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**Memorandum**

Re: Application of the United States Securities Laws to the Verity Inc. Initial Token Offering

*Introduction*

Verity Inc. (the “Company”) operates a system known as Verity One (the “Verity System”) through which users can identify and validate products. Operation of the Verity System assigns a digital tag to products entering the Verity System and follows the products as the products move through commerce from origination to the ultimate user. The Company has developed a utility token for use in the Verity System and the related protocol that uses a decentralized verification and tracking blockchain platform that enables marking and tracing items entered into the hybrid Verity One hyperledger network.

The Company’s Verity System operates as a managed services platform using integrated systems and technologies such as the Ethereum blockchain, IBM’s Hyperledger, artificial intelligence on IBM’s Watson platform, as well as internet of things devices. The Verity System and protocol allow manufacturers, brands, retailers, and producers to assign unique trackable tags, including the current UPC and PLU S/N, to a unique digital signature that is applicable to products, services, any tangible or intangible property, or any digital good that can be transferred, issued, or traded both on and offline. All of the unique digital signatures are stored on the Verity System, and the data on the Verity System can be queried by credentialed users for location, time, date, lot, temperature, manufacturer, origin, as well as to provide the identification and verification of the data collector or device.

The Company has represented to the undersigned and the undersigned has relied on the Company’s representations for purposes of delivering this Memorandum, on the accuracy of the factual matters referenced in this Memorandum and matters set forth in the Company’s white paper (the “White Paper”) entitled *Verity One Data Structure & Design Protocol for Country of Origin, Religious, Health, Organic, Efficacy, Supply Chain Verification and Management on Blockchain Networks*. The White Paper is dated February 5, 2018 and is on file with the Company.

The Company has developed a utility token for the Verity System known as the VRTY Token. VRTY Tokens power the Verity System by providing a medium of exchange to access the Verity System. Users will include producers of goods, organizations that transport goods, retailers of goods, and consumers that purchase goods. Users of the Verity System will use VRTY Tokens to pay for verification and data services offered by the Verity System.

The VRTY Token is required to generate unique signatures and data within the system. Businesses and producers of products will purchase VRTY Tokens which are then processed by the Verity System as a fee for their verification, certification, and data services. Verity will compensate users/consumers with VRTY Tokens, earning VRTY Tokens by each action after downloading the Verity Scanning smartphone app and scanning, database lookup, comment, social share, adding products to the database, and reporting fraud.

The Verity protocol is the foundation of the Verity One application program interface ecosystem. The system’s primary function is to build application-level verification services that can be integrated with any existing e-commerce/retail operation, applications, or services. This revolutionary ecosystem extends verification technology and systems to markets and marketing claims such as: MADE in USA; Underwriters Laboratories (UL); religious designation such as Kosher (U) or Halal; country of origin; organic; non-GMO; apparel and fashion; industrial; technology; produce; raw materials; diamonds; beef; educational materials; marijuana/cannabis products; digitally licensed services, and many other verticals.

## *The Howey Elements*

On July 25, 2017 the United States Securities and Exchange Commission (the “SEC”) issued a Section 21(a) investigative report, Release No. 81207 (the “Report”), which provides a framework for understanding which initial coin or token offerings are within the SEC’s authority to regulate as securities, and which are not. Whether the Company’s VRTY Token offering is an offer of securities depends, under the reasoning of the Report and the standards set by relevant court decisions, on whether or not the Company is offering and selling investment contracts and thus securities. That issue turns on whether the VRTY Token offering meets the three elements set forth in the United States Supreme Court’s decision in *SEC v. W.J. Howey Co.* This Memorandum contains an analysis of the VRTY Token offering as described in the White Paper, supplemented by additional information provided by the Company.

In all the uses of the VRTY Tokens set forth above, token holders use VRTY Tokens to purchase services available from the Verity System. These services as indicated above are currently available from the Company.

The *Howey* test involves application of three elements of the test to the structure that is being considered to be a security. These elements are (i) an investment of money, (ii) in a common enterprise, (iii) with an expectation of profits predominantly from the efforts of others. An analysis of these elements shows that the VRTY Token does not constitute a security.

*Investment of Money.* The VRTY meets the standard of the first element in the *Howey* test by receiving valuable consideration in return for the VRTY Tokens purchased in the offering.

*Common Enterprise.* The VRTY Token offering is most clearly not a common enterprise: it is not “a pooling of assets from multiple investors so that all share in the profits and risks of the enterprise” as one lower court stated when defining the second element of the *Howey* test. Purchasers of the VRTY product-use tokens receive no share in the profits of the Company or any other entity. Nor do they share in its risks, except in the universal manner that purchasers of a product assume some degree of risk that the selling entity will fall short with respect to maintenance and support of the product. But this is not the type of investment risk that the *Howey* test examines, in which the investors share in the risk of loss of value of the offeror entity as stakeholders in a common enterprise, which naturally entails sharing both profits and risks.

Rather than stakeholders in a common enterprise, purchasers of VRTY Tokens are in the position of customers in the context of the right to use a software and network based product and service.

*Expectation of Profits from the Efforts of Others.* As to the third element of *Howey*, the expectations of profitability and advantage on the part of VRTY Token purchasers in the offering are a function of the token holders’ own decisions and efforts about how to use and develop the rights they use in the Verity System.

Because they are purchasing usage rights to products and services already available, token purchasers are dependent on their own evaluation of the products and services, rather than dependent on the future entrepreneurial and managerial efforts of the Company.

## *Conclusion*

The offering for the VRTY Token offers a token the use of which does not meet the common enterprise or efforts of others tests of *Howey*. Therefore the offering of the VRTY Tokens is not subject to the U.S. securities laws.



Neal Hutchinson