TruckCoinSwap: Solving Factoring

Abstract. A digital (utility) asset functioning as a synthetic commodity can be used to eliminate costs associated with trade finance (known in most industries as "invoice factoring"). Identical to Bitcoin's use of new token emissions to perfect the network, such emissions can be used to mitigate the costs of factoring. In the transportation industry, factoring companies (banks and intermediaries) charge unreasonably high interest rates – at times exceeding 35% annualized – often up to 90% of a carrier's net revenue on a load of freight. These fees lead to artificially increased shipping costs for all, trickling-down to every consumer and household when they purchase goods from grocers and retailers. TruckCoinSwap (TCS) has created an infinitely superior solution for settlement allowing transportation Users to exchange (barter) collection rights in freight invoices for digital assets (TCS Tokens) – in lieu of USD. To avoid volatility and slippage, carriers can then immediately sell TCS Tokens to gain USD liquidity, and recapture invoice values approaching 100%. In so doing, TCS provides free settlement services to over one-million (1M) North American transportation companies. Many of these Users are forced to factor today, as they are not at scale, cannot wait the industry standard 30-180 days for payment, and cannot afford to payroll a settlement department. Though small businesses, these 1M Users also make up 90% of the full truckload "spot" capacity in America every day. Without them, every grocer and retailer would be rationing products within a week. Collectively, these Users are factoring over $500B per year in commercial paper; though the total addressable market for TCS (internationally) exceeds $2T annually. As TCS will also be an active buyer of TCS Token and, in time, the largest buyer, the economic models advanced here conclude in a fully sustainable and deflationary monetary policy, aligning incentives for all participants. In transportation, a free settlement solution for carriers is long overdue. TCS has solved factoring, and is now providing this solution to the market.

Introduction

TruckCoinSwap (TCS) is a fintech and freight technology company – free for Users – that is recapturing and returning up to 90% of annual net revenue to transportation companies. In time, the TCS network can eliminate billions in annual intermediary costs throughout global supply chains, and this tranche of savings can transfer to consumers, households and businesses. As such, TCS endeavors to provide needed relief to the small business community comprising the backbone of developed economies, and to reduce the cost of consumer packaged goods, food, and related products in an era of rampant inflation.

Invoice settlement is an important service, allowing companies to manage cash flow in industries with poor pay terms and related barriers to entry and scale. However, the costs associated with factoring full truckload freight are commercially unreasonable and usurious. Blockchain technology presents the framework to disrupt and disintermediate the current financial system. Furthermore, digital assets enable monetary policy to benefit every party in the supply chain. For Users, the TCS network works identically to traditional invoice factoring. Over 1M TCS Users are factoring now due to lack of scale. They simply cannot afford to payroll a settlement staff; and cannot wait 30-180 days for payment from shippers. These costs are incurred like 'silent taxes' on the entire supply chain.

To avoid factoring costs, Users need only register on the TCS mobile app and agree to terms for accounts receivable assignment. Unlike factoring companies, TCS does not require settlement exclusivity. Users then upload freight documents after delivery. In 2-3 business days, TCS funds the User with the current USD equivalent of TCS Tokens, by depositing Tokens directly into digital wallet accounts at exchanges like Uniswap and Netcoins. The process is identical to settlement on other mobile apps. Once funded, Tokens can be transferred to USD or other digital currencies like Bitcoin and stable coins, giving users total autonomy of business revenues. For exchanges with digital asset debit or credit cards, TCS Token can also be spent directly with any retailer who accepts the same. TCS then monetizes the receivable with the shipper, and deposits USD proceeds as revenue.

For example, if the ratio is 1-10 when a TCS transportation User seeks to swap – and the receivable value is $10,000 USD – the User would receive 100,000 TCS Tokens in exchange for their commercial paper. TCS Tokens are then directly deposited into the User's digital wallet. Here, the User receives 100% of the face value for the freight invoice from TCS, though some exchanges do charge de minimis fees comparable to $1 for every $1,000 settled. Industry wide, net revenue for full truckload freight receivables averages between 5-10%. Accordingly, on a $10,000 freight invoice, net revenue would range from $500-1,000. By avoiding a 3% gross factoring fee, a User saves $300 in costs. Where net revenue from the transaction is $500 . . . a $300 recapture represents a 60% increase in net revenue on the load. Repeated for 150 like kind loads in a fiscal year, this savings represents $45,000.00 in additional net revenue to the TCS User.

Transactional volume from commercial paper also creates velocity of money – or coin velocity – propelling TCS Token into the stream of commerce. Coin velocity tends to raise values, signaling institutional, accredited and related buyers. In conjunction with the ecosystem of Users, a symbiotic ecosystem of purchasers is born. The increase in value then funds expansion of the core use case, monetization of rich data, B2B and retail partnerships, in-app advertising, licensing, continued development of patentable products already in the TCS tech stack, and M&A via capital deployment.

Diagrams

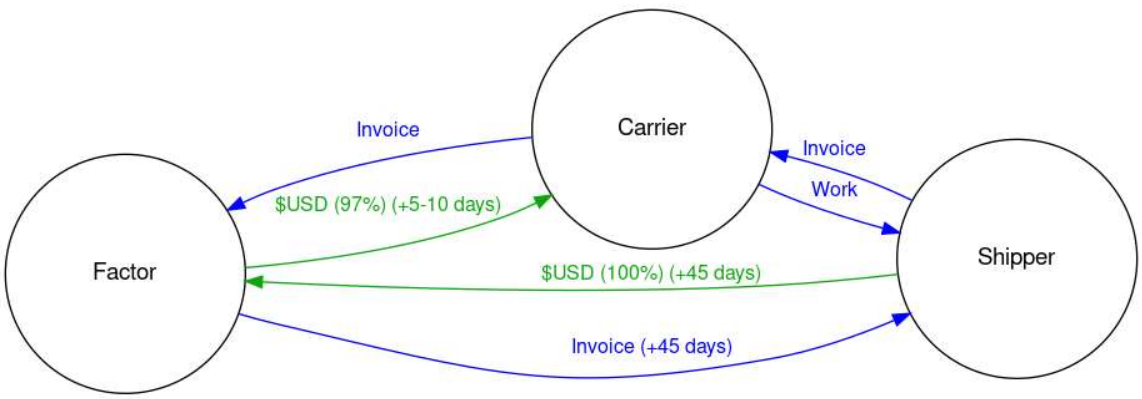

Diagram 1 - Traditional Settlement

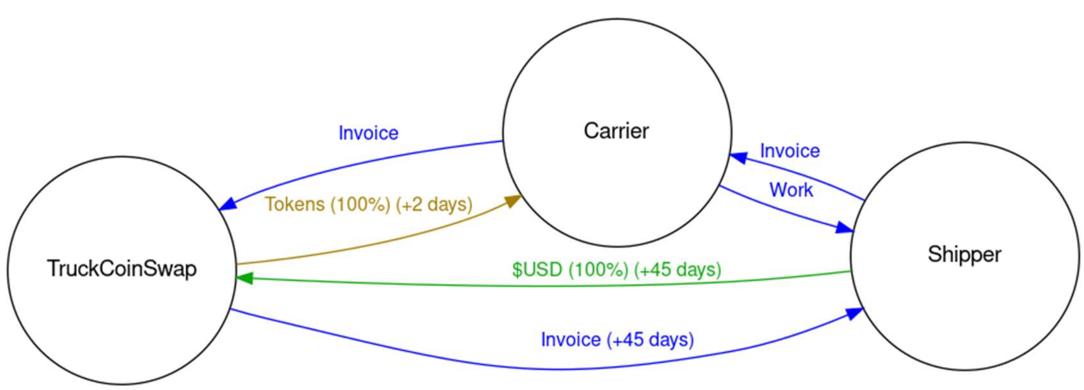

Diagram 2 - TCS Settlement

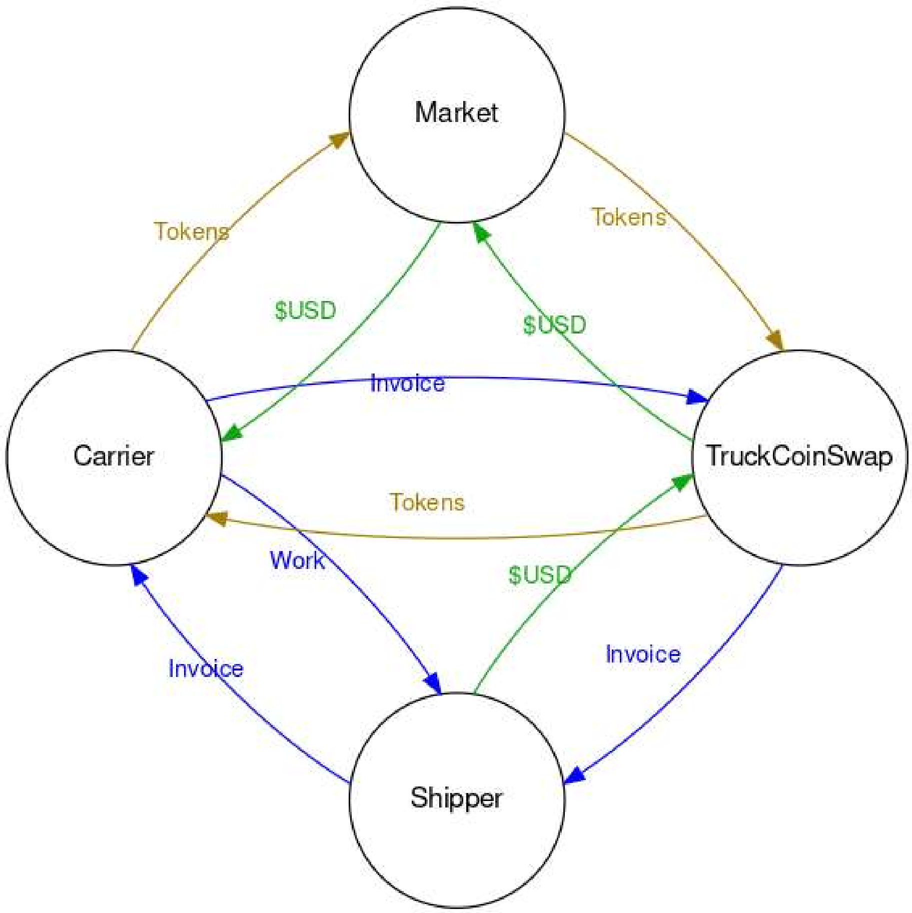

Diagram 3 - Token Market

Tokenomics

TCS Token is an ERC-20 non-security digital asset deployed on the Polygon network at: https://polygonscan.com/address/0x2f697BC31895ea05e6a364cedC8a76fF3467D32f. The Token is not pegged to any sovereign currency, digital asset, or class of assets and will fluctuate in accordance with market dynamics. Supply is capped at 50B – TCS will never mint more supply. Approximately 99.9% of supply is allocated to the TCS "Token Reserve" – utilized exclusively for User settlements. This includes warrants for the monetization of partnership distributions. The .1% balance is allocated to strategic partners and partnerships, subject to industry standard lock-up terms, and first-right-of-refusal options in favor of TCS. As TCS Tokens are depleted from the Token Reserve, TCS will repurchase from the market to maintain the ecosystem and continue to service User transactions. Accordingly, TCS will be an active buyer of TCS Token and, in time, become the single largest buyer of TCS Token. Restated, the TCS tokenomics model, like Bitcoin, concludes in a fully sustainable and deflationary monetary policy.

Decentralization

Decentralization is an indispensable feature for any successful digital asset. Bitcoin comes to market through the work of miners. Individuals with a specialized skill set in society, who exchanged acumen, labor and other resources to mine the token. Here, truck drivers and transportation operators are the miners of TCS Token, as their unique skill set in society creates the commercial paper required to bring the supply cap to market. As TCS Token is an Ethereum/Polygon fungible token, the blockchain technology is akin to a railroad that TCS neither owns nor controls. While TCS Token acts like a train on the tracks, the railroad is proprietary and decentralized as it relates to the TCS team. While TCS conducts the train, it is not a promoter of the railroad. TCS is likewise dependent on the ability to transfer TCS Tokens directly into digital asset wallets on exchanges to settle transportation Users. Trains have no use case without depots and stations. Without exchanges, the TCS train is without depots and stations to transport stores of value. Similarly, TCS will rely on new digital asset debit and credit cards issued by exchanges and other providers to create the retail ecosystem. Access to these cards immediately accelerates the value proposition for Users, by permitting TCS Token to be spent directly.

Compliance

The TCS (Polygon) Token is a non-security digital asset (NSDA). NSDAs are utility tokens that function as commodities in usage. This language is borrowed from the U.S. Securities and Exchange Commission (SEC). In his verbal and written statements before the U.S. Senate Banking Committee on September 15, 2022, the Chairman shared:

> "Thus, I have asked staff, in working to register crypto intermediaries, to recommend a pathway to allow both crypto security and <u>crypto non-security tokens</u> to trade versus or alongside one another." (emphasis added)

This statement is profound, in that it mandates mutual exclusivity. For crypto securities to trade alongside crypto non-securities, both must exist. Markets must also exist, or be made, for both assets. While some have opined the Chairman was only referring to Bitcoin in the statement, he did not say "Bitcoin." Nor did he use the term "crypto non-security token[]." The plural form is used, meaning there is more than one type of crypto non-security token. This statement is entirely antithetical to any opinion contra that all crypto tokens are securities. A Latin adage is directly on point: expressio unis est exclusio alterius.

A growing majority of U.S. lawmakers and financial regulators do not believe the Supreme Court – nearly 80 years ago – was anticipating the economic realities of digital assets, blockchain and Web3 technologies when finding that a fruit orchard offering constituted an investment contract, and a security. TCS agrees with this growing majority, and believes the U.S. Congress must act to keep innovation and capital formation on shore. Until that day arrives, we proceed with the *Howey* analysis for purposes of form – not substance.

To be classified as a security pursuant to the 1946 *Howey* Test, all four (4) prongs of the test must be met, and any adverse party has an affirmative burden to prove the same. Guidance has also suggested a secondary burden, requiring proof that any alleged security remains a security throughout its lifetime, in addition to actually being a security when a challenge originates. As such, the *Howey* Court intended to create a high legal bar.

This high bar has grown even higher over the years. There are now several judicially created exceptions to the *Howey* Test. Nearly 30 years after *Howey*, the Supreme Court created a "consumption" exception. See, *United Housing Foundation, Inc. v. Forman*, 421 U.S. 837, 852-53 (1975). Specifically, the Court noted: "When a purchaser is motivated by a desire to use or consume the item purchased . . . the securities laws do not apply." Just a few years later, the Supreme Court created the "other purposes" exception in *Int'l Bhd. of Teamsters v. Daniel, 439 U.S. 551, 99 S. Ct. 790 (1979)*. A carve out was then made to the 'investment contract' thesis and analysis in *Landreth Timber Co. v. Landreth, 471 U.S. 681, 689 (1985)*. Here, the Supreme Court stated, in pertinent part:

> "Applying the *Howey* test, we conclude the instruments likewise were not 'securities' by virtue of being 'investment contracts' because the economic realities of the transaction showed that the purchasers had parted with their money <u>not</u> for the purpose of reaping profits from the efforts of others, but for the purpose of purchasing a commodity . . . ." (emphasis added)

Pursuant to the *Howey* Test, an alleged securities offering requires 1) an investment of money, 2) for common enterprise, 3) with the expectation of profits, 4) from the efforts of others (and/or "solely" from the efforts of others). And as previously stated, the secondary "lifetime" burden may need to be met, and no judicially created exceptions can apply. For purposes of this analysis, there are two contemplated actors: transportation Users and market participants. As TCS Token is listed on global exchanges in over 80 countries, the latter category could range from Manhattan hedge funds, to accredited investors in London, to family offices in Dubai, to fishing co-ops in India.

Market participants can and should vote with their wallets. They can vote in favor of truckers and operators – we saw this during COVID with the Canadian trucking convoy in 2022. They can also vote in favor of solutions that put downward pressure on artificially high freight rates, inflation and the cost of goods. In the U.S., the cost of goods was the #1 political issue for voters in the 2022 election. This cohort is global, and could not be more socially and economically diverse. Because <u>TCS does not sell, airdrop or otherwise divest TCS Tokens to market participants</u> – these buyers can only purchase from Users - we focus the balance of this analysis on those Users who bring the token supply to market.

Prong 1 requires an "investment of money." No one would dispute the term "money" means U.S. Dollars. Dollars are debt instruments printed on paper. While once backed by gold deposits, Dollars are no longer backed by real world assets. Users do not purchase TCS Tokens with Dollars, or any other type of debt or fiat instrument. Nor do they invest money. Rather, Users swap (barter) collection rights in freight invoices for TCS Tokens. This is an exchange of two asset classes: commercial paper for digital assets. As there is no "investment of money," Prong 1 fails, as does the entire *Howey* Test.

Prongs 2-4 require common enterprise with the expectation of profits from the efforts of others. On "common enterprise," an offering could be deemed a security if the parties investing in the offering have a common motivation for something like a return on investment. However, TCS Token is not an offering, Users are not investing, nor are Users in search of yield. In fact, Users are intended to immediately divest to pay their operational costs. Likewise, Users have no expectation of profits from the efforts of others. The value proposition to Users is to utilize blockchain settlement and an NSDA to <u>recapture the full value of their own efforts</u> – revenue already owed to Users from shippers and 3PLs – in the shortest period of time. Accordingly, Prongs 2-4 fail.

Finally, because Users are consuming (then divesting) TCS Token for the purposes of fast liquidity and net revenue recapture, all of the Supreme Court's *Howey* Test exceptions could apply: *Forman*, *Int'l Bhd. of Teamsters, Landreth Timber Co.*, et. al. And if the secondary "lifetime" burden is law, or becomes law, an adverse party would have to demonstrate that every fungible TCS Token has exclusively operated as a security for its lifetime. Perhaps a better idea is to simply look at TCS Token as a commodity, like water. Water is consumed by industry actors to increase efficiency and mitigate costs. It then moves back to the market. While water loses some utility after industry use, it can be repurposed. And it will always be repurposed, because it will always remain scarce.

Market

TCS will capture market share in two industries simultaneously: transportation and Web3. Combined, the two industries represent approximately 4T in value today, and are projected to exceed 30T in value by 2030. The initial pain point is found in the full truckload sector. Fragmentation and inefficiency have plagued this sector for decades; exactly why venture capital has invested over $28B since 2018. In the U.S. alone, the TCS User demographic is comprised of over 900,000 trucking companies (91% with six (6) or less trucks), and more than 17,000 logistics companies. Collectively, these companies are generating over $500B per year in accounts receivable. Accordingly, TCS only needs to capture a fraction of 1% of market share to generate billions in annual revenue. Once TCS has penetrated sector market share, it will focus on expansion to rail, air and maritime; and related industries that are similarly burdened by the usurious costs of invoice factoring.

Competitive Advantages
First to market as a free service to Users - creating a net revenue recapture up to $30,000 per year, per truck – TCS will see viral adoption. As TCS Token can also unbank billions per year in accounts receivable (and rebank the revenue into exchanges), the TCS network has the potential to significantly increase assets under management (AUM) for CEX and DEX platforms, and rip market share from the banking industry. Simultaneously, TCS Token can provide exchanges with access to over 1M new organic customers, and the opportunity to cross-sell new and existing products. One new product relates to the trucking fuel card industry. The global market for fuel cards projects for a 1.2T valuation by 2027, growing at a CAGR of 14%. Creating a digital asset fuel card for TCS transportation Users would be an obvious and logical step for any exchange. Furthermore, these new customers create a bridge for exchanges to diversify further into B2B services. Diversification away from non-accredited retail services can also help exchanges mitigate risks associated with the core business model, and develop far greater public and private valuations.

Conclusion
The era of irrational exuberance, fraud and nonsense is over in the digital asset space. This is the chapter for real use cases. Not use cases solving 1% problems or exclusively serving the top 1% of wealth classes. We mean "main street" use cases that solve macroeconomic problems. In terms of business history, the opportunity to capitalize on a 30T wave of value and innovation over seven (7) years is unprecedented. Further, as a fintech and freight-tech company deploying and developing AI, TCS is championing a larger mission to digitize, optimize and automate every component of freight settlement. In addition to making transportation companies more efficient and solvent, studies suggest TCS models can eliminate billions in financial waste throughout global supply chains – making TCS one of the most innovative companies on the planet. TCS takes little credit, however. In simplest terms, the TCS models are the Satoshi thesis, applied to the largest problems in global supply chains – usurious trade finance costs and inflation.

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