

**NEVADA LEADS DELAWARE IN 2013 THROUGH 2016 SEC TRADING
SUSPENSIONS AND 2015 & 2016 PCAOB & SEC RELEASES**

A.J. Cataldo II
University of Scranton
Brennan Hall 400, 320 Madison Avenue, Scranton, PA 18510
Email: ajcataldo@verizon.net

John S. DeJoy
Clarkson University
Bertrand H. Snell Hall, 8 Clarkson Avenue, Potsdam, NY 13699
Email: jdejoy@clarkson.edu

Ryan Cahalan (Corresponding Author)
Central Washington University
Shaw Smyser Hall, 400 East University Way, Ellensburg, WA 98926
Email: ryan.cahalan@cwu.edu

Abstract

Nevada corporate law has been described as “shockingly lax,” protecting “directors and officers from liability for breaches of the duties of loyalty, good faith, and care that are widely believed to be staples of U.S. corporate law” (Barzuza 2012). For the 2015 and 2016 calendar years, Nevada corporations continue to lead Delaware corporations in Securities and Exchange Commission (SEC) trading suspensions, as it did for 2013 and 2014, despite Delaware’s leadership in the overall market for corporate law. This paper presents statistical results that are, primarily, descriptive. Nevada continues to gain market share in both the “market for corporate law” and U.S. SEC trading suspensions. Nevada, 1 of fifty states, continues to consume a disproportionately large share of SEC, and, more recently, both Public Company Accounting Oversight Board (PCAOB) and SEC enforcement and regulatory resources (2015 and 2016). This represents a huge public interest problem for two reasons: 1) Other states may follow suit with even more lax corporate laws to gain market share, and 2) A continuing lopsided allocation of federal resources to just a few states.

Keywords: Race to the Top/Race to the Bottom, Securities and Exchange Commission Trading Suspensions, Public Company Accounting Oversight Board Enforcement Actions, Market Efficiency and the Efficient Market Hypothesis, Agency Theory.

Introduction

“The Nevada effect” or what has been characterized as “the race to the bottom” in “the market for corporate law,” had led to relatively large increases in market share for Nevada. Compustat-based measures indicate a market share increase from less than 3 percent in 1987 to more than 8 percent post-2010 for Nevada (~170% increase). During this same period, market share has increased from less than 47 percent to more than 54 percent for Delaware (~15% increase) (Cataldo, Fuller and Miller 2015).

Despite Delaware's long-standing market share leadership, Nevada continues to enjoy dominance with respect to Securities and Exchange Commission (SEC) trading suspensions for both 2015 and 2016 calendar years. This represents the continuation of and an ongoing 4-year trend (2013 through 2016) of Nevada corporation leadership with respect to this category of SEC enforcement and regulatory measures and the consumption of these scarce Federal resources.

While the majority of this paper is dedicated to examining the state of Nevada, the impacts of these findings reach far beyond the state borders and have a strong interplay with the public interest at large. Both through the determination to acquire corporate market share and the dedication of federal resources that must be used to counteract this race to the bottom.

Public Company Accounting Oversight Board (PCAOB) sanctions also appear to be yielding a disproportionately high incidence of 2015 and 2016 actions against (1) Nevada CPAs and Nevada CPA firms and/or (2) non-Nevada CPAs and CPA firms providing accounting and auditing services to Nevada corporations. While this matter is only explored and introduced in this paper, the pattern is intuitively appealing and consistent with SEC trading suspensions, and may represent a logical and sequential allocation of scarce regulatory resources – targeting Nevada corporate law. That is to say, if Nevada corporations are disproportionately consuming scarce economic resources available to the SEC for trading suspensions, it only makes sense for the PCAOB to target and direct scarce economic resources to the examination of CPAs and CPA firms providing accounting and auditing services to Nevada corporations.

The above may or may not provide some causally linked explanation for the significantly lower percentage of audits performed by “Big 4” CPA firms for Nevada corporations (Cataldo, Fuller and Miller 2014, p. 182 and Exhibit 4). This issue was beyond the scope of that paper, and is beyond the scope of this paper, and may simply be explained by lower market capitalization measures for Nevada firms. These smaller firms may be functioning in less efficient markets.

The remainder of this paper is organized, as follows: First, a brief literature review is provided. It has been designed to supplement (Cataldo, Fuller & Miller 2014 & 2015). The 40 year history of research on “the market for corporate law” quickly came to include Nevada as a state of interest, to complement the ever-dominant state of Delaware. Second, a summary of the categories or classifications of “breach of fiduciary duties,” as defined by Barzusa and Smith (2014) is provided. These components are “mapped,” to the extent practicable, to agency theory. Levels of market efficiency are also addressed. These are the theories most likely to provide a framework for examination of “the Nevada effect.” Fourth, data from 2015 and 2016 SEC trading suspensions are examined, as is descriptive data illustrating the dominance of Nevada corporations in SEC and PCAOB actions resulting in prohibited accountants and auditors for the same period. This latter data category is one not previously identified or examined in the literature (see Exhibit I).
[Approximate Placement of Exhibit I]

Literature Review – Delaware’s Dominance and the Nevada Effect

Delaware’s dominance in “the market for corporate law” is being challenged by Nevada. This literature stream has evolved over 4 decades, where selected quotations have been summarized in Cataldo, Fuller and Miller (2014). Some additional information and the related timeline follows:

Cary (1974, 663) examined the exceptionally favorable tax climate, trust, and sound court decisions resulting in ongoing market share leadership in the market for corporate law for the state of Delaware. With more than 50 percent of the market for corporate law, corporate filing fees were and remain a leading source of revenue for the state (e.g., Delaware has no sales tax).

While Cary initiated debate on the strategic decision-making process leading to the selection of a state for incorporation, Winter (1977) addressed the issue of adverse selection, suggesting that a firm’s stock price would decline and shareholders would require higher returns, if incorporated under an inferior legal regime. This, it was argued, would compel managers to ‘naturally select’ states whose laws are most favorable to shareholders (Romano 1987).

Romano (1985) described corporate law as a “product,” summarizing opposing positions taken by researchers with respect to the desirability of and the competitive nature and forces in the market for corporate law (i.e., “the corporate charter market”). Interests of shareholders and society at large, she argued, demanded empirical testing grounded in well-specified theories.

Later, Daines (2001) found that Delaware incorporation added value to a firm’s stock price, Abramowicz (2003, 164) suggested that, for a state to compete with Delaware, it would have to “innovate boldly,” and Bebchuck and Cohen (2003, 394) found that only Nevada had a significant inflow of firms incorporating from outside of their state. Easmunt (2004,32) and Barzuza (2012, 935 & 941) anticipated the ongoing nature of this inflow, associating it with the fact that Nevada corporate law favored and protected directors and officers from liability for breaches of the duties of [1] loyalty, [2] good faith, and [3] care. The next section addresses the breach of fiduciary duty components.

Nevada Corporate Law – Breach of Fiduciary Duties

As summarized by Barzuza and Smith (2014), Delaware corporate law provides for mandatory liability for

- [1] Duty of loyalty,
- [2] Duty of good faith, and
- [3] Acting for improper personal benefit.

For all 3 of the above classifications, Nevada corporate law provides for “no liability by default.”

Delaware corporate law also provides for liability by default for

- [4] Duty of care.

Nevada corporate law provides for “no liability by default.”

All 4 of the above features of Nevada corporate law and with respect to breach of fiduciary duties are mapped to agency theory in the next section.

Information Asymmetry – Agency Theory, Market Efficiency & Breach of Fiduciary Duties Features of Nevada Corporate Law

Agency theory and principal-agent problems include those of [a] adverse selection and [b] moral hazard. Market efficiency and the efficient markets hypothesis provides a 3-level framework (i.e., strong, semi-strong and weak) and include [c] hidden information and [d] hidden action problems.

Agency theory might be more closely aligned with managerial accounting and internal decision-making by managers or agents, while market efficiency might be more closely aligned with financial accounting and external reporting, fundamental analysis and even auditing.

All 4 of the above components provide opportunities for the creation of conditions of information asymmetry (Cataldo 2003), and are addressed, below, in the context of breach of fiduciary duties features of Nevada corporate law. These “shocking lax” (Barzuza 2012) features may be contributing to increases in Nevada’s share of U.S. corporations, in the “market for corporate law.”

[1] **Duty of loyalty** describes conflicts of interest, requiring that corporate interest be placed before those of the fiduciary. Duty of loyalty is breached when fiduciaries place personal interests (i.e., unfair self-dealing), in the form of the diversion of corporate assets, opportunities, or information, for personal gain, before the interests of the corporation.

[2] **Duty of good faith** requires corporate directors and officers of a corporation to make all decision with a conscious regard for their corporate, fiduciary responsibilities (i.e., avoiding intentional misconduct or a knowing violation of law).

[3] **Acting for improper personal benefit** is separable and in addition to the duty of loyalty, but may not be separable from the duty of good faith, extending to any transaction from which the director or officer derives personal benefit.¹

[4] **Duty of care** represents a tort law-based legal obligation requiring a standard of reasonable “care” in the performance of actions that could foreseeably harm others (and is foundational to actions involving negligence).

¹ For example, see Del. Gen. Corp. Law §102(b)(7) in Emerald Partners v. Berlin, No. 9700, 2003 Del. Ch. LEXIS 42, at *139 n. 133 (Del. Ch. Apr. 28, 2003, reprinted in 28 Del. J. Corp. L. 1027 (2003), where the court took the position that Section 102(b)(7) does not recognize the duty of good faith as independent from acting for improper personal benefit. This was in response to a defendant’s effort to limit the liability of a director to stockholders for monetary damages.

All of the above map very nicely to those conditions necessary for market efficiency and/or inefficiency. Hidden information and hidden action can lead to information asymmetry. Similarly, all of the above can lead to adverse selection and moral hazard, both from agency theory.

Both SEC trading suspensions and SEC and PCAOB releases map very nicely to these components of market efficiency and agency theory, where these regulatory and professional organizations seek to minimize consuming public exposures to any negative impact associated with failures to effectively demonstrate these legally required duties and actions. To the extent that Barzuza is correct, and Nevada corporate law facilitates the circumvention or complete avoidance of these legal duties and actions, the consumption of these regulatory and professional organization resources increases and the costs are borne by the consuming public in both Nevada and non-Nevada jurisdictions. Nevada, of course, is the primary beneficiary, as Barzuza (2012) characterizes the economic motivation of their corporate law as “lucrative”:

“...Nevada has embarked on a lucrative strategy of market segmentation with a differentiated product – a shockingly lax corporate law.”

The next section examines some descriptive data that is publicly available and supports or is consistent with Barzuza and her hypothesis.

Data – Securities and Exchange Commission Trading Suspensions

Data was collected manually and developed from the Securities and Exchange Commission (SEC) website. Google searches led to the identification of the corporate stock or ticker symbol, and SEC filings (e.g., 10-Qs, 10-Ks, and 8Ks) were examined to determine the state of incorporation.

Under the classification of “enforcement,” the SEC provides itemized listings of “trading suspensions” dating back to 1995. Between 1995 and 2016, there have been 3,462 SEC trading suspensions. These and other descriptive, annual measures are provided in Table I, for firms incorporated in [1] Delaware (DE), [2] Nevada (NV), [3] Delaware and Nevada, combined (DE+NV), and [4] other (OTH) for the 22 years (1995 through 2016) or entire population or universe of trading suspensions available on the SEC website. Table II provides the same descriptive data, but in percentage terms. The Appendix contains a detailed listing of all stock symbols (or tickers) used to develop the 2015 and 2016 calendar year measures examined in this article.

Table I
Number of Securities and Exchange Commission Suspensions
by State of Incorporation – Delaware (DE), Nevada (NV), DE+NV & Other (OTH)
1995 through 2016

<u>YEAR</u>	<u>DE</u>	<u>NV</u>	<u>DE+NV</u>	<u>OTH</u>	<u>TTL</u>
1995	1	0	1	1	2
1996	0	2	2	9	11
1997	2	4	6	9	15
1998	1	3	4	7	11
1999	5	5	10	12	22
2000	1	2	3	8	11
2001	0	1	1	1	2
2002	3	10	13	3	16
2003	3	3	6	1	7
2004	18	22	40	23	63
2005	50	19	69	21	90
2006	25	21	46	36	82
2007	19	37	56	43	99
2008	74	39	113	71	184
2009	103	50	153	82	235
2010	99	46	145	89	234
2011	99	77	176	87	263
2012	174	121	295	375	670
2013	100	112	212	147	359
2014	172	196	368	171	539
2015	102	149	251	103	354
2016	55	80	135	58	193
Totals	<u>1,106</u>	<u>999</u>	<u>2,105</u>	<u>1,357</u>	<u>3,462</u>
ALL PCT	<u>31.9%</u>	<u>28.9%</u>	<u>60.8%</u>	<u>39.2%</u>	<u>100.0%</u>

Table II
Percentage of Securities and Exchange Commission Suspensions
by State of Incorporation – Delaware (DE), Nevada (NV), DE+NV & Other (OTH)
1995 through 2016

<u>YEAR</u>	<u>DE</u>	<u>NV</u>	<u>DE+NV</u>	<u>OTH</u>	<u>TTL</u>
1995	50.0%	0.0%	50.0%	50.0%	100.0%
1996	0.0%	18.2%	18.2%	81.8%	100.0%
1997	13.3%	26.7%	40.0%	60.0%	100.0%
1998	9.1%	27.3%	36.4%	63.6%	100.0%
1999	22.7%	22.7%	45.5%	54.5%	100.0%
2000	9.1%	18.2%	27.3%	72.7%	100.0%
2001	0.0%	50.0%	50.0%	50.0%	100.0%
2002	18.8%	62.5%	81.3%	18.8%	100.0%
2003	42.9%	42.9%	85.7%	14.3%	100.0%

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2004	28.6%	34.9%	63.5%	36.5%	100.0%
2005	55.6%	21.1%	76.7%	23.3%	100.0%
2006	30.5%	25.6%	56.1%	43.9%	100.0%
2007	19.2%	37.4%	56.6%	43.4%	100.0%
2008	40.2%	21.2%	61.4%	38.6%	100.0%
2009	43.8%	21.3%	65.1%	34.9%	100.0%
2010	42.3%	19.7%	62.0%	38.0%	100.0%
2011	37.6%	29.3%	66.9%	33.1%	100.0%
2012	26.0%	18.1%	44.0%	56.0%	100.0%
2013	27.9%	31.2%	59.1%	40.9%	100.0%
2014	31.9%	36.4%	68.3%	31.7%	100.0%
2015	28.8%	42.1%	70.9%	29.1%	100.0%
2016	28.5%	41.5%	69.9%	30.1%	100.0%
Totals	31.9%	28.9%	60.8%	39.2%	100.0%

Note that Nevada corporations peaked, as a percentage of total SEC trading suspensions, at 62.5% for the 2002 calendar year (see Table II). However, there were only N=16 trading suspensions for the 2002 calendar year (see Table I). SEC trading suspensions peaked at N=670 for the 2012 calendar year (see Table I).

Figures I, II and III use the data developed and presented in Tables I and II to produce graphics, while focusing only on Nevada (NV) and Delaware (DE), the clear leaders in the market for corporate law.

Figure I present measures of SEC trading suspensions (from Table I), where Nevada and Delaware dominated for the 2014 calendar year. Figure II presents these same measures (from Table II), but in percentage of SEC trading suspensions terms.

As Figure II illustrates, Nevada leadership, in terms of SEC trading suspensions, peaked for 2001 and 2002 calendar years. This leadership position resumed and persists during the most recent 4 calendar years (2013 through 2016).

Figure I - Developed from Table I Data
Number of Securities and Exchange Commission Suspensions
by State of Incorporation – Delaware (DE) and Nevada (NV)
1995 through 2016

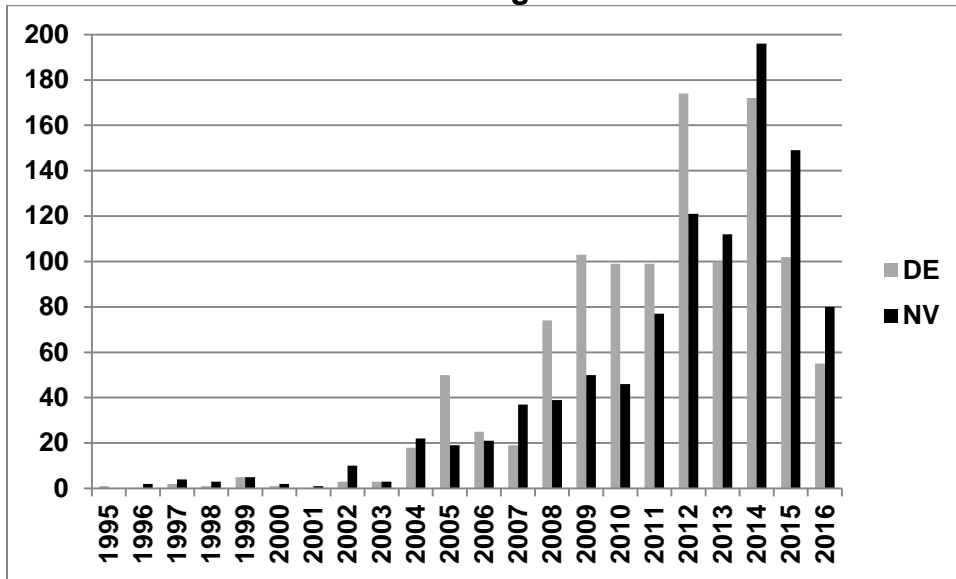
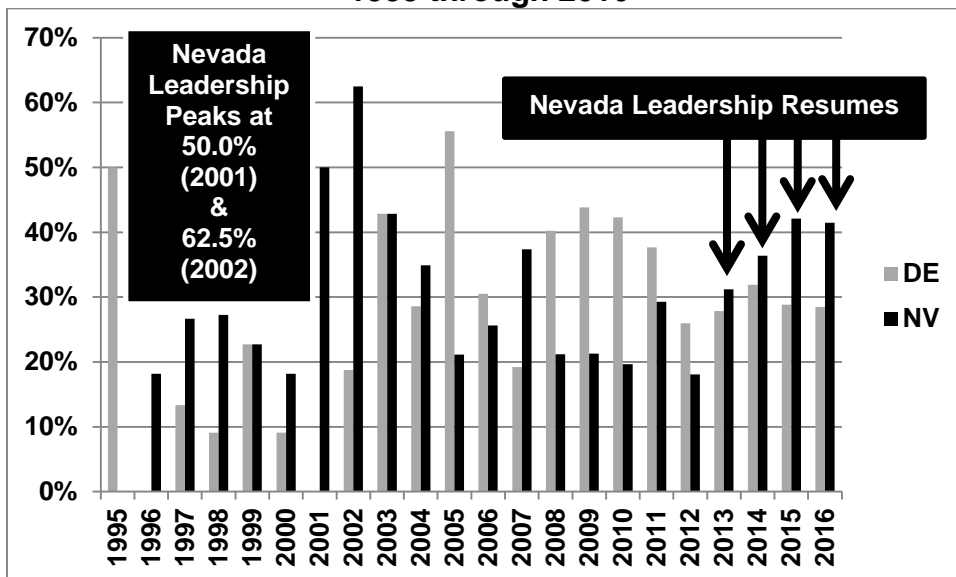
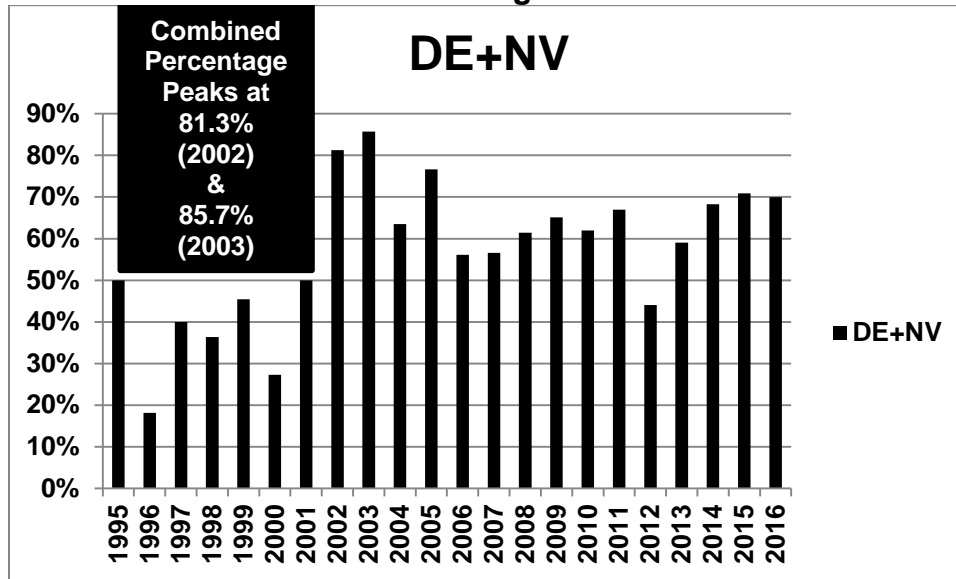


Figure II - Developed from Table II Data
Percentage of Securities and Exchange Commission Suspensions
by State of Incorporation – Delaware (DE) and Nevada (NV)
1995 through 2016



**Figure III - Developed from Table II Data
Percentage of Securities and Exchange Commission Suspensions
For Delaware (DE) & Nevada (NV) Combined
1995 through 2016**



As Figure III illustrates, when combined, Nevada and Delaware leadership, in terms of SEC trading suspension, peaked for 2002 and 2003 calendar years.

Data – Nevada Corporations Dominate for Prohibited Accountants/Auditors

In addition to the SEC trading suspensions data, described above for both 2015 and 2016 calendar years, an exploratory examination of the listing of prohibited accountants/auditors, as listed on the OTC Markets website, was conducted. This data was captured on May 1, 2017, and is summarized in Tables IIIa (2015) and IIIb (2016).

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Table IIIa
N=16 Prohibited Accountants/Auditors and Other Service Providers for 2015
CPA & CPA Firm State (CPA) & State of Incorporation (Corp)

Prohibited Individual (or Entity) - 2015 <u>(in alphabetical order)</u>	CPA	CPA	CPA	CPA	CPA	Corp	Corp	Corp	Corp	Corp	Corp
	<u>NV</u>	<u>FL</u>	<u>MO</u>	<u>WA</u>	<u>TTL</u>	<u>NV</u>	<u>DE</u>	<u>FL</u>	<u>TX</u>	<u>CO</u>	<u>TTL</u>
1 Robin L. Bigalke, CPA	0	1	0	0	1	0	0	0	0	0	0
2 Richard Confessore, CPA	0	1	0	0	1	1	1	0	0	1	3
3 De Joya Griffith, LLC	1	0	0	0	1	9	0	0	0	0	9
4 Arthur De Joya, CPA	1	0	0	0	1	9	0	0	0	0	9
5 DKM Certified Public Accountants, Inc.	0	1	0	0	1	1	1	0	0	1	3
6 Jason Griffith, CPA	1	0	0	0	1	9	0	0	0	0	9
7 Edward Randall Gruber, CPA	0	0	1	0	1	1	0	0	0	0	1
8 Harris & Gillespie CPA's, PLLC	0	0	0	1	1	3	0	0	0	0	3
9 Thomas J. Harris, CPA	0	0	0	1	1	3	0	0	0	0	3
10 Terry L. Johnson, CPA	0	1	0	0	1	5	1	1	1	0	8
11 Charles Klein, CPA	0	1	0	0	1	1	1	0	0	1	3
12 Messineo & Co., CPAs, LLC	0	1	0	0	1	1	1	0	0	1	3
13 Peter Messineo, CPA	0	1	0	0	1	1	1	0	0	1	3
14 Ben Ortego, CPA	1	0	0	0	1	3	0	0	0	0	3
15 Christopher D. Whetman, CPA	1	0	0	0	1	2	0	0	0	0	2
16 Philip Zhang, CPA	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>	<u>9</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>9</u>
2015 TOTAL (TTL)	<u>6</u>	<u>7</u>	<u>1</u>	<u>2</u>	<u>16</u>	<u>58</u>	<u>6</u>	<u>1</u>	<u>1</u>	<u>5</u>	<u>71</u>
2015 PERCENTAGE	<u>38%</u>	<u>44%</u>	<u>6%</u>	<u>13%</u>	<u>100%</u>	<u>82%</u>	<u>8%</u>	<u>1%</u>	<u>1%</u>	<u>7%</u>	<u>100%</u>

<u>Order</u>	
1	<u>SEC Release No. 76610 / December 10, 2015</u>
2	<u>SEC Release No. 76609 / December 10, 2015</u>
3	<u>SEC Release No. 9917 / September 18, 2015</u>
4	<u>SEC Release No. 9917 / September 18, 2015</u>
5	<u>SEC Release No. 76608 / December 10, 2015</u>
6	<u>SEC Release No. 9917 / September 18, 2015</u>
7	<u>SEC Release No. 74904 / May 7, 2015</u>
8	<u>PCAOB Release No. 105-2015-011 / June 16, 2015</u>
9	<u>PCAOB Release No. 105-2015-011 / June 16, 2015</u>
10	<u>SEC Release No. 9915 / September 17, 2015</u>
11	<u>SEC Release No. 76608 / December 10, 2015</u>
12	<u>SEC Release No. 76607 / December 10, 2015</u>
13	<u>SEC Release No. 76607 / December 10, 2015</u>
14	<u>SEC Release No. 9919 / September 18, 2015</u>
15	<u>SEC Release No. 9920 / September 18, 2015</u>
16	<u>SEC Release No. 9917 / September 18, 2015</u>

**Table IIIb
N=9 Prohibited Accountants/Auditors and Other Service Providers for 2016
CPA & CPA Firm State (CPA) & State of Incorporation (Corp)**

Prohibited Individual (or Entity) - 2016 (in alphabetical order)	CPA	CPA	CPA	Corp	Corp	Corp	Corp	Corp
	<u>NJ</u>	<u>MI</u>	<u>TTL</u>	<u>NV</u>	<u>DE</u>	<u>IA</u>	<u>WY</u>	<u>TTL</u>
1 Michael F. Albanese, CPA	1	0	1	1	0	0	0	1
2 Donahue Associates LLC	1	0	1	1	0	1	1	3
3 Li and Company, P.C.	1	0	1	0	0	0	0	0
4 Tony Zhicong Li, CPA	1	0	1	0	0	0	0	0
5 Chunmin "Laura" Liu, CPA	1	0	1	0	0	0	0	0
6 Scrudato & Co. PA	1	0	1	1	2	1	1	5
7 John Scrudato, CPA	1	0	1	1	2	1	1	5
8 Silberstein Ungar PLLC	0	1	1	7	1	0	1	9
9 Gary L. Singer, CPA	<u>1</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
2016 TOTAL (TTL)	<u>8</u>	<u>1</u>	<u>9</u>	<u>11</u>	<u>5</u>	<u>3</u>	<u>4</u>	<u>23</u>
2016 PERCENTAGE	<u>89%</u>	<u>11%</u>	<u>100%</u>	<u>48%</u>	<u>22%</u>	<u>13%</u>	<u>17%</u>	<u>100%</u>

Order	
1	<u>PCAOB Release No. 105-2016-018 / June 14, 2016</u>
2	<u>PCAOB Release No. 105-2016-020 / June 14, 2016</u>
3	<u>PCAOB Release No. 105-2016-022 / June 14, 2016</u>
4	<u>PCAOB Release No. 105-2016-023 / June 14, 2016</u>
5	<u>PCAOB Release No. 105-2016-025 / June 14, 2016</u>
6	<u>PCAOB Release No. 105-2016-054 / December 20, 2016</u>
7	<u>PCAOB Release No. 105-2016-054 / December 20, 2016</u>
8	<u>SEC Release No. 77997 / June 6, 2016</u>
9	<u>PCAOB Release No. 105-2016-024 / June 14, 2016</u>

The results for 2015 (N=16) and 2016 (N=9) are quite remarkable. They identify twenty-five unique CPAs and/or CPA firms. State of incorporation measures is not unique. Multiple violations occurred and resulted in separate releases. These violations do not uniformly apply to all corporate entities, but Nevada corporations dominate under any counting methodology. For example, 9 Nevada corporations were listed in SEC Release No. 9917 (2015) and 7 Nevada corporations were listed in SEC Release No. 77997 (2016).

In a few cases, the firms or state of incorporation are not identified beyond a reference to "issuers A, B, and C." in the PCAOB release. It is quite possible, and perhaps even likely that 1 or more of these "issuers" are Nevada corporations. Therefore, the previously described measures with respect to Nevada corporations cannot be overstated, but may be understated.

At least 1 accountant/auditor and his firm had multiple violations. Peter Messineo and DKM were informed by Swingplane Ventures, Incorporated that they would no longer be

engaged (see Table IIIa). This decision was reached by the firm's audit committee on or about February 1, 2013, and disclosed in a Form 8-K, as required and filed with the SEC.

The replacement firm, Borgers & Cutler and successor to Messineo, was dismissed on or about March 15, 2013. This matter was also disclosed in a Form 8-K, as required and filed with the SEC. They were replaced by BF Borgers.

Results – Securities and Exchange Commission Trading Suspensions

This section provides exploratory statistics and quantitative confirmation and measurement of tabular and graphic data and results.

Using the data contained for 1995 through 2016 and presented in Table I (N=22), the Pearson product moment correlation for Delaware (DE) and Nevada (NV) SEC trading suspensions is 0.889 (p-value < 0.0001). When the dummy variables for these 2 states are placed in a regression model form, the adjusted R-squared measure is 78% (with a positive coefficient and correlation for the single independent variable and both p-value and overall F-statistic values < 0.0001).

As the content of Table I suggests, and as mentioned in the above section, 2012 represents a year with an unusual observation, with its relatively large number of SEC trading suspensions (N=670 in Table I). As the combined market share of Delaware and Nevada has increased, over time (see DE+NV in Table II), so have the number or relatively percentage of SEC trading suspensions for firms incorporated in these 2 states.

Some additional statistical confirmation that both Delaware and Nevada are drawing market share from other states (OTH) can be produced. Again, using the data contained for 1995 through 2016 and presented in Table I (N=22), 2 very basic regression models, both using a single independent variable for other state measures (OTH), are used, as follows:

$$DE_i = \alpha_i + \beta_1 OTH_{1i} + \varepsilon_i \quad [1a]$$

$$NV_i = \alpha_i + \beta_1 OTH_{1i} + \varepsilon_i \quad [1b]$$

These results are presented in Table III.

Table IV
Regression Results for Equations [1a] & [1b]
Using Data Developed from Table I

$$[1a] DE_i = \alpha_i + \beta_1 OTH_{1i} + \epsilon_i$$

$$[1b] NV_i = \alpha_i + \beta_1 OTH_{1i} + \epsilon_i$$

<u>Equation</u>	<u>Dependent Variable</u>	<u>Independent Variable</u>	<u>adjusted R-squared</u>	<u>t-statistic sign</u>	<u>overall F-statistic & t-statistic p-value</u>
[1a]	DE	OTH	40.6%	negative	0.001
[1b]	NV	OTH	23.1%	negative	0.014

Regression models using the above dependent variables were run with decomposed and/or separate state measures for the OTH independent variable, but there are not enough years or observations (N=22) to produce reliable results for an “all states” model (N=50), and even a “scaled down” variation limited only to those states with (for example) at least 10 U.S. SEC trading suspensions over the entire 1995 through 2016 period does not produce statistically significant results for any single state. Therefore, these results and this data are not presented.

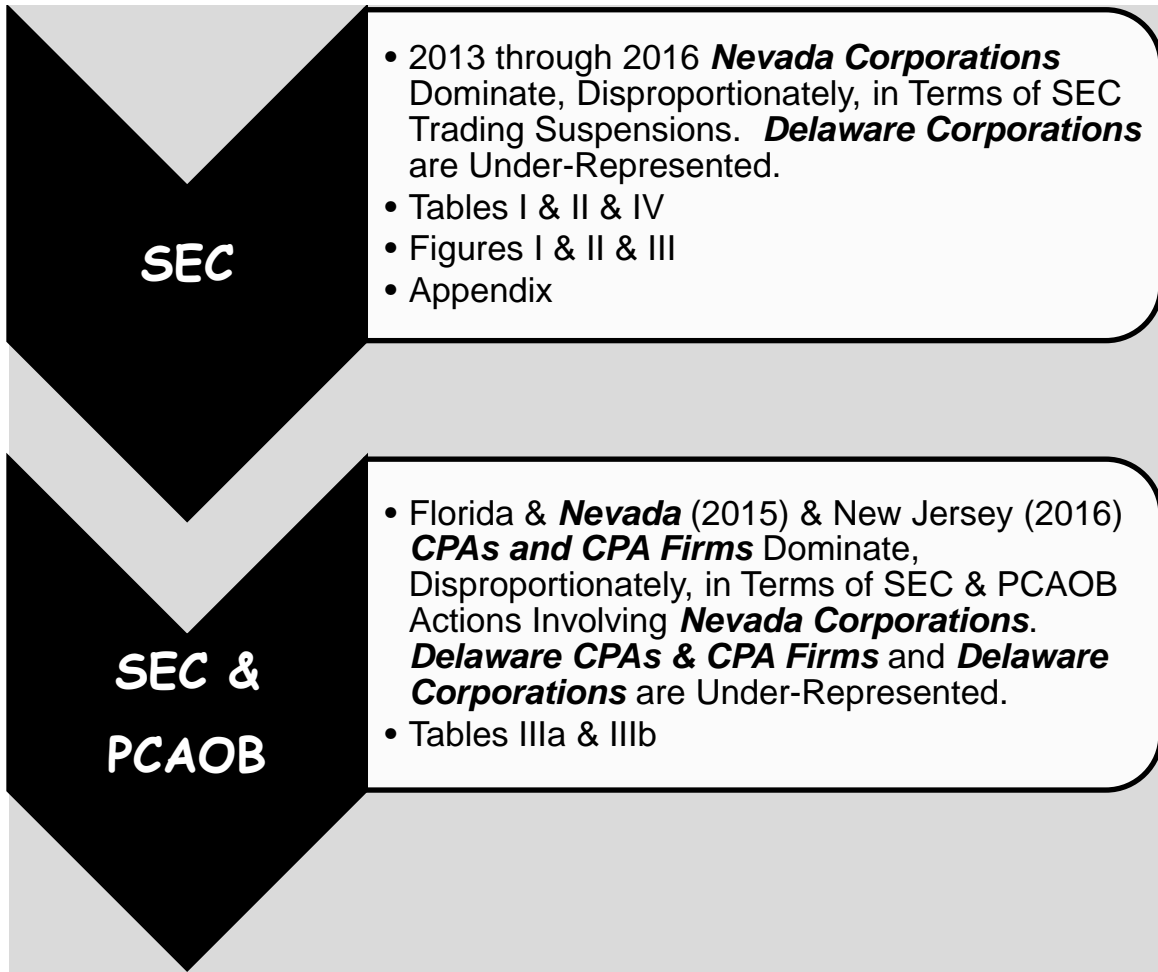
With a larger sample, it might be possible to gain statistically quantifiable and verifiable insights into which OTH states are both [1] losing market share in the “market for corporate law” and [2] gaining or losing, relatively, with respect to SEC trading suspensions.

Conclusion

We believe that the SEC and PCAOB should continue to direct scarce economic resources to investigations involving (1) Nevada CPAs and CPA firms providing accounting and auditing services and (2) non-Nevada CPAs and CPA firms providing accounting and auditing services to Nevada corporations (see Exhibit I).

Exhibit I

**SEC and PCAOB Allocation of Scarce Economic Regulatory Resources
as Evidenced by Recent Actions and Sanctions**



Both appear to be yielding significant results over the 2013 through 2016 calendar year period with respect to SEC trading suspensions and 2015 and 2016 PCAOB sanctions (see Tables I, II, IIIa, IIIb and Figures I, II, and III).

Whether by chance or by design, the 2015 and 2016 exploratory results suggest that both SEC and PCAOB resources have been directed at and/or have revealed problems with Nevada corporations, either directly, by the SEC, or indirectly, as the PCAOB has detected and sanctioned Nevada CPA firms, Nevada CPAs, and/or CPAs and CPA firms licensed in other states, but providing accounting and audit services to potentially troublesome Nevada corporations. If by design, this allocation of scarce regulatory resources appears to be yielding results and should continue.

Also, if by design, future PCAOB results, based on SEC trading suspensions for both 2015 and 2016 calendar year, suggest an ongoing, relatively high incidence of post-

2016 PCAOB actions and releases identifying (1) Nevada CPAs and Nevada CPA firms and/or (2) CPAs and CPA firms from states other than Nevada, but providing accounting and auditing services to Nevada corporations.

Even though the focus of this paper is on the state of Nevada the impact to the public interest is immense. If more states wish to increase their corporate market share and elect to follow the path of Nevada this could lead to an even larger share of federal resources being allocated to just a few states that are attempting to win the race to the bottom.

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Appendix

Stock or ticker symbols for all 2015 & 2016 corporations with Securities and Exchange Commission enforcement actions resulting in trading suspensions. These measures are summarized in Table I, where Delaware (DE), Nevada (NV) and other (OTH) is identified by the prefix and 2015 & 2016 calendar years are identified by the suffix (e.g., DE2015 equals Delaware corporations with trading suspensions during the 2015 calendar year). Given access to this paper, in electronic form, these stock or ticker symbols can be copy/pasted into a stock portfolio for replication of the results contained in this paper and/or extensions. It is, for this reason, that this data is provided in this form – to facilitate replication and extension.

DE2015 (N=102)

CBMC, ECDI, THWI, IEAG, MCLN, ADXM, ADST, AGTI, BWAV, BHBCQ, CNEX, CGWY, CPBRQ, CBCPQ, CXIA, CODS, DTEV, DGMA, EMIE, FTUSQ, FUSN, GNPR, GLBN, IMYN, INVC, IGRU, IRBS, KBKCP, LTLM, MDWV, MTRO, NWBD, NXPS, OHBO, PACC, PBIX, PGOG, PMAH, PTBTQ, PROXQ, QURS, RNTL, SMANP, SMVE, SNLLZ, SYBRQ, TAGE, USDC, DSCY, GGBMQ, SFAZ, CEHC, AQUM, CXLLE, EGCO, GDLM, CRWD, AFGP, BRAI, EGIG, MANF, MSKA, SETC, VSLC, WRGP, Triumph Ventures (no ticker identified), NEKO, CEDA, SNDN, DYER, ABWG, CAMH, IGNI, NFRX, WL VH, MMED, BCRA, WWBP, ACCE, PYMXQ, ASJP, MTRE, LBPE, MKJI, RIIC, ASAL, ELLG, KBKC, MAPX, OBDE, OSKV, VOMT, AMPW, LOCN, PUBQQ, VRDT, TXMC, SKAX, YYINE, ZWIH, INIV

NV2015 (N=149)

MPVC, EEPV, TYIN, RNRG, SIBN, TAON, TAEC, AKEZQ, SRRL, CYIP, DFNS, EVCA, IBII, AGMC, CFMI, CHPI, SLVA, ACUC, ATNP, BEEI, BLHI, CHDP, CLXS, CPWW, ECUI, FDEI, FSRX, GRBG, GREM, GFCI, HEQM, IEAM, ITLI, AVNY, MAPF, MCCI, MMIO, MIGA, MODC, MOVV, MWEB, OYCO, PRRJ, PMKY, BCDI, PWNX, PTTL, RVNG, RYPE, SECU, SPHT, SOFN, SOLU, SWCC, SDEO, SOIS, SYVC, TBLX, TLPEQ, UWRE, UBEX, WNCH, WEWC, WNCG, IOMG, NEGS, CIIC, SPRZ, BRDN, LNDG, BLAK, FCPG, LGHS, WDMB, EARH, CEII, GLFE, ARUZQ, CRPZ, GSAG, NWMT, ECHI, DRMF, OMVN, ONST, PCHW, FNRG, FASC, PRGT, EDNE, SHMX, RBYC, VEII, AWSRQ, WSTR, ATCI, JIDG, NANI, ORAC, SVMI, SMKY, SLTA, ELGO, SEFE, REVO, GSPO, CHOR, PVTA, GCHT, RCWR, VNTI, MCMV, PPMV, SLMU, ARRI, SMVR, CHFR, NANM, CFWH, CIVN, CHPC, CLIN, CRAF, DNIA, LLAB, LEFA,

OCTV, TPPR, WCRE, YUNW, ZBIT, HAIR, LCMD, NLEF, FEGR, ZORM, INLC, TLPH, RVDM, TSOR, ACCS, GENM, YSYB, BCDH, SSIT, VPWI, CIHD, USGT, CDBH

OTH2015 (N=103)

IXSBF, WIEI, DJSP, CMLW, FVAB, CLRY, DYTE, SBNK, SJQU, DTTY, QSND, AZDDQ, CHICF, PPKZ, IHITF, MKGLF, NRTLQ, SLGLF, BRPNF, SALTF, MGSGF, SHVLF, ADBN, FHIIQ, INDR, RCCH, SGLS, SLCM, WTMK, ERIP, ZYCI, AMGI, CTNO, CMNW, CSPT, YDGE, EFTI, PHLH, PMDP, TCHL, DENG, MDPO, NIVM, TRCW, CPUT, CGMX, RCLL, JAHI, SLRX, IFIXQ, CINW, SGSP, ABPI, CodeSmart (no ticker identified), Oxford City (no ticker identified), EBDC, FBFS, MITB, ASWV, CATA, MCPB, NAYP, NHPR, EYII, APIT, XNGR, SSYT, STEN, WNEA, QOWI, SGMG, KTLI, PDKI, IACH, CNIN, MMOR, GNTM, KQIPQ, OVLG, SVMT, HRVEQ, HMCO, UPRD, SKCO, ODDJ, WNWG, BJCT, SDNA, ACBK, SVJJ, CMKM, LRTR, CPLT, HLOI, RRIC, MYDO, UBKR, PYOC, GKIN, IMWL, BKRM, INII, AVLS

DE2016 (N=55)

MXOP, RPHL, TBBC, USHP, VCRTQ, AIDC, GEZC, BMSV, GSTY, JPCB, PNAR, PRNI, SAOA, SNMBQ, SNDH, DTVI, GLHV, MFTH, MDTV, VLBI, MMAM, LBGO, CDRB, INKN, BBCZ, JZHG, NERG, MITD, ADLS, NRDSQ, LLFP, RUNI, TMEN, SAFC, DYNV, MXOM, LUXR, SDIR, AFSE, ALGY, BXII, HVAY, RAQP, SVEIB, WTXM, ACLP, CHRN, DSTI, SPBU, RPID, ITDP, ICOR, KLXC, WPTH, CSWG

NV2016 (N=80)

BIZZ, CLKZ, ICNSQ, TRAB, FITX, BRKO, ROGP, TCGD, TDNC, VSDL, WOTC, CYNX, GHML, MSSD, PIEX, PRVT, COYR, HIDC, CLNO, HMNC, MWOG, TERX, PHUN, GROV, LUVE, CGLO, GFRP, EYGY, ECAU, ANOS, ELEV, BECC, SVLE, STIV, DIDG, ATHI, CGII, GPRC, NERO, IMPC, MJMI, MULI, SKYH, PSNP, ASTV, ACMA, AMWO, CMPS, DGDH, DVTS, GBLS, HLPN, HUAZ, PEPT, PTIH, RSDV, RRCH, SMHQ, SAQU, SVTY, USAV, WGLD, SIRG, INFX, RNBI, ATAR, BRWC, FECCQ, QLTS, IAGM, BILB, HITR, XNRG, KGTO, MXSS, HVYW, OPIX, PORS, VMPT, WGEE, AEDC

OTH2016 (N=58)

BCCR, CRRWF, MRGLF, CRTU, PNPL, FRWL, LOGC, GIREF, REXEF, NTLNF, CPMCF, PTQMF, MGNLF, DGBMF, HRDN, HJOE, VDDA, NNCT, PRVW, SHDH, CPCCD, VIICQ, TEXX, UNRH, CIOC, RBOR, POWD, ANTQ, DEIX, DRGZ, IGRW, CHWO, JDOGQ, ICTC, GLRC, WSPS, SLRW, SCNI, DMMY, KINO, EGLA, ITSW, CNNO, CCAA, CECF, HIRD, OLDW, USWL, VOXR, GNBA, CAON, LSTS, MNET, IFFI, BRND, CSDT