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 11 SECURITIES AND EXCHANGE COMMISSION

12
 13 UNITED STATES DISTRICT COURT
 14 NORTHERN DISTRICT OF CALIFORNIA
 15 SAN FRANCISCO DIVISION

<p>16 SECURITIES AND EXCHANGE COMMISSION, 17 Plaintiff, 18 v. 19 JAMES ALAN CRAIG, 20 Defendant.</p>	<p>Case No. CV-15-</p>	<p>COMPLAINT</p>
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 23 Plaintiff Securities and Exchange Commission (the “Commission”) alleges:

24 **SUMMARY OF THE ACTION**

25 1. This action concerns the use of social media – “tweets” from Twitter accounts – to
 26 commit securities fraud by making false statements about publicly traded companies in order to
 27 manipulate the price of these companies’ exchange-traded securities. On January 29, 2013,
 28 Defendant James Alan Craig (“Craig”) sent out phony tweets regarding Audience, Inc. (“Audience”),

1 a public technology company, from a Twitter account designed by him to resemble the account of a
2 securities research firm called Muddy Waters Research (“Muddy Waters”). The tweets falsely stated
3 that the Department of Justice was investigating Audience. This Twitter account issued eight phony
4 Muddy Waters tweets over a span of ninety minutes, causing trading activity in Audience stock to
5 increase and the company’s share price to fall sharply. Audience’s share price dropped approximately
6 28%, prompting the Nasdaq exchange to temporarily halt trading of Audience stock.

7 2. The next day on January 30, 2013, Craig sent out phony tweets regarding Sarepta
8 Therapeutics, Inc. (“Sarepta”), a public biopharmaceutical company, from a second Twitter account
9 designed to resemble that of Citron Research, another securities research firm. The tweets falsely
10 stated that the Food and Drug Administration had seized the company’s drug trial papers and that
11 certain trial results were tainted. Again, as a result, the volume of trading in Sarepta stock spiked and
12 the company’s share price dropped to a low 16% below where it had traded just before the false
13 tweets.

14 3. In an attempt to capitalize on the downward stock price movement he caused, Craig
15 bought and sold Audience shares on January 29 and Sarepta shares on January 30. On each occasion,
16 Craig bought the securities approximately ten minutes after the companies’ stock prices started falling
17 in response to the phony tweets. Craig’s trading in connection with these two market manipulations
18 demonstrates that he attempted to manipulate the equity price of these two issuers by issuing
19 fraudulent tweets about the companies so that he could profit personally. He waited too long each
20 time to trade the stock and therefore only profited approximately \$100 collectively from his
21 manipulations. Craig’s conduct, however, caused harm to the U.S. markets and investors by
22 triggering significant stock price drops, which undermine investor confidence.

23 4. By his knowing or reckless use of phony tweets to manipulate stock prices of publicly
24 traded securities, Craig violated Section 10(b) of the Securities Exchange Act of 1934 (“Exchange
25 Act”) and Rule 10b-5 thereunder.

26 **JURISDICTION AND VENUE**

27 5. This Court has jurisdiction over this action pursuant to Sections 21(d) and 27 of the
28 Exchange Act [15 U.S.C. §§ 78u(d) and 78aa]. Defendant has, directly or indirectly, made use of the

1 means and instrumentalities of interstate commerce and of the mails in connection with the acts,
2 transactions, practices and courses of business alleged in this Complaint.

3 6. Venue in this District is proper pursuant to Section 27 of the Exchange Act [15 U.S.C.
4 § 78aa]. The acts and transactions constituting the violations alleged herein, including the posting of
5 the false tweets from accounts at Twitter, Inc. (a San Francisco, California company), occurred in the
6 Northern District of California.

7 7. Intradistrict assignment to the San Francisco Division is proper pursuant to Civil
8 L.R. 3-2 because certain of the transactions (including the posting of false tweets from accounts at
9 Twitter), acts, practices and courses of business alleged herein occurred in San Francisco County,
10 California.

11 **DEFENDANT**

12 8. Craig, age 62, resides in Dumfries & Galloway, Scotland. Craig created two Twitter
13 accounts, @Mudd1waters and @Citreonrearc, to resemble the accounts of established securities
14 research firms Muddy Waters and Citron Research. Craig is an active trader of equities and options
15 and typically comments on stocks through various other Twitter handles he created, including
16 @dunragit and @HedgeyeAC.

17 **FACTUAL ALLEGATIONS**

18 **A. Craig Created The False and Misleading Twitter Accounts**

19 9. On January 25, 2013, Craig created a Twitter account with the handle @Mudd1waters.
20 He designed this Twitter page to mislead the public into believing that tweets issued from this
21 account were those of established equity research firm Muddy Waters. He purposely made the
22 Twitter handle resemble that of Muddy Waters's legitimate Twitter account: @muddywatersre. In
23 addition, the fake Twitter page he created used the already existing logo of Muddy Waters, and
24 referenced "Conrad Block," which is similar to the name of Muddy Waters's founder Carson Block.
25

26 10. On January 29, 2013, Craig created the @Citreonrearc Twitter account. He
27 designed the Twitter page to again dupe the public by mimicking the existing securities research firm
28 Citron Research's Twitter page. He also intentionally made the Twitter handle resemble that of

1 Citron Research's real Twitter account: @CitronResearch. In addition to creating a very similar
2 Twitter page and handle, Craig used Citron Research's logo on the fake Twitter page, and provided a
3 link to Citron Research's website.

4 **B. Craig Issued False Tweets To Manipulate The Market**

5 11. On January 29, 2013, at 11:44 a.m. (EST), Craig, using the fake Muddy Waters
6 Twitter account, began falsely tweeting about Audience: "AUDIENCE the noise suppression
7 company being investigated by DOJ on rumoured fraud charges Full reort [sic] to follow[.]" By
8 1:09 p.m. that day, Craig had issued eight false tweets: the original tweet that Audience was being
9 investigated by the Justice Department, six re-tweets of the original message, and another tweet
10 reporting that Audience's annual report was being held back. An image of Craig's @Mudd1waters
11 Twitter page, as it appeared on January 29, is attached to this Complaint as Exhibit 1.

12 12. At approximately 2:19 p.m., trading activity in Audience's stock began increasing and
13 the share price began to fall sharply. The volume of shares traded on January 29 (over 840,000
14 shares) was in excess of ten times the volume of shares traded the previous day (approximately
15 77,900 shares). Beginning at the time of the first tweet, Audience's share price fell from \$12.35 per
16 share, to reach a low of \$8.87 per share, an approximately 28% drop. At 2:22 p.m., the price drop
17 triggered Nasdaq's single stock circuit breaker and trading of Audience shares was halted. That same
18 day, Craig bought \$3,549.00 worth of Audience stock, but failed to catch the stock's intraday low
19 price. He later sold these shares for a profit of approximately \$9.00.

20 13. The tweets by Craig were complete fabrications. At 2:30 p.m. that day, the actual
21 Muddy Waters tweeted that there was no Muddy Waters report being released by them regarding
22 Audience, and that Craig's tweets were "a hoax." By 2:38 p.m., the price of Audience's stock
23 recovered and traded at an average price of \$12.28 per share.

24 14. On January 30, 2013 at 11:15 a.m., Craig, using the fake Citron Research account,
25 began falsely tweeting about Sarepta: "\$SRPT FDA steps in as its 48 weeks results on Etelplisen [sic]
26 results are tainted and have been doctored they believe Trial papers seized by FDA." Craig sent out
27 at least two false tweets with the same statement. An image of Craig's @Citreonrearc Twitter
28 page, as it appeared on January 30, is attached to this Complaint as Exhibit 2.

1 15. At approximately 11:18 a.m., the volume of trading in Sarepta shares began to climb
2 and the company's share price began to drop. From an intraday high of \$29.30 just minutes before,
3 Sarepta shares reached a low of \$24.50, representing a drop of approximately 16%. By 11:23 am, the
4 price of Sarepta stock had recovered, trading at an average price of \$28.32 per share. Again, that
5 same day, Craig bought Sarepta shares totaling \$19,537, but failed to catch the intraday low price for
6 the stock. He later sold these shares and made a profit of approximately \$88.00.

7 16. Craig's tweets about Sarepta were false. Citron Research did not send out the tweets
8 about Sarepta. At approximately 5:30 p.m. on January 30, Sarepta issued a statement noting that the
9 company "may be subject to market rumors through social media and other anonymous sources," and
10 that it does not comment on market rumors. It went on to remind investors that "Sarepta
11 communicates material information in accordance with [its] obligations as a public company" and
12 that it was looking forward to its meeting with the FDA to address the path forward for its drug
13 Eteplirsen.

14 **C. Craig Discussed The False Tweets and Sent Additional False Tweets**

15 17. Craig often used the Twitter handles @dunragit and @HedgeyeAC to comment on
16 publicly traded companies, including Sarepta. On January 30 and 31, 2013, Craig's @HedgeyeAC
17 handle exchanged tweets with another Twitter account discussing the false Audience and Sarepta
18 tweets. The other Twitter handle commented that the SEC needed to arrest someone for the
19 fraudulent Audience and Sarepta tweets. Craig tweeted back "what could you arrest them for??" The
20 other Twitter handle tweeted back, "@dunragit are you serious? did you read my post? it's called
21 securities fraud." Craig replied back implying that the people responsible for the false tweets would
22 be difficult to find because they did not use their own names on Twitter, and that one would have to
23 profit to be held liable for securities fraud connected to the false tweets.

24 18. On July 9, 2013 at 11:28 a.m., Craig tweeted again from the Twitter account
25 @Mudd1waters. He issued three false tweets about the public biotechnology company Intuitive
26 Surgical, Inc., stating: "SEC and Dept of Justice to investigate \$ISRG (Intuitive Surgical Inc) on
27 robotic safety and alleged mis-conduct." There was no market reaction to Craig's Intuitive Surgical
28 tweets, and so Craig did not trade soon thereafter.

1 **D. Craig Harmed U.S. Securities Markets**

2 19. Craig's false tweets and manipulative conduct caused substantial market disruption
3 and loss, and caused Nasdaq to halt trading in a security. In reaction to Craig's false and misleading
4 tweets and the subsequent drop in price, certain Audience and Sarepta investors sold hundreds of
5 thousands of shares during each of the temporary stock price depressions and sustained estimated
6 losses of approximately \$1.5 million total. In addition, Craig's tweets caused a public company and
7 two established research firms to expend resources and respond to the tweets.

8 20. Craig's fraudulent conduct also caused tremendous intangible harm to the U.S.
9 markets as the unwarranted and substantial stock price drops he brought about undermine investors'
10 confidence.

11 **CAUSE OF ACTION**

12 Violations of Section 10(b) of the Exchange Act and Rule 10b-5
13 [15 U.S.C. § 78j(b) and 17 C.F.R. § 240.10b-5]

14 21. Paragraphs 1 through 20 are re-alleged and incorporated herein by reference.

15 22. Defendant has, by engaging in the conduct set forth above, directly or indirectly, by
16 use of means or instrumentalities of interstate commerce, or of the mails, or of a facility of a national
17 security exchange, with scienter: (a) employed devices, schemes or artifices to defraud; (b) made
18 untrue statements of material fact or omitted to state material facts necessary in order to make the
19 statements made, in light of the circumstances under which they were made, not misleading; or
20 (c) engaged in acts, practices or courses of business which operated or would operate as a fraud or
21 deceit upon other persons, in connection with the purchase or sale of securities.

22 23. By reason of the foregoing, Defendant, directly or indirectly, violated Section 10(b) of
23 the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 [17 C.F.R. §§ 240.10b-5], and unless enjoined
24 will continue to violate Section 10(b) of the Exchange Act and Rule 10b-5.
25
26
27
28

PRAYER FOR RELIEF

WHEREFORE, the Commission respectfully requests that this Court:

I.

Enjoin Defendant from future violations of 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].

II.

Order Defendant to pay civil money penalties pursuant to Section 21(d) of the Exchange Act [15 U.S.C. §78u(d)].

III.

Order Defendant to disgorge his ill-gotten gains according to proof, plus prejudgment interest thereon.

IV.


Grant such other relief as this Court may deem just and appropriate.

Respectfully submitted,

Dated: November 5, 2015

/s/ Elena Ro
Elena Ro
Attorneys for Plaintiff
SECURITIES AND EXCHANGE COMMISSION


EXHIBIT 1



Conrad Block
@Mudd1waters

8 TWEETS 18 FOLLOWING 17 FOLLOWERS

Tweets

 **Conrad Block** @Mudd1waters 29 Jan
[@MerrillLynch](#) \$ADNC AUDIENCE noise suppression company being investigated by DOJ on rumoured fraud charges
[View conversation](#)


 **Conrad Block** @Mudd1waters 29 Jan
\$ADNC noise suppression company being investigated by DOJ on rumoured fraud charges Full reort to follow later
Expand

EXHIBIT 2



@Citronresearch
@citreonreasearc

Citron Research has been publishing columns for over 11 years, making it one of the longest-running online stock commentary websites.
citronresearch.com

2 TWEETS 13 FOLLOWING 6 FOLLOWERS  

Tweets

 **@Citronresearch** @citreonreasearc 28m
\$SRPT FDA steps in as its 48 weeks results on Eteplirsen results are tainted and have been doctored they believeTrial papers seized
Expand

 **@Citronresearch** @citreonreasearc 32m
\$SRPT FDA steps in as its 48 weeks results on Eteplirsen results are tainted and have been doctored they believeTrial papers seized by FDA.

CIVIL COVER SHEET

The JS 44 civil cover sheet and the information contained herein neither replace nor supplement the filing and service of pleadings or other papers as required by law, except as provided by local rules of court. This form, approved by the Judicial Conference of the United States in September 1974, is required for the use of the Clerk of Court for the purpose of initiating the civil docket sheet. (SEE INSTRUCTIONS ON NEXT PAGE OF THIS FORM.)

I. (a) PLAINTIFFS

SECURITIES AND EXCHANGE COMMISSION

(b) County of Residence of First Listed Plaintiff (EXCEPT IN U.S. PLAINTIFF CASES)

(c) Attorneys (Firm Name, Address, and Telephone Number) Securities and Exchange Commission, (415) 705-2500 44 Montgomery St., Suite 2800, San Francisco, CA 94104 John S. Yun, Steven D. Buchholz, and Elena Ro.

DEFENDANTS

JAMES ALAN CRAIG

County of Residence of First Listed Defendant N/A Scotland (IN U.S. PLAINTIFF CASES ONLY)

NOTE: IN LAND CONDEMNATION CASES, USE THE LOCATION OF THE TRACT OF LAND INVOLVED.

Attorneys (If Known)

II. BASIS OF JURISDICTION (Place an "X" in One Box Only)

- 1 U.S. Government Plaintiff, 2 U.S. Government Defendant, 3 Federal Question (U.S. Government Not a Party), 4 Diversity (Indicate Citizenship of Parties in Item III)

III. CITIZENSHIP OF PRINCIPAL PARTIES (Place an "X" in One Box for Plaintiff and One Box for Defendant)

- Citizen of This State, Citizen of Another State, Citizen or Subject of a Foreign Country, PTF DEF, Incorporated or Principal Place of Business In This State, Incorporated and Principal Place of Business In Another State, Foreign Nation

IV. NATURE OF SUIT (Place an "X" in One Box Only)

Table with 5 columns: CONTRACT, REAL PROPERTY, TORTS, CIVIL RIGHTS, PRISONER PETITIONS, FORFEITURE/PENALTY, LABOR, IMMIGRATION, BANKRUPTCY, SOCIAL SECURITY, FEDERAL TAX SUITS, OTHER STATUTES. Includes various legal categories like Insurance, Personal Injury, Real Estate, etc.

V. ORIGIN (Place an "X" in One Box Only)

- 1 Original Proceeding, 2 Removed from State Court, 3 Remanded from Appellate Court, 4 Reinstated or Reopened, 5 Transferred from Another District, 6 Multidistrict Litigation

VI. CAUSE OF ACTION

Cite the U.S. Civil Statute under which you are filing (Do not cite jurisdictional statutes unless diversity): Violations of Section 10(b) of the Exchange Act, and Rule 10b-5. 15 U.S.C. § 78j(b) and 17 C.F.R. § 240.10b-5. Brief description of cause: Market manipulation and securities fraud.

VII. REQUESTED IN COMPLAINT:

CHECK IF THIS IS A CLASS ACTION UNDER RULE 23, F.R.Cv.P. DEMAND \$ CHECK YES only if demanded in complaint: JURY DEMAND: Yes No

VIII. RELATED CASE(S) IF ANY

(See instructions): JUDGE DOCKET NUMBER

DATE 11/05/2015 SIGNATURE OF ATTORNEY OF RECORD /s/ Elena Ro

IX. DIVISIONAL ASSIGNMENT (Civil L.R. 3-2)

(Place an "X" in One Box Only) SAN FRANCISCO/OAKLAND SAN JOSE EUREKA

INSTRUCTIONS FOR ATTORNEYS COMPLETING CIVIL COVER SHEET FORM JS 44

Authority For Civil Cover Sheet

The JS 44 civil cover sheet and the information contained herein neither replaces nor supplements the filings and service of pleading or other papers as required by law, except as provided by local rules of court. This form, approved by the Judicial Conference of the United States in September 1974, is required for the use of the Clerk of Court for the purpose of initiating the civil docket sheet. Consequently, a civil cover sheet is submitted to the Clerk of Court for each civil complaint filed. The attorney filing a case should complete the form as follows:

- I.(a) Plaintiffs-Defendants.** Enter names (last, first, middle initial) of plaintiff and defendant. If the plaintiff or defendant is a government agency, use only the full name or standard abbreviations. If the plaintiff or defendant is an official within a government agency, identify first the agency and then the official, giving both name and title.
- (b) County of Residence.** For each civil case filed, except U.S. plaintiff cases, enter the name of the county where the first listed plaintiff resides at the time of filing. In U.S. plaintiff cases, enter the name of the county in which the first listed defendant resides at the time of filing. (NOTE: In land condemnation cases, the county of residence of the "defendant" is the location of the tract of land involved.)
- (c) Attorneys.** Enter the firm name, address, telephone number, and attorney of record. If there are several attorneys, list them on an attachment, noting in this section "(see attachment)".
- II. Jurisdiction.** The basis of jurisdiction is set forth under Rule 8(a), F.R.Cv.P., which requires that jurisdictions be shown in pleadings. Place an "X" in one of the boxes. If there is more than one basis of jurisdiction, precedence is given in the order shown below.
 United States plaintiff. (1) Jurisdiction based on 28 U.S.C. 1345 and 1348. Suits by agencies and officers of the United States are included here.
 United States defendant. (2) When the plaintiff is suing the United States, its officers or agencies, place an "X" in this box.
 Federal question. (3) This refers to suits under 28 U.S.C. 1331, where jurisdiction arises under the Constitution of the United States, an amendment to the Constitution, an act of Congress or a treaty of the United States. In cases where the U.S. is a party, the U.S. plaintiff or defendant code takes precedence, and box 1 or 2 should be marked.
 Diversity of citizenship. (4) This refers to suits under 28 U.S.C. 1332, where parties are citizens of different states. When Box 4 is checked, the citizenship of the different parties must be checked. (See Section III below; **NOTE: federal question actions take precedence over diversity cases.**)
- III. Residence (citizenship) of Principal Parties.** This section of the JS 44 is to be completed if diversity of citizenship was indicated above. Mark this section for each principal party.
- IV. Nature of Suit.** Place an "X" in the appropriate box. If the nature of suit cannot be determined, be sure the cause of action, in Section VI below, is sufficient to enable the deputy clerk or the statistical clerk(s) in the Administrative Office to determine the nature of suit. If the cause fits more than one nature of suit, select the most definitive.
- V. Origin.** Place an "X" in one of the six boxes.
 Original Proceedings. (1) Cases which originate in the United States district courts.
 Removed from State Court. (2) Proceedings initiated in state courts may be removed to the district courts under Title 28 U.S.C., Section 1441. When the petition for removal is granted, check this box.
 Remanded from Appellate Court. (3) Check this box for cases remanded to the district court for further action. Use the date of remand as the filing date.
 Reinstated or Reopened. (4) Check this box for cases reinstated or reopened in the district court. Use the reopening date as the filing date.
 Transferred from Another District. (5) For cases transferred under Title 28 U.S.C. Section 1404(a). Do not use this for within district transfers or multidistrict litigation transfers.
 Multidistrict Litigation. (6) Check this box when a multidistrict case is transferred into the district under authority of Title 28 U.S.C. Section 1407. When this box is checked, do not check (5) above.
- VI. Cause of Action.** Report the civil statute directly related to the cause of action and give a brief description of the cause. **Do not cite jurisdictional statutes unless diversity.** Example: U.S. Civil Statute: 47 USC 553 Brief Description: Unauthorized reception of cable service
- VII. Requested in Complaint.** Class Action. Place an "X" in this box if you are filing a class action under Rule 23, F.R.Cv.P.
 Demand. In this space enter the actual dollar amount being demanded or indicate other demand, such as a preliminary injunction.
 Jury Demand. Check the appropriate box to indicate whether or not a jury is being demanded.
- VIII. Related Cases.** This section of the JS 44 is used to reference related pending cases, if any. If there are related pending cases, insert the docket numbers and the corresponding judge names for such cases.
- Date and Attorney Signature.** Date and sign the civil cover sheet.