September 21, 2007

Ms. Nancy Morris
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-1090

Re: File No. S7-19-07

Dear Ms. Morris:

Please reference the letter and opinion of Sept. 20, 2007, as submitted by the American Stock Exchange, the Boston Options Exchange, the Chicago Board Options Exchange, the International Securities Exchange, the Options Clearing Corporation, NYSE/Arca, and the Philadelphia Stock Exchange.

I'll quote one small section and using it show why the entire position of the exchanges; to wit that the options market maker (OMM) exemption, rather than doing harm, is beneficial and should be allowed to continue is pure bunkum. The following is from the last paragraph on page 3. It reads:

> "In short, the Commission has not made a convincing case that elimination of the options market maker exception will impose little cost on options market makers. We strongly believe that the costs would be significant and that options market making would be adversely affected by such a change. It makes little sense to risk this result in order to eliminate extended fails in a small number of threshold securities. …"

Firstly, if the OMM exemption is costing equity investor's money without due compensation then it's patently unfair, and as such decrying an additional "cost on options market makers" is an argument that has absolutely no merit. The OMM should bear the full cost of doing their business, not stealing what rightfully belongs to the equity investor and not by impacting companies through uncompensated dilution of the shares in circulation. If the OMM need to short to hedge a position, they should borrow them instead of creating new shares out of thin air. And, if there are no shares available to be borrowed then it's up to the OMM to figure out another way to make money. Stealing from the equity investor shouldn't be one of their allowed options.

Secondly, their statement that the "extended fails (are) in a small number of threshold securities", likewise doesn't qualify as a meaningful argument for the SEC to not reign in the OMM from pursuing their present abusive practices. Their argument is to allow some investors to be robbed as long as it's a small percentage of investors that are impacted. It's the old 'an acceptable level of fraud' argument. My reply to that is that any level of fraud; no matter how isolated and no matter the size of the community affected is an unacceptable level. The only acceptable level for fraud is zero. Market integrity should be applicable to all participants; our system relies on it.

As an example to underscore my position; the common stock of NovaStar Financial (NYSE: NFI) is heavily shorted (88% of float on Sept. 11) and has been on the Reg. SHO list since 2004 with only brief exception. This equity is also heavily naked shorted by the OMM.

During the past two days (Sept. 20, and Sept. 21, 2007) there have been, minimally, 1.385 million shares of NFI *created out of thin air* by the OMM; this in an equity that has an estimated 8.8 million share float and only 9.5 million shares outstanding. These market dilutive shares were created in just 4 linked transactions:

- On Sept. 20, option volume indicated 5,500 contracts of Dec $15.00 Calls, and 5,500 contracts of Dec. $15.00 Puts, that were matched to a single 550,000 share trade at 14:09 EDT for $8.55.

- On Sept. 20, option volume indicated 5,500 contracts of Sept. $12.50 Calls, and 5,500 contracts of Sept. $12.50 Puts, that were matched to a single 550,000 share trade at 14:17 EDT for $8.57.

- On Sept. 21, option volume indicated 2,250 contracts of Dec $12.50 Calls, and 2,250 contracts of Dec. $12.50 Puts, that were matched to a single 225,000 share trade at 10:35 EDT for $8.61.

- On Sept. 21, option volume indicated 600 contracts of Sept. $12.50 Calls, and 600 contracts of Sept. $12.50 Puts, that were matched to a single 60,000 share trade at 12:51 EDT for $8.67.

The volume on Sept. 20 was 2,091,200 shares. Therefore the OMM created 53% of the day total—a slightly unusual number but not all that much higher than we've been blessed with over these past many months. As of 13:00 EDT the 285,000 shares created on Sept. 21 accounted for 46% of the day volume. After initial delivery to the options client, the shares created by the OMM become available to be sold long. On some days it is likely that nearly the entire volume has been comprised of 'shares' minted by the OMM.

To add injury to injustice, consider what happens to these naked shorted shares once sold. They become long shares to be sold back into the market which can and does affect the trading price of the equity. After all, what other purpose could buying the Sept. positions so late in the game be? They expire tomorrow! This may not be a smoking gun but its pretty solid circumstantial evidence that the OMM is engaging in or at least aiding and abetting market manipulation in small, targeted, equities such as NFI.

I've provided you with just one example of one of the securities of which they speak when they say "extended fails in a small number of threshold securities". The fails are abusive. The fails steal equity from retail investors. When the level of fails created and maintained by the OMM push the total short position in the stock to something close to 200% of the authorized number of shares outstanding, that's not 'adding liquidity'; that's manipulation; that's fraud; that's robbery plain and simple.

The exceptions to the prompt settlement and delivery requirements of the Securities acts should *all* be abolished. It's patently unfair to provide benefit to one class of investor or agent and have the cost of that benefit rest on the backs of another class.

Sincerely,

Glen Kelly
Equities Investor
Iredell, TX

cc: Erik Sirri
James Brigagliano