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Bitcoin Thief Gets 1 Year For Fraud On Silk Road Darknet

By **Rachel Scharf**

Law360, New York (April 14, 2023, 6:51 PM EDT) -- A Georgia man was sentenced Friday to a year and a day in prison for stealing 53,000 bitcoins from the infamous Silk Road darknet market in 2012, with a Manhattan federal judge saying jail time is necessary to deter cyberthieves from targeting legitimate operations.

U.S. District Judge Paul G. Gardephe also sentenced James "Jimmy" Zhong, 32, to three years of supervised release and imposed a \$10,000 fine during an afternoon hearing. The Gainesville, Georgia, resident **pled guilty** to wire fraud in November and agreed to forfeit his ill-gotten crypto assets, now worth nearly \$1.6 billion.

Zhong admitted that in 2012, he exploited a bug in Silk Road's payment system to withdraw roughly 53,000 bitcoins, at the time worth \$620,000, from the illegal marketplace. He then used a bitcoin mixer and other concealment technologies to stay under the radar as the assets skyrocketed in value over the next nine years, the government alleged, and hid his computer hardware in an underground safe and a Cheetos popcorn tin stored inside a bathroom closet.

Judge Gardephe agreed with prosecutors that Zhong's cooperation following the 2021 seizure of the bitcoins, as well as his autism spectrum diagnosis and "terrible childhood," merit a **downward departure** from the U.S. Probation Office's two-year prison term recommendation.

The judge was unconvinced, however, by Zhong's argument that a **non-incarceratory sentence** is warranted because the only "victim" of the theft was Silk Road operator Ross Ulbricht, who's serving a **life sentence** for peddling huge quantities of drugs and other contraband on the site between 2011 and 2013.

Judge Gardephe agreed that Ulbricht's status as a convicted criminal certainly makes this case unique, but said there is still a "crying need" to generally deter wayward hackers.

"While the victim in this case happened to be a criminal enterprise, the victim tomorrow could be a legitimate business," the judge said.

Zhong was ordered to surrender on July 14.

In a statement following the sentencing, Manhattan U.S. Attorney Damian Williams emphasized that Zhong used his technological prowess to "frustrate tracing efforts" for nearly a decade.

"But thanks to the relentless and skillful efforts of law enforcement in following the money, the federal government uncovered Zhong's scheme," Williams said. "Cybercriminals should heed this message: We will follow the money and hold you accountable, no matter how sophisticated your

scheme and no matter how long it takes."

An attorney for Zhong, Michael Bachner, told Law360 that the defendant "looks forward to putting this matter behind him."

Speaking to Judge Gardephe during Friday's hearing, Zhong said he feels "shame and remorse" for both the 2012 theft and his concealment over the next nine years.

"It wasn't until agents showed up to my house to search that I was forced to face the gravity of my actions," Zhong said. "I now accept that I must be punished."

The government has recovered from Zhong more than 51,000 bitcoins, roughly 96% of the digital assets he originally stole from Silk Road, according to sentencing memos. Prosecutors allege that Zhong liquidated the remaining 4% during the final years of his scheme and spent \$16 million on real estate investments, five-star travel and luxury goods.

The seized assets were worth about \$3.4 billion at the time of the government's search and have since depreciated to a value of just under \$1.6 billion, prosecutors say. Court documents show that the government has so far sold about 10,000 of the coins for a profit of \$216 million.

The government is represented by David R. Felton of the U.S. Attorney's Office for the Southern District of New York.

Zhong is represented by Michael F. Bachner of Bachner & Associates PC and John A. Garland, Donald F. Samuel and Amanda Clark Palmer of Garland Samuel & Loeb PC.

The case is USA v. James Zhong, case number 1:22-cr-00606, in the U.S. District Court for the Southern District of New York.

--Editing by Philip Shea.