

## Education & Prevention

### As an investor, you should:

1. Be on guard when someone uses testimonials from group members to promote an investment opportunity.
2. Be wary of promises of high returns with little to no risk.
3. Avoid feeling pressured to make a decision about the investment.
4. Receive a copy of all agreements and risk disclosures.
5. Understand the terms and conditions of the contract.
6. Ask a neutral, third party to evaluate the investment.
7. Focus on how you can get out of the investment and not just the potential financial gains.
8. Contact the Commission's Duty Officer at the Securities Division to verify registration and disciplinary history of the investment promoter, to find out if the investment is permitted to be sold or to file a complaint.

## Contact Us

To verify registrations or file a complaint:

**Duty Officer**  
**602-542-0662**  
[SecuritiesDiv@azcc.gov](mailto:SecuritiesDiv@azcc.gov)

To arrange investor education presentations or request materials:  
**Investor Education Coordinator**  
**602-542-0428**  
[info@azinvestor.gov](mailto:info@azinvestor.gov)

For general information on wise investing and fraud prevention, visit  
[www.azcc.gov/azinvestor](http://www.azcc.gov/azinvestor)

**Ask and check**  
**before you invest!**



Securities Division, Third Floor  
Arizona Corporation Commission  
1300 W. Washington St.  
Phoenix, AZ 85007

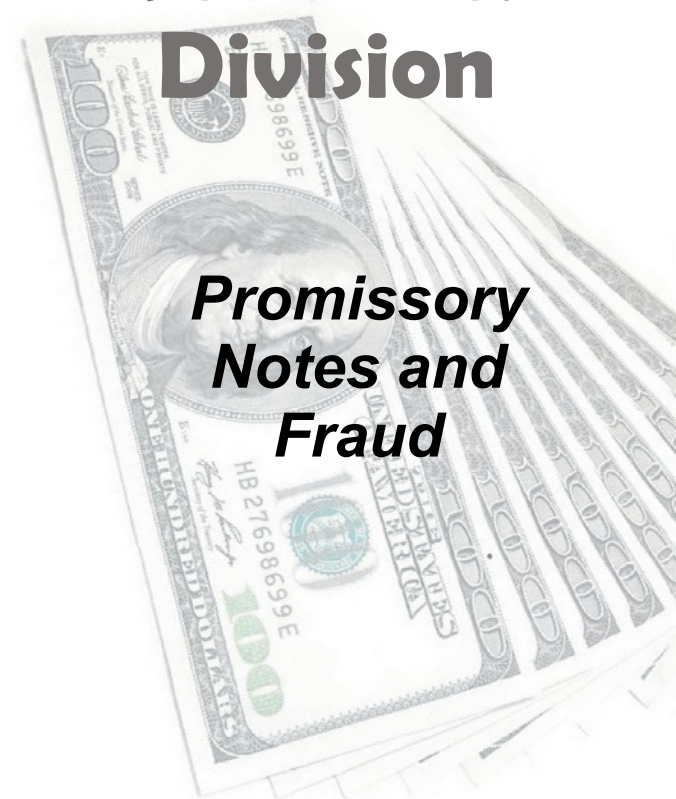
Toll Free: 1-866-VERIFY-9 (837-4399)

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# ARIZONA CORPORATION COMMISSION

## Securities Division

**Promissory  
Notes and  
Fraud**



## About Promissory Notes

A promissory note is a form of debt issued by a company to raise capital. In return for the loan of money, the company agrees to pay the investor interest over a specific time period. The interest may be paid during the time period of the note or at the end.

There are two major types of promissory notes—secured and unsecured. Secured promissory notes have collateral behind them to secure the loan. Unsecured notes might have a personal guarantee but no valuable collateral, which carries a higher degree of risk of financial loss.

Promissory notes are only as sound as the companies or projects they're financing. Even promising companies can fail because of competition, bad management decisions or unfavorable market conditions. Promissory notes may be subject to regulation and individuals who are selling the notes may need to be registered or licensed.



## Red Flags of Fraud

Generally, promissory notes that are broadly marketed to the general public should be examined closely by the investor. Here are some warning signs:

**Insured or guaranteed returns.** With promissory notes, the higher rate of return, the higher risk of financial loss.

**Above-market interest rate.** A return on investment that is different from other similar investments should raise questions.

**A start-up with “prime quality” notes.** In the securities industry, prime quality means a company has an established history of operations and earnings.

**Limited time period to act.** Legitimate salespeople want you to take your time, ask questions and do some research.

**Name-dropping of other investors.** This is merely a persuasion tactic to convince you to invest.

**“Out-of-the-blue” contact.** Strangers emailing or calling you about investing in promissory notes is suspicious. Feel free to hang up or hit delete.

**Lack of audited financials.** Be cautious about investing in a company that cannot produce an audit by a certified public accountant.

## Online Resources

It is important to conduct an online search for objective information about the investment and the company. Review more than one source to obtain all the information you can before making a final decision. Most importantly, check the public records of the following Arizona government agencies:

**Office of the Arizona Attorney General**  
[www.azag.gov](http://www.azag.gov)

**Arizona Department of Real Estate**  
[www.re.state.az.us](http://www.re.state.az.us)

**Arizona Department of Insurance**  
[www.azinsurance.gov](http://www.azinsurance.gov)

**Arizona Corporation Commission Corporations Division**  
[www.ecorp.azcc.gov](http://www.ecorp.azcc.gov)

Arizona corporations are required by law to file annual reports with the Corporation Commission. Determine if the company is in good standing with filed annual reports that list financial, officer and director information. Note that registration as a limited liability company (LLC) does not mean the company is automatically authorized to offer and sell investments to the public.