On November 16, 2018, the Commission issued an Order Instituting Cease-and-Desist Proceedings Pursuant to Section 8A of the Securities Act of 1933, Making Findings, and Imposing Penalties and Cease-and-Desist Order (the “Order”) against Paragon (“Paragon” or “Respondent”). In the Order, the Commission found that between August 2017 and October 2017, Paragon offered and sold digital tokens (“PRG tokens”) to be issued on a blockchain, or a distribution ledger (the “offering”) to raise capital to develop and implement its business plan to add blockchain technology to the cannabis industry and work towards legalization of cannabis. Paragon raised approximately $12 million worth of digital assets during the offering. A purchaser in the offering of PRG tokens would have had a reasonable expectation of obtaining a future profit based upon Paragon’s efforts, including to develop Paragon’s “ecosystem” using the proceeds from the sale of PRG tokens, and to take steps to control and increase the value of PRG. Paragon violated Sections 5(a) and 5(c) of the Securities Act of 1933 by offering and selling these securities without having a registration statement filed or in effect with the Commission or qualifying for exemption from registration with the Commission.

In the Order, among other things, the Respondent undertook to register the PRG tokens as a class of securities; to distribute a notice and claim form notifying all eligible purchasers of their potential claims under Section 12(a) of the Securities Act, including their 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 directly to Respondent and that such claims must be submitted within three (3) months from the claim form deadline.

1 Securities Act Rel. No. 10574 (Nov. 16, 2018).
In anticipation of Respondent’s compliance with the undertakings set forth in the Order, it was determined no further funds would be needed to fully compensate the harmed investors. Therefore, the $250,000 civil money penalty that the Commission imposed was ordered to be paid to the Commission for transfer to the general fund of the U.S. Treasury (“Treasury”), pursuant to the payment plan detailed therein.

Respondent defaulted on its obligation to perform a respondent-administered claims process under the terms of the Order, and to date, $175,000 of the civil money penalty has been paid and was sent to the Treasury in accordance with the Order.

The Commission staff has determined that it is feasible to distribute the civil money penalty funds paid to date to compensate investors harmed by Respondent’s conduct described in the Order. Therefore, the Commission staff has taken the appropriate steps to recall from Treasury the $175,000 paid by Respondent. The Commission currently holds these funds in an interest-bearing account at the Treasury’s Bureau of Fiscal Service.

The Division of Enforcement now recommends that a Fair Fund be established, pursuant to Section 308(a) of the Sarbanes-Oxley Act of 2002, for the civil money penalties recalled from Treasury and any additional funds paid by the Respondent, so the civil money penalty can be distributed for the benefit of the harmed investors.

Accordingly, IT IS HEREBY ORDERED that pursuant to Section 308(a) of the Sarbanes-Oxley Act of 2002, as amended by the Dodd-Frank Act of 2010 [15 U.S.C. §7246], a Fair Fund is established for the $175,000 in recalled funds, and any future funds paid by Respondent, so the civil money penalty paid by Respondent can be distributed for the benefit of harmed investors.

By the Commission.

Vanessa A. Countryman
Secretary