

**STATE OF ALABAMA
ALABAMA SECURITIES COMMISSION**

IN THE MATTER OF:)
)
LEVERAGE)
)
)
RESPONDENT)

**ADMINISTRATIVE ORDER
NO. CD-2018-0005**

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:

RESPONDENT

1. **LEVERAGE** ("LEV") is a technology company that purports to conduct business on the internet by means of the domain name: "Leverageico.com" and is publicly accessible via the internet website: www.leverageico.com. LEV may be served through its website administrator NAMECHEAP, located at 11400 W Olympic Boulevard, suite 200, Los Angeles, California 90302 and via web page www.namecheapgroup.com.

STATEMENT OF FACTS

2. According to the LEV website white paper and marketing materials, LEV is an internet-based business operating a "risk free" trading platform which generates interest and profit on staked capital through the use of "automated arbitrage trading bots" or software applications that can execute searches and trade virtual currency without human intervention and "volatility software." Interest generated from the trading platform will be issued to the LEV users daily based on their selected investment option. The LEV website claims the company has raised \$593,000 from over 5000 users, to date.

3. According to the LEV website, the platform is "a decentralized framework that allows people to store and invest their wealth in a non-government controlled currency, and earn

a substantial interest on investment”. Prospective investors may purchase Leverage Tokens (ticker: LVP) directly from the LEV website starting February 25, 2018, during the pre-sale period before the official ICO launch on May 26, 2018. The purchase price is listed at 0.0005 Ether per LVP token (2000 tokens per Ether).

4. The LEV whitepaper claims that the company is a “lending platform” for cryptocurrencies. Potential investors join the platform by purchasing LVP tokens, which are held in the investors “platform wallet” (i.e., account). The investor may store the LVP coins, and any other cryptocurrencies in the “platform wallet” and earn a variable, daily interest rate (0.5%-2.1%) determined by the length of the investment period and the amount of staked capital (investors having a financial interest in LEV, or who have deposited funds in LEV would have a “stake” in LEV) in the wallet/account. The LEV white paper also claims that daily interest payouts can be withdrawn instantly or, upon completion of the investment period, the investor may withdraw the invested capital or reinvest to continue receiving a daily profit.

5. The LEV offering materials claim that the interest paid to account holders “will be generated automatically through the use of Leverage’s automated arbitrage trading bots and volatility software.” The LEV whitepaper also states, “[l]everage trading bots will exploit market inefficiencies and volatility by exploiting arbitrage possibilities, amongst others.” The LEV website claims the company will maintain a substantial capital reserve that will serve as a guarantee to redeem promises to pay interest, and that the reserve will be partially stored in fiat, gold and other assets.

6. The LEV website and whitepaper also offer investors a referral commission and daily interest rate bonus based on a percentage of the staked capital from participating referrals. The stated purpose of the referral program is to increase popularity and demand for the staking LVP tokens in order to appreciate the value of the platform. The offering materials indicate that the value of the platform is based on the number of investors, which will increase with each additional investor. The offering materials indicate that LEV will cap the number of tokens at 50 million. Based on the current Ethereum price (\$514 +/-), a complete sale of the entire supply of 50 million LVP tokens would raise approximately \$12,850,000 USD.

7. The LEV whitepaper claims that the proceeds from the ICO “...will be deposited into a multi-signature wallet, and its encryption key will be held by all the persons in charge and management personnel of the Leverage Platform.” The company plans to use investor funds for

the following purposes:

- a) 30%---Design, development and testing of Leverage Platform Framework
- b) 20%---Reserves intended for sustained health of the Leverage Platform Ecosystem (divided over crypto-currencies, fiat, gold and other assets)
- c) 15%---R&D, testing and implementation of additional software for leveraging crypto-currency volatility
- d) 15%---R&D, testing and implementation of new products (e.g., financial derivatives) on Leverage Platform
- e) 10%---Promotion and Marketing
- f) 7%---Salaries of Developers and Team
- g) 3%---Costs of Operations, Maintenance and Utilities

8. The LEV offering materials made no representations regarding the location of the corporate office, identity of the principals or management team, or any indication of the experience in the cryptocurrency field. In addition, LEV omitted to disclose that the pooled investments are securities and are not registered with the Commission.

9. On April 12, 2018, a review of the registration files of the Alabama Securities Commission revealed no record of registration or any perfected exemption from registration for the securities offered and sold by LEV. In addition, the **RESPONDENT** was neither registered to offer or sell securities in Alabama, nor exempt from registration.

10. A corporation search of the Alabama Secretary of State's online website revealed no registration for LEV as a business entity nor a foreign corporation to conduct business in the State of Alabama.

CONCLUSIONS OF LAW

11. Pursuant to Section 8-6-2(10), Code of Alabama 1975, the definition of "security" includes investment contracts and profit sharing agreements. LEV's automated leveraged platforms require investors to invest money into the common Leveraged Platform in order to pool their investments with other investors. Investors share and expect a profit, as represented by LEV, and the profit is derived from the managerial efforts of LEV. Therefore, LEV's investment plans constitute investment contracts and profit sharing agreements and are "securities" as defined by the Act.

12. 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 investment contracts, i.e.

the Leveraged Platform and/or the profit sharing agreements offered and sold by LEV 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.

13. 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**, by issuing securities, to wit: investment contracts and/or profit sharing agreements, is an “issuer” as defined by the Act.

14. 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. **RESPONDENT** failed to disclose that the investments offered and sold by LEV were securities which required registration in the state of Alabama, a material omission, in violation of the Act.

15. 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. Respondent LEV’s 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 **RESPONDENT** to make a timely request for hearing, or default of the **RESPONDENT**, it is the intention of the Commission to impose sanctions upon the **RESPONDENT**. Such sanctions may include, inter alia, an administrative assessment imposed on **RESPONDENT**, an additional administrative assessment for investigative cost arising from the investigation of the violation(s) described herein against **RESPONDENT**, and a permanent order to bar **RESPONDENT** from participation in any securities related industry in the state of Alabama.

ACCORDINGLY, IT IS HEREBY ORDERED that **RESPONDENT** 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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(334) 242-2984

BY:

A handwritten signature in black ink, appearing to read "Joseph P. Borg", is written over the printed name and title. The signature is stylized and somewhat illegible due to overlapping lines.

Joseph P. Borg
Director