

EXHIBIT 2

PROPOSED DISTRIBUTION PLAN

I. Introduction

A. The Veritaseum Fair Fund currently holds over \$17 million, comprised of the cash and liquidated value of the assets turned over as ordered in the final judgment entered in *SEC v. Reginald Middleton, et al.*, 19 Civ. 4625 (WFK) (RER) (E.D.N.Y.), ECF No. 61 (the “Final Judgment”), plus accrued interest. The Veritaseum Fair Fund is deposited in an interest-bearing account at the U.S. Treasury’s Bureau of Fiscal Service. Amounts directed to this Court for inclusion in the Veritaseum Fair Fund by court order, agreement, or otherwise, and accrued interest will be added to the Veritaseum Fair Fund.

B. By this distribution plan (“Distribution Plan”), the Distribution Agent seeks to compensate investors who acquired VERI for value during the period April 25, 2017 through August 14, 2019 at 12:01 a.m., EST (“Relevant Period”); and who are otherwise determined to be eligible for a payment from the Veritaseum Fair Fund pursuant to a Court-approved claims process and the provisions set forth below.

C. In accordance with the Final Judgment, the Distribution Agent developed the Distribution Plan jointly with the Tax Administrator and the SEC, in accordance with practices and procedures customary in Fair Fund administrations. The Distribution Plan, in conjunction with the Court-approved claims process, governs the administration and distribution of the Veritaseum Fair Fund, and sets forth the method and procedures for distributing the assets of the Veritaseum Fair Fund to investors harmed by the conduct alleged in the Complaint.

II. Definitions¹

A. In addition to words otherwise defined herein and in the accompanying Proposed Claims Process, the following definitions apply to the Distribution Plan:

1. “Administrative Costs” means any administrative costs and expenses, including without limitation the fees and expenses of the Tax Administrator and the Distribution Agent, tax obligations, and investment costs. All Administrative Costs will be paid by the Veritaseum Fair Fund.
2. “Claims Process” refers to the Claims Process approved by the Court in this action.
3. “*De Minimis* Amount” is \$10. If a Potential Claimant’s Total Loss Amount is less than \$10, the Potential Claimant will not be eligible for a Distribution Payment and will not be deemed an Eligible Claimant.
4. “Distribution Payment” means the payment to an Eligible Claimant in accordance with the Distribution Plan.

¹ Capitalized terms used in this Distribution Plan which are not otherwise defined carry the same meaning as in the Proposed Claims Process.

5. “Eligible Claimant” is a Potential Claimant whose loss(es) exceed the *De Minimis Amount* and who is determined to be eligible for a Distribution Payment under the Distribution Plan.
6. “Potential Claimant” means a claimant who has received a Determination Notice or a Final Determination Notice accepting their claim(s).
7. “Methodology” refers to the calculations and plan of allocation used in the Distribution Plan to determine Total Loss Amounts and Distribution Payments, as set forth in Section V, herein.
8. “Net Available Fair Fund” means the Veritaseum Fair Fund plus accrued interest, less Administrative Costs or a reserve for the same.
9. “Recognized Loss (or Gain) per Token” means the amount of loss (or gain) per VERI token as calculated pursuant to the Methodology below.
10. The “Relevant Period” is April 25, 2017 through August 14, 2019 at 12:01 a.m., EST, inclusive.
11. “Security” or “VERI” means the digital securities called “VERI”.
12. “Total Loss Amount” means, for each Potential Claimant, the aggregate of the Recognized Loss (or Gain) per VERI Token.

III. Tax Compliance

A. In the Final Judgment, the Court, among other things, appointed Miller Kaplan Arase LLP as Tax Administrator (the “Tax Administrator”); created the Veritaseum Fair Fund; and authorized the SEC to pay all tax obligations and administrative fees and expenses out of the Veritaseum Fair Fund without further Court Order.

B. The Veritaseum Fair Fund is a Qualified Settlement Fund (“QSF”) under Section 468B(g) of the Internal Revenue Code, 26 U.S.C. § 468B(g), as amended. The Tax Administrator is the administrator of such QSF for purposes of Treas. Reg. § 1.468B-2(k)(3)(I), and shall satisfy the tax related administrative requirements imposed by Treas. Regs. § 1.468B-1 to § 1.468B-5, including as set forth in the Final Judgment.

IV. Claimant Communications

A. The Distribution Agent has established and maintains a website dedicated to the Veritaseum Fair Fund. The Veritaseum Fair Fund’s website, located at www.verifairfund.com, makes available in downloadable form information that the Distribution Agent believes will be beneficial to claimants.

B. The Distribution Agent has established and maintains a traditional mailing address and an email mailing address which it includes on all correspondence from the Distribution Agent to investors as well as on the Veritaseum Fair Fund’s website.

C. The Distribution Agent has established and maintains a toll-free telephone number for investors to call and speak to a live representative of the Distribution Agent during its regular business hours or, outside of such hours, to hear pre-recorded information about the Veritaseum Fair Fund.

D. The SEC staff retains the right to review and approve any material posted on the Veritaseum Fair Fund's website dedicated to this matter, communications with investors, and any scripts used in connection with communications with investors.

V. Methodology

A. For VERI tokens purchased and/or acquired for value during the Relevant Period, and:

1. Sold on or before August 14, 2019 at 12:01 a.m., EST, a Potential Claimant's Recognized Loss (or Gain) per Token shall be calculated as the difference between the purchase price (acquisition value) of the token, and the sale price of the token²;
2. Retained, or sold after August 14, 2019 at 12:01 a.m., EST, a Potential Claimant's Recognized Loss (or Gain) per Token shall be calculated as the difference between the purchase price (acquisition value) of the token and the greater of: \$5.38 (the closing price on August 14, 2019), or the sale price of the token;
3. A Potential Claimant's Total Loss Amount shall be determined by aggregating the Recognized Loss (or Gain) per Token.

B. For Potential Claimants who made multiple purchases or sales, the first-in, first out method will be applied to such holdings, purchases, and sales.

C. Time of acquisitions or sales will be determined based on transaction initiation, not transaction completion.

D. For purposes of the calculations in the Distribution Plan, prices and values exclude all fees and commissions.

E. If a Potential Claimant's actual losses in the Security are less than the Total Loss Amount, then the Total Loss Amount shall be limited to the actual loss. With respect to tokens of the Security purchased during the Relevant Period, Potential Claimants whose total proceeds from sales of those tokens exceed the total purchase price (acquisition value) for those tokens shall have a Total Loss Amount of \$0.00.

² The "sale price of the token," as used herein, will be determined automatically based on the market price of the token at the time of the sale transaction. The sale price of the token will be ascertained through the public blockchain ledger.

F. The receipt or grant to a Potential Claimant by gift, devise, inheritance, or operation of law of the Security during the Relevant Period is not considered an eligible purchase if the original purchase did not occur during the Relevant Period. Such tokens will be excluded from the calculation of the Potential Claimant's Total Loss Amount.

G. Subject to tax withholding deemed necessary and/or appropriate by the Tax Administrator, and to the *De Minimis* Amount:

1. If the Net Available Fair Fund has sufficient funds, each Eligible Claimant will receive a Distribution Payment equal to the amount of his, her, or its Total Loss Amount;
2. If the Net Available Fair Fund has funds in excess of that necessary to pay each Eligible Claimant a Distribution Payment equal to the amount of their Total Loss Amount, the Distribution Agent, in consultation with the SEC staff, may include in the Distribution Payments an additional amount to compensate each Eligible Claimant for the time value of their respective Total Loss Amount ("Reasonable Interest");³ and
3. If the Net Available Fair Fund is not sufficient to pay the full Total Loss Amount for all Eligible Claimants, then each Eligible Claimant will receive a Distribution Payment equal to the Net Available Fair Fund multiplied by the ratio of their Total Loss Amount to the aggregate Total Loss Amounts of all Eligible Claimants.

VI. Third-Party Review

After the Distribution Agent has completed the process of analyzing the claims and determining Total Loss Amounts and potential Distribution Payments in accordance with the Distribution Plan, and prior to the distribution of any funds, the Distribution Agent will engage an independent, third-party firm, not unacceptable to SEC staff, to perform a set of agreed upon procedures, review a statistically significant sample of claims and ensure accurate and comprehensive application of the Claim Process and the Distribution Plan's methodology. The Distribution Agent will communicate the results of the review to SEC staff together with any written analysis or reports related to the review, and, upon request, will make the firm available to the SEC staff to respond to questions concerning the review.

VII. Procedures for the Distribution of the Net Available Fair Fund

A. Prior to the disbursement of the Net Available Fair Fund, the Distribution Agent will establish the accounts described in the following paragraph at a United States commercial bank (the "Bank") not unacceptable to the SEC staff.

³ Reasonable Interest will be calculated using the short-term applicable Federal Rate, compounded quarterly from the approximate date of the loss through the approximate date of the disbursement of the Veritaseum Fair Fund.

B. The Distribution Agent shall establish an escrow account (“Escrow Account”) pursuant to an escrow agreement (“Escrow Agreement”) to be provided by SEC staff, in the name of and bearing the Employer Identification Number of the QSF. The Distribution Agent shall also establish with the Bank a separate deposit account (the “Deposit Account”) (e.g., controlled distribution account, managed distribution account, linked checking and investment account) for the purpose of funding Distribution Payments to be distributed to Eligible Claimants by the Distribution Agent pursuant to the Distribution Plan. The name of each account shall be substantially in the following form: “Veritaseum Fair Fund (EIN XX-XXXXXXX), as custodian for the benefit of investors allocated a distribution pursuant to the Distribution Plan in *SEC v. Middleton, et al.*, Case No. 19-CV-4625 (WFK) (E.D.N.Y.)”

C. During the term of the Escrow Agreement, if invested, the Escrow Account shall be invested and reinvested in short-term U.S. Treasury securities backed by the full faith and credit of the United States Government or an agency thereof, of a type and term necessary to meet the cash liquidity requirements for payments to Eligible Claimants and tax obligations, including investment or reinvestment in a bank account insured by the Federal Deposit Insurance Corporation (“FDIC”) up to the guaranteed FDIC limit, or in money market mutual funds registered under the Investment Company Act of 1940 that invest 100% of their assets in direct obligations of the United States Government.

D. The Distribution Agent, in consultation with the Tax Administrator and the SEC staff, shall determine the Net Available Fair Fund by retaining a prudent reserve for Administrative Costs. After all distributions and payment of all tax obligations, any remaining amounts in the reserve will become part of the residual described in Section IX.A.

E. Within 30 days following the completion of the Third Party Review and any remedial efforts, and after consulting with the Tax Administrator concerning reporting and withholding requirements, the Distribution Agent shall compile and securely send to the SEC staff the payee information, including the names, addresses, and Distribution Payments and withholding amounts of all Eligible Claimants (“Payment File”). The Distribution Agent will simultaneously provide a “Reasonable Assurances Letter” to the SEC staff, representing that the Payment File: (a) was compiled in accordance with the Distribution Plan; (b) is accurate as to Eligible Claimants’ names, address, Distribution Payment and, as applicable, tax withholding amount; and (c) provides all information necessary to make a payment equal to the amount of the applicable Distribution Payment for such Eligible Claimant.

F. Upon receipt and review of the validated Payment File and Reasonable Assurances Letter, the SEC staff shall cause to be disbursed to the Distribution Agent by sending to the Escrow Account the aggregate amount of Distribution Payments (including withholding amounts) set forth on the Payment File for distribution to Eligible Claimants pursuant to the Distribution Plan.

G. The Distribution Agent shall use its best efforts to commence mailing Distribution Payment checks or effect wire transfers within fifteen (15) business days of the transfer of the funds into the Escrow Account. All efforts will be coordinated to limit the time between the Escrow Account’s receipt of the funds and the issuance of Distribution Payments.

H. The Distribution Agent shall provide duplicate original bank and/or investment statements on any accounts established by the Distribution Agent to the Tax Administrator on a monthly basis and shall assist the Tax Administrator in obtaining mid-cycle statements, as necessary.

I. The Distribution Agent shall deposit or invest funds in the Escrow and Deposit Accounts so as to result in the maximum return, taking into account the safety of such deposits or investments. In consultation with SEC staff, the Distribution Agent shall work with the Bank on an ongoing basis to determine an allocation of funds between the Escrow and the Deposit Accounts.

J. All interest earned will accrue for the benefit of the Veritaseum Fair Fund and all costs associated with the Escrow and Deposit Accounts will be paid by the Veritaseum Fair Fund.

K. All funds shall remain in the Escrow Account, separate from bank assets, pursuant to the Escrow Agreement until needed to satisfy a presented check or payment. All Veritaseum Fair Fund checks presented for payment or electronic transfer will be subject to “positive pay” controls before being honored by the Bank, at which time funds will be transferred from the Escrow Account to the Deposit Account to pay the approved checks.

L. All checks issued to Eligible Claimants by the Distribution Agent shall bear a stale date of one hundred twenty (120) days. Checks that are not negotiated before the stale date shall be voided and the issuing financial institution shall be instructed to stop payment on those checks. Such Eligible Claimant’s claim is extinguished as of the stale date and the funds will remain in the Net Available Fair Fund. If a check reissue has been requested before the stale date, such request is governed by Section VIII.D.

M. Electronic or wire transfers may be utilized at the discretion of the Distribution Agent to transfer approved Distribution Payments. For any electronic payment, the exact amount necessary to make a payment shall be transferred from the Escrow Account directly to the payee bank account in accordance with written instruction provided to the Escrow Bank by the Distribution Agent. All wire transfers will be initiated by the Distribution Agent using a two-party check and balance system, whereby completion of a wire transfer will require authorization by two members of the Distribution Agent’s senior staff.

N. Claims on behalf of a retirement plan covered by Section 3(3) of ERISA, 29 U.S.C. § 1002(3), which do not include individual retirement accounts, and such plan’s participants, are properly made by the administrator, custodian or fiduciary of the plan and not by the plan’s participants. The Distribution Agent will issue any payments on such claims directly to the administrator, custodian or fiduciary of the retirement plan. The custodian or fiduciary of the retirement plan will distribute any payments received in a manner consistent with its fiduciary duties and the governing account or plan provisions. With respect to any retirement plan that has been closed prior to the Distribution Agent’s identification of Eligible Claimants, the Distribution Agent will endeavor to distribute funds directly to the beneficial account owner of such retirement plans if the information required for such a distribution is known to or provided to the Distribution Agent.

O. All Distribution Payments shall be preceded or accompanied by a communication that will include, as appropriate: (a) a statement characterizing the distribution; (b) a statement from the Tax Administrator regarding the tax consequences of Distribution Payments and informing Eligible Claimants that the tax treatment of the distribution is the responsibility of each recipient and that the recipient should consult their tax advisor for advice regarding the tax treatment of the distribution; (c) a statement that checks will be void after one hundred twenty (120) days; and (d) providing contact information for the Distribution Agent, to be used in the event of any questions regarding the distribution. All such communications shall be submitted to the SEC staff and the Tax Administrator for review and approval. Distribution Payments, on their face or in the preceding or accompanying mailing shall clearly indicate that the money is being distributed from a Fair Fund established by the Court for the benefit of investors for harm as a result of securities law violations.

VIII. Uncashed Checks and Reissues

A. The Distribution Agent will work with the Bank and maintain information about uncashed checks, returned payments, any returned items due to non-delivery, insufficient addresses, and/or other deficiencies. The Distribution Agent is responsible for researching and reconciling errors and reissuing payments when possible and for maintaining a record of such efforts. The Distribution Agent is also responsible for accounting for all payments. The amount of all uncashed and uncleared payments will continue to be held in the Veritaseum Fair Fund.

B. The Distribution Agent shall use its best efforts to make use of reasonable commercially available resources and other reasonably appropriate means to locate all Eligible Claimants whose checks are returned to the Distribution Agent as undeliverable by the USPS.

C. Where new address information becomes available, the Distribution Agent shall repackaging the distribution check and send it to the new address. Where new address information is not available after a diligent search (and in no event later than one hundred twenty (120) days after the initial mailing of the original check) or if the distribution check is returned again, the check shall be voided and the Distribution Agent shall instruct the issuing financial institution to stop payment on such check. If the Distribution Agent, despite best practicable efforts, is unable to find an Eligible Claimant's correct address, the Distribution Agent, in its discretion, may remove such Eligible Claimant from the distribution and the allocated Distribution Payment will remain in the Net Available Fair Fund for distribution, if practicable, to the remaining Eligible Claimants.

D. The Distribution Agent will re-issue new checks to Eligible Claimants upon the receipt of a valid, written request from the Eligible Claimants prior to the initial stale date. Such reissued checks will be void if not negotiated by sixty (60) days after issuance.

E. In cases where an Eligible Claimant is unable to endorse a Distribution Payment (e.g., as the result of a name change because of marriage or divorce, or as the result of death), any request by an Eligible Claimant or a lawful representative for reissuance of a Distribution Payment in a different name must be documented to the satisfaction of the Distribution Agent. If, in the sole discretion of the Distribution Agent, such change is properly documented, the Distribution Agent will issue an appropriately redrawn Distribution Payment, subject to the time limits detailed herein.

F. The Distribution Agent will make reasonable efforts to contact Eligible Claimants to follow-up on the status of uncashed or uncleared Distribution Payments (other than those returned as “undeliverable”, which are addressed above) and take appropriate action to follow up on the status of uncashed checks and uncleared payments at the request of SEC staff. The Distribution Agent may reissue such checks or payments, subject to the time limits detailed herein.

IX. Disposition of Remaining Funds after Distribution

A. A residual within the Veritaseum Fair Fund will be established for any amounts remaining after all assets have been disbursed (the “Residual”). The Residual may include, among other things, funds reserved for future taxes and for post-distribution contingencies, amounts from Distribution Payments that have not been cashed or cleared, amounts from Distribution Payment checks that were not delivered or accepted upon delivery, and tax refunds.

B. The Distribution Agent, in consultation with SEC staff, may distribute any residual funds to (a) Eligible Claimants, if any, who filed claims with the Distribution Agent after the Claims Bar Date or who were late in curing a rejected claim in accordance with the Claims Process and, if feasible, (b) on a *pro rata* basis to all Eligible Claimants that negotiated the checks issued in the immediately preceding distribution or that received electronic payments, up to their Total Loss Amount and subject to the *De Minimis Amount*.

C. If, after the distribution is complete and all Administrative Costs have been paid, funds remain in the Veritaseum Fair Fund, and the Distribution Agent, in consultation with the SEC staff, has determined further distributions to be infeasible, the Residual shall be transferred to the SEC pending a final accounting. Upon completion of the final accounting, the SEC staff will file a motion with this Court to approve the final accounting, which will include a recommendation as to the final disposition of the Residual, consistent with *Liu v. SEC*, 140 S. Ct. 1936 (2020). If distribution of the Residual to investors is infeasible, the SEC staff may recommend the transfer of the Residual to the general fund of the U.S. Treasury subject to Section 21F(g)(3) of the Exchange Act.⁴

X. Fair Fund Reporting and Accounting

The Distribution Agent will provide reports in accordance with the Final Judgment, including, in consultation with the Tax Administrator, a final accounting and final report.

XI. Termination of the Veritaseum Fair Fund

A. Once all Distribution Payments have been negotiated or voided, any funds remaining in the Escrow and Deposit Accounts will be transferred to the SEC.

⁴ Section 21F(g)(3) of the Exchange Act, 15 U.S.C. § 78u-6(g)(3), provides, in relevant part, that any monetary sanction of \$200 million or less collected by the SEC in any judicial action brought by the SEC under the securities laws that is not added to a disgorgement fund or fair fund or otherwise distributed to victims, plus investment income, shall be deposited or credited into the SEC Investor Protection Fund.

B. The SEC staff will seek an Order from the Court, as appropriate, approving the final accounting, discharging the Distribution Agent, and terminating the Veritaseum Fair Fund.

C. The Veritaseum Fair Fund will be eligible for termination and the Distribution Agent will be eligible for discharge after all of the following have occurred:

1. A final report and accounting has been submitted to and approved by the Court;
2. All Administrative Costs have been paid; and
3. The Court has approved the SEC's recommendation as to the final disposition of the Residual consistent with *Liu v. SEC*, 140 S. Ct. 1936 (2020).

D. Once the Veritaseum Fair Fund has been terminated, no further claims will be allowed and no additional payments will be made whatsoever.

XII. Miscellaneous

A. The Court reserves the right to amend this Distribution Plan from time to time, and retains exclusive jurisdiction over all claims arising in connection with this Distribution Plan, including, but not limited to, claims against the Distribution Agent or Tax Administrator asserting liability for violation of any duty imposed by this Distribution Plan or other Court order.

The Distribution Agent and the Tax Administrator are entitled to rely on all outstanding rules of law and Court orders.