

**UNITED STATES DISTRICT COURT
DISTRICT OF MINNESOTA**

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)	
UNITED STATES SECURITIES)	
AND EXCHANGE COMMISSION,)	Case No. 19-cv-918
)	
Plaintiff,)	Judge:
)	
v.)	Magistrate Judge:
)	
JEFFREY C. MACK)	
)	JURY TRIAL
and)	DEMANDED
)	
LAWRENCE C. BLANEY,)	
)	
Defendants.)	
_____)	

COMPLAINT

Plaintiff, the United States Securities and Exchange Commission (hereinafter, the “SEC”), alleges as follows:

INTRODUCTION

1. Between September 2016 and July 2017, two senior officers of a publicly-traded company engaged in a fraudulent scheme that cost investors over \$18 million. The company was losing money and needed to raise capital to stay in business. The two officers responded by causing the company to materially inflate its revenue so the company could use the overstated revenue figures to attract investors. Using financial statements that contained the phony revenue figures, the company fraudulently raised

over \$18 million through the sale of convertible notes in private placements and stock in a public offering.

2. The two senior officers who carried out this fraudulent scheme were defendants Jeffrey C. Mack (hereinafter, “Mack”) and Lawrence C. Blaney (hereinafter, “Blaney”). The publicly-traded company was Digiliti Money Group, Inc. (hereinafter, “Digiliti” or “the Company”). When they committed their fraud, Mack was the Chief Executive Officer, President, and Chairman of Digiliti, and Blaney was Digiliti’s Executive Vice President of Sales.

3. Mack and Blaney caused Digiliti to surreptitiously enter into side agreements with its largest customer (hereinafter, “Side Agreements”). The Side Agreements gave the customer (hereinafter, “Customer Number 1”) the right to cancel four contracts without payment within specified time periods.

4. Mack and Blaney then caused Digiliti to improperly recognize \$1.65 million of revenue from the four contracts, even though Customer Number 1 could cancel the contracts without paying Digiliti any money. From November 2016 through May 2017, Digiliti’s filings with the SEC included financial statements that illegally reported the revenue from the four contracts. Specifically, in its Form 10-Q for the third quarter of 2016, Digiliti overstated its revenue by more than 19%; in its Form 10-K for the year ended December 31, 2016, Digiliti overstated its revenue by more than 17%; and in its Form 10-Q for the first quarter of 2017, Digiliti overstated its revenue by more than 24%. Mack signed each of these filings and falsely certified that the filings were not false or misleading.

5. Throughout their fraudulent scheme, Mack and Blaney concealed the Side Agreements from Digiliti's in-house finance and accounting group, Digiliti's Board of Directors, and its outside auditor. Mack also made false statements to Digiliti's auditor in three management representation letters which he signed in connection with the auditor's review of Digiliti's financial statements for the third quarter of 2016, its audit of Digiliti's year-end financial statements for 2016, and its review of Digiliti's financial statements for the first quarter of 2017.

6. Using financial statements reflecting the fraudulently overstated revenue, Digiliti raised at least \$7.7 million in a series of private placements from November 10, 2016 through January 2017. Digiliti also used the false financial statements to raise approximately \$10.5 million in a public offering of Digiliti common stock that closed on March 10, 2017.

7. The fraudulent scheme came to light only after Mack and Blaney were terminated and emails about the Side Agreements were discovered.

8. By engaging in the conduct alleged in this Complaint, Mack violated Section 17(a) of the Securities Act of 1933 ("Securities Act") [15 U.S.C. § 77q(a)]; Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. § 78j(b)]; Section 13(b)(5) of the Exchange Act [15 U.S.C. § 78m(b)(5)]; and Exchange Act Rules 10b-5 [17 C.F.R. 240.10b-5], 13a-14 [17 C.F.R. 240.13a-14], 13b2-1 [17 C.F.R. 240.13b2-1], and 13b2-2 [17 C.F.R. 240.13b2-2]. Digiliti also violated Section 17(a) of the Securities Act (15 U.S.C. § 77q(a)); Sections 10(b) [15 U.S.C. § 78j(b)], 13(a) [15 U.S.C. § 78m(a)], and 13(b)(2)(A) [15 U.S.C. § 78m(b)(2)(A)] of the Exchange

Act; and Exchange Act Rules 10b-5 [17 C.F.R. 240.10b-5], 12b-20 [17 C.F.R. 240.12b-20], 13a-1 [17 C.F.R. 240.13a-1], 13a-11[17 C.F.R. 240.13a-11], and 13a-13 [17 C.F.R. 240.13a-13] but is not a defendant. Pursuant to Section 15(b) of the Securities Act [15 U.S.C. § 77o(b)] and Section 20(e) of the Exchange Act [15 U.S.C. § 78t(e)], Mack is liable to the same extent as Digiliti for aiding and abetting Digiliti's listed violations.

9. By engaging in the conduct alleged in this Complaint, Blaney violated 17(a) of the Securities Act [15 U.S.C. § 77q(a)], Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)]; Section 13(b)(5) of the Exchange Act [15 U.S.C. § 78m(b)(5)]; and Exchange Act Rules 10b-5(a) and (c) [17 C.F.R. 240.10b-5(a) and (c)], and 13b2-1 [17 C.F.R. 240.13b2-1]. Digiliti also violated Sections 17(a) of the Securities Act [15 U.S.C. § 77q(a)]; Sections 10(b) [15 U.S.C. § 78j(b)], 13(a) [15 U.S.C. § 78m(a)], and 13(b)(2)(A) [15 U.S.C. § 78m(b)(2)(A)] of the Exchange Act; and Exchange Act Rules 10b-5 [17 C.F.R. 240.10b-5], 12b-20 [17 C.F.R. 240.12b-20], 13a-1 [17 C.F.R. 240.13a-1], 13a-11[17 C.F.R. 240.13a-11], and 13a-13 [17 C.F.R. 240.13a-13] but is not a defendant. Pursuant to Section 15(b) of the Securities Act [15 U.S.C. § 77o(b)] and Section 20(e) of the Exchange Act [15 U.S.C. § 78t(e)], Blaney is liable to the same extent as Digiliti for aiding and abetting Digiliti's violations referred to in paragraph 8 above.

JURISDICTION AND VENUE

10. The SEC brings this action pursuant to Section 20(b) of the Securities Act [15 U.S.C. § 77t(b)] and Section 21(d) of the Exchange Act [15 U.S.C. § 78u(d)]. This

Court has jurisdiction over this action pursuant to Section 22(a) of the Securities Act [15 U.S.C. § 77v] and Section 27(a) of the Exchange Act [15 U.S.C. § 78aa].

11. Venue is proper in this Court pursuant to Section 22(a) of the Securities Act [15 U.S.C. § 77v] and Section 27(a) of the Exchange Act [15 U.S.C. § 78aa] because Defendant Mack resided in this District during the relevant period; Digiliti's headquarters was in this District; and acts, practices, and courses of business constituting the violations alleged in this Complaint have occurred within this District and elsewhere.

12. Mack and Blaney, directly or indirectly, made use of means or instruments of transportation or communication in interstate commerce, or of the mails, or of any facility of a national securities exchange in connection with the acts, practices, and courses of business alleged in this Complaint.

13. There is a reasonable likelihood that defendants will, unless enjoined, continue to engage in the transactions, acts, practices, and courses of business set forth in this Complaint, and transactions, acts, practices and courses of business of similar purport and object.

DEFENDANTS

14. **Jeffrey C. Mack.** Mack was Digiliti's CEO, President, and Chairman of the Board of Directors from its formation until his termination in August 2017. From at least November 2016 to May 2017, Mack resided in Eden Prairie, Minnesota. Mack is currently CEO of a privately-held company. Mack is 65 years old and now resides in Carrollton, Texas.

15. **Lawrence C. Blaney.** Blaney was Digiliti's Executive Vice President of

Sales during the relevant period. Blaney is 61 years old and resides in Sugar Grove, Illinois. While working at Digiliti, Blaney often traveled to Minneapolis, Minnesota from Illinois.

RELEVANT ENTITY

16. **Digiliti Money Group, Inc.** Digiliti is a Delaware corporation that had its principal place of business in Minneapolis, Minnesota. Digiliti is not currently operating. Digiliti was formerly known as Cachet Financial Solutions, Inc. In March 2017, the Company's name was changed to Digiliti. Digiliti's common stock is registered with the SEC pursuant to Section 12(g) of the Exchange Act [15 U.S.C. § 78l(g)]. Digiliti is required to file reports with the SEC pursuant to Section 13(a) of the Exchange Act [15 U.S.C. § 78m(a)]. Until March 2017, Digiliti's stock was quoted on OTC Link, an over-the-counter securities quotation system, which does not require companies to meet any listing requirements. In conjunction with its March 2017 Public Offering, Digiliti's common stock was listed on the Nasdaq Stock Market, LLC (hereinafter, the "Nasdaq"). Digiliti had to meet certain financial standards in order for its stock to be listed on the Nasdaq. On October 5, 2017, Digiliti filed a Form 25 to voluntarily withdraw its stock from listing on the Nasdaq.

FACTS

I. BACKGROUND

17. From 2014 through 2018, Digiliti provided financial technology solutions to smaller banks, credit unions, and alternative financial service businesses, such as currency exchanges. Digiliti provided software as a service (hereinafter, "SaaS") and

financial technology to its customers. Digiliti developed, hosted, and maintained software solutions that were customized and licensed to their customers through internet and cloud-based access. Digiliti's platform enabled its customers to provide mobile financial services to their customers, such as reloadable prepaid debit or credit cards and check cashing services.

18. On or around December 12, 2014, Digiliti and Customer Number 1, a business located in Florida, entered into a Master Services Agreement (hereinafter, "Master Services Agreement"). Purchases of new or additional services or solutions by Customer Number 1 were made through new contracts signed by both Digiliti and Customer Number 1. Each new contract was labeled as an addendum to the Master Services Agreement.

19. During its operations, Digiliti was unprofitable and was often short of working capital. Therefore, Digiliti frequently turned to several of its existing shareholders and others to raise cash it needed to fund its continuing business. Because Digiliti was unprofitable, revenue was a key metric for the Company.

II. THE OCTOBER 2016 SIDE AGREEMENT

A. Digiliti Falls Short of Its Quarterly Revenue Goal and Fails to Complete an Attempted Public Offering of Its Stock

20. From July 2016 through October 2016, Digiliti attempted to raise working capital through a \$25 million public offering of its stock (hereinafter, the "Attempted 2016 Public Offering").

21. Digiliti had a \$2.4 million revenue goal for the third quarter of 2016. Mack viewed meeting this revenue goal as critical to a successful public offering.

22. During the period from July 2016 through October 2016, Digiliti's finance and accounting group regularly prepared and circulated weekly summaries of sales and revenue for the quarter-to-date. Throughout this period, Mack repeatedly emailed Blaney and the other leaders of Digiliti's sales team and directed them to do "what was necessary" to meet the revenue goal and to beat the prior quarter's numbers.

23. By September 2016, Mack knew that Digiliti was materially short of its \$2.4 million revenue goal.

24. Mack helped to promote the Attempted 2016 Public Offering by participating in presentations to potential investors, as part of so-called "road shows" for the offering.

25. On September 23, 2016, Mack emailed the leaders of the sales team including Blaney stating, "The show is really going well. As long as we execute and hit our numbers we will be oversold and closed by the 6th of October. I am really excited by the response we've had so be sure to do what you need to so we hit on all cylinders. . . ."

26. On September 30, 2016, the last day of the quarter, Blaney emailed Mack giving him an update on sales. Mack responded to Blaney stating, "Need to hit that number as quickly as possible so we can close on time."

27. On October 10, 2016, Blaney emailed the leaders of the sales team a weekly summary containing sales and revenue that had been processed by the finance and accounting group as of that date. Blaney stated, "Guys, We need to make this

happen, one way or another – If everything [Senior Vice President of Mobile Innovation] and I are working on comes in on target, we are still \$178,000 off target. Please think of everything as this has to happen by Thursday.”

28. On October 11, 2016, Blaney emailed a contact at Customer Number 1. Blaney stated, “As we discussed, this is a historic time in [Digiliti’s] timeline, and we are motivated to close the quarter by hitting or exceeding our numbers. I will call you to discuss- Larry.”

29. On October 17, 2016, Blaney sent Customer Number 1 emails attaching two new addenda dated September 22, 2016 and September 30, 2016. Customer Number 1, through its agents, signed the two new contracts and emailed them to Blaney.

30. Later on October 17, 2016, Mack forwarded a meeting invite to Blaney stating, “In the meantime, you need to do what is necessary to see that we beat last quarters [sic] number in case [another company] doesn’t do the whole \$300K.”

31. The Attempted 2016 Public Offering was ultimately unsuccessful and efforts to complete the offering ended on October 19, 2016.

B. After the Failure of the Attempted 2016 Public Offering, Mack and Blaney Secretly Cause Digiliti To Enter Into the First Side Agreement with Customer Number 1

32. On October 19, 2016, Blaney emailed a contact at Customer Number 1. Blaney copied Mack on the email. The email attached another new contract, dated September 30, 2016, with a total price of \$395,000 (hereinafter, the “October 21, 2016 Contract”). In his email, Blaney stated that, “You have the right to terminate the contract which is attached in this email by February 15th 2017 without any obligation to

pay or without any penalty” and that Digiliti would give Customer Number 1 “an unconditional credit” of \$50,000 on February 15, 2017 against other outstanding invoices. The terms in Blaney’s October 19, 2016 email are hereinafter referred to as the “October 2016 Side Agreement.”

33. Later on October 19, 2016, Blaney emailed Mack, stating, “I put \$395K on the amendment to make sure we hit our number . . .”

34. On October 21, 2016, Customer Number 1 executed and returned the October 21, 2016 Contract to Blaney.

35. The terms of the October 2016 Side Agreement were not included in the October 21, 2016 Contract with Customer Number 1.

36. On October 21, 2016, Blaney sent the October 21, 2016 Contract, but not the October 2016 Side Agreement, to Digiliti’s contracts manager. Digiliti’s contracts manager obtained Mack’s signature and returned the fully executed October 21, 2016 Contract to Blaney. Blaney sent the executed contract back to Customer Number 1.

37. Even though the October 21, 2016 Contract was sent to Customer Number 1 on October 19, 2016 and signed on October 21, 2016, Blaney dated the contract September 30, 2016, which was the last day of the previous quarter.

38. The October 2016 Side Agreement gave Customer Number 1 the right to cancel the October 21, 2016 Contract by February 15, 2017 without any obligation to pay the corresponding invoices.

39. Unaware of the October 2016 Side Agreement, Digiliti’s finance and accounting group issued six invoices to Customer Number 1 dated September 30, 2016.

40. Mack and Blaney did not disclose the October 2016 Side Agreement to anyone else at Digiliti, to Digiliti's outside auditor, or to investors.

41. Mack and Blaney knew that because of the October 2016 Side Agreement, Digiliti could not recognize revenue from the October 21, 2016 Contract.

42. On November 10, 2016, Digiliti issued a press release announcing Digiliti's third quarter 2016 financial results and filed the press release as an exhibit to a report on Form 8-K. Digiliti stated in its release that "Revenue increased 124% year-over-year to a record \$2.3 million." Mack stated in the press release, "After reporting a milestone quarter in Q2, we're pleased to report yet another record quarter in Q3. . . . Revenue grew to its highest level ever, reflecting the continued growth of our core RDC business, as well as the expansion of our Select Mobile Money business, which is increasingly taking a larger share of the massive prepaid market." The statements in the press release about Digiliti's third quarter 2016 revenue were false and misleading.

43. Mack approved the content of Digiliti's November 10, 2016 press release and Form 8-K. He knew at the time that the statements contained in the press release about Digiliti's third quarter 2016 revenue were false and misleading.

C. Digiliti Reports Materially Overstated Revenue for the Third Quarter of 2016

44. On November 14, 2016, Digiliti filed with the SEC its quarterly report on Form 10-Q for the quarter ended September 30, 2016, which included Digiliti's quarterly financial statements (hereinafter, the "2016 Third Quarter 10-Q"). As a result of Mack

and Blaney's fraud, Digiliti's quarterly financial statements improperly included \$370,250 in revenue from the October 21, 2016 Contract.

45. Digiliti's financial statements materially overstated its revenue for the third quarter by more than 19%. As a result of overstating its revenue, Digiliti also materially misstated other financial metrics, including gross profit, which was overstated by more than 61%.

46. In the section of the 2016 Third Quarter 10-Q entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations," Digiliti stated:

We commence revenue recognition for fees earned on our SaaS fintech solutions and services when all of the following criteria are met:

- there is persuasive evidence of an arrangement;
- the service has been or is being provided to the client;
- collection of the fees is reasonably assured; and
- the amount of fees to be paid by the client is fixed or determinable.

47. Contrary to these representations, the \$370,250 in revenue recognized from the October 21, 2016 Contract did not meet Digiliti's stated criteria for revenue recognition.

48. Furthermore, Digiliti's recognition of the \$370,250 in revenue was not in accordance with generally accepted accounting principles ("GAAP"). The recognition of this revenue was contrary to GAAP because, among other things, the revenue was

derived from a contract that was entered into after the quarter ended and the October 2016 Side Agreement allowed the October 21, 2016 Contract to be cancelled.

49. Mack signed the 2016 Third Quarter 10-Q. Mack certified that he had reviewed the quarterly report and “based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.”

50. Mack also certified that “based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.”

51. Mack further certified that he had “disclosed, based on our most recent evaluation of internal control over financial reporting, to [Digiliti’s] auditors and the audit committee of [Digiliti’s] board of directors . . . [a]ny fraud, whether or not material, that involves management or other employees who have a significant role in [Digiliti’s] internal control over financial reporting.”

52. Mack’s certification was materially false and misleading. When he made the certification, Mack knew that he and Blaney had secretly caused Digiliti to enter into the undisclosed October 2016 Side Agreement and that they had caused Digiliti’s financial statements to include improperly recognized revenue from the October 21, 2016 Contract.

53. On November 14, 2016, in connection with Digiliti's outside auditor's review of the Company's third quarter 2016 financial statements, Mack signed a management representation letter that falsely stated, among other things, that Mack had no knowledge of any fraud or suspected fraud and that there were no "side agreements or other arrangements (either written or oral) that have not been disclosed to [the auditor]."

III. DIGILITI USES ITS FALSE FINANCIAL STATEMENTS TO RAISE MONEY FROM INVESTORS

A. As Digiliti Prepares To Attempt Another Public Offering, It Falls Short of Its Revenue Goal for the Fourth Quarter of 2016

54. From November 10, 2016 through January 2017, Digiliti raised more than \$7.7 million through private placements of convertible notes. Digiliti sold the notes to approximately 15 investors located in at least six states. In selling the notes, Digiliti used its third quarter 2016 financial statements which, as a result of Mack and Blaney's fraud, overstated revenue by more than 19%. Of the \$7.7 million total that Digiliti took in, \$1.9 million was raised from two of Digiliti's Directors, who were not informed of Mack and Blaney's misconduct.

55. As of November 29, 2016, Digiliti was approximately \$900,000 short of its revenue goal for the fourth quarter of 2016.

56. In December 2016, Mack hired new investment bankers to lead another attempt at a public offering of Digiliti stock. Mack was also pushing for Digiliti's stock to be listed on the Nasdaq.

57. On December 30, 2016, Mack sent an email to Blaney and others, stating that he had told the investment bankers that Digiliti's fourth quarter revenue would be in

the \$2.3 to \$2.5 million range. Mack also stated in the email that Blaney and the others should “Dig down deep and do whatever you need to so we don’t disappoint. It is also year end which affects our ability to do a lot of things tied to year end numbers.”

58. On January 20, 2017, Digiliti filed a registration statement on Form S-1 for a March 2017 public offering of its common stock (hereinafter, “March 2017 Public Offering”). Mack signed the S-1, which contained Digiliti’s preliminary prospectus for the March 2017 Public Offering. The registration statement included Digiliti’s financial statements for the nine months ended September 30, 2016. Those financial statements improperly reported \$370,250 in revenue from the October 21, 2016 Contract.

B. Mack and Blaney Secretly Cause Digiliti To Enter Into a Second Side Agreement with Customer Number 1

59. On January 23, 2017, Mack and Blaney emailed each other. Mack stated to Blaney: “I thought you wanted me to talk with [Customer Number 1].” Blaney responded: “We do need to speak to [Customer Number 1]. . . . We will probably need to do a similar deal to hit the Q4 number. Working on figuring out what that is and scheduling a call with him for tomorrow.”

60. On January 26, 2017, Blaney sent an email to a contact at Customer Number 1. In the email, Blaney (1) stated that Mack wanted to talk with the contact that day; (2) proposed extending the cancellation date for the October 21, 2016 Contract to April 30, 2017; (3) proposed \$800,000 in potential new contracts that could be cancelled by July 2017; and (4) proposed a \$50,000 unconditional credit that Customer Number 1 could apply on May 15, 2017 against the outstanding Digiliti invoices of its choice.

61. On January 30, 2017, Mack emailed Blaney stating that Customer Number 1 was ready to sign a new contract but wanted more specifics on the side terms proposed in Blaney's January 26, 2017 email.

62. On January 30, 2017, Blaney emailed Mack and provided language to be sent to Customer Number 1. Later on January 30, 2017, Mack emailed Customer Number 1 and copied Blaney. Mack stated:

We would like you to move the cancellation of [the October 21, 2016 Contract] to April 30th.

You have the right to terminate [the two new contracts labeled Addendum Number 10 and Addendum Number 11] which are attached in this email by July 15, 2017 without any obligation to pay or without any penalty. [Digiliti] agrees to provide an unconditional credit to [Customer Number 1] for \$50,000 on July 15th to the outstanding [Digiliti] invoices of [Customer Number 1's] choice.

63. The terms in Mack's January 30, 2017 email are hereinafter referred to as the "January 2017 Side Agreement."

64. Later on January 30, 2017, Mack emailed Blaney stating:

I talked with [Customer Number 1] again. He is ready to sign but wants the e-mail to be more specific and point the credit to a specific project. He said he was sending the stuff over to you and he would sign as soon as he got that back from me. I have to leave in 45 minutes for a dinner but, if you can send me the exact wording in an e-mail, I can cut and paste it and get back to him so he can send the amendments. The auditors are asking for the ledgers so we can [sic] put off until later tonight or they won't get in. Sorry to bother you but I don't know what else to do.

65. Even later that day, Customer Number 1's general counsel emailed Blaney and Mack requesting that certain side agreement terms offered by Blaney be included in the new Addendum 10.

66. Blaney replied by email and copied Mack. Blaney stated:

Thank you for your email. We have auditors arriving early tomorrow morning to start the year end review. We cannot put this in the amendment as they wouldn't let us take any revenue which is what this is about. An email is a binding agreement and you have the agreement via email from our CEO.

67. On January 31, 2017, Customer Number 1 emailed signed Addendum Number 10 and Addendum Number 11 to Mack and Blaney. Addendum Number 10 and Addendum Number 11 are hereinafter collectively referred to as the "January 31, 2017 Contracts." The total price of the January 2017 Contracts was \$870,000. None of the terms of the January 2017 Side Agreement were included in the January 2017 Contracts.

68. Mack signed the January 31, 2017 Contracts as CEO of Digiliti.

69. Blaney sent the January 31, 2017 Contracts, but not the January 2017 Side Agreement, to Digiliti's contracts manager and to the finance and accounting group.

70. Even though the January 31, 2017 Contracts were sent to Customer Number 1 on January 30, 2017 and signed on January 31, 2017, Blaney dated the contracts December 16, 2016.

71. Digiliti's finance and accounting group, unaware of the January 2017 Side Agreement, issued two invoices to Customer Number 1 backdated to December 31, 2016.

72. The January 2017 Side Agreement gave Customer Number 1, among other things, the right to cancel the January 31, 2017 Contracts by July 15, 2017 without any obligation to pay the corresponding invoices.

73. Mack and Blaney knew that because of the January 2017 Side Agreement Digiliti could not recognize revenue from the January 2017 Contracts.

74. Mack and Blaney did not disclose the January 2017 Side Agreement to others at Digiliti, to Digiliti's outside auditor, or to investors.

75. As a result of Mack's and Blaney's fraudulent conduct, for the fourth quarter of 2016, Digiliti improperly recognized \$796,000 in revenue from the January 2017 Contracts. The recognition of the \$796,000 was not in accordance with GAAP because, among other things, the revenue was derived from contracts that were entered into after the quarter ended and the January 2017 Side Agreement allowed the January 31, 2017 Contracts to be cancelled.

C. Blaney Arranges for a False Audit Confirmation To Be Sent to Digiliti's Auditor

76. In early February 2017, Customer Number 1 was sent an audit confirmation letter asking it to confirm to Digiliti's auditor that the balances indicated in several specified invoices were due as of December 31, 2016. Some of the invoices were for the contracts that were subject to Customer Number 1's right to cancel, and some of the invoices were for work that was not yet complete.

77. Customer Number 1 contacted Blaney about the confirmation. On February 9, 2017, Blaney responded by email:

Per our agreement with [you], pls sign the confirmation that this is correct and without special conditions and send it back to the auditors. Our agreement allows you to cancel these orders and we will reconcile before any obligation is due.

78. Customer Number 1 signed the audit confirmation and sent it to Digiliti's auditor.

D. Digiliti Reports Materially Overstated Revenue in Its Financial Statements for the Year Ended December 31, 2016

79. On February 24, 2017, Digiliti filed with the SEC its annual report for the year 2016 on Form 10-K (hereinafter, the “2016 Form 10-K”).

80. As a result of Mack and Blaney’s fraudulent conduct, Digiliti’s 2016 Form 10-K contained materially false financial statements that improperly recognized \$1,166,250 in revenue from three Customer Number 1 contracts that were subject to Side Agreements, namely the October 2016 Contract (\$370,250 in revenue) and the January 31, 2017 Contracts (\$796,000 in revenue).

81. These financial statements materially overstated Digiliti’s revenue by more than 17% for 2016. As a result of overstating its revenue, Digiliti also misstated other financial metrics including, for example, gross profit for 2016, which was overstated by more than 93%.

82. In the Section of the 2016 Form 10-K entitled “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations,” Digiliti stated:

We commence revenue recognition for fees earned on our SaaS fintech solutions and services when all of the following criteria are met:

- there is persuasive evidence of an arrangement;
- the service has been or is being provided to the client;
- collection of the fees is reasonably assured; and
- the amount of fees to be paid by the client is fixed or determinable.

83. Contrary to these representations, the \$370,250 in revenue recognized from the October 21, 2016 Contract and the \$796,000 in revenue recognized from the January 2017 Contracts did not meet Digiliti's stated criteria for revenue recognition.

84. Mack signed the 2016 Form 10-K. Mack certified that he had reviewed the annual report and "[b]ased on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report."

85. Mack also certified that "based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report."

86. Mack further certified that he had "disclosed, based on our most recent evaluation of internal control over financial reporting, to [Digiliti's] auditors and the audit committee of [Digiliti's] board of directors . . . [a]ny fraud, whether or not material, that involves management or other employees who have a significant role in [Digiliti's] internal control over financial reporting."

87. Mack's certification was materially false and misleading. When he made the certification, Mack knew that he and Blaney had secretly caused Digiliti to enter into the October 2016 Side Agreement and the January 2017 Side Agreement, and that they had caused Digiliti's financial statements to include improperly recognized revenue from the October 21, 2016 Contract and the January 2017 Contracts.

88. Moreover, on February 24, 2017, in connection with the audit of Digiliti's 2016 annual financial statements, Mack signed a management representation letter to Digiliti's outside auditor. In his letter, Mack falsely stated, among other things, that he had no knowledge of any fraud or suspected fraud and that there were no "side agreements or other arrangements (either written or oral) that have not been disclosed to [the auditor]."

E. Digiliti Uses Its False Financial Statements To Sell Stock In Its March 2017 Public Offering

89. From February 27, 2017 through March 10, 2017, Digiliti filed four amendments to its Form S-1 registration statement for the March 2017 Public Offering. Each of those four amendments incorporated the materially overstated revenue from Digiliti's financial statements for the year ended December 31, 2016. Mack signed the original registration statement and each of the four amendments.

90. Mack helped promote the March 2017 Public Offering by participating in presentations to potential investors.

91. On March 10, 2017, Digiliti completed the March 2017 Public Offering. Through that offering, Digiliti raised \$10.5 million from the sale of its common stock to investors. At the same time, the listing of Digiliti's stock on the Nasdaq was completed, and Digiliti's stock began trading on that exchange. All of the trading of Digiliti's stock on the Nasdaq occurred while the Company's publicly available financial statements included materially overstated revenue.

IV. MACK AND BLANEY CONTINUE THEIR FRAUDULENT SCHEME THROUGH THE FIRST QUARTER OF 2017

A. Blaney Avoids Disclosure By Convincing Customer Number 1 to Postpone Cancellation of Its Contracts

92. On April 10, 2017, Customer Number 1's bookkeeper sent Blaney a cancellation notice for the October 21, 2016 Contract. On April 12, 2017, Blaney replied by email, stating that he had talked to his contact at Customer Number 1 and to Mack, and asking that Customer Number 1 "postpone the cancellation of [the October 21, 2016 Contract] until June 15th, 2017, with the understanding that no fees or payment is due on [the October 21, 2016 Contract] with this extension."

93. On April 20, 2017, a contact at Customer Number 1 emailed Blaney noting that they had again received several invoices, some of which were for contracts that would be cancelled in June and July 2017, and asking "[s]hould I let [individual in Digiliti's finance and accounting group] know about our intentions to cancel [the October 21, 2016 Contract and January 31, 2017 Contracts]?" On that same date, Blaney responded to the contact at Customer Number 1 stating:

Please proceed as follows:

Acknowledge the amendments, but do not tell [individual in Digiliti's finance and accounting group] they will be cancelled and let [individual in Digiliti's finance and accounting group] know that you will pay the standard open invoices for the monthly transactions.

I am going to have our CFO meet with them at the end of May to explain the cancellations.

B. Mack and Blaney Cause Digiliti To Enter Into Third Secret Side Agreement with Customer Number 1

94. On that same day, April 20, 2017, Blaney emailed Mack stating that Digiliti was \$800,000 short of its revenue goal for the first quarter of 2017, which ended on March 31, 2017. Blaney added :

If we put together an amendment for [Customer Number 1] to recognize \$800K of revenue, the order would have to be roughly \$1M as it is not all recognizable. [Customer Number 1] has three other amendments on the books that they have not paid for as they will be cancelling these per our agreement.

95. On April 24, 2017, Mack emailed Customer Number 1 a new contract. The email provided several terms that were not in the contract including that the contract could be cancelled by July 15, 2017 without penalty or obligation. On April 25, 2017, Customer Number 1 replied to Mack: “We very much appreciate our relationship with [Digiliti]. At this time we would like to politely decline going forward with additional work orders. Thank you for your kind consideration.”

96. On April 25, 2017, Mack forwarded the email from Customer Number 1 to Blaney stating, “Hope you can perform your magic here like I did for the uplisting. Not sure what else to say.” A few minutes later on April 25, 2017, Mack again emailed Blaney stating, “This is one of the times you need to do whatever it takes and don't give yourself an out.”

97. Later on April 25, 2017, Blaney sent Mack an email containing some terms for a new side agreement for Mack to send Customer Number 1.

98. On April 25, 2017, Mack sent Customer Number 1 another email with several terms that were not included in the new contract that was attached to the April 24, 2017 email. In his April 25 email, Mack proposed that Digiliti would give Customer Number 1 15,000 shares of Digiliti stock and the right to cancel the contract by July 15, 2017 without penalty or obligation.

99. On April 26, 2017, Mack called Customer Number 1 and then sent an email agreeing “to increase the number of shares of common stock to 25,000 assuming an average price of \$4 per share which is slightly lower than what the average has been since our recent Uplisting.” The terms included in Mack’s April 25, 2017 email, as updated in his April 26, 2017 email, are hereinafter referred to as the “April 2017 Side Agreement.”

100. Later on April 26, 2017, Customer Number 1 forwarded Mack’s April 25 and April 26 emails to Blaney, stating “FYI – I would like a clean copy, as an attachment, please include all of the terms and conditions.”

101. On April 26, 2017, Customer Number 1 returned the executed new contract, with a price of \$550,000 (hereinafter, the “April 26, 2017 Contract”).

102. Even though the April 26, 2017 Contract was sent to Customer Number 1 on April 24, 2017 and signed on April 26, 2017, Blaney dated the contract March 23, 2017, before the end of the previous quarter.

103. Blaney sent the April 26, 2017 Contract, but not the April 2017 Side Agreement, to Digiliti’s contracts manager to obtain Mack’s signature.

104. Digiliti's finance and accounting group, unaware of the April 2017 Side Agreement, issued Customer Number 1 one invoice dated March 1, 2017 and eight invoices dated March 31, 2017.

105. Mack and Blaney did not disclose the April 2017 Side Agreement to others at Digiliti, to Digiliti's outside auditor, or to investors.

106. Mack and Blaney knew that because of the April 2017 Side Agreement, Digiliti could not recognize revenue from the April 26, 2017 Contract.

C. Mack and Blaney Receive Discretionary Bonuses

107. As a result of Mack's and Blaney's fraudulent conduct, Digiliti improperly recognized \$490,000 in revenue from the April 26, 2017 Contract for the first quarter of 2017.

108. On May 2, 2017, Digiliti filed a Form 8-K, which disclosed, among other things, that on April 26, 2017, in recognition of Mack's and Blaney's work regarding the public offering "at a public offering price of \$4.50 per share in March 2017," the "uplisting on the Nasdaq," and Digiliti's "positive sales performance," the Board had approved discretionary bonuses of \$60,000 for Mack and \$30,000 for Blaney.

D. Mack Makes False Statements in a Press Release Regarding the Company's First Quarter 2017 Financial Results

109. On May 11, 2017, Digiliti issued a press release announcing its first quarter 2017 results. In the press release Digiliti stated, "Revenue in the first quarter of 2017 increased 73% to a record \$2.5 million from \$1.5 million in the first quarter of 2016." Mack stated in the press release, "Perhaps no other quarter in our history has been more

pivotal and instrumental to our long-term success than Q1 2017.” Mack also stated, “We successfully raised \$9.3 million and uplisted to the NASDAQ Capital Market []” and “rebranded the company.” In the press release Mack further stated, “While the headline for the quarter is arguably the achievement of these three important milestones, Q1 also represented a period of both strong financial results and operational progress. Our revenue increased 73% for the quarter to a record \$2.5 million, driven by record transactions and robust professional services revenue.” Mack’s statements in the press release regarding Digiliti’s quarterly revenues were false and misleading.

110. Mack approved Digiliti’s May 11, 2017 press release before it was issued.

E. Digiliti Reports Materially Overstated Revenue in Its First Quarter 2017 Financial Statements

111. On May 15, 2017, Digiliti filed with the SEC its quarterly report on Form 10-Q for the quarter ended March 31, 2017 (hereinafter, the “2017 First Quarter 10-Q”). The financial statements contained in that quarterly report overstated Digiliti’s revenue by \$490,000, or more than 24%. As a result of overstating its revenue, Digiliti also misstated other financial metrics. For example, gross profit for the First Quarter of 2017 was overstated by more than 141%.

112. The 2017 First Quarter 10-Q represented that “a discussion of our critical accounting policies was provided in Item 7 to the Consolidated Financial Statements included” in the Company’s annual report on Form 10-K for the year ended December 31, 2016. The quarterly report stated further that there had been no significant changes to

Digiliti's accounting policies during the first quarter of 2017. Item 7 in the 2016 Form 10-K stated:

We commence revenue recognition for fees earned on our SaaS fintech solutions and services when all of the following criteria are met:

- there is persuasive evidence of an arrangement;
- the service has been or is being provided to the client;
- collection of the fees is reasonably assured; and
- the amount of fees to be paid by the client is fixed or determinable.

113. Contrary to these representations, the \$490,000 in revenue recognized from the April 26, 2017 Contract did not meet Digiliti's criteria for revenue recognition.

114. Furthermore, Digiliti's recognition of the \$490,000 in revenue was not in accordance with GAAP because, among other things, the revenue was derived from a contract that was entered into after the quarter ended and the April 2017 Side Agreement allowed the April 26, 2016 Contract to be cancelled.

115. In addition, the stock promised to Customer Number 1 in the April 2017 Side Agreement was consideration given to a customer under GAAP. The stock consideration was not recorded as an expense at the stock's fair value when the related revenue was recognized on Digiliti's income statement.

116. Mack signed the 10-Q for First Quarter of 2017. Mack certified that he had reviewed the Form 10-Q and "[b]ased on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the

statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.”

117. Mack also certified that “[b]ased on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.”

118. Mack further certified that he had “disclosed, based on our most recent evaluation of internal control over financial reporting, to [Digiliti’s] auditors and the audit committee of [Digiliti’s] board of directors . . . [a]ny fraud, whether or not material, that involves management or other employees who have a significant role in [Digiliti’s] internal control over financial reporting.”

119. Mack’s certification was materially false and misleading. When he made the certification, Mack knew that he and Blaney had secretly caused Digiliti to enter into the undisclosed April 2017 Side Agreement, and that they had caused Digiliti’s financial statements to include improperly recognized revenue from the April 26, 2017 Contract.

120. Moreover, on May 15, 2017, in connection with the auditor’s review of Digiliti’s first quarter 2017 financial statements, Mack signed a management representation letter that falsely stated, among other things, that Mack had no knowledge of any fraud or suspected fraud and that there were no “side agreements or other arrangements (either written or oral) that have not been disclosed to [the auditor].”

V. CUSTOMER NUMBER 1 CANCELS THE CONTRACT, AND MACK AND BLANEY'S SCHEME IS DISCOVERED

A. Customer Number 1 Cancels the Four Contracts

121. In July 2017, Customer Number 1 cancelled the October 21, 2016 Contract, the January 2017 Contracts, and the April 26, 2017 Contract. As a result, Digiliti was forced to write off more than \$1.8 million in accounts receivable attributable to the cancelled contracts.

122. On August 1, 2017, Digiliti's Board of Directors sent Mack a Notice of Termination of Employment for Cause.

123. On August 10, 2017, Blaney was terminated as Digiliti's Executive Vice President of Sales. Before leaving, Blaney forwarded a number of work emails to his personal email account. Some of the emails related to the Side Agreements. An ensuing investigation discovered those emails and the Side Agreements.

124. On August 14, 2017, Digiliti filed a Form 8-K informing the public that its financial statements should no longer be relied upon.

125. On August 15, 2017, Digiliti's auditor resigned.

126. After Mack's and Blaney's fraudulent scheme was discovered, Digiliti was unable to raise sufficient capital and eventually ceased operations.

COUNT I

**Violations of Section 17(a)(1) of the Securities Act
(Defendants Mack and Blaney)**

127. The SEC realleges and incorporates by reference paragraphs 1 through 126 as though fully set forth herein.

128. By engaging in the conduct described above, Defendants Mack and Blaney, in the offer and sale of securities, by the use of the means or instruments of transportation or communication in interstate commerce or by use of the mails, directly or indirectly, have employed devices, schemes, and artifices to defraud.

129. Defendants Mack and Blaney, acted with *scienter* in that they knowingly or recklessly engaged in the fraudulent conduct described above.

130. By reason of the foregoing, Defendants Mack and Blaney violated Section 17(a)(1) of the Securities Act [15 U.S.C. § 77q(a)(1)].

COUNT II

Violations of Section 17(a)(2) of the Securities Act (Defendants Mack and Blaney)

131. The SEC realleges and incorporates by reference paragraphs 1 through 126 as though fully set forth herein.

132. By engaging in the conduct described above, Defendants Mack and Blaney, in the offer and sale of securities, by the use of means or instruments of transportation or communication in interstate commerce or by use of the mails, directly or indirectly, have obtained money or property by means of untrue statements of material facts and omissions to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

133. By reason of the foregoing, Defendants Mack and Blaney violated Section 17(a)(2) of the Securities Act [15 U.S.C. § 77q(a)(2)].

COUNT III

Violations of Section 17(a)(3) of the Securities Act (Defendants Mack and Blaney)

134. The SEC realleges and incorporates by reference paragraphs 1 through 126 as though fully set forth herein.

135. By engaging in the conduct described above, Defendants Mack and Blaney, in the offer and sale of securities, by the use of means or instruments of transportation or communication in interstate commerce or by use of the mails, directly or indirectly, have engaged in transactions, practices, and courses of business which operated or would operate as a fraud or deceit upon the purchasers of such securities.

136. By reason of the foregoing, Defendants Mack and Blaney violated Section 17(a)(3) of the Securities Act [15 U.S.C. § 77q(a)(3)].

COUNT IV

Violations of Section 10(b) of the Exchange Act and Exchange Act Rule 10b-5(a) and (c) (Defendants Mack and Blaney)

137. The SEC realleges and incorporates by reference paragraphs 1 through 126 as though fully set forth herein.

138. By engaging in the conduct described above, Defendants Mack and Blaney, in connection with the purchase and sale of securities, by the use of means or instrumentalities of interstate commerce or of the mails, or of any facility of a national securities exchange, directly or indirectly employed devices, schemes, and artifices to defraud, and engaged in acts, practices, and courses of business which operated or would

operate as a fraud or deceit upon any person.

139. Defendants Mack and Blaney acted with *scienter* in that they knowingly or recklessly engaged in the fraudulent conduct described above.

140. By reason of the foregoing, Defendants Mack and Blaney violated Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Exchange Act Rule 10b-5(a) and (c) [17 C.F.R. 240.10b-5(a) and (c)].

COUNT V

Violations of Section 10(b) of the Exchange Act and Exchange Act Rule 10b-5(b) (Defendant Mack)

141. The SEC realleges and incorporates by reference paragraphs 1 through 126 as though fully set forth herein.

142. By engaging in the conduct described above, Defendant Mack, in connection with the purchase or sale of any security, by the use of any means or instrumentality of interstate commerce or of the mails, or of any facility of a national securities exchange, directly or indirectly, made untrue statements of material facts and omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

143. Defendant Mack acted with *scienter* in that he knowingly or recklessly engaged in the fraudulent conduct described above.

144. By reason of the foregoing, Defendant Mack violated Section 10(b) of the Exchange Act [15 U.S.C. §78j(b)] and Exchange Act Rule 10b-5(b) [17 C.F.R. 240.10b-5(b)].

COUNT VI

Violations of Section 13(b)(5) of the Exchange Act (Defendants Mack and Blaney)

145. The SEC realleges and incorporates by reference paragraphs 1 through 126 as though fully set forth herein.

146. By engaging in the conduct described above, Defendants Mack and Blaney, knowingly circumvented a system of internal accounting controls and knowingly falsified Digiliti's books, records, and accounts.

147. By reason of the foregoing, Defendants Mack and Blaney violated Section 13(b)(5) of the Exchange Act [15 U.S.C. § 78m(b)(5)].

COUNT VII

Violations of Exchange Act Rule 13b2-1 (Defendants Mack and Blaney)

148. The SEC realleges and incorporates by reference paragraphs 1 through 126 as though fully set forth herein.

149. By engaging in the conduct described above, Defendants Mack and Blaney, directly or indirectly, falsified and caused to be falsified Digiliti's books, records, and accounts.

150. By reason of the foregoing, Defendants Mack and Blaney violated Exchange Act Rule 13b2-1 [17 C.F.R. 240.13b2-1].

COUNT VIII

Violations of Exchange Act Rule 13b2-2 (Defendant Mack)

151. The SEC realleges and incorporates by reference paragraphs 1 through 126 as though fully set forth herein.

152. By engaging in the conduct described above, Defendant Mack, directly or indirectly, made or caused to be made materially false and misleading statements, and omitted to state, or caused another person to omit to state, material facts necessary in order to make statements made, in light of the circumstances under which such statements were made, not misleading, to accountants in connection with an audit and review of Digiliti's financial statements and in the preparation and filing of Digiliti's documents and reports required to be filed with the SEC.

153. By reason of the foregoing, Defendant Mack violated Exchange Act Rule 13b2-2 [17 C.F.R. 240.13b2-2].

COUNT IX

Violations of Exchange Act Rule 13a-14 (Defendant Mack)

154. The SEC realleges and incorporates by reference paragraphs 1 through 126 as though fully set forth herein.

155. During the relevant period, Digiliti filed reports pursuant Section 13(a) of the Exchange Act.

156. As CEO of Digiliti, Mack signed certifications in Digiliti's quarterly and annual reports that were filed with the SEC from November 2016 through May 2017.

157. Mack certified that he had reviewed these reports and that, based on his knowledge, the reports did not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading; and that based on his knowledge, the financial statements and other financial information included in the reports, fairly presented in all material respects the financial condition, results of operations, and cash flows of Digiliti for the periods presented on the reports.

158. These certifications were materially false and misleading as detailed herein.

159. By reason of the foregoing, Defendant Mack violated Exchange Act Rule 13a-14 [17 C.F.R. 240.13a-14].

COUNT X

Aiding and Abetting Digiliti's Violations of Section 17(a)(1) of the Securities Act (Defendants Mack and Blaney)

160. The SEC realleges and incorporates by reference paragraphs 1 through 126 as though fully set forth herein.

161. By engaging in the conduct described above, Digiliti, in the offer and sale of securities, by the use of means or instruments of transportation or communication in interstate commerce or by use of the mails, directly or indirectly, employed devices, schemes, and artifices to defraud.

162. Digiliti acted with *scienter* in that it knowingly or recklessly engaged in the fraudulent conduct described above.

163. As described, Digiliti violated Section 17(a)(1) of the Securities Act.

164. Defendants Mack and Blaney knowingly or recklessly provided substantial assistance to Digiliti's violations of 17(a)(1) of the Securities Act.

165. By reason of the foregoing, Defendant Mack aided and abetted Digiliti's violations of 17(a)(1) of the Securities Act, and pursuant to Section 15(b) of the Securities Act [15 U.S.C. § 77o(b)], Defendant Mack is liable to the same extent as Digiliti for its violations of Section 17(a)(1) of the Securities Act.

166. By reason of the foregoing, Defendant Blaney aided and abetted Digiliti's violations of 17(a)(1) of the Securities Act, and pursuant to Section 15(b) of the Securities Act [15 U.S.C. § 77o(b)], Defendant Blaney is liable to the same extent as Digiliti for its violations of Section 17(a)(1) of the Securities Act.

COUNT XI

Aiding and Abetting Digiliti's Violations of Section 17(a)(2) of the Securities Act (Defendants Mack and Blaney)

167. The SEC realleges and incorporates by reference paragraphs 1 through 126 as though fully set forth herein.

168. By engaging in the conduct described above, Digiliti, in the offer and sale of securities, by the use of means or instruments of transportation or communication in interstate commerce or by use of the mails, directly or indirectly, obtained money or property by means of untrue statements of material facts and omissions to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

169. As described, Digiliti violated Section 17(a)(2) of the Securities Act.

170. Defendants Mack and Blaney knowingly or recklessly provided substantial assistance to Digiliti's violations of 17(a)(2) of the Securities Act.

171. By reason of the foregoing, Defendant Mack aided and abetted Digiliti's violations of 17(a)(2) of the Securities Act, and pursuant to Section 15(b) of the Securities Act [15 U.S.C. § 77o(b)], Defendant Mack is liable to the same extent as Digiliti for its violations of Section 17(a)(2) of the Securities Act.

172. By reason of the foregoing, Defendant Blaney aided and abetted Digiliti's violations of 17(a)(2) of the Securities Act, and pursuant to Section 15(b) of the Securities Act [15 U.S.C. § 77o(b)], Defendant Blaney is liable to the same extent as Digiliti for its violations of Section 17(a)(2) of the Securities Act.

COUNT XII

Aiding and Abetting Digiliti's Violations of Section 17(a)(3) of the Securities Act (Defendants Mack and Blaney)

173. The SEC realleges and incorporates by reference paragraphs 1 through 126 as though fully set forth herein.

174. By engaging in the conduct described above, Digiliti, in the offer and or sale of securities, by the use of means or instruments of transportation or communication in interstate commerce or by use of the mails, directly or indirectly, engaged in transactions, practices, and courses of business which operated or would operate as a fraud or deceit upon the purchasers and prospective purchasers of such securities.

175. As described, Digiliti violated Section 17(a)(3) of the Securities Act.

176. Defendants Mack and Blaney knowingly or recklessly provided substantial assistance to Digiliti's violations of 17(a)(3) of the Securities Act.

177. By reason of the foregoing, Defendant Mack aided and abetted Digiliti's violations of 17(a)(3) of the Securities Act, and pursuant to Section 15(b) of the Securities Act [15 U.S.C. § 77o(b)], Defendant Mack is liable to the same extent as Digiliti for its violations of Section 17(a)(3) of the Securities Act.

178. By reason of the foregoing, Defendant Blaney aided and abetted Digiliti's violations of 17(a)(3) of the Securities Act, and pursuant to Section 15(b) of the Securities Act [15 U.S.C. § 77o(b)], Defendant Blaney is liable to the same extent as Digiliti for its violations of Section 17(a)(3) of the Securities Act.

COUNT XIII

Aiding and Abetting Digiliti's Violations of Section 10(b) and Rule 10b-5 of the Exchange Act (Defendants Mack and Blaney)

179. The SEC realleges and incorporates by reference paragraphs 1 through 126 as though fully set forth herein.

180. By engaging in the conduct described above, Digiliti in connection with the purchase or sale of securities, by the use of means or instrumentalities of interstate commerce, or by the use of the mails, or of any facility of a national securities exchange, directly or indirectly; employed devices, schemes, and artifices to defraud; made untrue statements of material facts and omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and engaged in acts, practices, and courses of business which operated or

would operate as a fraud or deceit upon any person.

181. Digiliti acted with *scienter* in that it knowingly or recklessly engaged in the fraudulent conduct described above.

182. As described, Digiliti violated Section 10(b) of the Exchange Act and Rule 10b-5.

183. Defendants Mack and Blaney knowingly or recklessly provided substantial assistance to Digiliti's violations of Section 10(b) of the Exchange Act and Exchange Act Rule 10b-5.

184. By reason of the foregoing, Defendant Mack aided and abetted Digiliti's violations of Section 10(b) of the Exchange Act and Exchange Act Rule 10b-5, and pursuant to Section 20(e) of the Exchange Act [15 U.S.C. § 78t(e)], Defendant Mack is liable to the same extent as Digiliti for its violations of Section 10(b) of the Exchange Act and Exchange Act Rule 10b-5.

185. By reason of the foregoing, Defendant Blaney aided and abetted Digiliti's violations of Section 10(b) of the Exchange Act and Exchange Act Rule 10b-5 and pursuant to Section 20(e) of the Exchange Act [15 U.S.C. § 78t(e)], Defendant Blaney is liable to the same extent as Digiliti for its violations of Section 10(b) of the Exchange Act and Exchange Act Rule 10b-5.

COUNT XIV

**Aiding and Abetting Digiliti's
Violations of Section 13(a) of the Exchange Act and
Exchange Act Rules 12b-20, 13a-1, 13a-11, 13a-13
(Defendants Mack and Blaney)**

186. The SEC realleges and incorporates by reference paragraphs 1 through 126 as though fully set forth herein.

187. As described above, Digiliti's filings with the SEC, including its reports filed on Form 8-K, Form 10-Q and Form 10-K, incorporated inaccurate and misleading financial information concerning Digiliti's business operations, revenue, and gross profit.

188. By engaging in the conduct described, Digiliti violated Section 13(a) of the Exchange Act and Exchange Act Rules 12b-20, 13a-1, 13a-11, and 13a-13, which obligates issuers of securities registered pursuant to Section 12 of the Exchange Act [15 U.S.C. § 78l] to file with the SEC periodic reports that are accurate and not misleading.

189. By engaging in the conduct described, Defendants Mack and Blaney knowingly or recklessly provided substantial assistance to Digiliti's filing of false and misleading reports with the SEC.

190. By reason of the foregoing, Defendant Mack aided and abetted Digiliti's violations of Section 13(a) of the Exchange Act and Exchange Act Rules 12b-20, 13a-1, 13a-11, and 13a-13, and pursuant to Section 20(e) of the Exchange Act [15 U.S.C. § 78t(e)], Defendant Mack is liable to the same extent as Digiliti for its violations of Section 13(a) of the Exchange Act and Exchange Act Rules 12b-20, 13a-1, 13a-11, and 13a-13.

191. By reason of the foregoing, Defendant Blaney aided and abetted Digiliti's violations of Section 13(a) of the Exchange Act and Exchange Act Rules 12b-20, 13a-1, 13a-11, and 13a-13, and pursuant to Section 20(e) of the Exchange Act [15 U.S.C. § 78t(e)], Defendant Blaney is liable to the same extent as Digiliti for its violations of Section 13(a) of the Exchange Act and Exchange Act Rules 12b-20, 13a-1, 13a-11, and 13a-13.

COUNT XV

Aiding and Abetting Digiliti's Violations of Section 13(b)(2)(A) of the Exchange Act (Defendants Mack and Blaney)

192. The SEC realleges and incorporates by reference paragraphs 1 through 126 as though fully set forth herein.

193. As described, Digiliti failed to make and keep books, records, and accounts, which, in reasonable detail, accurately and fairly reflected the transactions and dispositions of the assets of Digiliti.

194. By engaging in the conduct described, Digiliti violated Section 13(b)(2)(A) of the Exchange Act [15 U.S.C. § 78m(b)(2)(A)].

195. Defendants Mack and Blaney knowingly or recklessly provided substantial assistance to Digiliti's failure to make and keep books, records, and accounts, which, in reasonable detail, accurately and fairly reflected the transactions and dispositions of the assets of Digiliti.

196. By reason of the foregoing, Defendant Mack aided and abetted Digiliti's violations of Section 13(b)(2)(A) of the Exchange Act, and pursuant to Section 20(e) of

the Exchange Act [15 U.S.C. § 78t(e)], Defendant Mack is liable to the same extent as Digiliti for its violations of Section 13(b)(2)(A) of the Exchange Act.

197. By reason of the foregoing, Defendant Blaney aided and abetted Digiliti's violations of Section 13(b)(2)(A) of the Exchange Act, and pursuant to Section 20(e) of the Exchange Act [15 U.S.C. § 78t(e)], Defendant Blaney is liable to the same extent as Digiliti for its violations of Section 13(b)(2)(A) of the Exchange Act.

RELIEF REQUESTED

WHEREFORE, the SEC respectfully requests that this Court:

I.

Issue findings of fact and conclusions of law that Defendants Mack and Blaney committed the violations charged and alleged herein.

II.

Enter an Order of Permanent Injunction restraining and enjoining Defendant Mack from, directly or indirectly, engaging in the transactions, acts, practices or courses of business described above, or in conduct of similar purport and object, in violation of Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)], Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)], Section 13(b)(5) of the Exchange Act [15 U.S.C. § 78m(b)(5)], and Exchange Act Rules 10b-5 [17 C.F.R. 240.10b-5], 13a-14 [17 C.F.R. 240.13a-14], 13b2-1 [17 C.F.R. 240.13b2-1] and 13b2-2 [17 C.F.R. 240.13b2-1]; and from aiding and abetting violations of Section 17(a) of the Securities, Section 10(b) of the Exchange Act, Section 13(a) of the Exchange Act [15 U.S.C. § 78m(a)], Section 13(b)(2)(A) of the Exchange Act [15 U.S.C. § 78m(b)(2)(a)], and Exchange Act Rules 10b-5, 12b-20 [17

C.F.R. 240.12b-20], 13a-1 [17 C.F.R. 240.13a-1], 13a-11[17 C.F.R. 240.13a-11], and 13a-13 [17 C.F.R. 240.13a-13].

Enter an Order of Permanent Injunction restraining and enjoining Defendant Blaney from, directly or indirectly, engaging in the transactions, acts, practices or courses of business described above, or in conduct of similar purport and object, in violation of Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)], Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)], Section 13(b)(5) of the Exchange Act [15 U.S.C. § 78m(b)(5)], and Exchange Act Rules 10b-5(a) and (c) [17 C.F.R. 240.10b-5(a) and (c)] and 13b2-1 [17 C.F.R. 240.13b2-1]; and from aiding and abetting violations of Section 17(a) of the Securities, Section 10(b) of the Exchange Act, Section 13(a) of the Exchange Act [15 U.S.C. § 78m(a)], and Section 13(b)(2)(A) of the Exchange Act [15 U.S.C. § 78m(b)(2)(A)], and Exchange Act Rules 10b-5, 12b-20 [17 C.F.R. 240.12b-20], 13a-1 [17 C.F.R. 240.13a-1], 13a-11[17 C.F.R. 240.13a-11], and 13a-13 [17 C.F.R. 240.13a-13].

III.

Enter an Order requiring Defendants Mack and Blaney to disgorge their ill-gotten gains received as a result of the violations alleged in this Complaint, including prejudgment interest.

IV.

With regard to Defendants Mack's and Blaney's violative acts, practices and courses of business set forth herein, issue an Order imposing upon Defendants Mack and Blaney appropriate civil penalties pursuant to Section 20(d) of the Securities Act [15

U.S.C. § 77t(d)] and Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)].

V.

Enter an Order pursuant to Section 20(e) of the Securities Act [15 U.S.C. §77t(e)] and Section 21(d)(2) of the Exchange Act [15 U.S.C. § 78u(d)(2)] barring and prohibiting Defendants Mack and Blaney from acting as officers or directors of any issuer that has a class of securities registered pursuant to Section 12 of the Exchange Act [15 U.S.C. § 78l] or that is required to file reports pursuant to Section 15(d) of the Exchange Act [15 U.S.C. § 78o(d)].

VI.

Retain jurisdiction of this action in accordance with the principals of equity and the Federal Rules of Civil Procedure in order to implement and carry out the terms of all orders and decrees that may be entered or to entertain any suitable application or motion for additional relief within the jurisdiction of this Court.

VII.

Grant such other relief as this Court deems appropriate.

JURY DEMAND

Pursuant to Rule 38 of the Federal Rules of Civil Procedure, the Commission hereby requests a trial by jury.

Dated: April 3, 2019

**UNITED STATES SECURITIES
AND EXCHANGE COMMISSION**

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