

IN THE IOWA SUPREME COURT

Supreme Court No. 24-0879

LINN COUNTY NO. SPCR153138 & SPCR153335

IN THE MATTER OF PROPERTY SEIZED FROM SHELBY CASON

**IN THE MATTER OF PROPERTY SEIZED FROM BITCOIN DEPOT
OPERATING, LLC**

**APPEAL FROM THE DISTRICT COURT OF LINN COUNTY, THE
HONORABLE IAN THORNHILL, JUDGE**

APPELLEE’S BRIEF

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STATEMENT OF ISSUES PRESENTED FOR REVIEW

- I. Whether the District Court Erred in Finding Third Party Duress Was Applicable and Rendered the Transaction Voidable.**
- II. Whether the District Court Erred in Ordering the Return of the Funds to Mr. Cason.**

ROUTING STATEMENT

This case should be retained by the Iowa Supreme Court, pursuant to Iowa Code 6.1101(2), as it raises fundamental issues of broad public importance and substantial issues of first impression. Iowa Code §§ 6.1101(2)(c), 6.1101(2)(d).

NATURE OF THE CASE

Mr. Cason accepts Bitcoin Depot's nature of the case as adequate and essentially correct. Iowa R. App. P. 6.903(3).

STATEMENT OF THE FACTS

On July 28, 2023, Shelby Cason (hereinafter "Mr. Cason") received a pop-up warning on his computer giving him a number to call. D0002 (SPCR153138), Cason Claim for Ret. at 7 (01/24/24). When Mr. Cason called this number, he was informed he needed to call Microsoft for apparent computer issues. D0002 (SPCR153138) at 6. After reaching out to what he believed to be Microsoft, Mr. Cason was told to give remote access of his computer to this individual so the individual could fix Mr. Cason's alleged issues. *Id.* When he allowed access to his computer the individual notified Mr. Cason that his bank account had been hacked and he now needed to deposit \$15,000.00 into the Bitcoin ATM located at 1396 7th Avenue, Marion, IA 52302. D0002 (SPCR153138) at 1,7. When Mr. Cason asked additional questions of the individual, he was notified there was also child pornography on his laptop and if

he did not deposit the money into the Bitcoin ATM, the Federal Bureau of Investigation would be contacted. D0002 (SPCR153138) at 7.

Mr. Cason complied with the threat and withdrew \$15,000.00 from his checking account and deposited \$14,800.00 of it into the Bitcoin ATM located at 1396 7th Avenue, Marion, IA 52302. D0002 (SPCR153138) 6-7. The Bitcoin ATM Mr. Cason deposited the funds into was owned by the appellant, Bitcoin Depot Operating, L.L.C. (hereinafter “Bitcoin Depot”). D0004 (SPCR153138), Bitcoin Depot Mot. to Intervene, Ex. A at 5- ¶12 (02/09/2024).

After the money was deposited into the Bitcoin ATM, Mr. Cason discussed the matter with his neighbor and realized he may have been scammed. D0002 (SPCR153138) at 7. Mr. Cason then contacted the Linn County Sheriff’s office to report the crime and give an official statement. *Id.* After taking Mr. Cason’s statement, the Sheriff’s Office received and executed a search warrant for the Bitcoin ATM belonging to Bitcoin Depot, where they found and collected \$14,840.00. *Id.* These funds were then kept in their possession for further investigation. D0002 (SPCR153138) at 8.

On or about January 24, 2024, Mr. Cason filed a Claim for Return of Seized Property in the Iowa District Court for Linn County Case No. SPCR153138. D0002 (SPCR153138) at 1. On or about February 9, 2024, Bitcoin Depot filed their own separate and distinct Application for Return of Seized Property with the Iowa

District Court for Linn County Case No. SPCR153335 for the return of the same funds. D0001 (SPCR153335), Bitcoin Depot App. For Ret. at 1 (02/09/24).

After filing their own Application, Bitcoin Depot moved to intervene in Case No. SPCR153138. D0004 (SPCR153138) at 1. The Court granted Bitcoin Depot's Motion to Intervene allowing them to proceed as an interested party. D0007 (SPCR153138), Order Granting Bitcoin Depot Mot. to Intervene at 1 (02/13/24). Bitcoin Depot also filed a motion to consolidate the two actions pending before the Court. D0005 (SPCR153138), Bitcoin Depot Mot. to Consolidate at 1 (02/09/24). The Court granted this motion, consolidating the two cases under Case No. SPCR153138. D0008 (SPCR153138), Order Granting Bitcoin Depot Mot. to Consolidate at 1 (02/13/24). On or about February 14, 2024, a hearing was held regarding the two parties' claims. *See* D0010 (SPCR153138), Court Reporter Mem. at 1 (02/15/24). On or about March 5, 2024, the Court set a briefing schedule for the parties. D0013 (SPCR153138), Order for Briefing Schedule at 1 (03/05/2024).

On or about April 26, 2024, the District Court ordered the return of \$14,800.00 to Mr. Cason. D0016 (SPCR153138), Ruling at 5 (04/26/24). In its ruling, the court found that Mr. Cason, who was under third party duress when he deposited the funds, had a superior right to the funds. *Id.* Bitcoin Depot appealed this decision. D0017 (SPCR153138), Notice of Appeal at 1 (05/23/2024).

Additional facts will be discussed as needed in their relevant sections.

ARGUMENT

I. THE DISTRICT COURT CORRECTLY FOUND THIRD PARTY DURESS, WHICH RENDERED THE TRANSACTION VOIDABLE.

A. Error Preservation

“It is a fundamental doctrine of appellate review that issues must ordinarily be both raised and decided by the district court before we will decide them on appeal.” *Meier v. Senecaut*, 641 N.W.2d 532, 537 (Iowa 2002) (citation omitted). Because the issue of duress was presented to and ruled on by the district court, Mr. Cason does not contest error preservation on the issue.

B. Standard of Review

Requests for specific performance are tried in equity, and the corresponding standard of review is *de novo*. *Homeland Energy Solutions, LLC v. Retterath*, 938 N.W.2d 664, 684 (Iowa 2020); *see also* Iowa R. App. P. 6.907. Under a *de novo* review, the court will “review the entire record and ‘decide anew the issues properly preserved for appellate review.’” *Hora v. Hora*, 5 N.W.3d 635, 645 (Iowa 2024) (quoting *Struve v. Struve*, 930 N.W.2d 368, 371 (Iowa 2019)). “[W]hile not bound by the district court’s findings, [the court] give[s] them weight...” *Id.*

C. Discussion

1. *Burden of the parties*

While the burden of proving duress is on the party asserting the defense, Bitcoin Depot erroneously disregards its own burden—which it failed to meet—in

applying for the return for seized property. *See Wellman Sav. Bank v. Adams*, 454 N.W.2d 852, 855 (Iowa 1990). This case started with a request for the return of the \$14,800.00 seized by Linn County Sheriff's Office; in an application for seized property, the party filing the application has a "burden under § 809.3 of proving by a preponderance of the evidence that [they have] a lawful right to possession of the property...." *In re 1972 Euclid Ave.*, No. 07-0552, 2008 WL 2039310, at *1 (Iowa Ct. App. May 14, 2008). Despite Bitcoin Depot asserting Mr. Cason failed to meet his burden, they too had their own burden to overcome when they filed their application and motion to intervene. D0004 (SPCR153138) at 1. With this application, Bitcoin Depot had the burden of proving that they had lawful possession of the funds. *In re 1972 Euclid Ave.*, No. 07-0552, 2008 WL 2039310, at *1. The burden on both sides was adequately addressed in the district court's ruling as they analyzed the lawfulness of the transaction between Mr. Cason and Bitcoin Depot for which they ruled "... Cason has the right to possession of the seized cash" D0016 (SPCR153138) at 5.

2. *Status of the smart contract*

Bitcoin Depot argues that the district court's analysis of "smart contracts" was raised sua sponte, lending to the alleged error in their final holdings. While issues raised sua sponte do sometimes reflect uncharted territory, these actions are not completely disallowed; "district courts are permitted, under certain circumstances,

to raise issues and take action sua sponte[,]” so long as any action is taken “with restraint.” *\$99 Down Payment, Inc. v. Garard*, 592 N.W.2d 691. 695 (Iowa 1999) (citations omitted). And regardless, the district court’s analysis did not raise issues not previously discussed or incorporated in the parties’ applications or briefings.

Bitcoin Depot was the first to reference contract law in their application and motion to intervene, not only referencing the “terms and conditions” of the relevant transaction, but also referencing contract law in general as support for their claim. D0004 (SPCR153138), Ex. A, at 7-¶27. The district court’s analysis was guided by these claims as they were tasked with determining the “validity and enforceability of [Bitcoin Depot’s] terms and conditions,” which “Bitcoin Depot’s claim to the seized funds depend[ed] on...”. D0016 (SPCR153138) at 3. The discussion into the background of Bitcoin and the smart contract status was then warranted for the district court to make their final determinations as to the ownership claims. *Id.* (“In order to determine which party has the greater right to possession, it is useful to first gain a basic understanding of Bitcoin transactions.”)

The district court’s analysis of the contract type was not inaccurate either. Smart contracts are known as self-executing, digital promises which use a decentralized system “to solve problems that the conventional contract system cannot.” Kevin Werbach & Nicolas Cornell, *Contracts Ex Machina*, 67 DUKE L.J. 313, 330 (2017). In its analysis, the district court relied on numerous journals

exploring the still-developing topic of smart contracts and cryptocurrency. *See* D0016 (SPCR153138) 3-4. This reliance and the district court’s subsequent conclusion was not unsupported, however. Other courts have recognized the overlap between cryptocurrency like bitcoin and smart contracting, particularly with the use of blockchains—a decentralized ledger that tracks ownership and transfer of each unit of crypto-asset. *See In re Bibox Group Holdings Limited Securities Litigation*, 534 F.Supp.3d 326, 329–30 (S.D. N.Y. 2021); *Risley v. Universal Navigation Inc.*, 690 F.Supp.3d 195, 201–03 (S.D. N.Y. 2023); *Van Loon v. Department of Treasury*, 688 F.Supp.3d 454, 458–60 (W.D. Tex. 2023).

Even then, the journals cited properly allowed the district court to conclude that Mr. Cason and Bitcoin Depot engaged in a smart contract. Contrary to Bitcoin Depot’s argument, these articles do not distinguish between “smart contracts” and “simple transfers of Bitcoins between accounts,” but instead points out the types of transactions that occur with Bitcoin:

Smart contracts are possible with Bitcoin because its protocols include a scripting language that can incorporate limited programmable logic into transactions. *The vast majority of transactions on the Bitcoin blockchain are simple transfers of Bitcoins between accounts.*

Werbach & Cornell at 333. Nor was the transaction “ordinary or commonplace” to distinguish it from a “smart contract.” Appellant’s Br. at 31. Instead, Mr. Cason’s process of purchasing bitcoins with the \$14,800.00 and then transferring these coins to from his own wallet to the third party’s possession fell within the function of smart

contracts, which “can automatically move digital assets according to arbitrary pre-specified rules.” Adam J. Kolber, *Not-So-Smart Blockchain Contracts and Artificial Responsibility*, 21 Stan. Tech. L. Rev. 198, 208 (2018) (citation omitted). That automatic process occurred when Mr. Cason converted his funds into bitcoins without need for centralized authority, like the individuals at Bitcoin Depot managing the process.

Much of this analysis on the relevant transaction’s use of smart contracts was done to provide necessary background for the district court to assess Mr. Cason’s defenses and the lawfulness of Bitcoin Depot’s claim to the funds; such background cannot be considered “wholly unnecessary.” The district court’s analysis allowed it to determine that Bitcoin Depot did not have a superior right to the funds—failing to meet their own burden—and that Mr. Cason’s duress made the contract unenforceable.

3. *Failure to demonstrate lawful possession*

Following their motion to intervene and attached application for return of seized property, Bitcoin Depot had the own burden of demonstrating their lawful right to possess the \$14,800.00. *In re 1972 Euclid Ave.*, No. 07-0552, 2008 WL 2039310, at *1. In asserting this right, Bitcoin Depot is limited to the grounds set forth in their application. *See* Iowa Code § 809.3(2). As their grounds for return, Bitcoin Depot only asserts that the property should be returned as it is no longer helpful or necessary to the Sheriff’s investigation. D0004 (SPCR153138), Ex. A, at

8-¶29. Bitcoin Depot fails to establish, however, how their possession “is not prohibited by law,” nor do they establish that their right to possession is lawful through the use of valid and enforceable terms and conditions upon Mr. Cason. Iowa Code § 809.5(1). Because they have failed to prove by a preponderance of the evidence that they have a lawful right to possess the funds, the district court was right to deny their application in favor of Mr. Cason’s claim.

Bitcoin Depot’s right to possess is further proven *unlawful* through the district court’s finding that Mr. Cason was under duress. Under the Restatement (Second) of Contracts section 175(2):

If a party’s manifestation of assent is induced by one who is not a party to the transaction, the contract is voidable by the victim unless the other party of the transaction in good faith and without reason to know of the duress either gives value or relies materially on the transaction.

(1981).

There is no dispute that Mr. Cason was under duress when he deposited the money into Bitcoin Depot’s ATM, given that he was led to believe he would face legal repercussions if he did not deposit the money. *See* D0002 (SPCR153138), at 7. The question before the district court, then, was whether Bitcoin Depot knew or would have had reason to know of the duress Mr. Cason faced. As the district court stated:

“Smart contracts ... are closed systems that do not incorporate background rules of contract like duress, fraud, or voluntariness—these doctrines are preempted by code-based enforcement.” While Bitcoin Depot is governed by some of the same regulations as banks, the absence of such background rules makes blockchain transfers distinct from

transactions with a bank. And without these rules in place, the Court is concerned that smart contract platforms such as Bitcoin Depot effectively turn a blind eye to *the use of their ATMs in connection with fraudulent or coercive schemes and other criminal activity*.

D0016 (SPCR153138) at 4 (quoting Mark Verstraete, *The Stakes of Smart Contracts*, 50 LOY. U. CHI. L.J. 743, 778 (2019)) (emphasis added). As argued above, the exchange between Mr. Cason and the Bitcoin Depot ATM is considered a smart contract due to its automatic nature, and as such it eludes the normal functions of contract law. *See* Verstraete at 778; *see also* Gregory Klass, *How to Interpret a Vending Machine: Smart Contracts and Contract Law*, 7 GEO. L. TECH. REV. 69, 114 (2023) (“Contract law is designed to do more than give parties the terms they choose.”) This “blind eye” to the traditional contract rules and defenses puts Bitcoin Depot on notice of the potential for notice. This notice, further demonstrated by the warning Bitcoin Depot provides prior to transactions explicitly mentioning scams, shows that Bitcoin Depot had a degree of knowledge that individuals like Mr. Cason were experiencing duress upon depositing funds involuntarily. D0016 (SPCR153138) at 4. As other courts have noted, “Resolution of [third party duress] claim[s] would be *factually intensive* and dependent on, among other things, the knowledge and intent of the relevant parties.” *Zuckerman v. Metro Museum of Art*, 928 F.3d 186, 194 (2d Cir. 2019) (emphasis added). Given the nature of this contract, which allows Bitcoin Depot to remain out of the picture while customers interact with their ATMs, knowledge of third-party duress may look less intimate than it would in other circumstances.

Compare this case with *United States v. Smith*, where the court analyzed the ownership of funds withdrawn during a robbery at an ATM. 670 F. Supp. 2d 1316, 1321 (M.D. Fl. 2009). There, the court held that the funds withdrawn while the victim was under duress belonged to the bank, noting that because the money was not assigned to any of the victims' personal accounts when placed in the ATM, "the money...was the bank's property until lawfully withdrawn[,]” which did not occur since the money was withdrawn under duress. *Id.* In other words, ownership of the funds remained with the original holder of the funds until “delivery to a person who acquires it in good faith and for valuable consideration.” *Id.* (quoting 53A Am. Jur. 2d Money § 21 (2009)). Mr. Cason used \$14,800.00 from his personal bank account and deposited these funds into the Bitcoin Depot's ATM; however, ownership of these funds could not be transferred because, like in *Smith*, the funds were not acquired in good faith and lawfully transferred. *See id.* Notably, the court in *Smith* still upheld original ownership of the funds and the finding of duress in this case involving an ATM, similarly a situation where one of the three parties is not directly involved or as intimately knowledgeable of the ongoing duress. *Id.*

Lastly, while the record is limited, the district court is entitled to a degree of deference, especially due to its firsthand experience of the evidence and testimony presented. *See Hora*, 5 N.W.3d at 645. Given the nature of this contract, the evidence that is on the record, and the district court's analysis, there is adequate support to find

that Mr. Cason was under duress and Bitcoin Depot had the requisite knowledge to make their transaction voidable.

II. THE DISTRICT COURT APPROPRIATELY ORDERED THE RETURN OF THE FUNDS TO MR. CASON BASED ON HIS SUPERIOR INTEREST.

A. Error Preservation

Mr. Cason does not contest error preservation on this issue. Further, because the issues of possession prohibited by law under Iowa Code section 809.5(1) were argued in this case, and the district court addressed this code in their ruling, the issues under this code section are properly preserved. *See* D0014 (SPCR153138), State’s Br. 1-2 (03/09/24); D0015 (SPCR153138), Bitcoin Depot’s Br. In Supp. Of App. For Return 3-7 (03/26/24); D0016 (SPCR153138) 2-3; *Meier*, 641 N.W.2d at 537.

B. Standard of Review

Requests for specific performance are tried in equity, and the corresponding standard of review is de novo. *Retterath*, 938 N.W.2d at 684; *see also* Iowa R. App. P. 6.907. Under a de novo review, the court will “review the entire record and ‘decide anew the issues properly preserved for appellate review.’” *Hora*, 5 N.W.3d at 645 (quoting *Struve*, 930 N.W.2d at 371). “[W]hile not bound by the district court’s findings, [the court] give[s] them weight....” *Id.*

C. Discussion

The district court's ruling involved not only an analysis of the applicable contract law, but also the relevant law on disposition of seized property, which also supports returning the funds to Mr. Cason. Bitcoin Depot's ownership of the funds is already undermined by the duress when the funds were deposited. Even if Bitcoin Depot had any viable ownership, under Iowa Code section 809.5(1), their possession is prohibited by law, rendering return to them unavailable. The deposit of the funds occurred during the commission of a crime, particularly a theft as defined by Iowa Code section 714. D0002 (SPCR153138) at 7. Because of this crime, the funds were not transferred to Bitcoin Depot's possession lawfully, and any continued possession in their name would be prohibited by law. *See, e.g.*, 53 Am. Jur. 2d Money § 22, n. 2 (2009) ("Money lost by theft remains the property of the owner...."). Because Bitcoin Depot's ownership of the funds is prohibited by law, Mr. Cason has the superior right to funds, which were correctly returned to him by the district court.

CONCLUSION

For the reasons stated above, Appellee respectfully requests that the Court affirm the district court's decision.

REQUEST FOR ORAL ARGUMENT

Mr. Cason respectfully requests to be heard for oral argument for this case.

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CERTIFICATE OF COMPLIANCE

This brief complies with the type volume limitation of Iowa Rule of Appellate Procedure 6.903(1)(i)(1) as it contains **3,137 words**, excluding the parts of the brief exempted by Rule 6.903(1)(i)(1).

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