

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 11215 / July 21, 2023

ADMINISTRATIVE PROCEEDING
File No. 3-21535

In the Matter of

QUANTSTAMP, INC.

Respondent.

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

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 Quantstamp, Inc. (“Quantstamp” or “Respondent”).

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”) which 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, 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 Commission¹ finds that:

Summary

1. From October to November 2017, Quantstamp offered and sold crypto asset securities to fund the development of an automated smart contract security auditing protocol. Quantstamp broadly marketed the sale of its crypto asset security, named QSP, including in the United States. Quantstamp raised approximately \$28.35 million in ether and USD through the sale of QSP to more than 5,000 investors.

2. Based on the facts and circumstances set forth below, Quantstamp violated Sections 5(a) and 5(c) of the Securities Act by offering and selling the QSP tokens as investment contracts, and therefore securities, without having a registration statement filed or in effect with the Commission or qualifying for an exemption from registration.

Respondent

3. Quantstamp is a Delaware company that was incorporated on October 26, 2017 and is headquartered in San Francisco, California. Quantstamp is not registered with the Commission in any capacity.

Facts

Quantstamp Broadly Marketed the Sale of QSP to Fund Its Efforts to Develop an Automated Smart Contract Security Auditing Protocol

4. In August 2017, Quantstamp released a "White Paper" with respect to its upcoming offering of a crypto asset called QSP, which described Quantstamp's plans to develop a protocol on the Ethereum blockchain that would provide automated security audits of smart contracts (the "Protocol"). Smart contracts are the self-executing coded contracts on which blockchain technology relies. In the White Paper, which Quantstamp updated during the course of the QSP offering, Quantstamp explained its plans for the yet-to-be-developed Protocol, including that smart contract creators could eventually receive security audits through the Protocol in exchange for crypto assets Quantstamp would mint as ERC-20 tokens on the Ethereum blockchain, called QSP. The QSP, in turn, would be paid out from the Protocol to "validators" (who would run the Protocol node software on their computers), "contributors" (who would help write code for the Protocol), and "bug finders" (who would identify vulnerabilities). The White Paper also described Quantstamp's plans to implement a governance system "after the core features [of the Protocol] are implemented" by which users could vote on changes to the Protocol over time. The Protocol was undeveloped and the QSP tokens had no use at the time of the offering.

¹ The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

5. Quantstamp also began marketing the project and its upcoming sale of QSP tokens—which Quantstamp publicly explained would fund the development of the Protocol—on Quantstamp’s website, quantstamp.com, as well as online in press releases, blogs, and social media pages such as Twitter, Facebook, YouTube, Medium, and Telegram, all of which were available to U.S. persons. Quantstamp, through its representatives, also appeared at several blockchain industry events in 2017, many of which took place in California, including a symposium in San Francisco in September 2017, a conference in Berkeley in early October 2017, a convention in Santa Monica in mid-October 2017, and an expo in Santa Clara in late November 2017.

QSP Purchasers Reasonably Expected to Profit from Quantstamp’s Efforts

6. In public statements, Quantstamp emphasized the large market potential for the smart contract security auditing product it planned to develop, and led QSP purchasers to expect that the value of their tokens would increase with the success of Quantstamp’s enterprise. In the White Paper, Quantstamp explained: “security audit processes that rely on human experts cannot keep up with the exploding growth rate of smart contract adoption. Between June 2017 and October 2017, the number of smart contracts grew from 500K to 2M. Within a year, we expect there to be 10M smart contracts. This will create an exponential increase in the demand for auditing.” Quantstamp indicated that the Protocol it planned to develop would be lucrative because “the potential costs of smart contract failures will also grow.” For example, in one press release, Quantstamp claimed that the Company’s technology “would have saved over \$100 million in smart contract losses in the Ethereum ecosystem” in the preceding year. Quantstamp’s social media pages also linked to optimistic third-party assessments of the profit potential of Quantstamp and its QSP tokens.

7. Quantstamp represented that the Protocol it planned to deliver was likely to be highly competitive in the expanding market. In the White Paper, Quantstamp stated “we expect every Ethereum smart contract to use the Quantstamp protocol to perform a security audit[.]” In at least one press release issued during the offering, Quantstamp encouraged “that the blockchain community become stakeholders in our business.”

8. Quantstamp also touted the credentials of and plans for its team, which included the founders, executives, employees, and advisors of the company. Quantstamp highlighted that the team included “four multidisciplinary PhDs and well-respected leaders in the cryptospace.” The White Paper noted that the team represented “years of combined research and experience in the discipline of software verification.” The White Paper featured a “Technology Roadmap” that summarized the key milestones Quantstamp had already achieved and those it planned to meet in the coming year. The anticipated milestones included, among other things, “build the Quantstamp validation node,” “add analysis software,” and “deploy to test network.”

9. On its website, Quantstamp stated that there would be a fixed supply of QSP. Specifically, the Company would mint 1 billion QSP in total, 65% of which would be sold, 20% allocated to the team, 10% reserved for core activities, and 5% to “community development.” Quantstamp noted that unsold tokens would be “burned.”

10. Quantstamp provided a chart on its website reflecting that it would use 50% of the token sale proceeds for product development, 30% for marketing and community, 15% for administrative and general expenses, and 5% for security. The “Financial Planning” section of the White Paper stated that the number of engineers and staff members Quantstamp would hire, as well as the milestones for its product, marketing, and business plans, would depend on the amount of funds raised through the offering.

11. Quantstamp priced the QSP at approximately \$.05 per token during the offering but provided discounts of up to 50% to purchasers who agreed to provide “proof of caring” submissions, such as publishing articles and videos explaining Quantstamp’s business, translating materials, and providing advice and expertise to improve Quantstamp’s product. Quantstamp also advertised that QSP tokens could be earned in exchange for promotional activities such as following the company’s Twitter page and joining its channel on a chat application.

Quantstamp Raised Funds from the General Public Through the Sale of QSP

12. From October to November 2017, Quantstamp raised a total of approximately 87,000 ether, equivalent to approximately \$28.35 million at the time of the sales, from the sale of QSP to over 5,000 persons (the “Offering”). Of this, Quantstamp raised \$1.14 million from sales pursuant to “Simple Agreements for Future Tokens” (“SAFTs”), which Quantstamp generally used for U.S. investors. For investors that purchased QSP through entry into SAFTs, Quantstamp did not take reasonable steps to verify their accredited status at the time of the sales, although it later sought to do so. The remaining amount was raised pursuant to Token Purchase Agreements, which Quantstamp generally used for non-U.S. investors, though Quantstamp’s own records reflect that dozens of U.S. investors were able to purchase through Token Purchase Agreements. Quantstamp sold the QSP tokens to U.S. and non-U.S. investors as part of the same offering and agreed to provide the same QSP tokens to all purchasers. Both the SAFT and Token Purchase Agreement specified that the transactions were being made for investment purposes.

13. On December 1, 2017, Quantstamp filed a Form D in which it claimed that the unregistered sales of QSP were exempt under Rule 506(c) of Regulation D, for an unlimited number of accredited investors in a general solicitation, and pursuant to Regulation S, for foreign investors. Quantstamp, however, failed to comply with Rule 506(c)(2)(ii) of Regulation D, and also made directed selling efforts into the United States and sold QSP in non-offshore transactions.

14. Quantstamp distributed the QSP tokens on the Ethereum blockchain beginning on November 17, 2017. It retained approximately 35% of the outstanding token supply for itself.

15. The QSP smart contract did not contain any restrictions on transferability following the initial sale and distribution. Although the SAFT and Token Purchase Agreement included provisions requiring purchasers to confirm that the QSP would be acquired for their own account and not with a view to resale or distribution, Quantstamp actively sought to make QSP available on crypto asset trading platforms. It also transferred several thousand QSP to some platforms in late November 2017, just before QSP trading on those platforms went live, for the purpose of “market making” to provide liquidity to customers. In its communications with the platforms, Quantstamp never requested any restrictions to be placed on U.S. purchasers.

Quantstamp's Activities After the Offering

16. Quantstamp publicly released the first version of the Protocol in March 2018, six months after the Offering. It released an upgrade in September 2018, and a final version in June 2019, approximately eighteen months after the Offering. In total, Quantstamp used over \$26 million of the Offering proceeds for the development of the Protocol. After the June 2019 final release, Quantstamp ceased further development of the Protocol, and no longer operates nor lends substantial support to the Protocol. QSP token holders have no voting rights or other means of control over the Protocol.

17. Quantstamp holds a large block of QSP tokens, and agrees pursuant to the undertaking in paragraph 26.A below to transfer all QSP in its possession or control to the Fund Administrator (to be appointed pursuant to section IV.E, *infra*) to be destroyed or permanently disabled.

18. Starting in early 2018, soon after the token sale and while it was developing the Protocol, Quantstamp began a separate business performing manual smart contract security audits using third-party software in exchange for consulting fees (the "Consulting Business"). This Consulting Business received separate venture funding and is Quantstamp's primary business line today. QSP is not currently accepted by Quantstamp as payment for audit services done by its Consulting Business and has not been accepted by the Consulting Business since at least 2018. QSP tokens do not entitle the holder to any share of revenue or other rights related to the Quantstamp Consulting Business.

Legal Analysis

Quantstamp Violated the Offering Registration Provisions of the Securities Act In the Offer and Sale of QSP

19. Based on the facts and circumstances set forth above, Quantstamp offered and sold the QSP tokens as investment contracts, and therefore 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).

20. Section 5(a) of the Securities Act states that "[u]nless a registration statement is in effect as to a security, it shall be unlawful for any person, directly or indirectly, (1) to make use of any means or instruments of transportation or communication in interstate commerce or of the mails to sell such a security through the use or medium of any prospectus or otherwise, or (2) 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."

21. Section 5(c) of the Securities Act, which states that "[i]t 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."

22. No registration statement was in effect for Quantstamp's offers and sales of QSP, nor were any exemptions from registration available.

23. As a result of the conduct described above, Quantstamp violated Sections 5(a) and 5(c) of the Securities Act.

Disgorgement and Civil Penalties

24. The disgorgement and prejudgment interest ordered in Section IV.C is consistent with equitable principles and does not exceed Respondent's net profits from its violations, and will be distributed to harmed investors to the extent feasible. The Commission will hold funds paid pursuant to Section IV.C in an account at the United States Treasury pending distribution. Upon approval of the distribution final accounting by the Commission, any amounts remaining that are infeasible to return to investors, and any amounts returned to the Commission in the future that are infeasible to return to investors, may be transferred to the general fund of the U.S. Treasury, subject to Section 21F(g)(3) of the Exchange Act.

Undertakings

25. Respondent has undertaken to:

A. Transfer all QSP in its possession or control to the Fund Administrator within 30 days of receiving notice of the Fund Administrator's appointment, to enable the Fund Administrator to destroy or permanently disable such QSP.

B. Publish notice of the Order on Quantstamp's website and social media channels, in a form not unacceptable to Commission staff, within 10 days of the date of this Order.

C. Take reasonable steps to convey this Order to all crypto asset trading platforms that make QSP available for trading within 10 days of the date of this Order.

D. Certify, in writing, compliance with the undertaking(s) set forth above. The certification shall identify the undertaking(s), provide written evidence of compliance in the form of a narrative, and be supported by exhibits sufficient to demonstrate compliance. The Commission staff may make reasonable requests for further evidence of compliance, and Respondent agrees to provide such evidence. The certification and supporting material shall be submitted to David Hirsch, Chief, Crypto Assets and Cyber Unit, Division of Enforcement, with a copy to the Office of Chief Counsel of the Enforcement Division, no later than thirty (30) days from the date of the completion of the undertakings.

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondent's Offer.

Accordingly, it is hereby ORDERED that pursuant to Section 8A of the Securities Act:

- A. Respondent cease and desist from committing or causing any violations and any future violations of Sections 5(a) and 5(c) of the Securities Act.
- B. Respondent shall comply with the undertakings enumerated in Paragraph 25 above.
- C. Respondent shall, within 14 days of the entry of this Order, pay disgorgement of \$1,979,201, prejudgment interest of \$494,314, and a civil money penalty of \$1,000,000 (for a total payment of \$3,473,515) to the Securities and Exchange Commission. If timely payment of disgorgement and prejudgment interest is not made, additional interest shall accrue pursuant to SEC Rule of Practice 600, and if timely payment of the civil money penalty is not made, additional interest shall accrue pursuant to 31 U.S.C. § 3717.

Payment must be made in one of the following ways:

- (1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;
- (2) 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
- (3) 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
HQ 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 Quantstamp as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to David Hirsch, Chief, Crypto Assets and Cyber Unit, Division of Enforcement, Securities and Exchange Commission, 100 F St., NE, Washington, DC 20549.

D. Pursuant to Section 308(a) of the Sarbanes-Oxley Act of 2002, a Fair Fund is created for the disgorgement, prejudgment interest, and penalties referenced in paragraph C above. 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 any 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