Ten years ago, Nevada enacted some of America's loosest disclosure and liability laws for corporations, in a bid to spur the state economy. It protected corporate officers and directors from liability for breaches of duty, bad faith and self-dealing - acts that can be the basis of lawsuits in other states.

Today, the business of registering companies in Nevada, many of them shells, is booming. Nevada has emerged as the state with the second-largest number of corporate entities registered per capita, after longtime leader Delaware. The state's business-filings unit generated revenue of $108 million in fiscal 2010, up from $43 million in 2002.

At the same time, Nevada is attracting an outsize number of companies with shaky financial reporting, according to a study published in March by Michal Barzuza and David C. Smith of the University of Virginia.

On average, in each year between 2000 and 2008, 14.5 percent of public Nevada companies restated their accounting; 12.6 percent lowered reported net income; and 1.3 percent were the subject of fraud allegations or investigations by regulators, the study found. Nationally, 8.5 percent of companies restated their accounts, 7.3 percent reduced their reported net income and 0.9 percent were subject to fraud allegations or probes.

Nevada also emerged as a hotbed for a key subset of shell companies, those that are listed on stock exchanges. Financial consulting firm PrivateRaise says that 588 of the 1,215 publicly-traded U.S. shell companies it monitors, or nearly half, are registered in Nevada. Public shells have drawn scrutiny from regulators as a backdoor way for foreigners to list on U.S. markets, because buyers can get a listing without the scrutiny of an initial public offering.

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