

[Securities Regulation Daily Wrap Up, FRAUD AND MANIPULATION— D. Or.: SEC says Oregon investment group covered up cash shortfall at investors' expense, \(Mar. 11, 2016\)](#)

Securities Regulation Daily Wrap Up

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By [Joanne Cursinella, J.D.](#)

In a complaint filed in federal district court, the SEC charged an investment group and three of its executives in a scheme to defraud and misuse client assets, while attempting to cover up cash flow shortages in connection with investments offered through a group of Oregon companies ([SEC v. Aequitas Management, LLC](#), March 10, 2016).

Scheme to defraud. According to the complaint, since 2014, the group's founder, along with his chief fundraiser, defrauded investors into thinking that they were investing in a portfolio of trade receivables in the healthcare, education, transportation, and consumer credit sectors while in reality they used the majority of investor funds to repay prior investors and to pay the operating expenses of the enterprise, which far exceeded the fees the company's affiliated entities told investors they would charge for managing the investments.

The funds raised money primarily by issuing promissory notes through various affiliated entities. At first profitable, by at least July 2014, the founder and fundraiser knew that redemptions and interest payments to prior investors were being paid primarily from new investor money in a Ponzi-like fashion with very little investor money being used to purchase trade receivables. The cash flow shortages continued with increased severity through 2015, the Commission claimed.

Cover-up alleged. According to the complaint, rather than change the business to reduce expenses or increase operating income, the founder and fundraiser decided to cover the cash shortages and continue to pay the increasing expenses of the enterprise—including their own lucrative salaries, a private jet and pilots, and dinners and golf outings for prospective investors—by raising funds from new investors and convincing prior investors to reinvest. The Commission said that between January 2014 and January 2016, they raised approximately \$350 million through the enterprise. But by November 2015, the parent company could no longer meet scheduled redemptions. According to a [press release](#), in February the firm dismissed two-thirds of its employees and hired a chief restructuring officer.

Securities violations. The Commission alleges that the defendants violated the antifraud provisions of the Securities Act, the Exchange Act, and the Advisers Act in connection with the offer and sale of securities issued by the parent company and the funds. The defendants responsible for managing the enterprise also breached their fiduciary duties by misusing millions of dollars in client assets.

Remedy sought. The SEC seeks permanent injunctions, disgorgement with prejudgment interest, and monetary penalties from all defendants, as well as bars prohibiting the executives from serving as officers or directors of any public company.

The parent and the affiliated entities have agreed to be preliminarily enjoined from raising any additional funds by offering and selling securities. The also agreed to the appointment of a receiver to marshal and preserve remaining firm assets for distribution to defrauded investors. The stipulated orders are subject to court approval. The Commission's investigation is continuing.

The case is [No. 3:16-cv-00438-PK](#).

Attorneys: Sheila E. O'Callaghan for the SEC.

Companies: Aequitas Management, LLC; Aequitas Holdings, LLC; Aequitas Commercial Finance, LLC; Aequitas Capital Management, Inc.; Aequitas Investment Management, LLC

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