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Why Law Firms Should Accept Bitcoin

By Jason Rodriguez and Thomas Allen

In the last 12 months, Bitcoin has received quite a bit of buzz in the media. Despite its price volatility, Bitcoin's trading volume per day has increased dramatically and Venture Capitalists from all over the world are investing millions of dollars in Bitcoin development companies. In both positive and infamous news stories, Bitcoin has graced the covers of the New York Times, USA Today, Time, Bloomberg Businessweek and countless others, often in connection with illicit transactions. While economists have called Bitcoin everything from "evil" to "ingenious and elegant," one thing is for sure: Bitcoin is here to stay. So law firms should consider the benefits and risks of accepting Bitcoin and other crypto-currencies as a form of payment from their clients.

What is Bitcoin?

Bitcoin is one of the several crypto-currencies that are exchanged electronically and are generally outside of sovereign control. Indeed, Bitcoin is not a "coin" at all in the traditional sense. Rather, a bitcoin is essentially a complex mathematical code that is recorded on a public ledger as one bitcoin. That bitcoin has two security keys -- a public key and a private key -- which permit the bitcoin to be owned by (and transferred to) a person.

The public key allows the bitcoin to be utilized by the bitcoin exchanges. The private key is used by the bitcoin holder to transfer the bitcoin value to the recipient. So a bitcoin "wallet" does not hold any coins (or currency), but rather the bitcoin private keys. When someone spends bitcoins from their wallet, they are using the private key to tell the online public ledger to reflect a transfer of bitcoin to a new owner. That new owner gets a new private key and the bitcoin transaction is complete.

While the mathematics and cryptography are significantly more complicated than that, from a consumer standpoint, this is essentially how a transaction works.

Unlike sovereign issued currency, Bitcoin is not issued or backed by any government and has very little government regulation. Specifically,

- There is no Federal Reserve or similar body for Bitcoin.
- There is no government that produces bitcoins.
- Regulations and enforcement (or the lack thereof) vary significantly globally.

- All bitcoins are produced by “mining,” which is basically utilizing a very complex mathematical proof to create the one-of-a-kind number that is the bitcoin.

The amount of computing power necessary to mine bitcoins is significant because of the complexity of the process. Thus, Bitcoin exchanges commit resources to this process and will offer exchange services, payment services, wallets, and other ancillary quasi-banking services to consumer account holders.

However, after you get past the complex math of a bitcoin, it is essentially just currency that can be transferred (spent) electronically with some level of privacy.

Benefits to Accepting Bitcoin

The biggest benefit to law firms considering accepting Bitcoin is the lower transaction fees. Bitcoins can be exchanged between two people, over any distance, almost immediately, with negligible transaction fees. This can be especially beneficial for international clients where exchange fees and international banking fees for local currencies can add up to around 5% onto all transactions. Additionally, credit card companies, whether for international or local transactions, typically charge about 3% per transaction. Bitcoin fees operate differently and are a little strange to people who have never used Bitcoin. All fees are voluntary but all transactions must be confirmed by the Bitcoin network, which will prioritize the confirmations based on the fees included by the user. Regardless, the transaction fee for large transfers is currently around 40 cents.

After talking with three attorneys whose firms have recently started accepting Bitcoin as a payment option, we found other benefits to accepting Bitcoin that may not be as obvious and quantifiable as the lower transaction fees: free marketing and advertising received as a result of accepting Bitcoin. Due to the novelty of the new technology and the headlines in major media outlets about Bitcoin, the three firms that started accepting Bitcoin were all featured in their local news for accepting Bitcoin. These firms put a priority on staying on the cutting edge of technology and innovation, and accepting Bitcoin is an easy way for a firm to be an “early adopter” of technology and remain competitive with larger and less nimble firms. The free advertising was also directly linked to acquiring new clients in at least two of the three firms.

Legality and Other Risks

One of the first questions when considering whether law firms should accept Bitcoin as a payment method is whether or not the transaction of accepting Bitcoin is even legal. The short answer to this question is: yes. Accept Bitcoin in exchange for legal services is just as legal as

accepting gold or flowers or anything else. The Model Rules allow it, as long as the fee for legal services is “reasonable”.

The next issue law firms want to address is risk. Bitcoin has an exchange rate with the US Dollar that can be found on many different Bitcoin/Dollar exchanges online. If you look at the history of the exchange rate you will immediately notice that the price of Bitcoins is highly volatile. It is not uncommon for the price to swing 15–20% in a single day. This volatility can be attributed to many things, but there are ways to protect yourself and remove this risk completely. In addition to the volatility, the recent collapse of several Bitcoin exchanges has shed light on the added risk of relying on the Bitcoin exchanges themselves.

Another risk that may cause a law firm to be hesitant in accepting Bitcoin is Bitcoin’s reputation as a medium of exchange for illicit activities. While Bitcoin has been used for its pseudo-anonymous properties to purchase illegal drugs, the vast majority of Bitcoin transactions are for legal purchases. In fact, it is estimated that drug purchases account for 1% of world GDP when measured in national currencies, whereas the total purchases of drugs online as a percentage of total bitcoin transactions was only 0.5%. However, despite these numbers, the reputation of Bitcoin is still based on the perception. Fortunately, the perception is improving as usage grows and large companies such as Overstock.com, Dell, and Microsoft, continue to accept Bitcoin.

Where to Begin

Let’s assume that as a law firm considering accepting Bitcoin, you are experts in law but not exactly experts in Bitcoin. Maybe you are interested in accepting Bitcoin to lower costs or draw in more clients, but are not interested in holding the bitcoins yourself. Well, you are in luck. There are several companies in the United States (Coinbase, BitPay, et al.) that specialize in setting up businesses to accept Bitcoin and most offer a service that allows you to immediately convert all (or a percentage of your) transactions to US Dollars. These companies assume all the risk surrounding Bitcoin’s current volatility. So if you receive a payment for law services rendered in Bitcoin the only thing you will see is US Dollars hitting your bank account. They typically use the average exchange rate on several exchanges and guarantee that rate at the time you receive the Bitcoins. It’s similar to what credit card companies do when they set up a business to accept credit cards, only these exchanges charge much lower fees. So your firm gets the benefits of lower transaction costs and a wider client base without dealing with the volatility or the hassle of dealing with exchanges directly.

Once you have decided that you want to accept Bitcoin, the first thing you should do is learn as much as you can about it. Bitcoin does not have a central authority that issues or controls the value of Bitcoins or a company to contact for chargebacks; therefore, it is very much a caveat emptor environment. The best way to start accepting Bitcoin is to contact one of the many companies that help businesses jumpstart this process. These companies can both advise you and alleviate some of the associated risks.

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