

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF INDIANA
INDIANAPOLIS DIVISION

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

JAMES ROLAND JONES,

Defendant.

C.A. No. 1:21-cv-00659

Jury Trial Demanded

COMPLAINT

Plaintiff Securities and Exchange Commission (“SEC”) files this Complaint against Defendant James Roland Jones (“Jones” or “Defendant”) and alleges as follows:

SUMMARY OF THE ACTION

1. Jones accessed an insider trading forum on the dark web in search of material non-public information (“MNPI”) on which to trade securities, but he was unsuccessful in obtaining valuable MNPI. Undaunted, Jones began advertising and selling stock tips on the dark web by falsely claiming his tips were the product of MNPI that he obtained from the insider trading forum and/or corporate insiders. Jones knew that people would pay for what they believed to be MNPI, so he lied about the source of the information and his connection to the insider trading forum. To access this purported MNPI, investors paid Jones in bitcoin and then placed trades in publicly-traded stock based on his purported tips. Jones made approximately \$27,000 as a result of his misrepresentations and deceptive acts.

2. By reason of this misconduct, Jones violated, and unless enjoined will continue to violate, Section 10(b) of the Exchange Act and Rule 10b-5(b) thereunder. The SEC brings this action seeking permanent injunctive relief, disgorgement of ill-gotten gains plus prejudgment interest, civil penalties, and all other equitable and ancillary relief the Court deems necessary.

JURISDICTION AND VENUE

3. This Court has jurisdiction over this action pursuant to Sections 21(d), 21(e), and 27(a) of the Securities Exchange Act of 1934 (“Exchange Act”) [15 U.S.C. §§ 78u(d), 78u(e), and 78aa(a)]. This action involves the sale of publicly-traded stock, which are securities as defined in the Exchange Act. Further, Jones directly or indirectly made use of the means or instrumentalities of interstate commerce or the mails in connection with the transactions, acts, practices, and courses of business alleged herein.

4. Venue is proper in this district pursuant to Section 27(a) of the Exchange Act [15 U.S.C. § 78aa(a)]. Certain of the transactions, acts, practices, and courses of business constituting violations of the federal securities laws occurred within this district.

DEFENDANT

5. Defendant Jones is a resident of Redondo Beach, California. At the time of many of the acts and transactions described below, Jones resided in Indianapolis, Indiana.

FACTUAL ALLEGATIONS

A. The Dark Web.

6. The term “deep web” refers to anything on the internet that is not indexed by, or accessible via, a search engine like Google. Deep web content includes anything behind a paywall or content that is only accessible using sign-in credentials. Only a tiny portion of the

internet is indexed by search engines and accessible through a standard web browser—generally known as the “clear” or “surface” web.

7. The term “dark web” refers to a subset of the deep web that is intentionally hidden, requiring specific software to access content. The dark web consists of various overlay networks, referred to as “darknets.” The dark web was designed to allow users to access the internet securely, and most notably, anonymously. As such, the dark web has often been used to host websites and marketplaces that support or promote illegal activity.

B. Jones Gains Access to the Insider Trading Forum.

8. During 2016, Jones frequented at least three dark web marketplaces that facilitated the sale of illegal drugs, firearms, personally identifiable information (“PII”), stolen and fraudulent identification documents, counterfeit goods, and malicious software and other computer hacking tools. Jones used the same monikers on all three marketplaces.

9. In late 2016, Jones came across a wiki-page in one of the dark web marketplaces that listed various website addresses on the dark web, including a website for an insider trading forum (“ITF”). The listing described the ITF as an anonymous forum where participants exchanged MNPI about various publicly-traded companies. The ITF’s subtitle was: “The community for exchanging Insider Information about the (sic) Publicly Traded Companies.”

10. The ITF rules state that its main goal is to create “a long-term and well-selected community of gentlemen who confidently exchange insider information about publicly-traded companies.” The ITF rules further state that in the U.S. and many other countries insider trading is illegal, and that the security and the anonymity of its members is the highest priority.

11. To gain access to the ITF, users were required to demonstrate that they possessed MNPI. The ITF's moderators would determine if the insider information was genuine and, if so, grant access to the forum.

12. Jones attempted to gain access to the ITF by lying to ITF moderators and members by guessing certain earnings metrics on various issuers before earnings releases. The first few times he guessed, Jones's predictions were incorrect. After each incorrect guess, Jones created a new email account and tried again. On his third attempt, Jones correctly guessed the upcoming earnings per share for a home building company. Jones misrepresented to ITF's moderators that his information came from a friend who worked at the company, and the moderators granted Jones access to the ITF.

13. Thereafter, Jones had access to the ITF for approximately three months. The ITF rules require members to continue providing tips to maintain their membership, and when an ITF moderator asked Jones for a new tip, he guessed wrong and the ITF revoked his access. According to Jones, the information on the ITF was not very specific or particularly useful in any event, and Jones claims he was not able to obtain any useful MNPI from the ITF.

14. Jones realized, however, that most people could not gain access to the ITF, and therefore might believe the ITF contained actionable insider information. So Jones devised a scheme to sell purported insider tips to other individuals on the dark web.

C. Jones Sells Fake Insider Stock Tips on the Dark Web.

15. In the spring of 2017, Jones listed "insider tips" for sale on one of the dark web marketplaces. Given that Jones did not have access to MNPI, his tips were merely guesses based upon Jones's own research and speculation. Jones recognized that people would not pay him for

his own stock tips, so he falsely described them as MNPI obtained from the ITF and/or corporate insiders.

16. Jones's "tips" were typically general predictions that a stock would go up or down, and Jones would sometimes sell tips for the same stock in both directions. In the event his false tips did not pan out, Jones offered to give the next tip for free if the disappointed purchaser would leave a good review for Jones on the dark web site. In other instances, Jones agreed to provide tips and then share in the purchaser's trading profits. Traders paid Jones for the tips using Bitcoin, and used Jones's fake insider information to purchase and sell stock of various publicly traded companies.

17. Also in 2017, Jones created a separate moniker on the dark web marketplace to market his services as a purported "insider" who would use purported insider information to engage in securities transactions on behalf of third parties. Jones offered to use investor funds to trade, in exchange for a split of the profits. In reality, Jones was not using insider information and was not even trading. Instead, he just returned a small amount of the money as a purported return, and used that to lure the investor into providing additional funds.

18. For example, in early 2017, Jones made contact with an individual on the dark web marketplace who had expressed interest in Jones's purported insider information. After an initial feeling-out process, and a small "test" trade, Jones offered the individual a "tip" that paid off handsomely for both Jones and the individual. Jones had researched a publicly-traded clothing company, and believed that the stock would not follow the overall dip in retail sales in early 2017, because of the overwhelming popularity of the company's products. In March 2017, Jones then lied to the individual about having MNPI related to the company, accessed the

individual's brokerage account (with the individual's permission), and purchased shares of the company. Jones's gamble paid off, and he received approximately \$20,000 in Bitcoin from the individual for his purported MNPI.

19. Jones's purpose in creating the false insider stock tips was to induce purchasers to pay him money and to purchase securities, as he believed successful transactions would lead to additional sales of fake stock tips, and Jones's false claims that his stock tips were based on insider information resulted in several stock purchases. Jones knew that he was lying to the investors when he claimed to possess MNPI.

20. Jones's false claims were material. The dark web marketplace users found Jones's misrepresentations significant enough to pay a fixed amount for the tips or to share their trading profits with Jones. A reasonable investor would also consider the fact that the Jones was not actually providing them with MNPI important in deciding whether to invest in the securities that were the subject of Jones's purported tips.

21. The United States Attorney for the Middle District of Florida charged Jones for related conduct in *United States v. James Roland Jones*, No. 8:21-cr-33 (M.D. Fla.). Defendant has pleaded guilty in the criminal case, which is currently pending.

CLAIM FOR RELIEF

Violations of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder

22. The SEC reallages and incorporates by reference each and every allegation contained in the paragraphs above.

23. By engaging in the conduct described herein, Defendant, directly or indirectly, singly or in concert with others, by the use of the means or instrumentalities of interstate commerce and/or by use of the mails, in connection with the purchase or sale of securities: (a) employed devices, schemes, and artifices to defraud; and/or (b) made untrue statements of a material fact and omitted to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and/or (c) engaged in acts, practices, and courses of business which operate or would operate as a fraud and deceit upon purchasers, prospective purchasers, and any other persons.

24. Defendant acted with scienter and engaged in the referenced acts knowingly and/or with severe recklessness.

25. By reason of the foregoing, Defendant has violated and, unless enjoined will continue to violate, Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5].

RELIEF REQUESTED

Therefore, the SEC respectfully requests that this Court:

(a) Permanently enjoin Defendant from violating Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5];

(b) Order Defendant to disgorge all ill-gotten gains obtained as a result of the conduct described herein, plus prejudgment interest thereon;

(c) Order Defendant to pay a civil penalty pursuant to Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)]; and

(d) Grant such further relief as this Court may deem just and proper.

Dated: March 18, 2021

Respectfully submitted,

/s/ Keefe M. Bernstein

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