

## **FTC Shuts Down Bitcoin Mining Equipment Provider**

For some miners of Bitcoins who got the shaft from Butterfly Labs, the Federal Trade Commission offered some solace by obtaining a court order to shut down the company and freezing its assets.

The FTC sued BF Labs, Inc., which did business as Butterfly Labs. The company sold Bitcoin mining machines, which actually are high-speed, specialized computers to generate Bitcoins. The company charged between \$149 and \$29,899 up front for the machines, many of which were never delivered or delivered late, the FTC complaint states. When the machines were delivered, they were delivered “after significant delays, resulting in machines that are obsolete or have depreciated significantly toward obsolescence, or the machines have arrived damaged or defective. As a result, consumers have not been able to use the machines to generate a profit or return on investment.”

Bitcoins are not currency but rather “virtual currency” which can be used and purchased for or exchanged into U.S. dollars, Euros, and other physical or virtual currencies.

Bitcoin “miners” are consumers who receive transaction fees and newly minted Bitcoins in return for solving computational puzzles using computers. Once a miner, via his computer, solves the computational puzzle, the Bitcoin network awards a specific number of Bitcoins. There are only a limited number of Bitcoins which can be mined. As more consumers mine for Bitcoins, “it has become increasingly difficult to solve the computational puzzles before another miner and make a profit,” the FTC Complaint explained. “Therefore, miners must seek faster and faster equipment, and must seek efficiencies to cut their operating costs, which includes high electricity bills and wear-and-tear of the mining machine.”

The FTC notes that Butterfly Labs informed customers about new mining machines but never delivered the machines to customers. In fact, as of September 2013, Butterfly “had failed to ship mining machines to more than 20,000 customers who had paid for the equipment in full.”

At times, Butterfly Labs claimed it would provide refunds and at other times claimed it had a no-refund policy. “Regardless of which purported policy was in place at the time, Defendants have often failed to provide refunds to customers, even though they have not provided consumers with promised products or services or consumers have not received products or services for many months.”

*Federal Trade Commission v. BF Labs, Inc, d/b/a/ ButterflyLabs, W.D. Missouri, No. 14 cv 815.*