

WHAT WE DO | Market Manipulation Investigations

IGI has extensive experience and expertise in investigating improper conduct by short-sellers, including “naked shorting,” and market manipulation through the dissemination of false or misleading negative rumors about targeted companies. Such “short and distort” campaigns can tarnish a company’s reputation, drive down its share price, and even expose the company to an unmerited shareholder lawsuit, with investors claiming they were misled by the company’s projections. We have also seen situations in which short-selling is coupled with acquisition of a company’s ‘floorless’ convertible securities as a prelude to a hostile takeover attempt.

IGI’s efforts in these matters are aimed primarily at discovering the identities of those responsible for anonymously disseminating the disparaging information. In past cases, IGI has identified networks of short-sellers sometimes working in collusion with others, including plaintiffs’ attorneys, disgruntled current or former employees, and activist and advocacy groups pursuing their own hostile agenda against the target company.

IGI also has investigated cases in which short-sellers have employed identity theft and counterfeiting methodologies, such as impersonating company executives to make negative pronouncements about a company, and posting falsified press releases and news reports to Internet investment sites.

In cases where short-sellers appear to have obtained information from a company insider, IGI assists in identifying the specific sources, assesses corporate security and provides recommendations on security enhancements to prevent further leaks.

Case Study

- A plaintiffs’ law firm filed a purported class action against IGI’s client, a computer component maker whose share price had dropped. Working closely with outside counsel, IGI developed information demonstrating that the lead plaintiff, a hedge fund, had massively shorted the defendant company – information improperly withheld from the court in the motion to be designated lead plaintiff. In fact, the lead plaintiff had purchased the defendant company’s shares only to cover its short sales. IGI also detailed information showing that the hedge fund had spearheaded a lengthy campaign to drive down the defendant company’s share price. In one instance, hedge fund employees assumed false names and impersonated bona fide buy-side securities analysts on the company’s quarterly earnings conference call, to air false and misleading accusations. IGI also discovered that the hedge fund had coordinated these efforts with lead counsel in the lawsuit. Indeed, the complaint was drafted even before the defendant’s share price dropped. Revelation of these facts led the presiding judge to strip the hedge fund of its lead plaintiff status and to express “serious concerns” about lead counsel’s role.