August 20, 2006

Nancy Morris
Secretary
Securities and Exchange Commission
Washington, DC

RE: Amendments to Regulation SHO [Release No. 34-54154 File No. S7-12-06]

Ms. Morris, Commissioners,

The primary responsibility of the Securities and Exchange Commission has been to police our capital markets in a manner that is equitable to all and in a manner in which the investing public maintains a high level of confidence in the integrity of such markets. While the SEC reports to Congress on creating growth within the US capital markets, the reality is that growth comes with investor confidence and not by simply creating an environment of financially prosperous Wall Street institutions.

It was not that long ago Congress passed the Sarbanes-Oxley laws intended to bring ethics and integrity back into corporate America. Due to a growing moral shift in the corporate executive, the public was becoming injured as ethics and integrity was being exchanged for personal greed. Little was being done at the regulatory levels to address this shift until such time as the damage was already done and billions if not trillions had been stolen from the public.

Sarbanes-Oxley was created to force accountability into the corporate boardrooms and identified certain penalties associated with a lack of corporate integrity. CEO's and CFO's of corporate America are now to be held personally responsible for the reported financials presented to the public. The expectation is that this will right the ship that was on its way to sinking.

It is now time the SEC created similar laws intended to hold Wall Street executives accountable for the illegal activities that have become common nature in our markets. Without such accountability our markets will remain under the cloud of skepticism that much of middle class America has placed it. With literally billions of dollars in fines imposed against our Tier I Wall Street Institutions since 2003, it is clear that Wall Street will not change until these fines are backed up with individual accountability. The risk vs. reward has not yet been equalized or shifted to the proper side of the pendulum.

In my first comment memo on the proposed changes to Regulation SHO [http://www.sec.gov/comments/s7-12-06/s71206-67.pdf ] I addressed a majority of the issues regarding the initial release in SHO. I did so in hopes that others would continue to feed off the data presented in my memo and to openly counter any of the claims I was making. Unfortunately the Industry, so concerned for their right to prosper, appears content to remain publicly silent on this issue. Publicly silent but not silent in the halls of the SEC and in the halls of Congress.

The other reason I made an early entry into the comment period was to set up an open debate on the facts presented by the SEC. John Heine of the SEC's media relation's office had informed me that the questions I raised over the accuracy of the SEC's numbers would be best served presented in an open comment as opposed to an open discussion between myself and those that generated these figures.

As what has become a pattern of the SEC, the investing public is not given equal face time to openly discuss matters/analysis with the Commission as is frequently being afforded to the institutions the Commission is responsible for regulating; a double standard that puts in question the Commissions true motives. [Ref: The SEC's Documented Memorandums to meetings held during the inception of Regulation SHO with the Securities Industry Association, National Service Clearing Corporation, Bear Stearns, Madoff Investment Securities, Hill Thompson, Citigroup Global Markets, and LEK Securities Corp http://www.sec.gov/rules/proposed/s72303.shtml ]

While Wall Street walks the halls of Congress and the SEC lobbying for protecting their profits, the investing public has become locked out of these halls due to our lack of lobbying capital. The voice of the people is being represented by one sided comment letters as the staff of the Commission is sitting down with Wall Street lobbyists and institutions discussing the "cost impacts" in proposing rules intended to maintain the order of these markets. Not lost in such meeting being held is the fact that cost is being evaluated against fraud as if the two carried equal weight.

Former SEC Chairman William Donaldson once stated "How much fraud are you willing to accept for liquidity." Apparently the answer is not zero, as in zero tolerance, the answer is, it depends on the cost to eradicate. Cost equating to Wall Street profit margin and not cost to the investing public.

With that, and with the refusal of the Commission to address some obvious flaws in their analysis, I would like to delve deeper into the issues of investor protection, settlement failures, and the Commission.

Since January 2005 when SHO became law, there have been relatively few regulatory activities regarding the continuation of abusive trading in the markets. But of the few enforcement actions taken, the SEC's dissemination of accurate information is being challenged.

**A Breakdown over the Accuracy of Information Disseminated by the SEC:**

**Case 1.** On April 18, 2006 the Canadian Investment Dealers Association (IDA) brought the first enforcement action ( https://www.ida.ca/Files/Media/MediaRelease/Hearings/MRH2006041801_en.pdf ) against a firm for violations regarding Regulation SHO. The IDA fined Union Securities $1 Million and banned Chief Compliance Officer John Thompson from Ultimate Designated Person for any IDA Member firm.

According to the IDA, Union was illegally shorting, on behalf of US Clients, into the US Markets and was failing to perform locates for the short sales which eventually resulted in fails to deliver. The investments were primarily with regards to the illiquid markets of the OTCBB and were taking place on securities already listed under SHO as having excessive fails. The IDA also identified that a US Market Maker was a contributor to this fraud by continuing to place the short sales after pre-existing fails for this client in these SHO listed securities exceeded 13 days.

The abuses that SHO was to address, and the abuses that the NASD attempted to resolve through a Pre-SHO Rule 3370 change were being violated by US Market Makers and yet the US Regulators failed to notice and failed to take action. Instead, as the IDA was negotiating a settlement with Union Securities and Mr. Thompson, SEC Asst. Director of Market Regulation James Brigagliano was attending an NASAA public forum on naked short selling and informing the public that SHO appeared to be working successfully. This party line was later re-iterated by members of the NASD and NYSE.

**Case 2.** On July 24, 2006 the NYSE brought enforcement actions against Daiwa Securities, Citigroup, Goldman Sachs, and Credit Suisse for short sale violations pertaining to regulation SHO.
http://www.nyse.com/Frameset.html?nyseref=http%3A//www.nyse.com/regulation/1089235621148.html&displayPage=/press/1153476520386.html The total fine for these 4 US firms was barely more than what the IDA fined Union Securities with the aggregate fines totaling a paltry $1.25 Million. Likewise, as the IDA banned the Chief Compliance Officer for Union Securities the NYSE held no individuals personally accountable for these failures.

How egregious were the failures?

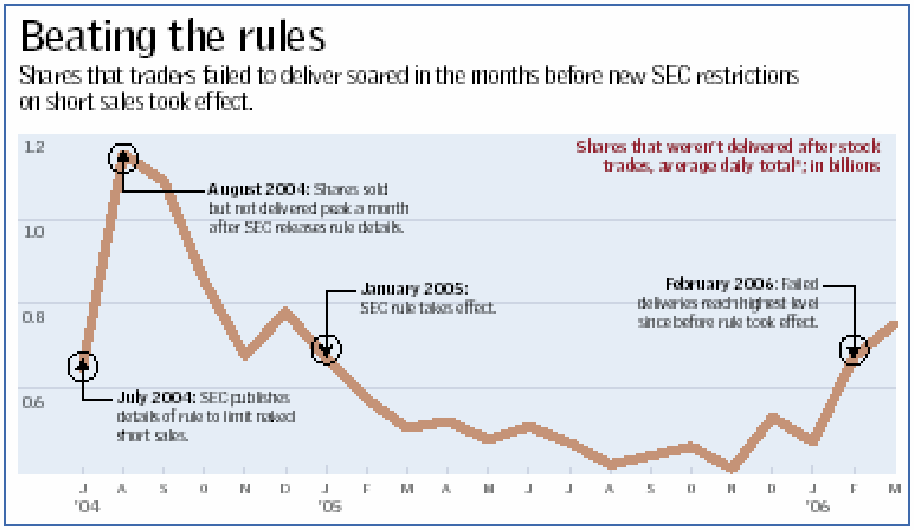
According to the complaint filed, Daiwa Securities executed over 103,000 illegal trades totally more than 10.3 Million shares where much of these were trades for their proprietary house account. Daiwa Securities conducted these illegal trades from June 2004 where the audit originated thru the summer of 2005. For their illegal activities, the NYSE fined the firm a paltry $400,000 or less than $.04/share illegally traded. Rest assured the reward (minimal fine) was worth the risk illegally short selling securities for profit.

The NYSE did not disclose the trade data on the remaining 3 firms but what was disclosed was that each had failed to put in place any of the compliance systems that were required by the SEC and failed to do so for the first 7-9 months that Regulation SHO was law. In fact, the SEC delayed the implementation of SHO for 6 months (June 2004 – January 2005) to assure that these firms did in fact have the time to set up a compliance system and yet Wall Streets most elite (Citigroup, Credit Suisse, and Goldman Sachs) all failed to even initiate such actions. For their willful conduct to defraud, a $250,000 fine was imposed on each with no personal accountability.

Again, risk vs. reward was justified as the clients who were allowed to illegally execute trades were rewarded by the actions of these firms. The firms likewise were rewarded through the continuous services of these clients

**Case 3.** According to the footnotes to this proposal the SEC has stated, "the average daily fails to deliver declined by 34%." The SEC identifies that in calculating this number they compared the period before SHO (June 2004 thru December 2004) to the period after SHO (January 2005 thru May 2006). At face value this comment, to the average person, would infer that SHO was slowly reducing the level of fails in the system and that by May 2006 the average daily or monthly fail was 34% that time period seen prior to SHO.

Identified a Bloomberg article published in their September 2006 publication (Naked Short Sellers Hurt Companies With Stock They Don't Have), Bob Drummond identified that the average level of fails in the system for the months of February and March of 2006 were higher than the average level of fails in January 2005 when SHO was first introduced and were slightly higher than the average for December 2004 which represented the high watermark for all of 2004. Drummond claims this information was made available to him through a Freedom of Information Act (FOIA) request to the SEC. The Chart used in the Drummond article is provided below.




*Figures represent shares from all trades that weren't delivered at settlement. Data counts only securities with at least 10,000 total failures to deliver. Source: Depository Trust & Clearing data, released by the SEC under the Freedom of Information Act

As I pointed out in my earlier comment memo, the SEC's analysis was either inaccurate or was willfully manipulated to present a picture that in fact does not exist. In December 2004, before the SIA, Asst. Director James Brigagliano informed the members that the SEC expected the January 2005 level of fails to be a high watermark with the goal being that no company would ever qualify for the SHO threshold list. Instead, some 14 months after the implementation the level of fails exceeds that of January 2005 and the SEC is claiming publicly a "significant reduction" in the level of fails without creating market disturbances.

From this chart and the data I obtained, it would appear that the SEC made a rookie mistake in the calculation of average. Instead of evaluating trending [month to month; week to week] the SEC appears to have done a 4$^{th}$ graders job of averaging the total fails between June 2004 and December 2004 and comparing that to the average of fails between January 2005 and May 2006. Such a conceptual error should not be accepted at the Commission when evaluating the effectiveness of such rulemaking.

The trend presented by Drummond is clear, for the months of November 2005 thru March 2006 the trend in the markets was a significant increase in fails reaching beyond levels set when SHO was initiated.

**The SEC's open bias in Regulatory Enforcement:**

When it comes to protecting the overall investing public, the SEC has routinely been accused of bias in how laws are enforced. Power and money can buy you SEC protection while individuals and small business issuers are routinely victim of a retaliatory agency.

The abuses being identified under Regulation SHO are abuses involving Wall Streets failure to comply with regulatory compliance. While the initiator of the abuse may come from an outside client or from a member firm, each member is responsible for maintaining internal compliance procedures that avoid the possibility of such abuses to be imposed into the markets. These compliance procedures include monitoring client trading patterns as well as proprietary trading patterns.  As abuses are exposed, the firms are supposed to quickly address these issues. The SEC and SRO's are thus responsible for monitoring these self-policing policies.

Instead of taking strong actions against those that fail to meet adequate levels of self-policing, the SEC has aided in the culture of negligence by looking the other way when it comes to the smaller more abused investors and issuers. The SEC has created a boundary of acceptable bias that is damaging the reputation of the agency and threatening the overall integrity of the markets.

To illustrate this culture of negligence specifically involving this issue of abusive shorting/abusive settlement failures is a very public case.

**Global Links.**

While I know very little about the company itself, and I do not need to, what is known is that the data obtained under a FOIA request to the SEC implicates the SEC in a calculated cover-up to abusive selling and settlement failures.

It was February 2005 when the company executed a 1:350 reverse split.  Wall Street was made aware of this activity taking place and during the period of share conversion the street executed trading under in the stock with a modifier added to the stock symbol to identify a corporate action in the company; GLKC traded as GLKCE.  During this corporate action of a CUSIP change the stock traded "when issued' further exposing the members to the actions being taken by the company. There were no secrets.

But as this reverse split was being executed, the trading shares in investor accounts appear to have not been altered to reflect such changes. Instead of reducing the accounts by a factor of 350, Wall Street simply continued trading with shares that no longer represented issued shares. For the first few days of trading post split, trading volumes had reached as high as 50 Millions shares in a single day when the issuer had reduced the share count to merely 1.1 million shares.

On February 3, 2005 a single shareholder purchased 111% of the shares issued by the company in the open market and filed that purchase with the SEC as required. By March 2005 former SEC Chairman William Donaldson was sitting before a Senate Hearing on the Capital Markets and was specifically questions about how Regulation SHO was working in light of a single shareholder purchasing more than 100% of the shares issued by the company. Senator Bob Bennett specifically requested the SEC to "look into this."

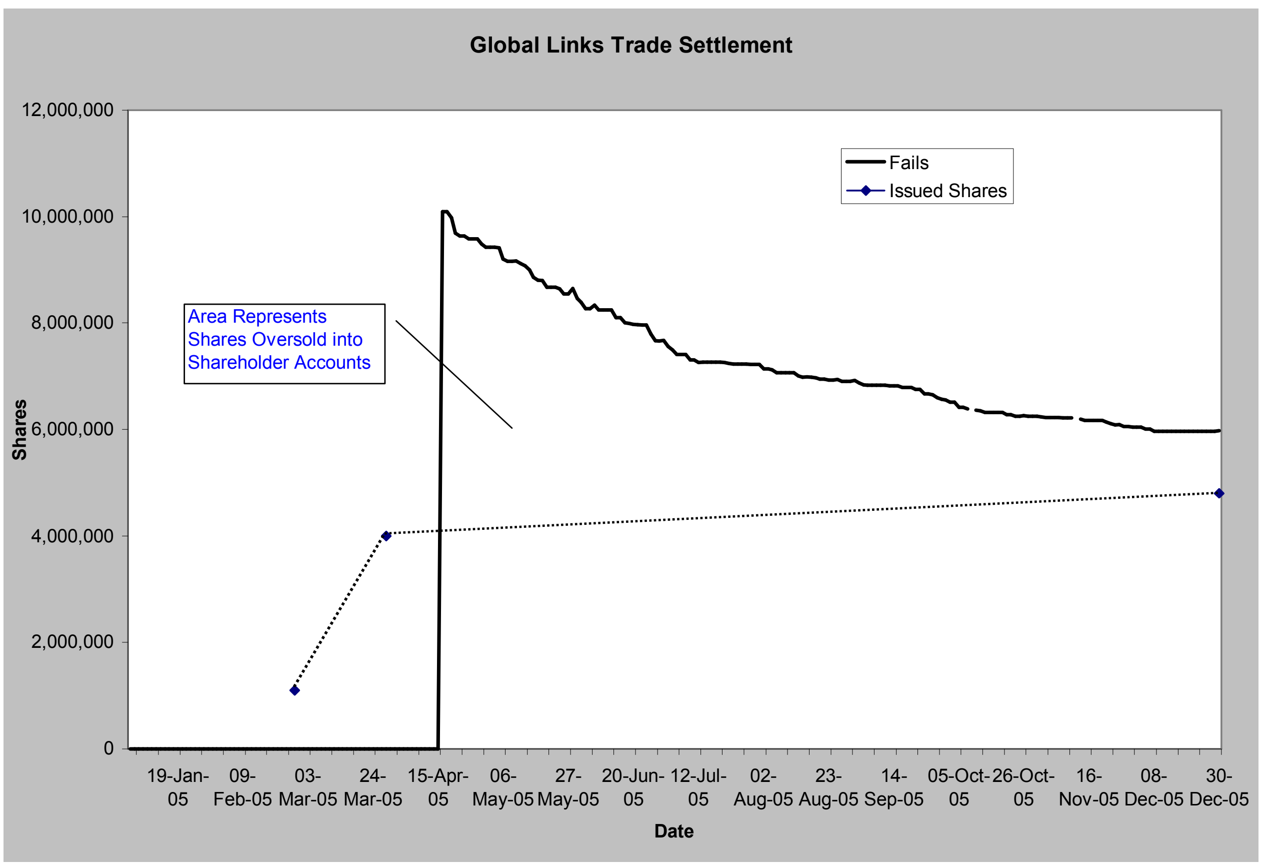
Under a FOIA request, I have obtained the fail to deliver status of the trading in Global Links for 2005. When I received this data it validated by biggest fears. The SEC was willing to sacrifice investors and a company to protect Wall Street from their own errors. The SEC did it silently and behind the scenes where nobody would have known had this FOIA request not been made.

The data; supported in the chart below, implies that Wall Street failed to made the necessary corrections in shareholder accounts but, instead of halting the stock and correcting the obvious gaffe, the SEC simply allowed the members to slowly cleanse these fails from the system at the expense of all shareholders and at the expense of the company itself. The stock would forever trade under the abuse of more than 250% of the shares issued and outstanding floating in the market as a settlement failure. And with too much supply and limited demand the results are predictable.

The SEC and Wall Street orchestrated a cover-up that involved the manipulation of a security. Global links had an issued and outstanding of 1.1 million shares on February 1, 2005 and 4.0 Million on March 30, 2005. By Year end 2005 the stock issued and outstanding had increased to 4.8 Million.

The fact that each of these failed trades were in violation of securities laws and violated the contractual obligations of 15c3-3 and 15c6-1 which enforces an intent to settle trades within 3-days, the investors have a right to know how so many fails were accepted without action. This was conceivably an innocent error but the cover-up thereafter makes this fraud. This one was caught through a FOIA request. <u>How many others have never been detected and still ignored by the bias and negligence of the SEC</u>?

For the record, a similar situation occurred in London under a different set of circumstances where a single investor had shorted 253% of the companies issued and outstanding. Instead of covering up the fraud the Financial Services Authority (FSA) halted the stock and eventually unwound the illegal trades (http://www.fsa.gov.uk/pubs/final/evolution_12nov04.pdf ). The SEC, which considers itself as the Global leader, covered up the fraud.



**The Options Trading Market:**

The SEC still considers providing special privilege to the Options Market makers in order to insure that this corner of the market is profitable for these firms and thus protected.  The SEC should be considering the ramifications to the investing public in meeting an agenda of institution profitability.

Recent columns by James Cramer of [www.TheStreet.com](http://www.TheStreet.com) have identified the risks that the options market has on the valuations of the underlying equity.  Cramer illustrates his columns with his first hand experiences and knowledge through communications with the large investment community.

In a July 21 2006 article Options Pressure and the Indices Cramer states, "Expiration plays more havoc than ever, except people simply don't understand it. They don't understand it because they have never had to flatten positions out, they have never had to try to reconcile the stocks themselves with the indices. " After detailing exactly how a manipulation scheme can work Cramer reports to his readers "I know this stuff is complicated. But when I say that an index is manipulated down because of the pinning, just imagine this process happening all over the place with every ETF that has options. Many people who are long calls and short the index need the indices down to make things work. They have the firepower and the protection, so they do it. " And if it can be done on an ETF it can be done on a single equity.

But Cramer was not done with his lesson in market abuses. On July 27 Cramer published a follow-up piece titled "Options Maneuvers Don't Reflect Fundamentals." His first line to the article should tell you something. Cramer states, "Sometimes what goes on in option land is almost criminal, and definitely stupid."

Cramer would again follow up this comment by stating, "I have been adamant that the derivatives are in charge here, whether it be options on individual stocks or calls and puts on indices like the **OIH** (OIH). These moves have nothing whatsoever to do with the fundamentals. All they do is freak people out who do not know how derivatives work -- which is that they are, with a little bit of capital, able to whip around stocks on a whim. I will also tell you that as someone who liked to short in my old life, I recognize the ability to drive down stocks to fit my needs when I see it."

Cramer concluding, "What's the real takeaway here? Perhaps it is a simple one: When there is no real news to drive down stocks, check the indices and the call and put activity. The market's very thin; the brokers don't like to position merchandise anymore, traders are sloppy and manipulative and the common stocks are way too vulnerable. That's when you, if you are nimble, can swoop in and take advantage of the shenanigans to get better bases."

So shall we put this to the test? How about if I use the example of the stun gun manufacturer TASER Inc.?

According to information gathered under the freedom of information act, the level of fails to deliver for Taser were 2.14 Million shares on January 3, 2005. The stock was trading at $29.98/share as well. With the stock under pressure over an "SEC Investigation" into a contract award received in December 2005 and over the safety of their product, the stock was quickly hit hard with the stock being driven down to $14.00 on the news released January 10 before bouncing back up to $20.00 and settling in at the high teens. But this was also approaching the options expiration period.

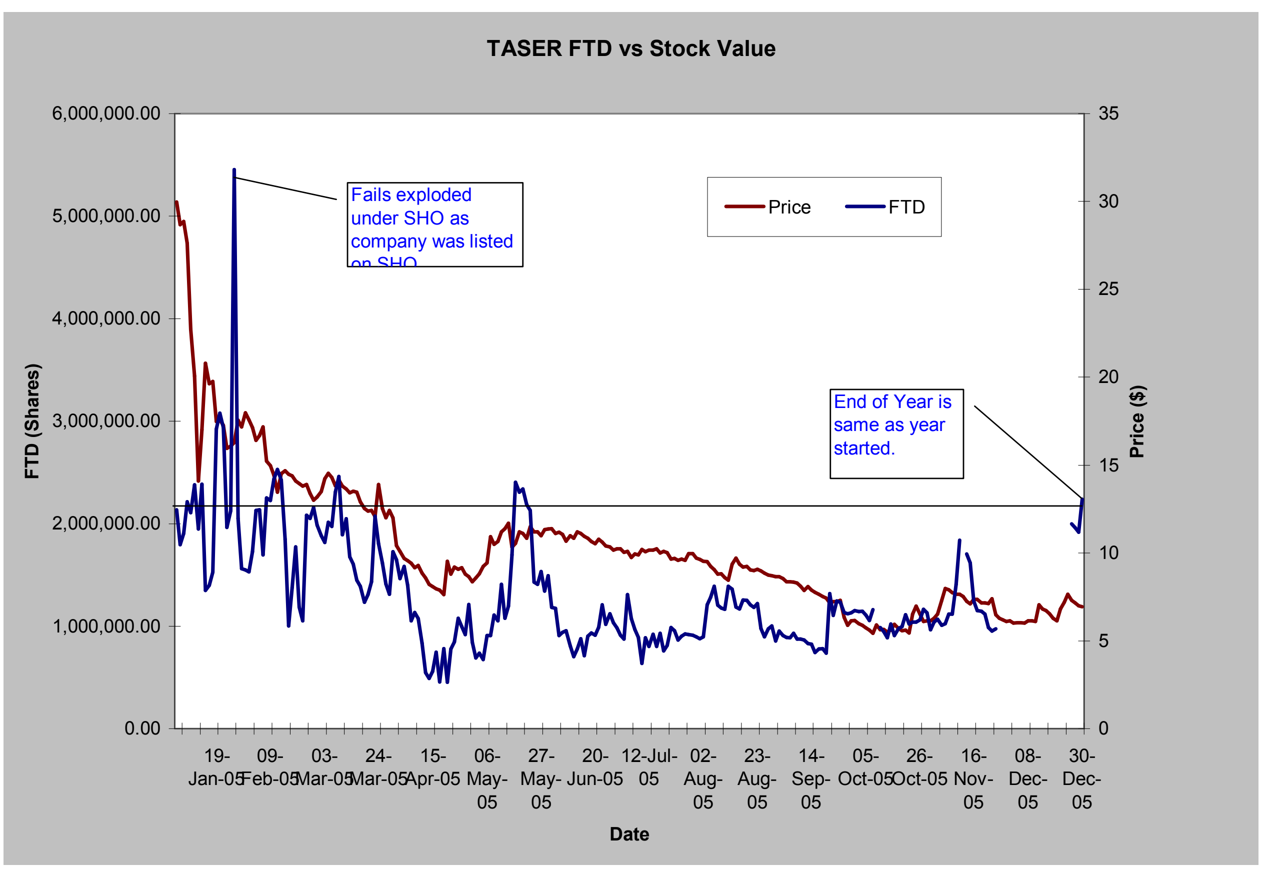
According to the SEC information provided, Taser jumped from 2.1 Million fails on January 25 to 5.45 Million fails on January 26 more than doubling the level of fails in a single day. On January 27, 2005 the fails were reduced back to the 2.1 levels. Taking into consideration that a fail occurs 4 days from Trade date, Trade +3 settlement, and this jump in fails is timed directly with the options expiration date. On that date, January 24, 2006 the stock opened up $18.28 from a previous close of $17.57 but traded down to a low of $17.00 before closing at a loss for the day at $17.28.

How much “gaming” of the market was taking place by those with the “firepower and the protection” to manipulate?

For Taser this process was somewhat repeated over and over as the fails in the stock, which once saw lows of slightly less than 800,000 fails, stayed persistent. For Taser, there was no 34% reduction in fails. Instead, the year-end close for Taser was 2.239 Million shares representing 103,000 fails greater than the number they started the year off with. Taser was on the Regulation SHO threshold security list for the entire trading calendar in 2005 and remained on through much of 2006.

How did Taser’s equity value change over 2005? The stock closed the year around $7.00/share representing a greater than 75% loss in market cap. The “SEC Investigation” that shined the negative light over the company and future orders was closed out without any enforcement pertaining to accounting issues or safety issues. Even as 11 lawsuits filed were all dismissed, the stock never even attempted a recovery. The dark cloud of negative press attacks, bogus investigations prompted by short sellers, and excessive fails were all too much for this stock to handle.

Taser’s Chart:



**Proposed Solutions:**

The formation of our Capital Markets must be done with the understanding that the Investing public must come first. This presumption that to formulate grow our capital markets we must continue to increase liquidity at the expense of the natural patterns of trading is a dangerous path to take.

Regulators can not create laws that insure that an industry (Wall Street) can be guaranteed profits year over year at the expense of cheating the investing class of people. That is not formation of capital markets that is racketeering and fraud. It is also a violation of our Constitutional rights to have a federal agency protect such a class of people and industry above all others.

My suggestions are simple.

1. The methods in which regulatory audits are conducted must be changed. Auditors must start to learn how fraud is being achieved. With offshore trading that result in settlement failures, ex-clearing failures, and illegal book keeping, reliance on the DTCC reports on fails is asking for trouble. Instead, audits must consist of matching DTCC reported positions to a complete record of shares held by any particular firm. Where stock lending has taken place, the account from which those shares have been borrowed must be able to support a settlement first and must be able to meet the criteria for lending. The audits must identify where the system reporting is failing.

2. The regulators must put enforcement teeth into Rules 15c3-3 and 15c6-1 relative to the responsibilities in settling a trade under contract. The teeth must start with an initiative by the SEC to enforce the rules and not stand on the sidelines claiming they are not responsible for the enforcement of contracts. Rule 15c3-3 and 15c6-1 have specific expectations towards delivery and the SEC can seek enforcement in areas where the sell side clearly entered into that contract knowing delivery will not be made.

   Wall Street, whose best interests it is to forgive a fellow firm, is not acting in the best interests of the client. Instead, regulators must have enforcement powers to seek fines and or sanctions against those buy side firms who not take adequate steps to close out a fail to receive. It is insufficient to merely request a buy-in, the buy-in must be executed and settled with real shares.

   There is presently a process in which the fail to receive firm can go into the open market and execute their own buy in and initiate a due bill to the firm responsible for the fail to deliver. This process must be part of the standard expectations of the regulators or the else the regulators are condoning brokers not putting the interests of their client first. Regulation SHO must create a process in which a due-bill buy-in is initiated (guaranteed buy-in) after a fail to deliver has extended beyond a reasonable period in time. If the sell side broker is not showing interest in settling the responsibility (under 15c3-3 and 15c6-10 are equally in place for the buy-side broker dealer.

   The value to this is that for offshore trades in which there is a fail to receive but the fail to deliver is outside the US regulatory powers, the US investor is protected from fraud orchestrated offshore. The issue between US and Offshore firms must be addressed between Institutions. US firms may elect to cease accepting such trades if the difficult process of payment recovery is repeatable amongst offshore firms. The regulators have stated the fail to deliver, fail to receive is a liability of the Institution and not the client so make it that.

3. Elimination of the DTCC stock lending pool. The DTCC lending pool was created at a time when liquidity was growing but delays in settling the liquidity was also rising. The DTCC lending pool allowed the transfer of monies pending such settlement.

   Today we trade on supercomputers with greater that 90% of all shares held electronically. Delays are inexcusable and thus the lending pool is unnecessary. It has outlived its usefulness and thus simply created a means of manipulation.

   Clearance and settlement between buyer and seller must be attached. By keeping them attached there is a sense of urgency on the behalf of the selling party to make delivery of the shares in order to receive proceeds. Without this sense of urgency there is no sense of settlement.

4. Clear limitations must be placed into the Options Market. Short sellers who can no longer get shares to borrow in the equities market simply move over to the options market and shorts through that market. The SEC's willingness to insure profit to the options market makers has insured all who play that market that a short will be executed whether shares exist or not. This negligence in forcing a trade to settle has a clear impact on the equity value of the security.

   As the SEC investigates such trading consider who it is that trades in the Options market and what their sophistication level is. Most are the same players that control our equities market and have manipulated both to insure profitability.

5. Should the SEC continue to maintain a threshold security list, the list must be complete and accurate in defining abused companies. The list presently is comprised of all fails to deliver as registered in the Continuous net settlement system of the DTCC. Using such limited criteria, the true portrayal of fails is being masked.

   Fails to deliver exist as fails between broker to broker ex-clearing trades in which settlement never clears through the DTCC. These fails are just as real however and must be considered as to their impact on the overall trading of the issuer. In addition, fails to deliver exist where a trade is registered from offshore by a non-member firm. Since the DTCC only calculates from member firm accounts, a fail to deliver registered to a non-member firm would not be considered in the threshold calculation. This fail will exist, however, as a fail to receive at the member firm level and thus can be used in the evaluation.

   For years it has been known that fails and abusive trading is orchestrated from offshore and a recent IDA enforcement action has confirmed that such abuses continue to persist today. [Ref IDA vs. Union Securities; http://www.ida.ca/Files/Media/MediaRelease/Hearings/MRH2006041801_en.pdf and November 2003 NASD Rule 3370 Rule Change]

6. Stock borrow vs. Stock locate. Presently the best way to support the interests of wealthy hedge funds is to locate an intended share for a short sale but never borrow that share upon trade execution. In doing so the broker-dealer will maintain a happy client that will continue serving you with business revenues off hefty commissions. By leaving that share available for yet another locate, the broker-dealer is maintaining compliance with securities laws while still having adequate access to future locates as the client continues to express interest in adding to the short interest.

   The SEC must alter the locate and borrow relationship to insure that located shares are not used multiple times but are removed from an acceptable locate once claimed and that locate is used to settle should the trade be executed. The SEC must also alter the short selling rules to insure that if a company has shorts that have failed settlement because a borrow failed by a particular member that these members are forced to go out and take a share from another firm if that share is available even it that means cutting into margins. Firms who execute a short must put the securities laws above profit margins as the protection of the investing public must be the ultimate goal.

   The fact that shorts interests continued to grow on companies listed on Regulation SHO infers that shares were available to cover existing fails but that member firms showed no interest in finding these shares that would cut into profit margins. The goal in protecting the investing public is that all prior fails MUST be covered first before new shorts and new fail opportunities are created. That is how you protect future investors as well as pre-existing investors.

In closing, it is the responsibility of the SEC to protect the investors in this market and to always attempt to be a step ahead instead of a step behind fraud. It requires thinking outside the box and it requires an open mind. The SEC has lacked this trait and the people have suffered for it.

I believe I have shown enough evidence that there is questionable behavior taking place in our markets and this behavior is due to a strong lobbying of the Institutions and the Securities Industry Association (SIA) to protect the turf on Wall Street revenues at all costs. Unfortunately the SEC does not have any authority in placing their rights to revenues over those rights of every investor who places an order through our markets.

Our Capital Markets can only truly grow if our markets are safe for every investor and every company who participate. Watching the destruction of both business and investor is not a sound way to grow these capital markets.

If, however, the intent of the SEC is to protect the Wall Street Institutions, I suggest you make them non-profit operations with limitations on executive compensations. Otherwise, to protect one private company's rights to profit over another's would be considered illegal. We can't have a Federal Agency insuring that some Wall Street executive can continue to receive $40 Million in executive compensation through the operations of a firm that has been given special privileges and then goes beyond those to commit additional fraud.

The SEC needs to institute tough escalation policies in enforcement and needs to cease with this protectionism of unscrupulous Wall Street executives. The people of this nation and globally make these capital markets regardless of what you think and without their confidence in the SEC the people will stop investing. Once they leave the markets all that will be left is the wealthy stealing from each other and killing public companies in the process.

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