

## **Stock Promotion: Best Practices for Issuers**

*Timely disclosure of material information is fundamental to efficient trading markets.*

Public availability of adequate current information is a core principal of OTC Markets Group's disclosure-based philosophy and the OTCQX and OTCQB Rules. Reputable public companies are expected to release quickly to the public any news or information which might reasonably be expected to materially affect the market for its securities.

Management of a public company also has the responsibility to dispel unfounded rumors, misinformation or false statements which result in unusual market activity. Misleading and manipulative promotion clearly fall into this area of concern and must be immediately addressed.

Fraudulent promotional campaigns harm the integrity of public markets, defraud investors, and obstruct the capital formation process.

Based on our experience monitoring securities trading on our markets for potentially fraudulent promotional activity, we have created these best practices for issuers related to stock promotion and investor relations.

### **An Ounce of Prevention**

Stock promotion can affect any issuer. There are certain considerations issuers should make when hiring investor relations or investor awareness providers, issuing shares to third parties, or arranging equity and convertible debt financings from third parties to better protect against misleading and manipulative promotion.

#### **Investor Relations – Do your Due Diligence on Providers**

Prior to engaging an Investor Relations (IR) firm, consultant or promoter, issuers should conduct due diligence as with any other service provider, to review the firm, its principals, and its associates. Issuers should consider reviewing other companies the firm has represented, whether the firm has been associated with any stock promotion in the past, if the principals of the firm are known stock promoters or associated with any known stock promoters, or if there is any negative news related to the firm or its principals. Issuers should also carefully consider and understand exactly what services prospective IR firms intend to provide. Services described generally as "addressing retail support for a company's securities" or "enhancing investor awareness" may actually be a guise for a promotional campaign.

Be wary of any unusual payment requests from IR firms, such as splitting up payment amongst different individuals or entities, or payments to individuals outside of the actual investor relations firm for services.

### Content of Investor Materials – Avoid Misleading & Manipulative Campaigns

The OTCQX Rules and OTCQB Standards require companies to make adequate, current information publicly available. Companies that sponsor or pay for promotion or other IR services are responsible for ensuring the accuracy of any disclosure or other materials associated with those services. The materials must also include appropriate disclosure that clearly identifies the promoter or IR firm’s relationship to the issuer.

Companies should retain editorial control of disseminated investor outreach content. Issuers should responsibly oversee the materials that any downstream source intends to disseminate as a result of these engagements.

IR materials, even with proper disclosure, should not use language that makes assumptions, is speculative, misleading or brazenly hypes the stock. IR communications should not cover new material information that has not been previously disclosed, and should not extend beyond the realm of providing factual information to investors and shareholders.

### Know Your Investors

Make sure you know the names of the people involved in any offering or financing. Financing deals are often structured with investors using only corporate names as a means to obstruct transparency into ownership.

Be wary of any financiers or third party “consultants,” and service providers that ask for anonymity or try to hide their involvement through offshore entities, holding companies or other individuals – this is a red flag. Be wary of shareholders who have gained significant control of a company’s shares, and are in possession, or are coming into possession, of unrestricted shares – they may have an incentive to induce promotion secretly (“pump”) in order to sell (dump) their freely tradable shares on the open market. Issuers should also review the history of the financier under previous names as well as other entities related to that financier and its principals. These types of “toxic” financier groups are nimble, often changing names or resurfacing with an alternate name to evade quick detection.

### “Toxic” Financiers and “Death Spiral” Financing

Promotional campaigns are more prevalent in companies with certain types of financing. Issuers should give careful consideration to the terms of any financing agreements and the

investors/financiers themselves. If approached by a financier offering a loan that seems “too good to be true,” it probably is. “Toxic Financiers,” also known as “Death Spiral” Financiers, often target microcap companies by offering quick and easy funds to the company in exchange for convertible instruments that are, or could be, converted into freely tradable shares of the company’s common stock. Shortly before these instruments are converted, the financier will often facilitate promotion campaigns to maximize their gains. A common form of toxic financing is convertible debt, which converts to equity at a discount to the market price, often with no floor. This discount can be significant and locks in a profit margin for the new equity holders. It also places significant downward pressure on the stock. The result for investors and issuers is a rapid, massive dilution (increase of shares outstanding relative to price-per-share) of the stock, which ultimately may necessitate additional financing.

### Disclose Sponsored Campaigns & Identify Service Providers

We have strong concerns regarding anonymous third-party promotion. Promoting or paying to promote a stock secretly, without adequate disclosure, is a significant source of misleading and manipulative information that harms market integrity.

If a company pays someone, directly or indirectly through an intermediary, to publish or publicize articles about its stock, this relationship and payment should be disclosed to the investing public.

Ongoing payments and agreements for promotion or IR services should be disclosed as part of the issuer’s typical reporting. The identity of any IR firm engaged by the issuer must be disclosed in a timely manner, including on the issuer’s “Company Profile” page on [www.OTCMarkets.com](http://www.OTCMarkets.com) and in other disclosure materials, where required.

### **Addressing Promotion in Your Stock**

If your company is the subject of misleading and manipulative promotion, OTC Markets recommends prompt action:

#### Timely Disclosure

Make a public announcement to inform investors that the company is aware of the promotion and address information related to the promotion, including:

- A summary of the company’s understanding of the stock promotion, including how and when the company became aware of the campaign and a description of the promotion’s effect on the company’s trading activity.

- Whether the content of the promotion is accurate or contains untrue or misleading information.
- Conduct an inquiry of the company's management, directors and control persons to determine whether these company insiders:
  - are or have been involved in the stock promotion in any way.
  - have sold or purchased the company's securities within an appropriately chosen period leading up to, during, and after the promotional activity.
- Provide an up-to-date list of service providers who provide IR services, public relations services, paid promotion, marketing or other related services.
- Whether the company has, at any point, issued shares or convertible instruments allowing conversion to equity securities at prices constituting a discount to the market rate. Provide a brief summary of any such issuances, including the date, number of shares issued, and price. Provide a summary of any outstanding convertible instruments, including the date of issuance, who it was issued to, and the conversion terms. Public investors should be provided with adequate current information to understand the terms of recent financings and any ongoing agreements, as well as the effective share dilution.

#### Expose Anonymous Promoters

If your company was the subject of anonymous third-party promotion, you should identify the source of the promotion to understand who may be attempting to manipulate the market for your security. You may need to review the terms of previous share issuances to help figure out who might benefit from promoting your stock. You can also review changes to your shareholder list to see who might have been trading during the promotion.

#### Impose Black-out Periods for Insiders

Companies should review their Insider Trading Policies and consider whether to impose black-out period for insiders.

### **More Information on OTC Markets Group's Response to Promotion**

Additional material:

- [OTC Markets Group Policy on Stock Promotion](#)
- [Caveat Emptor Policy](#)
- [Petition for Commission Action to Protect the Investing Public from Unlawful and Deceptive Securities Promotion](#)
- [Service Provider Directory: Investor Relations](#)