

App Annie will pay \$10 million to settle a fraud investigation with the SEC

App Annie, a company that collects and sells information about the performance of mobile apps, has agreed to pay \$10 million to settle a securities fraud investigation, the US Securities and Exchange Commission (SEC) said in a statement.

According to the SEC, App Annie used confidential information from app companies to generate its statistical models of app performance. It told the companies the data they provided would be aggregated and anonymized, and not disclosed to third parties. But the SEC alleged that between late 2014 and mid-2018, App Annie and its former CEO Bertrand Schmitt used data that had not been aggregated or anonymized to make its estimates more valuable to sell to trading firms. And, the SEC alleged, App Annie “shared ideas for how the trading firms could use the estimates to trade ahead of upcoming earnings announcements.”

The SEC says the company and Schmitt were aware that trading firms’ customers were using its information to make investment decisions, and misrepresented the way it generated its estimates, stating App Annie had effective internal controls to prevent confidential data from being misused and to ensure that it was in compliance with securities laws.

It’s the SEC’s first enforcement action charging an alternative data provider with securities fraud

Gurbir Grewal, director of the SEC enforcement division said App Annie and the former CEO “lied to companies about how their confidential data was being used and then not only sold

the manipulated estimates to their trading firm customers, but also encouraged them to trade on those estimates—often touting how closely they correlated with the companies’ true performance and stock prices.”

He added that federal securities laws “prohibit deceptive conduct and material misrepresentations in connection with the purchase or sale of securities.”

The SEC noted that the information that App Annie gathers is commonly referred to by trading firms as “alternative data,” since it’s not information found on a company’s financial statements or within other traditional data sources. The settlement with App Annie is the agency’s first enforcement action charging an alternative data provider with securities fraud.

As part of the settlement, App Annie neither admitted nor denied the SEC’s allegations. Schmitt will pay a \$300,000 fine and is barred from serving as an officer or director of a publicly traded company for three years. Schmitt said in a statement posted to his LinkedIn page that he was pleased to have the matter concluded.

“I deeply regret that App Annie’s procedures prior to mid-2018 resulted in an investigation and settlement” with the SEC, Schmitt wrote. He said the company “did not actually disclose any customer confidential information or MNPI (material non-public information) outside the company and the SEC has made no such claim, the allegations that we may have misrepresented to trading firm customers the adequacy of our internal controls over some of the confidential data we used in our estimates is still highly disturbing to me as the company’s co-founder and former CEO.”

App Annie said in a statement that over the past three years, the company “made a number of material changes to our operations and established a new level of trust and

transparency.” The changes included appointing Theodore Krantz as its new CEO in mid-2018, changing how it builds its data estimates, and codifying its procedures “to ensure the exclusion of all confidential public company data from the process of generating market data estimates for our Intelligence products.”

Schmitt has stepped down from the App Annie board, the company said.

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