

[Securities Regulation Daily Wrap Up, TOP STORY—S.D.N.Y.: Investor sues healthcare data provider over coronavirus testing claims, \(May 1, 2020\)](#)

Securities Regulation Daily Wrap Up

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By [Amanda Maine, J.D.](#)

The company had announced a \$35 million deal for COVID-19 rapid testing units, but a research report cast doubt on the deal, leading the price of the stock to fall and resulting in the suspension of trading in the company's securities by the SEC.

A new securities class action complaint alleges that a medical data services company made false or misleading statements about an announced \$35 million deal to purchase testing kits for the coronavirus (COVID-19). According to the complaint, the company's statements about the deal caused its stock to be artificially inflated, and shareholders incurred losses following a sharp decline in the price of the stock after a report by a forensic financial research firm called the deal "completely bogus" ([Yannes v. SCWorx Corp.](#), April 29, 2020).

SCWorx statements. According to the complaint, SCWorx provides data content and services related to the repair, normalization, and interoperability of information for healthcare providers. On April 13, 2020, SCWorx issued a press release announcing that it had received a purchase order from a company called Rethink My Healthcare for two million COVID-19 rapid testing units, with additional weekly orders of 2 million units for 23 weeks. The complaint alleged that following this news, SCWorx's share price went up by \$9.77, an increase of 434 percent.

Hindenburg report. Four days after SCWorx's press release announcing the deal for the testing units, Hindenburg Research issued a [research report](#) calling the deal "completely bogus." In its report, Hindenburg pointed to the "checkered past" of SCWorx's CEO, who had previously pleaded guilty to felony tax evasion charges and was also paying a judgment in a lawsuit alleging fraudulent expense reports.

The report also cast doubt on the ability of the test supplier to provide the tests and the buyer, Rethink My Healthcare. According to the report, the test supplier, Promedical, is laden with red flags, including having a convicted rapist as CEO who previously ran another business accused of fraud and who falsified his own medical credentials. Hindenburg also said that Rethink My Healthcare is a modestly-sized virtual healthcare company started in 2018 by a 25-year-old with only three employees and three consultants, expressing doubt that it would be able to handle hundreds of millions of dollars in orders for the COVID-19 testing units.

Lawsuit allegations. Following the Hindenburg report, SCWorx's share price fell more than 17 percent to close at \$5.76 per share on unusually heavy trading. On April 22, the SEC [suspended](#) trading in SCWorx's stock, citing the company's statements and its Form 8-K relating to the deal for the COVID-19 tests.

SCWorx shareholder Daniel Yannes filed a securities class action complaint against the company and its CEO and interim CFO Marc S. Schessel, alleging that the defendants made materially false and misleading statements about the deal to procure the testing kits. These statements caused the price of SCWorx's stock to be artificially inflated and resulted in investor losses when the company's misrepresentations were exposed to the market, causing the share price to tumble. The complaint asserts violations of Exchange Act Section 10(b) and Rule 10b-5 against SCWorx and Schessel, alleging they made false and misleading statements and failed to disclose material facts.

The complaint's Section 20(a) controlling person claim against Schessel alleges that he had direct and supervisory involvement in the day-to-day operations of SCWorx and had the power to influence the transactions at the heart of the complaint. The complaint seeks damages resulting from the defendants' alleged wrongdoing, as well as costs and expenses incurred by the class.

The case is [No. 20-cv-3349](#).

Attorneys: Gregory Bradley Linkh (Glancy Prongay & Murray LLP) for Daniel Yannes.

Companies: SCWorx Corp.

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