Press Release

SEC Charges ICO Superstore and Owners With Operating As Unregistered Broker-Dealers

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Washington D.C., Sept. 11, 2018 — The Securities and Exchange Commission today announced that TokenLot LLC, a self-described "ICO Superstore," and its owners will settle charges that they acted as unregistered broker-dealers. This is the SEC's first case charging unregistered broker-dealers for selling digital tokens after the SEC issued The DAO Report in 2017 cautioning that those who offer and sell digital securities must comply with the federal securities laws.

According to the SEC's order, TokenLot, Lenny Kugel, and Eli L. Lewitt promoted TokenLot's website as a way to purchase digital tokens during initial coin offerings (ICOs) and also to engage in secondary trading. Michigan-based TokenLot received orders from more than 6,100 retail investors and handled more than 200 different digital tokens, which the SEC found included securities. The business's profits included trading profits and a percentage of the money that TokenLot raised for ICOs. Their activities required TokenLot, Kugel, and Lewitt to be registered with the SEC as broker-dealers, but they were not. TokenLot operated from July 2017 through late February, with most of its business occurring after The DAO Report on the applicability of securities laws to digital assets. According to the order, in response to the SEC's investigation, TokenLot voluntarily began winding down and refunding investors' payments for unfilled orders. TokenLot, Kugel, and Lewitt also were charged with violating the registration provisions in connection with their conduct.

"U.S. securities laws protect investors by subjecting broker-dealers and other gatekeepers to SEC oversight, including those offering ICOs and secondary trading in digital tokens," said Stephanie Avakian, Co-Director of the SEC's Enforcement Division. "We continue to encourage those developing digital asset trading businesses to contact the SEC staff at FinTech@sec.gov for assistance in analyzing registration and other securities law requirements."

"The penalties in this case reflect the prompt cooperation and remedial actions by TokenLot, Kugel, and Lewitt," said Steven Peikin, Co-Director of the SEC's Enforcement Division. "TokenLot, Kugel, and Lewitt provided valuable information to Commission staff, stopped the conduct, and refunded money to investors."

Without admitting or denying the SEC's findings, TokenLot, Kugel, and Lewitt consented to the SEC's order and agreed to pay $471,000 in disgorgement plus $7,929 in interest, and they will retain an independent third party to destroy TokenLot's remaining inventory of digital assets. Kugel and Lewitt also agreed to pay penalties of $45,000 each and agreed to industry and penny stock bars and an investment company prohibition with the right to reapply after three years.

The SEC's investigation was conducted by Kathleen Hitchins, Ann Rosenfield, and Carolyn Welshhans of the Enforcement Division's Cyber Unit and supervised by Cyber Unit Chief Robert A. Cohen.

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