SEC Adds Fraud Charges Against Purported Crypto Company for Faulty Regulation A+ Offering

The Securities and Exchange Commission has filed a new fraud action against Longfin Corp. and its CEO for falsifying the company's revenue and, together with a former Longfin consultant, for fraudulently securing the company's listing on Nasdaq. The SEC's prior charges against these defendants and two others resulted in a preliminary injunction freezing more than $27 million in allegedly illegal trading proceeds from unregistered distributions of Longfin stock.

The action filed in federal district court in Manhattan alleges that Longfin and its CEO, Venkata Meenavalli, conducted a fraudulent public offering of Longfin shares. The complaint alleges that Longfin and Meenavalli obtained qualification for a Regulation A+ offering by falsely representing in SEC filings that the company was principally managed and operated in the U.S. when, in fact, its operations, assets and management remained offshore.

Longfin and Meenavalli purportedly engaged in a fraudulent scheme by distributing more than 400,000 Longfin shares to insiders and affiliates to meet certain Nasdaq listing criteria, without obtaining payment for any of these shares. In addition, Longfin consultant Andy Altahawi is accused of misrepresenting to Nasdaq the number of qualifying shareholders and shares that were sold in the offering.

The SEC's complaint alleges that Longfin and Meenavalli also engaged in an accounting fraud, recording more than $66 million in sham revenue, representing nearly 90 percent of the company's total 2017 reported revenue. Longfin voluntarily delisted from Nasdaq in May 2018 and shut down in November 2018.

The SEC's actions charge Longfin, Meenavalli, and Altahawi with violating the antifraud provisions of federal securities laws, among other charges. In a parallel action, the U.S. Attorney's Office for the District of New Jersey announced related criminal charges against Meenavalli.

The SEC's prior action alleged that Longfin, Meenavalli, Altahawi, and two affiliated individuals, Dorababu Penumarthi and Suresh Tammineedi, illegally distributed and sold more than $33 million of Longfin stock in unregistered transactions.

Altahawi, Penumarthi, and Tammineedi have agreed to settlements, subject to court approval, that would fully resolve the SEC's charges and have agreed to surrender the previously frozen funds towards paying monetary relief.

Without admitting or denying the charges, Altahawi has agreed to settle the fraud charges and the prior charges of trading in unregistered securities. The proposed settlement would require him to return $21 million of allegedly ill-gotten gains, pay a $2.9 million penalty, and surrender all his Longfin shares. Altahawi also agreed to be barred from serving as a public company officer or director for five years, and to an industry bar to be issued in an administrative proceeding.

Penumarthi and Tammineedi, without admitting or denying the charges, agreed to settle all pending charges for trading in unregistered securities. The proposed settlements require Penumarthi to pay more than $1.7 million and Tammineedi to pay more than $241,000, in addition to injunctive relief.