

SEC Says Remedy Stops Penalty: HeadSpin Avoids Fine in SEC Fraud Action

Corporate Defense and Disputes Blog on February 7, 2022

On January 28, 2022, the Securities and Exchange Commission filed a [complaint](#) in the U.S. District Court for the Northern District of California against HeadSpin, Inc., a Silicon Valley start-up. In the complaint, the SEC alleged that HeadSpin, through its then-CEO Manish Lachwani, engaged in a fraudulent scheme “to propel its valuation to over \$1 billion by falsely inflating the company’s key financial metrics and doctoring its internal sales records.”

This is not the first time the SEC has examined HeadSpin and made news. On August 25, 2021, the SEC [charged](#) Lachwani with “defrauding investors out of \$80 million by falsely claiming that the company had achieved strong and consistent growth in acquiring customers and generating revenue.” Lachwani allegedly did this between 2018 and 2020 by, among other things, “falsely inflated the values of numerous customer deals” and creating fake invoices to hide these discrepancies. This action is pending in federal court.

Given these allegations, it would not seem out of place to expect the SEC to seek large fines against HeadSpin. However, the SEC only seeks an order enjoining HeadSpin from future violations of Section 10(b) of the Exchange Act, Rule 10b-5, and Section 17(a) of the Securities Act.

Gurbir S. Grewal, Director of the SEC’s Division of Enforcement, explained the SEC’s actions by calling HeadSpin’s recent actions as “an excellent example” of the types of remedial actions and cooperation the Commission takes into account. These include:

- Cooperating with the SEC investigation and revised valuations;
- Repaying investors harmed through the alleged fraud; and
- Improving internal governance by, among other things, “hiring new senior management, expanding its board, and instituting processes and procedures designed to ensure transparency and accuracy of deal reporting and associated

revenues.”

We will continue to monitor whether remediation efforts like those adopted by HeadSpin become part of the playbook to avoid significant fines from the SEC.

The SEC’s press release, with a link to the filed complaint, can be found [here](#).

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