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8 **UNITED STATES DISTRICT COURT**  
9 **CENTRAL DISTRICT OF CALIFORNIA**

12 **SECURITIES AND EXCHANGE**  
13 **COMMISSION,**

14 Plaintiff,

15 vs.

16 DANIEL R. ADAMS, MICHAEL A.  
17 FLANDERS, SPIDERWORX MEDIA  
18 LLC, and AN L.A. MINUTE LLC,

19 Defendants.

Case No.

**COMPLAINT**

20  
21 Plaintiff Securities and Exchange Commission (“SEC”) alleges:

22 **JURISDICTION AND VENUE**

23 1. The Court has jurisdiction over this action pursuant to Sections 20(b),  
24 20(d)(1) and 22(a) of the Securities Act of 1933 (“Securities Act”), 15 U.S.C. §§  
25 77t(b), 77t(d)(1) & 77v(a), and Sections 21(d)(1), 21(d)(3)(A), 21(e) and 27(a) of the  
26 Securities Exchange Act of 1934 (“Exchange Act”), 15 U.S.C. §§ 78u(d)(1),  
27 78u(d)(3)(A), 78u(e) & 78aa(a).



1 **DEFENDANTS**

2 8. **Daniel Adams**, age 57, is a resident of Los Angeles, California. Adams  
3 is a film writer and director. Adams and Flanders co-founded Spiderworx in 2015  
4 and ALAM in 2016. Adams and Flanders co-owned Spiderworx, and Spiderworx  
5 was ALAM’s managing member. In 2012, Adams pled guilty to ten counts of state  
6 tax fraud and larceny for inflating expenses in applications for film tax credits in two  
7 movies. He was ordered to pay nearly \$4.4 million in restitution to the State of  
8 Massachusetts, served twenty-one months in prison, and was sentenced to 10 years  
9 probation. Adams has never held any securities licenses.

10 9. **Michael Flanders**, age 57, is an Australian citizen and resides in Old  
11 Hickory, Tennessee. Flanders is a music producer and song writer. Flanders co-  
12 founded Spiderworx and ALAM with Adams. Flanders co-owned Spiderworx.  
13 Flanders also helped manage Spiderworx until he resigned in July 2018. Flanders has  
14 never held any securities licenses.

15 10. **Spiderworx Media LLC** is a California limited liability company  
16 formed in May 2015, with its principal place of business in Los Angeles, California.  
17 Spiderworx and its securities offering have never been registered with the SEC.

18 11. **An L.A. Minute LLC** is a California limited liability company formed  
19 in October 2016, with its principal place of business in Los Angeles, California.  
20 ALAM and its securities offering have never been registered with the SEC.

21 **THE ALLEGATIONS**

22 12. Adams and Flanders met in or about 2014. In May 2015, Adams and  
23 Flanders formed Spiderworx, in order to raise money to produce at least one movie.  
24 Adams and Flanders each owned 50% of Spiderworx. The first movie they planned  
25 to produce was called *An L.A. Minute*, which was released in 2018.

26 13. Adams and Flanders formed ALAM in October 2016 to produce and  
27 distribute the movie, *An L.A. Minute*. Spiderworx was ALAM’s founding and  
28 managing member and was initially its 100% owner.

1           **A. Defendants' Two Securities Offerings**

2           14. Adams and Flanders raised millions of dollars to fund the development  
3 and production of *An L.A. Minute*. Part of that capital raise involved the sale of  
4 securities, and is the subject of this complaint. In particular, beginning in 2015,  
5 Adams and Flanders raised at least \$1,000,000 from investors in two securities  
6 offerings.

7           15. Both Adams and Flanders communicated with prospective investors  
8 about the securities offerings in person, by telephone and/or by email.

9           16. Adams and Flanders also communicated with each other by email  
10 concerning how to respond to potential or actual investors' inquiries.

11           17. Substantially all of the funds Adams and Flanders raised in the securities  
12 offerings were deposited into Spiderworx's bank account.

13           18. Adams and Flanders were signatories on Spiderworx's and ALAM's  
14 bank accounts.

15           19. *An L.A. Minute* began filming in November 2016. In early December  
16 2016, production was shut down due to a lack of funding.

17           20. Filming resumed in or about March 2017, and the movie was released in  
18 or about August 2018.

19                   **1. The Spiderworx loan agreements**

20           21. From July 2015 through September 2016, Adams and Flanders raised at  
21 least \$400,000 from nine investors through unsecured loan agreements, ostensibly to  
22 be used as seed capital until Spiderworx could obtain bank financing for the movie.

23           22. Spiderworx never obtained bank financing for *An L.A. Minute*.

24           23. These loan agreements were titled "Co-Producer/Development Funding  
25 Deal Memo."

26           24. The loan agreements typically promised a 20% return to be paid when  
27 bank financing was obtained (but no later than nine months after execution of the  
28 agreements).

1 25. Most of the loan agreements entitled the investors to a percentage of the  
2 profits generated by the film, initially 1% for every \$25,000 invested.

3 26. The loan agreements typically included an option permitting the investor  
4 to convert his or her contribution into an “equity investment” in the limited liability  
5 company that was to produce the film.

6 27. The loan agreements were signed by investors and by Flanders or Adams  
7 on behalf of Spiderworx.

8 28. All nine Spiderworx investors eventually converted their loans into  
9 ALAM membership interests.

10 29. In at least one instance, in an August 31, 2016 email to a potential  
11 investor, Adams referred to a Spiderworx loan as an “investment.”

12 30. The profits that the investors who invested through Spiderworx loan  
13 agreements expected to receive were dependent on the managerial efforts of Adams  
14 and Flanders.

15 31. The investors who invested through Spiderworx loan agreements were  
16 passive and did not take an active role in Spiderworx’s business.

17 32. Spiderworx’s investors were motivated by the return promised on their  
18 investments.

19 **2. The ALAM membership interests**

20 33. Between October and December 2016, Adams and Flanders raised  
21 another \$600,000 through the sale of ALAM membership interests to four investors.

22 34. Three of these ALAM investors had previously loaned money to  
23 Spiderworx.

24 35. The four ALAM investors signed ALAM’s operating agreement, which  
25 explicitly states that members may take no part in the conduct or control of the  
26 business or affairs of the company and states these responsibilities shall vest in the  
27 managing member, Spiderworx.

28 36. Flanders typically signed the operating agreements on behalf of ALAM.

1 37. ALAM's success was dependent on the managerial efforts of Adams and  
2 Flanders.

3 38. The ALAM membership interest investors were passive and did not take  
4 an active role in ALAM's business.

5 39. ALAM membership interest investors were motivated by the potential  
6 returns on their investments in ALAM.

7 **B. Defendants' Material Misrepresentations and Omissions**

8 40. Adams and Flanders made multiple material misrepresentations and  
9 omissions to at least two investors to induce their investments in defendants'  
10 securities offerings.

11 **1. Misrepresentations and omissions to "Investor A"**

12 41. On or about September 1, 2016, one investor (hereinafter, "Investor A")  
13 invested \$60,000 through a Spiderworx loan agreement. Investor A signed the loan  
14 agreement, which was also signed by Adams on behalf of Spiderworx.

15 42. Investor A was first introduced to Flanders in or about August 2016.

16 43. Investor A met with Flanders on or about August 12, 2016, and Flanders  
17 introduced Adams to Investor A by phone at that meeting.

18 44. Before investing, Investor A requested a list of defendants' other  
19 investors, how much each had invested, and a breakdown of how the invested funds  
20 raised to date had been spent.

21 45. Flanders, on or about August 30, 2016, sent Investor A an email stating  
22 that he and Adams had personally invested in the film.

23 46. Adams, on or about August 30, 2016, also sent Investor A an email,  
24 stating that "Mike [Flanders] and I are in for \$85K a piece (\$170K total)."

25 47. Flanders' and Adams' representations to Investor A that they had  
26 invested their own money were false.

27 48. Adams subsequently admitted that he knowingly misrepresented to  
28 Investor A that he and Flanders had each invested \$85,000 of their own money in the

1 film.

2 49. Knowing they had not invested their own funds, Flanders admitted that  
3 he and Adams misled Investor A because he believed she wanted to know if he and  
4 Adams had “skin in the game” and thought Investor A would be more inclined to  
5 invest if she believed he had placed his own money at risk.

6 50. Adams, on or about August 30, 2016, sent another email to Investor A,  
7 copying Flanders, reflecting that Spiderworx had previously raised \$322,500, of  
8 which “roughly” \$140,000 was paid to attorneys, \$15,000 was spent on legal  
9 overhead, \$50,000 was spent on a casting director, \$85,000 was spent on line  
10 producers, \$5,000 was spent on a publicist, \$7,500 was spent on office expenses, and  
11 \$20,000 was spent on travel.

12 51. Adams subsequently admitted that this use of investor money was  
13 knowingly misrepresented, and that it “was a lie.”

14 52. Flanders similarly admitted that Adams’ representations to Investor A  
15 regarding the uses of investors’ funds were “all lies” because most of the money  
16 provided by the investors went to Adams and Flanders.

17 53. In or about late August 2016, Adams verbally told Investor A that the  
18 funds she loaned Spiderworx would be used exclusively to pay two different  
19 attorneys \$30,000 each.

20 54. In or about August 2016, Adams and Flanders also verbally told Investor  
21 A that neither Adams nor Flanders would receive any of the funds being raised until  
22 the bank financing was obtained.

23 55. In fact, Adams and Flanders received \$21,062 and \$18,500,  
24 respectively, from Investor A’s investment, and only \$20,000 was paid to an attorney.

25 56. Adams and Flanders were the makers of these false and misleading  
26 statements and omissions to Investor A because each directly made certain of the  
27 misrepresentations and omissions.

28 57. Their misstatements and omissions were material to Investor A. For

1 example, whether or not Adams and Flanders had truly invested their own money was  
2 important to Investor A's investment decision. Also, how much investor money  
3 Spiderworx had raised and how the money was being spent were important to her  
4 investment decision. And whether Adams and Flanders would receive a portion of  
5 Investor A's funds was important to Investor A's investment decision. Investor A  
6 would not have invested with Spiderworx if she had known her money would be  
7 going to Adams and Flanders instead of to pay attorneys.

8 58. Adams, Flanders and Spiderworx obtained money by means of the fraud  
9 perpetrated on Investor A because they received money from her investment.

10 59. In carrying out this fraud on Investor A, Adams and Flanders each knew,  
11 or was reckless in not knowing, that they were misrepresenting and omitting material  
12 information. Each also did not exercise reasonable care in their false  
13 communications with Investor A.

## 14 2. Misrepresentations and omissions to "Investor B"

15 60. Another investor (hereinafter "Investor B") purchased an ALAM  
16 membership interest for \$100,000 in or about October 2016.

17 61. Investor B was a business associate of Flanders and had made two prior  
18 investments in Spiderworx, in 2015 and 2016.

19 62. In or about September 2016, Flanders called Investor B and asked if he  
20 could provide \$300,000 for the film.

21 63. Investor B told Flanders "if you can get the other two-thirds, then I'll put  
22 the other third up."

23 64. On or about September 26, 2016, Flanders sent Investor B an email  
24 stating that "we have been very successful (*sic*) and fortunate in raising the other  
25 necessary capital . . . [and] now need your 100K portion . . . ."

26 65. Flanders' email included an email chain that Adams sent earlier the same  
27 day. This email chain that Flanders forwarded to Investors B was a doctored and fake  
28 email chain used to dupe Investor B into believing that another individual had



1 invested \$200,000 with the defendants.

2 66. Specifically, the email chain from Adams that Flanders sent Investor B  
3 appeared to forward a wire transfer record purporting to show that \$200,000 had been  
4 deposited into Spiderworx's bank account by another individual earlier that day  
5 (hereinafter "Investor C").

6 67. Adams' email chain also included an email ostensibly from Investor C to  
7 Adams, advising Adams not to spend the \$200,000 until the "other \$100K" had been  
8 raised.

9 68. Less than a minute after sending Investor B this fake email chain,  
10 Flanders forwarded Investor B a second email from Adams attaching an ALAM  
11 operating agreement signature page appearing to memorialize Investor C's \$200,000  
12 investment.

13 69. The signature page was a forgery. It had not been signed by Investor C.

14 70. Before sending Investor B the fabricated email chain and forged  
15 signature page that Adams had sent Flanders, Flanders congratulated his partner on  
16 the trickery. Shortly after receiving Adams' first email, Flanders responded to  
17 Adams in a one-word email stating "genius."

18 71. Adams subsequently admitted that he fabricated the \$200,000 wire  
19 transfer record and the email purportedly from Investor C that Flanders forwarded to  
20 Investor B.

21 72. Adams also admitted that he forged Investor C's signature on the  
22 operating agreement.

23 73. At the time Adams falsified these documents, he believed that Flanders  
24 would share them with Investor B.

25 74. In fact, Investor C had not agreed to invest nor invested any money in  
26 ALAM at that time, and had not signed any operating agreement.

27 75. Adams admitted that he intentionally forged Investor C's signature on  
28 the document provided to Investor B, and fabricated the email from Investor C and

1 the wire transfer record, as an inducement for Investor B to invest.

2 76. When Flanders emailed Investor B, Flanders was aware that defendants'  
3 fundraising efforts had not been "successful"; that Investor C had not invested any  
4 money; and that the documents purporting to evidence an investment by Investor C  
5 were fake.

6 77. After receiving the doctored email chain and forged signature page  
7 falsely indicating that another investor had invested \$200,000, Investor B invested  
8 \$100,000 with ALAM in October 2016.

9 78. On or about October 17, 2016, Flanders deposited Investor B's check  
10 into Spiderworx's account.

11 79. Adams and Flanders were the makers of the false and misleading  
12 statements and omissions to Investor B about the fake \$200,000 investment, because  
13 each made misstatements and omissions and acted jointly with ultimate authority  
14 over the communications to Investor B.

15 80. Their misstatements and omissions were material to Investor B. For  
16 example, whether or not Spiderworx had actually raised \$200,000 from another  
17 investor was important to Investor B's investment decision.

18 81. Each of the defendants obtained money by means of the fraud they  
19 perpetrated on Investor B. Investor B's \$100,000 check was deposited into a  
20 Spiderworx account, and over \$10,000 of that investment was transferred to a  
21 Spiderworx account doing business as ALAM. Also, Adams and Flanders personally  
22 received \$29,000 and \$10,000, respectively, from the investment.

23 82. In carrying out this fraud on Investor B, Adams and Flanders each  
24 knew, or was reckless in not knowing, that they were misrepresenting and omitting  
25 material information. Each also did not exercise reasonable care in their false  
26 communications with Investor B.

27 83. Because of Adams' and Flanders' positions as the companies' co-  
28 founders and co-managers, their scienter and/or negligence are imputed to

1 Spiderworx and ALAM.

2 **FIRST CLAIM FOR RELIEF**

3 **Fraud in the Connection with the Purchase and Sale of Securities**  
4 **Violations of Section 10(b) of the Exchange Act and Rule 10b-5(b)**  
5 **(against all Defendants)**

6 84. The SEC realleges and incorporates by reference paragraphs 1 through  
7 83 above.

8 85. As alleged above, in the course of raising capital for Spiderworx and  
9 ALAM through the offer and sale of securities, the defendants defrauded Investor A  
10 and Investor B. They misled Investor A about whether Adams and Flanders had  
11 invested their own money into the venture, and about how investor money had been  
12 and would be used; and they misled Investor B with fabricated and forged documents  
13 to make it appear as if another investor had invested to convince Investor B to invest.

14 86. By engaging in the conduct described above, Adams, Flanders,  
15 Spiderworx and ALAM, and each of them, directly or indirectly, in connection with  
16 the purchase or sale of a security, by the use of means or instrumentalities of  
17 interstate commerce, of the mails, or of the facilities of a national securities exchange,  
18 made untrue statements of a material fact or omitted to state a material fact necessary  
19 in order to make the statements made, in the light of the circumstances under which  
20 they were made, not misleading.

21 87. Adams, Flanders, Spiderworx and ALAM, with scienter, made untrue  
22 statements of a material fact or omitted to state a material fact necessary in order to  
23 make the statements made, in the light of the circumstances under which they were  
24 made, not misleading.

25 88. By engaging in the conduct described above, Adams, Flanders,  
26 Spiderworx and ALAM violated, and unless restrained and enjoined will continue to  
27 violate, Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5(b)  
28 thereunder, 17 C.F.R. §§ 240.10b-5(b).

**SECOND CLAIM FOR RELIEF**

**Fraud in the Offer or Sale of Securities**

**Violations of Section 17(a)(2) of the Securities Act**

**(against all Defendants)**

89. The SEC realleges and incorporates by reference paragraphs 1 through 83 above.

90. As alleged above, in the course of raising capital for Spiderworx and ALAM through the offer and sale of securities, the defendants defrauded Investor A and Investor B. They misled Investor A about whether Adams and Flanders had invested their own money into the venture, and about how investor money had been and would be used; and they misled Investor B with fabricated and forged documents to make it appear as if another investor had invested to convince Investor B to invest.

91. By engaging in the conduct described above, Adams, Flanders, Spiderworx and ALAM, and each of them, directly or indirectly, in the offer or sale of securities, by the use of means or instruments of transportation or communication in interstate commerce or by use of the mails, obtained money or property by means of untrue statements of a material fact or by omitting 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.

92. Adams, Flanders, Spiderworx and ALAM, with scienter or negligence, obtained money or property by means of untrue statements of a material fact or by omitting 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.

93. By engaging in the conduct described above, Adams, Flanders, Spiderworx and ALAM violated, and unless restrained and enjoined will continue to violate, Section 17(a)(2), of the Securities Act, 15 U.S.C. §§ 77q(a)(2).

**PRAYER FOR RELIEF**

WHEREFORE, the SEC respectfully requests that the Court:

**I.**

Issue findings of fact and conclusions of law that Defendants committed the alleged violations.

**II.**

Issue judgments, in forms consistent with Rule 65(d) of the Federal Rules of Civil Procedure, permanently enjoining Defendants Adams, Flanders, Spiderworx and ALAM and their officers, agents, servants, employees and attorneys, and those persons in active concert or participation with any of them, who receive actual notice of the judgment by personal service or otherwise, and each of them, from violating Section 17(a) of the Securities Act, 15 U.S.C. §77q(a), and 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.

**III.**

Issue a judgment, in a form consistent with Rule 65(d) of the Federal Rules of Civil Procedure, permanently enjoining Adams from directly or indirectly, including, but not limited to, through any entity owned or controlled by Adams, participating in the issuance, purchase, offer, or sale of any security in an unregistered offering by an issuer.

**IV.**

Order Defendants Adams and Flanders to disgorge their respective ill-gotten gains received from their illegal conduct, together with prejudgment interest thereon.

**V.**

Order Defendants Adams, Flanders, Spiderworx and ALAM to pay civil penalties under Section 21(d)(3) of the Exchange Act, 15 U.S.C. § 78u(d)(3).

**VI.**

Retain jurisdiction of this action in accordance with the principles of equity and the Federal Rules of Civil Procedure in order to implement and carry out the terms of

1 all orders and decrees that may be entered, or to entertain any suitable application or  
2 motion for additional relief within the jurisdiction of this Court.

3 **VII.**

4 Grant such other and further relief as this Court may determine to be just and  
5 necessary.

6  
7 Dated: February 26, 2019

8 */s/ Amy Jane Longo*

9 \_\_\_\_\_  
10 Amy Jane Longo  
11 Attorney for Plaintiff  
12 Securities and Exchange Commission  
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