THE NATIONAL LAW JOURNAL

The John Joseph Moakley U.S. Courthouse in Boston, Massachusetts. It serves as headquarters for the US Court of Appeals and the US District Court for the District of Massachusetts. (Credit: demerzel21/Adobe Stock)

NEWS

Biotech CEO Sent $1M in Crypto to Wrong Wallet. Now He's Suing the Issuer for Its Return

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Cryptocurrency

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What You Need to Know

- Celacare Technologies Inc. gave Circle Internet Financial Inc. $1 million in cash and in return, Circle issued $1 million in U.S. dollar coins.
- After the CEO of Celacare sent the coins to the wrong address, his company claimed that Circle was either obligated to reissue them or honor them.
- Experts doubted that the lawsuit would be successful and pointed to the precedent it could set for future crypto actions.

An infectious disease biotechnology company, whose CEO sent $1 million worth of U.S. dollar coins on the Ethereum blockchain to the wrong wallet address, has sued a global financial technology firm in a federal district court in Boston after it refused to reimburse the business, despite knowing the crypto was sent to the wrong wallet.

Daniel Maland of Rennert Vogel Mandler & Rodriguez. (Courtesy photo)

Daniel Maland, a partner at Rennert Vogel Mandler & Rodriguez in Miami and the immediate-past co-chair of the Florida Bar Business Law Section Blockchain and Digital Assets Committee, said the case involving the plaintiff Celacare Technologies Inc., who sued the defendant Circle Internet Financial Inc., appears only to have merit because it involves crypto.

“If you view this transaction as someone wiring funds from one account to the wrong account, there is a lot of precedent that exists as to what liability, if any, falls on the bank, where it follows the express instruction of the person wiring the money,” Maland said. “This is an attempt to deviate from that precedent. They’re trying to hold crypto exchanges accountable to a different standard.”

The case dates back to May, when Celacare gave Circle $1 million using Celacare’s account at Coinbase Inc. to complete the transaction, according to the lawsuit. In return, Circle issued Celacare 1 million USDC on the Ethereum blockchain and promised to exchange those coins for dollars whenever anyone possessing the coins sought to redeem them.

In July, Celacare President Kenneth Yates intended to send the USDC to a wallet address on the Ethereum blockchain to facilitate a transaction with a contract counterparty, per the lawsuit. However, when Yates used his computer to copy the destination address from a document sent to him by the counterparty, he erroneously transcribed a B as “8.”

In the lawsuit, Celacare argued that the USDC is Circle’s promise to pay the bearer of those coins a fixed sum of money on demand. And because Celacare and Coinbase expressly agreed that the USDC is to be treated as “financial assets” and that Coinbase is a “securities intermediary” under the Uniform Commercial Code, the coins are “financial assets” under the code, represented by certificates in bearer form.

As a result, Celacare alleged that Circle is either obligated to reissue them under UCC Sec. 8-405 or to honor them under UCC Sec. 3-309, according to the lawsuit. Circle currently has $1 million that rightly belongs to Celacare.

Celacare claimed in the lawsuit that, "because nothing in Circle's terms of service—the contract governing Celacare's possession of the coins—says otherwise, and because Circle would otherwise receive an unjustifiable windfall of a million dollars for nothing, Celacare is entitled to a return of the million dollars through an action for money had and received."

Now, the case is pending before U.S. District Judge Richard G. Stearns of the District of Massachusetts.

Alan Rosenberg, a partner at Markowitz Ringel Trusty + Hartog in Miami who is not involved in the matter, said that while he sympathizes with the plaintiff, he does not believe they will succeed in their arguments. Rosenberg, whose specialty includes crypto litigation, pointed to the terms and conditions on Circle's website, which specifically disclaimed liability for transfers to wrong wallet addresses.

"And the notion that the USDC is essentially destroyed—while creative—is not technically accurate," Rosenberg said. "The takeaway here is to simply be careful and if possible, avoid manually entering wallet addresses, character by character. And if you must, confirm the address over the phone as you would with a wire transfer. Or at least that is our policy at this law firm."