

1 DAVID J. VAN HAVERMAAT (Cal. Bar No. 175761)  
Email: vanhavermaatd@sec.gov  
2 DAVID S. BROWN (Cal. Bar No. 134569)  
Email: browndav@sec.gov

3 Attorneys for Plaintiff  
4 Securities and Exchange Commission

5 Joseph G. Sansone, Unit Chief (Market Abuse Unit)  
New York Regional Office  
6 200 Vesey Street, Suite 400  
New York, New York 10281

7 Robert A. Cohen, Unit Chief (Cyber Unit)  
8 Headquarters  
100 F Street, N.E.  
9 Washington, District of Columbia 20549

10 Michele Wein Layne, Regional Director  
Amy Jane Longo, Regional Trial Counsel  
11 444 S. Flower Street, Suite 900  
Los Angeles, California 90071  
12 Telephone: (323) 965-3998  
Facsimile: (213) 443-1904

13  
14 **UNITED STATES DISTRICT COURT**  
15 **CENTRAL DISTRICT OF CALIFORNIA**  
16 **WESTERN DIVISION**  
17

18 SECURITIES AND EXCHANGE  
19 COMMISSION,

20 Plaintiff,

21 vs.

22 TITANIUM BLOCKCHAIN  
23 INFRASTRUCTURE SERVICES,  
INC.; EHI INTERNETWORK AND  
24 SYSTEMS MANAGEMENT, INC.  
aka EHI-INSM, INC.; and MICHAEL  
25 ALAN STOLLERY aka MICHAEL  
26 STOLLAIRE,

27 Defendants.  
28

Case No. CV18-4315-DSF (JPRx)

**JOINT RULE 26(f) REPORT**

Scheduling Conference:

Date: October 22, 2018  
Time: 11:00 a.m.  
Ctrm: 7D  
Judge: Hon. Dale S. Fischer

1 Plaintiff Securities and Exchange Commission (“SEC”) and defendants EHI  
2 Internetwork and Systems Management, Inc. aka EHI-INSM, Inc. (“EHI”), and  
3 Michael Alan Stollery aka Michael Stollaire (“Stollaire”), by and through their  
4 undersigned counsel, submit this Joint Report pursuant to Federal Rule of Civil  
5 Procedure 26(f), Local Rule 26-1, and this Court’s July 2, 2018 Order Setting  
6 Scheduling Conference (Dkt No. 61). Counsel for the SEC and defendants EHI and  
7 Stollaire participated in a telephonic joint Rule 26(f) conference on September 18,  
8 2018. The SEC and the permanent receiver for defendant Titanium Blockchain  
9 Infrastructure Services, Inc. (“TBIS”) anticipate a likelihood of resolving the SEC’s  
10 claims against TBIS.

11 **A. Statement of the case**

12 1. Plaintiff’s Synopsis.

13 In its complaint, filed on May 22, 2018, the SEC alleges that the defendants  
14 engaged in securities fraud under the guise of an initial coin offering. The SEC  
15 alleges that, from November 2017 through early 2018, the defendants embarked on a  
16 social media campaign to create demand for TBIS’s digital asset, named “BAR.”  
17 The SEC’s complaint alleges that Stollaire pitched TBIS as the world’s next  
18 “Amazon” or “Microsoft” in the area of cloud computing. The SEC alleges that the  
19 defendants made multiple misrepresentations in soliciting investors in TBIS’s initial  
20 coin offering.

21 First, Stollaire falsely represented that the Federal Reserve and dozens of well-  
22 known companies, such as Boeing, Microsoft, Apple, Verizon, and the Walt Disney  
23 Company, were clients of EHI and imminent users of TBIS’s services. The  
24 defendants’ offering documents and websites featured lists of the companies and  
25 pictures of their logos, describing the companies as “EHI’s customers,” which TBIS  
26 “will simply inherit.” Stollaire touted the relationships in numerous online videos  
27 and interviews. But contrary to the defendants’ representations, TBIS did not have  
28 any business relationship with the listed companies. Several of the companies could

1 not identify any past or present relationship with any of the defendants, while several  
2 others were places that Stollaire had worked as an independent contractor, as long  
3 ago as the early-to-mid-2000s. Even Stollaire's more recent affiliations had ended by  
4 the time of the defendants' securities offering.

5 Second, to bolster their purported relationships with the named companies, the  
6 defendants also fabricated a series of client testimonials that they included on TBIS's  
7 and EHI's websites. But like the purported affiliations with imminent major clients,  
8 the testimonials were also illegitimate. In each case, either the person quoted no  
9 longer worked at the company, the person's name and/or title was fake, or the  
10 company had not authorized the use of any testimonials. Indeed, in early 2018  
11 Stollaire received cease-and-desist letters from nearly twenty of the companies.  
12 Stollaire typically responded that he would comply with the demand to remove the  
13 company's name, logo, or testimonial from the defendants' web sites.

14 Third, the defendants touted intellectual property protection for various TBIS  
15 products, slogans, and services. One of TBIS's offering materials advertised several  
16 purported trademarks, such as "Bring Your Own Cloud" and "Infrastructure as a  
17 Service." But the defendants held none of the represented trademarks, and only one  
18 slogan was even the subject of an application.

19 The SEC further alleges that, while raising millions of dollars through these  
20 misrepresentations, Stollaire commingled some of the investors' funds with his  
21 personal funds, using the offering proceeds for expenses unrelated to TBIS.

22 The SEC alleges that, through these actions, the defendants violated the  
23 antifraud provisions of the federal securities laws, and that Stollaire and TBIS  
24 violated the registrations provisions. After the Court entered a temporary restraining  
25 order, the defendants consented to a preliminary injunction that, among other things,  
26 appointed a permanent receiver over TBIS. In the process of identifying and securing  
27 the assets of TBIS, the receiver, among other things, found evidence that nearly \$20  
28 million in virtual currencies was stolen from TBIS in February 2018. See Dkt. No.

1 57, at ¶ 21.

2 2. Defendants' Synopsis.

3 Defendants deny that the SEC has jurisdiction, as the initial coin offering was  
4 not an offering of securities. Even if there were securities offered and/or sold (there  
5 weren't), there were no misrepresentations and/or omissions in connection with the  
6 purchase or sale of any such security. What the SEC characterizes as "touting" and  
7 "multiple misrepresentations" were nothing of the sort, but were instead legitimate  
8 efforts to launch a new type of cryptocurrency.

9 **B. Subject matter jurisdiction**

10 The SEC alleges that the Court has subject matter jurisdiction pursuant to  
11 Sections 20(b), 20(d)(1), and 22(a) of the Securities Act of 1933 ("Securities Act"),  
12 15 U.S.C. §§ 77t(b), 77t(d)(1), and 77v(a), and Sections 21(d)(1), 21(d)(3)(A), 21(e),  
13 and 27(a) of the Securities Exchange Act of 1934 ("Exchange Act"), 15 U.S.C. §§  
14 78U(d)(1), 78u(D)(3)(A), 78u(e), and 78aa(a).

15 Defendants disagree, as they contend there were and are no securities involved  
16 in this case, and without securities, the SEC has no jurisdiction.

17 **C. Legal issues**

18 The parties anticipate that the following legal issues will be presented in this  
19 action:

- 20 • whether the initial coin offering involves securities;
- 21 • whether the defendants violated Section 17(a) of the Securities Act and  
22 Section 10(b) of the Exchange Act and Rule 10b-5 thereunder;
- 23 • whether Stollaire and TBIS violated Sections 5(a) and 5(c) of the  
24 Securities Act;
- 25 • whether the relief requested by the SEC is appropriate in the event the  
26 defendants' liability for violating the federal securities laws is established; and
- 27 • whether any of the defendants' affirmative defenses bar the SEC's  
28 claims or requested relief.

1           **D. Parties and Evidence**

2           The parties are the plaintiff SEC and defendant Stollaire, and the two entity  
3 defendants, TBIS and EHI, which Stollaire controlled. The percipient witnesses  
4 include defendant Stollaire, other employees of TBIS and EHI; the permanent  
5 receiver over TBIS; representatives of the companies whose names, logos, and  
6 representatives' testimonials were used by the defendants; individuals with  
7 knowledge of the status of the defendants' purported trademark-protected products,  
8 services, and slogans; and investors who invested in TBIS's initial coin offering. The  
9 key documents include the defendants' offering materials and web sites, and other  
10 posts, videos, web pages and excerpts through which Stollaire and others touted  
11 TBIS's initial coin offering.

12           **E. Damages**

13           The SEC does not seek damages. Rather, the SEC seeks an order permanently  
14 enjoining the defendants from future violations of the securities laws, requiring them  
15 to disgorge their ill-gotten gains with prejudgment interest, and ordering them to pay  
16 civil penalties.

17           **F. Insurance**

18           Defendants do not have any indemnity insurance for the SEC's claims.

19           **G. Motions**

20           The SEC has not yet made a final determination regarding adding additional  
21 parties or claims or filing an amended complaint. The parties propose a deadline of  
22 November 19, 2018 to amend pleadings or add parties. The parties do not intend to  
23 file any motions to transfer venue.

24           **H. Manual for Complex Litigation**

25           The parties agree that there is no need to utilize the Manual for Complex  
26 Litigation in this action.

27           **I. Status of Discovery**

28           The parties conducted their Rule 26(f) conference on September 19, 2018 and

1 have already exchanged their initial disclosures. The parties do not propose any  
2 changes in the disclosures under Rule 26(a). If this action has not settled, the parties  
3 anticipate conducting discovery on all issues relating to the merits of this case and all  
4 defenses asserted thereto, and agree that there is no need to conduct discovery in  
5 phases or to limit the focus of discovery to particular issues. The parties have not  
6 conducted discovery since the filing of this action. During the investigation of this  
7 action the SEC compiled publicly-available documents and obtained documents from  
8 several third parties, including from several of the companies whose names, logos,  
9 and testimonials were featured on the defendants' web sites and in their offering  
10 materials. The SEC intends to conduct further discovery regarding these factual  
11 issues.

12 **J. Discovery plan**

13 The parties intend to utilize standard discovery times and procedures and  
14 anticipate taking up to ten depositions of fact witnesses per side. Defendants are  
15 uncertain at this time whether the default limit of ten depositions will be sufficient,  
16 but will meet and confer with the SEC in the event Defendants believe that additional  
17 depositions are warranted after exploring the factual bases of the SEC's claims  
18 through discovery. The SEC anticipates taking the deposition of Mr. Stollaire, other  
19 employees of the defendants, representatives of the companies whose names, logos,  
20 and purported testimonials were used by the defendants, and investors in TBIS's  
21 initial coin offering. The SEC also anticipates propounding requests for the  
22 production of documents, written interrogatories, and requests for admission. The  
23 parties propose that all discovery be scheduled for completion by March 11, 2019.

24 Defendants intend similar discovery.

25 **K. Discovery cut-off**

26 The parties propose a discovery-cut-off, including a resolution of all discovery  
27 motions, of March 25, 2019.

28 ///

1           **L.     Expert discovery**

2           The parties propose that opening expert disclosures be made on or before April  
3 9, 2019, and rebuttal expert witness disclosures be made on or before April 23, 2019.  
4 The parties propose that all expert discovery be completed by May 6, 2019.

5           **M.     Dispositive Motions**

6           The SEC believes that each of the claims alleged in the SEC's complaint may  
7 be determined by a motion for summary judgment. Defendants believe that the issue  
8 of whether there are securities at issue here may also be resolved via summary  
9 judgment. The parties anticipate that they may file motions *in limine*, although no  
10 dispositive motions *in limine* are contemplated at this time.

11           **N.     Settlement/Alternative Dispute Resolution**

12           The parties have engaged in preliminary settlement discussions, which they  
13 intend to continue. Pursuant to Local Rule 16-15.4, the parties request using  
14 Settlement Procedure No. 1, which authorizes the parties to appear before the district  
15 judge or magistrate judge for settlement proceedings.

16           **O.     Trial estimate**

17           The parties estimate that the trial of this action will require between five to  
18 seven trial days. The SEC anticipates calling seven to ten witnesses at trial, including  
19 experts. Defendants anticipate calling 10 to 20 witnesses at trial, including experts.

20           **P.     Trial counsel**

21           The case will be tried by David J. Van Havermaat and David S. Brown for the  
22 plaintiff SEC and Andrew B. Holmes for defendants EHI and Mr. Stollaire.

23           **Q.     Independent Expert or Master**

24           The parties agree that this case is not appropriate for the appointment of a  
25 special master or an independent scientific expert.

26           **R.     Timetable**

27           The parties have agreed on a proposed trial date of September 4, 2019 and a  
28 presumptive schedule of pretrial dates, which is attached hereto as Exhibit A.

1           **S.     Other Issues**

2           Defendants EHI and Stollaire contend that this action involves a crypto-  
3 currency, which may involve complicated technical issues. Other than understanding  
4 how that cryptocurrency works and how that impacts this case, this action does not  
5 involve any unusually complicated technical or technological issues, disputes over  
6 protective orders, or extraordinarily voluminous document productions. This action  
7 may necessitate discovery in foreign jurisdictions, depending upon the location(s) of  
8 former employees of the defendants and investors in the defendants' initial coin  
9 offering.

10  
11 Dated: October 15, 2018

Respectfully submitted,

12  
13 /s/ David J. Van Havermaat

David J. Van Havermaat

David S. Brown

Attorney for Plaintiff

Securities and Exchange Commission

14  
15  
16  
17 /s/ Andrew B. Holmes

Andrew B. Holmes

Attorney for Defendants EHI Internetwork  
and Systems Management, Inc., and

Michael Stollaire

**PROOF OF SERVICE**

I am over the age of 18 years and not a party to this action. My business address is:

U.S. SECURITIES AND EXCHANGE COMMISSION,  
444 S. Flower Street, Suite 900, Los Angeles, California 90071  
Telephone No. (323) 965-3998; Facsimile No. (213) 443-1904.

On October 15, 2018 I caused to be served the document entitled **JOINT RULE 26(f) REPORT** on all the parties to this action addressed as stated on the attached service list:

**OFFICE MAIL:** By placing in sealed envelope(s), which I placed for collection and mailing today following ordinary business practices. I am readily familiar with this agency’s practice for collection and processing of correspondence for mailing; such correspondence would be deposited with the U.S. Postal Service on the same day in the ordinary course of business.

**PERSONAL DEPOSIT IN MAIL:** By placing in sealed envelope(s), which I personally deposited with the U.S. Postal Service. Each such envelope was deposited with the U.S. Postal Service at Los Angeles, California, with first class postage thereon fully prepaid.

**EXPRESS U.S. MAIL:** Each such envelope was deposited in a facility regularly maintained at the U.S. Postal Service for receipt of Express Mail at Los Angeles, California, with Express Mail postage paid.

**HAND DELIVERY:** I caused to be hand delivered each such envelope to the office of the addressee as stated on the attached service list.

**UNITED PARCEL SERVICE:** By placing in sealed envelope(s) designated by United Parcel Service (“UPS”) with delivery fees paid or provided for, which I deposited in a facility regularly maintained by UPS or delivered to a UPS courier, at Los Angeles, California.

**ELECTRONIC MAIL:** By transmitting the document by electronic mail to the electronic mail address as stated on the attached service list.

**E-FILING:** By causing the document to be electronically filed via the Court’s CM/ECF system, which effects electronic service on counsel who are registered with the CM/ECF system.

**FAX:** By transmitting the document by facsimile transmission. The transmission was reported as complete and without error.

I declare under penalty of perjury that the foregoing is true and correct.

Date: October 15, 2018

/s/ David J. Van Havermaat  
David J. Van Havermaat



# **EXHIBIT A**

**SCHEDULE OF PRETRIAL AND TRIAL DATES**

CASE NAME:

CASE NO:

Matter	Time	Weeks before trial	Plaintiff(s) Request	Defendant(s) Request	Court's Order
Trial (jury)(court) (length <u>5-7</u> days) ( <b>Tuesday</b> )	8:00 am		9/4/19		
<u>For Court Trial</u> Lodge Findings of Fact and Conclusions of Law, LR 52, and Summaries of Direct Testimony		3	8/13/19		
Pretrial Conference, LR 16; Hearing on Motions in Limine	3:00 pm	4	8/5/19		
<u>For Jury Trial</u> Lodge Pretrial Conference Order, LR 16-7; File Agreed Set of Jury Instructions and Verdict Forms; File Statement Regarding Disputed Instructions, Verdicts, etc.; File Oppositions to Motions in Limine		6	7/22/19		
<u>For Jury Trial</u> File Memo of Contentions of Fact and Law, LR 16-4; Exhibit & Witness Lists, LR 16-5,6; File Status Report Regarding Settlement; File Motions in Limine		7	7/15/19		
Last date to conduct ADR Proceeding, LR 16-15		12	6/10/19		
Last day for <b>hearing</b> motions, LR 7		14	5/27/19		
Non-expert Discovery Cut-off		21+	4/2/19		
Expert Disclosure (initial)			4/9/19		
Expert Disclosure (rebuttal)			4/23/19		
Expert Discovery Cut-off		21+	5/6/19		
Last Date to Amend Pleadings or Add Parties			11/19/18		

LR 16-15 ADR Choice:  1. USMJ  3. Outside ADR  
 2. Attorney Settlement Panel

Exhibit A