

IN THE IOWA SUPREME COURT

Supreme Court NO. 24-0882

LINN COUNTY NO. SPCR153494

**IN THE MATTER OF \$14,100.00 SEIZED FROM BITCOIN DEPOT
OPERATING, LLC**

**APPEAL FROM THE DISTRICT COURT OF LINN COUNTY, THE
HONORABLE CHRISTOPHER BRUNS, JUDGE**

INTERVENOR-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 Ms. Carlson.**

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

Ms. Carlson 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 February 8, 2023, Carrie Carlson (hereinafter "Ms. Carlson") was contacted by an individual claiming to be from Geek Squad, a tech support group, regarding an alleged recent transaction. D0011, Carlson App. for Return at 1-¶2 (03/18/2024). Ms. Carlson did not recall any transactions with Geek Squad and wanted to investigate this allegation. D0020, Carlson Br. in Support of App. for Return at 1 (04/08/2024). During a phone call with this individual, Ms. Carlson was informed that she had transferred money from an incorrect bank account, and any failure to follow the individual's instructions would result in a severe impact on her accounts. D0011 at 1-¶¶4, 5.

The next twenty-four (24) hours were filled with extreme anxiety and duress for Ms. Carlson; the individual continued threatening her financial accounts unless she withdrew funds from her personal accounts and deposited them into Bitcoin

ATMs. *Id.* These ATMs allow individuals to deposit funds which are then exchanged into Bitcoin, a type of digital currency or cryptocurrency. Appellant’s Br. at 9. Ms. Carlson wholly believed that she would lose access to her and her husband’s accounts if she did not deposit this money. D0020, at 2. One of the Bitcoin ATMs she deposited money into was located at 380 Blairs Ferry Road NE, Cedar Rapids, Iowa 52402, and belonged to the claimant-appellant, Bitcoin Depot Operating, L.L.C. (hereinafter “Bitcoin Depot”). D0011 at 1–2-¶6. At this location, she deposited \$14,100.00. *Id.*

After these deposits were made and Ms. Carlson determined she was no longer being threatened, she filed a police report with the Linn County Sheriff’s Office. *Id.* at 2-¶7. The Sheriff’s Office received and executed a search warrant for Bitcoin ATM belonging to Bitcoin Depot, where they found and collected the \$14,100.00 deposited by Ms. Carlson. D0020, at 2. These funds were then kept in their possession for further investigation. *Id.* On or about February 21, 2024, Bitcoin Depot filed an Application for Return of Seized Property, claiming superior ownership to the \$14,100.00 deposited by Ms. Carlson. D0001, Bitcoin App. for Return at (02/21/2024). On March 18, 2024, Ms. Carlson filed a Motion to Intervene and her own Application for Return of Seized Property, asserting superior ownership. D0009, Motion to Intervene at 1 (03/18/2024); D0011 at 1.

The district court granted the Motion to Intervene, and after a hearing on March 21, 2024, the court ordered the parties to submit briefs on the issue for further argument. D0013, Order Granting Motion to Intervene at 1 (03/19/2024); D0016, Order for Briefing Schedule at 1 (03/21/2024). Following the submission of these briefs, on April 30, 2024, the district court ordered the return of the \$14,100.00 to Ms. Carlson. D0022, Ruling at 7 (04/30/2024). In its ruling, the court found that Ms. Carlson, who was under third party duress when she deposited the funds, had a superior right to the funds. *Id.* at 6. Bitcoin Depot appealed this decision. D0026, 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, Ms. Carlson 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 \$14,100.00 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); D0001 at 1. Bitcoin Depot was the first to file their application for return of property on February 21, 2024. D0001 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. Ms. Carlson’s application was filed in response to Bitcoin Depot’s claim of lawful possession on March 18, 2024. D0011 at 1. Subsequently, this burden was adequately addressed in the district court’s ruling as they analyzed the lawfulness of the transaction between Ms. Carlson and Bitcoin Depot and which party had “the greater right to possession...” D0022 at 4, 7.

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, not only referencing the “terms and conditions” of the relevant transaction, but also referencing contract law in general as support for their claim. D0001 at 6-¶25, 7-¶30. 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....” D0022 at 4. 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* D0022 at 4–6. 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 Ms. Carlson 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 29. Instead, Ms. Carlson's process of purchasing bitcoins with the \$14,100.00 and then transferring these coins to from her 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 Ms. Carlson converted her 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 Ms. Carlson'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 Ms. Carlson’s duress made the contract unenforceable.

3. *Failure to demonstrate lawful possession*

Following their application for return of seized property, Bitcoin Depot had the burden of demonstrating their lawful right to possess the \$14,100.00. *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. D0001 at 7-¶32. 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 Ms. Carlson. 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 Ms. Carlson’s claim.

Bitcoin Depot’s right to possess is further proven *unlawful* through the district court’s finding that Ms. Carlson 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 Ms. Carlson was under duress when she deposited the money into Bitcoin Depot’s ATM, given that she was led to believe her accounts would be impacted if she did not deposit the money. *See* D0001, Ex. A at 3–4-¶¶19, 20; D0009 at 1-¶4. The question before the district court, then, was whether Bitcoin Depot knew or would have had reason to know of the duress Ms. Carlson 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. Without these rules, smart contract platforms turn a blind eye to *the use of their ATMs in connection with fraudulent or coercive schemes and other activity.*

D0022 at 6 (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 Ms. Carlson 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 Ms. Carlson were experiencing duress upon depositing funds involuntarily. D0022 at 3. 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)). Ms. Carlson used \$14,100.00 from her 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 Ms. Carlson 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 MS. CARLSON BASED ON HER SUPERIOR INTEREST.

A. Error Preservation

Ms. Carlson does not contest error preservation on this issue. Further, because Ms. Carlson raised the issues of possession prohibited by law under Iowa Code section 809.5(1), and the district court addressed this code in their ruling, the issues under this code section are properly preserved. *See* D0011 at 1-¶5; D0022 at 7; *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 Ms. Carlson. 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. *See* D0011 at 2-¶¶7, 9. 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, Ms. Carlson has the superior right to funds, which were correctly returned to her by the district court.

CONCLUSION

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

REQUEST FOR ORAL ARGUMENT

Ms. Carlson 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 **2,970 words**, excluding the parts of the brief exempted by Rule 6.903(1)(i)(1).

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