

SEC Charges Texas Man With Running Bitcoin-Denominated Ponzi Scheme

FOR IMMEDIATE RELEASE

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Washington D.C., July 23, 2013 — The Securities and Exchange Commission today charged a Texas man and his company with defrauding investors in a Ponzi scheme involving Bitcoin, a virtual currency traded on online exchanges for conventional currencies like the U.S. dollar or used to purchase goods or services online.

The SEC alleges that Trendon T. Shavers, who is the founder and operator of Bitcoin Savings and Trust (BTCST), offered and sold Bitcoin-denominated investments through the Internet using the monikers "*Pirate*" and "*pirateat40*." Shavers raised at least 700,000 Bitcoin in BTCST investments, which amounted to more than \$4.5 million based on the average price of Bitcoin in 2011 and 2012 when the investments were offered and sold. Today the value of 700,000 Bitcoin exceeds \$60 million.

The SEC alleges that Shavers promised investors up to 7 percent weekly interest based on BTCST's Bitcoin market arbitrage activity, which supposedly included selling to individuals who wished to buy Bitcoin "off the radar" in quick fashion or large quantities. In reality, BTCST was a sham and a Ponzi scheme in which Shavers used Bitcoin from new investors to make purported interest payments and cover investor withdrawals on outstanding BTCST investments. Shavers also diverted investors' Bitcoin for day trading in his account on a Bitcoin currency exchange, and exchanged investors' Bitcoin for U.S. dollars to pay his personal expenses.

The [SEC issued an investor alert today](#) warning investors about the dangers of potential investment scams involving virtual currencies promoted through the Internet.

"Fraudsters are not beyond the reach of the SEC just because they use Bitcoin or another virtual currency to mislead investors and violate the federal securities laws," said Andrew M. Calamari, Director of the SEC's New York Regional Office. "Shavers preyed on investors in an online forum by claiming his investments carried no risk and huge profits for them while his true intentions were rooted in nothing more than personal greed."

According to the SEC's complaint filed in U.S. District Court for the Eastern District of Texas, Shavers sold BTCST investments over the Internet to investors in such states as Connecticut, Hawaii, Illinois, Louisiana, Massachusetts, North Carolina, and Pennsylvania. Shavers posted general solicitations on a website dedicated to Bitcoin discussions, and he misled investors with such false assurances about his investment opportunity as "It's growing, it's growing!" and "I have yet to come close to taking a loss on any deal," and "risk is almost 0." Contrary to the representations made to investors, BTCST was not in the business of buying and selling Bitcoin at all.

The SEC alleges that Shavers, who lives in McKinney, Texas, paid 507,148 Bitcoin in investor withdrawals and purported interest payments. He transferred at least 150,649 Bitcoin to his personal account at an online Bitcoin currency exchange. Shavers suffered a net loss from his day trading, but realized net proceeds of \$164,758 from his sales of 86,202 Bitcoin. Shavers transferred \$147,102 from his personal account at the online Bitcoin currency exchange to accounts he controlled at an online payment processor as well as his personal checking account. He used this money to pay his rent, utilities, and car-related expenses as well as for food and retail purchases and gambling.

The SEC's complaint charges Shavers and BTCST with offering and selling investments in violation of the anti-fraud and registration provisions of the securities laws, specifically Sections 5(a), 5(c) and 17(a) of the Securities Act of 1933, Section 10(b) of the Securities Exchange Act of 1934 and Exchange Act Rule 10b-5. The SEC is seeking a court order to freeze the assets of

of 2007 and Exchange Act Rule 206 of the SEC is seeking a court order to freeze the assets of Shavers and BTCST in addition to other relief, including permanent injunctions, disgorgement of ill-gotten gains with prejudgment interest, and financial penalties.

The SEC's investor alert, prepared by the agency's Office of Investor Education and Advocacy, recommends that investors be wary of so-called investment opportunities that promise high rates of return with little or no risk, especially when dealing with unregistered, Internet-based investments sold by unlicensed promoters.

"Ponzi scheme operators often claim to have a tie to a new and emerging technology as a lure to potential victims," said Lori J. Schock, Director of the SEC's Office of Investor Education and Advocacy. "Investors should understand that regardless of the type of investment, a promise of high returns with little or no risk is a classic warning sign of fraud."

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Related Materials

- [SEC Complaint](#)
- [SEC Investor Alert](#)