

Subject: File No. S7-20-08
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PLEASE SEE ARTICLE BELOW. I BELIEVE IT SUMS UP THE SITUATION VERY WELL. PLEASE STOP NAKED SHORTING NOW.

Why The DTCC Is A Prime Mover In Securities Fraud and Naked Shorting
Location: Blogs Bob O'Brien's Sanity Check Blog
Posted by: bobo 8/5/2008 4:29 AM
The DTCC.

To hear them tell it, they are powerless to deal with NSS, acting more as a vessel through which stock flows. They ignore that they are an SRO, chartered with regulating the business conduct of their owner/members. They pretend that they don't become the intermediary, and thus the contra-party to the trade to both buyer and seller, and thus in full control of buying in failed trades (if they wanted). They pass self-serving rules that declare they can't force a failing member to buy in the fail, even though they are chartered with ensuring timely clearance and settlement. And for years they have been claiming that NSS is basically a non-issue, while their press geeks and counsel employ mind-numbing doubletalk.

Read the explanation of what the press release that follows describes. It is unbelievable, and yet typifies the DTCC's behavior. It is a huge part of the problem, and yet it continues to pretend to be an innocent bystander. That wouldn't have worked in any court in the land, and it is astounding that it is being attempted yet again, even as the SEC apparently wakes up to naked short selling as the systemic risk to the market we have for years claimed it to be.

I would suggest that if the SEC wants to understand what is going wrong in the US market, they have but to read a press release like this one. This is frigging nuts. Really. And yet, no SEC or Congressional action. Question is, why? Why can the DTCC basically engage in securities fraud, or at least actively aid and abet it, and yet no regulator or AG takes action? How broken does this have to be before our protectors do their frigging job?

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A LESSON FOR HEAVILY NAKED SHORT SOLD CORPORATIONS

A SYNOPSIS OF THE BELOW ARTICLE

- 1) Grifco International, Inc. owns 75 million shares of Coil Tubing Technology, Inc. and they wish to dividend out this asset to the owners of their 40 million shares outstanding.
- 2) Each share of Grifco owned will therefore receive 1.89 shares of Coil Tubing.
- 3) Grifcos 40 million shares are partially held in street name at the

DTCC and partially in registered format wherein the shareholders hold their own certificates, perhaps in a safety deposit box.

4) The DTCC holds in book entry format 68 million shares and thus a large % of these book entries are associated with failures to deliver. For instance, if 10 million shares of Grifco are held in a registered format by their purchasers in certificate form then 30 million would be held in street name at the DTCC and thus 38 million of the book entries held at the DTCC were in a failure to deliver status. The DTC division of the DTCC acts as the legal custodian of these 30 million shares (an estimate) and is well aware of the disparity between the 30 million shares in their custody and the 68 million shares held in an electronic book entry format on the books of their participants. They learned of this disparity during the dividend process.

5) Due to the enormous amount of deliver failures held at the DTCC (28 million shares plus the amount held in certificated form by registered shareholders) there obviously weren't enough dividend shares of Coil to go around if all shareholders of Grifco were to receive 1.89 shares of Coil per Grifco share owned.

6) The securities laws clearly state that any short seller that is short any shares of an issuer on a dividend record date must match that dividend.

7) Instead of forcing their DTCC participants holding the short positions (failures to deliver) to deliver the missing dividend shares of Coil, the DTCC management told Grifco to contact the shareholders that didn't receive their dividends to sign a waiver waiving their right to these dividends. Obviously very few would comply as they had legally earned these dividends.

8) DTCC then demanded that Coil Tubing, whose shares were being dividended out by Grifco but that otherwise had nothing to do with the dividend distribution process, to go out and buy additional free trading shares in the market or supply the missing amount out of their treasury despite the fact that it was clearly the responsibility of those short the stock of Grifco on the dividend record date to match the missing dividend shares.

9) Grifco obviously refused this DTCC order as it would have been very damaging to their shareholders because of the dilution, as well as very expensive.

10) DTCC management then issued a statement on 7/10/08 that unless it received the necessary shares within 21 days that they were going to proactively reduce the size of the dividend distribution from 1.89 shares of Coil per Grifco share owned to 1.29 shares per Grifco share owned.

They did this despite the fact that it was clearly the responsibility of those DTCC participants that were short the stock to match the dividend.

11) Coil Tubing refused to play ball with this DTCC mandate and filed suit against the DTC and Grifco itself claiming that Grifco should have been aware of this massive discrepancy.

In reality Grifco management has no idea of the levels of delivery

failures in their shares held at the DTCC or outside of the DTCC in an ex-clearing format.

12) The judge issued a temporary restraining order forbidding the DTCC from adjusting the Grifco shareholders accounts from 1.89 dividend shares per Grifco share owned to 1.29 shares of Coil per Grifco share owned.

QUESTIONS THAT ARISE

- 1) How dare the DTCC attempt to transfer this debt from their DTCC participating owners/participants (those with the short positions) onto the shoulders of either Coil Tubing, or Grifco and their shareholders?
- 2) How dare the DTCC allow their participants to run up a massive level of delivery failures equaling 28 million shares plus the amount held in registered format, in a corporation with 40 million shares?
- 3) How dare the DTCC try to get Grifco investors/shareholders to sign a waiver denying them of the dividend their purchases earned?
- 4) How dare the DTCC management force the shareholders and management teams of both firms to shoulder the financial and time burden of this litigation, just to receive what was owed them?
- 5) How dare the legal custodian of these shares (i.e. the DTC division of the DTCC) treat the beneficial owner of these shares, to whom they owe a fiduciary duty of care, in this reprehensible manner?
- 6) How dare the legal/nominal owner of these shares, CEDE and Co. the nominee of the DTCC, treat the beneficial owners of these shares (to whom they owe a fiduciary duty of care as the surrogate legal owner for which they were appointed only as a means to streamline ownership transfer without cumbersome deed-like instruments) in this fashion?
- 7) How dare a qualified control location capable of granting compliance with the critically important Customer Protection Rule (Rule 15c3-3 of the 34 Act) treat the beneficial owners of these shares in need of this protection in such a manner? The Customer Protection Rule mandates that the purchasing broker/dealer promptly obtain and maintain the physical possession or control of fully paid for and excess margin securities on behalf of their client, the investor, or keep them housed at a location, like the DTCC, that will obtain the physical possession or control of them on their behalf. This clearly was violated by the DTC.
- 8) How dare the DTCC acting in the capacity of a Self-Regulatory Organization (SRO) defined as An entity, such as the NASD, responsible for regulating its members through the adoption and enforcement of rules and regulations governing the business conduct of its members refuse to regulate the business conduct of its abusive participants that refused to deliver the shares of Grifco that they sold, as well as the dividend shares of Coil Tubing that they clearly owe?
- 9) How dare the DTCC with the Section 17A (34 Act) mandate to Promptly

and accurately clear and settle all securities transactions refuse to settle these transactions after these archaic delivery failures were brought to their attention?

Once the enormity of this delivery failure situation was brought to the attention of DTCC management, the correct course of action was obviously to firstly force the perpetrators of this massive fraud to buy-in the shares of Grifco that they'd previously sold, but refused after inordinate amounts of time, to deliver. Secondly, those short the stock on the dividend record date would obviously be on the hook for the dividend shares.

This is the type of corruption in the naked short selling arena that U.S. investors are up against in the DTCC-administered clearance and settlement system in use in the U.S.

THIS IS BUT ONE OF DOZENS OF REASONS WHY YOU NEVER HOLD SHARES IN DEVELOPMENT STAGE CORPORATIONS IN STREET NAME AT YOUR BROKER/DEALER, ESPECIALLY IF THEY ARE ABOUT TO DISTRIBUTE DIVIDENDS. YOU SHOULDNT HAVE TO GO TO THE EXPENSE AND HASSLE OF FILING SUIT IN ORDER TO RECEIVE A DIVIDEND CLEARLY OWED TO YOU.

THE RECENT PRESS RELEASE

Copyright material redacted. 12 August 2008. Author referenced the following article: Coil Tubing Technology, Inc. Files Suit Against Grifco, Grifco's former President and DTC, Aug. 1, 2008, <http://www.reuters.com/article/pressRelease/idUS195205+01-Aug-2008+BW20080801>.