

JURISDICTION AND VENUE

2. This Court has subject matter jurisdiction pursuant to 28 U.S.C. §§ 1331, 1337(a), and 1345, and 15 U.S.C. §§ 45(a) and 53(b).

3. Venue is proper in this District under 28 U.S.C. § 1391(b)(2), (c)(1), (c)(2), (c)(3), and 15 U.S.C. § 53(b).

PLAINTIFF

4. The FTC is an independent agency of the United States Government created by statute. 15 U.S.C. §§ 41-58. The FTC enforces section 5(a) of the FTC Act, 15 U.S.C. § 45(a), which prohibits unfair or deceptive acts or practices in or affecting commerce.

5. The FTC is authorized to initiate federal district court proceedings by its own attorneys to enjoin violations of the FTC Act and to secure such equitable relief as may be appropriate in each case, including rescission or reformation of contracts, restitution, the refund of monies paid, and the disgorgement of ill-gotten monies. 15 U.S.C. § 53(b).

DEFENDANTS

6. Defendant BF Labs, Inc., d/b/a "Butterfly Labs" (hereinafter, "Butterfly Labs"), is a Wyoming corporation with its principal place of business in Johnson County, Kansas. Butterfly Labs also has operated from Kansas City, MO and maintained a P.O. Box in Kansas City, MO.

7. Defendant Darla Drake, a/k/a Jody Drake (hereinafter, "Drake") is the General Manager at Butterfly Labs. Drake also serves as the Secretary and Treasurer at Butterfly Labs. At all times material to this complaint, Drake individually, or in concert with others, controlled the acts and practices of Butterfly Labs, including the acts and practices set forth in this complaint. Drake, in connection with the matters alleged herein, transacts or has transacted business in this district.

8. Defendant Nasser Ghoseiri (hereinafter "Ghoseiri") is the President and Innovation Officer/Chief Technology Officer at Butterfly Labs. At all times material to this complaint, Ghoseiri, individually or in concert with others, controlled the acts and practices of Butterfly Labs, including the acts and practices alleged in this complaint. Ghoseiri, in connection with the matters alleged herein, transacts or has transacted business in this district.

9. Defendant Sonny Vleisides (hereinafter, "Vleisides") is a Founder and Innovation Officer at Butterfly Labs. At all times material to this complaint, Vleisides, individually or in concert with others, controlled the acts and practices of Butterfly Labs, including the acts and practices alleged in this complaint. Vleisides, in connection with the matters alleged herein, transacts or has transacted business in this district.

COMMERCE

damaged or defective or do not meet the specifications as stated. As a result, consumers have not been able to use the machines to generate a substantial number of Bitcoins.

13. In numerous instances, before delivering the machines to consumers, and without telling consumers, Defendants have used the machines to mine for Bitcoins for themselves. This practice reduces the number of Bitcoins available to be mined and, in many instances, increases the complexity of the computational puzzle the machines must solve to mine Bitcoins, making it more difficult for consumers to generate Bitcoins with the machines.

14. In numerous instances, after collecting consumers' upfront payments for machines and services, Defendants failed to provide machines or services at all, provided them only after a substantial delay, or provided machines that were damaged or did not meet the specifications Defendants promised, but then refused to return or return promptly consumers' upfront payments.

Background on Bitcoins and Bitcoin Mining

15. Bitcoin is a payment system that is also referred to as a "virtual currency." Bitcoins can be digitally traded between users and can be purchased for, or exchanged into, U.S. dollars, Euros, and other physical or virtual currencies. Bitcoin users send payments to another for goods and services through online entities. Bitcoins have significant monetary value, and have reached as high as approximately one thousand dollars per Bitcoin at certain times.

16. The Internal Revenue Service has stated that Bitcoins are not currency, but rather, are taxable as valued property. Unlike traditional currency, Bitcoins are not created by a government or central bank, such as the Federal Reserve.

17. Because Bitcoins do not have a central authority for distribution, Bitcoins can only be generated through a process called Bitcoin "mining." Bitcoin "miners" are consumers who

receive transaction fees and newly minted Bitcoins in return for solving computational puzzles using their computers. Once a miner, via his computer, solves the computational puzzle, the Bitcoin network awards a specific number of Bitcoins to him.

18. Although the total number of Bitcoins is increasing through the mining process, the number is increasing at a reduced rate, at some point, Bitcoins will cease to be generated altogether. Specificall

puzzles, and the introduction of faster and more specialized equipment, obtaining the most cutting-edge technology in a timely manner is a prerequisite for any consumer to mine a profitable or substantial number of Bitcoins.

Defendants' Sale of Bitcoin Mining Machines

22. Defendants purport to manufacture and sell Bitcoin mining machines and services that consumers can use to generate Bitcoins. Defendants also purport to sell the latest generations of Bitcoin mining machines.

23. Defendants market their Bitcoin mining machines and services for sale on their website, www.butterflylabs.com, stating that "Butterfly Labs manufactures a line of high speed encryption processors for use in Bitcoin mining, research, telecommunication and security applications." The website describes products for sale and their prices, delivery dates, and terms and conditions of sale. It touts the low power consumption and high efficiency and processing speed of Defendants' mining machines.

24. Defendants market their bitcoin miners as "high performance," "high speed," and the "fastest and most power efficient bitcoin miner yet."

25. Defendants also market their Bitcoin mining machines as allowing consumers to mine a substantial or profitable number of Bitcoins. Specifically, Defendants have directed consumers to calculators to allow consumers to determine the number of Bitcoins Defendants' machines would mine. For example, in November 2012, on the company Facebook page, Defendants stated that consumers could use a particular calculator application to calculate the return on investment, or ROI, for Defendants' Bitcoin mining machines. The post reads, "Measure your ROI with this cool Bitcoin mining calculator." The description of the calculator displayed on the page reads as follows: Bitcoin Calculator. Bitcoin Mining,

Profitability and Power Calculator. Calculate

October 2012.” However, Defendants did not deliver any BitForce mining machines to its customers in October 2012. Indeed, by April 2013, Defendants still had not delivered a single BitForce mining machine to their customers.

30. In fact, Defendants acknowledged in September 2013, that they had failed to ship mining machines to more than 20,000 customers who had paid for the equipment in full.

31. On November 28, 2013, Defendants posted on their website that all the orders for the BitForce mining machines had been shipped. However, consumers continued to file complaints about not receiving their prepaid BitForce mining machine.

32. In approximately August 2013, Defendants announced that they were selling Monarch mining machines, which Defendants claimed possessed greater mining power than any of the previous mining machines in the market. Butterfly Labs stated that the Monarch is the “fastest and most power efficient Bitcoin miner yet.” Defendants required consumers to pay \$2,499 to \$4,680 upfront to purchase the machines.

33. Defendants’ website represented that the Monarch would begin shipping by the end of 2013 and provided a manufacturing and development timeline, characterizing the December 2013 delivery date as “solid.” Defendants claimed that the final phase of manufacturing (known as “taping out”) would be complete by August 2013.

34. In internal discussions in November 2013, Defendants admitted that they were not close to finishing the taping out process. As one employee put it, “Honestly, if we haven’t even taped out at this point, I don’t see us shipping a product until the very end of January at the earliest, more like middle of February.”

35. Defendants did not deliver the Monarch machines as promised, despite their representation that the machines should be available by the “end of the year [2013].” Months

later, in approximately March 2014, Defendants stated that they would provide consumers with Monarch machines in April 2014. Defendants did

August 2014, Defendants still had not provided these services to many consumers who paid for them.

Defendants' Undisclosed Use of Consumers' Machines to Mine for Bitcoins for Themselves

42. Through its website and various marketing materials, Defendants represent that they manufacture and sell Bitcoin mining machines for consumers to use to mine Bitcoins.

43. In many instances, however, after manufacturing Bitcoin mining machines ostensibly for consumers, Defendants have pooled hundreds of machines together in multiple storehouses to mine for Bitcoins for their own use before shipping them to consumers.

44. Defendants' use of consumers' Bitcoin mining machines has decreased the number of Bitcoins available for consumers to mine using the purchased machines and often has increased the complexity of the computational puzzle to be solved to obtain Bitcoins.

45. Notwithstanding these practices, Defendants have represented that the company does not mine for Bitcoins using any machines, much less machines designated for consumers. On their website, for example, Defendants have represented that the company does not mine for Bitcoins because it "would be a conflict of interest" and hardware, not mining, is the "focus of [their] passion."

47. Defendants nonetheless often have refused to refund or refund promptly consumers' payments. Thousands of consumers have complained that they requested but did not obtain refunds from Defendants, even though they did not receive any products or services, received them months after they expected them, or received machines that were damaged or did not match the specifications of the machines they had ordered.

48. Consumers who unsuccessfully attempt to seek a refund from Defendants often spend considerable time doing so. Some consumers have complained that after unsuccessful attempts to obtain a refund from Defendants, they sought recourse from their credit card company or other payment company, spending a month or more recovering their payments.

49. Defendants' collection of consumers' upfront payments in exchange for products or services that Defendants fail to provide or do not provide as promised is a net loss for consumers. Consumers who have paid for machines or services that Defendants have not provided, or machines that are damaged and do not meet the specifications promised are out hundreds or thousands of dollars, depending on the cost of the machine or services, or do not

51. Misrepresentations or deceptive omissions of material fact constitute deceptive acts or practices prohibited by Section 5(a) of the FTC Act.

52. Acts or practices are unfair under ~~Sec~~ 5 of the FTC Act if they cause

CONSUMER INJURY

62. Consumers have suffered and will continue to suffer substantial injury as a result of Defendants' violations of the FTC Act. In addition, Defendants have been unjustly enriched as a result of their unlawful acts or practices. Absent injunctive relief by this Court, Defendants are likely to continue to injure consumers, reap unjust enrichment, and harm the public interest.

THIS COURT'S POWER TO GRANT RELIEF

63. Section 13(b) of the FTC Act, 15 U.S.C. § 53(b), empowers this Court to grant injunctive and such other relief as the Court may deem appropriate to halt and redress violations of any provision of law enforced by the FTC. The Court, in the exercise of its equitable jurisdiction, may award ancillary relief, including rescission or reformation of contracts, restitution, the refund of monies paid, and the disgorgement of ill-gotten monies, to prevent and remedy any violation of any provision of law enforced by the FTC.

PRAYER FOR RELIEF

Wherefore, Plaintiff FTC, pursuant to Section 13(b) of the FTC Act, 15 U.S.C. § 53(b), and the Court's own equitable powers, requests that the Court:

A. Award Plaintiff such preliminary injunctive and ancillary relief as may be necessary to avert the likelihood of consumer injury during the pendency of this action and to preserve the possibility of effective final relief, including but not limited to, temporary and preliminary injunctions, an order freezing assets, immediate access, and appointment of a receiver;

B. Enter a permanent injunction to prevent future violations of the FTC Act by Defendants;

C. Award such relief as the Court finds necessary to redress injury to consumers resulting from Defendants' violations of the CFAA, including but not limited to, rescission or reformation of contracts, restitution, the refund of monies paid, and the disgorgement of ill-gotten monies; and

D. Award Plaintiff the costs of bringing this action, as well as such other and additional relief as the Court may determine to be just and proper.

Dated: May 14, 2015

Respectfully submitted,

JONATHAN E. NUECHTERLEIN
General Counsel

/s/ Helen Wong
HELEN WONG, DC Bar # 997800
hwong@ftc.gov
LEAH FRAZIER, DC Bar # 492540
lfrazier@ftc.gov
GREGORY A. ASHE, VA Bar #39131
gashe@ftc.gov
JASON M. ADLER, IL Bar #6295738
jadler@ftc.gov
Federal Trade Commission
600 Pennsylvania Ave., N.W., Mail Stop-CC 10232
Washington, D.C. 20580
202-326-3779 (Wong)
202-326-2187 (Frazier)
202-326-3719 (Ashe)
202-326-3231 (Adler)
Facsimile: 202-326-3768

TAMMY DICKINSON
United States Attorney

Dated: May 14, 2015

/s/ Charles M. Thomas
Charles M. Thomas, MO Bar #28522
Assistant United States Attorney
Charles Evans Whittaker Courthouse
400 East Ninth Street, Room 5510

Kansas City, MO 64106
Telephone: (816) 426-3130
E-mail: charles.thomas@usdoj.gov

Attorneys for Plaintiff

CERTIFICATE OF SERVICE

The undersigned hereby certifies that on May 14, 2015, a true and correct copy of the foregoing was filed electronically with the United States District Court for the Western District of Missouri using the CM/ECF system, which provides notification to all parties of interest participating in the CM/ECF system.

/s/ Helen Wong _____
Attorney for Plaintiff
Federal Trade Commission