

/MEMORANDUM

To: Crypto Task Force Meeting Log
From: Crypto Task Force Staff
Re: Meeting with Representatives of Molecule AG and Cahill Gordon & Reindel LLP

On March 2, 2026, Crypto Task Force Staff met with representatives from Molecule AG and Cahill Gordon & Reindel LLP.

The topic discussed was approaches to addressing issues related to regulation of crypto assets. Molecule AG and Cahill Gordon & Reindel LLP representatives provided the attached documents, which were discussed during the meeting.

Attachment 1: Detailed Agenda and Participant List

MEETING AGENDA

Molecule AG — SEC Crypto Task Force "Coin-to-Company": Using Blockchain Infrastructure to Fund and Accelerate Scientific Research in the United States

Submitted by: Benjamin Snipes, Chief Legal Officer, Molecule AG

Date of Submission: February 18, 2026

Requested Duration: 60 minutes

Accompanying Materials:

- This Agenda and Participant List (Attachment 1)
- "The Coin-to-Company Model ... A Decentralized Science (DeSci) Application" — Discussion Draft, January 2026 (Attachment 2)
- General C2C model paper available on SSRN:
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=6153830

A. Proposed Attendees and Participant List

Name	Title	Organization	Role in Meeting
Benjamin Snipes	Chief Legal Officer	Molecule AG	Lead Presenter; Securities, Tax & Compliance Analysis
Aaron Weaver	Chief Commercial Officer	Molecule AG	Technical & Business Overview

B. Background: Molecule and Decentralized Science (5–7 minutes)

Objective: Provide the Task Force with context on Molecule's operations, the problem it addresses in scientific funding, and why blockchain infrastructure is uniquely suited to this use case.

Molecule is a decentralized biotech protocol operating since approximately 2018. Molecule builds web3 infrastructure to fund, govern, and commercialize research-related intellectual property. The company pioneered the IP-NFT (Intellectual Property Non-Fungible Token), a non-fungible token that wraps legal IP rights on-chain, and IP Tokens (IPTs), fungible tokens that enable community governance and participation in specific research projects.

Molecule's ecosystem includes several Biotech DAOs, which are decentralized autonomous organizations focused on specific therapeutic areas. Most notably, there is VitaDAO (longevity research), which has funded over \$5 million in peer-reviewed research projects at institutions worldwide. Molecule has partnered with

traditional biotech venture capital firms (e.g., Apollo Health Ventures) and has facilitated the creation of multiple research-stage biotech entities.

The core problem: Traditional biotech R&D funding is slow, gatekept, opaque, and inaccessible to patients, citizen scientists, and non-institutional funders. The "Valley of Death" between basic research and clinical development leaves promising science unfunded. Blockchain infrastructure offers transparency, global accessibility, milestone-based disbursement via smart contracts, and community engagement, which are tools fundamentally well-suited to accelerating U.S. scientific research.

Discussion point for the Task Force: How does the Commission view the use of blockchain infrastructure for funding pre-clinical and early-stage scientific research? Are there particular concerns or areas of interest the Task Force would like us to address?

C. The Coin-to-Company Model: Architecture and Legal Framework (15–20 minutes)

Objective: Walk the Task Force through the C2C model as described in the attached paper (Attachment 2) and the SSRN version ([abstract_id=6153830](#)), with a focus on the securities law analysis at each stage of the contributor lifecycle.

The attached paper proposes the Coin-to-Company (C2C) model, which is a legal framework that reconciles decentralized governance and community participation with U.S. securities regulation through **categorical separation** rather than temporal transformation. The core proposition is that project tokens and equity securities serve different yet complementary purposes and should never be conflated.

C.1: Dual-Entity Architecture

The C2C model uses a US based, dual-entity structure:

- **DevCo (or LabsCo):** A Delaware LLC with C-Corporation tax election that creates and distributes tokens, conducts all business operations, holds IP, employs team members, and issues equity through established exemptions. DevCo is structured for QSBS eligibility under IRC § 1202.
- **DAO:** Organized as a Delaware Unincorporated Nonprofit Association (UNA) under 6 Del. Code §§ 1901–1916, serving three limited functions: (a) liability protection for token holders (addressing *Samuels v. Lido DAO*), (b) IP assignment vehicle for community contributions, and (c) advocacy and community organization. The DAO holds no material assets and conducts no for-profit business.

Key structural principle: DevCo creates and distributes tokens, but token ownership conveys no equity or financial interest in DevCo. Token distribution is a commercial transaction — a sale of utility — not an investment transaction.

Discussion point: We seek the Task Force's views on the dual-entity architecture and whether the separation of the DAO (nonprofit community organization) from the DevCo (operating company) adequately addresses concerns about token holders being deemed to have an investment relationship with the operating entity just by virtue of acquiring tokens, with full knowledge and disclosure regarding how equity may be obtained upon any initial (or secondary) token purchase.

C.2: Token Economics — Utility, Not Securities

As detailed in Section II.B of the attached paper, project tokens serve defined non-financial functions:

- **DAO Membership Credential** — automatic, revocable, non-economic

- **Network Utility** — platform access, governance participation, identity signaling
- **Locked Token Functionality** — voluntary token locking provides technical identity infrastructure and eligibility signaling, but creates **no contractual right to equity, no option to purchase equity, and no enforceable claim against DevCo**

The paper demonstrates in Section II.C ("The Non-Option Nature of Locked Tokens") that locked tokens fail all three prongs of the options analysis under *Gwozdzinsky v. Zell-Chilmark Fund* — no determined quantity, no determined price, and no enforceable right.

Securities law position: The tokens at all stages are designed to fail every prong of the *Howey* test. There is no investment of money in a common enterprise with an expectation of profits derived from the efforts of others other than might be claimed for any good or collectible – and yet the tokens form the crypto-based mechanics for the company as a whole. Token distribution is framed as a sale of utility, not an investment via a robust whitepaper. No profits are promised, and the white paper makes clear that tokens carry no claims on DevCo's assets or income. This analysis is consistent with the consumptive use doctrine of *United Housing Foundation v. Forman* and the programmatic sales analysis in *SEC v. Ripple Labs*.

Discussion point: Does the Task Force agree that a utility token with no economic rights, no binding governance power, and no claim on a project's assets or income, as described in the paper, falls outside the definition of a "security" under the Securities Acts in line with Chairman Atkin's taxonomy?

C.3: The Equity Bridge — From Tokens to Shares

The C2C model's most innovative element (detailed in Section III.B of the attached paper) is the structured pathway from token holder to equity holder:

1. **Token Locking** — voluntary, reversible (unless equity is received), creates no obligation on DevCo
2. **KYC/AML Screening** — standard identity verification for securities compliance
3. **Equity Application** — locked token holders may *petition* DevCo for equity; approval is entirely discretionary
4. **Equity Issuance Under Applicable Exemption:**
 - **Pathway A: Regulation D (Rule 506(b) or 506(c))** — for accredited investors providing capital
 - **Pathway B: Regulation S, CF, or A** — for offshore investors, crowdfunding, or scaled public offerings
 - **Pathway C: Rule 701** — for community members providing genuine services (advisory, IP contributions, promotional activities) documented through written Advisory, Intellectual Property, and Promotion ("AIPP") agreements

Key principle: Equity is issued through documented, compliant securities transactions entirely separate from token ownership. Tokens are not consideration for equity; they do not convert into equity; the token and the equity are legally distinct instruments at all times.

Discussion points:

- Does the Task Force view the structural separation of the utility token from the equity instrument as an effective means of avoiding investment contract classification of the token?
- Are there concerns about the token locking mechanism — specifically, whether voluntary, reversible locking that creates no contractual right to equity could nonetheless be viewed as creating an implied investment relationship?
- Is Rule 701 an appropriate exemptive basis for equity grants to community contributors who provide genuine advisory, IP, or promotional services, where the services are documented through AIPP agreements like contractors or advisors to any other non-crypto based startup?

C.4: DeSci Use Cases (Exhibit A of Attached Paper)

Exhibit A of the attached paper provides detailed illustrations of how two decentralized science organizations — **DermaDAO** (consumer skincare research) and **ORyan Health-JDM** (Juvenile Dermatomyositis research) — could implement the C2C framework. These use cases demonstrate:

- How the dual-entity architecture maps to specific biotech research models
- How utility tokens solve governance/participation while equity securities solve capital/accountability
- How C2C enables compliant decentralized research without sacrificing institutional partnerships
- Three levels of governance: (1) token holder advisory governance (non-binding), (2) locked token holder enhanced participation, and (3) equity holder binding corporate governance

Discussion point: Does the Task Force see DeSci as a distinct use case warranting tailored guidance, or does the Commission view it as falling within existing frameworks for token classification?

D. Alignment with Regulatory Developments and Administration Priorities (5–7 minutes)

Objective: Demonstrate how the C2C model aligns with current legislative, regulatory, and executive branch developments.

As discussed in Part V of the attached paper ("Regulatory Context and Timing"), the C2C model is designed to be consistent with and advance:

1. **Executive Order 14178** (Strengthening American Leadership in Digital Financial Technology): The model promotes U.S.-based capital formation for scientific research, keeps IP and corporate entities domiciled in the U.S. (Delaware LLCs), and provides clear regulatory lines between tokens and securities.
2. **SEC Chair Atkins' "Project Crypto" Framework:** The C2C model operationalizes the distinction between digital commodities, digital tools, and digital collectibles on one hand, and securities on the other — based on functional characteristics rather than form.
3. **The Responsible Financial Innovation Act / CLARITY Act (pending):** The C2C model's categorical separation of utility tokens from investment contracts mirrors the legislative framework for distinguishing "digital commodities" from securities and recognizing decentralized governance systems.

4. **Judicial Developments:** The C2C model incorporates lessons from *SEC v. Ripple Labs* (programmatic sales vs. institutional sales), *Samuels v. Lido DAO* (need for proper DAO legal structure), and *SEC v. Telegram* (avoiding unitary offering characterization).
5. **QSBS Tax Incentives:** DevCos are structured for QSBS eligibility under IRC § 1202, enabling contributors who hold equity for the required period to exclude up to \$15 million in capital gains — a powerful incentive for long-term commitment to scientific research.

Discussion point: Does the Task Force see opportunities for pilot programs, no-action letters, or exemptive relief that could facilitate adoption of compliant hybrid structures like C2C for scientific research funding?

E. Specific Questions for the Task Force (10–15 minutes)

We respectfully present the following questions for structured discussion:

1. **Security Status of Project Tokens:** Does the Task Force agree that a utility token with no economic rights, no binding governance power, and no claim on a project's assets or income as described in the attached paper falls outside the definition of a "security" under the Securities Acts, including under *Howey*?
2. **Token-to-Equity Separation:** Does the Task Force view the categorical separation of a utility token from a traditional equity instrument (issued under Rule 701, Reg D, Reg S, Reg CF, or Reg A) as an effective and compliant means of avoiding investment contract classification of the token?
3. **Locked Tokens as Non-Options:** Does the Task Force concur that voluntary, reversible token locking, which creates no determined quantity of equity, no determined price, and no enforceable right, does not constitute an "option" within the meaning of the Securities Acts?
4. **Rule 701 for Community Contributors:** What is the Commission's view on using Rule 701 for equity grants to community members who provide genuine advisory, IP, or promotional services documented through written AIPP agreements? Are there specific service categories or documentation practices the Commission would consider more or less appropriate?
5. **DAO Structure and Liability:** Does the Task Force view the organization of token holders as members of a Delaware UNA (rather than an informal general partnership) as adequate to address the liability and entity classification concerns raised in *Samuels v. Lido DAO*?
6. **DeSci Framework:** Does the Commission see a role for Decentralized Science (DeSci) within the digital asset regulatory framework being developed by the Task Force? Would the Commission be open to treating DeSci funding models as a distinct use case warranting tailored guidance?
7. **Safe Harbors:** Is the Commission considering any safe harbor or exemptive relief for hybrid token-equity structures used to fund scientific or other R&D projects?

F. Closing and Next Steps (3–5 minutes)

Objective: Summarize key takeaways, offer supplemental materials, and propose follow-up.

Molecule is committed to building compliant infrastructure for scientific research funding. We view the Crypto Task Force as an essential partner in ensuring that the Coin-to-Company model and DeSci more broadly can operate within a clear, predictable regulatory framework.

We are happy to provide the Task Force with:

- The general C2C model paper (available on SSRN at [abstract_id=6153830](#))
- Technical documentation on IP-NFTs, token locking mechanisms, and the Molecule protocol
- Case studies from Molecule's portfolio of funded research projects
- Any additional materials the Task Force may find useful

We look forward to a productive dialogue.

G. Administrative Notes

- **Public Posting Consent:** This agenda and all attachments are submitted for public posting. No confidential treatment is requested for any materials submitted herewith. Molecule reserves the right to request confidential treatment for supplemental materials submitted separately to crypto@sec.gov under the procedures specified at <https://www.sec.gov/foia-services/foia-reference-guide/securities-exchange-commission-confidential-treatment-procedure-under-rule-83>.
- **Attachments:**
 1. This Meeting Agenda and Participant List (PDF)
 2. "The Coin-to-Company Model: Reconciling Decentralized Governance with Securities Regulation Through Structural Separation and Complementary Exemptions Under U.S. Law — A Decentralized Science (DeSci) Application" — Discussion Draft, January 2026 (PDF)
 3. SSRN link to general version: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=6153830
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Prepared by: Office of the Chief Legal Officer, Molecule AG
Date: February 18, 2026

THE COIN-TO-COMPANY MODEL:

**RECONCILING DECENTRALIZED GOVERNANCE WITH SECURITIES REGULATION
THROUGH STRUCTURAL SEPARATION AND COMPLEMENTARY EXEMPTIONS UNDER U.S.
LAW**

Benjamin Snipes

Chief Legal Officer, Molecule AG

January 2026

ABSTRACT

This Article proposes a novel legal framework, the Coin-to-Company (“C2C”) model, that reconciles the structural and governance innovations of blockchain-based organizations with the substantive requirements of U.S. securities law through categorical separation and complementary use of established regulatory exemptions. The model addresses a fundamental tension in digital asset regulation, which is how to enable broad-based community participation and decentralized governance through token distribution without triggering securities law compliance obligations, while simultaneously creating compliant pathways for value realization through traditional corporate equity structures.

Rather than attempting to resolve this tension through novel legal theories such as relying on indefinite concepts of “sufficient decentralization” or temporal transformation of securities, the C2C model maintains clear categorical distinction between tokens distributed as utility or community instruments (the “coins”) and equity securities issued through established exemptions by a traditional operating company. Tokens never represent investment contracts; equity never dilutes token utility.

The model achieves this through:

- (1) a dual-organization structure familiar in crypto comprising:
 - (a) a US LLC with C Corporation tax election (“**LabsCo**” or “**DevCo**”) for business operations and equity issuance; and
 - (b) a decentralized autonomous organization (a “**DAO**”) that is strictly used for token holder community organization, related IP assignment, and token owner advocacy for project participation and guidance, which may optionally be organized around a legal entity such as an association or foundation.
- (2) a permissionless token locking mechanism offered by DevCo that functions as technical identity infrastructure and eligibility credential that grants no corporate rights explicitly per the DevCo’s operating agreement.
- (3) documented pathways for locked token holders to petition the company for equity under company-administered plan and approved pathway such as: (a) Regulation D pathways for equity sales to accredited investors; (b) Reg S; (c) Reg CF/A for crowdsales; or (d) Rule 701 pathways for compensatory equity grants to advisory contributors, intellectual property providers, and employees.
- (4) DevCo shareholders use locked tokens to perform corporate functions such as voting on major corporate matters. Locked token holders may also participate in voting, but only identified shareholders’ locked token votes are binding for purposes of DevCo actions.

The model is particularly timely given regulatory developments signaling acceptance of token-security distinctions. The proposed Responsible Financial Innovation Act recognizes decentralized governance systems and “ancillary assets” while creating clear commodity jurisdiction for digital assets. The current SEC Chairman Paul Atkins’ Project Crypto framework proposes distinguishing digital commodities, digital tools, and digital collectibles from securities based on functional characteristics rather than form.

This Article demonstrates that the C2C model, by carefully operationalizing these distinctions through documented legal structures, provides a defensible, immediately implementable framework for projects seeking to build token-based communities while maintaining regulatory compliance and enabling institutional capital participation.

KEYWORDS: Coin-to-Company, C2C, Digital assets, securities regulation, token offerings, DAOs, decentralized governance, Rule 701, Regulation D, Howey test, corporate structure

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I. INTRODUCTION

A. The Regulatory Paradox

Since the Securities and Exchange Commission’s 2017 Report on The DAO,¹ digital asset regulation has been characterized by what might be termed a “regulatory paradox”: the law’s ostensible hostility toward decentralization conflicting with its theoretical neutrality toward technological innovation.

The paradox manifests in multiple ways. First, the *Howey* test—articulated for decidedly non-technological investment arrangements in *SEC v. W.J. Howey Co.*, a 1946 case concerning orange grove investments² has been applied with remarkable consistency to fungible digital assets, despite the profound structural and economic differences between orange grove sale-leasebacks and blockchain protocols. The test’s focus on “efforts of others” has proven difficult to apply in decentralized systems where no identifiable “other” manages the network, and where protocol improvements emerge from distributed developer communities rather than centralized management.³

Second, the regulatory response to digital assets has historically depended more on the specific characteristics of distribution arrangements than on the functional nature of the assets themselves. The same token distributed through a private placement to accredited investors might constitute a security, while the identical token distributed decentrally to thousands of network participants might be characterized as a commodity—despite fundamental economic equivalence.⁴ This form-over-substance approach creates perverse incentives: projects are encouraged to conduct rushed, risky decentralizations rather than carefully planned network launches, simply to evade securities classification.

Third, the historical regulatory approach has forced projects into false choices: either conduct an unregistered securities offering by raising capital through token sales, or spend years and substantial resources launching tokens through offshore vehicles and geofencing the United States, trying to achieve “sufficient decentralization” before further regulatory scrutiny, which is a threshold whose definition remains frustratingly vague.⁵ A middle path enabling compliant community formation through utility token distribution while allowing subsequent, explicitly disclosed equity participation opportunity and traditional capital formation much like any other startup company, has been largely unavailable.

This regulatory environment has had concrete consequences. The initial coin offering (ICO) market, which raised approximately \$13.3 billion in 2018, collapsed following sustained SEC enforcement actions establishing that most ICOs constituted unregistered securities offerings.⁶ Subsequent token distribution approaches, including

¹ U.S. Sec. & Exch. Comm’n, Report of Investigation Pursuant to Section 21(a) of the Securities Exchange Act of 1934: The DAO, Release No. 81207 (July 25, 2017), available at <https://www.sec.gov/files/litigation/investreport/34-81207.pdf>.

² *SEC v. W.J. Howey Co.*, 328 U.S. 293 (1946). The case involved the sale of units in orange groves coupled with service contracts for their cultivation and marketing.

³ *Id.* at 298-99 (establishing that profits must be “derived from the efforts of the promoter or a third party”).

⁴ See *SEC v. Ripple Labs, Inc.*, No. 20-cv-10832, 2023 WL 4507900, at *5-12 (S.D.N.Y. July 13, 2023) (distinguishing institutional sales from programmatic sales of the same XRP token).

⁵ See William Hinman, Dir., SEC Div. of Corp. Fin., Digital Asset Transactions: When Howey Met Gary (Plastic), Remarks at the Yahoo Finance All Markets Summit: Crypto (June 14, 2018) <https://www.sec.gov/newsroom/speeches-statements/speech-hinman-061418> (discussing “sufficient decentralization” as potential basis for non-security treatment but providing no specific criteria).

⁶ See COINSCHEDULE, ICO STATISTICS 2018, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3512125 (documenting \$13.3 billion in ICO fundraising during 2018, followed by market collapse in 2019-2020 amid SEC enforcement).

Simple Agreements for Future Tokens (“SAFTs”), demonstrated only marginally greater longevity. The *SEC v. Telegram* enforcement action established that pre-sales do not insulate subsequent token distributions from securities scrutiny if the overall scheme involves unrestricted public distribution.⁷

Crypto projects have increasingly gravitated toward a dual structure comprising an offshore foundation (such as in the Cayman Islands or Switzerland, or as a Swiss association (Verein)) holding crypto assets for the unincorporated DAO of token holders, combined with a U.S.-based “LabsCo” or “DevCo” that performs all traditional corporate activity. This positioning allows the DAO to operate outside the jurisdictional reach of U.S. regulators, thereby minimizing exposure to U.S. securities laws and enforcement actions. Meanwhile, the U.S.-based entity functions as the operational arm, undertaking substantive business operations and programming, which equity is held by venture capitalists and the centralized, founding team. This separation aims to achieve a balance between operational efficacy and regulatory compliance, but has inevitably created friction between token holders who expect value to accrue to the tokens and the DevCo that has fiduciary responsibility to its shareholders.⁸

Meanwhile, the unincorporated decentralized autonomous organizations of token holders and their often adjacent foundations and associations, have developed without clear legal structure, exposing participants to general partnership liability and creating practical difficulties in contracting, owning property, and conducting business operations.⁹ Recent litigation has confirmed that courts will apply traditional entity classification frameworks to DAOs regardless of their technological structure, often with outcomes adverse to participants who believed themselves protected by decentralization.¹⁰

B. Why Prior Approaches Failed

Understanding the C2C model requires first understanding why previous attempts to reconcile tokens and securities regulation have proven inadequate.

1. The ICO Model’s Deficiency

The initial coin offering represented an attempt to apply venture capital’s most successful distribution mechanism, the equity offering, directly to tokens. Projects would conduct public offerings of tokens, raising capital before networks were operational, and promising that proceeds would fund network development. The model failed because it was securities distribution in all respects except nomenclature. Token purchasers made investments (transferring consideration); in a common enterprise (the token project); with expectations of profits (token appreciation); derived from the efforts of others (the development team). The SEC’s application of *Howey* was straightforward, particularly when promoters discussed profits expectations related to the tokens.¹¹

2. The SAFT/Pre-Sale Model’s Deficiency

⁷ *SEC v. Telegram Grp. Inc.*, 448 F. Supp. 3d 352, 371-78 (S.D.N.Y. 2020).

⁸ *E.g.* the recent controversy with Aave Labs' equity holders retained off-protocol revenue streams, and the Aave token holders demanding protocol revenues accrue to tokens, ultimately resulting in the Aave founders committing to revenue sharing between the two groups and transferring IP to the Aave DAO.

⁹ *See generally* Kerr, David and Jennings, Miles, A Legal Framework for Decentralized Autonomous Organizations. Part III: Model Decentralized Unincorporated Nonprofit Association Act (March 5, 2024). Available at SSRN: <https://ssrn.com/abstract=4749245> (discussing DAO legal structure challenges and partnership liability risks).

¹⁰ *See* *Samuels v. Lido DAO*, No. 23-cv-3877, 2024 WL 4711544, at *3-6 (N.D. Cal. Nov. 7, 2024) (holding that Lido DAO constituted a general partnership under California law).

¹¹ *See* *Howey*, 328 U.S. at 298-99; *see also* *SEC v. PlexCorps*, No. 17-cv-7007, 2017 WL 6398722 (E.D.N.Y. Dec. 14, 2017) (granting preliminary injunction against ICO as unregistered securities offering).

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In response to ICO enforcement, practitioners developed Simple Agreements for Future Tokens (“SAFTs”). The theory held that the pre-sale agreement was clearly a security—a contract for future token delivery was unquestionably an investment contract. But the subsequent delivery of tokens on a decentralized network, the theory went, would not be a securities distribution because networks would be functional and participants would no longer expect profits from entrepreneurial efforts.

The *Telegram* enforcement action demolished this approach.¹² The SEC established that the overall scheme—pre-sale agreements combined with planned public token distribution—constituted a unitary offering that could not be bifurcated through temporal separation. More problematically, the agency treated planned secondary resales into the U.S. market as part of the offering, suggesting that U.S. securities restrictions apply to subsequent trading irrespective of whether initial distribution was offshore.¹³

3. The Sufficient Decentralization Model’s Deficiency

Some projects have attempted to solve the securities problem through network decentralization. The theory, supported by statements from former SEC officials, holds that once a network achieves sufficient decentralization—such that control and profits no longer depend on the efforts of a centralized promoter—tokens may be distributed without securities registration because purchasers no longer reasonably expect profits derived from others’ efforts.¹⁴

While certain frameworks to decentralization have been proposed in pending crypto legislation, this approach based on current US law faces several critical deficiencies, which recent legislative proposals have struggled to overcome.¹⁵ First, the decentralization standard itself is vague and undefined, with no clear metrics or thresholds. Second, achieving genuine decentralization before distribution creates a chicken-and-egg problem: how can networks be decentralized without broadly distributed tokens, and how can tokens be distributed to achieve decentralization without conducting a securities offering? Third, the approach depends on regulatory discretion and agency statements rather than statutory or regulatory authority, creating significant enforcement risk. Fourth, the theory assumes that temporal transformation—that a security can become a non-security—is feasible, but subsequent research suggests this transformation is far more complex than initially theorized.¹⁶

¹² *Telegram*, 448 F. Supp. 3d at 371-78.

¹³ *Id.* at 376-77 (finding that “Telegram’s plan to distribute Grams into a secondary public market is an integral part of the sale of securities without a required registration statement”).

¹⁴ See Hinman, *supra* note 5; see also SEC, Framework for “Investment Contract” Analysis of Digital Assets (Apr. 3, 2019), available at <https://www.sec.gov/corpfin/framework-investment-contract-analysis-digital-assets>.

¹⁵ See Digital Asset Market Clarity Act of 2025, H.R. 3633, 119th Cong. § 101 (2025) (defining “mature blockchain system” as a blockchain that “is not controlled by any person or group of persons under common control” and permitting digital commodity issuers to file notices with the SEC declaring a blockchain system mature or intended to become mature within four years); Responsible Financial Innovation Act of 2025, S. ___, 119th Cong. § 2(5) (discussion draft, 2025) (defining “decentralized governance system” as “any transparent, rules-based system permitting persons to form consensus...in which participation is not limited to, or under the effective control of, any person or group of persons under common control” and explicitly recognizing that such systems may be implemented through “a decentralized unincorporated nonprofit association created pursuant to State law, provided that the legal entity does not operate pursuant to centralized management”). While these legislative proposals provide more specific frameworks than prior SEC guidance, they still rely on subjective standards of “control” and “effective control” without establishing objective metrics, thresholds, or safe harbors for determining when decentralization has been achieved.

¹⁶ See Lewis Cohen et al., *The Ineluctable Modality of Securities Law: Why Fungible Crypto Assets Are Not Securities*, SSRN Working Paper No. 4282385 (Nov. 10, 2022) https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4282385 (arguing that fungible tokens lack essential security characteristics and that temporal transformation theory is legally unsound).

C. The C2C Model as Synthesis

The Coin-to-Company model attempts to address these deficiencies through categorical separation rather than temporal transformation.

The fundamental proposal is simple: project tokens and equity serve different yet complementary purposes and should never be conflated. Project tokens provide community membership, governance technology, and other non-investment utility. They can be distributed to raise money through sales for that utility without becoming investment contracts, with clear disclosure to purchasers regarding what would be required if they were to obtain equity from the project's DevCo through established exemptions.

The same person may participate in both project token and equity ecosystems—indeed, the model encourages this, but through distinct, separately documented agreements with different legal bases. Tokens are never marketed as investments or proxies for equity. Equity is never presented as merely an option on tokens or a conversion mechanism. However, the tokens and their associated blockchains form the underlying technological infrastructure for performing the corporation's legal manifestation, obligations, and agreements.

This separation is achieved through:

(1) Dual-Entity Architecture. A traditional LLC with C-Corp election (again the “DevCo” or “LabsCo”) creates and distributes tokens, conducts all business, and issues equity to qualified equity holders. And a decentralized autonomous organization of tokenholders (again the “DAO”), which may be embodied by or adjacent to an association or foundation established in a jurisdiction, organizes the token holder community, assigns related IP, and provides immediate utility to token holders in coordination with the DevCo. The two entities maintain legal separation while their participants overlap. Since the DAO does not hold any treasury, transmit any value, or have any binding governance over the DevCo, the veil piercing sensitivity is vastly reduced.

(2) Token Locking as Technical Infrastructure. Rather than creating a contractual bridge between tokens and equity (which risks options classification), the model uses voluntary token locking to signal commitment and provide further, non-binding participation and community capabilities to the locked token holders. Title of the tokens never transfers from the token holder to the DevCo – the locking mechanism is a temporary “hold” or escrow arrangement. Once locked, locked token holders may vote on all DevCo proposals and corporate actions, but only those locked token holders who are shareholders, as described below, will have their votes be counted as binding as dictated by their related share class. Only the DevCo knows which locked token holders are shareholders or not.

(3) Community Participation in Company Proposals and Major Actions. Tokenholder input and oversight through non-binding voting is an attractive feature for projects as it aligns with the decentralized ethos of crypto-based blockchain community building and enhances stakeholder engagement without conferring traditional shareholder rights. This mechanism allows tokenholders to influence project direction and decision-making, fostering a sense of community ownership and participation akin to the role of customers or users in traditional corporate governance. By tokenizing public input, projects enable a broader range of voices to be heard, leveraging the collective intelligence and interests of the community to guide development and operational strategies. This approach not only democratizes decision-making but also reinforces transparency and accountability, features that are particularly valued by other stakeholders, including investors. The model parallels what DAOs are already implementing in relation to DevCos, where tokenholders not only contribute to the project in meaningful ways but also influence its direction through collective action without needing to hold equity, thereby creating a novel form of corporate stakeholder engagement. This approach also finds support in analogous structures, such as the SEC's no-action letter regarding the Green Bay Packers, Inc., where the

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Commission recognized that certain participation rights held by non-shareholders need not trigger securities classification where such rights do not convey meaningful control or financial interests in the enterprise.¹⁷

(4) KYC/AML and Equity Petition. While locked or unlocked token holders have no rights to any equity, a locked token holder may voluntarily undergo traditional KYC and AML background screening. If such screening does not result in a reason that the locked would be disqualified from ever becoming a DevCo shareholder, then that locked token holder may petition the DevCo to become a shareholder under one of the DevCo's current equity sales or participation plans.

(5) Equity Participation. The DevCo at its discretion and according to its plan, may grant through separate, documented investment or compensation agreements, which would typically be done under one of the following paths:

(a) Regulation D/S/CF/A for Investor Equity. Capital-providing investors receive equity through Regulation D private placements using established Rule 506(b) or 506(c) exemptions,¹⁸ or through other established exemptions such as Regulation S, Regulation CF, or Regulation A.

(b) Rule 701 for Compensatory Equity. Community participants who provide genuine services—advisory consultation, intellectual property development, and/or promotional activities (an “AIPP” agreement)—may receive equity under Rule 701's compensatory exemption.¹⁹

(6) Execution of Corporate Actions via Locked Tokens: When a holder is both a locked token holder and a shareholder, with each such share associated with a holder's locked token, then the locked token holder may vote on corporate matters with the locked tokens with binding effect as provided by the DevCo's Operating Agreement. From the general public's perspective, all locked token holders may vote on DevCo's proposals, but only the DevCo knows which of those votes with locked tokens are binding because they were made by shareholders.

This combination of organization and use of tokens ensures that: tokens are never presented as securities or investment contracts; equity is always issued through compliant, documented pathways; community participation is not restricted to accredited investors; decentralization can proceed naturally without artificial acceleration to achieve securities exemption; and institutional capital can participate through traditional equity mechanisms, thereby creating crypto-based enterprises that can integrate with traditional industries.

D. DeSci as a Primary Use Case

The Coin-to-Company model is particularly well-suited to decentralized science ("DeSci") organizations seeking to tokenize biotech and pharmaceutical intellectual property while maintaining regulatory compliance and institutional investor participation. DeSci addresses a systemic bottleneck in biomedical research: the concentration of funding, governance, and data access within centralized institutions, which often excludes the very researchers, patient communities, and subject matter experts whose insights are most valuable to solving complex research problems.

Traditional biotech venture capital models create a structural tension. On one hand, breakthrough research increasingly emerges from distributed communities-academic researchers across multiple institutions, patient advocacy groups with deep disease-specific knowledge, and global networks of clinicians observing treatment outcomes in real-world settings. On the other hand, the capital required to translate research discoveries into

¹⁷ Utah Div. of Sec., Green Bay Packers, Inc., No-Action Letter, File No. B01977339 (Oct. 26, 2021).

¹⁸ 17 C.F.R. §§ 230.501-508 (2025).

¹⁹ 17 C.F.R. § 230.701 (2025).

regulated therapeutics or diagnostics demands institutional investment, professional management, and clear equity ownership structures that venture capital firms and pharmaceutical partners require.

DeSci organizations attempt to resolve this tension through tokenization: distributing project tokens to research participants and contributors, enabling community input on research priorities and data sharing policies, and offering a meaningful voice to those who are interested in scientific advancement. However, the regulatory uncertainty surrounding token offerings-particularly the risk that research governance tokens might be classified as unregistered securities-has constrained DeSci growth and deterred institutional capital participation. Projects face a dilemma: either distribute tokens under a prior model and risk SEC enforcement, or maintain traditional corporate structures and sacrifice the distributed participation that makes decentralized research with crypto-based infrastructure possible.

The C2C model provides a pathway out of this dilemma. By separating research participation tokens (which provide crypto-based consumptive utility such as data access, governance participation, and community membership) from equity securities (which are legal constructs that provide investment exposure to the organization's commercial success), the C2C framework enables DeSci organizations to build authentic global research communities while maintaining regulatory compliance and access to institutional capital. Tokens enable researcher and patient community participation; equity enables venture capital, pharmaceutical partnerships, and professional management, while crypto provides the technological infrastructure to scale participation, validate intellectual property, and provide tokenized assets that fund further research. The two operate in parallel through distinct layers, each serving its proper function.

This use case is particularly timely given several converging developments: FDA modernization efforts increasingly recognize decentralized clinical trials and patient-generated data; rare disease research faces severe funding gaps that traditional venture models cannot address; patient communities demand greater governance roles in research using their health data; and regulatory frameworks are evolving to distinguish utility tokens from investment contracts. DeSci organizations operating under the C2C model could demonstrate how blockchain technology enables new forms of research governance without sacrificing the regulatory compliance and institutional partnerships necessary for translating research into approved medical products.

As describe in detail in Exhibit A, two current organizations illustrate how the C2C model could be applied in DeSci contexts: DermaDAO, a blockchain-based skincare research organization, and O'Ryan Health-JDM, a decentralized research initiative focused on Juvenile Dermatomyositis and other pediatric disorders. While neither has fully implemented the C2C framework yet, both face the core regulatory and capital formation challenges that C2C is designed to address. Examining how these organizations could structure themselves under C2C provides concrete illustration of the model's application to biotech intellectual property tokenization, distributed research governance, and compliant pathways from community participation to equity ownership. The following sections explore these illustrative examples in detail, demonstrating how C2C principles translate from abstract framework to operational structure in real-world DeSci contexts.

II. THE C2C MODEL ARCHITECTURE

This paper now goes deeper into the C2C model architecture to discuss its opportunities, limitations and tradeoffs.

A. Dual-Entity Structure

The C2C model at its core attempts to integrate the traditional DAO, whether offshore or not, with the operating DevCo or LabsCo. It attempts to make conducting ordinary business with traditional organizations easy, while retaining the inclusive community building, fast and effective revenue generation, and decentralized infrastructure of crypto. This structure also attempts to set the DevCo up well to use all of the future anticipated crypto-based infrastructure for corporate management, such as for IP management, real world asset tokenization, self-custody of digital financial assets, and efficient money transmission.

1. The Decentralized Autonomous Organization (“DAO”)

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The DAO in its proposed ideal form is organized as a U.S. unincorporated nonprofit association, established under Delaware or Wyoming law.²⁰ Delaware’s Uniform Unincorporated Nonprofit Association Act defines such an entity as “an unincorporated organization consisting of two or more members joined by mutual consent for a common, nonprofit purpose,” and can be created by simple agreement for no fee rather than registration with the state.²¹ However, the DAO, which at its core is simply the universe of token holders, does not require any governmental entity.²²

The DAO, particularly when organized as an UNA or DUNA, serves three limited but critical functions:

First, liability protection. By organizing token holders as members of an unincorporated nonprofit association, the structure shields individual token holders from general partnership liability that would otherwise attach to informal associations engaged in for-profit activity. Delaware law provides that “[a] member or agent of an unincorporated nonprofit association is not liable for a debt, obligation or liability of the association solely by reason of being a member or acting as an agent of the association.”²³

The *Samuels v. Lido DAO* litigation demonstrates the acute risk facing unstructured DAOs. A California federal court held that Lido DAO constituted a general partnership under California law, exposing venture capital investors to joint and several liability for DAO obligations simply through their governance participation.²⁴ An unincorporated nonprofit association avoids this outcome by providing a recognized legal entity with limited liability for members.

Second, IP assignment vehicle. The DAO membership agreement provides that any intellectual property created by token holders as voluntary contributions to the DAO is automatically assigned to the DAO, which then voluntarily contributes such IP to DevCo.²⁵ This creates a clear chain of title for project intellectual property while maintaining legal separation between token holders (DAO members) and equity holders (DevCo shareholders). Importantly, these IP contributions are voluntary and gratuitous—they create no expectation of financial return and thus avoid investment contract characterization, forming a “negative right” for token holders.

Third, interest group and advocacy organization. The DAO serves as an organizational vehicle for token holder advocacy, community management, and coordination on matters affecting token utility and network

²⁰ See DEL. CODE ANN. tit. 6, §§ 1901-1916 (2025) (Delaware Uniform Unincorporated Nonprofit Association Act); WYO. STAT. ANN. §§ 17-22-101 to.112 (2025) (Wyoming Unincorporated Nonprofit Association Act).

²¹ DEL. CODE ANN. tit. 6, § 1901(2).

²² While the DAO could operate informally without entity formation given its limited scope (no treasury, no fund transmission, no business operations), forming a Delaware UNA or Wyoming DUNA provides critical liability protection at no financial and minimal effort cost. *Samuels v. Lido DAO* held that even informal associations engaged solely in governance can be classified as general partnerships, exposing members to joint and several liability. 2024 WL 4711544, at *3-6 (N.D. Cal. Nov. 7, 2024). UNA formation requires only a written agreement (no filing fee) and provides statutory liability shields. DEL. CODE ANN. tit. 6, § 1904(a). Tax treatment is neutral: the DAO is a pass-through entity regardless; *Landreth Timber Co. v. Landreth*, 471 U.S. 681, 689 (1985) (another successful consumptive use argument case), but holds no assets and generates no income, so there is nothing to pass through to members. Wyoming's DUNA statute (WYO. STAT. ANN. §§ 17-22-101 to.112) provides similar protection with explicit recognition of blockchain-based governance, though the practical difference from Delaware UNA is minimal for the C2C model's purposes.

²³ *Id.* § 1904(a).

²⁴ *Samuels*, 2024 WL 4711544, at *3-6.

²⁵ *Coin-to-Company Process Description v. 5*, at 2 (Dec. 7, 2025) (on file with author) [hereinafter C2C Process Description].

development.²⁶ This function is explicitly non-commercial and nonprofit, consistent with the nonprofit association structure.

Critically, the DAO does not hold material assets beyond nominal treasury for administrative functions if any. Conducting business operations; employing personnel; entering material commercial contracts; or distributing profits to members are functions reserved exclusively to DevCo.

2. The Development Company (DevCo) or Labs Company (LabsCo)

DevCo/LabsCo is ideally organized as a Delaware LLC with C Corporation tax election.²⁷ This structure provides:

Corporate tax treatment for potential Qualified Small Business Stock (QSBS) benefits under IRC § 1202, allowing shareholders to exclude 50-100% of capital gains on equity held for three to five years if certain requirements are met.²⁸ For stock issued after July 4, 2025, shareholders may exclude up to \$15 million in capital gains (indexed for inflation) or 10 times their adjusted basis, whichever is greater.²⁹ Organizing as a US company also avoids CFC status for US based shareholders, which would create onerous tax compliance and income inclusion issues for US persons.³⁰

Traditional corporate governance under well-established Delaware law, providing clarity for institutional investors and alignment with standard venture capital documentation.

Full operational capacity to conduct business, employ team members, hold intellectual property, enter contracts, and issue securities under established exemptions.

DevCo performs all substantive business functions: creates and distributes project tokens as utility assets; develops protocol and application software; holds and monetizes project intellectual property; employs team members and engages contractors; raises capital through equity offerings; and generates revenue and manages treasury.

The critical structural principle is that DevCo creates and distributes tokens, but token ownership conveys no equity or financial interest in DevCo. Token distribution is a commercial transaction, a sale of utility, and not an investment transaction. Tokens grant DAO membership automatically upon acquisition, but DAO membership conveys no economic interest in DevCo's business or profits.³¹

B. Token Economics and Utility

Project tokens (“\$TOKENS”) serve defined non-financial functions within the C2C framework:

1. DAO Membership Credential

²⁶ *Id.*

²⁷ *Id.* at 2. The LLC elects C Corporation tax treatment under IRC § 7701(a)(3) and Treas. Reg. § 301.7701-3.

²⁸ I.R.C. § 1202(a) (2025).

²⁹ I.R.C. § 1202(b)(1); *see* One Big Beautiful Bill Act, Pub. L. No. 119-1, § 70431 (2025) (increasing QSBS gain exclusion cap from \$10 million to \$15 million for stock issued after July 4, 2025, with inflation indexing).

³⁰ IRC § 957.

³¹ C2C Process Description, *supra* note 21, at 2-3.

Tokens ownership automatically confers DAO membership pursuant to the DAO articles and membership agreement.³² This membership is:

- **Automatic:** No separate registration or consent required
- **Revocable:** Transferring or burning tokens immediately terminates membership with no further obligation
- **Non-economic:** Membership conveys no profit participation, dividend rights, or liquidation preferences

The DAO membership provides token holders with organizational infrastructure for community advocacy and coordination, but creates no financial rights against DevCo or any other entity or each other.

2. Network Utility

\$TOKENs provide functional utility within the protocol or application ecosystem, which may include:

- access to DevCo platform features or services;
- payment mechanism for on-chain transactions to acquire DevCo products;
- governance participation in protocol parameter decisions; and
- identity and reputation signaling.

The specific utility varies by project but must be genuine, disclosed, and non-financial in character. Tokens function as commodities or consumptive goods, not investment instruments.³³ This characterization finds support in *United Housing Foundation v. Forman*, where the Supreme Court emphasized that instruments purchased for “a desire to use or consume” rather than for investment purposes are not securities.³⁴

3. Locked Token Functionality

\$TOKEN holders may voluntarily lock their tokens with DevCo’s smart contract infrastructure, creating “Locked Tokens” (“L-\$TOKENs”).³⁵ This locking mechanism serves two critical functions:

- **Technical identity infrastructure.** Locked tokens provide DevCo with a cryptographic means of identifying community members for purposes of shareholder voting, dividend distributions, and other corporate actions conducted on-chain. This is purely technical and locking creates no legal rights.
- **Eligibility signal.** Locked tokens demonstrate commitment to the project and DevCo can create specific forums and events for locked token holders who have elected to engage with the project at

³² *Id.* at 3.

³³ See Ripple Labs, 2023 WL 4507900, at *8 (recognizing that tokens may have consumptive or utility value distinct from investment value).

³⁴ *United Hous. Found., Inc. v. Forman*, 421 U.S. 837, 851-52 (1975) (holding that instruments purchased for consumptive use rather than profit expectation are not securities).

³⁵ C2C Process Description, *supra* note 21, at 3.

that level. However, again, locking creates no automatic right to equity, no option to purchase equity, and no enforceable claim against DevCo.³⁶

Token locking is voluntary and reversible. Token holders may unlock tokens at any time unless they have received equity, in which case tokens must remain locked for the duration of equity ownership to maintain alignment between on-chain identity and legal shareholding.³⁷

C. The Non-Option Nature of Locked Tokens

A critical legal question is whether locked tokens constitute “options” under federal securities law, which would bring them within the definition of securities and trigger registration requirements.³⁸ The C2C model is specifically designed to avoid option characterization.

Under established precedent, an instrument constitutes an option if it has: (1) determined quantity; (2) determined price; and (3) no obligation on the option holder to perform.³⁹ Locked tokens fail the first two requirements:

- **No determined quantity.** When a token holder locks tokens, DevCo retains full discretion regarding whether to issue equity, and if so, in what amount. There is no formula, conversion ratio, or predetermined quantity of equity associated with locked tokens. DevCo’s board may reject equity applications entirely, issue nominal amounts, or issue substantial amounts based on the contributor’s value to the project—all at DevCo’s sole discretion.⁴⁰
- **No determined price.** Locked tokens do not establish a strike price or exercise price for equity. If DevCo chooses to issue equity to a locked token holder, the equity may be issued: (a) as compensatory grants under Rule 701 with no monetary consideration; (b) through Regulation D purchases at fair market value determined by DevCo’s board; or (c) through other exemptions at terms negotiated separately. The locked tokens themselves do not create any pricing term.⁴¹
- **No enforceable right.** Token locking creates no contractual right to equity. A locked token holder cannot compel DevCo to issue equity or to honor any implied commitment. DevCo’s decision to issue equity is entirely discretionary.⁴²

This structure deliberately avoids the option analysis established in cases such as *Gwozdzinsky v. Zell-Chilmark Fund*,⁴³ which required both fixed quantity and price for an instrument to qualify as an option. Moreover, the

³⁶ Molecule Legal Memo: IPTs Not Stock Options, at 5-6 (Aug. 22, 2025) (on file with author) [hereinafter IPT Memo].

³⁷ C2C Process Description, *supra* note 21, at 4.

³⁸ See Securities Act of 1933 § 2(a)(1), 15 U.S.C. § 77b(a)(1) (defining “security” to include “any...put, call, straddle, option, or privilege on any security”).

³⁹ *Gwozdzinsky v. Zell-Chilmark Fund, L.P.*, 979 F. Supp. 263, 266 (S.D.N.Y. 1997) (holding that an instrument is an option only if both quantity and price are determined at the time of transaction).

⁴⁰ IPT Memo, *supra* note 31, at 5.

⁴¹ *Id.* at 5-6.

⁴² *Id.* at 6.

⁴³ *Gwozdzinsky*, 979 F. Supp. at 266.

locked tokens do not meet the definition of stock options under *Lucente v. IBM*, which requires “its own strike price and its own option period.”⁴⁴

III. C2C OPERATIONAL MECHANICS

A. Project Launch and Token Distribution

The C2C model contemplates a specific launch sequence designed to maintain clear separation between token distribution and equity offering:

Step 1: Entity Formation

Founders establish DevCo as a Delaware LLC with C Corporation tax election and simultaneously establish the DAO as an unincorporated nonprofit association. The DAO articles and membership agreement are publicly accessible and clearly state that token ownership conveys DAO membership but no economic interest in any entity.⁴⁵

Step 2: Token Creation and Whitepaper

DevCo creates tokens and prepares a detailed whitepaper disclosing:⁴⁶

- The dual-entity C2C structure
- Token utility and functionality
- Clear statement that tokens are not securities or investment contracts
- Clear statement that no securities are being offered at the time of token sale
- Explanation of the locked token mechanism
- Description of potential future equity pathways (Rule 701, Regulation D, etc.) that are not being currently offered
- DevCo’s intended operations without financial projections
- Comprehensive risk disclosures

The whitepaper is critical under the C2C model since it establishes from inception that token purchasers are buying utility, not securities, and that any subsequent equity opportunity is entirely separate, discretionary, and subject to securities law compliance.

Step 3: Token Distribution

DevCo can distribute the tokens through various mechanisms such as direct sales for fiat or crypto; airdrops to community members, early supporters, or ecosystem participants; liquidity mining rewards for protocol participation; or service provider compensation for contributions to ecosystem development, or via third parties, such as non-profit organizations that may sell the tokens as part of their own fundraising efforts.

⁴⁴ *Lucente v. Int’l Bus. Machs. Corp.*, 146 F. Supp. 2d 298, 308 (S.D.N.Y. 2001).

⁴⁵ C2C Process Description, *supra* note 21, at 2-3.

⁴⁶ *Id.* at 3.

All token distributions are documented as commercial transactions with clear disclaimers that tokens convey no equity, profit participation, or investment rights to avoid confusion with past token classification. Proceeds flow to DevCo for business operations, or may be directed for specific activities such as research and development.⁴⁷

Step 4: Secondary Market Trading

Tokens trade freely on decentralized exchanges or centralized platforms as commercial commodities. DevCo does not maintain lockup restrictions or transfer limitations (except for any tokens held by DevCo itself, which may be subject to release schedules for treasury management purposes).

The token's secondary market price is determined by market forces such as supply and demand based on utility value, network effects, and third-party speculative interest, and not by DevCo's entrepreneurial efforts or promises.⁴⁸ This market determination is critical for commodity characterization and finds support in *SEC v. Ripple Labs*, where "programmable sales" on exchanges were deemed not to be securities offerings because buyers' profit expectations were based on general market dynamics rather than the issuer's specific entrepreneurial efforts.⁴⁹

B. The Equity Bridge: From Tokens to Shares

The C2C model's most innovative element is the structured pathway from token holder to equity holder, designed to enable community members to obtain ownership stakes without creating investment contract liability for the token itself.

Step 1: Token Locking

Token holders who wish to engage more deeply with the project and potentially receive equity may voluntarily lock their tokens through DevCo's smart contract infrastructure.⁵⁰ Locking demonstrates commitment, enables DevCo to identify committed community members, provides technical infrastructure for on-chain shareholder interactions, and creates eligibility to apply for equity.

Importantly, locking is non-binding. Token holders may unlock at any time before receiving equity. Locking creates no obligation on DevCo and no enforceable right for the token holder.⁵¹

Step 2: KYC/AML Screening

Locked token holders who wish to apply for equity must complete DevCo's Know Your Customer ("KYC") and Anti-Money Laundering ("AML") screening.⁵² This serves multiple functions: ensures compliance with securities law purchaser qualification requirements; enables DevCo to verify accredited investor status where required; satisfies FinCEN requirements for crypto-related businesses; and establishes the identity of potential shareholders for corporate records.

⁴⁷ *Id.*

⁴⁸ See *Ripple Labs*, 2023 WL 4507900, at *11-12 (noting that programmatic sales on exchanges reflect market dynamics rather than issuer's entrepreneurial efforts).

⁴⁹ *Id.* at *10-12.

⁵⁰ C2C Process Description, *supra* note 21, at 3.

⁵¹ *Id.* at 3-4.

⁵² *Id.* at 4.

Only natural persons, and their related entities as applicable, who successfully complete KYC/AML may proceed to equity application. This requirement ensures DevCo can satisfy its obligations under securities regulations, and as may be needed to verify ultimate beneficial owners of the DevCo.⁵³

Step 3: Equity Application and Approval

Locked token holders who complete KYC/AML may apply for equity through one of DevCo's approved pathways. DevCo's board reviews applications and may approve or deny them in its sole discretion.⁵⁴

The application process is documented and formal. There is no automatic conversion, no guaranteed approval, and no formula determining equity amounts. DevCo evaluates each applicant based on various factors including: contributions to the ecosystem; professional qualifications and expertise; alignment with project values and long-term vision; available equity pool under the applicable exemption; and overall cap table management considerations.

This discretionary review is critical since it ensures that equity issuance is based on substantive contributions or capital provision, not merely on token ownership.⁵⁵

Step 4: Equity Issuance Under Applicable Exemption

If approved, DevCo issues equity through one of three primary pathways, each with distinct legal bases and requirements:

Pathway A: Regulation D Private Placement

For investors providing capital to DevCo, equity may be offered through Regulation D private placements, typically using Rule 506(c), though given that locked token holders would be known to the DevCo, 506(b) could also be explored.⁵⁶ While Reg D purchasers must be accredited,⁵⁷ the benefits of the Rule 506(c) including general solicitation⁵⁸, state preemption,⁵⁹ and no fundraising cap.⁶⁰ The purchase would be documented through a Stock Purchase Agreement entirely separate from token ownership, though it may be Ricardian and recorded on-chain in some embodiment. Token locking may be a prerequisite for participating in the offering, but the tokens themselves are not consideration for the equity; equity purchasers provide new capital for the equity.⁶¹ In

⁵³ See 17 C.F.R. § 230.506(c)(2)(ii) (requiring issuers to take “reasonable steps to verify” accredited investor status in Rule 506(c) offerings).

⁵⁴ C2C Process Description, *supra* note 21, at 4.

⁵⁵ See Molecule Legal Memo: Rule 701 Equity Grants, at 2-3 (Sept. 2, 2025) (on file with author) [hereinafter Rule 701 Memo] (discussing compensatory nature requirement for Rule 701 exemption).

⁵⁶ 17 C.F.R. § 230.506(c).

⁵⁷ *Id.* § 230.506(c)(2).

⁵⁸ *Id.* § 230.506(c)(1) (permitting general solicitation provided all purchasers are accredited investors and issuer takes reasonable steps to verify).

⁵⁹ See 15 U.S.C. § 77r(b)(4)(D) (providing that Rule 506 offerings are “covered securities” preempting state registration requirements).

⁶⁰ See *id.* § 230.506(c) (imposing no ceiling on offering amount, unlike Rule 504's \$10 million limit or Regulation A's tiered limits).

⁶¹ C2C Process Description, *supra* note 21, at 4.

fact, investors need not handle tokens or manage crypto wallets at all. The DevCo could execute a proxy agreement with the investors to lock and vote the tokens on behalf of the investors much like any other corporate proxy agreement.

Pathway B: Other Sale Exemptions

DevCo may also utilize:

- **Regulation S** for offshore offerings to non-U.S. persons⁶²
- **Regulation CF** for crowdfunding offerings (up to \$5 million annually)⁶³
- **Regulation A** for scaled offerings (Tier 1 up to \$20 million, Tier 2 up to \$75 million annually)⁶⁴

Each exemption has specific requirements regarding purchaser qualifications, disclosure obligations, and procedural compliance. The key principle remains constant: equity is issued through documented, compliant securities transactions entirely separate from token ownership.⁶⁵

Pathway C: Rule 701 Compensatory Grants

For community members who have provided or commit to provide genuine services to DevCo, equity may be issued under Rule 701 as compensatory equity.⁶⁶ Rule 701 of the Securities Act provides an exemption from registration for securities issued “pursuant to certain compensatory benefit plans and contracts relating to compensation.”⁶⁷ The DevCo would enter into and maintain written Advisory, Intellectual Property, and Promotion (“AIPP”) agreements with each locked token holder who was being compensated with DevCo equity, which describes the services provided, compensation terms, and equity grant details.⁶⁸ These agreements would clearly specify that equity is issued for services, not in exchange for tokens or as a conversion of token value.

Services qualifying for Rule 701 could include: advisory services (strategic guidance, technical consultation, business development advice); intellectual property contributions (software code, research, protocol designs, technical documentation); and promotional activities (community building, educational content, ecosystem development).

Rule 701 requirements further include:⁶⁹

- **Written compensatory plan or individual compensation agreement** documenting the services and equity terms

⁶² 17 C.F.R. §§ 230.901-905.

⁶³ 17 C.F.R. §§ 227.100-503; *see* 15 U.S.C. § 77d(a)(6) (authorizing Regulation Crowdfunding with \$5 million annual limit).

⁶⁴ 17 C.F.R. §§ 230.251-263; *see* 15 U.S.C. § 77c(b) (authorizing Regulation A with tiered offering limits).

⁶⁵ C2C Process Description, *supra* note 21, at 4-5.

⁶⁶ 17 C.F.R. § 230.701.

⁶⁷ *Id.* § 230.701(c).

⁶⁸ C2C Process Description, *supra* note 21, at 4.

⁶⁹ *See id.* § 230.701(a)-(e).

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- **Bona fide services** not related to capital raising⁷⁰
- **Aggregate sales limits:** Within any 12-month period, the aggregate sales price or amount of securities sold may not exceed the greatest of: (i) \$1 million; (ii) 15% of the total assets of the issuer; or (iii) 15% of the outstanding securities of the class being offered⁷¹
- **Disclosure requirements:** If aggregate sales exceed \$10 million within 12 months, the issuer must provide disclosure documents to recipients⁷²
- **Natural persons only:** Recipients must be natural persons providing services (not entities)⁷³

However, it is important to note that at the earliest stages of company formation prior to any 409A valuation if equity is not being granted subject to any restriction, as is often the case with early token launches, the relative value of common equity is usually considered close to par value. And since 2012, there is no limit on the number of persons who can receive equity for compensatory purposes under Rule 701 that itself would trigger registration.⁷⁴

C. Dual Participation: Token Holder and Shareholder

Once a locked token holder receives equity, they then occupy dual roles:⁷⁵

As DAO Member (by virtue of token ownership):

- Vote on DAO community matters;
- Participate in protocol governance (if tokens grant governance rights);
- Support DevCo through the DAO's advocacy function; and
- Contribute IP to DAO (and thereby to DevCo) voluntarily.

As DevCo Shareholder (by virtue of equity ownership):

- Vote on corporate governance matters under Delaware law;
- Receive dividends if and when declared by board;

⁷⁰ *Id.* § 230.701(c) (stating that Rule 701 is “not available for plans or schemes to circumvent [the compensatory] purpose, such as to raise capital”).

⁷¹ *Id.* § 230.701(d)(2).

⁷² *Id.* § 230.701(e); Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018, Pub. L. No. 115-174, § 507, 132 Stat. 1296, 1362 (raising disclosure threshold from \$5 million to \$10 million).

⁷³ 17 C.F.R. § 230.701(c)(1); *see* Mindspirit, LLC v. Evalueserve Ltd., 346 F. Supp. 3d 552, 577 (S.D.N.Y. 2018) (holding that equity plan failed to qualify under Rule 701 because the consultant was a corporate entity rather than a natural person).

⁷⁴ The JOBS Act of 2012 amended Section 12(g)(5) of the Exchange Act, providing that when determining whether an issuer is required to register under Section 12(g)(1), an issuer may exclude from the "held of record" count any securities held by persons who received them pursuant to an employee compensation plan in transactions exempt from, or not subject to, the registration requirements of Section 5 of the Securities Act. This exclusion applies to all securities issued under Rule 701, regardless of whether the recipients are current or former employees, consultants, or advisors.

⁷⁵ *Id.* at 4.

- Participate in liquidation proceeds per equity terms; and
- Exercise appraisal rights, inspection rights, and other statutory rights

These roles are legally distinct. Token ownership does not convey shareholder rights, and share ownership is not contingent on continued token holding, though locked tokens must remain locked while shares are held, to maintain on-chain identity infrastructure.⁷⁶

DevCo may conduct shareholder votes, distribute dividends, and manage other corporate actions on-chain by referencing locked token addresses as described in DevCo's Operating Agreement. The locked tokens serve as cryptographic identity credentials, but the underlying legal rights derive from share ownership documented in DevCo's cap table, not from token possession.⁷⁷

D. Exit and Liquidity

The C2C model contemplates multiple liquidity pathways for both tokens and equity:

Token Liquidity

Tokens (unlocked \$TOKENs) trade freely on secondary markets as commodities. Token holders who have not received equity face no transfer restrictions, holding periods, or resale limitations. The token's market functions independently of DevCo's equity capitalization.⁷⁸

Equity Liquidity

Shareholders are subject to standard securities law holding periods and transfer restrictions:⁷⁹

- **Rule 144 holding period:** Typically 6-12 months for restricted securities purchased in private placements⁸⁰
- **Rule 904:** For securities sold offshore under Regulation S, a distribution compliance period (typically 6 months for reporting issuers, 12 months for non-reporting issuers) must elapse before resale into the U.S. market, during which time the securities must remain offshore
- **QSBS holding period:** Three to five years for 50% to 100% capital gains exclusion under IRC § 1202 as amended by the OBBB (if qualifying conditions are met)⁸¹; and
- **Contractual restrictions:** Right of first refusal, co-sale rights, and other standard venture capital provisions per DevCo's operating agreement and investment documents.

⁷⁶ *Id.*

⁷⁷ *Id.* at 5.

⁷⁸ *Id.* at 5-6.

⁷⁹ See 17 C.F.R. § 230.144 (Rule 144 safe harbor for resales of restricted securities).

⁸⁰ *Id.* § 230.144(d) (imposing six-month holding period for reporting companies and one-year holding period for non-reporting companies).

⁸¹ I.R.C. § 1202(a) (requiring five-year holding period for 100% gain exclusion on stock issued after September 27, 2010).

Upon completing the applicable holding period and satisfying transfer requirements, shareholders may sell equity through secondary markets for private company shares, tender offers organized by DevCo, strategic acquisitions of DevCo, or traditional IPO if DevCo reaches sufficient scale.

When a shareholder sells equity, their locked tokens (\$L-TOKEN) are automatically unlocked and exchanged for freely tradable tokens (\$TOKENs). This maintains the principle that locked tokens serve as technical infrastructure for equity holders—once equity is transferred, the locking function is no longer necessary.⁸²

Real-World Asset Tokenization

DevCo may also pursue on-chain representations of equity or other corporate assets once regulatory frameworks permit:⁸³ security tokens representing equity ownership; dividend tokens providing on-chain distribution of profits as stablecoins; royalty tokens representing contractual revenue-sharing arrangements; and debt tokens for tokenized bonds with programmatic repayment.

These innovations would occur within the C2C structure, with proper securities law compliance and clear disclosure of the legal nature of each digital asset.⁸⁴

IV. C2C LEGAL COMPLIANCE FRAMEWORK

A. Securities Law Analysis

The C2C model's central legal proposition is that tokens are not securities, while equity clearly is. This section analyzes that distinction under the *Howey* test and related precedent.

1. Tokens Are Not Investment Contracts

Under *SEC v. W.J. Howey Co.*, an instrument is an investment contract if it involves: (1) an investment of money; (2) in a common enterprise; (3) with an expectation of profits; (4) derived from the efforts of others.⁸⁵

C2C tokens fail multiple prongs of this test:

No Common Enterprise: Token purchasers are not entering a common enterprise with DevCo. They are buying a utility good or commodity. The purchase is very explicitly by the terms of the accompanying whitepaper, a commercial transaction, not an organizational joining. While token purchasers may hope the protocol succeeds and tokens appreciate much like the purchasers of any new technology,⁸⁶ there is no pooling of assets, no pro-rata sharing of returns, and no organizational structure uniting token holders with DevCo in a profit-seeking venture.⁸⁷

⁸² C2C Process Description, *supra* note 21, at 5.

⁸³ *Id.*

⁸⁴ *Id.* at 5-6.

⁸⁵ *Howey*, 328 U.S. at 298-99.

⁸⁶ Think of the first purchasers of Apple computers in the 1980s, who hoped and expected that their computers would retain their value, and that the company would make their computers more valuable by developing better operating systems, peripherals and software ecosystems. Compare this to those who “invested in” Commodore, Amiga or Atari computers.

⁸⁷ See *SEC v. Glenn W. Turner Enters., Inc.*, 474 F.2d 476, 482 n.7 (9th Cir. 1973) (discussing horizontal commonality requiring pooling of assets and pro-rata distributions).

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Under vertical commonality analysis (the standard in most circuits), there must be a direct correlation between the success of the promoter's efforts and the investor's returns.⁸⁸ Token holders' returns (if any) derive from secondary market dynamics, which may vary depending on supply and demand based on network usage, speculative interest, and macro market conditions, and not from DevCo's entrepreneurial success *per se*. Many if not most token purchasers never intend to nor ever will become shareholders. DevCo's profitability and token market price are not mechanically linked.

No Expectation of Profits From Others' Efforts: The critical *Howey* prong is whether purchasers have a reasonable expectation of profits derived from the entrepreneurial or managerial efforts of the promoter or third party.⁸⁹

C2C tokens avoid this characterization through several mechanisms:

First, utility disclosure. The whitepaper should clearly articulate token utility and disclaim investment characteristics. Tokens are marketed as functional goods, not securities. As the Supreme Court recognized in *United Housing Foundation v. Forman*, instruments purchased for consumptive use rather than profit expectation are not securities.⁹⁰

Some utility features of the non-locked token may include, product discounts, early access to new product launches, token-gated exclusive products, subscription priority and preferential pricing. For R&D oriented businesses, as most startups are, tokens may provide token-gated access to certain research results, Real-time study updates before non-token holder disclosure, pre-publication review of research manuscripts, priority enrollment in community trials and product testing, NFT badges documenting research participation, and participant recognition in research acknowledgments.

Locked tokens could be further structured to provide token-weighted forum access with enhanced privileges, DevCo proposal submission rights (minimum threshold required), detailed quarterly reports on operations and development, token-gated AMA sessions with scientists and DevCo advisors, even more exclusive community event invitations, and access to the advisory governance voting interface (non-binding) by locking.

Second, decentralized value drivers. Token value (to the extent it exists) derives from network effects, ecosystem adoption, and decentralized development as is true for all other tokens trading within crypto ecosystems, and not primarily from DevCo's efforts. Once the protocol is launched, DevCo is one of many contributors. Value accrues through community participation, third-party application development, and organic network growth.⁹¹

Third, no promises of profit, particularly from others. DevCo makes no representations regarding token appreciation, return on investment, or profit participation. The whitepaper includes prominent disclaimers that token purchase is for consumptive use only, speculative, tokens may lose value, and there is no expectation of returns.⁹²

⁸⁸ See *SEC v. ETS Payphones, Inc.*, 408 F.3d 727, 732 (11th Cir. 2005) (adopting broad vertical commonality test requiring only that "the investors' fortunes are interwoven with and dependent upon the efforts and success of those seeking the investment or of third parties").

⁸⁹ *Howey*, 328 U.S. at 298-99.

⁹⁰ *Forman*, 421 U.S. at 851-52 ("When a purchaser is motivated by a desire to use or consume the item purchased...the securities laws do not apply."); *Landreth Timber Co. v. Landreth*, 471 U.S. 681, 689 (1985).

⁹¹ See *Ripple Labs*, 2023 WL 4507900, at *11-12.

⁹² C2C Process Description, *supra* note 21, at 3.

Fourth, separate, well disclosed equity pathway. By clearly disclosing from inception that equity, and not tokens, provides investment exposure to DevCo’s success, the model channels investment expectations to the appropriate instrument. Purchasers who want an investment buy equity. Purchasers who want utility or speculative commodity exposure buy tokens.⁹³ Others can work for it as a DevCo team member or via an AIPP agreement.

Comparison to Ripple: The Southern District of New York’s decision in *SEC v. Ripple Labs* supports this analysis.⁹⁴ The court held that Ripple’s “programmable sales” of XRP on digital asset exchanges were not securities offerings because retail purchasers did not know they were buying from Ripple, could not reasonably expect profits from Ripple’s efforts specifically, and the transactions were “blind bid/ask transactions” indistinguishable from secondary market purchases.⁹⁵

C2C secondary token sales are analogous: DevCo initially sells tokens as utility/commodity goods through disclosed, arms-length transactions in the ways described. Secondary purchasers may hope tokens appreciate, but that expectation is tied to market demand for the utility or speculative interest in the asset class, or correlation with the trading of other related assets, like the secondary sales of any other goods produced by any other company.⁹⁶

2. Locked Tokens Are Not Securities

Locked tokens present a closer question. As discussed in Section II.C, locked tokens fail the test for options because they lack determined quantity and determined price.⁹⁷ They fail *Howey* for the same reasons as unlocked tokens—there is no common enterprise, and any profit expectation is not derived from DevCo’s efforts but from the separate decision to issue equity (which itself is a securities transaction with proper compliance).⁹⁸

Locked tokens are technical infrastructure. They function similarly to a customer loyalty card or access credential—they signal eligibility for a separate benefit (equity application), but they do not themselves embody a financial interest or legal claim.⁹⁹

3. Equity Is Clearly a Security

DevCo’s equity is unambiguously and explicitly a security under both the enumerated categories (stock) and the investment contract analysis.¹⁰⁰ This is not controversial. The C2C model does not attempt to avoid securities classification for equity, but instead, it ensures equity issuance occurs through compliant exemptions such as Regulation D for private placements to investors, Rule 701 for compensatory issuances to service providers, and

⁹³ *Id.*

⁹⁴ Ripple Labs, 2023 WL 4507900.

⁹⁵ *Id.* at *10-12.

⁹⁶ *See id.*

⁹⁷ *See supra* notes 34-39 and accompanying text.

⁹⁸ IPT Memo, *supra* note 31, at 5-6.

⁹⁹ *Id.*

¹⁰⁰ *See Landreth Timber Co. v. Landreth*, 471 U.S. 681, 686-87 (1985) (holding that instruments bearing traditional stock characteristics are securities regardless of economic reality analysis).

other exemptions as applicable. Each issuance is documented, disclosed, and conducted under established frameworks with decades of regulatory guidance and case law.¹⁰¹

B. Anti-Money Laundering and KYC

DevCo's KYC/AML obligations arise from multiple sources:

1. FinCEN Registration

If DevCo engages in money transmission (broadly defined to include exchanging/administering virtual currency for fiat or other virtual currency), it must register with FinCEN as a Money Services Business and comply with Bank Secrecy Act requirements.¹⁰² The C2C model contemplates FinCEN registration if DevCo's activities trigger coverage, but expects most would not.

2. KYC for Equity Issuance

Even absent money transmission obligations, DevCo must conduct KYC for equity recipients to: verify accredited investor status for Regulation D offerings;¹⁰³ maintain accurate cap table records; comply with tax reporting requirements (issuing K-1s or 1099s as applicable); prevent fraudulent or anonymous equity ownership, and perform OFAC screening. The C2C model integrates KYC as a mandatory step before equity application, ensuring compliance with these requirements.¹⁰⁴

3. No KYC for Token Purchasers

Importantly, DevCo does not impose KYC on token purchasers (unless required by other regulations such as money transmission or exchange operator licensing). This distinction reinforces the commodity characterization: tokens are purchased anonymously like any commodity, while equity requires identity verification like any security.¹⁰⁵

C. Tax Considerations

The C2C model's tax treatment involves multiple layers:

1. DAO Tax Status

The DAO's tax status would depend on how it is structured. If unorganized, given that it holds no treasury nor transmits any value, it would typically not trigger any tax filing obligation, and would otherwise be treated as a pass-through.¹⁰⁶ The C2C model is designed such that the DAO has no material income or assets: tokens are owned by members individually, not by the DAO entity; IP contributions to the DAO are voluntary and gratuitous, not income-generating; and the DAO conducts no business operations. Thus, the DAO should have

¹⁰¹ See 17 C.F.R. §§ 230.501-508 (Regulation D); *id.* § 230.701 (Rule 701).

¹⁰² 31 C.F.R. § 1022.380 (FinCEN regulations for money services businesses).

¹⁰³ 17 C.F.R. § 230.506(c)(2)(ii).

¹⁰⁴ C2C Process Description, *supra* note 21, at 4.

¹⁰⁵ *Id.*

¹⁰⁶ See I.R.C. § 7701(a)(2) (defining partnership to include unincorporated organizations engaged in business); *id.* § 701 (providing that partnerships are pass-through entities not subject to entity-level tax).

no taxable income to pass through to members. The DAO exists purely for liability protection, IP assignment, and organizational purposes, not as a tax entity.¹⁰⁷

2. DevCo Tax Status

DevCo elects C Corporation tax treatment.¹⁰⁸ This creates: entity-level taxation on DevCo's income; potential QSBS benefits for shareholders under IRC § 1202;¹⁰⁹ and separate corporate identity for tax purposes, with DevCo filing its own returns and shareholders receiving K-1s or 1099s.

The C Corporation election must be made before issuing equity to preserve QSBS eligibility.¹¹⁰ For stock issued after July 4, 2025, qualifying shareholders may exclude up to \$15 million in capital gains (indexed for inflation) or 10 times their adjusted basis, whichever is greater, for stock held at least five years.¹¹¹ Stock held for at least three years but less than five years qualifies for partial exclusion.¹¹²

3. Token Purchase/Sale Tax Treatment

Token purchases and sales are treated as commodity transactions:¹¹³ purchasers have no immediate tax liability (absent income characterization for airdrop/reward receipts); sales generate capital gain or loss based on holding period and basis; and no "wash sale" rules apply (unlike securities). This treatment is advantageous for token holders compared to securities taxation.¹¹⁴

4. Equity Grant Tax Treatment

Rule 701 equity grants trigger IRC § 83 analysis, the full analysis of which falls outside this paper.

5. Reg D/S/CF/A Equity Tax Treatment

Equity purchases for fiat or crypto under Regs D/S/CF/A do not trigger immediate income recognition since purchasers have cost basis equal to purchase price and recognize gain/loss only upon sale.¹¹⁵

¹⁰⁷ C2C Process Description, *supra* note 21, at 6.

¹⁰⁸ *Id.* at 2; *see* Treas. Reg. § 301.7701-3(c) (check-the-box regulations allowing eligible entities to elect corporate tax treatment).

¹⁰⁹ I.R.C. § 1202(a).

¹¹⁰ C2C Process Description, *supra* note 21, at 6; *see* I.R.C. § 1202(c)(2) (requiring stock to be issued while corporation qualifies as C corporation, not S corporation or partnership). Credit to Jason Schwartz at Cahill on this point.

¹¹¹ Infrastructure Investment and Jobs Act § 80604 (increasing QSBS cap to \$15 million for stock issued after July 4, 2025); I.R.C. § 1202(b)(1) (providing alternative cap of 10 times adjusted basis).

¹¹² *See* I.R.C. § 1202(a)(4) (providing 100% exclusion for stock held more than five years); *id.* § 1202(a)(3) (providing lower exclusion percentages for stock held less than five years).

¹¹³ *See* IRS Notice 2014-21, 2014-16 I.R.B. 938 (treating virtual currency as property for federal tax purposes).

¹¹⁴ *See id.*

¹¹⁵ *See* I.R.C. § 1012 (establishing cost basis for purchased property).

V. C2C REGULATORY CONTEXT AND TIMING

The C2C model’s viability depends significantly on the regulatory environment. Recent developments suggest a shift toward recognition of token-security distinctions.

A. The Responsible Financial Innovation Act

The proposed Responsible Financial Innovation Act (“**RFIA**”) by the Senate Banking Committee, along with the House’ older CLARITY Act, represents the most comprehensive Congressional attempt to establish a crypto regulatory framework.¹¹⁶ Key provisions relevant to the C2C model include:

1. Ancillary Asset Definition

RFIA creates a category of “ancillary assets” as intangible assets (including digital commodities) offered through an investment contract but which do not themselves provide financial rights such as debt interests, equity interests, liquidation rights, or profit participation.¹¹⁷ Once the investment contract relationship terminates, ancillary assets trade as commodities outside securities regulation.¹¹⁸

This framework closely aligns with the C2C model’s core principle: tokens may initially be distributed through arrangements involving investment contracts (though the C2C model avoids this characterization), but the tokens themselves are not securities and may trade freely once any investment contract relationship ends.¹¹⁹

2. Decentralized Governance Systems

RFIA explicitly recognizes “decentralized governance systems” as transparent, rules-based systems for protocol development in which, “participation is not limited to, or under the effective control of, any person or group of persons under common control.”¹²⁰ Critically, RFIA states that decentralized governance systems may be implemented through, “a decentralized unincorporated nonprofit association created pursuant to State law, provided that the legal entity does not operate pursuant to centralized management.”¹²¹

This provision directly validates the C2C model’s use of an unincorporated nonprofit association as the DAO structure. It confirms that such entities can serve governance functions without triggering securities treatment, provided they avoid centralized management.¹²²

3. Disclosure Requirements

For ancillary assets that were initially offered through investment contracts, RFIA imposes ongoing disclosure obligations on the “ancillary asset originator.”¹²³ However, these obligations terminate once the originator

¹¹⁶ Responsible Financial Innovation Act of 2025, S. __ (discussion draft, 119th Cong., 1st Sess.) [hereinafter RFIA].

¹¹⁷ *Id.* § 101 (adding Securities Act § 4B(a)(1)).

¹¹⁸ *Id.* § 101 (adding Securities Act § 4B(b)(1)-(2)).

¹¹⁹ *See id.*

¹²⁰ *Id.* § 2(5)(A).

¹²¹ *Id.* § 2(5)(C).

¹²² *See id.*

¹²³ *Id.* § 101 (adding Securities Act § 4B(d)).

certifies that: (i) it has not engaged in more than nominal entrepreneurial or managerial efforts during the preceding year; and (ii) any essential promises made to purchasers have been fulfilled.¹²⁴

The C2C model could utilize this framework: DevCo initially distributes tokens with full disclosure of the C2C structure and separate equity pathways, then files a termination certification once the protocol is sufficiently mature and decentralized. Thereafter, tokens trade as commodities with no ongoing issuer disclosure obligations.¹²⁵ But the C2C model does not rely on this ancillary asset originator framework either, and recent guidance suggests Congress does not expect it will be in any finally passed crypto legislation in any event.

4. Safe Harbors for Gratuitous Distributions: Limitations on C2C Applicability

RFIA Section 4B(a)(5) provides that certain "gratuitous distributions"—specifically automated, protocol-level distributions pursuant to transparent, non-discretionary rules—are not offers or sales of securities. This safe harbor applies to programmatic distributions such as:

- Staking rewards automatically distributed by consensus mechanisms
- Protocol-based airdrops executed by smart contracts according to transparent, predetermined criteria (e.g., all holders of X token receive Y amount)
- Usage-based rewards distributed algorithmically based on verifiable network participation¹²⁶

The statute requires distributions be "broad, equitable, and non-discretionary" and specifies that "no person or group has unilateral authority to alter, restrict, or direct the issuance parameters."¹²⁷

Importantly, this safe harbor likely does NOT apply to DevCo's centralized token distributions including:

- Discretionary airdrops where DevCo selects recipients or determines allocations on a case-by-case basis
- Direct token sales conducted by DevCo (these are commercial transactions, not gratuitous distributions)
- Board-approved distributions requiring individual DevCo decisions

For DevCo-level distributions not covered by RFIA safe harbors, the C2C model relies on alternative legal frameworks:

(a) Direct Sales at Fair Market Value: DevCo's sale of tokens for fiat or cryptocurrency at commercially reasonable prices constitutes a sale of utility goods/commodities, not an investment contract, provided tokens have genuine consumptive use and are not marketed with profit expectations.¹²⁸

(b) Rule 701 Compensatory Grants: Tokens distributed to service providers under written agreements documenting bona fide services may qualify for Rule 701's compensatory exemption (subject to applicable limitations).¹²⁹

(c) Traditional Howey Analysis: DevCo distributions not qualifying for statutory safe harbors must be analyzed under traditional investment contract doctrine, with the C2C model relying on: (i) genuine utility and

¹²⁴ *Id.* § 101 (adding Securities Act § 4B(d)(3)(B)).

¹²⁵ *See id.*

¹²⁶ S. Comm. on Banking, Hous. & Urban Affairs, Responsible Financial Innovation Act of 2025, Discussion Draft, 119th Cong. (Sept. 5, 2025).

¹²⁷ Responsible Financial Innovation Act § 101 (adding Securities Act § 4B(a)(5)(B)(v)).

¹²⁸ SEC v. Ripple Labs, Inc., No. 20-cv-10832, 2023 WL 4507900 (S.D.N.Y. July 13, 2023).

¹²⁹ 17 C.F.R. § 230.701

consumptive use characteristics; (ii) clear disclosure of the C2C program and if and when an investment contract or equity grant could be formed; (iii) clear and extensive disclaimers that tokens convey no equity or financial rights, and what would be required to have any such rights; (iv) secondary market price determination by market forces rather than DevCo's entrepreneurial efforts; and (v) separation between token utility and equity value.¹³⁰

Hybrid Structure: Projects may implement a hybrid approach where:

- Protocol-level distributions (e.g., validator rewards, automated liquidity mining) utilize RFIA safe harbor
- DevCo-level distributions (e.g., initial sales, discretionary allocations) rely on separate exemptions or non-security characterization

This bifurcation preserves the benefits of automated, decentralized token distributions while accommodating DevCo's need for operational flexibility in business development and community building, but would be optional for a project to pursue.

B. SEC Project Crypto

In November 2025, SEC Chairman Paul Atkins outlined “Project Crypto,” the Commission’s initiative to provide regulatory clarity for digital assets.¹³¹ Chairman Atkins’ remarks are highly relevant to the C2C model:

1. Token Taxonomy

Chairman Atkins proposed a formal token taxonomy distinguishing:¹³²

- **Digital Commodities:** Network tokens deriving value from decentralized, functional systems rather than managerial efforts
- **Digital Tools:** Utility tokens providing access to applications or services
- **Digital Collectibles:** NFTs and similar assets tied to artwork, in-game items, or other collectible content
- **Tokenized Securities:** Digital representations of traditional securities

Only tokenized securities are subject to securities regulation under this framework. The other three categories are not securities, though they remain subject to anti-fraud provisions.¹³³

The C2C model’s tokens clearly fall within “Digital Commodities” or “Digital Tools” under this taxonomy. They provide protocol utility, community participation rights, and network access, and not financial interests in DevCo’s profits or assets.¹³⁴ Critically, even where DevCo maintains centralized control over protocol development and token-related features, the tokens remain Digital Commodities or Digital Tools because they are purchased and held for consumptive utility rather than investment purposes. The tokens provide tangible,

¹³⁰ See SEC v. W.J. Howey Co., 328 U.S. 293 (1946); United Housing Found. v. Forman, 421 U.S. 837 (1975).

¹³¹ Paul S. Atkins, Chairman, SEC, Remarks at the Federal Reserve Bank of Philadelphia: Project Crypto and the Next Phase of Digital Asset Oversight (Nov. 12, 2025), <https://www.sec.gov> [hereinafter Atkins Remarks]; see also Cooley LLP, SEC’s ‘Project Crypto’ – Chairman Atkins Outlines Regulatory Vision (Nov. 24, 2025), <https://investigations.cooley.com/2025/11/24/secs-project-crypto-chairman-atkins-outlines-regulatory-vision/>.

¹³² Atkins Remarks, *supra* note 127.

¹³³ *Id.*

¹³⁴ See *id.*

non-financial benefits including: community participation capability and organizational infrastructure through DAO membership; network access and protocol interaction rights; product access and preferential pricing or discounts on DevCo offerings; exclusive token holder forums and communication channels; the ability to lock tokens and thereby gain enhanced engagement opportunities and direct voice in DevCo proposals (though non-binding for non-shareholders); token-gated content, events, and experiences tailored to the project type; and whatever additional utility features the specific company implementing the C2C framework chooses to provide (which may include research access for biotech projects, governance participation for infrastructure protocols, loyalty benefits for consumer applications, or fan engagement for entertainment properties).

These utility characteristics, not the degree of centralization in protocol management, determine whether tokens constitute securities. Under *United Housing Foundation v. Forman* and its progeny, instruments purchased for consumptive use rather than profit expectation are not securities regardless of whether the provider maintains control over service delivery. A movie theater ticket provides access controlled entirely by the theater operator, yet it is not a security because purchasers seek entertainment consumption, not investment returns. C2C tokens function similarly: they provide access to a suite of participation rights and utility features controlled by DevCo, but purchased for consumption and engagement rather than financial return.

2. Investment Contracts Can Terminate

Chairman Atkins emphasized that “investment contracts can end,” such that tokens initially sold through an investment contract may subsequently trade outside securities regulation once the issuer’s essential managerial efforts cease.¹³⁵ This principle validates the temporal distinction between initial distribution (which may involve investment contract analysis) and subsequent trading (which may not).

The C2C model goes further: it avoids the investment contract characterization entirely for token distribution, ensuring tokens never require transformation from securities to commodities. But Chairman Atkins’ framework provides additional comfort that even if tokens were initially securities, they would not permanently carry that characterization.¹³⁶

3. Regulation Crypto Proposal

Chairman Atkins previewed a forthcoming “Regulation Crypto” proposal establishing tailored disclosure, exemption, and safe harbor provisions for crypto asset distributions.¹³⁷ While details remain pending, the proposal is expected to create compliance pathways for projects that distribute tokens alongside or following investment contract arrangements.

The C2C model’s disclosure-heavy approach—detailed whitepaper, clear separation between tokens and equity, explicit disclaimers, documented exemptions for equity—aligns with the anticipated Regulation Crypto framework.¹³⁸

C. Judicial Developments: *Ripple* and *Lido*

The two prominent, crypto-related court decisions we have discussed earlier in this paper provide important context for the C2C model, and are explored deeper here:

1. *SEC v. Ripple Labs*

¹³⁵ *Id.*

¹³⁶ *See id.*

¹³⁷ *Id.*

¹³⁸ *See id.*

The Southern District of New York’s July 2023 decision distinguished between “institutional sales” of XRP (conducted through written contracts with sophisticated buyers) and “programmatically sales” (blind bid/ask transactions on digital asset exchanges).¹³⁹ The court held that institutional sales were investment contracts because buyers knew they were transacting with Ripple, expected profits from Ripple’s efforts, and contracts included investment-like terms (lockups, resale restrictions).¹⁴⁰

By contrast, programmatic sales were not investment contracts because: (i) buyers did not know they were purchasing from Ripple; (ii) less than 1% of XRP trading volume came from Ripple’s sales; and (iii) buyers’ profit expectations were based on general market dynamics, not Ripple’s entrepreneurial efforts specifically.¹⁴¹

The C2C model applies this lesson: DevCo’s token sales are disclosed, arms-length transactions for utility goods without lockup or investment-like terms. While purchasers know DevCo is the seller (distinguishing from *Ripple*’s programmatic sales), they also know they are buying utility/commodity, not an investment. The detailed whitepaper disclaimer and separate equity pathway channel investment expectations away from tokens, as well as explicit discussion of the C2C model that the DevCo intends to follow that provides clear guidance on when an investment contract could actually be formed.¹⁴²

2. *Samuels v. Lido DAO*

The Northern District of California’s November 2024 decision held that Lido DAO, an unstructured organization of token holders operating an Ethereum staking protocol, constituted a general partnership under California law.¹⁴³ The court rejected Lido’s argument that it was “just autonomous software,” finding that the DAO “makes decisions through tokenholder votes, maintains a treasury where it keeps its retained percentage of staking rewards, and has hired over 70 employees.”¹⁴⁴

The court further held that venture capital investors who participated in Lido’s governance were general partners, exposing them to joint and several liability for the DAO’s obligations—including potential liability for offering unregistered securities.¹⁴⁵

The C2C model directly addresses the *Lido* problem: by organizing token holders as members of an unincorporated nonprofit association (rather than an informal general partnership), the structure provides liability protection for members under Delaware law.¹⁴⁶ Moreover, by separating business operations (DevCo) from

¹³⁹ Ripple Labs, 2023 WL 4507900, at *5-12.

¹⁴⁰ *Id.* at *5-9.

¹⁴¹ *Id.* at *10-12; *Cf. Sec. & Exch. Comm’n v. Terraform Labs Pte. Ltd.*, No. 23-CV-1346 (JSR), 2023 WL 4858299 (S.D.N.Y. July 31, 2023) (which took a contrasting view and created a split within SDNY).

¹⁴² *See id.*

¹⁴³ *Samuels*, 2024 WL 4711544, at *3.

¹⁴⁴ *Id.* at *2.

¹⁴⁵ *Id.* at *4-5.

¹⁴⁶ DEL. CODE ANN. tit. 6, § 1904(a) (“A member or agent of an unincorporated nonprofit association is not liable for a debt, obligation or liability of the association solely by reason of being a member or acting as an agent of the association.”).

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community organization (DAO), the model ensures that the DAO does not engage in for-profit activities that would create partnership obligations.¹⁴⁷

The *Lido* decision validates the C2C model’s architectural choice: unstructured DAOs face acute legal risk, while properly organized entities can provide both functionality and protection.¹⁴⁸

VI. CONCLUSION

The Coin-to-Company model offers a practical synthesis of decentralized governance and securities law compliance. Rather than forcing projects into false choices, like offshore structures, rushed decentralization, or regulatory uncertainty, the C2C model enables domestic projects to distribute tokens as utility assets while channeling investment capital through compliant equity pathways.

The model’s durability derives from its reliance on established legal frameworks: unincorporated nonprofit associations for liability protection, commodity transactions for token distribution, and settled securities exemptions (Rule 701, Regulation D) for equity issuance. It does not depend on novel legal theories, agency discretion, or evolving judicial interpretations of “sufficient decentralization.”

The regulatory environment is becoming more receptive to token-security distinctions. The Responsible Financial Innovation Act would codify many of the C2C model’s core principles, recognizing decentralized governance entities and ancillary assets that function as commodities. SEC Chair Atkins’ Project Crypto framework similarly distinguishes digital commodities from securities based on economic reality and taxonomy. And recent judicial decisions (*Ripple*, *Lido*) confirm both the viability of token sales outside investment contract analysis and the urgent need for proper DAO structuring.

For US based projects seeking to build community-driven, token-based ecosystems while preserving access to institutional capital and equity value capture, the C2C model provides a clear roadmap. It demonstrates that decentralization and regulatory compliance are not mutually exclusive in that by being properly structured, they are mutually reinforcing. By maintaining categorical separation between tokens (as utility, technology based instruments) and equity (as legal investment instruments), while enabling the same individuals to participate in both ecosystems through distinct legal pathways, the C2C model reconciles the innovations of blockchain technology with the substantive requirements of U.S. securities law.

We believe that the framework is immediately implementable under existing US and international law. Projects can adopt the dual-entity structure, draft compliant token whitepapers, establish token locking mechanisms, and prepare Rule 701 and Regulation D documentation today, using existing statutes, regulations, and exemptions. As the regulatory landscape continues to evolve—with Congressional legislation, SEC rulemaking, and judicial precedent providing greater clarity—the C2C model’s foundational principles of categorical separation and documented compliance pathways will remain sound.

Ultimately, the C2C model demonstrates that thoughtful legal engineering can bridge the gap between decentralized innovation and traditional securities regulation, enabling crypto projects to build sustainable, compliant, and economically viable businesses in the United States.

¹⁴⁷ C2C Process Description, *supra* note 21, at 2.

¹⁴⁸ Samuels, 2024 WL 4711544, at *2-6.

EXHIBIT A

Detailed C2C DeSci Use Cases: DermaDAO and O’Ryan Health-JDM

INTRODUCTION

This Exhibit provides detailed illustration of how two decentralized science organizations—**DermaDAO** and **O’Ryan Health-JDM**—could implement the Coin-to-Company (C2C) framework to address core regulatory and capital formation challenges in DeSci research. Details here are subject to change based on regulatory guidance, so the provided mechanisms are proposed for discussion purposes only.

Document Purpose

This Exhibit shows:

1. **Structural Application** — How C2C’s dual-entity architecture maps to each organization’s specific research model
2. **Token-Equity Separation** — How utility tokens solve governance/participation while equity securities solve capital/accountability
3. **Regulatory Compliance** — How C2C enables compliant decentralized research without sacrificing institutional partnerships
4. **Revenue Alignment** — How token utility benefits align with research mission while equity structures incentivize commercial success
5. **Governance Balance** — How advisory token governance coexists with binding shareholder governance

PART I: DERMADA0 — C2C APPLICATION TO CONSUMER SKINCARE RESEARCH

A. PROJECT OVERVIEW AND REGULATORY CHALLENGE

What DermaDAO Seeks to Achieve: DermaDAO is a blockchain-based research and consumer products organization dedicated to advancing skincare science through community-governed research, science-backed product development, and transparent scientific methodologies. Rather than centralizing research priorities and product development decisions within management teams, DermaDAO proposes enabling patients, consumers, and the broader scientific community to participate directly in governance decisions about research priorities, study design, data sharing policies, and product development direction.

The Core Regulatory Challenge: DermaDAO aims to distribute participatory tokens (SKIN tokens) to global community members, enabling research and community participation, product testing and input without triggering securities law compliance obligations. Simultaneously, DermaDAO requires institutional capital—from venture investors, pharmaceutical partners, and consumer products companies—to fund product development, clinical research, and commercialization. These two objectives create regulatory tension: pure tokenization models risk SEC enforcement as unregistered securities; pure equity models exclude community participation and contradict DeSci principles of broad based scientific involvement.

How C2C Resolves the Tension: The C2C framework enables DermaDAO to issue utility tokens (SKIN) for a wide variety of utility enumerated below while maintaining compliant equity pathways (e.g. Reg D for investors, Rule 701 for team members and contributors, etc.) for capital formation and professional management. Tokens and equity operate through parallel structures with clear legal separation, enabling authentic community participation without regulatory risk.

B. DERMADAO'S DUAL-ENTITY STRUCTURE UNDER C2C

1. Operating Company: *The DermaDAO LLC*

Legal Structure: If DermaDAO were to implement C2C, it would organize as a Delaware limited liability company. The DermaDAO LLC would make a **C-Corporation tax election** to be treated as a U.S. corporation for federal and state tax purposes.

Operational Authority and Functions: The DermaDAO LLC would:

- **Hold and Develop Intellectual Property:** Own all skincare IP (formulations, clinical research protocols, product designs, manufacturing specifications, brand assets). IP may be structured as traditional patents/copyrights or as tokenized IP-assets on blockchain platforms.
- **Conduct Business Operations:** Execute all commercial activities—manufacturing partnerships, direct-to-consumer sales through dermalabs.org or bio.xyz, subscription models, wholesale retail partnerships, international expansion, licensing arrangements.
- **Employ Team and Compensate Contributors:** Hire professional management (CEO, CFO, CTO, CMO), employ research scientists and product development staff, engage manufacturing and supply chain partners, compensate advisors and consultants.
- **Issue Equity Securities:** Conduct compliant equity offerings such as under Regulation D (Rule 506c) for accredited investors seeking ownership interests; structure Rule 701 equity grants for researchers, scientists, and advisors contributing services; potentially offer public equity through Reg A+ (mini-public offering) or Reg CF (equity crowdfunding) in future phases.
- **Maintain Ultimate Decision-Making Authority:** The LLC Manager (appointed by and accountable to voting equity holders) retains binding authority over all material business decisions—capital allocation, strategic direction, partnership negotiations, product development roadmap, manufacturing specifications, pricing strategies, marketing approaches, and commercialization priorities.

2. Community Organization: *SKIN-DAO (Delaware Unincorporated Nonprofit Association)*

Legal Structure: Concurrently, DermaDAO founders would establish **SKIN-DAO** as a **Delaware Unincorporated Nonprofit Association (DUNA)** under 6 Del. Code §1901-1916. This structure provides liability protection to individual token holders while establishing the governance framework for the broader token-holder community.

Operational Functions: SKIN-DAO would:

- **Establish Token Holder Membership Framework:** Automatic DAO membership is conferred upon SKIN token acquisition—no further consent, registration, or approval required. Token holders become DAO members by virtue of blockchain verification. Membership is easily revoked by transferring or burning tokens with no further liability to token holders.
- **Capture Community-Generated Intellectual Property:** Any specific intellectual property, research insights, product feedback, formulation improvements, or marketing ideas contributed by token holders or DAO members would be formally captured and transferred to the DermaDAO LLC for development and commercialization.
- **Enable Community Governance:** Establish governance mechanisms enabling token holders to provide non-binding advisory input on research priorities, product development direction, data access policies, and commercialization strategy. (Detailed governance structure addressed separately below.)

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- **Manage Community Communications:** Facilitate communication among token holders, organize community events, publish quarterly reports on operations and research progress, maintain forums and discussion platforms, and conduct community consultations.
- **Maintain Clear Legal Separation:** Preserve the foundational principle that SKIN-DAO is distinct from the DermaDAO LLC. Token holders are DAO members; they are NOT equity holders of the LLC. DAO membership carries no equity rights, profit participation, or liquidation preferences. This separation is critical to securities law compliance.

C. SKIN TOKEN STRUCTURE AND CONSUMPTIVE BENEFITS

1. Core Principle: Utility, Not Investment

SKIN tokens are **utility tokens** designed to provide consumptive benefits—benefits the token holder receives for using the SKIN token within DermaDAO’s ecosystem—rather than investment contracts providing financial upside. Token value derives from consumptive use, not from expectation of financial returns from DermaDAO’s managerial efforts.

2. Token Utilities Without Locking

Holding SKIN tokens without any locking provides immediate consumptive benefits across six primary categories:

Category 1: Product Access and Commerce Utilities: Tiered discount structure (10-30% off Moon Sol Drops and future product lines, with discounts increasing based on token holdings). Early access to new product launches (48-72 hours before public availability). Token-gated exclusive products (limited-edition formulations, research-exclusive variants requiring minimum SKIN holdings). Subscription pricing prioritization (discounted subscription rates for recurring product delivery). Premium fulfillment options (priority shipping, extended return windows).

Consumptive Value: The token holder receives direct consumer benefits—tangible products and transaction cost reductions.

Category 2: Research Data Access and Scientific Utilities: Token-gated access to certain research results and raw study data. Real-time research progress updates (disclosed to SKIN holders 48-72 hours before public announcement). Pre-publication manuscript review (SKIN holders may review and comment on research before journal submission). Access to proprietary AI-powered skin analysis tools (if and when SkinScan application is developed—advanced AI analysis, real-time tracking, personalized recommendations). Curated library of peer-reviewed dermatological research (organized by topic, methodology, and relevance to SKIN formulations).

Consumptive Value: Token holders access scientific information, participate in research processes, and gain insights not available to non-holders. The value is experiential and informational, not financial.

Category 3: Community Trial Participation Rights: Priority enrollment in community trials and product testing (SKIN holders advance in research recruitment queues). SkinScan app premium features (enhanced AI analysis, multi-month tracking, predictive models, if developed). Commemorative NFT badges (blockchain-verified digital badges documenting research participation). Participant recognition in research publications (named acknowledgments in published manuscripts).

Consumptive Value: Token holders participate directly in research, contribute to scientific advancement, and receive public recognition.

Category 4: Governance Infrastructure and Community Access: Token-weighted forum access with enhanced privileges (governance discussion boards accessible only to SKIN holders, with comment weighting proportional to holdings). Proposal submission rights (SKIN holders meeting minimum thresholds may submit governance proposals). Detailed quarterly reports (comprehensive operational and financial disclosures provided

to token holders). Token-gated AMA sessions (Ask Me Anything sessions with scientists, dermatologists, and advisors, accessible only to token holders). Exclusive community event invitations (research workshops, product launch events, community gatherings). Advisory governance voting interface (non-binding voting on DermaDAO matters, discussed below).

Consumptive Value: Token holders access exclusive community, participate in governance, receive enhanced communication, and influence company direction.

Category 5: Network Services and Fee Reduction: Gas fee subsidies for governance and protocol interactions (DermaDAO reimburses blockchain transaction costs for governance voting and token management). Platform fee discounts (reduced fees for consultations with dermatologists or cosmetic chemists). Enhanced governance weight through locking (accessing the governance interface provides higher voting influence, access-based not financial). Priority processing for customer service (expedited responses to inquiries, priority support for product issues).

Consumptive Value: Token holders reduce transaction costs, receive faster service, and gain access to expert consultation.

Category 6: Educational Content and Professional Development: Token-gated educational courses on skincare science (blockchain-verified certificates documenting completion of curated educational programs). Certification programs (advanced credentials in skincare chemistry, ingredient analysis, formulation science). Expert consultation credits (time allocations for conversations with dermatologists, chemists, and advisors). Continuing education webinars and workshops (advanced training on emerging skincare science, research methodologies). Professional networking access (community directory and networking platform for researchers, skincare professionals, entrepreneurs).

Consumptive Value: Token holders gain knowledge, credentials, and professional relationships.

3. Enhanced Utilities Through Token Locking: L-SKIN

SKIN token holders may voluntarily lock their tokens through a smart contract mechanism, converting them to **L-SKIN (Locked SKIN)** tokens. L-SKIN provides additional consumptive benefits and creates the bridge to equity eligibility.

Additional Benefits Conferred by L-SKIN:

- **Non-Binding Advisory Governance** on all corporate actions (research priorities, product development, partnerships, community engagement)
- **Priority Advisory Voice** (DermaDAO explicitly values and prioritizes input from L-SKIN holders when making decisions)
- **Enhanced Data Access** (more detailed research datasets, access to experimental protocols not disclosed to non-locked holders)
- **Equity Application Eligibility** (locked token holders may apply for equity in the DermaDAO LLC through compliant pathways; see Equity Bridge section below)

Lock-Up Duration and Exit:

Once an L-SKIN holder receives equity, their L-SKIN tokens remain locked for the entire duration of equity ownership. This creates alignment between on-chain governance (L-SKIN voting) and legal ownership (equity shares). Upon equity sale or liquidation event, L-SKIN holders may unlock tokens and freely trade them for SKIN on secondary markets.

Critical Understanding: Token locking creates no automatic pathway to equity. Locking simply creates (a) a transparent on-chain record of token holder identity, (b) a mechanism for on-chain voting and transactions, and (c) one factor—among many—that DermaDAO might consider if conducting future equity offerings. Token locking imposes no obligation on DermaDAO to issue equity.

D. THE EQUITY BRIDGE: FROM LOCKED TOKENS TO SECURITIES

1. Conceptual Framework

The equity bridge is where C2C creates maximum value for DeSci organizations. Locked token holders who meet securities law requirements may obtain **equity securities** in the DermaDAO LLC through three compliant regulatory pathways. Critically, equity is **entirely distinct from tokens**:

- Different legal documents
- Different regulatory requirements (securities law vs. commodity law)
- Different rights and obligations
- Different governance authority
- Different tax treatment

Token locking is not a pathway to equity conversion. Rather, locking is a signal of commitment that, combined with other qualifications, may make a token holder eligible to apply for equity if DermaDAO decides to conduct offerings.

2. Three Possible Equity Pathways

Pathway A: Regulation D (Rule 506c) — Accredited Investor Equity

Element	Details
Eligibility	L-SKIN holders who are accredited investors under SEC Rule 501 (net worth >\$1M excluding primary residence, or annual income >\$200K individual/\$300K joint)
Offering Mechanics	DermaDAO LLC raises capital from accredited investors in exchange for Preferred Stock with liquidation preferences, dividend rights, and optional participation rights in future liquidation events
Consideration	Investors provide capital (cryptocurrency or fiat currency) to fund LLC operations, research programs, product development, or working capital
Documentation	Separate subscription agreement, stock certificate, investor rights agreement specifying dividend terms, liquidation preferences, registration rights (if applicable), board observation rights
Regulatory Compliance	Form D filing with SEC; state Blue Sky compliance; bad actor disqualification verification; disclosure of material information
Cap Table Impact	Accredited investors obtain minority or majority ownership in the LLC depending on capital raised and dilution dynamics

Regulatory Advantage: Reg D enables capital formation from institutional investors without public offering requirements or SEC pre-approval. This is the primary pathway for venture-backed biotech.

Pathway B: Rule 701 (Class B Common Stock) — Employee Equity

Element	Details
Eligibility	L-SKIN holders who are employees, directors, or consultants of the DermaDAO LLC contributing research services, protocol design, scientific advice, or community building efforts
Offering Mechanics	LLC issues Common Stock (Class B) to service providers as compensatory equity under written plan. Equity represents payment for services rendered
Consideration	Service contribution (research time, intellectual input, advisory expertise, community engagement) in exchange for equity
Documentation	Rule 701 Equity Plan; individual stock option or restricted stock grant agreements; vesting schedules (typically 4-year vest with 1-year cliff)
Tax Treatment	Under IRC §83, grants trigger ordinary income inclusion upon vesting. IRC §83(b) elections allow acceleration of income inclusion. 409A valuations should be obtained to provide defensible documentation
Regulatory Compliance	Plan must comply with Rule 701 requirements (capped at \$1M per employee, plan document provided, etc.); no SEC filing required but subject to state securities laws
Distinction from Reg D	Rule 701 is not an offering—it’s compensatory equity issued for services. No investor capital involved; equity represents alternative compensation structure

Regulatory Advantage: Rule 701 enables research teams, scientific advisors, and community contributors to obtain equity without triggering securities sale mechanics. This aligns incentives across the research community.

Pathway C: Rule 701 (Class A Common Stock) — Advisory/IP Contributor Equity

Element	Details
Eligibility	L-SKIN holders who are advisors, IP contributors, or promotional service providers (e.g., scientists who contributed formulation research, advisors who provide ongoing strategic guidance)
Offering Mechanics	LLC issues Common Stock (Class A) to contributors under Rule 701 AIPP (Advisory and Intellectual Property Provider) provisions
Consideration	Contribution of intellectual property rights (formulation research, protocol design), advisory services, promotional efforts, or other valuable services
Documentation	Rule 701 Equity Plan; individual stock award agreements; assignment of IP agreements (formal transfer of contributor IP to LLC ownership)

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Element	Details
Vesting and Acceleration	Vesting optional under Rule 701; many plans use cliff vesting to incentivize long-term participation
Valuation and Tax	409A valuations protect contributors from tax penalties; equity represents balance sheet item subject to capital gains tax upon sale
Regulatory Compliance	Same as Class B, subject to Rule 701 and state securities law requirements

Regulatory Advantage: This pathway enables open-source contributors, international researchers, and academic collaborators to obtain equity stakes without conventional employment relationships.

3. Process for Obtaining Equity

The mechanics for converting L-SKIN eligibility to actual equity ownership would operate as follows:

- **Step 1: KYC/AML Screening** L-SKIN holders seeking equity complete Know Your Customer (identity verification) and Anti-Money Laundering screening. This is standard in securities offerings and ensures compliance with banking regulations and sanctions requirements.
- **Step 2: Equity Application and Review** Qualified L-SKIN holders submit applications for equity consideration. Applications specify desired ownership class (Preferred under Reg D, Class B for service-based, Class A for contribution-based), proposed equity amount, and supporting documentation (proof of service contribution, IP assignment agreements, investment funds if applicable).
- **Step 3: LLC Manager Discretion and Approval** The LLC Manager—accountable to voting equity holders—reviews applications and determines acceptance or rejection. Importantly: Approval is discretionary, not automatic. LLC Manager may reject applications for any reason or no reason. LLC Manager considers factors including contributor alignment with LLC mission, quality of proposed contribution, funding needs, cap table constraints, and equity pool availability. LLC Manager evaluates whether offering is advisable given regulatory environment and business circumstances
- **Step 4: Documentation and Closing** Upon approval, the LLC Manager and applicant execute equity documentation (subscription agreement, stock certificate, rights agreement) and complete closing mechanics (receipt of funds for Reg D offerings, execution of IP assignments, etc.).
- **Step 5: Post-Closing Governance** Post-equity, holders maintain dual roles: **As DAO Members:** Continue to hold L-SKIN tokens and participate in advisory governance. **As Shareholders:** Exercise binding corporate governance rights per Delaware law (voting on board elections, major transactions, etc.) through shareholder meetings or written consents

E. GOVERNANCE UNDER C2C: THREE LEVELS

DermaDAO's governance structure balances community participation, professional management, and shareholder accountability through three distinct levels, each with defined authority and limitations.

1. Level 1: Token Holder Advisory Governance (Non-Locked SKIN Holders)

Who Participates: Any SKIN token holder, regardless of lock status, may participate in Level 1 governance.

Governance Subjects: Token holders provide non-binding advisory input on: Research study design and protocols (which skincare questions to investigate, what methodologies to employ); Product development priorities (which formulations to prioritize, packaging preferences, line extensions); Data access and sharing policies (how research data should be governed, who should have access, privacy protections); Marketing and branding strategies (messaging, positioning, creative direction); and Commercialization priorities (distribution

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channels, partnership opportunities, geographic expansion). Community engagement initiatives (educational content, community events, researcher collaborations).

Voting Mechanisms: Governance would be implemented through on-chain voting using established platforms such as Snapshot (gas-free voting). Mechanisms might include:

- **Time-Weighted Voting:** Token holders who have held SKIN longer receive additional voting weight, incentivizing long-term participation over short-term speculation
- **Quadratic Voting:** Cost of additional votes increases quadratically (voting power = $\sqrt{\text{tokens}}$), making it expensive for large holders to dominate governance while enabling smaller holders meaningful influence
- **Delegation:** Token holders may delegate voting power to other community members with expertise in particular areas
- **Transparent Recording:** All votes recorded on blockchain, enabling public auditability and analysis of participation patterns

Critical Limitations: Unless they are shareholders, token holders cannot: Override or compel specific decisions by LLC Manager or equity holders; Require the LLC to undertake specific actions or avoid specific strategies. Require distributions, dividends, or transfers of value. Inspect books and records beyond voluntarily disclosed information; Initiate litigation on behalf of SKIN-DAO or the LLC; or Amend governance rules or procedures unilaterally

LLC Manager Authority: The LLC Manager retains absolute authority to: Determine which matters are submitted to token governance and which remain management decisions; Select governance options and voting proposals; Count and verify votes; Determine weight given to governance votes when making final decisions; Proceed with decisions contrary to vote outcomes if business circumstances or regulatory developments require different approaches; or Modify or suspend governance mechanisms if technical issues, security vulnerabilities, or regulatory concerns arise

Rationale: This structure respects community input while preserving operational efficiency and managerial accountability. The LLC Manager must operate profitably and maintain institutional partnerships; this requires making difficult decisions sometimes contrary to community preference.

2. Level 2: Enhanced Advisory Governance (L-SKIN Token Holders)

Who Participates: SKIN holders who lock their tokens and obtain L-SKIN status.

Enhanced Governance Rights: In addition to Level 1 rights, L-SKIN holders: Provide non-binding advisory input on all DermaDAO corporate governance matters (not just product/research decisions); Receive priority consideration of their input—LLC Manager explicitly values and weighs L-SKIN governance more heavily than non-locked holder input; Participate in enhanced governance forums (exclusive AMA sessions, strategic planning consultations).

Why Enhanced Governance? Locking tokens signals commitment to long-term DermaDAO success. L-SKIN holders have “skin in the game” (locked capital) and are less likely to vote based on short-term price speculation. This justifies greater governance weight.

Authority Remains Advisory: Critically, Level 2 governance is still non-binding and subject to the same LLC Manager authority limitations described for Level 1. Enhanced weight does not confer veto power or binding authority.

3. Level 3: Binding Shareholder Governance (Equity Holders)

Who Participates: DermaDAO LLC equity shareholders (those who obtained equity through Reg D, Rule 701 Class B, or Rule 701 Class A).

Governance Authority: Equity shareholders exercise **binding corporate governance** per Delaware law, including authority to: Elect or remove the LLC Manager (Voting Shareholders only); Approve major asset dispositions or strategic transactions; Amend LLC operating agreements or governance documents; Declare dividends or authorizations of liquidation; or Approve issuance of additional equity or debt securities

Voting Rights: Voting rights per ownership class (may include super-majority requirements, separate class voting, etc., depending on equity documentation).

Shareholder Accountability: The LLC Manager is appointed by and accountable to voting equity holders. This aligns the LLC Manager’s incentives with shareholder interests and ensures that professional management executes shareholder strategy.

F. REVENUE MODELS AND TOKEN ALIGNMENT

1. Anticipated Revenue Streams

If DermaDAO successfully commercializes Moon Sol Drops and related products, multiple revenue streams would contribute to financial sustainability and LLC profitability:

Stream 1: Direct-to-Consumer Sales. Primary revenue source through online retail (dermalabs.xyz). Enables full retail margin capture, direct customer relationships, customer data access. SKIN token holders receive product discounts (10-30%), reducing effective revenue per customer but incentivizing token adoption.

Stream 2: Subscription Programs. Recurring revenue through automatic product delivery subscriptions. Advantages: Predictable revenue, lower customer acquisition costs, higher lifetime value. Challenges: Higher customer service requirements, inventory planning, churn management. SKIN holders receive preferential pricing, again reducing per-unit revenue.

Stream 3: Research Data Monetization. If Moon Sol Drops community trials generate valuable real-world efficacy data, that data could be licensed to pharmaceutical companies, diagnostic developers, academic institutions. Data licensing provides high-margin revenue with minimal operational requirements. SKIN holders receive pre-publication access and governance input on data sharing policies.

Stream 4: Licensing and IP Monetization. Licensing formulations to contract manufacturers or beauty companies seeking science-backed skincare. Licensing research methodologies (SkinScan mobile app, LUNAR Trials platform) to other skincare or consumer health companies. Licensing published research to academic and professional educational institutions.

Stream 5: Retail Partnerships and Distribution. Wholesale relationships with specialty beauty retailers (clean beauty, evidence-based skincare focus). Premium department store distribution agreements. International expansion partnerships in key markets (Korea, Japan, EU)

2. Alignment Between Token Utility and Revenue Model

A key strength of the C2C framework is that token utility benefits align naturally with LLC revenue opportunities:

Revenue Stream	Token Utility Alignment
Direct-to-Consumer Sales	Product discounts incentivize token acquisition and retention; token holder community becomes core customer base with high lifetime value

Revenue Stream	Token Utility Alignment
Subscription Programs	L-SKIN holders receive premium subscription pricing, driving predictable revenue; early access to products rewards long-term community participation
Research Data Monetization	SKIN holders provide research data through trials and product usage; pre-publication data access and governance input incentivizes participation in trials
IP Licensing	Licensing of research methodology and data relies on quality of community-generated real-world evidence; token community investment increases data quality
Retail Partnerships	Retail partners value authentic community following and brand loyalty; SKIN token community serves as proof of demand and customer acquisition channel

This alignment creates a virtuous cycle: token utility benefits incentivize participation → participation generates real-world data and community feedback → data quality attracts institutional partners and customers → revenue growth enables lower token discount rates and higher profitability → sustainable business model.

G. EXIT AND LIQUIDITY STRUCTURE

1. Token Liquidity

SKIN token holders can trade tokens freely on secondary markets (decentralized exchanges, cryptocurrency trading platforms) at any time, just like sales for any other commodities. There are no lock-up periods except when associated with equity ownership (L-SKIN holders with equity cannot unlock until equity is sold).

2. Equity Liquidity and Holding Periods

Unlike tokens, equity in the DermaDAO LLC is restricted and illiquid:

Rule 144 Holding Period: Shares obtained through Reg D or Rule 701 are “restricted securities” under Rule 144. SEC rules generally impose a 6-month to 12-month holding period before resale, even to accredited investors (subject to volume limitations). This structure aligns founder, advisor, and early employee incentives with long-term company success.

3. Exit Scenarios

The following exit scenarios illustrate how liquidity would function post-exit:

Scenario A: Acquisition by Pharmaceutical or Beauty Company A large skincare company (e.g., major luxury beauty conglomerate) acquires DermaDAO for its formulations, customer database, and research IP. Acquisition price might range from \$50M (early stage) to \$500M+ (if clinical evidence and market traction are strong).

- SKIN token holders: Tokens remain illiquid unless acquirer integrates token into new company structure. More likely, DermaDAO LLC winds down and token holders who are shareholders receive dividends or wind-down distributions if LLC has cash. Token utility ceases.
- Equity holders: Receive liquidation preferences and residual proceeds per cap table. Example: \$150M acquisition price; Preferred investors receive their liquidation preference (e.g., 1x return = \$50M); remaining \$100M distributed to common shareholders pro-rata. Since DermaDAO is a crypto based company, dividends can be distributed via a blockchain.

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- LLC Manager: May receive enhanced compensation through post-acquisition employment or earnout provisions as would be expected.

Scenario B: Initial Public Offering (IPO) Less likely for an early-stage skincare company, but theoretically possible if DermaDAO achieves substantial scale (\$100M+ annual revenue, profitable operations):

- SKIN token holders: Tokens remain separate from IPO structure. DermaDAO LLC goes public; SKIN-DAO dissolves or transitions to different governance model. Tokens retain value only if LLC provides ongoing benefits (product discounts, community access).
- Equity holders: Restricted shares become public shares subject to SEC Rule 144 volume limitations and holding periods. Public market provides immediate liquidity (though subject to trading restrictions).

Scenario C: No Exit (Company Remains Private) Many biotech and consumer companies remain private indefinitely, generating profits through operations rather than pursuing exit events.

- SKIN tokens retain perpetual value if company continues generating consumptive benefits (product discounts, research access, governance participation).
- Equity holders face ongoing illiquidity, with liquidity generated only through dividends (if declared) or secondary sales to other investors (severely limited market).

PART II: O'RYAN HEALTH-JDM — C2C APPLICATION TO RARE DISEASE RESEARCH

A. PROJECT OVERVIEW AND REGULATORY CHALLENGE

What O’Ryan Health-JDM Seeks to Achieve: O’Ryan Health-JDM is a blockchain-based decentralized research organization dedicated to accelerating diagnostic and therapeutic breakthroughs for **Juvenile Dermatomyositis (JDM)**, a rare, debilitating pediatric autoimmune disease. Rather than confining research to centralized academic institutions where data remains siloed and rare disease patient communities have minimal governance input, O’Ryan Health-JDM proposes a new model where families become direct contributors to breakthrough research through the **Artemis Platform**—a logistics and informatics system enabling parent-administered home blood collection, which is processed into high-resolution single-cell RNA sequencing datasets.

The vision extends beyond JDM: O’Ryan Health-JDM seeks to establish a new paradigm for how rare pediatric disease research is developed, funded, conducted, validated, and translated into clinical applications, serving as a blueprint for over 100 rare pediatric autoimmune conditions suffering from the same research bottlenecks.

The Core Regulatory Challenge: O’Ryan Health-JDM aims to distribute participatory tokens (CRJDM tokens) to families, researchers, and disease advocates, enabling research governance and community participation without triggering securities law compliance obligations. Simultaneously, O’Ryan Health-JDM requires substantial institutional capital—from pharmaceutical companies seeking biomarker discovery, diagnostic developers seeking validated IP, academic medical centers seeking research collaboration, and venture investors seeking equity exposure. These objectives create regulatory and capital formation tension identical to DermaDAO’s: pure tokenization models risk SEC enforcement; pure equity models exclude the patient and researcher communities who are most invested in rare disease research.

How C2C Resolves the Tension: The C2C framework enables O’Ryan Health-JDM to issue utility tokens (CRJDM) for research participation and governance while maintaining compliant equity pathways (e.g. Reg D for institutional investors, Rule 701 for researcher/advisor contributors) for capital formation and institutional partnerships. Tokens for community participation; equity for institutional validation and capital.

B. O'RYAN HEALTH-JDM'S DUAL-ENTITY STRUCTURE UNDER C2C

1. Operating Company: O’Ryan Health-JDM LLC

Legal Structure: If O’Ryan Health-JDM were to implement C2C, just like DermaDAO, it would organize a Delaware limited liability company, with **C-Corporation tax election**.

Operational Authority and Functions: The O’Ryan Health-JDM LLC would:

- **Hold and Develop Research IP:** Own all JDM research intellectual property—including raw single-cell RNA sequencing datasets, validated biomarkers, diagnostic algorithms, computational models, therapeutic target identification, and clinical trial protocols. IP would be structured both as traditional patents/copyrights and potentially as tokenized IP-assets (IP-tokens or IP-NFTs) enabling licensed access and revenue distribution.
- **Operate Artemis Platform:** Maintain and enhance the home-based blood collection logistics system, including FDA-registered devices, IRB-approved protocols, participant engagement, sample processing, sequencing partnerships, data infrastructure, and secure data storage.
- **Conduct IRB-Approved Research:** Design, manage, and implement clinical research protocols approved by Biomedical Research Alliance of New York (BRANY) and other relevant Institutional Review Boards. Research protocols would include the JDM Study (longitudinal study of JDM-diagnosed children across disease states) and the Healthy Kid Study (age-matched healthy controls for biomarker validation).

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- **Establish Institutional Partnerships:** Negotiate and manage research partnerships with pharmaceutical companies, diagnostic developers, academic medical centers, and biotechnology firms seeking access to JDM datasets or collaborative research.
- **Conduct Grant Administration:** Apply for and manage federal research grants (NIH, NSF) and foundation grants (rare disease organizations) providing non-dilutive funding for research expansion.
- **Issue Equity Securities:** Conduct compliant equity offerings to institutional investors (Reg D) and researcher/advisor contributors (Rule 701), raising capital for research expansion, Artemis Platform enhancement, and commercialization pathway.
- **Maintain Ultimate Decision-Making Authority:** The LLC Manager retains binding authority over all material decisions—research priorities, partnership evaluation, data licensing terms, commercialization strategy, and capital allocation.

2. Community Organization: JDM-DAO (Delaware Unincorporated Nonprofit Association)

Legal Structure: O’Ryan Health-JDM would establish **JDM-DAO** as a **Delaware Unincorporated Nonprofit Association (DUNA)**, providing liability protection to token holders while establishing the governance framework for the research community.

Operational Functions: JDM-DAO would:

- **Establish Token Holder Membership:** Automatic DAO membership conferred upon CRJDM token acquisition. Membership is revoked by transferring or burning tokens with no further obligation to the tokenholders.
- **Capture Community-Generated Research Insights:** Specific intellectual property contributed by token holders (research hypotheses, analytical suggestions, clinical observations, patient-reported outcomes) would be formally captured and transferred to O’Ryan Health-JDM LLC for research development and potential commercialization.
- **Enable Research Governance:** Establish mechanisms enabling token holders (families, researchers, advocates) to provide non-binding advisory input on research priorities, data sharing policies, partnership evaluation, and platform expansion.
- **Manage Community Communications:** Facilitate family networks, organize disease awareness events, publish research progress reports, and maintain discussion platforms.
- **Maintain Legal Separation:** Preserve the foundational principle that JDM-DAO is distinct from the O’Ryan Health-JDM LLC. Token holders are DAO members; they are NOT shareholders.

C. CRJDM TOKEN STRUCTURE AND CONSUMPTIVE BENEFITS

1. Core Principle: Utility in Research Context

CRJDM tokens are utility tokens providing consumptive benefits specific to rare disease research participation and governance, rather than investment contracts providing financial returns. Token value derives from research participation and governance utility, not from expectation of financial upside from LLC operations.

2. Token Utilities Without Locking

Holding CRJDM tokens without locking provides immediate consumptive benefits:

Category 1: Research Data Access and Study Progress. Tiered access to research updates and quarterly data summaries (based on token holdings). Early access to research findings (48-72 hours before public release to non-token holders). Pre-publication review of manuscripts (CRJDM holders may review and comment on

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research before journal submission). Real-time study progress updates (enrollment numbers, sample processing status, preliminary findings). Access to proprietary bioinformatics analysis tools (if developed—interactive dashboards showing immune profiling results, biomarker discovery progress)

Consumptive Value: Families and researchers gain priority access to their own research discoveries and immune profiling data.

Category 2: Research Study Participation and Data Rights. Priority enrollment in JDM Study (participants with CRJDM tokens advance in recruitment queues). Artemis Platform premium features (enhanced participant tracking, personalized immune profiling reports, disease progression monitoring tools). Commemorative NFT badges (blockchain-verified credentials documenting research participation, clinical trial enrollments, milestone contributions). Participant recognition in publications (named acknowledgments in peer-reviewed journals—particularly valuable in rare disease where research communities are small and tight-knit)

Consumptive Value: Participating families become active research partners, not mere data sources. They own their participation and gain public recognition.

Category 3: Research Governance and Strategic Input. Token-weighted forum access (JDM-specific discussion boards where families and researchers share clinical observations, hypothesis suggestions). Proposal submission rights (community members propose research directions or data sharing policies). Detailed quarterly reports on research operations (transparent disclosure of progress, challenges, financial status). Token-gated AMA sessions (Ask Me Anything sessions with immunologists, clinicians, bioinformaticians). Exclusive community event invitations (disease awareness workshops, research conferences, patient advocacy networking)

Consumptive Value: Families influence research priorities and feel ownership over research directions.

Category 4: Educational Content and Professional Development. Token-gated educational courses (JDM pathophysiology, immunology fundamentals, biomarker science). Certification programs for community research advocates (credentials recognizing expertise in JDM and rare disease research). Expert consultation credits (time allocations for conversations with immunologists, clinical researchers, genetic counselors). Continuing education webinars (emerging research on autoimmune disease, clinical trial design, patient advocacy)

Consumptive Value: Families develop expertise and become effective advocates within the rare disease community.

Category 5: Network Services and Data Stewardship. Gas fee subsidies for governance voting and token management (DermaDAO reimburses blockchain transaction costs). Platform fee discounts for community consultations. Priority processing for Artemis Platform sample collection and data requests

Consumptive Value: Reduces financial and logistical barriers to participation.

Category 6: Rare Disease Community Access. Professional networking within rare disease research ecosystem (connection to other patient advocacy organizations, researchers, clinicians). Access to curated rare disease research literature. Connections to clinical geneticists, immunologists, pediatric specialists

Consumptive Value: Isolated families gain access to expertise and peer support unavailable in most communities.

3. Enhanced Utilities Through Token Locking: L-CRJDM

CRJDM token holders may lock tokens to create L-CRJDM, conferring additional benefits:

- **Non-binding advisory input on all O’Ryan Health-JDM corporate matters** (beyond research governance, including partnership evaluation, data commercialization strategy)
- **Priority consideration of governance input** (O’Ryan Health-JDM explicitly values L-CRJDM holder input when making decisions)

- **Enhanced data access** (more detailed datasets, experimental protocols)
- **Equity application eligibility** (locked token holders may apply for equity through compliant pathways)

Lock duration follows same principles as DermaDAO: locked tokens remain illiquid until equity is liquidated.

D. THE EQUITY BRIDGE: INSTITUTIONAL PARTNERSHIPS AND CAPITAL FORMATION

The equity bridge is particularly important for O’Ryan Health-JDM, as research-focused DeSci organizations require partnerships with established institutions (pharmaceutical companies, diagnostic developers, academic medical centers) to translate research discoveries into clinical products.

1. Three Equity Pathways

Pathway A: Regulation D (Rule 506c) — Institutional Investor Equity

Element	Details
Participants	Pharmaceutical companies, diagnostic developers, venture capital firms, and family offices seeking exposure to rare disease biomarker discovery and therapeutic development
Consideration	Capital investment (\$500K to \$5M+ per investor in typical biotech financings) funding Artemis Platform expansion, sequencing capacity, team hiring, and research validation
Equity Offered	Preferred Stock with liquidation preferences, dividend rights, optional board observation, anti-dilution provisions, and registration rights
Documentation	Investment agreement, stock certificate, investor rights agreement specifying governance and financial terms
Strategic Value	Investors gain access to unique JDM dataset before competitors; preferential licensing of validated biomarkers; potential partnership opportunities in therapeutic development

Why Institutional Investors? Pharmaceutical companies investing in rare disease research seek first-mover advantage on biomarker discovery. Diagnostic developers need validated biomarkers to build diagnostic tests. Academic institutions seek partnerships in clinical validation. Equity ownership aligns investor incentives with O’Ryan Health-JDM’s success and provides mechanisms for licensing IP on favorable terms.

Pathway B: Rule 701 (Class B Common Stock) — Researcher and Staff Equity

Element	Details
Participants	Research scientists, immunologists, bioinformaticians, clinicians, and operations staff employed or contracting with O’Ryan Health-JDM LLC
Consideration	Service contribution (research design, data analysis, clinical oversight, platform operations) in exchange for equity compensation
Equity Offered	Common Stock (Class B) with 4-year vest / 1-year cliff (typical)

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Element	Details
Documentation	Equity plan, individual stock option or restricted stock grant agreements
Strategic Value	Aligns research team incentives with long-term company success; enables competitive compensation in talent-constrained rare disease research market

Why Important? Rare disease research attracts researchers motivated by mission (rare disease) but salary competition with industry biotech is intense. Equity compensation enables O’Ryan Health-JDM to attract top researchers without requiring large cash payroll.

Pathway C: Rule 701 (Class A Common Stock) — Community Research Contributors

Element	Details
Participants	Academic researchers collaborating on data analysis, clinicians providing clinical protocol guidance, patient advocates contributing research direction
Consideration	Contribution of research services, clinical expertise, or research direction (beyond service employment)
Equity Offered	Common Stock (Class A) under Rule 701 AIPP provisions
Documentation	Equity award agreements, IP assignment agreements (if applicable), research collaboration agreements
Strategic Value	Recognizes external research contributors; incentivizes academic collaboration; distributes upside to entire research ecosystem

Why Different Class? Academic collaborators typically don’t want full-time employment relationships (they’re employed elsewhere) but want equity recognition. Class A Common enables flexible equity structures without full-time employment mechanics.

2. Revenue Flows and Equity Alignment

O’Ryan Health-JDM’s anticipated revenue streams would directly fund research expansion while benefiting both token holders and equity investors:

Revenue Source	Source	Beneficiary
Data Access Licensing	Pharmaceutical companies licensing access to JDM datasets for biomarker discovery	LLC treasury funds research expansion; token holders benefit indirectly through research progress; equity investors benefit directly through revenue-based distributions
IP Licensing	Licensing validated biomarkers to diagnostic developers	Similar benefit distribution; diagnostic revenues may generate royalty streams
Research Partnerships	Collaborative research with academic medical centers and biopharma companies	Partnership funding supports research; equity investors may receive revenue-based returns
Grant Funding	NIH, NSF, and rare disease foundation grants	Non-dilutive capital supporting research; benefits entire ecosystem

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Revenue Source	Source	Beneficiary
Diagnostic Development	If O’Ryan Health-JDM or partners develop JDM diagnostic tests, CLIA certification and commercialization	High-margin revenue; potential for equity appreciation; benefits token holders through research progress
Therapeutic Development	If research identifies therapeutic targets and partners develop treatments	Potential royalty streams; substantial upside for early investors; recognition of token holder community as originator of research

E. GOVERNANCE UNDER C2C: RESEARCH-SPECIFIC STRUCTURE

O’Ryan Health-JDM’s governance has additional complexity due to IRB oversight and clinical research requirements. The three-level structure accommodates both research governance and institutional compliance:

1. Level 1: Token Holder Advisory Governance (Non-Locked CRJDM Holders)

Governance Subjects: Token holders provide non-binding advisory input on:

- **Research priorities:** Which disease states to study (JDM subtypes, related autoimmune conditions), which research questions to prioritize, which biomarkers to prioritize
- **Study design:** Which populations to recruit (JDM-only vs. healthy controls, age ranges), which outcome measures to collect
- **Data access policies:** Who should have access to datasets (academic only vs. including biopharma), whether commercial use is permitted, data sharing restrictions
- **Partnership evaluation:** Which companies or institutions should receive data access, partnership terms to negotiate
- **Platform expansion:** Which additional rare diseases should be added to Artemis Platform
- **Community engagement:** Educational content topics, patient advocacy priorities, awareness initiatives

Critical IRB Boundaries: Token governance operates within IRB-approved protocols. CRJDM governance cannot override IRB requirements or approve research modifications without proper regulatory channels.

Voting Mechanisms: Same as DermaDAO (time-weighted voting, quadratic voting, delegation, transparent recording) but with additional consideration of research expertise. CRJDM governance platforms might implement mechanisms recognizing research expertise or medical qualifications (e.g., “researcher verified” badge providing enhanced voting weight on scientific questions).

2. Level 2: Enhanced Advisory Governance (L-CRJDM Token Holders)

L-CRJDM holders provide enhanced governance input on all corporate and research matters, with priority consideration of their input. Same LLC Manager limitations apply—governance is advisory, not binding.

3. Level 3: Shareholder Governance (Equity Holders)

Equity shareholders exercise binding corporate governance consistent with Delaware law. Additional considerations for research-focused organizations:

- **Board of Directors:** Equity shareholders elect board representing investor interests, research community interests, and clinical stakeholder interests. Board provides oversight of IRB compliance, research design, data security, and institutional partnerships.

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- **Research Oversight Committee:** May implement separate research oversight committee (beyond shareholder governance) responsible for IRB protocol review, data security, participant protection, and regulatory compliance. This committee reports to board and operates independently of token holder governance.
- **Clinical Advisory Board:** May establish clinical advisory board including pediatric rheumatologists, immunologists, and patient advocates providing expert guidance on research design and clinical validation.

This layered governance structure balances shareholder control, research integrity, regulatory compliance, and community participation.

F. PATH TO THERAPEUTIC DEVELOPMENT AND REVENUE

O’Ryan Health-JDM’s roadmap illustrates how C2C enables progression from research to commercial product development:

Phase 1: Research Infrastructure and Data Collection (Current)

- Artemis Platform operational under IRB approval
- Over 130 JDM blood samples collected; 15+ TB sequencing data
- Activities: Sample collection expansion, sequencing processing, data infrastructure development
- Timeline: Through Q2 2026

Capital Requirements: Moderate; largely funded through initial grants and partnerships

Token Holder Role: Participate in research recruitment, provide feedback on enrollment strategies

Equity Investor Role: May provide seed funding for sequencing infrastructure

Phase 2: Biomarker Discovery and Analysis (1-3 Years)

- Deploy bioinformatics pipelines identifying disease-specific immune signatures
- Engage academic researchers through JDM-DAO governance and collaborative partnerships
- Conduct differential expression analysis comparing JDM patients across disease states
- Identify candidate biomarkers for disease diagnosis, flare prediction, treatment response
- Design validation studies confirming biomarkers in independent cohorts
- Implement DAO governance for data access requests and research prioritization

Capital Requirements: Moderate to substantial; bioinformatics expertise, academic partnerships, additional sequencing capacity

Equity Role: Pharmaceutical companies and diagnostic developers invest via Reg D, anticipating first access to validated biomarkers

Token Holder Role: Vote on research priorities, participate in governance of data access requests, potentially contribute to computational analysis

Revenue Generation: Data licensing to pharma/diagnostic companies interested in biomarker identification (\$500K-\$5M annually possible)

Phase 3: Clinical Validation and Strategic Partnerships (3-5 Years)

- Conduct prospective clinical validation studies confirming biomarkers in new patient cohorts
- Establish partnerships with pharmaceutical companies (therapeutic development), diagnostic developers (test development), academic institutions (clinical validation)
- Develop regulatory strategy for diagnostic test development (FDA clearance or approval pathway)

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- Conduct clinical utility studies (demonstrating biomarkers improve patient outcomes)
- Publish research in peer-reviewed journals and present at scientific conferences

Capital Requirements: Substantial; clinical validation studies expensive; requires institutional partnerships

Equity Role: Major pharma or diagnostic companies may invest significantly via Reg D or acquire LLC; access to validated biomarkers and partnership rights justify investment

Token Holder Role: Vote on partnership evaluation and commercialization priorities, receive recognition in publications

Revenue Generation: Research partnerships, grant funding, potential diagnostic licensing if tests developed (\$2M-\$20M+ possible)

Phase 4: Therapeutic and Diagnostic Development (5-10 Years)

- Leverage immune profiling data to identify therapeutic targets for JDM treatment
- Establish collaborations with biotech firms for drug development programs
- Launch diagnostic tests based on validated biomarkers (potentially CLIA-certified laboratory developed tests)
- Expand Artemis Platform to additional rare pediatric autoimmune diseases (establishing O’Ryan Health-JDM as rare disease research infrastructure provider)

Capital Requirements: Substantial to very substantial; drug development costs \$100M-\$500M+; diagnostic development \$10M-\$50M+

Equity Role: Late-stage institutional investment, potentially IPO or acquisition by larger pharmaceutical/diagnostic company

Token Holder Role: If therapeutics or diagnostics commercialized, potential royalty token programs distributing commercial upside to research community

Revenue Generation: Diagnostic test revenues (\$10M-\$100M+ annually possible if successful); therapeutic development revenues (royalties, milestone payments); platform licensing (\$5M-\$50M+ possible if Artemis Platform expanded to other rare diseases)

G. EXIT AND LIQUIDITY STRUCTURE

Same as DermaDAO:

Token Liquidity: CRJDM tokens trade freely on secondary markets except when associated with equity (L-CRJDM tokens remain locked during equity holding period)

Equity Liquidity: Restricted securities subject to Rule 144 holding periods (6-12 months); potential QSBS benefits if held 5+ years

Exit Scenarios: **Acquisition by pharmaceutical/diagnostic company:** Most likely for research-focused DeSci; acquirer obtains biomarker IP, research dataset, clinical validation, and team. **IPO:** Less likely but possible if diagnostic or therapeutic commercialization succeeds at substantial scale. **Ongoing private company:** If company remains profitable through data licensing and partnerships, equity holders receive ongoing dividends

PART III: COMPARATIVE ANALYSIS — WHY C2C IS UNIQUELY SUITED TO DESCI

A. Fundamental Differences from Traditional Biotech

Traditional Venture Biotech Model

- **Capital Formation:** Venture capital from institutional investors; equity concentrated in founders and professional investors
- **Governance:** Shareholders (VCs and founders) exercise binding corporate control; employees and research community have minimal governance input
- **IP Ownership:** Company owns all IP; researchers are employees or contractors with no ownership stake
- **Research Participation:** Limited to employees and contract researchers; broader scientific community excluded
- **Community Role:** Patients/consumers are focus groups and clinical trial subjects, not governance partners

Key problem with the traditional research model: This model excludes the very researchers and patient communities whose insights are most valuable to solving research problems. It concentrates power and IP ownership in small groups, limiting the scientific endeavor.

C2C (Coin-to-Company) Model

- **Capital Formation:** Tokens for community participation; equity for institutional investors and contributors (compliant securities offering)
- **Governance:** Token holders provide advisory input; equity shareholders exercise binding control; dual structure accommodates both decentralization and accountability
- **IP Ownership:** DevCo/LLC holds IP; captured from community contributors via DAO framework; distributed upside through equity and potential future token-based revenue sharing
- **Research Participation:** Tokens enable global community participation; equity pathways enable contributor recognition and financial alignment
- **Community Role:** Governance partners (through tokens) + potential equity stakeholders (through Rule 701)

Advantages:

1. **Regulatory Compliance:** Tokens are clearly utility, not securities; equity is compliant with securities law
2. **Institutional Confidence:** Traditional capital structures (e.g. Preferred Stock, Rule 701) attract pharma and VCs
3. **Decentralized Participation:** Tokens enable authentic global research community without regulatory risk
4. **Accountability:** Equity shareholders exercise binding governance; professional management accountable to shareholders; and the entire project is run on blockchains for increased auditability
6. **Financial Alignment:** Community contributors obtain equity recognition; institutional partners obtain IP access and revenue participation
7. **Scalability:** Tokens enable unlimited global participation; institutional capital enables substantial research funding

B. Alignment with FDA's Modernization Efforts

Recent FDA guidance increasingly recognizes decentralized research methodologies, such as O'Ryan Health's decentralized clinical trials using remote data collection. Patient-generated data as complement to clinical trial data. Home-based sample collection (exemplified by O'Ryan Health-JDM's Artemis Platform). Rare disease research using distributed patient communities

C2C organizations can implement these FDA-approved methodologies while maintaining transparent governance (through tokens) and institutional partnerships (through equity). This alignment positions C2C-structured DeSci organizations favorably in the regulatory landscape.

C. Alignment with Emerging Crypto Regulation

Several converging regulatory developments favor C2C:

1. **SEC Project Crypto:** Chair Paul Atkins's framework distinguishes digital commodities (tokens with consumptive utility) from securities (instruments providing investment returns or governance rights). C2C tokens clearly fall into commodity category.
2. **Congressional Frameworks:** RFIA (Responsible Financial Innovation Act) and CLARITY Act both explicitly contemplate decentralized governance structures and ancillary assets (utility tokens accompanying securities). C2C aligns with proposed congressional frameworks.
3. **Unincorporated Nonprofit Association Legitimacy:** Delaware and other states increasingly recognize DAOs as legitimate legal entities. DUNA structure provides regulatory clarity unavailable 3-5 years ago.

C2C-structured organizations positioned to benefit from emerging regulatory clarity while traditional ICO models face ongoing legal uncertainty.

CONCLUSION

Both DermaDAO and O'Ryan Health-JDM demonstrate that C2C is not merely theoretical framework but practical structure enabling DeSci organizations to accomplish what traditional biotech cannot: distribute research governance to global communities while maintaining institutional partnerships and raising substantial capital for research advancement.

The framework is flexible—DermaDAO emphasizes consumer products and commercial revenue, while O'Ryan Health-JDM emphasizes research discovery and therapeutic development. But both leverage identical C2C principles:

1. **Separate governance (tokens) from investment (equity)**
2. **Enable global participation through tokens without regulatory risk**
3. **Attract institutional capital through compliant equity structures**
4. **Maintain professional management accountable to shareholders**
5. **Recognize community contributions through equity pathways**
6. **Align all stakeholders—communities, institutions, investors—around shared research mission**

This architecture may prove particularly valuable as FDA and SEC frameworks continue modernizing to accommodate decentralized research models. Organizations implementing C2C today position themselves at the forefront of regulatory evolution in DeSci.