

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

UNITED STATES OF AMERICA) No.
)
) Violations: Title 18, United States Code,
) Sections 1343 and 1348
v.)
THOMAS LINDSTROM)

COUNT ONE

The SPECIAL FEBRUARY 2016 GRAND JURY charges:

1. At times material to this indictment:

a. Defendant THOMAS LINDSTROM was a trader at Rock Capital, a proprietary trading firm located in Chicago, Illinois, that traded futures contracts and options on futures contracts on the Chicago Board of Trade.

b. Futures contracts were standardized, legally binding agreements to buy or sell a specific product or financial instrument in the future. The buyer and seller of a futures contract agreed on a price today for a product or financial instrument to be delivered or settled in cash on a future date. The minimum price increment at which a futures contract could trade was called a “tick,” and the value of a tick for each contract was set by the futures exchange on which the contract was traded.

c. An option on a futures contract gave the owner the right, but not the obligation, to buy or sell the futures, at a fixed price (strike price), on or before a specified future date (expiration date). A call option on a futures contract gave the buyer the right to buy a futures contract at the strike price before the expiration date. Conversely, a put option gave the buyer the right to sell a futures contract at a strike price before the expiration date. Options could be “in the money” or “out of the money” – the designations denoted whether exercising the option would be

profitable at that point in time. For example, a call option was in the money if the strike price was below the actual futures contract price, which would result in a profit if the option was exercised. Conversely, a call option was out of the money if the strike price was above the actual futures contract price, which would result in a loss if the option was exercised. A “deep” out of the money option referred to an option with a strike price that was significantly away from the actual futures contract price.

d. A 10-year Treasury Note was a debt obligation issued by the United States government that matured in 10 years. A 10-year Treasury Note paid interest at a fixed rate once every six months and paid the face value to the holder at maturity. Futures contracts on 10-year Treasury Notes, and options on 10-year Treasury Note futures contracts, were available for trading on the Chicago Board of Trade.

e. At Rock Capital, LINDSTROM traded options on 10-year Treasury Note futures contracts. LINDSTROM received as his compensation approximately 80% of any net profits earned from his trading at Rock Capital. LINDSTROM received those funds via interstate wire transfers from Rock Capital’s bank account.

f. Prior to 2016, the Chicago Board of Trade set the minimum settlement value of all options on futures contracts at one tick even if the actual value of the option was substantially less. For options on 10-year Treasury Note futures contracts, one tick was approximately \$15.63.

2. Beginning from in or about January 2014, and continuing until in or about January 2015, at Chicago, in the Northern District of Illinois, Eastern Division, and elsewhere,

THOMAS LINDSTROM,

defendant herein, devised, intended to devise, and participated in a scheme to defraud Rock Capital in connection with an option on a commodity for future delivery, and to obtain by means of materially false and fraudulent pretenses, representations, and promises, money and property in connection with the purchase and sale of an option on a commodity for future delivery, which scheme is further described below.

3. It was part of the scheme that LINDSTROM used deep out of the money options on 10-year Treasury Note futures to make it fraudulently appear that his trading at Rock Capital was profitable, and thereby obtain greater compensation as a result. Specifically, LINDSTROM purchased deep out of the money options for substantially less than one tick, knowing that the options had a minimum settlement value of one tick. LINDSTROM used this pricing convention to make it appear to Rock Capital's owner that the options LINDSTROM held were profitable, when LINDSTROM knew that his trading was actually causing substantial losses. LINDSTROM both fraudulently inflated the value and profitability of his trading, and falsely represented the quantity of options and the risk associated with his position, in order to carry out his scheme.

4. It was further part of the scheme that LINDSTROM acquired hundreds of thousands of deep out of the money options on 10-year Treasury Note futures, and on certain occasions, paid effectively less than 1 tick for each, through the use of spread transactions. LINDSTROM knew that trading records provided to Rock Capital's owner valued these options at one tick, which made his options positions appear profitable.

5. It was further part of the scheme that when LINDSTROM acquired the hundreds of thousands of deep out of the money options, he knew that these options would likely expire worthless and result in losses, but would temporarily appear to have substantial value in his trading account because they had a minimum settlement value of one tick.

6. It was further part of the scheme that LINDSTROM continuously acquired larger positions in deep out of the money options during 2014 and early 2015, in order to fraudulently conceal and offset the increasing losses that accumulated when his previous options positions expired. For example, on or about December 26, 2014, approximately 82,000 of LINDSTROM's option contracts expired worthless. In order to offset the losses associated with that expiration, LINDSTROM acquired approximately 275,000 deep out of the money options (which all settled for one tick) in the four trading days prior to and including the expiration on or about December 26, 2014. As a result, LINDSTROM fraudulently concealed substantial losses from expiring options positions from Rock Capital's owner by purchasing new, deep out of the money options.

7. It was further part of the scheme that when Rock Capital's owner asked LINDSTROM about his trading, LINDSTROM falsely stated that his trading was profitable and concealed that he was accumulating substantial trading losses as a result of his scheme.

8. It was further part of the scheme that, in order to conceal his trading scheme, LINDSTROM sent Rock Capital's owner position reports that were false and did not fully reflect his true options position.

9. It was further part of the scheme that LINDSTROM instructed his assistant at Rock Capital to exclude certain option positions from tracking software used to monitor LINDSTROM's trading, such that the software would not give a full accounting of

LINDSTROM's options positions and his substantial losses.

10. It was further part of the scheme that, on or about November 22, 2014, LINDSTROM falsely told Rock Capital's owner that an approximately \$475,000 loss was attributable to a trading error, when LINDSTROM knew the loss was a result of his trading scheme using deep out of the money options.

11. It was further part of the scheme that defendant LINDSTROM falsely told Rock Capital's owner that he would eliminate the \$475,000 loss by fixing the alleged trading error, when defendant LINDSTROM knew that there was no trading error. LINDSTROM fraudulently concealed the \$475,000 trading loss by accumulating an even larger position in deep out of the money options to offset the loss.

12. It was further part of the scheme that by in or about January 2015, LINDSTROM had accumulated more than 950,000 deep out of the money options and which reflected a minimum settlement value of 1 tick each, and represented at least \$13 million in inflated value on Rock Capital's books. LINDSTROM also held approximately 100% of the open interest in at least ten options on 10-year Treasury Note futures.

13. It was further part of the scheme that LINDSTROM obtained compensation based on the fraudulently inflated value and profitability of his positions through interstate wire transfers from Rock Capital's bank account totaling approximately \$285,000, including \$35,000 on or about August 27, 2014, \$25,000 on or about September 24, 2014, \$40,000 on December 26, 2014, and \$100,000 on January 15, 2015.

14. As a result of LINDSTROM's fraudulent scheme, LINDSTROM caused a loss of at least \$13 million, which resulted in the collapse of Rock Capital.

15. It was further part of the scheme that defendant LINDSTROM did misrepresent, conceal, and hide, and caused to be misrepresented, concealed, and hidden, acts done in furtherance of the scheme and the purpose of those acts.

16. On or about November 21, 2014, at Chicago, in the Northern District of Illinois, Eastern Division, and elsewhere,

THOMAS LINDSTROM,

defendant herein, for the purpose of executing the above-described scheme, did knowingly execute the scheme by purchasing or causing the purchase of 49,500 January 15 put options at a strike price of \$98.50 on 10-year Treasury Note futures that were out of the money;

In violation of Title 18, United States Code, Section 1348(1) and (2).

COUNT TWO

The SPECIAL FEBRUARY 2016 GRAND JURY further charges:

1. Paragraphs 1 through 15 of Count One are incorporated here.
2. On or about November 24, 2014, at Chicago, in the Northern District of Illinois,

Eastern Division, and elsewhere,

THOMAS LINDSTROM,

defendant herein, for the purpose of executing the above-described scheme, did knowingly execute the scheme by purchasing or causing the purchase of 18,000 January 15 call options at a strike price of \$152 on 10-year Treasury Note futures that were out of the money;

In violation of Title 18, United States Code, Section 1348(1) and (2).

COUNT THREE

The SPECIAL FEBRUARY 2016 GRAND JURY further charges:

1. Paragraphs 1 through 15 of Count One are incorporated here.

2. On or about December 26, 2014, at Chicago, in the Northern District of Illinois, Eastern Division, and elsewhere,

THOMAS LINDSTROM,

defendant herein, for the purpose of executing the above-described scheme, did knowingly execute the scheme by purchasing or causing the purchase of 11,200 March 15 call options at a strike price of \$160 on 10-year Treasury Note futures that were out of the money;

In violation of Title 18, United States Code, Section 1348(1) and (2).

COUNT FOUR

The SPECIAL FEBRUARY 2016 GRAND JURY further charges:

1. Paragraphs 1 through 15 of Count One are incorporated here.
2. On or about January 22, 2015, at Chicago, in the Northern District of Illinois,

Eastern Division, and elsewhere,

THOMAS LINDSTROM,

defendant herein, for the purpose of executing the above-described scheme, did knowingly execute the scheme by purchasing or causing the purchase of 4,000 March 15 call options at a strike price of \$150.50 on 10-year Treasury Note futures that were out of the money;

In violation of Title 18, United States Code, Section 1348(1) and (2).

COUNT FIVE

The SPECIAL FEBRUARY 2016 GRAND JURY further charges:

1. Paragraphs 1 through 15 of Count One are incorporated here.

2. On or about August 27, 2014, at Chicago, in the Northern District of Illinois, Eastern Division, and elsewhere,

THOMAS LINDSTROM,

defendant herein, for the purpose of executing the above-described scheme, did knowingly cause to be transmitted by means of wire communication in interstate commerce, certain writings, signs, and signals, namely, an interstate wire transfer in the amount of approximately \$35,000 from Rock Capital's Burling Bank account, through the Federal Reserve System, to defendant's Citibank account;

In violation of Title 18, United States Code, Section 1343.

COUNT SIX

The SPECIAL FEBRUARY 2016 GRAND JURY further charges:

1. Paragraphs 1 through 15 of Count One are incorporated here.
2. On or about September 24, 2014, at Chicago, in the Northern District of Illinois,

Eastern Division, and elsewhere,

THOMAS LINDSTROM,

defendant herein, for the purpose of executing the above-described scheme, did knowingly cause to be transmitted by means of wire communication in interstate commerce, certain writings, signs, and signals, namely, an interstate wire transfer in the amount of approximately \$25,000 from Rock Capital's Burling Bank account, through the Federal Reserve System, to defendant's Citibank account;

In violation of Title 18, United States Code, Section 1343.

COUNT SEVEN

The SPECIAL FEBRUARY 2016 GRAND JURY further charges:

1. Paragraphs 1 through 15 of Count One are incorporated here.

2. On or about December 26, 2014, at Chicago, in the Northern District of Illinois, Eastern Division, and elsewhere,

THOMAS LINDSTROM,

defendant herein, for the purpose of executing the above-described scheme, did knowingly cause to be transmitted by means of wire communication in interstate commerce, certain writings, signs, and signals, namely, an interstate wire transfer in the amount of approximately \$40,000 from Rock Capital's Burling Bank account, through the Federal Reserve System, to defendant's Citibank account;

In violation of Title 18, United States Code, Section 1343.

COUNT EIGHT

The SPECIAL FEBRUARY 2016 GRAND JURY further charges:

1. Paragraphs 1 through 15 of Count One are incorporated here.

2. On or about January 15, 2015, at Chicago, in the Northern District of Illinois, Eastern Division, and elsewhere,

THOMAS LINDSTROM,

defendant herein, for the purpose of executing the above-described scheme, did knowingly cause to be transmitted by means of wire communication in interstate commerce, certain writings, signs, and signals, namely, an interstate wire transfer in the amount of approximately \$100,000 from Rock Capital's Burling Bank account, through the Federal Reserve System, to defendant's Citibank account;

In violation of Title 18, United States Code, Section 1343.

A TRUE BILL:

FOREPERSON

UNITED STATES ATTORNEY