

**STATE OF ALABAMA
ALABAMA SECURITIES COMMISSION**

IN THE MATTER OF:

**EXTRABIT LTD
MACK DEACON**

RESPONDENTS

**ADMINISTRATIVE ORDER
NO. CD-2018-0004**

CEASE AND DESIST ORDER

The Alabama Securities Commission ("Commission"), having the authority to administer and provide for the enforcement of all provisions of Title 8, Chapter 6, Code of Alabama 1975, the Alabama Securities Act ("Act"), upon due consideration of the subject matter hereof, has determined as follows:

RESPONDENTS

1. Extrabit Ltd. ("EXB") is an entity that purports to conduct business as a cryptocurrency mining farm¹, by means of the domain name: "extrabit.io" and is accessible via the website: www.extrabit.io. EXB may be served through its domain name registrar NAMECHEAP.COM located at 11400 W. Olympic Blvd, Ste 200, Los Angeles, California 90064, via namecheap.com or at legal@namecheap.com.

2. Mack Deacon ("DEACON") is represented on the EXB website as being the Chief Executive Officer of EXB. The "Proposed Registered Office Address" presumably provided by DEACON on an "application to register a company", form IN01, issued by the United Kingdom, is 35 Ballards Lane, Finchley, London, United Kingdom N3 1XW.

STATEMENT OF FACTS

3. On April 16, 2018, Commission staff discovered an advertisement on a local Montgomery television station's web page titled, "Extrabit's private pre-sale ICO offers the EXB token at half the price." The advertisement appears to have been published on the internet on April

¹ Mining is the process of validating transactions and adding them to a transactional ledger called the "blockchain." "Mining farms" are computers that compete with each other to be the first to validate and add a particular transaction to the blockchain. Mining can be profitable because the mining farm that successfully validates and adds the transaction to the blockchain receives a small amount of newly minted cryptocurrency.

14, 2018 and became accessible to Alabama residents at that time. The web address for the advertisement is <http://www.wsfa.com/story/37955968/extrabits-private-pre-sale-ico-offers-the-exb-token-at-half-the-price>. The advertisement states, “Extrabit, a crypto mining company is holding its private pre-ICO sale through which the investors can purchase the token at 50% off.” The article continues, “To participate in the pre-sale, the user must invest \$20,000 and after the purchase, the tokens will be sent to MyEtherWaller [*sic*] within 48 hours. More information about the pre-sale and the upcoming ICO can be found at extrabit.io.”

4. The advertisement also provided a phone number of a “Press Executive” to contact at +448081894411, a phone number based in the United Kingdom, for further information.

5. According to the EXB website and public white paper, EXB is a cryptocurrency “mining company which has already proven itself as an influential force in the mining community.” Further, the EXB White Paper states that “the company at present is inclined towards starting its ICO to raise funds for mining hardware [*sic*] the goal of the company at present is to raise around \$37 million from the ICO venture.”

6. The EXB White Paper and website advertise a “promise” to pay a “185% ROI, quarterly, to every investor that keeps a constant positive balance in their EXB Wallet.” EXB continues by writing, “Early Investors are in prime position for what could result in the next cryptocurrency boom. It is possible for ROI to exceed the first 185% bonus since the value of EXB is proportional to cryptocurrencies like Bitcoin and Ethereum.”

7. According to the white paper, EXB derives its profit from mining. Specifically EXB states that; “Extrabit is not a crypto trading exchange or dedicated crypto wallet. We are miners and earn most of our profit from mining BTC, Zcash and Monero price. also, [*sic*] our token expects to be listed in at least 2 major exchanges as early as the first day after the ICO periods ends, the best reason to buy it to receive ROI.”

8. The white paper also states the following: “[t]he startup continues to make tremendous progress ever since it began in August 2017. In only 6 months, founder Mack Deacon could negotiate an impressive deal with a local power company. The deal includes a 50% lifetime discount on electricity costs. On top of that, the benefactor agreed to supply Deacons [*sic*] mining company with Free Electricity for the first five years of the contract.” It further states, “[t]his agreement is the first of its kind and is a clear sign of bitcoins evolution into a global technology. It is easy to understand that this creates a powerful advantage for Deacon and his team. Extrabit is

set to quickly show itself as a leader in Blockchain technology. With immense potential, it is sure to amplify the disruptive force of Blockchain technology.”

9. Offering documents reveal that EXB is seeking to raise 37 million dollars through the initial coin offering of EXB Tokens. The capital raised will be pooled and used to expand the EXB cryptocurrency mining operations, where they claim to operate a majority of their profits. Specifically, EXB explains that investments in this project will be used to develop a mining infrastructure and a new project called “Decentralized Mining Platform.” Offering documents indicate that the 185% guaranteed annual return, paid quarterly to investors, is a result of increased profit of the organization due to the increased mining capacity made possible by the pooled investments.

10. On April 16, 2018, a review of the registration files of the Alabama Securities Commission revealed no registration, nor any perfected exemption from registration, for the securities offered and sold by EXB. In addition, the RESPONDENTS were neither registered to offer and sell securities in Alabama, nor exempt from registration.

11. A corporation search of the Alabama Secretary of State’s online website revealed no registration for EXB as a business entity or foreign corporation authorized to do business in the State of Alabama.

CONCLUSIONS OF LAW

12. Pursuant to Section 8-6-2(10), Code of Alabama 1975, the definition of “security” includes investment contracts and profit sharing agreements. EXB’s mining investment plans require investors to invest money into the common investment plan in order to pool their investments with other investors. Investors share and expect a profit, as represented by EXB, and the profit is derived from the managerial efforts of EXB. Therefore, EXB’s mining investment plans constitute investment contracts and profit sharing agreements and are “securities” as defined by the Act.

13. Pursuant to Section 8-6-4, Code of Alabama 1975, it is unlawful for any person to offer or sell any security in this state unless it is registered or exempt from registration under Section 8-6-10; or the transaction is exempt under Section 8-6-11. The securities, i.e. the investment contracts and/or profit sharing agreements offered and sold by EXB were neither registered nor subject to a perfected exemption from registration in Alabama at the time of solicitation or sale and were offered and sold in violation of the Act.

14. Pursuant to Section 8-6-2(5), Code of Alabama 1975, the definition of an “issuer” includes every person who proposes to issue, or has issued, any security. **RESPONDENT EXB**, by issuing securities, to wit: investment contracts and/or profit sharing agreements, is an “issuer” as defined by the Act.

15. Pursuant to Section 8-6-17(a)(2), Code of Alabama 1975, it is unlawful for a person, in connection with the offer, sale or purchase of a security, to make or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they are made, not misleading. **RESPONDENTS** failed to disclose that the investments offered and sold by EXB were securities which required registration in the state of Alabama, a material omission, in violation of the Act.

16. Pursuant to Section 8-6-17(a)(3), Code of Alabama 1975, it is unlawful for a person, in connection with the offer, sale or purchase of a security, to engage in an act, practice, or course of business which operates or would operate as a fraud or deceit upon a person. **RESPONDENTS’** business model- revealed through the website’s marketing materials, contains information that is materially misleading or would otherwise deceive the public in violation of the Act.

This Order does not prevent the Commission from seeking such other civil or criminal remedies that are available to it under the Act.

This Order is appropriate in the public interest for the protection of investors and is consistent with the purposes of the Act.

Additionally, if the allegations set forth herein are found to be true, through either administrative adjudication, failure of the **RESPONDENTS** to make a timely request for hearing, or default of the **RESPONDENTS**, it is the intention of the Commission to impose sanctions upon the **RESPONDENTS**. Such sanctions may include, inter alia, an administrative assessment imposed on **RESPONDENTS**, an additional administrative assessment for investigative cost arising from the investigation of the violation(s) described herein against **RESPONDENTS**, and a permanent order to bar **RESPONDENTS** from participation in any securities related industry in the state of Alabama.

ACCORDINGLY, IT IS HEREBY ORDERED that **RESPONDENTS** immediately **CEASE AND DESIST** from further offers or sales of any security into, within or from the state of Alabama.

Entered at Montgomery, Alabama, this 2nd day of May 2018.



ALABAMA SECURITIES COMMISSION

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BY:

A handwritten signature in black ink, appearing to read "Joseph P. Borg", is written over a horizontal line. The signature is stylized with a large, sweeping flourish that extends downwards and to the left, crossing the line again.

Joseph P. Borg
Director