



# U.S. Securities and Exchange Commission

## Information Matters

Information is the investor's best tool when it comes to investing wisely. But accurate information about the smallest of companies can be extremely difficult to find. Many of these very small companies do not register their securities or file financial reports with the SEC, which makes it almost impossible for investors to get the facts about the company's management, products, services, and finances.

Far too often, the lack of reliable, readily available, current information also opens the door to fraud. It's much easier for the unscrupulous to spread false information and to manipulate a stock's price when accurate information about the company is scarce. All it takes for a fraudster to make a killing is a handful of unwary investors who believed what they saw in spam emails, unsolicited faxes, chat room or bulletin board postings, newsletters, or questionable press releases.

The mere fact that a company files reports with the SEC does not make the company a "good" investment or immune to fraud. Conversely, the fact that a company does not file reports with the SEC does not mean the company lacks legitimacy. Many of the companies that don't file reports with the SEC are honest businesses with real products or services. The critical difference is the extra measure of risk you assume when you invest in a company about which little or no information is publicly available.

This publication describes the information you should review before you invest, provides tips on how to find information about companies, and lists several "red flags" to avoid.

### Which Companies File Reports With the SEC?

In general, the federal securities laws require all but the smallest public companies to file reports with the SEC - including companies with 500 or more investors and \$10 million or more in assets, companies that list their securities on a major national exchange (such as the New York Stock Exchange or the Nasdaq Stock Market), and companies whose securities are quoted on the [OTC Bulletin Board](#).

These reports that a company files with the SEC - including annual reports (with audited financial statements) on Form 10-K, quarterly reports on Form 10-Q, and periodic reports of significant events on Form 8-K - contain a treasure trove of important information about the company's management, business, and financial condition and can tell you whether the company is

making money or losing money and why. Any investor can access (for free) these and other documents by searching the SEC's [EDGAR database](#) of company filings.

## What Information Do I Need?

Especially if you are investing on your own, be sure to research each investment opportunity thoroughly and ask questions - about both the company itself and the person or entity promoting it. These simple steps can help you make an informed investment decision:

1. **Research the Company:** If you can't find the company on EDGAR, be sure to contact your [state securities regulator](#). Read carefully the most recent reports the company has filed with its regulators. Make sure you understand the company's business and its products or services. And pay attention to the company's financial statements - particularly if they are not audited or not certified by an accountant. If the company does not file reports with the SEC, be sure to ask your broker for what's called the "Rule 15c2-11 file" on the company. That file will contain important information about the company.
2. **Know the Owners:** Contact your [state securities regulator](#) to check out the people running the company. Be sure to find out whether they have a history of investor complaints or fraud charges. It pays to know whether the company's management has made money for investors in the past - or not.
3. **Check Out Your Broker:** Make sure the broker and his or her firm are registered and licensed to do business in your state. And ask your [state securities regulator](#) whether the broker and the firm have ever been disciplined or have complaints against them.

We've spelled out many additional questions you'll need to ask in our publications entitled [Internet Fraud](#) and [Ask Questions](#). When you ask these questions, write down the answers you received and what you decided to do. If something goes wrong, your notes can help to establish who said what and when. Let your broker or investment adviser know you're taking notes. They'll know you're a serious investor and may tell you more - or give up trying to scam you.

## How Do I Get Information About Companies?

If you're working with a broker or an investment adviser, he or she can provide you with information about the company and its disclosure documents. Be sure to read carefully the prospectus and the company's latest financial reports. Remember that unsolicited emails, message board postings, and company news releases should never be used as the sole basis for your investment decisions. You can also get information on your own from these sources:

- **From the company** Ask the company if it is registered with the SEC and files reports with us. If the company is small and unknown to most people, you should also call your state securities regulator to get information about the company, its management, and the brokers or promoters who've encouraged you to invest in the company.
- **From the SEC** A great many companies must file their reports with the SEC. Using the [EDGAR database](#), you can find out whether a company files with us and get any reports in which you're interested. For companies that do not file on EDGAR, check with the SEC's [Public Reference Room](#) to see whether the company has filed an offering circular under [Regulation A](#).
- **From your state securities regulator** We strongly urge you to contact your [state securities regulator](#) to find out whether they have information about a company and the people behind it. Look in the government section of your phone book or visit the website of the North American Securities Administrators Association to get the name and phone number. Even though the company does not have to register its securities with the SEC, it may have to register them with your state. Your regulator will tell you whether the company has been legally cleared to sell securities in your state. Too many investors could easily have avoided heavy and painful financial losses if they only called their state securities regulator *before* they bought stock.
- **From other government regulators** Many companies, such as banks, do not have to file reports with the SEC. But banks must file updated financial information with their banking regulators. Visit the Federal Reserve System's National Information Center of Banking Information site at [www.ffiec.gov/nicpubweb/nicweb/nichome.aspx](http://www.ffiec.gov/nicpubweb/nicweb/nichome.aspx), the Office of the Comptroller of the Currency at [www.occ.treas.gov](http://www.occ.treas.gov), or the Federal Deposit Insurance Corporation at [www.fdic.gov](http://www.fdic.gov).
- **From reference books and commercial databases** Visit your local public library or the nearest law or business school library. You'll find many reference materials containing information about companies. You can also access commercial databases for more information about the company's history, management, products or services, revenues, and credit ratings. The SEC cannot recommend or endorse any particular research firm, its personnel, or its products. But there are a number of commercial resources you may consult, including: Bloomberg, Dun & Bradstreet, Hoover's Profiles, Lexis-Nexis, and Standard & Poor's Corporate Profiles. Ask your librarian about additional resources.
- **From the Secretary of State where the company is incorporated** Contact the secretary of state where the company is incorporated to find out whether the company is a corporation in good standing. You may also be able to obtain copies of the company's incorporation papers and any annual reports it files with the state. Please visit the National Association of Secretaries of State website at [www.nass.org](http://www.nass.org) for contact information regarding a particular Secretary of State.

## What Are the "Red Flags"?

It can be extraordinarily difficult to detect fraud or a manipulative scheme. But when you're researching a company, watch out for these "red flags":

- **SEC Trading Suspensions** The SEC has the power to suspend trading in any stock for up to 10 days when it believes that information about the company is inaccurate or unreliable. Think twice before investing in a company that's been the subject of an SEC trading suspension. You'll find information about [trading suspensions](#) on the SEC's website.
- **Company Recommended But No Current Information** Be especially careful if you receive an unsolicited fax or e-mail about a company -- or see it praised on an Internet bulletin board -- but can find no current financial information about the company from other independent sources. Many fraudsters use e-mail, faxes and Internet postings to tout thinly traded stocks, in the hopes that the resulting buying frenzy will push the share price up so that they can sell their shares. Once they dump their stock and quit promoting the company, the share price quickly falls.
- **High Pressure Sales Tactics** Beware of salespeople who pressure you to buy before you have a chance to think about and investigate the "opportunity." Dishonest people may try to tell you about a "once-in-a-lifetime" opportunity or one that's based on "inside" or "confidential" information. Don't fall for a promise of spectacular profits or "guaranteed" returns. These are the hallmarks of fraud. If the deal sounds too good to be true, then it probably is.
- **Assets Are Large But Revenues Are Small** Companies will sometimes assign high values on their financial statements to assets that have nothing to do with their business. Find out whether there's a valid explanation for low revenues, especially when the company claims to have large assets.
- **Odd Items in the Footnotes to the Financial Statements** Many fraud schemes involve unusual transactions among individuals connected to the company. These can be unusual loans or the exchange of questionable assets for company stock that may be discussed in the footnotes.
- **Unusual Auditing Issues** Be wary when a company's auditors have refused to certify the company's financial statements or if they've stated that the company may not have enough money to continue operating. Also question any change of accountants.
- **Insiders Own Large Amounts of the Stock** In many fraud cases - especially "pump and dump" schemes - the company's officers and promoters own significant amounts of the stock. When one person or group controls most of the stock, they can more easily manipulate the stock's price at your expense. You can ask your broker or the company whether one person or group controls most of the company's stock, but if the company is the subject of a scam, you may not get an honest answer.

**Additional Warning Signs** Don't deal with anyone who refuses to provide you with written information about the investments they're promoting. Never tell a cold caller your social security number or numbers for your banking and securities accounts. And be extra wary if someone you don't know and trust recommends foreign or "off-shore" investments. For more tips on avoiding danger, be sure to read [Cold Calling](#) and [The Fleecing of Foreign Investors](#).

## What About Bankruptcy?

Watch out for ticker symbols ending with a fifth letter "Q." The addition of a "Q" to a company's stock ticker symbol indicates that the company has filed for or is involved in bankruptcy proceedings. Investors often snatch up the

low-priced shares of companies that have filed for Chapter 11 protection, speculating that the price will rise once the company emerges from bankruptcy. But that's not how bankruptcy typically works.

Be cautious when buying common stock of companies in Chapter 11 bankruptcy. Doing so is extremely risky and will likely lead to financial loss. Although a company may emerge from bankruptcy as a viable entity, in most instances, the company's plan of reorganization will cancel the existing equity shares. It is generally the creditors and the bondholders who become the new owners of the company's new shares - not the stockholders. This happens in bankruptcy cases because creditors are paid from the company's assets before common stockholders. And in situations where shareholders do participate in the plan, their shares are usually subject to substantial dilution. If you have questions about what happens when a company declares [bankruptcy](#), you can get information from [our brochure](#) on the subject.

### Where Can I Turn for Help?

If you've been asked to invest in a company but you can't find any record that the company has registered its securities with the SEC or your state, or that it's exempt from registration, you may have come face to face with a scam. Call or write your state's securities regulator immediately with all the details. You can also file a complaint using the SEC's online [Complaint Center](#).

<http://www.sec.gov/answers/infomatters.htm>

We have provided this information as a service to investors. It is neither a legal interpretation nor a statement of SEC policy. If you have questions concerning the meaning or application of a particular law or rule, please consult with an attorney who specializes in securities law.