2018, the Veritaseum team began developing yet another innovative blockchain-based functionality for our software platform. The system offered for sale digital tokens (such as VeGold) that represent a blockchain-based ownership interest in a specified amount of a precious metal. Veritaseum bought the metals in bulk, stored them in a vault, and sold "tokenized" interests in them. VERI token holders received a discount, adding to the utility and value of their tokens. At the kilogram level, VERI token holders are able to purchase pure gold at spot prices. To the best of my knowledge, this is a first in the industry for retail buyers of gold. Owners of VeGold have a contractual right to redeem them back to the company in exchange for the physical delivery of their gold, or a conditional option to sell the tokens back to the company for ETH or USD.

54. Until the SEC froze Veritaseum's assets, the VeADIR system sold over 260,000 ounces of precious metals. Including all precious metal token sales, repurchases, redemptions, and transfers, Veritaseum handled hundreds of transactions involving over \$3.5 million worth of VeGold and other precious metal tokens while still in the beta testing phase. This platform includes Know-Your-Customer and Anti-Money-Laundering systems, home-grown by Veritaseum and developed specifically for use on the public blockchain from the ground up by myself, Veritaseum's financial crimes and compliance specialist, and the company's engineering

and development teams.

55. Veritaseum also created the world's first gold-denominated, blockchain-based mortgage loan.

### **Veritaseum Business Transactions**

56. I entered into discussions with multiple individuals and institutions regarding how Veritaseum's technology could be leveraged to benefit their businesses.

57. For example, in June 2017, I was introduced to Paul Reece, the President and CEO of Fly Jamaica, a new airline based in Kingston, Jamaica. (Ex. 23) At that time, Fly Jamaica and I explored the idea of using digital tokens for airline miles and loyalty points and to obtain financing from hedge funds or other sources.

58. Veritaseum explored similar deals with the Ganga Growers Association of Jamaica, a marijuana startup looking to sell to the medical use field, Lito Green Motion Inc., an emerging electric motorcycle company in Quebec (Ex. 24), and orally agreed with a member of the government of Jamaica to use VERI to facilitate transactions in distressed Jamaican real estate.

59. Veritaseum also worked on a transaction intended to use Veritaseum technology to raise funds for a family medicine clinic and transition it to new owners. The owner initially encouraged Veritaseum to develop a detailed transaction plan (Ex. 25), but ultimately I withdrew from the transaction when I sensed that the owner was not comfortable selling the clinic.

60. I also approached the Jamaica Stock Exchange (JSE) with the idea to sell Veritaseum's technology, including the utility tokens to the JSE. After several meetings, the Chairman of the JSE's Board of Directors entered into a Memorandum of Understanding with Veritaseum, under which Veritaseum would "sell, lease, rent, or lend its Veritas tokens" to the exchange "for the purposes of consulting on, advising on and building a digital asset exchange."

(Ex. 26)

61. The JSE's Chairman and its Managing Director agreed to be photographed shaking hands with me on a ground-breaking transaction. (Ex. 27). I made public statements about this success in securing a major business partner for Veritaseum. (Ex. 28)

62. Around November 2017, however, JSE stopped responding to my efforts to move the transaction forward, despite having made significant progress on a binding joint venture agreement. (Exs. 29, 30) In this litigation, I have learned that SEC representatives had contacted the JSE as part of the SEC's investigation of Veritaseum and me. I was unaware of that contact at the time.

### **The SEC's Investigation and Baseless Asset Freeze Application**

63. Within months after Veritaseum's initial sale of the VERI utility tokens, the SEC staff launched an investigation of my company and me. Through counsel, we produced to the SEC voluminous documents and information in response to subpoenas and voluntarily provided additional information in response to a large number of informal requests by the SEC staff. I gave sworn testimony in five different full-day sessions.

64. Although the token sales at issue occurred mainly during a four-week period, the investigation continued for two years, requiring Veritaseum to incur legal defense costs, including legal fees and vendor expenses, totaling nearly \$1.3 million.

65. These expenses have put a severe strain on Veritaseum's finances and human resources, as it is a start-up, not a highly capitalized Fortune 500 company.

66. On Tuesday, July 30, 2019, the SEC staff sent my counsel a Wells notice, which stated that the SEC staff had made a preliminary determination to recommend that the agency file an enforcement action against me and Veritaseum.

67. Three days later, on Friday, August 2, 2019, I learned that the SEC staff had requested that Veritaseum and I enter a written agreement not to move or convert any Ethereum (ETH), a cryptocurrency we use to fund our operations, without notifying the SEC. I was informed that the SEC staff was concerned about dissipation of assets because they had observed a transfer of around 10,000 units of ETH (worth approximately \$2 million) from a Veritaseum address, a small portion of which was then converted to U.S. dollars on a digital exchange.

68. This transfer was not a dissipation of assets; rather, it was merely the normal periodic funding of Veritaseum's ongoing business operations and was consistent with two previous transfers for the same purpose over the prior year. I had transferred from the same address approximately the same amount (9,880 ETH) on February 15, 2019, and exactly the same amount (10,000 ETH) on June 2, 2018.

69. For security reasons, my practice was to make only occasional transfers from that "cold" wallet (which held a large quantity of ETH and could be analogized to a savings account) to "hot" digital wallets and other accounts used for day-to-day business expenses (which could be analogized to checking accounts).

70. All of these transfers were fully visible in detail on the blockchain to the SEC and anyone else with the Veritaseum wallet address and an internet connection.

71. I reasonably expected my company's legal expenses, which were already quite burdensome, to increase significantly as a result of the Wells notice.

72. In an effort to allay any concern about potential dissipation of assets, I directed my counsel to inform the SEC staff that I would be willing to notify the SEC of digital asset transfers exceeding the equivalent of \$600,000 in a calendar month, based on my estimate of Veritaseum's monthly operational expenses, including substantially increased legal fees.

73. On Monday, August 12, 2019, the SEC filed this civil enforcement action against my company and me, and made an “emergency” request for a temporary freeze of my personal assets and Veritaseum’s assets.

74. The SEC’s motion stated that I had moved a portion of the transferred assets to a personal account, essentially accusing me of misappropriating company property. This accusation was false.

75. In fact, the transfers cited by the SEC were made to a Veritaseum LLC account. I have attached multiple screenshots showing that the account is in the name of Veritaseum LLC, including a screenshot showing the funds in question arriving in the company’s account. (Ex. 31.)

#### **The Devastating Effect of the Temporary Asset Freeze on Veritaseum Token Holders**

76. The temporary asset freeze entered by the Court caused immediate damage to Veritaseum and its token holders. In addition to freezing Veritaseum’s own assets, the SEC insisted that the company halt all redemptions by holders of VeGold tokens. This action requires Veritaseum to breach its agreement with its token holders, and effectively deprives VeGold token holders of their own property. Many Veritaseum contractors have thus been stripped of compensation they previously earned and received from Veritaseum in the form of VeGold.


77. The asset freeze also deprives VERI utility token holders of a significant use of their tokens, since they can no longer obtain discounts on blockchain-based precious metal purchases from Veritaseum.

78. Continuing the freeze would destroy the entire company. We would not be able to make payroll beginning on September 1, 2019. Approximately 25 employees and contractors would be out of work. These individuals perform key tasks, including compliance, financial

analysis and research, engineering, software development, legal counseling, database administration, clerical operations, product development, customer relations, and business development. Without them, all Veritaseum operations would grind to a halt and the utility and value of the VERI tokens would disappear.

I declare under penalty of perjury that the foregoing is true and correct.

Dated: August 19, 2019

  
Reginald Middleton