

## *Insights from Accounting and Auditing Enforcement Releases for the Quarter and Calendar Year Ended December 31, 2025*



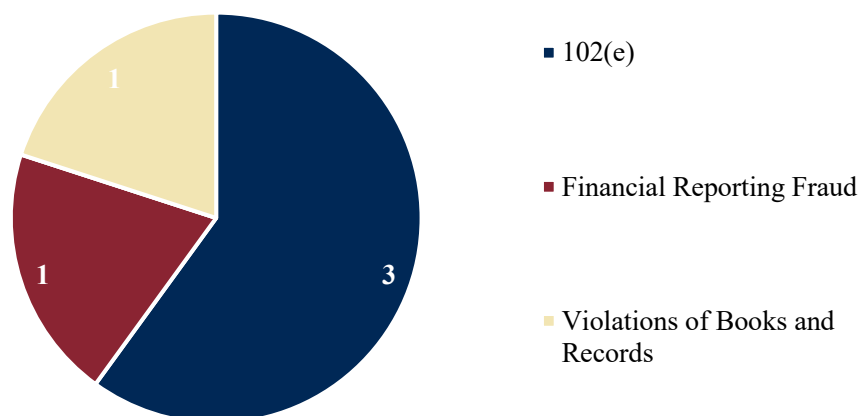
### *Introduction*

We are pleased to present you with our summary of the U.S. Securities and Exchange Commission's ("SEC," "Commission") Division of Enforcement's Accounting and Auditing Enforcement Releases ("AAERs") for the quarter and calendar year ended December 31, 2025. The AAERs issued by the SEC are defined as financial reporting-related enforcement actions concerning civil lawsuits brought in federal court and notices and orders concerning the institution and/or settlement of administrative proceedings.

### *Q4 2025 Overview*

The SEC released five AAERs during Q4 2025. Three releases were 102(e) Actions, one release was related to Financial Reporting Fraud, and one release was a Violations of Books and Records, as depicted in the graph below:<sup>1</sup>

Q4 2025 AAERs by Category



<sup>1</sup> Two AAERs released this quarter relate to the same matter. These are summarized together in our "Notable AAERs" section on the next page.

## Highlights

- The SEC issued just 22 AAERs in calendar year 2025,<sup>2</sup> the lowest annual total since at least 2000, and a 66% decrease from 2024.<sup>3</sup> The five AAERs issued during the fourth quarter marked a significant decrease from the 20 releases in Q4 2024 but is generally consistent with the reduced rate observed throughout the first three quarters of 2025.
- Total monetary penalties in 2025 exceeded \$30 million, with \$464,000 attributable to fourth quarter releases. Penalty levels remain materially lower than historical norms, as discussed further in the “Annual Trends” section of this report.
- Rule 102(e) Actions continue to represent a larger percentage of both annual and quarterly releases. During Q4 2025, a Chairman of the Board of Directors, President and CEO, who was both an accountant and lawyer, was suspended from appearing and practicing before the Commission for issuing materially false and misleading company information that was intended to deceive investors. The additional two 102(e) Actions are summarized in the “Notable AAERs” section below.
- The SEC issued no FCPA-related AAERs in Q4 2025, marking the fourth consecutive quarter without one.
- One Financial Reporting Fraud release this quarter related to a group of senior executives involved in an accounting and disclosure fraud. Notably, the Commission imposed no monetary penalties, citing the company's remediation efforts and cooperation with the SEC, as further described in our “Recommended Reading” section.

## Notable AAERs

While understanding the categorical breakdown of the types of releases issued by the SEC each quarter can be insightful, we have also summarized certain Q4 2025 releases below for further reading.

- ***The Commission suspended a CPA for insider trading securities fraud.*** During his employment as an analyst at an investment firm and subsequently a global investment bank from 2021 through 2023, a CPA shared material nonpublic information about impending acquisitions and partnerships with two friends. According to the release, these individuals bought and sold securities based upon the shared information, for which the CPA also expected to receive a benefit from the activity. The Department of Justice charged the CPA with insider trading. He was sentenced to 28 months in prison, followed by three years of supervised release, and ordered to pay a forfeiture of \$35,000. The SEC also suspended the individual from appearing or practicing before the Commission for at least ten years.
- ***Investment adviser and CPA suspended for violating Public Company Accounting Oversight Board (“PCAOB”) auditing standards.*** According to the two releases, the adviser caused a registered investment fund to hire a solo CPA practitioner to audit its 2023 financial statements, which the firm filed with the Commission. Before and during the audit, both the adviser and CPA knew that the CPA's wife held an investment in the firm totaling approximately \$290,000. This represented a “direct financial interest” in the firm and therefore represented a violation of the CPA's independence under the PCAOB auditor independence rules. Additionally, the release notes that the CPA failed to comply with other PCAOB auditing standards including: (1) the requirement to communicate with the predecessor auditor prior to engagement acceptance, (2) the requirement to prepare appropriate audit documentation, and (3) the requirement to perform an engagement quality review and concurring issuance approval of the audit. The Violations of Books and Records-related release ordered the investment adviser to pay a civil money penalty of \$10,000 and the 102(e) Action-related release suspended the CPA from appearing or practicing before the Commission as an accountant for at least three years.

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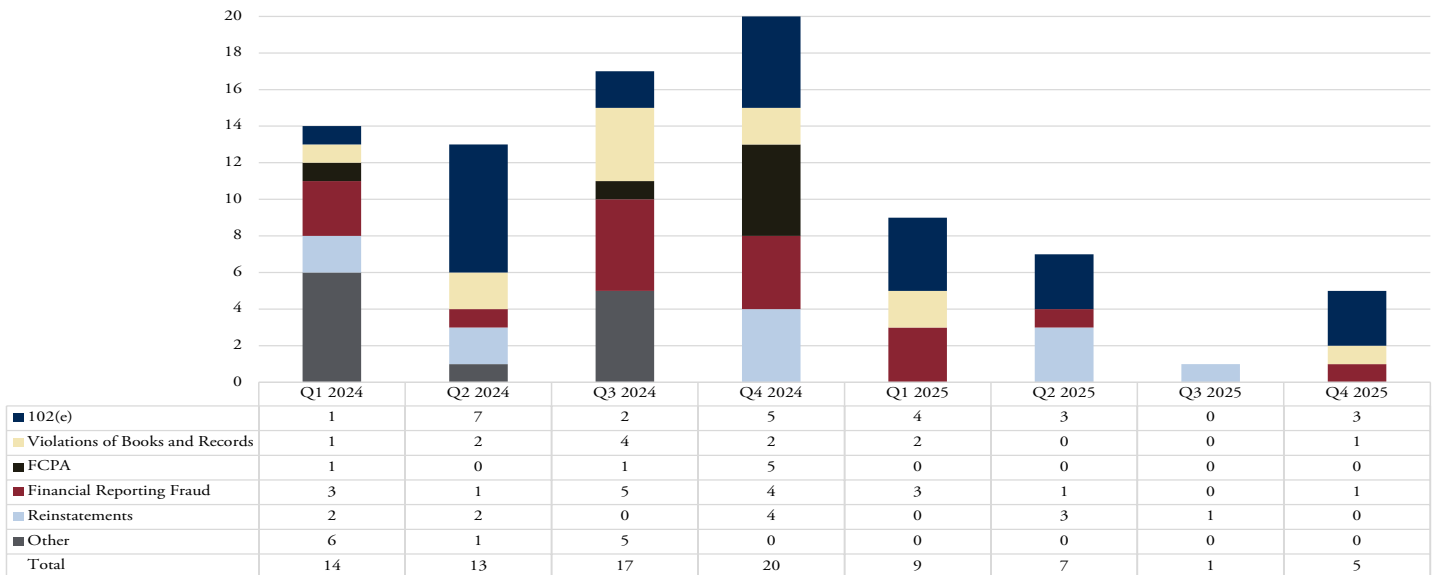
<sup>2</sup> The SEC issued one release in the third quarter of 2025. The release related to the reinstatement of a CPA who failed to properly accrue for and disclose loss contingencies while serving as the CFO during 2014 and 2015. Floyd Advisory did not issue a Q3 2025 report.

<sup>3</sup> 2000 represents the earliest year that the SEC's publicly available listing of AAERs maintained AAER information for the full year. See <https://www.sec.gov/enforcement-litigation/accounting-auditing-enforcement-releases>.

## Quarterly Trends

Comparisons of the number of AAERs between periods can be a useful gauge of the SEC's activities. The following chart maps quarterly totals for each category over the past eight quarters. Of note, for the first time since at least 2000, there were no FCPA-related releases in calendar year 2025.

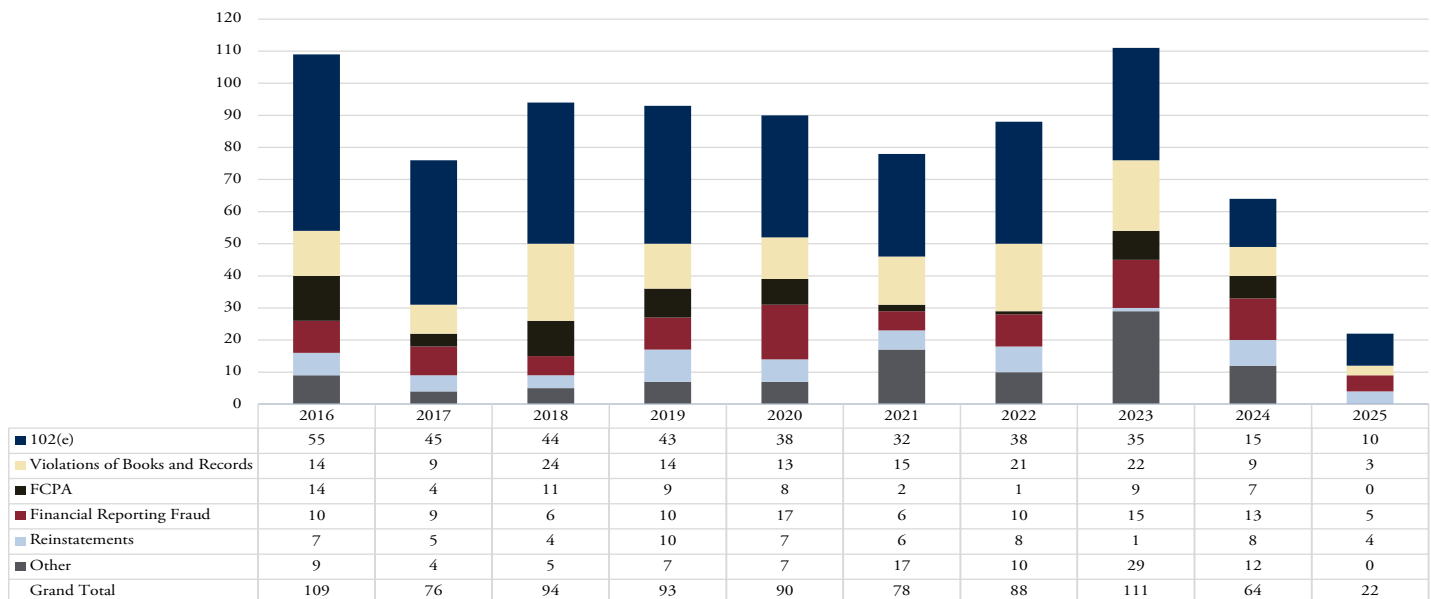
**Quarterly AAER Comparison: Q1 2024 through Q4 2025**



## Annual Trends

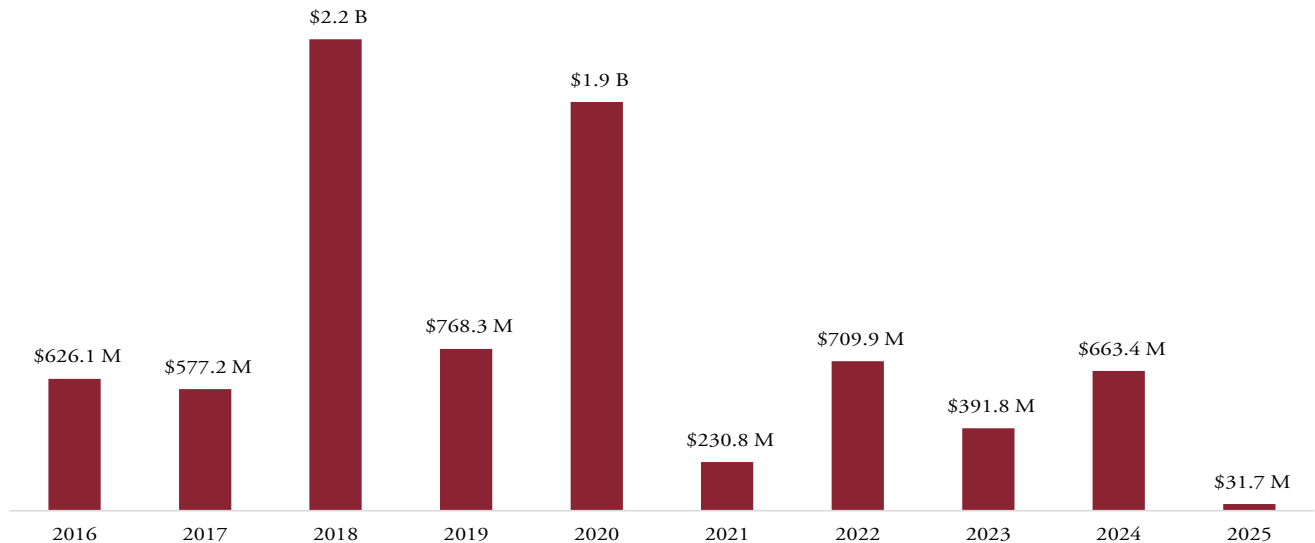
For the twelve months ended December 31, 2025, the SEC issued 22 AAERs, representing a significant decrease, 66%, from calendar year 2024 and the continuation of a steep downward trend since calendar year 2023. As noted earlier, 2025 represents the lowest number of total AAERs released in a calendar year by the Commission since at least 2000. As a result, the number of releases in each category has fallen below the ten-year average.

**Annual AAER Comparison: 2016 through 2025**



The SEC issued just over \$30 million in total penalties this year, the majority of which (98%) related to releases issued in the first quarter of 2025. Notably, this marks a dramatic decline from total penalties issued last year, continuing the trend in which a sharp increase in annual penalties is subsequently followed by a sharp decrease the following year.

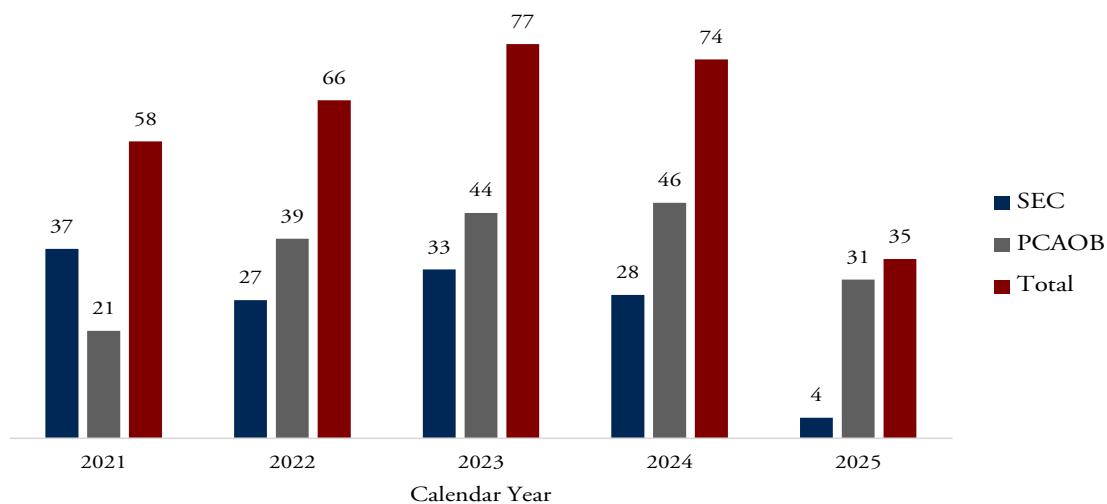
**Total Penalties Issued Over the Last 10 Years**



## *SEC and PCAOB Auditing-Related Enforcement and Disciplinary Actions*

The SEC and PCAOB share the responsibility of enforcing disciplinary actions against auditors who violate SEC rules and professional standards. The total combined number of auditing-related enforcement actions issued by the SEC and PCAOB totaled 35 this year, a 53% decrease from 74 in calendar year 2024. While the number of auditing-related enforcement actions brought by the PCAOB and by the SEC both individually observed downward trends, those by the SEC saw a significantly steeper decrease than those by the PCAOB as reflected in the chart below.

**SEC and PCAOB Auditing-Related Enforcement and Disciplinary Actions**



## ***Notable Q4 2025 AAER for "Recommended Reading"***

### ***Accounting and Auditing Enforcement Release No. 4581: Ammo, Inc. N/K/A Outdoor Holding Company***

AAER No. 4581 highlights a financial reporting fraud matter that resulted in no penalties due to the company's cooperation with the Commission, including remediation efforts, self-directed investigation of issues, and timely restatements.

#### ***Background***

Ammo, Inc. ("Ammo" or the "Company") was founded in 2016 as a manufacturer of ammunition. The Company completed its initial public offering in December 2020. In 2022, Ammo acquired an online firearms and outdoor gear marketplace, GunBroker.

According to the SEC, three former senior executives engaged in accounting and disclosure fraud from August 2020 through July 2023 (the "Relevant Period"), resulting in materially misleading filings that included:

1. Financial misstatements;
2. Non-disclosure of the SEC's 102(e) Action issued to one of Ammo's senior executives that prohibited him from practicing as an accountant, officer or director of a public company during the Relevant Period; and
3. Undisclosed related-party transactions involving the same individual.

#### ***Ammo's Financial Misstatements***

Ammo materially misstated its financial statements for fiscal years 2021 through 2023 by improperly accounting for its equity issuance costs and stock compensation expenses. In 2021 and 2022, Ammo improperly capitalized nearly \$7 million in investor relations expenses as equity issuance cost based on false representations by the aforementioned senior executive and altered vendor invoices. In addition, Ammo's CFO also caused the Company to understate its stock compensation expenses by approximately \$10 million from 2021 through 2023 using discounted stock values significantly lower than the market value of the stock.

#### ***The SEC's 102(e) Action Issued to Ammo Senior Executive***

In 2020, the SEC issued a 102(e) Action to one of Ammo's senior executives for participating in a market manipulation scheme to inflate his former company's stock prices.<sup>4</sup> The release states that Ammo's CEO, CFO, and other senior executives knowingly concealed the executive's employment at Ammo from third-party auditors, while paying him compensation that exceeded or rivaled other executive officers at the Company.

#### ***Related-Party Transactions***

The SEC also found that Ammo failed to disclose related-party transactions involving relatives of the sanctioned senior executive, including:

- A \$25 million construction contract with a firm owned by the senior executive's brother to build a manufacturing facility; and
- A \$770,000 reimbursement to the senior executive's shell company for a payment his wife made to an investor relations firm on the Company's behalf.

The release notes that the CFO misled the Company's third-party auditors regarding the true nature of these transactions.

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<sup>4</sup> See AAER No. 4145 released June 3, 2020.

### *Other Improper Activity*

The release also describes the Company's manipulation of adjusted EBITDA from negative to a positive amount, as well as its failure to maintain the following adequate accounting controls:

- Qualified accounting/finance personnel;
- Review of the development of estimates;
- Sufficient governance to monitor compliance with the Company's Code of Conduct and identify potential fraud;
- Disclosure of related-party transactions and executive compensation; and
- Period-end financial reporting.

### *Ammo's Remediation Efforts and Other Undertakings*

In connection with its 2022 acquisition of GunBroker, a proxy contest led to a settlement pursuant to which Ammo terminated the sanctioned senior executive.

In 2024, Ammo's CFO resigned at the Board of Directors' request, and the Company initiated an internal investigation into the Company's internal controls over financial reporting for fiscal years 2020 through 2023.<sup>5</sup>

In May 2025, the Board engaged advisors to assist with restating the Company's financial statements and to remediate internal control deficiencies.

Among other steps, Ammo:

- Expanded its accounting staff;
- Hired a vice president of accounting and external reporting and a GAAP accounting consultant;
- Amended its accounting policies and procedures related to journal entries, invoice approval, account reconciliations, and variance thresholds;
- Implemented a new process for identifying and disclosing related-party transactions; and
- Established a formal disclosure committee that includes key members of management.

Ammo also agreed to certain undertakings with the Commission, including adoption and implementation of all recommendations of the compliance consultant within two years.

In light of the Company's cooperation and remediation, the Commission has not imposed any penalties.

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<sup>5</sup> See Ammo's Form 8-K dated September 24, 2024.

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**ACKNOWLEDGEMENT:** We wish to acknowledge the valuable contribution to this analysis by Amanda Savona, Rachel Seow and Marni Kaufman. For more information, please contact LeeAnn Manning at 617.586.1076 or Meghan Mellott at 646.449.7265.

**ABOUT FLOYD ADVISORY:** Floyd Advisory is a consulting firm providing financial and accounting expertise in areas of SEC reporting, transaction advisory, investigations and compliance, valuation and strategy, data analytics, and litigation services.

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