

## Press Release

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# Two ICO Issuers Settle SEC Registration Charges, Agree to Register Tokens as Securities

### FOR IMMEDIATE RELEASE

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*Washington D.C., Nov. 16, 2018* — The Securities and Exchange Commission today announced settled charges against two companies that sold digital tokens in initial coin offerings (ICOs). These are the Commission's first cases imposing civil penalties solely for ICO securities offering registration violations. Both companies have agreed to return funds to harmed investors, register the tokens as securities, file periodic reports with the Commission, and pay penalties.

According to the SEC's orders, both CarrierEQ Inc. (Airfox) and Paragon Coin Inc. conducted ICOs in 2017 after the Commission warned that ICOs can be securities offerings in its DAO Report of Investigation. Airfox, a Boston-based startup, raised approximately \$15 million worth of digital assets to finance its development of a token-denominated "ecosystem" starting with a mobile application that would allow users in emerging markets to earn tokens and exchange them for data by interacting with advertisements. Paragon, an online entity, raised approximately \$12 million worth of digital assets to develop and implement its business plan to add blockchain technology to the cannabis industry and work toward legalization of cannabis. Neither Airfox nor Paragon registered their ICOs pursuant to the federal securities laws, nor did they qualify for an exemption to the registration requirements.

"We have made it clear that companies that issue securities through ICOs are required to comply with existing statutes and rules governing the registration of securities," said Stephanie Avakian, Co-Director of the SEC's Enforcement Division. "These cases tell those who are considering taking similar actions that we continue to be on the lookout for violations of the federal securities laws with respect to digital assets."

"By providing investors who purchased securities in these ICOs with the opportunity to be reimbursed and having the issuers register their tokens with the SEC, these orders provide a model for companies that have issued tokens in ICOs and seek to comply with the federal securities laws," said Steven Peikin, Co-Director of the SEC's Enforcement Division.

Today's cases follow the Commission's first non-fraud ICO registration case, Munchee, Inc. The Commission did not impose a penalty or include undertakings from Munchee, which stopped its offering before delivering any tokens and promptly returned proceeds to investors.

The orders impose \$250,000 penalties against each company and include undertakings to compensate harmed investors who purchased tokens in the illegal offerings. The companies also will register their tokens as securities pursuant to the Securities Exchange Act of 1934 and file periodic reports with the Commission for at least one year. Airfox and Paragon consented to the orders without admitting or denying the findings.

The investigation into Paragon was conducted by Pamela Sawhney of the Enforcement Division's Cyber Unit and was supervised by Robert A. Cohen, Chief of the Cyber Unit. The investigation into AirFox was conducted by Colin D. Forbes, Emily R. Holness, and Michael J. Vito and supervised by Celia D. Moore, Amy S. Gwiazda, and John T. Dugan of the Boston Regional Office. The SEC appreciates the assistance of the Massachusetts Securities Division.

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## Related Materials

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- [SEC Order - Airfox](#)
- [SEC Order - Paragon](#)