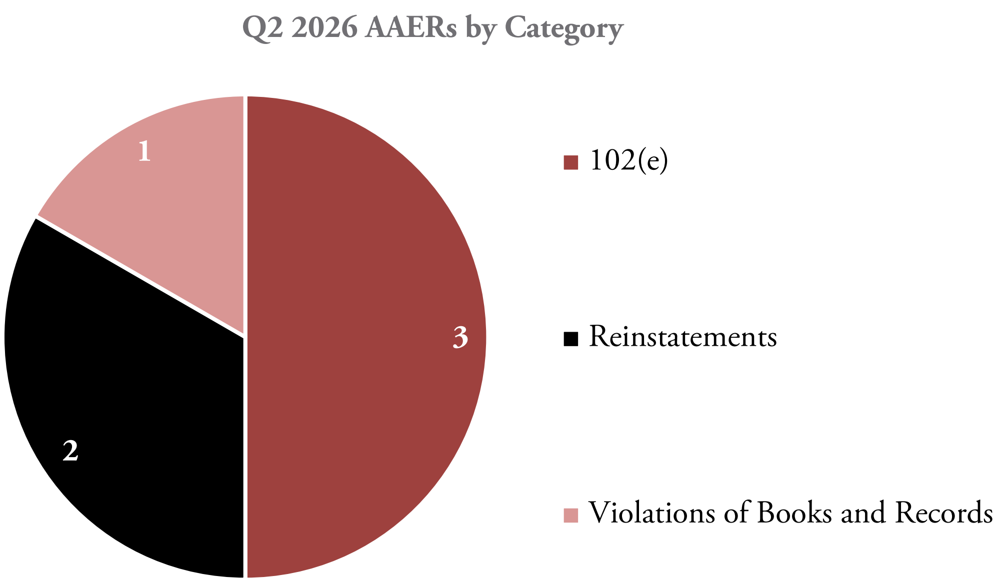
Insights from Accounting and Auditing Enforcement Releases for the Quarter Ended June 30, 2026

Introduction

We are pleased to present you with our summary of the U.S. Securities and Exchange Commission's ("SEC" or "Commission") Division of Enforcement's Accounting and Auditing Enforcement Releases ("AAERs") for the quarter ended June 30, 2026. The AAERs issued by the SEC are defined as financial reporting-related enforcement actions concerning civil lawsuits brought in a federal court and notices and orders concerning the institution and/or settlement of administrative proceedings.

Q2 2026 Overview

The SEC released six AAERs during Q2 2026. As depicted in the graph below, three releases related to 102(e) Actions, two related to Reinstatements, and one related to Violations of Books and Records:



Highlights

- The number of AAERs continues to decline. The SEC issued six releases in Q2 2026, consistent with Q2 2025 (7) but significantly lower than the average quarterly total from Q1 2021 through Q1 2025 (21).
- Q2 2026 releases resulted in approximately $780,000 in penalties, higher than Q2 2025, but well below the historical pre-2026 quarterly average of approximately $100 million from 2021 through 2025.
- The majority of Q2 2026 penalties related to a 102(e) Action involving a penny stock fraud scheme, which we have summarized further in our "Notable AAERs" section below. The other 102(e) Action involved insider trading and more than $50,000 in ill-gotten gains.
- There was one Violation of Books and Records release involving a contract manufacturer that generated false inventory entries to inflate quarterly earnings. This is also summarized further in our "Notable AAERs" below.
- While the number of 102(e) Actions issued each quarter has remained relatively steady over the past two years (averaging 3), their share of total AAERs continues to rise as other release categories decline. This and other trends are summarized in our "Quarterly Trends" section.

Notable AAERs

While understanding the categorical breakdown of the types of releases issued by the SEC each quarter can be insightful, we have summarized two releases below relating to a 102(e) Action and a Violation of Books and Records:

- ***A 102(e) Action was issued against a former CPA and CFO of multiple SEC registered public companies for his alleged involvement in several penny stock fraud schemes.*** According to the release, the individual worked with two separate groups to carry out "pump-and-dump" schemes from 2010 through 2019. Pump and dump schemes can be described as artificially inflating the price of an asset through false, misleading or exaggerated information so that it can be sold (or "dumped") for a profit. The individual allegedly helped the groups identify and acquire mineral exploration properties, then acted as an intermediary to conceal the groups' involvement and help arrange funding through front companies. The SEC's complaint further alleged that the individual knew the groups had no intention of extracting minerals beyond minimum requirements at each property site but nevertheless promoted the companies through misleading campaigns designed to inflate stock prices. Members of the groups then sold their shares and used part of their proceeds to compensate the individual. The SEC suspended the individual from appearing or practicing before the Commission as an accountant and ordered him to pay more than $619,000 in disgorgement, prejudgment interest, and civil penalties.

- ***The Commission charged a contract manufacturer with books-and-records and internal controls violations as a result of improperly reducing manufacturing expenses to boost earnings.*** According to the release, employees at one of the company's facilities generated false entries in the inventory system to boost income from July to December 2020. These entries adjusted certain inventory to reflect that it was undergoing manufacturing, allowing additional manufacturing expenses to be "absorbed" into the cost of inventory, thus decreasing total manufacturing expenses. As a result, income was falsely overstated by nearly $1 million during the period. The release states that at least some of the misconduct was directed by the Senior VP of Operations. The scheme was uncovered through an internal notice in which the Board of Directors investigated and confirmed the allegations. Among other violations, the Commission found that the company did not maintain a system of internal controls sufficient to keep records that accurately and fairly reflect transactions. However, the Commission acknowledged the company's cooperation and remedial efforts and did not impose a civil penalty to the company, but did order the company's CFO at the time to pay a penalty of $20,000, and Senior VP of Operations to pay a penalty of $15,000.

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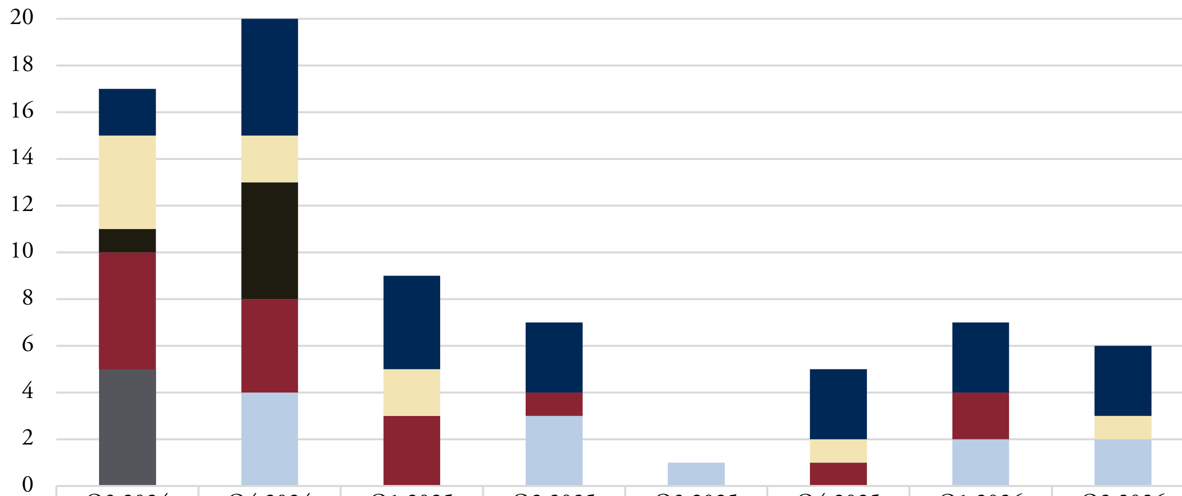
Quarterly Trends

Comparisons of the number of AAERs between periods can be a useful gauge of the SEC's latest trends and activities. The following chart maps quarterly totals for each AAER category over the past eight quarters.

Quarterly AAER Comparison: Q3 2024 through Q2 2026



	Q3 2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	Q2 2026
102(e)	2	5	4	3	0	3	3	3
Violations of Books and Records	4	2	2	0	0	1	0	1
FCPA	1	5	0	0	0	0	0	0
Financial Reporting Fraud	5	4	3	1	0	1	2	0
Reinstatements	0	4	0	3	1	0	2	2
Other	5	0	0	0	0	0	0	0
Total	17	20	9	7	1	5	7	6

We have made the following observations based on the releases issued this quarter and in past quarters.

- The number of 102(e) Actions has remained steady this quarter, consistent with the average over the past seven quarters (3), despite significant declines in other AAER categories since the start of 2025.
- The two Reinstatements issued during Q2 2026 involved individuals who had previously been suspended for audit-related misconduct. Each was granted reinstatement following their initial suspensions in 2017 and 2022.
- There was one Violation of Books and Records this quarter. Although this represents an increase from the trailing twelve-month average, it is significantly lower than pre-2025 levels, which averaged approximately four actions per quarter from 2021 through 2024.
- Q2 2026 marks the sixth consecutive quarter in which the SEC has not issued an FCPA-related release. From Q1 2023 to Q4 2024, prior to the SEC's shift in enforcement focus, this category averaged two per quarter.

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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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