

## Press Release

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# Company Halts ICO After SEC Raises Registration Concerns

**FOR IMMEDIATE RELEASE**

**2017-227**

*Washington D.C., Dec. 11, 2017* — A California-based company selling digital tokens to investors to raise capital for its blockchain-based food review service halted its initial coin offering (ICO) after being contacted by the Securities and Exchange Commission, and agreed to an order in which the Commission found that its conduct constituted unregistered securities offers and sales.

According to the SEC's order, before any tokens were delivered to investors, Munchee Inc. refunded investor proceeds after the SEC intervened. Munchee was seeking \$15 million in capital to improve an existing iPhone app centered on restaurant meal reviews and create an "ecosystem" in which Munchee and others would buy and sell goods and services using the tokens. The company communicated through its website, a white paper, and other means that it would use the proceeds to create the ecosystem, including eventually paying users in tokens for writing food reviews and selling both advertising to restaurants and "in-app" purchases to app users in exchange for tokens.

According to the order, in the course of the offering, the company and other promoters emphasized that investors could expect that efforts by the company and others would lead to an increase in value of the tokens. The company also emphasized it would take steps to create and support a secondary market for the tokens. Because of these and other company activities, investors would have had a reasonable belief that their investment in tokens could generate a return on their investment. As the SEC has said in the [DAO Report of Investigation](#), a token can be a security based on the long-standing facts and circumstances test that includes assessing whether investors' profits are to be derived from the managerial and entrepreneurial efforts of others.

"We will continue to scrutinize the market vigilantly for improper offerings that seek to sell securities to the general public without the required registration or exemption," said Stephanie Avakian, Co-Director of the SEC's Enforcement Division. "In deciding not to impose a penalty, the Commission recognized that the company stopped the ICO quickly, immediately returned the proceeds before issuing tokens, and cooperated with the investigation."

"Our primary focus remains investor protection and making sure that investors are being offered investment opportunities with all the information and disclosures required under the federal securities laws," said Steven Peikin, Co-Director of the SEC's Enforcement Division.

Munchee consented to the SEC's cease-and-desist order without admitting or denying the findings.

The SEC's new Cyber Unit is focused on misconduct involving distributed ledger technology and initial coin offerings, the spread of false information through electronic and social media, brokerage account takeovers, hacking to obtain nonpublic information, and threats to trading platforms. The SEC also has a Distributed Ledger Technology Working Group that focuses on various emerging applications of distributed ledger technology in the financial industry.

The SEC's investigation was conducted by the Enforcement Division's Cyber Unit and Complex Financial Instruments Unit, including Jeff Leasure, Brent Mitchell and James Murtha. The case was supervised by Robert Cohen, Reid Muoio, and Valerie A. Szczepanik.

The SEC's Office of Investor Education and Advocacy issued [an Investor Bulletin](#) in July 2017 to make investors aware of the potential risks of participating in initial coin offerings.

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## Related Materials

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- [SEC Order](#)