



# An Offer of Ownership

## Introduction

**Spring 2017**

SpotCoin is an over the counter (OTC) market for the buying and selling of crypto currencies such as BitCoin (BTC). The company was founded by Andrew Thornhill in November 2016 to meet growing demand for quick entry and exit of BTC positions by large merchants and traders. Operations started in December of 2016.

The name SpotCoin comes from Andrew's work experience from the Board of Trade in Chicago. At the Board of Trade, Andrew was a desk manager for the trading company Rosenthal Collins at the Mid-America desk. As the desk manager, Andrew oversaw thousands of trades in commodities, financial products and foreign currencies in the futures market. In the futures market, traders would speculate on natural spreads between buying and selling a future product. For example, a measured contract of corn would be bought or sold on the condition that it was delivered some weeks or months or even longer in the future.

Occasionally, a commodity contract would be held by a trader until the expiration date of the contract – meaning that if the trader held a buy contract of corn, they would legally expect to receive the measured amount of corn by a certain date. If the trader held a sell contract, they would be legally obligated to deliver the contracted measure of corn. As the trading desk manager, Andrew would occasionally have to deal with these expired contracts – especially if the trader did not want to actually take delivery of the corn or if the trader did not have the corn to give. There is an entirely different market to the futures market called the Spot market. While the futures market measured the price of a commodity at a future date, the Spot market measured the price of the commodity at the present.

The Spot price of a commodity is always different than the futures price. The Spot price of corn includes the price of delivery, the insurance, the storage of the corn, the measurement, etc. If a trader sold a future contract of corn at say \$3 USD per bushel, they would expect to pay a different price on the Spot market, possibly (and usually) a bit more, like \$3.25 but also possibly less if the market price had gone down. The Spot market in the USA for commodities like corn, wheat and soybeans are mature markets and goods are freely traded daily.

Andrew found that the real market of crypto currencies like Bitcoin was more similar to a futures market, and less like a real-time market. There are numerous exchanges that post trade data, with the price of BTC fluctuating – often widely – on a day and certainly over time. But the exchange pricing did not represent the REAL price of the BTC. Large trades, of say more than \$10,000 USD equivalent was not represented in the posted exchange data. A true exchange has free-flow of fiat to crypto-currencies

(fiat is government currency such as US dollars or Euros) but larger trades were blocked or held up, or limited in true exchange. SpotCoin was developed due to numerous traders, merchants and other individuals and companies that were looking to make faster entries and exits to BTC.

Andrew created an over the counter marketplace for large buyers and sellers to trade their BTC and fiat by utilizing a spread between the buy and sell for immediate action. This spread is created by many buyers and sellers working in tandem. The trade takes place on the SpotCoin platform of international banks, escrow accounts, crypto wallets and software.

SpotCoin is a working and growing entity that is daily helping clients quickly buy and sell BTC positions. Each trade is vetted manually and accounting is checked and then double checked before each trade is executed. And SpotCoin makes a profit on each trade as a flat rate charged to each fiat side transaction.

## **How SpotCoin works**

SpotCoin brings together buyers and sellers who regularly look to buy and sell crypto currencies like BTC. Several times per day, or on demand, SpotCoin seeks the natural buy and sell spread of the buyers and sellers. Based on this spread, the best prices are picked and then offered to clients.

Clients that wish to sell BTC sends their BTC to the SpotCoin escrow wallet. Clients that wish to buy BTC send their fiat currency to the SpotCoin escrow wallet. Trade prices are discussed and then agreed to, the exchange is made and each party is sent their result.

Existing clients have been from word of mouth only. There has been no advertising of services, pricing or offers. Currently, ALL of the clients that SpotCoin works with either knows Andrew Thornhill personally or are one degree of separation of him.

Functionally the trade prices are discussed on platforms such as WhatsApp, Viber, Signal and HipChat. Trades are agreed to in this chat and then the exchange is made.

SpotCoin charges 1% of the fiat price of the trade to the party that initiates the trade.

Currently ALL trades and ALL operations of the escrow and trade wallets are done manually by either Andrew Thornhill or Giorgi Abuladze. Currently, only Andrew Thornhill has access to the BTC wallet. Trades are usually executed in the late morning or the late afternoon Georgian Standard Time.

Most trades are completed within hours of receipt of fiat or BTC. SpotCoin started trading in both USD and EURO but currently SpotCoin only trades in EURO. This is more for ease of accounting and to match existing client needs. USD – and other currencies - can be added in the future.

Only one time has SpotCoin held onto BTC in excess of 15,000 EUR overnight.

## **Who are SpotCoin Clients?**

The individuals and companies that are currently working with SpotCoin are groups that need to move quickly into and out of BTC positions. The current clients of SpotCoin are large merchants that accept BTC for payments and individuals who receive BTC in payment – both of which desire to have fiat. And clients who use BTC to make payment or who are holding BTC as an investment.

## **SpotCoin Agency**

Spotcoin utilizes an agency / ISO model whereby agents can bring crypto currency trades to SpotCoin and charge a fee up to 1%. Any fee charged by an agent or ISO that is greater than 1% is split 50/50 by the agent / ISO and SpotCoin.

Currently about 50% of the business that SpotCoin does is driven by an agent or ISO.

SpotCoin pays the agency markup fee at the same time that the fee is charged to the client. There is obvious benefit to the agency to seek out SpotCoin to handle crypto trades. SpotCoin has paid out thousands of fiat in agency.

## **Buy and Sell Opportunity**

By nature and by design, SpotCoin is price agnostic towards crypto currencies. Because SpotCoin handles both the crypto-currency side of the transaction as well as the fiat side of the business, SpotCoin has currently chosen to be paid by fiat. This can change in the future. But the price of the coin does not directly affect SpotCoin and does not change the liability or direct trading opportunity of the coin to fiat business.

However, as SpotCoin has grown from November 2016, currently trading over 1 million Euro equivalent per month, numerous opportunities have arisen where buyers and sellers initiate trades the same day. In this case, supply exists for both sides of the trade and thus the natural spread can be enjoyed by SpotCoin in addition to the 1% charged rather than just the 1% fee. In many cases, the spread between the buy and sell can be greater than 5%. In each case where there is both a buy and sell of BTC, SpotCoin has enjoyed an additional profit by working within the natural buy and sell. Operationally, SpotCoin picks a spread price that is better for the clients than the natural spread, usually the executed spread is greater than 2-3%. SpotCoin still charges a 1% fee on top of this.

## Legal Overview

SpotCoin is currently incorporated in the country of Georgia. The current ownership is as follows:

Andrew Thornhill	- 51%
Giorgi Abuladze	- 16.33%
Natalia Khizanishvili	- 16.33%
Guram Rukhadze	- 16.33%

The country of Georgia does not currently regulate crypto currencies. The crypto currency Bitcoin is widely understood due to heavy investment in the country on behalf of BitFury, a company owned in part by Richard Branson. Bitcoin trades and banking for bitcoin is allowed by any company that owns a Payment Service Provider license. Tax on trades is calculated as a commodity. Profit from trades is declared and taxed at 15%.

The ownership structure and incorporation country is negotiable upon further investment.

## Liability

SpotCoin currently holds zero liability for all trades. This is true both of the crypto currency wallet as well as the fiat wallet. All trades are done at the risk of the client and while we have had no problems with missing crypto currency or fiat money, SpotCoin carries no liability for missing amounts on either side.

SpotCoin does carry liability when the quoted price is not delivered. The price that is agreed to by the client and by SpotCoin is carried through the exchange transaction. SpotCoin did have one instance of an incorrect price quoted to a client and a different price delivered through the exchange. This resulted in a one-time loss of 145 EUR and a change in price confirmation practices.

This mistake also resulted in the wire-framing of a complete accounting system for SpotCoin that is being developed by the staff programmers.

## KYC and AML

SpotCoin utilizes an aggressive model of Know Your Customer (KYC) data and Anti-Money Laundering (AML) procedures to prevent trades with suspicious individuals and corporations.

Each new client is obliged to fill out an application to the SpotCoin system. This application is attached to this offer sheet.

For individuals that wish to engage in the SpotCoin trading system, checks are made as follows:

- Passport check – that it is valid
- Name check – on FATCA, National Bank of Georgia, PEP and World Check (a division of SWIFT)
- Google and social media check

For companies that wish to engage in the SpotCoin trading system, checks are made as follows:

- Ultimate Beneficial Owner of the company must be identified. This individual or individuals go through the above individual check
- Company name check – National Bank of Georgia and World Check
- Google and social media check. If the company operates on a URL, this is also checked

SpotCoin's KYC and AML is run by Nino Kafteradze, a former Georgian Revenue Service Investigator who left at the rank of Captain to work full time for SpotCoin.

## **Technology**

SpotCoin owns Spotcoin.net, a trading platform that is designed to operate a live-auction of crypto currency trading through an administrator checked system.

Please see the accompanying Technical Specifications document.

## **Staff**

Please see the enclosed CV's of the executive team of SpotCoin:

Andrew Thornhill – CEO

Giorgi Abuladze – Executive Team

Guram Rukhadze – Executive Team

Natalia Khizanishvili – Executive Team

Nino Kafteridze – CFO and AML/KYC Director

Ilya Gokadze – CTO

Nika – Senior Programmer

Sergi – Junior Programmer

Lika - Programmer

## Assets

SpotCoin currently owns the following assets:

\$15,000 USD

20,000 EUR

All software that is represented on SpotCoin.net

Production servers and computers

The domain spotcoin.net (Spotcoin is in talks to obtain Spotcoin.com)

A client list of active traders numbering more than 20 individuals and companies

## Trade Data

Please see the accompanying trade data spreadsheet with current numbers, profitability and charts.

## Future Products

SpotCoin is looking to raise capital for the purpose of building additional components and features of SpotCoin and to attract more clients.

The following components are currently being constructed:

- Taking spotcoin.net live and allowing for trade data to interact with clients by moving money and BTC in the real world. The ETA for this is some time in the Spring of 2017.
- Creating an API – several prospective clients to SpotCoin have asked for an API to allow for direct connection to the SpotCoin payment system. The features asked for are: ability to retrieve spot market pricing, ability to buy and sell at spot price, the creation of BTC and fiat wallets, ability to settle BTC and fiat to specified wallets. The ETA for this API is June 15, 2017.
- Creating the platform for BTC to BTC trades and charging BTC for transactions. The ETA for this is August, 2017.
- Creating a complete accounting program to track all trades and all pricing as well as deliver invoices to clients (not requested yet by any client) on demand. As SpotCoin does more and more buy and sell side business, the accounting is becoming more complex.

The following components are needed and will come with future development:

- Developing a BTC node in order to program more closely to the block chain source and measure trades and approvals more efficiently
- Integration into a real-time FX system to provide multiple currency support on the fly and in volume
- Developing support for additional crypto currencies such as Ethereum and Ripple
- Adding support for merchant processing in a secure environment
- Adding support for debit card issuing against the fiat or crypto currency
- Adding support for the full range of SWIFT products