Rodrigo:	**00:00:59**	Hello.
Mike:	**00:01:01**	Friday afternoon.
Rodrigo:	**00:01:04**	Welcome to our live cast with one of my favorites, David Fauchier in the crypto world and cohost Mike Philbrick. And I guess Dave, you're a cohost today. So last time we interviewed you, we started talking about interesting people and you said you have to talk to Tom, you have to bring Tom on the podcast. So welcome, Tom. Looking forward to hearing what's top of mind for you these days. You know a little bit of your past and so on, but Dave, why don't you introduce yourself? I guess Mike, you want to give a disclaimer for sure.
Mike:	**00:01:39**	Before we start everyone, this is not investment advice. Don't get investment advice at a Friday afternoon Happy Hour from four dudes on YouTube. Cheers, gentlemen. I am enjoying a... actually doing something quite unique today. I'm doing a cold brew coffee with vanilla rum. It's quite hot here and I'm like just it's a cold brew, is quite a mix. You want to be awake whilst you're feeling your alcohol but so it's fantastic.
Rodrigo:	**00:02:06**	I got a classic Moscow Mule in a classic Moscow Mule container.
Mike:	**00:02:11**	I love that. I've learned that a French Mule is just simply taking the Moscow which is the vodka and changing that to brandy. And there you have a French Mule.
David:	**00:02:25**	Thomas what are you having? Something Italian?
Tom:	**00:02:29**	No, I'm going with Gin and Tonic.
Rodrigo:	**00:02:33**	Getting the quinine in, just be because of those Italian mosquitoes out there, malaria.
Tom:	**00:02:40**	No, to be fair, I had a poolside aperitivo but no, I'm on a gin and tonic. Now I don't have anything fancy at the house.
Mike:	**00:02:49**	All good.
Rodrigo:	**00:02:50**	Gin and tonic made well is off of awfully fancy, sir. Cheers.
Tom:	**00:02:55**	Yeah. With the right Gin it's quite nice. I'm a little jealous. I want a cold brew.
Rodrigo:	**00:03:03**	Yeah, it's … I stumbled across it.

Tom:	**00:03:04**	Anything with cold brew I'm down. Someone on Twitter was making fun of cold brew today and I was just like, what? Well, we can't get watch it. I can't get behind it.
David:	**00:03:13**	Like the Nitro stuff is just great.
Tom:	**00:03:15**	I love Nitro. I love it all. It's like rocket fuel. I love it.
Mike:	**00:03:20**	What is it like? Is it like five times more caffeine than regular coffee? I haven't tried it once and I won't touch it. I just can't imagine myself in that much more caffeine.
Rodrigo:	**00:03:30**	No, you got to try it one and see how you feel.
Tom:	**00:03:33**	It's great.
David:	**00:03:34**	Yeah, it's not going to kill you.
Rodrigo:	**00:03:38**	Yeah. I did a poll on FinTwit to find out where people got their caffeine and 75% of FinTwit gets it from coffee. So there you have it. Not many teetotalers and whatnot.
Tom:	**00:03:52**	There was a restructuring that happened recently, *David's Tea*. Mike and Rod will notice that all of my stories will start with a bankruptcy and I put something up about the bankruptcy. It's a CCAA, which is a Canadian bankruptcy, basically, or insolvency. I want to be … And the pushback, people DM me like oh, tea sucks, man, I prefer coffee. I was like, yeah, but don't you understand? It's like there was the guy that *Wired Magazine* wrote the article or wrote the book 10 years ago, like *A Long Fat Tail.* I don't need everybody to be my cohort, I just need like a small cohort that is like rabid fans, and that's all I need to be a…, because I don't need everybody to love what I do. But it was funny how much vitriol I got from, over coffee guys, like. Like tea sucks man. A lot of people went out of their way to DM me about how yucky tea was.
Mike:	**00:04:55**	I love it.
Rodrigo:	**00:04:55**	There is *Bitcoiners* and there is *my coffee sucks*.
Tom:	**00:05:01**	Bitcoin is fake man. And by the way tea sucks too.
Mike:	**00:05:07**	Like those people probably also like cats. Come on. All right, so we touched a little bit on the insolvency stuff and the bankruptcy stuff. So Tom, tell us a little about you, to a little bit what you do. You're CIO at 507 Capital. Give us your story. Give us your history if people want to learn about Dave, Dave's co-

hosting today. So if you want to learn about Fauchier go check out one of his previous casts with us and you'll learn all about him. Now he's graduated to co-host. But Tom, hit us with it, tell us everything.

Backgrounder

Tom: **00:05:37** Well, I grew up in a little town in Georgia called Savannah which is on the coastline. My parents were bankruptcy lawyers. And I'm sure I was rebelling against everything my parents did, but my only advice from my parents who were bankruptcy lawyers was, don't become a lawyer. So I tried to take that advice in and I attempted to work in finance. And as part of the strategy that I was running, I launched a small hedge fund, was to work on small distressed opportunities. I basically was working on the stuff that no one wanted to work on. So I was doing bankruptcy trade claims and working on small cases where large institutional firms were like, hey, that sounds great Tom for your PA, but I'm running 100 million or a billion or 500 million or 10 billion. And that's just not going to move the needle for us. So I got sucked in to working on stuff that they wouldn't work on. And then when something was more scalable calling them up and saying, hey, I have this project, we might go put 50 million to work, might put 100 million work. And that's how I grew my business.

And the hedge fund wasn't super successful because you never really scaled, being an institutional stage sized hedge fund. But I guess I'm pivoted, we liquidated the hedge fund and now I work for a few large family offices and a few distress firms, but principally one large family office, we work just on the...I guess it's esoteric, but it's not esoteric. It's really like SME bankruptcies and things like that. So that's how I got kind of sucked in it. And Dave and I met through a distressed crypto trade because I don't know why. Who introduced us David?

David: **00:07:22** Stephen …

Tom: **00:07:24** Steven. But why did he introduce us, because I was working on Mt. Gox.

David: **00:07:28** In crypto. I think we were the two people that mentioned Bitcoin to him.

Tom: **00:07:34** I don't know anything about crypto, but I know two guys who were in it. Y'all should chat. That's how we got connected. And I can unpack this where if you guys want to hear it, it's interesting. But that's how I connected with David. And I've gone down the crypto rabbit hole but not like David. David's like a thoroughbred in crypto. I'm on ...

David: **00:07:59** You're like a hunting pitch for like interesting … asymmetric, … especially if it's crypto.

Mike:	**00:08:07**	You’re like as Dung Beetle or something, just going around. …
Mike:	**00:08:15**	But, you're in weird places, right? And imagine where you get the juice and you've got to dig deep into all the things that they say you should read before you buy something, I'm guessing is where you make a lot of your alpha. Here's your 700 page TLDR prospectus something, and you're like...
David:	**00:08:37**	I think Thomas here is like the weirdest story you've ever heard of someone and not laughing, and he's looking up whether there's an edge. Like if there's an angle. Like is there a bankruptcy here? Did someone mentioned the Titanic?
Rodrigo:	**00:08:55**	So, why don't we take a step back and discuss what it is that you actually just generally do? We've talked about bankruptcies, why do they matter and how do you monetize, something like that, and then maybe we can get into specifics?

Bankruptcies

Tom:	**00:09:10**	Yeah, so why do they matter? I mean, I had a little bit of a unique background in the fact that my parents were lawyers, were attorneys and were bankruptcy lawyers, but they didn't know the stuff. They weren't like big time Kirkland and Ellis, or Paul Weiss or you name the firm, like Shepard Molyneux, they were not big time bankruptcy lawyers. But as a kid, I grew up hanging around the bankruptcy court, hanging out with US trustees, and I think I had on my profile once, I used to hang out at *341 Meetings,* which are creditor meetings. And I remember once some guy at a Debtor’s Counsel meeting chuckling and saying, I saw that you said in profile, you're hanging out at 341 meetings waiting for your mom to come out. And I was like, Yeah, that's actually true. So, why I think it's interesting is it's complicated, it's complex, it's messy, it's kind of like...I'm not someone who's into Special Forces or any SEAL Team type stuff, but when guys say when there's smoke in the dead of night, that's like the best time to run an operation. I think it's similar and you could draw, it's not really a corollary, but you could draw a similar idea that in a securities analysis when there's a lot of smoke, and there's a lot of just not misinformation, but lack of understanding about what might be going on, that's a real opportunity. And people have said this before, but they conflate risk with uncertainty. And so we try to take advantage of the fact that people conflate those two things, I think. And generally what we do is we run a bankruptcy trade claim book for large family office and we also work on DIP loans and we've brokered some claims as well. And in terms of very large claims, call it 10, 20, 30, 50 million dollar claims and stuff like that, and just making a fee on that. But for the most part, we're trying to put capital to work for our family office and trade claims. What trade claims are, are accounts receivable from a bankruptcy. Those can

be maritime liens, those can be mechanic's liens, those can be journal unsecured claims, those can be PACA claims, and those can be anything in the 507 claims. That's where 507 comes from. 507 Section of the Bankruptcy Code. I suppose it's so tongue in cheek on 507 creditors are the creditors to get paid first in the bankruptcy. So it's a little bit of a play on that. It's like we know, we get paid first. I mean, most, even lawyers, won't actually know the section of the code that specifies a waterfall of 507 creditors and 503 creditors. In fact, but that's what it is. So a priority of creditors.

And I got sucked into it because I listened to my LPs when I was running my hedge fund and they said, this is the only thing you're doing that is actually differentiated. And I was like, well, that really hurts my feelings. I'm doing lots of other stuff. He said, yeah, that's great Tom, but no one's doing this for us. We're with big distress firms but they don't do this little kind of like 2 million here, 5 million here, 10 million here, 2 million there. And they said you should just focus on that. I was like, okay. So, I did that and pivoted with my fund, and the returns were good from it. And when you looked at the attribution of returns, they were far superior to the other stuff we were doing. But it also might be a symptom of the market. I don't think there's a value manager's doing, maybe special … but like deep value managers are probably getting crushed in the last decade or even more, maybe more now. Now, again, we'll say more than 15 years or more than 10 years. So I was part of that cohort. I love what I do.

Mike: **00:13:19** It is a bit different. The deep value manager has got to wait for some catalysts in a public domain.

Tom: **00:13:27** Yeah, that's the problem.

Mike: **00:13:28** So, how do you attenuate that? Or how does the maritime claims...take us through maybe an example of how you would find the little thing. Go through the process, if it was big enough to kind of originate a group, like how does that all work if it's not, and then and then what's the culmination of the profit?

Bankruptcy Trades and Crypto

Tom: **00:13:50** Yeah, sure. I would say that I do the bankruptcy trade claims to put food on the table. Like it's not ridiculously scalable. And that's probably why it works. And this also, there's two theories that I'll throw out there. One is, things that are not that scalable tend to work in terms of high returns on invested capital, and investing markets where you're just putting capital at risk. That's a great pool. If you find a little niche and just like burrow at it, and the other one is like Venn diagrams with very little overlap. So that would be like how I met David, like the crypto. So you have specialists and you have crypto and like the Venn diagram of people that know both and can do both or will do both is very small. And so just to backtrack on the first point...Anyway...

David:	**00:14:48**	Do you remember the first part?
Tom:	**00:14:50**	No, I don't actually.
Mike:	**00:14:53**	Was it my point or?
David:	**00:14:55**	Why don't you just tell us about how the intersection with crypto and...
Tom:	**00:15:01**	Do you want to go into that? Okay.
Mike:	**00:15:03**	Any one. It's a good example because it would be fun. It sounds like it would be fun and topical because it's crypto, but it probably has a lot of the same underlying mechanics.
Tom:	**00:15:12**	Yeah, I mean, it's basically, let's see. I could unpack this for a while but there are a number of crypto special situations stuff that's out there. There's *Cred* that filed for the estate, in the States. It was supposed to be a DeFi project, was more like a sci-fi project in the States. There was a crypto miner too, that filed for bankruptcy. One, it was a CCA, and there was one in Washington State, it was quite interesting. We've been involved in basically all these. And when you look at these capital structures, the fun part about what we do is we're not just buying bonds, we're not just buying stock and it's not that complicated. But if you order the source, make the trade claims or try to get involved in debt financing or exit financing, debt financing means they're in possession financing, you can basically create your own security. And if you like the underlying asset, well, that can be even more sizzle. So if you can create the stake through where you get in the capital structure, and then you get sizzle in the sense of upside on an asset class you like, in the sense of crypto, so it can be very interesting. So I can walk you through Mt. Gox or Bitcoin ICO, which are two big cases that we were involved in.
Mike:	**00:16:34**	Hit us.
Tom:	**00:16:35**	Okay, here we go. So Mt. Gox, so you probably know Mt. Gox, you guys if you're involved in crypto. Mt. Gox was a large exchange that went under in 2014/15. There was actually even, guys that just wanted to buy crypto used Mt. Gox. But if you wanted to do it on leverage, you had to use a thing called Bitcoin ICO which is in New Zealand. So we buy a claim from Mt. Gox, we've been buying them for years, I've been buying for years, I put most of my net worth in these. The whole idea was at the time, the original trade was you buy the claim and on the look through value on the estate, you're basically buying

Bitcoin for a third of the price. So it's like, the way I viewed it in my brain was, well, this is basically 3X leverage on Bitcoin. Bitcoin goes 100,000, I'm getting 3X leverage on that, which is great because...

Mike: 00:17:31 Non-recourse leverage too.

Tom: 00:17:32 Non-recourse leverage, sure. Exactly. Non-recourse with no maturity really. And so to me, I remember thinking everyone this popped in my head, I was like, oh, my God, this is like the most volatile asset of all time. And yet, this could take like five years to play out, or seven years to play out. That actually increases the value of the option. And, of course, I was probably getting ahead of myself. So I put a lot of capital in myself, but I also at the time I had my hedge fund, and we bought some and then I got a family office involved in buying claims. So that was a very interesting trade. So there are three parts. And it's true of a lot of what we do, which is there are different segments to the trade. So originally there was buying Bitcoin at a third of the price. Then in 2018, the trustee sold some Bitcoin, about a sixth of the Bitcoin. And then we can buy crypto, we were basically buying the claims where we're getting the cash value and then we're getting a little return on our cash value or fiat, I should use fiat instead of cash. And then we were getting the Bitcoin for free. And that was like an amazing time to put it on.

So we put it on, we put it on pretty strong. The family office gave us some capital. We really went whole hog, and now, that was the best time to put the trade on. And we're basically buying Bitcoin, I mean, Bitcoin was free, but effectively at the time I think Bitcoin was at, I can't remember, I want to say like a few $1,000, it's like $3600 or $4,000 or something. And then fast forward, we still buy them and we buy them for probably about half price of what the Bitcoin is, but now we buy them for a large crypto hedge fund. So that trade is interesting, but it's, I don’t want to say it’s over, but every trade has a life cycle. I was talking to some young guys that want to start a hedge fund today, and I was saying what you lack in experience, I have slow decay going on in terms of like...my experience has like a decay factor to it. And you guys are so young, you don't even understand any of that. Like you don't have the experience but you don't have the decay. You're trying to figure out where the puck is going and that's great. But my point was that we put that on and that was interesting. But that trade is basically decaying to this point. It's interesting.

Rodrigo: 00:20:08 Can I just pause for a second because I want to make sure I understand and the audience understands it. So when Mt. Gox got hacked, they recovered, they went to bankruptcy, they ended up recovering like 80% of the crypto back or something like that. I'm not sure the details.

Tom:	**00:20:23**	25% of the crypto.
Rodrigo:	**00:20:24**	25% of crypto. Okay. So the claims against that money, I imagine if you're still recently buying that, that thing's still going. So they're still under bankruptcy? And what you were buying was people that had claims that wanted liquidity, and you gave them that liquidity at a discount. That ended up being at the time 1/3 of the 25% that you would get back in Bitcoin. Where's that cash value, the fiat value though? I kind of miss as to why...
Tom:	**00:20:58**	Yes. So what happened is 2018 when the first run up in crypto, but when the run up in crypto went to like 20 grand, he sold about a fifth of the crypto at about a 13, $14,000 value, US dollar fiat to Bitcoin. And so there was about $600 million that came into the estate. And so if you were to take all the claims, because there's no real, like actual I mean, I shouldn't say there's no actual claims. There's no general unsecured claims. There's only account claimants, this is all account claims. You basically take those and you cut them to pay or pursue on that 650 million that came in, we were only paying about 400 to $450 million enterprise value for the claims. And so our theory was, well hold on a second, we get the 200 extra, so we get a little profit on our claim, plus we get all the four fifths of the crypto that is still left. So that was the play. That was the big play. And I was a bit of a skeptic frankly. I was kind of like, this might work. This might be a zero, but the asymmetry is so amazing that I'm going to put this on.
Rodrigo:	**00:22:22**	It might work or not. Most of my net worth will go into it but...
Tom:	**00:22:26**	Yeah, that's what I did. I mean, I'm a little bit of a sucker for…
Mike:	**00:22:31**	It could work. How much put in, all of it. All of it.
Tom:	**00:22:35**	Yeah, all of it.
Rodrigo:	**00:22:37**	All right, I interrupted. You were going on to...
Tom:	**00:22:41**	So that was an interesting one. And then there's a sister docket which I call it sister docket, it's not really that related, but it's called Bitcoinica, and basically was if you wanted leverage on Bitcoin, you had to go to Bitcoinica which is a New Zealand exchange for CFD, it's basically like I think it was like CFDs but it was kind of unregulated. But let's just call it CFDs. It had a lot of OGs, David is it OGs?
David:	**00:23:10**	It's OGs.
Tom:	**00:23:12**	OGs.

Rodrigo:	**00:23:14**	Is it like the OG, like original gangster? … Just checking we're on the same page here. Okay, OG. Noted.
Tom:	**00:23:23**	And yeah, we still buy those. We bought one today that we paid a fourth the work add value for, so we're basically buying Bitcoin at 25 cents on the dollar. Now, there's risk. Its Bitcoin. The claims haven't been approved, the claim transfer process is like a real thing and there's risks. It's not a free lunch. I would refer to it as a cheap lunch, a cheap crypto lunch. So, we're basically buying Bitcoin at something like five or seven or $8,000.
Mike:	**00:24:01**	How long will that take to work out before it's...
Tom:	**00:24:03**	Yeah, five years plus.
Mike:	**00:24:05**	Wow. Okay. Well that is a great option.
Tom:	**00:24:08**	You've got to be a believer. You got to be a believer.
Mike:	**00:24:13**	Yeah. So that is like you say as it takes longer to work out. Your term is greater. It's really interesting. You think about this as an option and wow it's a bit mind blowing.
Tom:	**00:24:25**	It's like a five year option. I wish I could convince an investor to think like that...
Mike:	**00:24:32**	Right. It's 100. We know what the basis trade was making, was like 25 to 45% in the spring and winter, my God, it's obviously going to fluctuate. Here's a five year option on Bitcoin. That's pretty cool.
Rodrigo:	**00:24:52**	The volatility is collapsing in Bitcoin the last couple of weeks.
Mike:	**00:24:55**	I know, the vol's only 67.
Tom:	**00:24:58**	My favorite, David, do people do this to you? Rod and Mike, maybe you guys aren't as heavy into crypto but I had people reach out to me was like, are you okay?
David:	**00:25:09**	Are you okay? Yes, everyone.
Tom:	**00:25:12**	I'm like, I think I am. Do I not look okay?
Rodrigo:	**00:25:16**	Oh, because of the recent drop.
David:	**00:25:18**	Yeah, people calling my girlfriend and being like is David okay?

Mike: **00:25:23** We have an entirely different set of friends. So me being, I'm a Gen Xer so, my friends are like, told ya. My friends are totally, told yah.

Rodrigo: **00:25:40** Have fun being poor.

Mike: **00:25:43** Maybe I should rethink my friends or something. Is it generational, is it just Gen X? They're such turds on that.

Rodrigo: **00:25:51** I've not got anybody reach out with the, are you okay? Maybe they're silently judging in the background, probably. Too scared to push back though yet.

Tom: **00:26:02** It's still at $30,000. You know that right?

David: **00:26:06** That's pretty great.

Rodrigo: **00:26:11** So you got this claim that might take five years plus. I find any point you want, are there other players Tom that you can...

Tom: **00:26:22** There are a few but not a lot. So in Mt. Gox there's Fortress. And there are a few brokers that try to sell them to hedge funds and things like that. And there's a little community of people that traffic in the stuff. I would say that when you're dealing with individual claimants, like this is part of the fact that my parents have been lawyers, we get involved in Ponzi scheme cases and all kinds of things. And this is the same thing, these guys were right, they were early. There were in the crypto, some of them like, *after Mt. Gox I didn't buy another Bitcoin*. *I swore Bitcoin off.* You get a lot of people like that. I guess my point is you try to show them as much respect and just try to be as good to the people as you can in terms of straightforward, and like this is what we're offering this what we think it's worth and there's no funny business.

And for the most part, people respect that, some people are like, no, that's ridiculous, why would I sell for half price and things like that, but there is a little brokerage community of people that work in this stuff, but it's not big. And my problem with the community is, they're super unprofessional and they're not, you just don't treat people, in my mind they don't always treat everybody with dignity. And that's a real problem with the, which is, I mean, these are individuals. One guy's a computer programmer. There was a guy that we're buying a claim from now, he makes software for shock absorbers, he's just a software nerd, engineer. And like $200,000 is a lot of money to him. So, I have like a good amount of soapbox about this but, I think it's just important to treat some of these people with dignity when you're trying to either solicit them for selling the claim or give them options for what they might have. But there is a loose community of people.

Rodrigo:	**00:28:21**	For sure, liquidity is a lot.
Mike:	**00:28:23**	That's part of the process, is originating and finding those who own the claim and then negotiating with them. So there's no public market for this. There's a few brokers around and then you got to just hustle or?
Tom:	**00:28:37**	Yeah, totally. There's one firm or maybe two firms. There's one called ClaimX and the other one, I don't remember to mention the name of his firm, he's going to kill me. I can't remember the name of it, but I think they …
Mike:	**00:28:54**	If he's listening throw it in the comments. And Like and Share.
Tom:	**00:28:59**	Oh God, what's the name of Lad's firm? Anyway, he runs a thing called Cherokee. I actually like him. He is really straightforward to people and very like, this is a marketplace. It would be the best price. So there's two firms that basically will provide an exchange for this stuff Mike, but it's not on crypto bankruptcy claims. So I like the idea of making markets, I think this is probably a perennial idea of business, like making markets where there aren't. And that's basically what you're doing. You're providing liquidity or making markets where there were none.
Mike:	**00:29:39**	Are you seeing...Go ahead Rod.
Rodrigo:	**00:29:42**	I was just going to ask, you go to David to kind of help you navigate the world of crypto first? Like how did you guys collaborate?
Tom:	**00:29:51**	I called Dave and I said, Dave, teach me the ways of crypto. No, I think I was trying to get money out of David.
David:	**00:30:00**	Were you?
Tom:	**00:30:02**	No, I wasn't. You know, we just had, it's a friendly.
David:	**00:30:08**	Yeah. Tom basically invented this trade. He's being very modest. And then brought it to some other people who then kind of carried it forward. But yeah, by the time we met he was, I remember you as being like, yeah, okay, maybe I'm the Bitcoin thing like we'll see, but I'm buying a little cash and like it's just a big option. And now, you're like handing out every crypto special set.
Tom:	**00:30:33**	Yeah, that's true actually.
David:	**00:30:34**	So, Tom is the guy you call.
Mike:	**00:30:37**	Tom is the box.

David:	**00:30:39**	Has done a phenomenal job kind of networking in this space.
Tom:	**00:30:44**	I'm not smart enough to understand everything going on in crypto but if it's crypto, and it's special situation, maybe with some insolvency around it, we've gotten involved in a few, we've got involved in Envion, Cointopia.
David:	**00:30:59**	You should tell that story, that's a good one.
Tom:	**00:31:00**	*Cred…*
Mike:	**00:31:04**	Envion was the good story?
David:	**00:31:08**	It's a good example of like no one in the world would do this. Like, tell him how you accumulated...
Mike:	**00:31:16**	But this is the Venn diagram you referred to earlier Tom, right? The Venn diagram you referred to earlier is tight. Yeah, what walk through it like Dave said.
Tom:	**00:31:26**	This wouldn't make any sense to like an institutional firm and we only made it work because we put our own capital in, and then in one of our family offices. We did Mt. Gox. We put some money in because they were like, alright, Mt. Gox really worked well. So long story short, they were supposed to be like mobile mining units, and they raised money through FINMA I think, the Swiss regulatory system like or something, I can't remember the name, but it was like a German and Swiss company. And long story short, they raised money and then there's some dispute between the founders and the guys that helped them raise the money. And I guess in Switzerland if you don't get an audit pass by a certain date, you immediately get pushed into liquidation. So the company gets pushed into liquidation, PwC becomes the liquidator and there's a token, there's an ICO token that's out there. So like for the enterprising investor, I think this is fascinating, which is like, there's all these tokens that are floating out there, some of them are super interesting. Maybe they're net-nets, maybe they're cheap on cash flow, whether it's like talk about Binance, we could talk about any other like DeFi token. You can go into things like Nexus Mutual which is like DeFi insurance which is very cheap bump up value during the growth. So it's a recontextualization of traditional, not net-net, but just like value ideas, but on crypto. And I think that's fascinating. And so Envion is that. Basically it's a liquidation. We bought the tokens for a fifth or maybe even a sixth of the workout value. We bought tokens in the open market and then we negotiated a block of tokens from a large seller. And it's basically just Swiss francs in the

bank. I think I can't remember the exact number, but 60 million Swiss francs, we bought for like maybe 12, or 15 million was the valuation we bought. Now there's going to be burned from the estate. PwC is going to good do a great job of doing the accounting and it's going to cost a pretty penny. But once it's all over it should get...yeah, very diligent. I mean, don't get me on my soapbox about American bankruptcy professionals. Anyway, it's an interesting situation, we'll definitely make a few multiples of our money, but it's incredibly unscalable. We thought we were gonna try to buy a few million dollars worth of this. We only got on like I think $400,000 in the end. So it was very small.

So I don't want to act like this is like a free lunch because this stuff is hard, can be hard to scale. Mt. Gox work for us took a really long time, because over time we were able to buy millions of dollars worth. But in some of this other stuff that's what you get, you get a dry hole, you spend a bunch of time just like you guys, you're building a product, this is a great product, great product, but no one cares and you can’t scale it. And so you move on to the next thing. It was still a good trade and we'll definitely make money on it.

David: **00:34:26** But building a position is...Envion, the token was trading on one exchange at least that I know of at the time that you could go in to buy it and it was the dodgiest exchange I have ever come across in my life. And I've been like in crypto since 2012. Like, this was a Russian, dodgy as hell, like dump community with some exchange attached to it. So it's like, you could put like half a Bitcoin on and you just sit on the bid, probably sat on the bid for like six months, and you just sat on the bid and like borrow what you could and just round tripped up and like every time you got some envy on you pull it out, you put a little bit of Bitcoin on, and you just sit there and wait. Who in the world as a professional allocator is going to go and buy some Bitcoin, put it on this crazy exchange and then just circle the … you cannot. It just falls between the Venn diagrams. There's no one doing that.

And therefore it's an incredible opportunity, because I think it was an incredibly very simple bankruptcy. The Swiss regulators took over a bunch of Etherium basically, like three days after an ICO, and then they sold it all. And then there was a legal dispute which I think is solved. And you have like a Swiss bank account with 60 million Swiss francs net, and nowhere for it to go because usually you might say it goes to the equity holders, but the equity holders and the people that ran an illegal securities offering. It has to go back to the token holders but the steady 1000 token holders that participated in an ICO in 2017 who wrote this off as dead, like a guy in Tokyo and in Seoul and a guy in Argentina.

Rodrigo: **00:36:20** That have no idea what's going on in the background.

David:	**00:36:23**	Exactly. How do you go to these people who are anonymous? And there's like a bankruptcy going on. Here's the paperwork you need to fill out. It's … between two completely separate universes.
Tom:	**00:36:37**	Yeah, in Bitcoinica you got the trustee, like the bankruptcy trustee. It's not interesting, it's an administrator, he doesn't even have like people's real names. All he has is like their email. Their like username, and it's like, okay, how do we legally pay people when all it is an email and a username? There was no KYCAML. This is when Bitcoin was like $5. So stuff like that. But I agree with you, for myself the angst is, it's always a fine balance between incredibly interesting and totally a waste of time in terms of scalability. So it's a tough balance.
Rodrigo:	**00:37:24**	Certainly we found in our exploration for alpha that most of those outstanding performance numbers come in low capacity strategies. Where you're looking for that five Sharpe is low capacity, you're not going to manage $10 billion on this idea. And it's just why so many single family offices are constantly looking for that type of alpha. And they want it all when they get it. Like you're probably like you said, most of it is that one family office trying to help you with liquidity, that makes 100% total sense. This idea that I grew up with that, when I grew up in the business that active management doesn't work and hedge funds don't make any money. I'm like, no, the 100 billion dollar hedge funds don't make any money. And then there is the unique few that are taking all of the money for themselves, for their personal wealth. It's an interesting dynamic. It may, it may not even be, I mean, what you're doing right now I guess is professional asset management, but it's prop trading.
Tom:	**00:38:33**	Yeah, it's not that scalable. I would argue that the only reason it works is because it's not that scalable. In the family offices, the one access to it, I mean we meet a lot of family offices, for us, like we have a great relationship with pretty decent size one to put capital to work, but even the crypto to stress trades, they're not actually even in that, because that was a bit risqué for them. I think you're better off … Yeah, well, I put my own money into it. So there's more to how we validate the claims. But yes, there is a little bit of an IP process to validate things. But yes, I was having this conversation with someone I think is a very sharp investor, and we were saying you'd be better off just focusing on the wild stuff because the incremental stuff, like there will be guys will pick it up. And I'm not talking about you guys, you all have a business and you have an approach. But for me who is just tried to find alpha, if you want to just like keep in the parlance of what we're talking about here, trying to find alpha. Just focus on the crazy stuff and find something you know a lot about that's really crazy, and run towards the fire and see if you can figure out a way to make money on

		that. And if you can, then pack, and try to get someone to give you money to put it on or put your money into it.
Mike:	**00:40:14**	It really is that comfortable being uncomfortable. There's a reason that there's a discomfort there, even the family office you're speaking of, nah it's crypto, I don't want to do it, I don't understand it. Well, whatever the reasons are, which leaves the alpha opportunity for those who are willing to take on whatever it is, reputational risk, career risk. We've seen certainly the digital asset space span that over the last two years. If you spoke about it in the Tradfi world, that was very dangerous. I think we're on the other side of that now where, if you're not at least somewhat conversant and can have a conversation about it on behalf of allocators or clients, you're more at risk. And so that spectrum continues to evolve as the Overton window and so many topics evolves. But like you say, run to the fire. Oftentimes you're doing what, that's crazy. And whenever I heard that I'm like, I better do more of that trade because there's not a lot of capital crowding out. What about Quadriga CX? Did you get anything from that?
Tom:	**00:41:26**	Yeah, we did look at Quadriga. The problem with Quadriga is when we did our work on it we were like, well, this guy just spent all the money. It's like, it's not that interesting. Quadriga, geez. Okay. Who wants to give background of this? Does anyone know the background on this?
Rodrigo:	**00:41:45**	There's a podcast right now, the CBC put out, that's called *A Death in Cryptoland*. It's a five part series, everybody should listen to it. Because it's a wacky set of characters, and they both met doing pyramid schemes. I talked about this in a previous podcast, but they met, creating pyramid schemes on the internet, where the platform was a series of, group of people putting whatever pyramid scheme they had, and people knowingly participating in these pyramid schemes hoping that they wouldn't be the last person holding the bag. It was like this casino and they'd come up with these ideas and it's the typical, like, I'm not going to tell you how I make my money. This is what happened on Monday, this is what happened on Tuesday on whack, we are $10,000 out of nowhere. I have five people that can tell you the same thing that they got also $10,000. So are in or are you out, that type of thing. And so that's their original story, and then it gets crazier from there until the guy just goes to India to get married to his fiancé, and all of a sudden he dies. But when the girlfriend goes to get the coroner to claim his death that the doctor is like, I can't do this. There's a lot of fishiness here. So the first doctor wouldn't give her a death certificate until they find the doctor who would.

Tom:	**00:43:05**	I didn't know that. That's amazing.
Mike:	**00:43:10**	It's a miniseries on the CBC. it's called *A Death in Cryptoland*. I think it's maybe two or three hours. So it's not like a novel.
Rodrigo:	**00:43:17**	It's not huge.
Mike:	**00:43:18**	And they go through the trip to India and all that stuff. So they want to exhume his body obviously to DNA test…
David:	**00:43:27**	So there was a body but they don't know if it's him.
Mike:	**00:43:29**	Correct. Correct. So that sets up the claims. So you took a look at Quadriga.
Tom:	**00:43:38**	We did, and we know a firm, Argo partners which is a decent competitor of ours, you can look them up, the guy that runs it as a very well respected guy named Mike Singer. They bought claims in the case. We looked at it. They were basically buying claims at 10 cents on the dollar. I think this is fiat, in the case the workout bias would be 12 cents on the dollar. So the idea was buy for 10 make 12 and then maybe if in the next 30 years they find some crypto, it's a free lunch. And I think that was their play, if I was going to reverse engineer it. We looked at it and we were like, there ain't no crypto. There never was any crypto. This guy bought a boat, took his girlfriend on nice trips, bought her nice purses, bought a plane, there ain't no crypto. It's not about finding the last crypto addresses. It's about finding the Prada bag he bought for his girlfriend. So I just thought it wasn't that interesting and those guys were really on it and we did not get involved. We tried to, and we got a little boxed out. Like some of the creditors didn't like us showing up which happens, and I fully respect that people aren't crazy about opportunistic investors showing up and trying to buy their claims or anything like that. So I fully respect that. And then that actually happened a little bit in that case.
Mike:	**00:45:05**	This is interesting. It actually dovetails into the question we have on the YouTube channel. In general, what's the approach or framework to valuating claims and what's the typical margin of safety you like to price in, in these deals? That one you're talking about Quadriga, it seems a little skinny to me, especially in light of all of the other deals you took. So I wonder, Mike Coldwell's asked the question on YouTube. I don't know if Ani's going to show the question, but anyway that's basically it. What was your framework for valuating claims and trying to get a margin of safety for yourself?

Tom:	**00:45:43**	Boy, it's all over the map. It really depends on the risk you're taking. And I actually think, it's another one of my big theories, I guess, Venn diagrams with a little overlap. Things that other people won't do. The other one is probably like the barbell approach. I'm sure this is true in a lot of other businesses, but in our own business the cheapest stuff is on the very safe stuff, and they're very risky stuff. So the stuff that's really safe gets underpriced. I suppose almost like an option smile, you should have had this weird dynamic where things on the tails get funny. So you're like why would I make 20% for just cash? And you're like, well, it's small. It's not scalable and maybe there's IRR risk. And you're like, Yeah, but there's no actual *risk* risk, like principal risk. And so the other side of the dovetail is these claims I'm talking, about these crypto claims where you're making 4 or 5X. But it's real risk. I mean, that's …
Rodrigo:	**00:46:51**	It's not fiat you're buying. So the safest ones are the ones where there's 60 million dollars in the bank.
Tom:	**00:47:00**	Cash on cash and scalable.
Rodrigo:	**00:47:04**	You just need the coins in that case.
Mike:	**00:47:06**	Well, it's not always coins though. It's not always coins though I'm assuming this is...
Rodrigo:	**00:47:10**	No but he needed the coins to be able to have a claim on that money.
Mike:	**00:47:15**	No, I agree Rod. I'm just saying that I think this was more broadly across all of the different domains of...
Rodrigo:	**00:47:22**	Yeah, so that's what I was going to ask next. I remember in '08 in Canada, there was a lot of special SITs of mining companies that raised a ton of money but were dead because the commodity boom had ended. And they were like selling at 20 cents on what they had in the bank without any burn, because they shut everything down. So that's the type of safety that you talk about, is that what you mean?
Tom:	**00:47:46**	You know, the...
Mike:	**00:47:51**	Is this the pornography question. I know it when I see it.
Tom:	**00:47:56**	No, it's not I know it when I see it. I mean, it's just experience man. Mike, when I first started I definitely took some wallops on claims where I thought it was great because it had some priority and blah, blah, blah. And then I was like, oh,

but then they can challenge the validity of the invoice or something like that. Like things you don't know going in. To Quadriga, it's quite simple, there was, I can't remember the actual numbers, but they were paying 10 cents on the dollar, the planned value was 12 cents, there was 12 cents at the bank was probably 13. They're making 20% return just cash on cash. And I suppose real estate guys thinking this framework as well which is like, what's my cash on cash? And then if I get a bump in the actual NAV at the property, hey I'm whistling, I'm doing good. And so I think in claims, people sometimes think similarly which is like, hey, I'm paying 33, I'm making 37 or 40 or whatever. And then like, hey, there's this lawsuit where I might make another 10% return. And so that's a freebie. So they look very similar to liquidations and they do run the gamut. I mean, we try to do the more complex stuff where we think we can make a higher return, but we are taking a little more risk.

We get involved in maritime liens and mechanic's liens and M&M liens which are, I can't remember the first part but it's, M&M liens are like on oil and gas rigs. So it's on oils. So we've gotten a few defaults and a few oil and gas bankruptcies. I will probably never do that again because it was so much work for unit of output, but like I said earlier on, part of what we do is a fine balance between absolute return and then like actual scalability. It's like, oh, this was great. And we made $6,000. And that was a total waste of time. So stuff like that does happen. That's our risk that we take as opposed to well, you still take principal risk, but there's less principal risk. It's more like can we really scale this? And can you really pay for it?

Mike: 00:50:12 Do you get excited by some of the mean stocks and the rips going on in some of these what people would consider potentially worthless opportunities? Are you like, no, that's my paper, that company should go out of business. Those are …

Tom: 00:50:34 I mean it's funny, I remember early on in the case we tried to buy claims, early in Hertz. And then people were saying, Oh, well, they're really a miss. They were able to sell some of the cars at higher values than their mark on their books. And like maybe this is early in the case. And then fast forward to recently, stock went from $1 to eight bucks, you know. And I'm not saying the mean stock people were right.

David: 00:51:04 But now he is laughing.

Tom: 00:51:06 I mean, I don't know. I don't really have a view on this stuff. I think it's like, I'm a big believer and for myself, I know distress because of just like a inculcated in me. But my real investment philosophy is probably like for myself is very like Buffett, and Soros mixed together. If they made a love child it would be like...because I love Soros. I'm just like such a Soros nut. I just love the way he thinks, like mathematical and logical to me. And I just love that. I don't know.

David: **00:51:51** I read in The Post about *Soros on Soros*. I heard about the book, is it good?

Tom: **00:51:57** The best. It's Byron, I think Byron Wayne is the interviewer. Byron Wayne is a very famous macro… Byron basically interviewing George Soros in the 80s. Maybe these days, but before he was ridiculously famous. Go ahead.

Rodrigo: **00:52:17** Sorry. When you're not working on the actual, like you found some bankruptcies, you're working on the bankruptcies. When you try to source them, what's your process? You talked a lot a lot about like art and do they just fall in your lap because you've been around enough? Is there a community of people that are in a private Reddit group that point you to things?

The Sourcing Process

Tom: **00:52:43** It's called Google Alerts. Every single, you just put Google Alerts *bankruptcy*, and you look at every single company that goes bankrupt. Now, I mean, I'm joking around, but you can waste a lot of time on that, but it does lead to opportunities. And for myself, I don't know man, just like how does anybody find any opportunities, to have like a multivariate approach? Maybe you're screening, maybe you have Google Ad Words, you're also talking to people, just like several multivariate. But it's never ... It's never, rarely does fall in my lap. I wish. I'm waiting for that to happen. When it happens, then I'll know I've really made it. But until then, I have to offensively look.

Mike: **00:53:30** So as you find deals, you'll find some small ones. You said, well, this is only big enough for us. But as you found some of those bigger deals, does that come your way as well where there's a group of buyers that you all coalesce around something, or how does that work?

Tom: **00:53:49** Man, distress people are... I mean, y'all are basically quants. I feel like quants are more like, a little friendlier.

Mike: **00:54:03** There is definitely a distress, what D&D character would you be if you were distressed?

Tom: **00:54:10** D&D character, I don't know what that is. Dungeons and Dragons?

Rodrigo: **00:54:12** Exactly. Ignore that question please. Let's strike that from the records.

Mike: **00:54:18** That's totally a clot wrapper.

Tom: **00:54:21** I think it's...I don't know distressed guys they have really sharp elbows. But they can be friendly people who club up on deals. And I, we have a family office we work with, so we really do always show it to them. But like on the crypto distress when it's really juicy and it's small, we'll just take it ourselves with our proprietary capital. So I assume it's similar to like a prop shop, you have products that you're offering to clients maybe? And then you have like, whoa, this is hairy, but like Gen X, I can take that on. Now, I'm not really adjusting, it really is risk. I mean, it's not free.

Mike: **00:55:04** It's not usually very convoluted complex risk that if we're going to hold ourselves any standard that the client has to have an idea of what's going on, you look at this and say, well, there's no possibility that the client can actually contemplate all the dimensionality. And I can't take the time to explain it to him because it's too small anyway, so.

David: **00:55:26** I'd also say sometimes they feed him. Like the it would take someone on it.

Mike: **00:55:30** Yeah, it's gone. Very good point, Dave.

Rodrigo: **00:55:35** That's interesting. So you got an alpha, you have a single family office, you have wealth. I'm trying to think through what the quote/unquote diversification benefit of something like that is? And I guess it varies because if it's Bitcoin, then you're at the mercy of Bitcoin beta. If it's all cash in the bank, then it's not correlated at all, it's just time and patience, but is generally speaking the stuff that you're looking at susceptible to risk variance and growth?

Tom: **00:56:14** Yeah, I mean, the crypto stuff is very crypto correlated, especially at the price we're paying. But most of the stuff we're doing is incredibly uncorrelated. I'm sure there's some correlation at the tails. Like merger arbitrage. It's like, merger arbitrage is uncorrelated until a bunch of deals start breaking. I suppose for ourselves, if you think of, you're buying a bunch of claims and they're predicated on 363 sales being consummated and they break, or something like that, or plans falling apart because the market just totally tanks and the financing fell apart on this. That could be a thing. But when you look at the numbers, it's incredibly uncorrelated. I think it's more correlated than the numbers show, but ... Yeah, it's like one of those things where you don't see it.

Rodrigo: **00:57:02** Yeah. It's a counting based NAVs until the event that happens and then it goes down 20 to 70.

Tom: **00:57:07** It's like, oh my God, look at this. It's like totally uncorrelated, then it's like it's a straight line up. All of the exit financings fall apart at the same time, it's like look at that. Is that interesting? No, it's obvious, it's not interesting.

Mike: **00:57:25** Yeah. It's not interesting at all. Especially when it happens. Not at all.

Tom: **00:57:32** But for the most part the returns on the claims that what we do, frankly are very high. And so you probably could easily compensate for the risk of the deal breaking

Explaining to Allocators

Mike: **00:57:46** How do you explain it to allocators? Or how do allocators try and bucket this? I think an extension of what Rodrigo was asking. From an institutional perspective, how do allocators look at you, bucket you, how do you pitch to them? Are you even bothering with institutional?

Tom: **00:58:04** Yeah, we don't, but I would say if it's from my understanding is, a lot of large distress hedge funds try to do some of the stuff we do, and they do it well, that's fine. But it doesn't really move the needle for them, because they're like very large firms. I think of like Avenue or I don't know, I'm trying to think of somebody, just name your favorite large distress hedge fund. I'm trying to think of people that I don't ever talk to. So I don't want to name anybody who's like, okay, well, you mentioned me on a podcast. Silverpoint or somebody, not naming names, but Silverpoint. Now, these firms they're running $2 billion, $10 billion to $1 billion, what's $50 million in trade claims? What's a $10 million dip even if it's 24%? For them they're like, hey, this sounds great, you should really call the guys in my family office. Other than that, I got to get back to work.

Mike: **00:59:09** Right. So, is your layer of this just really focused on those smaller allocators like family offices then? Is that the sweet spot or is there any other small *niche-y* institutions that do it or is it largely now...

Tom: **00:59:22** I met a few, let's see, smaller institutions. So Blackstone bought the largest competitor in our space, called CRG and their *Tactical Opportunities* bought like basically the largest player in the space, the basically, the guys are all cash players. So they buy *cash on cash claims.* They pay 85, 90, 95 to make $1 in three months, six months. It's literally like factoring. Think of it it's just like complex factor, and that's it. That's one side of the business. And then there are some smaller firms, one called like Oak Hill, but there was, I think it was Oak Hill. There are a few firms that have like given capital to guys in our space. And I totally respect that. I think again, in numbers, even Seaport Group, which is a broker in our space, they got in bed with a family office and, I've used that on live television, or live Twitter. They JV'd with a with a large family office and started doing it.

And what they did was quite interesting. They're using bigger trade claims as a way to acquire customers for their factoring business. So they said, we'll set up a factoring business and one of the biggest issues that companies have is, they don't switch once you're factored there, since it's all market rate, with like lots of competition. So like, that's an interesting customer acquisition strategy. Well we'll offer them factoring when others won't, through bankruptcies that we think are 100% repays, or we think they're critical vendors, and we get unpack, all critical vendors and stuff like that. But these are all like esoteric things. I'm not saying people can't make money yet, but it's hard to really scale this into...

Mike:	**01:01:20**	You don't want to be a tourist.
Tom:	**01:01:22**	It's not like a tourist, I don't know man. It's very hard to actually make it into a business. Even guys that do like small liquidations or net nets or like micro-cap equities. I'm like, this is really cool. I hope you can make enough to make *enough,* you can make enough for your investors that you can make enough for yourself.
Mike:	**01:01:47**	And so what is typically the fee share in this area?
Tom:	**01:01:51**	It's all over the map.
Rodrigo:	**01:01:53**	You don't have to answer if it makes you uncomfortable.
Mike:	**01:01:56**	Not for you. Generally hypothetically, in the market.
Tom:	**01:01:59**	I need to think about it. I think people are all over the map. I think that there are brokers who just broker the stuff to hedge funds. A little secret of stress hedge funds is they don't actually find any of their own stuff. And yet, it's actually through a lot of brokerage firms. And then hey, we're open for business on bigger stuff and someone wants to help. And the brokers do play a role. I mean, there is value there. And all the way to the other side where people are taking only promotes, and that's probably where I like to sit, because I feel like I know what I'm doing. And maybe what I'm doing is not super scalable, but at the same time, it's like if I can bag an elephant, I'd prefer to take them promote. I'd prefer to just get, pay me when you make money. And so, it does run the whole gamut from one and zero. And it's just broker.
Mike:	**01:03:03**	Just a management fee sort of thing or brokerage fee.
Rodrigo:	**01:03:07**	Or commission.
Mike:	**01:03:12**	Or vague.

Tom:	**01:03:13**	Or something. I like these guys though, they're more like a brokerage.
Rodrigo:	**01:03:20**	Good. You seem to get along with all the players. I think that some of the alpha, respect for the holders, respect for the brokers, I see your game. Your charm is the alpha.
Tom:	**01:03:31**	Somebody that doesn't like me is watching, no I'm joking. Like some bankers or professional that I've offended deeply by really terse email, watches this and says, oh, Tom isn't always so mean. No, I'm not very nice.
Rodrigo:	**01:03:45**	There'll be on the next week podcast.
Mike:	**01:03:47**	Yeah, let's just get some easy question, get some vitriol going. Which are the bankruptcy firms that work these things out of bankruptcy, is the most incompetent?
Rodrigo:	**01:03:59**	Don't answer that. Stop.
Tom:	**01:04:04**	My thing, if you want to get me on my soapbox about bankruptcy stuff, and this is like something that goes deeper than money, because my parents really were attorneys. My mom really is a bankruptcy attorney. My brother is a Chapter 11 attorney in North Carolina. My brother and my father-in-law's a panel trustee so. So the things that give me on my soapbox… I don't know about that. I don't know.
Mike:	**01:04:33**	Get on the soapbox. Get on the soapbox.

The Bankruptcy Soapbox

Tom:	**01:04:35**	Okay. The soapbox would be is, there are way too many conflicts of interest between firms and my clients. And oh, you did pre-petition work for the debtor? Oh, yeah, no, it's all good. That was like two years ago when they're doing M&A. This is totally different. Way too many conflicts of interest between firms. Way too many conflicts of interest between these independent directors. It's a joke, like private equity sponsors using independent directors. It's like David, I'm sure if I pay you 100 grand, you can be my guy right on the board. It's such a joke. Sorry, I don't mean to use you, David. There is like conflicts of interest in the form shopping. Oh my God, the forum shopping is insane.
Mike:	**01:05:29**	What's forum shopping?
Tom:	**01:05:30**	Forum shopping is trying to find the judge who is gonna give you what you want. So if you're the big time...Oh my God, are you kidding?

Mike:	**01:05:40**	No, we didn't know, we're a bunch of noobs right here. We're about to go bury our money in the backyard.
Tom:	**01:05:47**	Like David. David, let me tell you something. I know your family business going under. Judge Jones, he's your guy. We're going to file, it's going to be great. He's going to do everything you want to make this all go away, don't you worry. And the forum shopping is insane. They forum shop judges. They basically file companies in jurisdictions, they have no business filing in, so they can control cases, they can get critical vendor motions fast, they can get judges to agree to stuff that no other judge would agree to. But if they do it in front of that judge. And so the issue is the judges have the incentives to agree to stuff because they're like, well, I want all the big creditor, I want all the big debtor, I want all the good cases here. So I should probably agree to that. So it's like a lowest common denominator.
David:	**01:06:41**	Are there many judges per jurisdiction?
Tom:	**01:06:44**	Yes, but you can basically select your judge, you basically select your judge.
Rodrigo:	**01:06:51**	I'm just trying to think of the incentives here because I'm from Peru as you know. The incentives in Peru would be how much money can you give me directly? Here's my bag, put the money in and that's how it works. The incentives in this case is more like, I just want the high profile cases in my jurisdiction.
Tom:	**01:07:09**	I want high profile cases so I can do high profile decisions, so that I can have big debtor cases so that all my friends can get big debtor cases.
Rodrigo:	**01:07:22**	All their attorney buddies that are not in the public system.
Tom:	**01:07:26**	Yeah, of course their friends. It's not a bad thing. It's just insane.
Rodrigo:	**01:07:33**	I guess human nature. I had no idea. That's crazy. So you can just go around the whole of the US to shop with the one judge you want.
Tom:	**01:07:43**	Yeah. Well, they don't really shop. They have two judges they like.
Mike:	**01:07:49**	Would you like the red or the blue one?
Tom:	**01:07:51**	Yeah, exactly. You can file in Southern District, they all fall Southern District, Delaware, or Southern District of Texas. And the reason is because the judges are so gosh darn debtor friendly, that it's almost a crime. That's okay. I'm willing to fight back. We're like our alter ego, we buy claims and we're trying to

make money on this stuff. But our alter ego is, we fight back against this ridiculous stacked against us debtor system. That's what I like to believe.

Rodrigo:	**01:08:26**	No, you have a purpose in life. You got a purpose in life. We all have to do our own thing.
Tom:	**01:08:32**	You guys didn't know this? This is a backwater.
Rodrigo:	**01:08:35**	We had no idea.
Mike:	**01:08:36**	It is because of the Venn diagram of where you live that you know these things. It is precisely the fact you're in it every day, that's why I love getting little tidbits like that. You think they are so common place where everyone knows them, and the rest of us are sitting there with our mouths open going, *pardon*? We thought the world was righteous and true.
Rodrigo:	**01:08:57**	It's like that Gell-Mann Amnesia effect, right? Where you look at something incorrect in your own side of the business and you're like, I can't believe this is happening. This is absolutely absurd. It's bad for this person, the conflicts of interest. And then you hear the bankruptcy side. I'm like, well, that must work like a well-oiled machine.
Tom:	**01:09:22**	Unless you see the sausage. You're like, ooh, that sausage is not so good. Now I'm a big believer. I have a few, what other soapboxes do you like? I'm a big believer that the progressive US bankruptcy system is a huge boon to the US economy compared to a lot of foreign systems. We get a lot involved in a number of foreign jurisdictions and the laws are incredibly draconian. They send people to jail for insolvency. It's amazing. I mean, it sounds ridiculous in there.
Mike:	**01:09:52**	So compare that to another jurisdiction like Canada or Switzerland, give us some, a Schelling point.
Tom:	**01:09:59**	Yes. Switzerland or EU systems, they're trying to harmonize the systems. It's kind of working, it's not really working. It's one of those, I'm sure it's like a lot of EU regulations. I'm not involved in other parts of EU business by it's similar, which is they say it's working when it's not, in terms of harmonizing the systems. A lot of them are draconian, I think Germany is the worst. There's some other jurisdictions that aren't great either…
Rodrigo:	**01:10:36**	Germany's one that certain bankruptcies will land you in jail?
Tom:	**01:10:40**	Yeah. Most definitely.

Rodrigo:	**01:10:43**	Wow.
Tom:	**01:10:43**	Not even as a proprietor, but as a director. Imagine what that does to the capital markets. Imagine what that does to the credit markets.
Mike:	**01:10:54**	Risk taking of a company.
Tom:	**01:10:55**	Yeah, the risk taking. And what it does is it helps incumbents, people with a lot of money can bankroll the stuff. And then anybody that wants to try something on, that sense of trying a new idea, it's like, bankruptcy's not so great here. Yeah. And so it basically, to me, it favors incumbents. I'm not in favor of that. I think people should be able to try things, not committing fraud, but people should try things, doesn't work, do it a wash. Wash the debt.
Mike:	**01:11:31**	The investors that were participating should know the risk level, approximately what they were getting involved in, and they should be able to understand that to some degree. And if they take those risks, losing that those monies is fine. You also have the 10 baggers on the other side of that. So the US is like how is this compare to Canada's? Canada draconian or is it more?
Tom:	**01:11:58**	No, it's not so bad. Canada's CCAAs are, I don't know the actual phrases, but Canada is pretty progressive. Most of US bankruptcy law is predicated off of the English common law. And again, it's an English Commonwealth. So, it's actually not so bad and a lot of, the gift to the world, and this is like really getting legal, but the gift from England out or to the Commonwealth and other countries. English common law was like the first idea of instead of following rules we're going to follow principles. And this idea of like, equity, Courts of Equity, this is like there's no law for this, but this is the equitable outcome. That was an English Court of Equity, but the idea of Court of Chancery, and then it was exported. And that was such a powerful idea, so simple and so powerful. And then the American bankruptcy system went with that was like, oh, well, 105, 105. If you use the US Bankruptcy Code, it basically allows the judge to do whatever they want as long as they think is right.
Rodrigo:	**01:13:12**	So the fairness comes at the judge's hands. Whatever the judge decides, they need to write out the reasoning and this is why it's generally fair.
Mike:	**01:13:25**	And therefore judge selection is incredibly important.
Tom:	**01:13:29**	Oh, yeah. Back to forum shopping.
Mike:	**01:13:33**	I got it.

Rodrigo:	**01:13:35**	So just to get something clear because I understood, where does *precedents* fit into that framework? Is the common law framework specific to bankruptcy in terms of fairness or can you also look at precedents in order to...because the judge us precedents in order to come up to a decision or is it part of that?
Tom:	**01:13:54**	Oh my God, you're going to like...I'll answer this as a non-lawyer and then I'll also say that...
Rodrigo:	**01:14:01**	Just call your brother and parents. We have a call a friend function.
Tom:	**01:14:10**	*Call a Friend*, right here? There's like a long standing debate whether you know bankruptcy courts or courts of equity and their courts of equity. I mean, it's without a doubt. 105 basically sets it out. I think it even says it's a court of equity, meaning that the judge has a unilateral power to determine that. But of course, they looked at precedents and of course even if they're ruling on 105, all the equitable circumstances mean that I need to come to the conclusion, they're still going to look for case law, because it makes it harder to overturn if someone appeals it, but my favorite thing about, whenever you're down to a bankruptcy hearing, every time you have any hearing bankruptcy court hearing, the last argument by any attorney will be, *Your Honor if you don't like any of those argument we just made, we'd like to remind you that 105 still applies to this matter*. And if your honor feels is in the best interest, and I love that.
Rodrigo:	**01:15:11**	We haven't figured out a good argument. You can figure out a good argument on our behalf. That's amazing. That's some great lawyering, right there.
Tom:	**01:15:21**	Yeah, like I'm not that smart Your Honor. But your infinite wisdom I'm sure can see this is inequitable.
Mike:	**01:15:30**	So good. And the lawyer now...I mean, you're sitting there on the deck as the lawyer, where how many times have you heard that, every time?
Tom:	**01:15:39**	Oh my God, 105. If you're not persuaded by either arguments here Your Honor, we'd also like to point you to 105.
Mike:	**01:15:48**	I love it.
Rodrigo:	**01:15:49**	So Dave, any other stories that you might have heard from Tom in the past that you think the audience would benefit from hearing?
David:	**01:15:57**	There’s the story I don't know, that I do want to hear about, which is the Titanic?

Maritime Claims

Mike:	**01:16:03**	Oh, maritime claims.
Tom:	**01:16:04**	That's fun. That's a fun one. I could talk about that.
Mike:	**01:16:09**	Great. Well, we're at an hour and 15. Why don't we hit that one and then we'll wrap. I know it's late where you are too Tom so.
Tom:	**01:16:16**	Okay, I'll be quick too. This is part of like myself trying to grow my business and thinking about things in the past that I'm mad about not taking advantage of. We bought claims when I was running my hedge fund, in RMS Titanic which the actual parent company was called *Premier Exhibitions*, which is a small public company. And talking about soapbox, like the administrative fees in the case got filed for bankruptcy. As I said, all my stories are about bankruptcy. So I apologize if you were hoping for...
Mike:	**01:16:51**	Nope, that's what you're here for.
Rodrigo:	**01:16:52**	Everybody was well warned at the beginning.
Mike:	**01:16:54**	We're here for the morbid bankruptcy stories.
Tom:	**01:16:58**	Yeah, morbid. It's actually not so bad. So in this one, do they have the survivorship? I think it's called the survivorship rights. But basically, they had the rights to own the site, but they didn't get to, technically you can't file like a UCC-1. You can't file like a security interest on survivorship rights. It doesn't make any sense. And they also had 5500 artifacts, it might have been 5000 artifacts from the Titanic. So if you watched Titanic and Bill Paxton is like with the submarine and go down, that really happened. This guy named, I think Robert Ballard is his name. Robert Ballard who's a famous oceanographer. Everybody can Google this now. Robert Ballard, I'll say it slower. And he actually went down there and that was part of, *Premier Exhibition* bought his company. And, long story short is they got a little over their skis on a few exhibitions. They were a for profit exhibition company. So what's the exhibition like you pay 20 pounds to go to some like Beatles mania exhibition or, I don't know, like Advertising Hall of Fame. And believe it or not, some of these are for profit. It's a smaller industry but it's out there. And a lot of nonprofits outsource the design and the running of these because it's a lot of work, and what they can do is they can port these around the country or around the world. They can Downtown Abbey. They can do one in New York, and then they can take it to Portland, and they can take it to wherever. I think I just lost my audio. You guys hear me?

Rodrigo: **01:18:40** No, we can hear you.

Tom: **01:18:42** Okay. So long story short, is we got involved in the case. I'm not sure where I'm going to go with this, but just how I would tell it was there was no secured debt, pre-petition. There were $3 million dollars of pre-petition secured debt, there was 13 million of unsecured debt. The business was doing something like maybe two and a half to three and a half million of EBITDA, pre-petition. And so you think, oh, that's interesting. And then also pre-petition they tried to sell the assets off, and they got shut down by the French government. And I think the sale estimates were something like 100 million. So you're thinking, would I buy claims $100 million, 200, is only 3 million in front of me, making 2 million of EBITDA and five times. I can pay 50 cents on the dollar for those claims. So we bought claims and the case went a little sideways. They couldn't get what's called DIP financing. They couldn't be a debtor in possession financing. We got involved on the UCC and then I tried to find cheaper DIP financing because it was very expensive. And then the DIP lender came in. They were just a credit fund. They insisted on doing what's called 3-6 resale versus doing a liquidation which I thought was stupid because the creditors and the DIP lender, we could have taken the business over for the whole debt.

So the DIP lender came in at 5 million. So five plus three plus 13. That's not insurmountable considering what the asset was. And the number, the two and a half to three and a half million of EBITDA. That was with really crappy management. So imagine if you actually ran this thing properly. Anyway, I thought it was interesting. I wanted to take the business over. The DIP lender wanted nothing to know about it, I don't want to hear anything about it. And there's a real lesson for me, but we did buy claims, we made money. And there was an equity committee in that case. There was a guy that's like a famous activist who's name is gonna escape me, Andrew something. And he has this moniker as being like the longest running activist hedge fund manager. And he's a really nice guy, but he was just a pain in the butt in this case. And he just ran up a huge burn on the estate. Not that he wasn't entitled to but, I think it was out of place. And it was it was very similar, again, kind of back to forum shopping, which is the judge really let them run away with the case and he shouldn't have. The judge was too busy, I don't know, sort of being too nice. It's like, I can be nice. A judge has to be like the guy who's like, no. He has to be the parent. He has to be the guy that's like no, there's no more ice cream.

So anyway, so it's an interesting case and it involves a lot of maritime law. I don't know anything about maritime law or survivorship rights. Somebody can correct me in the comments. But it was super fascinating to learn about the Titanic and about the process of how they actually went down there. And then all the maritime law and how it works. It's really more about like here in international waters is where you come back to shore. So like the original exhibition...Yeah, it's about where you come back to shore, the original, and who funded the expedition. So like the original expedition with Jack Ballard, it was done by the French in '84. And that was unsuccessful, but they got some stuff. And it was quite unsuccessful and then there was an American expedition in '90s that was quite successful, and they brought a lot of stuff back. And so like, who owned what part of it and who had the rights, and it was messy and interesting. And you never really owned any of the stuff you bring back. You're only allowed to own it in a trust. You're allowed to profit off the trust. You are the sole owner...

Rodrigo:	**01:22:52**	But you can't keep the necklace. What was it called?
David:	**01:22:58**	*The Diamond of the Ocean*?
Tom:	**01:23:01**	I don't think that was real. I didn't see that in the schedule.
Mike:	**01:23:10**	Might have been some creative writing to bring some saliency to the story.
Tom:	**01:23:13**	That case was so much fun though guys, honestly.
Rodrigo:	**01:23:17**	Amazing.
Mike:	**01:23:17**	Love it.
Rodrigo:	**01:23:19**	Yeah. This has been great man. Dave, you're absolutely right. … over a series of stories, Tom. So you're in Italy right now? Like, are you working out of there to hide from the Coronavirus thing or?
Tom:	**01:23:36**	I’ve been here for all of COVID.
Rodrigo:	**01:23:38**	What part in there?
Tom:	**01:23:38**	It's a place called Forte dei Marmi which is in Tuscany.
Mike:	**01:23:43**	Oh my God you're in Forte dei Marmi? Oh my goodness. Are you on the beach?
Tom:	**01:23:52**	I’m trying to like slow down the carbs, but yes, I am on the beach. We’re like 10 minutes.
Mike:	**01:23:59**	You go to the beach, yeah, you go to the beach and you rent one of the things, that little carpet down the middle to the sand, it's spectacular.
Tom:	**01:24:08**	David calls me yesterday and he says, Thomas, you know, what are you doing? I was like, I'm camping. He was like, what do you mean camping? Or no, it's

today, yesterday. I said I'm camping at the beach. He was like you're camping at the beach. I was like yeah, like Italian camping at the beach.

Rodrigo: **01:24:32** Little tight shorts.

Mike: **01:24:35** They bring you your towels. You got a lockbox for your stuff because if you don't put in a lockbox, shit’s gone immediately. You look back up at these massive mountains in the background. And I'm sitting there staring with my wife looking at these beautiful white encrusted mountain peaks and I'm going wow.

Tom: **01:24:55** That's the marble.

Mike: **01:24:56** Exactly. It seems like it's a little warm here to have snow on the top and somebody looks at me like gives me that, *that's marble you idiot.* My first time there I'm looking up I'm thinking, it feels too warm to have snow. It doesn't look high enough to be snow, but I guess it's snow. It's marble. The peaks of the mountains are pure marble.

Tom: **01:25:18** Like Carrera marble is...Carrera marble is like very close and like Michelangelo was getting his marble from just up the road here. So it's very famous for sculptors and things like that. And artists. It’s quite an artist community.

Mike: **01:25:37** Oh, yeah. Huge. Have you have you made it over to Cinque Terre or anything like that?

Tom: **01:25:42** I haven't. We've been here and I've been to Pia Santa, and Pisa and Florence, but I haven't been to Cinque Terre. And you know, I've been working a lot. It's been a little bit of a distress cycle.

Rodrigo: **01:25:55** Would have been and you can imagine. A little bankruptcy here and there. That's good. We'll bring you back again soon so we can hear that the new war stories, the latest quirky things that you're working on? I love it.

Mike: **01:26:12** Before we go Tom, where can people find you? Your website, your Twitter handle, LinkedIn? Where do people go to learn more about you, listen to you.

Tom: **01:26:22** I should change everything. My last name is hard enough to spell but it's Thomas Braziel, Twitter, just at Thomas Braziel, and then at 507 Capital. But yeah, I'm always open to chatting with people. I've met so many great people like you guys through David or through social media and Twitter really. I'm blown away. It's fun to connect with people because it's such an isolating time with COVID and everything. So it's been amazing to connect with people. And in a way it's probably better connections because you guys aren't in New York.

Rodrigo:	**01:26:56**	Well, this whole thing started because of COVID. Man we got to meet a bunch of amazing people now.
Mike:	**01:27:01**	It was everyone was missing their cooler time. So you want to sit in the office and talk at the cooler, we're like, well, why don't we do Happy Hour on Friday and have a beverage, and meet some interesting people and talk about stuff that we would like to talk about. Now, I will say though all the chatter when we were before the call and you were interested and jealous about Cayman, I did not know you are in Forte dei Marmi. So I don't really think you have any ability to have any jealous bones in your body.
Tom:	**01:27:31**	I pay high tax because I still pay tax in the States as aAmerican. But yes, I'm jealous of your tax regime.
Rodrigo:	**01:27:42**	Well, thanks, Tom, Dave. Dave, actually you're on Twitter.
Mike:	**01:27:48**	Where can people find you Dave.
David:	**01:27:49**	@dfauchier
Rodrigo:	**01:27:53**	@dfauchier.
Mike:	**01:27:55**	And Nickel, the plug.
Rodrigo:	**01:27:58**	What's the website for Nickel?
David:	**01:27:59**	Nickel.digital, pretty easy.
Rodrigo:	**01:28:00**	Nickel.digital for the greatest alpha you can find in the digital space. Go check it out. And just for Mumbles McGee over there, it's @tombraziel and it is 507Capital.com. So if anybody wants to find you Tom or David, you can go see them in their respective Twitter accounts and websites. And thank you gentlemen for joining. We will have you back again I'm sure and enjoy the rest of your summer.
Mike:	**01:28:34**	Everybody Like and Subscribe.
Tom:	**01:28:38**	Smash the Like Button.
Mike:	**01:28:39**	Yeah, smash.
Rodrigo:	**01:28:41**	Smash it.

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