
Hughes Hubbard & Reed

Hughes Hubbard Resolves SEC Fraud Lawsuit Against Investment Companies

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Hughes Hubbard & Reed resolved a multi-million dollar enforcement action against its clients, a group of investment companies and their principal, who were sued by the Securities and Exchange Commission (SEC) in 2012 and accused of securities fraud and other violations of the securities laws. The SEC agreed to withdraw all of its fraud claims and settle the remaining claim on a “no admit, no deny” basis. U.S. District Judge Shira A. Scheindlin of the Southern District of New York approved the settlement on Aug. 12, 2014.

The SEC began investigating Hughes Hubbard’s clients, including Coastal Group Holdings Inc. and Spartan Group Holdings LLC, in 2010 in connection with their transactions in unregistered securities. The investors bought and sold billions of unregistered shares of stock by relying on various exemptions from federal registration requirements. The investors, together with their co-defendants in the case, facilitated the transactions by engaging lawyers to write opinion letters stating that the securities were exempt from registration and could be freely re-sold.

The SEC disagreed, maintaining that the exemptions were inapplicable and the unregistered sales were illegal. The SEC brought a lawsuit in Manhattan federal court in 2012, accusing the investors of not only selling unregistered securities, but committing securities fraud. The SEC asserted that the investors were able to execute the transactions only by defrauding the companies that issued the stock and the attorneys who opined on the applicability of the registration exemptions.

Shortly after the SEC filed suit, the companies hired Hughes Hubbard to represent them in the case. After completing discovery, during the summary judgment motion process, the parties reached a settlement under which the SEC agreed to withdraw all of its fraud claims against Hughes Hubbard’s clients and settle the remaining registration claim for about five percent of the approximately \$17 million in alleged proceeds from the transactions.

The case was handled by Ed Little, Chair of the White Collar Group and Co-Chair of the Securities Litigation Group, and David Shanies, an associate in the White Collar and Securities Litigation Groups.

The settlement announcement was covered by a variety of news outlets, including ABC, CBS, Eyewitness News, Fox, and NBC, as well as industry publications including Dow Jones Market Watch, the New York Business Journal, and Yahoo! Finance.

Related People



Edward J.M. Little

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