



## PinkSheets Focused on Providing Transparency for Penny Stock Investors

This article will examine what a PinkSheet-listed company really is, what information they need to disclose and what information PinkSheets LLC, that runs [www.PinkSheets.com](http://www.PinkSheets.com), is trying to get these companies to disclose to provide transparency to investors willing to take the risk of investing in penny stocks.

What exactly is a PinkSheet company, you might ask? Well, it is a publicly traded company with a stock symbol that does not meet the reporting requirements to get listed on a U.S. exchange or on the Nasdaq Stock Market. These companies either choose not to list, or are unable to meet the standards for listing, on Nasdaq or a U.S. stock exchange.

Since the early 1900's, in the early days of the inter-dealer quotation of small thinly-traded stocks, market makers would quote these stocks, often on pink sheets of paper. That all changed in September of 1999, when according to their website, "... Pink Sheets introduced our Electronic Quotation Service, an Internet-based, real-time quotation service for OTC equities and bonds for market makers and brokers. And in June of 2000, we introduced [www.pinksheets.com](http://www.pinksheets.com), the premier financial Web portal for information about OTC securities."

They have come a long way in the past eight years and are doing a respectable job at cleaning up the penny stock market. Their website is the only one, other than possibly some of the corporate websites of these penny stock companies, where a penny stock company can list detailed information regarding shares issued and outstanding and financial statements.

### How do Companies get listed on PinkSheets.com?

In order to get listed on their website, a company has to have a stock symbol.

Obtaining a stock symbol requires the filing of a Form 211 Information Statement with the Financial Industry Regulatory Authority (FINRA), until just recently the National Association of Securities Dealers (NASD), which is the largest non-governmental regulator for all securities firms doing business in the United States. The company cannot file the Form 211 itself, but must instead file through a market maker, which is a registered broker-dealer acting as its sponsor. The problem is, you can't get a stock symbol unless you have at least 35 stockholders that have freely trading stock. There are several different ways of accomplishing this, such as through Rule 144, or offerings conducted in compliance with Regulation A, Regulation D or Regulation E. FINRA does not give out stock symbols easily and is giving start-up companies a more difficult time than they did in the past.

Some companies in recent years have decided to withdraw from the Over-the-Counter Bulletin Board and go onto the PinkSheets because of the cost of complying with the listing requirements and The Sarbanes-Oxley Act of 2002, which has certain requirements companies must meet regarding the independence of Board of Directors, accounting requirements and management of the company.

### The PinkSheets.com Approach

The main goal of the people who run [PinkSheets.com](http://PinkSheets.com) is to provide as much current, adequate public information as possible. They have set up their website to accomplish this in mainly two ways.

#### Company Information

One way is by having companies list such information as corporate address, phone and fax numbers, number of authorized shares, number of outstanding shares, and free-trading shares in the public float under a section entitled "Company Information".

The PinkSheets website also lists the United States Securities and Exchange Commission (SEC) filings for other companies as well. So, if you are not quite sure how to navigate the EDGAR (Electronic Data Gathering and Retrieval System) section on the SEC website, you can get directed to those corporate filings through PinkSheets.

#### Filings

The second, and even more important way for penny stock companies to provide transparency to interested penny stock investors is to list even more detailed information under a section entitled "Filings." This section can include a few very important

items. For instance, the company can post their Form 211 in this section, and PinkSheets even recommends that the form 211 be updated from time to time to keep the information current. The company should also post their quarterly and annual financial reports to show what kind of revenues they have been able to achieve.

Although most PinkSheet-listed companies are not required to make any filings with the SEC, if they do, they can also upload those filings under this section. Most investors don't typically go to the SEC website to look for any information on PinkSheet companies, so this would provide them with that information.

By the way, it rare to see a PinkSheet-listed company that has been able to achieve a net income. Usually when they have been able to achieve that all-important net income, which proves they have a strong business model, they either apply to the Over-the-Counter Bulletin Board or they can apply for the OTCQX. The newly created

**"Investors in penny stocks should be prepared for the possibility that they may lose their whole investment."**

OTCQX is described by PinkSheets as, "... a new market tier organized by Pink Sheets, LLC that sets apart a select group of issuers as worthy of consideration by U.S. investors." There is the PrimeQX and the PremierQX, which have certain listing requirements that need to be met and maintained, but are less costly than maintaining an Over-the-Counter Bulletin Board listing and meeting the compliance requirements of Sarbanes-Oxley.

### PinkSheet Disclosure Categories

In an attempt to put a little more pressure on companies to provide more current, adequate public information on a continual basis, PinkSheets recently instituted what it calls "Disclosure Categories." They are Current Information, Limited Information, No Information and Caveat Emptor. There are varying degrees of information required to meet each of these categories, and they come with their own graphic logo that appears next to each company's stock symbol as it appears on the PinkSheets.com website. The Current Information designation is simply a pink-and-black PS and the words "Current Information." The Limited Information category is marked with a red-and-white "yield" sign. The No Information designation is marked with a red-and-white stop sign, but is confusing since that designation can also mean that the company has posted information, but that information is more than six months old.

Finally, there is the Caveat Emptor designation. This designation is marked with a skull and crossbones. According to their website, PinkSheets describes this category as follows: "There is a public interest concern associated with the company, which may include a spam campaign, stock promotion or known investigation of fraudulent activity committed by the company or insiders. During a

spam campaign, any stock that is not in the Current Information category will also have its quotes blocked on pinksheets.com." I have seen them use this category, but am not quite sure of the effect it has on a company and its future capital raising efforts. It is definitely a warning to any companies that want to play the spam or "pump and dump" game.

### Conclusion

It is about time that investors, especially unsophisticated investors who invest in the PinkSheet arena, got the ability to see though these penny stocks that are not required to provide any information. Hopefully, those companies that provide current, adequate public information will fare better than those companies that do not, and the disclosing companies should be able to attract the right kind of investment capital and execute their business plans. R. Cromwell Coulson, the PinkSheets CEO, has taken the right approach and is definitely making an impact in an area that definitely needed improvement. Although the PinkSheets website has a very high traffic ranking, it remains to be seen how strong of an impact they will make, since there are dozens, if not hundreds, of other websites where people can obtain stock quotes. **N**

*Mr. LaRocco has represented and advised numerous private companies concerning the Internet, funding, and securities structures. He also has extensive experience advising hedge funds on numerous trading and investment strategies. More information is listed on [angel-and-venture-capital-guide.com](http://angel-and-venture-capital-guide.com). Mr. LaRocco is an attorney who practices law in New Canaan, CT, and is currently General Counsel and a Director of NetSky Holdings, Inc.*