

**UNITED STATES DISTRICT COURT
DISTRICT OF SOUTH CAROLINA
AIKEN DIVISION**

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

HERMAN RONNIE YOUNG, JR. d/b/a RACE
CYCLER,

Defendant.

Civil Action No.: 1:17-00243-JMC

COMPLAINT

Plaintiff the United States Securities and Exchange Commission (the “Commission”) alleges as follows:

SUMMARY

1. Under the guise of a legitimate business, Defendant operated an online pyramid and Ponzi scheme from August 2014 until February 2015 called “Race Cyclor.” Thousands of individuals from the United States and abroad collectively invested over \$1.3 million through the website www.RaceCyclor.com.

2. Defendant promoted Race Cyclor as a legitimate enterprise selling e-books, but operated it like a classic pyramid/Ponzi scheme. Individuals invested in Race Cyclor by paying a “membership fee” and earned money for recruiting others to join the program. All of Race Cyclor’s payouts to early investors were made using the funds received from later investors. There was no source of revenue for Race Cyclor other than “membership fees.” The products Race

Cycler purported to sell were practically valueless and existed only to give the illusion of a legitimate enterprise.

3. Defendant oversaw all the essential operational aspects of Race Cycler, including the development and maintenance of the website, promotion of the enterprise, collection of investor funds, establishment and maintenance of accounts with payment processors, maintenance of the books and records of the enterprise, and the computation and distribution of payments to investors.

4. The Race Cycler memberships were investment contracts constituting securities that were neither registered with the Commission as required by the federal securities laws, nor exempt from registration. Defendants regularly effected transactions in Race Cycler securities as unregistered brokers.

5. In February 2015, following discussions with Commission staff, Defendant voluntarily shut down the Race Cycler enterprise.

6. Through the activities alleged in this Complaint, Defendant has violated the registration and antifraud provisions of the federal securities laws. Unless restrained and enjoined, Defendant is likely to engage in future violations of the federal securities laws.

JURISDICTION AND VENUE

7. This Court has jurisdiction over this action pursuant to 22(a) of the Securities Act [15 U.S.C. §77v(a)], Sections 21(e) and 27 of the Exchange Act [15 U.S.C. §78u(e), 78aa], and 28 U.S.C. §1331. Defendant, directly or indirectly, made use of the means or instrumentalities of interstate commerce, or of the mails, in connection with the acts, practices, and courses of business set forth in this Complaint.

8. Venue lies in this District pursuant to Section 22(a) of the Securities Act [15 U.S.C. §77v(a)], Section 27 of the Exchange Act [15 U.S.C. §78aa] and 28 U.S.C. §1391(b)(1). Defendant resides in this District and operated Race Cyclers' offices in this District.

DEFENDANT

9. Defendant Herman Ronnie Young, Jr., 46 years old, is a resident of North Augusta, South Carolina. Defendant was the sole owner, organizer, manager, and proprietor of Race Cyclers. He is not and never has been registered with the Commission in any capacity.

FACTS

10. Defendant was the sole owner, organizer, manager, and proprietor of Race Cyclers, an online pyramid and Ponzi scheme.

11. Race Cyclers launched in August 2014 at www.RaceCyclers.com. Investors paid a \$230 fee to become "members" of Race Cyclers. Investors recruited other members in order to move up the pyramid and eventually earn reward points, which could be converted to cash. The reward payments to earlier investors were made from the funds received from later investors.

12. Race Cyclers purported to sell a collection of e-books to members. Race Cyclers did not offer the e-books on a retail basis. Investors could only access the e-books if they paid \$230 to become a member of Race Cyclers.

13. The value of e-books was well below \$230. For example, certain of the e-books were available for purchase online for as little as \$0.99. In fact, Race Cyclers purchased the rights to distribute its collection of e-books to an unlimited number of members for less than \$300.

14. Thousands of individuals invested a total of over \$1.3 million in Race Cyclers from August 2014 through February 2015. Race Cyclers distributed approximately \$542,000 of these funds back to investors.

15. Race Cyclers revenues consisted entirely of investor-contributed funds. There was no additional source of revenue for Race Cyclers. The sole source of the payments to earlier investors was funds contributed by newer investors.

16. At no time during Race Cyclers operation did Defendant disclose on the Race Cyclers website or otherwise that the program was a pyramid and Ponzi scheme that was mathematically certain to collapse, leaving the late-coming investors without the funds to earn reward payments.

17. The Race Cyclers memberships were securities under the federal securities laws.

18. At no time during Race Cyclers operation or any other time has Defendant registered an offering of securities under the Securities Act or a class of securities under the Exchange Act.

19. In February 2015, following discussions with Commission staff, Defendant voluntarily shut down the Race Cyclers enterprise. In March 2015, Defendant voluntarily froze all remaining funds related to Race Cyclers, which were later placed in escrow.

FIRST CLAIM FOR RELIEF

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

20. Paragraphs 1 through 19 are realleged and incorporated by reference as if fully set forth herein.

21. By engaging in the conduct set forth above, Defendant, directly or indirectly, with scienter, by use of means or instrumentalities of interstate commerce, or of the mails, in connection with the purchase or sale of securities: (a) employed devices, schemes or artifices to defraud; (b) made untrue statements of material fact or omitted to state material facts 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, or courses of business which operated or would operate as a fraud or deceit upon any person.

22. By reason of the foregoing, Defendants has violated Section 10(b) of the Exchange Act and Rule 10b-5 thereunder [15 U.S.C. §78j(b) and 17 C.F.R. §240.10b-5].

SECOND CLAIM FOR RELIEF

(Violations of Section 17(a) of the Securities Act)

23. Paragraphs 1 through 22 are realleged and incorporated by reference as if fully set forth herein.

24. By engaging in the conduct set forth above, Defendant, directly or indirectly, in the offer or sale of securities, by use of the means or instruments of transportation or communication in interstate commerce or by the use of the mails: (a) employed a device, scheme, or artifice to defraud with scienter; (b) obtained money or property by means of untrue statements of material fact or by omitting to state material facts necessary to make the statements made, in light of the circumstances under which they were made, not misleading; and/or (c) engaged in transactions, practices, or courses of business that operated or would operate as a fraud or deceit upon the purchasers of such securities.

25. By reason of the foregoing, Defendant violated Section 17(a) of the Securities Act [15 U.S.C. §77q(a)].

THIRD CLAIM FOR RELIEF

(Violations of Sections 5(a) and 5(c) of the Securities Act)

26. Paragraphs 1 through 25 are realleged and incorporated by reference as if fully set forth herein.

27. By engaging in the conduct set forth above, Defendant, directly or indirectly, made use of the means or instruments of transportation or communication in interstate commerce, or of the mails, to offer to sell or to sell securities, or to carry or cause such securities to be carried through the mails or in interstate commerce for the purpose of sale or for delivery after sale.

28. No registration statement has been filed with the Commission or has been in effect with respect to any of the offerings or securities alleged herein, and no exemption from registration applies.

29. By reason of the foregoing, Defendant violated Sections 5(a) and 5(c) of the Securities Act [15 U.S.C. §§77e(a), (c)].

PRAYER FOR RELIEF

WHEREFORE, the Commission respectfully requests that the Court grant the following relief:

I.

Enter a Final Judgment finding that Defendant violated the securities laws and rules promulgated thereunder as alleged against him herein.

II.

Enter a permanent injunction restraining Defendant and his agents, servants, employees and attorneys and those persons in active concert or participation with him who receive actual notice of the injunction by personal service or otherwise, from directly or indirectly violating Sections 5 and 17(a) of the Securities Act of 1933 and Section 10(b) and of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder.

III.

Enter a permanent injunction restraining Defendant and his agents, servants, employees and attorneys and those persons in active concert or participation with him who receive actual notice of the injunction by personal service or otherwise, from directly or indirectly, including through any entity owned or controlled by Defendant, offering, operating, or participating in any marketing or sales program involving a security, including but not limited to a program in which a participant is compensated or promised compensation solely or primarily (1) for inducing another person to become a participant in the program, or (2) if such induced person induces another to become a participant in the program.

IV.

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

V.

Order Defendant to pay civil penalties pursuant to Section 20(d) of the Securities Act [15 U.S.C. §77t(d)] and Section 21(d) of the Exchange Act [15 U.S.C. §78u(d)].

VI.

Grant such other and further relief as the Court deems just and proper.

[SIGNATURE PAGE FOLLOWS]

Dated: January 26, 2017

Respectfully submitted.

BETH DRAKE
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District of South Carolina

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