

1 **STATE OF WASHINGTON**
2 **DEPARTMENT OF FINANCIAL INSTITUTIONS**
3 **SECURITIES DIVISION**

4 IN THE MATTER OF DETERMINING
Whether there has been a violation of the
Securities Act of Washington by:

5 Dragonchain, Inc.,

6 Respondent

Order No.: S-18-2433-21-CO01

CONSENT ORDER

7
8 **INTRODUCTION**

9 Pursuant to the Securities Act of Washington, RCW 21.20, the Securities Division of the Department
10 of Financial Institutions (“Securities Division”) and Respondent, Dragonchain, Inc., do hereby enter into this
11 Consent Order in settlement of the matters alleged herein. Respondent Dragonchain, Inc. neither admits nor
12 denies the Findings of Fact and Conclusions of Law as stated below.

13 **FINDINGS OF FACT**

14 **Respondent**

15 1. Dragonchain, Inc. (“Dragonchain”) is a Delaware corporation formed on August 23, 2017,
16 with its principal place of business in Bellevue, Washington. In 2017 and 2018, Dragonchain’s stated business
17 purpose was to develop a turnkey blockchain platform for businesses and to be an incubator for blockchain
18 start-up companies. During 2017, Dragonchain conducted a public offering (Initial Coin Offering) for the
19 sale of its cryptocurrency.

20 **Background Information**

21 2. Dragonchain’s blockchain platform was originally developed by The Walt Disney Company
22 (Disney) in 2014 and 2015, but the blockchain was released as open source code in October 2016. Disney
23 has no ownership of or affiliation with Dragonchain.

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Securities Division
PO Box 9033
Olympia, WA 98507-9033
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1 8. During the Initial Coin Offering, Dragonchain offered and sold a fixed total of 238,421,940
2 Dragons, which was 55% of the total available Dragons. Dragonchain represented that the remaining Dragons
3 would be issued to Dragonchain and the Dragonchain Foundation. Dragonchain’s management team would
4 receive 20% of the available Dragons over a period of two years. The Dragonchain Foundation was to receive
5 10% of the available Dragons for developer adoption and education. Another 10% of the available Dragons
6 would be held in reserve, and the remaining 5% would be used for token sales by startup companies
7 (incubators) that would use Dragonchain’s technology to create their own tokens.

8 9. When offering and selling ICO Dragons, Dragonchain represented that Dragon purchasers
9 could receive discounts on the purchase of incubator company tokens. Dragonchain represented that incubator
10 companies would hire Dragonchain and would use Dragonchain’s blockchain technology and its smart
11 contracts to launch their own blockchain applications and issue their own tokens. Dragonchain created a
12 “Dragon Slumber Score” that would be calculated based on the number of Dragons that an individual held
13 and the number of days that each Dragon was held. Dragonchain promised special discounts and terms for
14 incubator company token purchasers who had a high Dragon Slumber Score. However, Dragonchain and
15 Roets failed to disclose that the planned incubation process might involve the offer and sale of an unregistered
16 security and that Dragonchain might fail to incubate new companies. Although Dragonchain had several
17 pending incubation projects during its Initial Coin Offering, none of those projects was ever completed. In
18 January 2018, one of the projects (LifeID) cancelled its ICO based on guidance from its legal team.
19 Dragonchain subsequently terminated the remaining projects and never successfully incubated any new
20 companies.

21 10. When offering and selling ICO Dragons, Dragonchain anticipated that the Dragon tokens
22 would soon be listed on exchanges, where Dragons could be converted into cash or other types of digital
23 currency. In an October 2, 2017 message posted to the Dragonchain channel on Telegram (a public Internet

1 website), a Dragonchain administrator stated that “Dragons will certainly be listed on exchanges, we just
2 cannot comment on which ones or at what date.” In an October 29, 2017 Telegram post, Roets promised that
3 a token purchaser could buy Dragons at the market price and would be able to access incubator token pre-
4 sales as early as November--“probably before Dragons are available on exchanges.”

5 11. When offering and selling Dragons to ICO purchasers, Dragonchain represented that Dragons
6 were an investment and that Dragons should increase in value. According to the Frequently Asked Questions
7 that were posted on Dragonchain’s website, “Dragons are modeled to reflect the value of Dragonchain
8 fundamentals (i.e. platform+incubator+ecosystem) and we expect that value to increase as the ecosystem
9 matures.” In a message posted on Telegram on October 2, 2017, when responding to a question from someone
10 who wanted to know exactly how one could “earn a profit by investing in this coin,” Roets replied that “If the
11 system achieves adoption and especially if we see success in incubated projects, the value should follow.” In
12 an October 16, 2017 message posted on Medium (another public Internet website), one of the questions posted
13 was “How do I go about investing in the Dragonchain token sale? Is it too late?” Dragonchain’s response
14 was “It is not too late. The ICO runs until November 2nd.” Another question from the same post asked “How’s
15 the ICO going?” Dragonchain’s response was “Great! You can see the ticker here! We like to watch it in
16 our spare time. Up, up, up and to the moon....”

17 12. When offering and selling ICO Dragons, Dragonchain failed to disclose that Dragonchain’s
18 commercial platform had no capability of spinning off nodes or provisioning contracts during the time of the
19 ICO, so the Dragons that were purchased during the ICO had limited utility value, if any.

20 13. When offering and selling ICO Dragons, Dragonchain failed to disclose the company’s
21 financial operating history or provide any financial statements for Dragonchain. Dragonchain and Roets failed
22 to disclose that in the months leading up to the ICO, Dragonchain had a net loss of approximately \$257,000
23

1 in August 2017, a net loss of approximately \$47,000 in September 2017, and a net loss of approximately
2 \$234,000 in October 2017.

3 14. When offering and selling ICO Dragons, Dragonchain failed to disclose that the Dragonchain
4 Foundation would receive more than \$2 million from the proceeds of the ICO to purchase a residential
5 condominium in downtown Bellevue.

6 **Registration Status**

7 15. Dragonchain is not currently registered to sell its securities in the state of Washington and has
8 not previously been so registered.

9 Based upon the above Findings of Fact, the following Conclusions of Law are made:

10 **CONCLUSIONS OF LAW**

11 1. The offer and/or sale of the investments in the Dragon tokens described above constitute the
12 offer and/or sale of a security as defined in RCW 21.20.005(14) and (17).

13 2. Dragonchain violated RCW 21.20.140, because, as set forth in the Findings of Fact, the
14 Respondents offered and/or sold securities for which no registration is on file with the Securities
15 Administrator.

16 3. Dragonchain violated RCW 21.20.010, because, as set forth in the Findings of Fact, the
17 Respondent made untrue statements of material fact or omitted to state material facts necessary to make the
18 statements made, in light of the circumstances in which they were made, not misleading.

19 Based upon the foregoing and finding it in the public interest:

20 **CONSENT ORDER**

21 IT IS AGREED AND ORDERED that Respondent Dragonchain, Inc., its agents, and employees each
22 shall cease and desist from violating RCW 21.20.140, the securities registration section of the Securities Act
23 of Washington.

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1 IT IS FURTHER AGREED AND ORDERED that Respondent Dragonchain, Inc., its agents, and
2 employees each shall cease and desist from violating RCW 21.20.010, the anti-fraud section of the Securities
3 Act of Washington.

4 IT IS FURTHER AGREED AND ORDERED that Respondent Dragonchain, Inc. shall be liable for
5 and shall pay a fine of \$50,000 on or before the entry of this Consent Order.

6 IT IS FURTHER AGREED AND ORDERED that Respondent Dragonchain, Inc. shall be liable for
7 and shall pay investigative costs of \$10,000 on or before entry of this Consent Order.

8 IT IS FURTHER AGREED that the Securities Division has jurisdiction to enter this Consent Order.

9 IT IS FURTHER AGREED that the Respondent, Dragonchain, Inc., entered into this Consent Order
10 freely and voluntarily and with a full understanding of its terms and significance.

11 IT IS FURTHER AGREED that in consideration of the foregoing, Respondent, Dragonchain, Inc.,
12 waives its right to a hearing and to judicial review of this matter pursuant to RCW 21.20.440 and Chapter
13 34.05 RCW.

14 **WILLFUL VIOLATION OF THIS ORDER IS A CRIMINAL OFFENSE.**

15 Signed this 8th day of January, 2021

16
17
18 Signed by:
19 Dragonchain, Inc.

20
21 /s/ _____
22 John Joseph Roets
23 Chief Executive Officer

1 Approved as to form by:

2

3 /s/ _____
4 Keith W. Miller, Attorney for Dragonchain, Inc.
5 New York State Bar Association #2421717

6

SIGNED and ENTERED this 26th day of January, 2021

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11 William M. Beatty
12 Securities Administrator

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14 Approved by:

Presented by:

15



16

17 Suzanne E. Sarason
18 Chief of Enforcement

19 Janet So
20 Financial Legal Examiner

21

22 Reviewed by:

23



24 Brian J. Guerard
25 Financial Legal Examiner Supervisor

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