

UNITED STATES OF AMERICA
before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 10736 / December 18, 2019

ADMINISTRATIVE PROCEEDING
File No. 3-19621

In the Matter of

Blockchain of Things, Inc.,

Respondent.

**ORDER INSTITUTING CEASE-AND-
DESIST PROCEEDINGS PURSUANT TO
SECTION 8A OF THE SECURITIES ACT
OF 1933, MAKING FINDINGS, AND
IMPOSING PENALTIES AND A CEASE-
AND-DESIST ORDER**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 8A of the Securities Act of 1933 (“Securities Act”) against Blockchain of Things, Inc. (“BCOT” or “Respondent”).

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (“Offer”) that the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Cease-and-Desist Proceedings Pursuant To Section 8A of the Securities Act of 1933, Making Findings, And Imposing A Cease-And-Desist Order (“Order”), as set forth below.

III.

On the basis of this Order and Respondent’s Offer, the Commission finds that:

Summary

1. Blockchain of Things, Inc. (“BCOT”) is a technology company established to develop and implement blockchain technology, specifically by providing a platform, or web services layer, designed to improve upon existing blockchain technology, including its security and ease of use. From December 2017 through July 2018, BCOT offered and sold digital tokens (“BCOT Tokens” or “tokens”; the “Offering”). BCOT conducted the Offering of BCOT Tokens to raise capital to develop and implement its business plan, which included further developing and maintaining its blockchain

platform and technology, called “Catenis Enterprise” and “Catenis Services” (collectively, “Catenis”).

2. BCOT raised more than \$12 million worth of digital assets through its Offering. BCOT did not register its Offering pursuant to the federal securities law, nor did it qualify for an exemption to the registration requirements.

3. Based on the facts and circumstances set forth below, BCOT Tokens were securities, pursuant to *SEC v. W. J. Howey Co.*, 328 U.S. 293 (1946), and its progeny, including the cases discussed by the Commission in its *Report of Investigation Pursuant To Section 21(a) Of The Securities Exchange Act of 1934: The DAO* (Exchange Act Rel. No. 81207) (July 25, 2017) (the “DAO Report”). A purchaser in the Offering of BCOT Tokens would have had a reasonable expectation of obtaining a future profit based upon BCOT’s efforts to spur development of an “ecosystem” on the Catenis platform, including BCOT’s use of its Offering proceeds and steps to control and increase the value of BCOT Tokens. BCOT violated Sections 5(a) and 5(c) of the Securities Act by offering and selling these securities without having a registration statement filed or in effect with the Commission or qualifying for exemption from registration.

Respondent

4. BCOT is a Delaware corporation based in New York, NY. Neither BCOT nor its securities are registered with the Commission.

Facts

A. Background

5. BCOT was established in July 2015 to develop blockchain technology integration solutions.

6. On December 4, 2017, BCOT began conducting a “pre-sale” of BCOT Tokens (the “PreSale”). BCOT released a white paper (the “White Paper”) as well as related documentation, including a “BCOT Token Sale Economics” document (“Token Sale Economics”). The White Paper explained BCOT’s technology, and provided an overview of the BCOT Tokens, including how BCOT planned to use the proceeds from the sale of the BCOT Tokens. The Token Sale Economics document described the token sale timeline and pricing, and token allocation structure.

7. BCOT’s White Paper and related documentation were made publicly available on its website. Initially, potential purchasers were directed to contact the company if they were “interested in joining the PreSale.” In June 2018, BCOT’s website advertised that its PreSale was complete, but that potential purchasers could still purchase via its “Public Sale.”

8. The White Paper explained BCOT’s Catenis Enterprise technology, described as “an easy-to-use, web services layer encoded into the Bitcoin blockchain.” BCOT stated that Catenis technology could primarily assist with four blockchain-based services: 1) message transmission, 2) message logging, 3) digital asset generation, and 4) digital asset transfer. The White Paper stated that Catenis was currently a “live network (in beta) with several active corporate clients.” After describing the Catenis technology and its potential applications, the White Paper explained that

“Catenis is fundamentally a platform on which third-party developers will be able to build applications using Catenis’ core functionality (e.g., secure messaging, smart-assets, etc.) as a building block.” The White Paper outlined examples of the “many categories in which a third-party programmer could focus future development efforts.”

9. The White Paper also provided information regarding BCOT’s business model. According to the White Paper, BCOT generated revenues via licensing sales, as well as professional services assisting corporate clients with its technology. Prior to the PreSale, however, such revenues had been de minimis. The White Paper stated that BCOT Token sales were designed to raise revenues for BCOT.

B. BCOT’s Catenis “Ecosystem” Was Not Developed

10. At the time of the Offering, the Catenis platform functioned in a “beta” or pilot stage. BCOT’s White Paper stated that Catenis had “several active corporate clients.” (BCOT had two corporate clients, including one paying client.) A small amount of revenue had also been raised through licensing fees.

11. BCOT’s White Paper highlighted prospective functionality. Five endnotes contain the caveat that they are describing “functionality that has not yet been developed and is expected to be developed in 2018 or thereafter.” At the time of the Offering, BCOT also provided a Development History and Timeline document, which also delineated functionalities targeted for “near-term delivery” in “2018 and beyond.”

12. As explained in its White Paper, BCOT described Catenis as “fundamentally a platform on which third-party developers will be able to build applications using Catenis’ core functionality (e.g., secure messaging, smart-assets, etc.) as a building block.” The White Paper outlined and provided examples of the “many categories in which a third-party programmer could focus future development efforts” to build applications.

13. Also in its White Paper, BCOT described how it planned to incentivize third-party developers to build applications on the Catenis platform, stimulating an entire “ecosystem of third-party apps” on Catenis. First, BCOT reserved ten percent (10%) of its token allocation as “bounty” to reward those who built useful applications. These tokens were to be rewarded at BCOT’s discretion, based upon an application’s “real world usage” and “potential for future adoption/growth.” BCOT’s White Paper outlined suggestions for applications to which third party application developers could focus their application development efforts. Second, BCOT stated it planned to launch a Catenis Decentralized App Store directory, for third-party developers to list and sell their applications. Third, BCOT stated it planned to create and manage a voluntary certification process for applications. Through these future efforts, BCOT aimed to spur developer interest in Catenis, facilitating wider adoption of its technology.

C. Terms of BCOT’s Offering

14. BCOT’s website described the terms of its Offering. The White Paper stated that subsequent to a token distribution, token purchasers would be able to convert their tokens to Catenis credits, allowing them to access and utilize the Catenis platform and its services.

15. BCOT's Token Sale Economics document set forth further details regarding the upcoming token sale, including token pricing, allocation, and distribution. Notably, token prices increased from \$0.50 USD to \$2.00 USD based upon the number of tokens sold to date. BCOT also set an undisclosed "hidden cap" (or maximum total token supply) on the number of tokens it would distribute. BCOT stated it was not its intention to allow an unlimited amount of token sales.

16. According to the Token Sale Economics document, only seven and one-half percent (7.5%) of the maximum token supply was to be distributed through its Offering. The document outlined how the remaining tokens would be allocated. By far the largest portion of the maximum token supply—sixty percent (60%)—was to be held in reserve by the company, to be used or issued by BCOT at its sole discretion. BCOT thus had the ability to restrict, or increase, the amount of tokens in circulation at its discretion. The remaining tokens were to be allocated over several years through a Customer Rewards Program (12.5%), "Bounty Rewards" to third-party developers (10%), "Community/Advisor Grants" (5%), and to "Founders/Core Team" (5%).

D. BCOT Tokens Were Convertible to "Catenis Credits" and Transferrable on the Secondary Market Without Restriction

17. The White Paper stated that BCOT Tokens were designed to "power[] all key functionality" in Catenis. In order to utilize the Catenis platform and its functionalities, a purchaser was required to convert its tokens into "Catenis credits."

18. There was no requirement that a BCOT Token purchaser ever exchange any of his or her tokens into "Catenis credits."

19. BCOT's White Paper also stated that BCOT Tokens would not activate any predetermined quantity of Catenis services. Rather, the price of Catenis services would vary "based on the bitcoin transaction fee market (and other factors)." Thus, based on the White Paper, BCOT reserved the right to adjust the price of Catenis services at its discretion, based on BCOT's operating costs and market forces.

20. Neither BCOT's White Paper—nor any other documentation available to prospective BCOT Token purchasers—provided any information regarding the quantity of Catenis services that would be available to a token purchaser in exchange for a specific amount of BCOT Tokens.

21. Although neither BCOT's White Paper—nor its related documentation or website—provided any discussion related to potential secondary market trading in BCOT Tokens, BCOT Tokens were designed to be freely transferrable upon issuance and delivery, with no restrictions on transfer.

E. Reasonable Expectation of Profits from the Efforts of BCOT and Its Agents

22. Purchasers would have reasonably viewed the BCOT Token Offering as an opportunity to profit if BCOT were successful in its entrepreneurial and managerial efforts to develop its business and ecosystem. As discussed above, purchasers would have reasonably

expected that they could profit by holding or trading BCOT Tokens, whether or not they ever used the Catenis platform, based on BCOT's White Paper and other materials.

23. BCOT highlighted the credentials, abilities and management skills of its agents and employees. For example, BCOT's website highlighted that its team had experience in cryptocurrency, business development and operations, social media, and software development.

24. BCOT did require that purchasers sign a contract stating, among other things, that they were not purchasing BCOT Tokens for "future appreciation" or "investment or speculative purpose[s]."

25. Nonetheless, purchasers could expect to see their BCOT Tokens increase in value based upon demand for BCOT Tokens increasing, as third-party developers built applications that increased the attractiveness of the Catenis technology—and, by extension, increased the value of the BCOT Tokens. Based on BCOT's statements in its White Paper and other documents provided in connection with the Offering, purchasers would reasonably have expected that BCOT and its agents would expend significant efforts to develop the Catenis platform, spurring the development of an "ecosystem" and thus increasing the value of their BCOT Tokens.

26. Further, BCOT planned to cap the maximum number of tokens distributed. Thus, as demand for BCOT Tokens increased, each individual token would increase in value.

27. Additionally, PreSale and early "Public Sale" purchasers could also reasonably expect to profit based upon BCOT's pricing schedule (outlined in the Token Sale Economics document), which set forth incrementally increasing prices, based upon the number of tokens sold to date. Prospective purchasers could thus expect to profit simply by passively holding their tokens, as tokens were sold at incrementally increasing prices. Purchasers could further expect to profit via BCOT's Customer Rewards Programs, which was to distribute additional tokens based on owning and holding tokens.

28. While BCOT ostensibly marketed its tokens as pre-paid access to its Catenis technology, during the Offering the Catenis platform was only functioning in "beta" mode, and there was no "ecosystem" of third party applications developed. Further, there was no guidance regarding how to correlate the number of tokens that might be needed for specific transactions or services.

F. BCOT Offered and Sold Tokens without Registration or Applicable Exemption

29. Between December 2017 and June 2018, BCOT raised nearly \$13 million from investors in the United States and Asia during its "Pre-Sale" and "Public Sale."¹

30. BCOT solicited individuals via its website. BCOT employees and representatives also met in person with a number of potential token purchasers.

¹ Funds were collected largely in Bitcoin, as well as U.S. Dollars. The \$13 million USD figure is based upon exchange rates in effect at the time of the Offering.

31. Between December 2017 and April 2018, BCOT raised over \$600,000² via general solicitation efforts, selling BCOT Tokens to 69 individuals during its “Pre-Sale.” These 69 individuals were all U.S. persons.

32. In addition, between January and May 2018, BCOT entered into four “reseller” contracts (“Reseller Contracts”), with individuals or entities in South Korea, Vietnam, Japan, and the United Arab Emirates (the “Foreign Resellers”). The Reseller Contracts each provided that the Foreign Reseller would serve as the exclusive seller of BCOT Tokens within its specified geographic territory (South Korea, Vietnam, Japan, and the “Mid East including Dubai, Africa, and South West Asia including India,” respectively). Each Foreign Reseller was to be compensated for its selling efforts with BCOT Tokens.

33. There were no restrictions on the resale of these tokens to prevent their distribution to U.S. persons. While each Foreign Reseller was contractually limited to a specified geographic territory, the Reseller Contracts contained no provisions delineating any specific procedures or diligence efforts that the Foreign Resellers must follow so as to ensure that potential purchasers were, in fact, residents or citizens of their respective geographic territory.

34. All direct contact with potential purchasers was through the Foreign Resellers. BCOT had no visibility into the Foreign Resellers’ token sales practices, such as what disclosures and representations were made by the Foreign Resellers to potential purchasers. BCOT also lacked any visibility into the identity of potential purchasers.

35. Between January and May 2018, the Foreign Resellers raised more than \$12 million USD in BCOT Token sales, selling tokens to more than 1,380 individuals.

36. On June 27, 2018, BCOT launched what it called its “Public Sale.” BCOT advertised its Public Sale on its company website.

37. Consistent with the token pricing schedule outlined in its previously issued Token Sale Economics document, Public Sale prices started at \$0.75 USD/token.

38. BCOT’s Public Sale raised an additional \$1,875 USD from two purchasers, both ostensibly located in South Korea. These individuals paid in Bitcoin.

39. In total, BCOT raised approximately \$13 million USD from approximately 1,380 individuals through the combined efforts of its Offering.

40. On March 13-15, 2019, BCOT distributed its tokens.

Violations

41. As a result of the conduct described above, BCOT violated Section 5(a) of the

² Funds were collected in Bitcoin and U.S. Dollars. The \$600,000 USD figure is based upon exchange rates in effect at the time of the Offering.

Securities Act, which states that unless a registration statement is in effect as to a security, it shall be unlawful for any person, directly or indirectly, to make use of any means or instruments of transportation or communication in interstate commerce or of the mails to sell such security through the use or medium of any prospectus or otherwise; or to carry or cause to be carried through the mails or in interstate commerce, by any means or instruments of transportation, any such security for the purpose of sale or for delivery after sale.

42. Also as a result of the conduct described above, BCOT violated Section 5(c) of the Securities Act, which states that it shall be unlawful for any person, directly or indirectly, to make use of any means or instruments of transportation or communication in interstate commerce or of the mails to offer to sell or offer to buy through the use or medium of any prospectus or otherwise any security, unless a registration statement has been filed as to such security.

BCOT's Remedial Actions

43. In determining to accept the Offer, and to not impose greater civil penalties, the Commission considered remedial acts undertaken by Respondent and cooperation afforded the Commission staff.

Undertakings

Respondent makes the following undertakings:

1. Within fourteen (14) days from the date of this Order, Respondent will issue a press release (the "Press Release"), in a form not objected to by Commission staff, notifying the public of this Order and containing a link to the Order. At the same time, Respondent will prominently post the Press Release, link to the Order on BCOT's company website, and maintain it there until the "Claim Form Deadline" (as defined in Paragraph 2.c. below).

2. Subsequently, Respondent will:

- a. Within one hundred twenty (120) days of the date of this Order, file a Form 10 to register under Section 12(g) of the Securities Exchange Act of 1934 ("the 1934 Act Registration") the BCOT Tokens as a class of securities;
- b. Respond promptly and in good faith to any and all comments concerning the 1934 Act Registration issued by the Division of Corporation Finance;
- c. On a date no later than sixty (60) calendar days after the date of the filing of the 1934 Act Registration, or on the date seven (7) days after the 1934 Act Registration becomes effective, whichever date is sooner (the earlier date being the "Effective Date"), distribute by electronic means reasonably designed to notify each potential claimant ("Distribution"), a notice and a claim form (the "Claim Form"), both of which shall be in a form not objected to by Commission staff, and both of which shall include a link to BCOT's filing page on EDGAR, informing all persons and entities that purchased BCOT Tokens from Respondent before and including July 31, 2018, of their

potential claims under Section 12(a) of the Securities Act, including the right to sue “to recover the consideration paid for such security with interest thereon, less the amount of any income received thereon, upon the tender of such security, or for damages if [the purchaser] no longer owns the security” and informing purchasers that they may submit a written claim on the Claim Form directly to Respondent at an address indicated on the Claim Form of a purchaser’s assertion of rights under Section 12(a) of the Securities Act, and that such claims must be submitted by a date certain (“Claim Form Deadline”); said Claim Form Deadline shall be the earlier of three (3) months from the date that the Division of Corporation Finance notifies Respondent that the Division’s review of the Form 10 has been concluded or six (6) months from the Effective Date.

- d. Simultaneously with the Distribution of the Claim Form, post the Claim Form on Respondent’s company website and maintain it there until the Claim Form Deadline; and
- e. Maintain such 1934 Act Registration and make timely filings of all reports required by Section 13(a) of the Securities Exchange Act of 1934 at least until the later of (1) the Claims Form Deadline; (2) such time as Respondent has filed all reports required for the fiscal year within which the 1934 Act Registration became effective; and (3) such time as Respondent is eligible to terminate its registration pursuant to Rule 12g-4 under the Securities Exchange Act of 1934.

3. Respondent will pay the amount due under Section 12(a) of the Securities Act, if any, to each qualified person or entity that purchased BCOT Tokens from Respondent before and including July 31, 2018, and that submitted a written claim to Respondent’s address by the Claim Form Deadline using the Claim Form. Within three (3) months from the Claim Form Deadline, Respondent will make all payments it deems to be due and adequately substantiated to purchasers who submitted the Claim Form by the Claim Form Deadline. Respondent may require that a claimant submit additional documentation supporting that the claimant is entitled to receive payment under Section 12(a) of the Securities Act and Paragraph 2 above. Upon receiving such a request, a claimant will have thirty (30) days to provide the requested documentation in writing to the address provided by Respondent. For any claims not paid, Respondent will provide the claimant with a written explanation of the reason for non-payment.

4. Beginning 30 days after the Claim Form Deadline, Respondent will submit to Commission staff a monthly report of the claims received and the claims paid under Paragraph 3 above, including (a) identifying information about each claimant; (b) the amount of each claim; (c) the resolution of each claim, including the amount of each payment; (d) identification of all claims not paid and the reasons for all non-payment of claims; and (e) a list of all complaints received (if any) and the manner in which Respondent addressed each complaint. Respondent will provide Commission staff with any related additional information or documentation reasonably requested by Commission staff, such as documentation submitted by the claimant and documentation supporting Respondent’s decision regarding the claim. In response to any objections by Commission staff to Respondent’s handling of one or more claims, Respondent will reconsider its decision(s) in light of the objection and will provide a written explanation to Commission staff of its decision following

such reconsideration.

5. Within seven (7) months of the Effective Date, Respondent will submit to Commission staff a final report of its handling of all claims received under Paragraph 3 above, including all information listed in Paragraph 4 above (the “Final Report”).

6. Respondent will certify, in writing, compliance with the undertakings set forth above within sixty (60) days of their completion. The certification shall identify the undertakings, provide written evidence of compliance in the form of a narrative, and be supported by exhibits sufficient to demonstrate compliance. The certification and supporting material shall be submitted to: Laura Josephs, Assistant Director, Division of Enforcement, Securities and Exchange Commission, 100 F Street, N.E., Washington, DC 20549, or such other person or address (including electronic address) as the Commission staff may identify, with a copy to the Office of Chief Counsel of the Enforcement Division. The Commission staff may make reasonable requests for further evidence of compliance, and Respondent agrees to provide such evidence, as applicable.

7. If Respondent plans to file a Form 15 to terminate its registration pursuant to Rule 12g-4 under the Securities Exchange Act of 1934 on the grounds that the BCOT Token no longer constitutes a “class of securities” under Rule 12g-4 because the BCOT Token is no longer a “security” under Section 3(a)(10) of the 1934 Act, Respondent will notify the Commission staff at least thirty (30) days prior to such filing. Upon such notification, the Commission staff may make reasonable requests for further information, and Respondent agrees to provide such information, as applicable.

8. Respondent will retain all records and communications relating to the BCOT Token Offering for a period of at least one year after the date it submits the certification of compliance as described in Paragraph 6 above, or until such time as otherwise required by law.

9. Respondent may apply to Commission staff for an extension of the deadlines described above before their expiration and, upon a showing of good cause by Respondent, Commission staff may, in its sole discretion, grant such extensions for whatever time period it deems appropriate.

10. In determining whether to accept the Offer, the Commission has considered the Respondent’s cooperation and these undertakings.

VII.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondent’s Offer.

Accordingly, it is hereby ORDERED that:

A. Pursuant to Section 8A of the Securities Act, Respondent cease and desist from committing or causing any violations and any future violations of Section 5(a) and (c) of the Securities Act.

B. Respondent shall pay a civil monetary penalty in the amount of \$250,000.00 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(2). Payment shall be made as follows: \$62,500 within thirty (30) days of entry of this Order; \$62,500 within sixty (60) days of entry of this Order; \$62,500 within ninety (90) days of entry of this Order; and the remainder within one hundred twenty (120) days of this Order. If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. § 3717. Payment must be made in one of the following ways:

- a. Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;
- b. Respondent may make direct payment from a bank account via Pay.gov through the SEC website at <http://www.sec.gov/about/offices/ofm.htm>; or
- c. Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HY Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying BCOT as a Respondent in this proceeding, and the file number of this proceeding; a copy of the cover letter and check or money order must be sent to Carolyn Welshhans, Associate Director, Division of Enforcement, Securities and Exchange Commission, 100 F Street NE, Washington, D.C. 20549, or such other person or address as the Commission staff may provide.

C. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondent agrees that in any Related Investor Action, it shall not argue that it is entitled to, nor shall it benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondent's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondent agrees that it shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Respondent by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

By the Commission.

Vanessa A. Countryman
Secretary