

THE EURO-AMERICAN FINANCE NETWORK, INC. AND STEFANOVIC FAMILY CONTINUES  
TO INCREASE SHAREHOLDINGS IN EFUEL EFN CORPORATION TO APPROXIMATELY 80%

WILDWOOD, FLORIDA August 8, 2017, press release. eFUEL EFN CORPORATION ( OTC PINK EFLN) is a holding corporation with five business divisions: 1. Solar and Wind Energy Division. 2. Real Estate, Agricultural Land Division. 3. Investment Divisions. 4. Retail, Hospitality Division. 5. Plans and Construction Division announced that the company, Stefanovic family has elected to hold 1,600,000,000 (one billion and six hundred million) restricted shares of Common Stock at the fixed price of \$1.00 per share. EFLN would like to continue to increase the value of the company by buying from the market and restricting (by holding) these shares. This means the company can not sell any shares until the price of our common stock is \$1.00 By doing this, it will help increase our credibility, and allow us to borrow additional funds to invest back into the company. The company share structure not changing. EFLN has 2,500,000,000 common shares, 1,000,000,000 Prefer "A" shares and 35,000,000 Prefer "B" shares with voting right according to company BY- LOWS.

The company has large assets, and plan to grow balance sheet and net income statement with seals and direct investment into company by prospective investors . The company received finances and working to extend company business plan. eFUEL EFN CORPORATION purchase property and liability insurance on corporation assets and company liability..

The fixed conversion price of \$1.00 per share represents a significant premium of 10,000 % to the Company 's latest closing bid price of \$ 0.001 prior to the share holding notice by the Stefanovic family. The Chief Financial Officer, Mr. Slavoljub Stefanovic, states " We are making tremendous progress with the company. I remain fully confident with the long term growth of company.. I am not worried with the day to day, or short term fluctuations of the stock price." Mr. Stefanovic continues, " I have managed a very large fund called EURO-AMERICAN FINANCE NETWORK, INC., so I understand that it takes hard work and dedication, to make a company prosperous. Investors and shareholders will begin to notice the potential this company offers."

Forward-Looking Statements:

Statements in this press release that are not statement of historical or current fact constitute " forward-looking statements." Such forward-looking statements involve known and unknown risks, uncertainties and other unknown factors that could cause the Company's actual operating results to be materially different from any historical results or from any future results expressed or implied by such forward - looking statements. In addition to statements that explicitly describe these risks and uncertainties, readers are urged to consider statements that contain terms such as "believes," belief," "expects," "expect," intends," intend," anticipate," anticipates," plans," plan," to be uncertain and forward-looking. The forward- looking statements are also subject generally to other risks and uncertainties that are described from time to time in the Company's filings with the Securities and Exchange Commission.

EFUEL EFN CORPORATION  
Mrs. Ljubica Stefanovic, President  
WWW.EFUELEFNCORPORATION.COM  
Ph. 352 399-6278 efuelefn@yahoo.com





# CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY)  
08/04/2017

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

**IMPORTANT:** If the certificate holder is an **ADDITIONAL INSURED**, the policy(ies) must have **ADDITIONAL INSURED** provisions or be endorsed. If **SUBROGATION IS WAIVED**, subject to the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

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| <b>PRODUCER</b><br>Brokers Insurance Llc<br>241 S Westmonte Dr<br>Altamonte Springs, FL 32714<br>Phone (407) 862-6464 Fax (407) 862-6321 | <b>CONTACT NAME:</b> Felicia Greenberg<br><b>PHONE (A/C, No, Ext):</b> (407) 862-6464 <b>FAX (A/C, No):</b> (407) 862-6321<br><b>E-MAIL ADDRESS:</b> Felicia@orlandobrokersinsurance.com                 |
| <b>INSURED</b><br>EFUEL EFN CORP & Stefanovic LJ<br>1212 S Main Street<br>Wildwood FL 34785  | <b>INSURER(S) AFFORDING COVERAGE</b><br><b>INSURER A:</b> Covington Specialty Insurance Company<br><b>INSURER B:</b><br><b>INSURER C:</b><br><b>INSURER D:</b><br><b>INSURER E:</b><br><b>INSURER F:</b> |

**COVERAGES** **CERTIFICATE NUMBER:** **REVISION NUMBER:**

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

| INSR LTR | TYPE OF INSURANCE   | ADDL INSR                               | SUBR WVD | POLICY NUMBER | POLICY EFF (MM/DD/YYYY) | POLICY EXP (MM/DD/YYYY) | LIMITS   |
|----------|---|---|----------|---------------|-------------------------|-------------------------|--|
| A        | <input checked="" type="checkbox"/> <b>COMMERCIAL GENERAL LIABILITY</b><br><input type="checkbox"/> CLAIMS-MADE <input checked="" type="checkbox"/> OCCUR<br><br>GEN'L AGGREGATE LIMIT APPLIES PER:<br><input type="checkbox"/> POLICY <input type="checkbox"/> PRO-JECT <input type="checkbox"/> LOC<br><input type="checkbox"/> OTHER |   |          | SCU00033285   | 08/04/2017              | 08/04/2018              | EACH OCCURRENCE \$ 1000000<br>DAMAGE TO RENTED PREMISES (Ea occurrence) \$ 100000<br>MED EXP (Any one person) \$ 5000<br>PERSONAL & ADV INJURY \$ 1000000<br>GENERAL AGGREGATE \$ 2000000<br>PRODUCTS - COMP/OP AGG \$ 2000000 |
|          | <input type="checkbox"/> <b>AUTOMOBILE LIABILITY</b><br><input type="checkbox"/> ANY AUTO OWNED AUTOS ONLY<br><input type="checkbox"/> SCHEDULED AUTOS<br><input type="checkbox"/> HIRED AUTOS ONLY<br><input type="checkbox"/> NON-OWNED AUTOS ONLY  |   |          |               |                         |                         | COMBINED SINGLE LIMIT (Ea accident) \$<br>BODILY INJURY (Per person) \$<br>BODILY INJURY (Per accident) \$<br>PROPERTY DAMAGE (Per accident) \$  |
|          | <input type="checkbox"/> <b>UMBRELLA LIAB</b> <input type="checkbox"/> OCCUR<br><input type="checkbox"/> <b>EXCESS LIAB</b> <input type="checkbox"/> CLAIMS-MADE<br><input type="checkbox"/> DED <input type="checkbox"/> RETENTION \$  |   |          |               |                         |                         | EACH OCCURRENCE \$<br>AGGREGATE \$   |
|          | <input type="checkbox"/> <b>WORKERS COMPENSATION AND EMPLOYERS' LIABILITY</b><br>ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? (Mandatory in NH)<br>If yes, describe under DESCRIPTION OF OPERATIONS below  | Y / N<br><input type="checkbox"/> N / A |          |               |                         |                         | <input type="checkbox"/> PER STATUTE <input type="checkbox"/> OTH-ER<br>E.L. EACH ACCIDENT \$<br>E.L. DISEASE - EA EMPLOYEE \$<br>E.L. DISEASE - POLICY LIMIT \$   |

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (Attach ACORD 101, Additional Remarks Schedule, if more space is required)

Policy number is quote number until policy number is issued.

|  |  |
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| <b>CERTIFICATE HOLDER</b><br>Wall of Lake County LLC<br>A Florida Limited Liability Company<br>600 jennings Avenue<br>Eustis, FL 32726 | <b>CANCELLATION</b><br>SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS.<br><br><b>AUTHORIZED REPRESENTATIVE</b><br>Felicia Greenberg |
|--|--|





# CERTIFICATE OF PROPERTY INSURANCE

DATE (MM/DD/YYYY)  
08/04/2017

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

If this certificate is being prepared for a party who has an insurable interest in the property, do not use this form. Use ACORD 27 or ACORD 28.

|   |   |
|---|---|
| <b>PRODUCER</b><br>Brokers Insurance Lic<br>241 S Westmonte Dr<br>Altamonte Springs, FL 32714<br>(407) 862-6464 | <b>CONTACT NAME:</b> Felicia Greenberg<br><b>PHONE (A/C, No, Ext):</b> (407) 862-6464-<br><b>E-MAIL ADDRESS:</b> felicia@orlandobrokersinsurance.com<br><b>PRODUCER CUSTOMER ID:</b><br><b>INSURER(S) AFFORDING COVERAGE</b><br><b>NAIC #</b> |
| <b>INSURED</b><br>EFUEL EFN CORP & Stefanovic LJ<br>1212 S Main Street<br>Wildwood, FL 34785                    | <b>INSURER A:</b> Covington Specialty Insurance Company<br><b>INSURER B:</b><br><b>INSURER C:</b><br><b>INSURER D:</b><br><b>INSURER E:</b><br><b>INSURER F:</b>  |

**COVERAGES****CERTIFICATE NUMBER:****REVISION NUMBER:****LOCATION OF PREMISES / DESCRIPTION OF PROPERTY** (Attach ACORD 101, Additional Remarks Schedule, if more space is required)

1212 S Main Street, Wildwood, FL 34785

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

| INSR LTR | TYPE OF INSURANCE   | POLICY NUMBER  | POLICY EFFECTIVE DATE (MM/DD/YYYY) | POLICY EXPIRATION DATE (MM/DD/YYYY) | COVERED PROPERTY                             | LIMITS  |           |
|----------|---|----------------|------------------------------------|-------------------------------------|--|---|-----------|
| A        | <input checked="" type="checkbox"/> <b>PROPERTY</b><br>CAUSES OF LOSS DEDUCTIBLES | SCU00033285    | 08/04/2017                         | 08/04/2018                          | <input checked="" type="checkbox"/> BUILDING | \$ 350000   |           |
|          | <input type="checkbox"/> BASIC  |                |                                    |                                     | BUILDING                                     | <input checked="" type="checkbox"/> PERSONAL PROPERTY | \$ 600000 |
|          | <input type="checkbox"/> BROAD  |                |                                    |                                     | 2500, 2% CONTENTS                            | <input checked="" type="checkbox"/> BUSINESS INCOME   | \$ 200000 |
|          | <input checked="" type="checkbox"/> SPECIAL                                       |                |                                    |                                     |  | <input type="checkbox"/> EXTRA EXPENSE                | \$        |
|          | <input type="checkbox"/> EARTHQUAKE   |                |                                    |                                     |  | <input type="checkbox"/> RENTAL VALUE                 | \$        |
|          | <input type="checkbox"/> WIND   |                |                                    |                                     |  | <input type="checkbox"/> BLANKET BUILDING             | \$        |
|          | <input type="checkbox"/> FLOOD  |                |                                    |                                     |  | <input type="checkbox"/> BLANKET PERS PROP            | \$        |
|          | <input type="checkbox"/>  |                |                                    |                                     |  | <input type="checkbox"/> BLANKET BLDG & PP            | \$        |
|          | <input type="checkbox"/>  |                |                                    |                                     |  | <input checked="" type="checkbox"/> Building 2        | \$ 250000 |
|          | <input type="checkbox"/>  |                |                                    |                                     |  | <input checked="" type="checkbox"/> BPP building 2    | \$ 50000  |
|          | <input type="checkbox"/> <b>INLAND MARINE</b><br>CAUSES OF LOSS                   | TYPE OF POLICY |                                    |                                     | <input type="checkbox"/>                     | \$  |           |
|          | <input type="checkbox"/> NAMED PERILS   | POLICY NUMBER  |                                    |                                     | <input type="checkbox"/>                     | \$  |           |
|          | <input type="checkbox"/>  |                |                                    |                                     | <input type="checkbox"/>                     | \$  |           |
|          | <input type="checkbox"/>  |                |                                    |                                     | <input type="checkbox"/>                     | \$  |           |
|          | <input type="checkbox"/> <b>CRIME</b><br>TYPE OF POLICY                           |                |                                    |                                     | <input type="checkbox"/>                     | \$  |           |
|          | <input type="checkbox"/>  |                |                                    |                                     | <input type="checkbox"/>                     | \$  |           |
|          | <input type="checkbox"/>  |                |                                    |                                     | <input type="checkbox"/>                     | \$  |           |
|          | <input type="checkbox"/> <b>BOILER &amp; MACHINERY / EQUIPMENT BREAKDOWN</b>      |                |                                    |                                     | <input type="checkbox"/>                     | \$  |           |
|          |   |                |                                    |                                     | <input type="checkbox"/>                     | \$  |           |

**SPECIAL CONDITIONS / OTHER COVERAGES** (Attach ACORD 101, Additional Remarks Schedule, if more space is required)

Policy number is quote number until policy number is issued.

**CERTIFICATE HOLDER****CANCELLATION**Wally of Lake County LLC  
A Florida Limited Liability Company  
600 Jennings Avenue  
Eustis, FL 32726

SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS.

**AUTHORIZED REPRESENTATIVE**

Felicia Greenberg

**AMENDED AND RESTATED  
ARTICLES OF INCORPORATION  
eFUEL EFN, CORPORATION**

Pursuit to Section 607.1007 of the Business Corporation Act of the State of Florida, the undersigned being the Directors of eFUEL EFN, CORP. (hereinafter the "Corporation"), a Florida corporation, and desiring to amend and restate its Articles of Incorporation, do hereby certify:

**FIRST:** The Articles of Incorporation of the Corporation were originally filed with the Secretary of State of Florida on September 24, 1997 Document No. P97000082726.

**SECOND:** These Amended and Restated Article of Incorporation, which supersede the original Articles of Incorporation and all amendments to them, were adopted by all of the Directors of the Corporation and its shareholders on October 15, 2013. Pursuant to the Corporation's Articles of Incorporation as amended, the Corporation's Series A and B Preferred Shares voted with the Common Stock holders to effect the foregoing, the text of the Articles of Incorporation is hereby restated and amended as herein set forth in full:

**ARTICLE I. NAME**

The name of the Corporation is eFUEL EFN, CORPORATION.

**ARTICLE II. DURATION**

The term of existence of the Corporation is perpetual.

**ARTICLE III. PURPOSE**

The Corporation may transact any and all lawful business for which corporations may be organized under the Florida Business Corporation Act.

**ARTICLE IV. PRINCEPAL OFFICE AND MAILING ADDRESS**

The principal office and mailing address of the Corporation is 1212 S. Main Street, Suite B, Wildwood, FL 34785-9404.

**ARTICLE V. CAPITAL STOCK**

The maximum number of shares that the Corporation shall be authorized to issue and have outstanding at any one time shall be Two Billion five hundred million (2,500, 000,000) shares of Common Stock, \$0.001 par values; One Billion (1,000,000,000) shares of Series A shall be designed Preferred Stock; and Thirty-Five Million (35,000,000) shares of Series B Preferred Stock.

*Series A Preferred Stock*

The Series A Preferred Stock shall have the voting powers, preferences, relative, participating, limitations, qualifications optional and other special rights and the qualifications, limitations and



restrictions thereof that are set forth below:

- A. Upon request of the holder, each share of share of Series A Stock shall be convertible into 10 shares of Common Stock.
- B. Each share of Series A Convertible Preferred Stock shall be entitled to ten (10) votes on all matters submitted to a vote of the Corporation's shareholders.
- C. The rights, designations and preferences attendant to the Series A Preferred Stock can only be amended by a majority vote of the outstanding Series A Preferred Stock.

#### *Series B Preferred Stock*

The Series B Preferred Stock shall have the voting powers, preferences, relative, participating, limitations, qualifications optional and other special rights and the qualifications, limitations and restrictions thereof that are set forth below:

- A. The Series B Preferred Stock shall not be convertible into any other class of shares.
- B. Each share of Series B Preferred Stock shall be entitled to 1 vote on all matters submitted to vote of the Corporation's shareholder.
- C. The rights, designations and preferences attendant to the Series B Preferred Stock can be amended by a majority vote of the Corporation's Board of Directors without Shareholder action.

The Board of Directors of the Corporation, by resolution or resolutions, at any time and from time to time, shall be authorized to divide and establish any or all of the unissued shares of Preferred Stock into one or more series and, without limiting the generality of the foregoing, to fix and determine the designation of each such share, the number of shares which shall constitute such series and certain preferences, limitations and relative rights of the shares of each series so established.

#### **ARTICLE VI. REGISTERED OFFICE AND AGENT**

The name of the registered agent is Ljubica Stefanovic. The street address of the Corporation's registered office is: 1212 S. Main Street, Suit B, Wildwood, FL 34785-9404. The name of the Corporation's registered agent at that office is: Ljubica Stefanovic.

#### **ARTICVLE VII. INITIAL DERECTORS**

The director of the Corporation is Ljubica Stefanovic.

#### **ARTICLE VIII. AFFILIATED TRANSACTIONS**

The Corporation expressly elects not to be governed by Section 607.0901 of the Florida Business Corporation Act, as amended from time to time, relating to control share acquisitions.

#### **ARTICLE IX. CONTROL SHARE ACQUISITIONS**

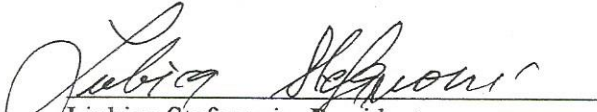
The Corporation expressly elects not to be governed by Section 607.0902 of the Florida Business Corporation Act, as amended from time to time, relating to control share acquisitions.

Of the Florida Business Corporation Act on ARTICLE X. INDEMNIFICATION

The Corporation shall indemnify any present or former officer or director, or person exercising powers and duties of an officer or a director, to the full extent now or hereafter permitted by law.

**THIRD:** The foregoing amendments were adopted by all of the Directors and the majority holders of the Corporation's outstanding voting shares pursuant to sections 607.0821 and 607.0704 of the Florida Business Corporation Act on October 14, 2013. Therefore, the number of votes cast for the amendment to the Corporation's Articles of Incorporation was sufficient for approval.

IN WITNESS WHEREOF, the undersigned has executed these Amended and Restated Articles of incorporation this 14<sup>th</sup> day of October, 2013.

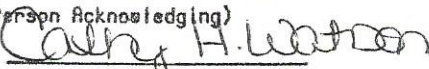
  
Ljubica Stefanovic, President

STATE OF FLORIDA  
COUNTY OF Sumter

The foregoing instrument was acknowledged  
before me this 16 day of October (Year) 2013  
by Ljubica Stefanovic.

(Name of Person Acknowledging)

NOTARY  
SEAL

  
(Typed Notary Signature)

(Name of Notary Typed, Printed  
or Stamped)

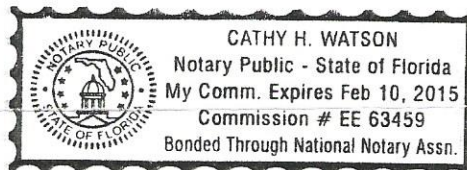
Personally known: \_\_\_\_\_

or Produced Identification

Identification Produced VEI.D.L.L.

5315520505260

exp: 2/10/2015





**CONSENT ACTION OF THE  
BOARD OF DIRECTOR OF  
EFUELS EFN CORP.**

The undersigned, being all of the members of the Board of Directors of EFUELS EFN CORP. a Florida corporation (the "Corporation"), hereby agree, adopt, consent to, and order the following corporate action (the "Actions").

WHEREAS, the Corporation desires to amend its articles of incorporation and file the Amended and Restated Articles of Incorporation attached hereto as Exhibit A;

WHEREAS, the Corporation's Board of Directors has determined it is in the best interests of the Corporation to approve the Amended and Restated Articles of Incorporation; and

WHEREAS, the Corporation shall submit the Amended and Restated Articles of Incorporation to a vote of its shareholders.

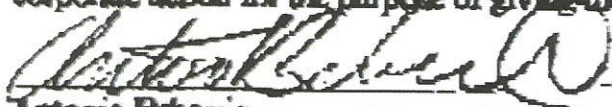
NOW, THEREFORE:

WHEREAS, the Amended and Restated Articles of Incorporation attached hereto as Exhibit A are approved in their entirety;

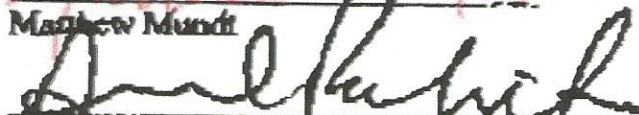
BE IT RESOLVED, that the Corporation's President is hereby authorized to execute the Amended and Restated Articles on behalf of the Corporation, upon shareholders' approval for filing with the Florida Secretary of State.

BE IT RESOLVED, that the Corporation's President be and hereby is authorized, empowered, and directed to do or cause to be done all other things and acts, to execute and deliver or cause to be executed and delivered all other instruments, documents, and certificates, and to pay or cause to be paid all costs, fees, and taxes as may be, in his sole judgment, necessary, proper, or advisable in order to carry out and comply with the purposes and intent of the Actions; and that all of the acts and deeds of the officers of the Corporation that are consistent with the purposes and intent of such actions be and the same hereby are in all respects, approved, confirmed, ratified, and adopted as the acts and deeds of the Corporation.

The undersigned, being all of the members of the Corporation's Board of Directors of execute the foregoing corporate action for the purpose of giving their consent to Actions on this 18<sup>th</sup> day of July 2013.

  
Antonio Brboric

  
Matthew Mundi

  
Amy Purghin

  
Larry Sherman

  
Eubica Stefanovic

7-8-2017

Good Morning,

THE COMPANY ANSWER TO MEMORANDUM.

Kitt Kittredge, Sudharsham Minumula, John Guerriero, and Ryan H. Leininger;

Thank you for your recent Memorandum proposal regarding, "Share Exchange Agreement" .

We, the Board of Directors of eFuel EFN Corp. (EFLN), have reviewed your proposed Memorandum and have voted to continue with the current share structure. The Board of Directors agreed that your proposed share structure would not be beneficial to both eFuel EFN Corp. and the majority of our shareholders.

Regards.

Ljubica Stefanovic, President  
Matthew Mundt, BOD, Vice President  
Slavoljub Stefanovic, CFO  
Antonio Brbòvic, BOD  
Amul Purohit, BOD  
Larry Sherman, BOD



27 June 2017

**TO:** Ljubica Stefanovic, President & Slavoljub Stefanovic, CFO of eFuel EFN Corporation.

**SUBJ:** Shareholder's Proposal

**FROM:** Kitt Kittredge, Sudharshan Minumula, John Guerriero, Ryan H. Leininger, EFLN Shareholders

Ljubica & Slavoljub,

I am writing in the interest and behalf of Team \$EFLN shareholders.

Our major concern deals directly with the company share structure and the growing opposition of the Naked Short Shares (NSS) positions. If the EFLN Board of Directors of the Registrant would consider holding a special meeting to look over our proposal that would indeed be greatly appreciated.

As 'We' have been duly informed the family trust owns 1,600,000,000, with additional principal shareholders owning approximately 159,982,109 which would make the remaining float available to common shareholders as 700,000,000 as reported on May 5<sup>th</sup>, 2017 through OTC Disclosure & News Service. Out of the 1,284,727,308, which are restricted, to include the non-dilutive Preferred A and B shares and the 475,254,801 as unrestricted common shares, respectively.

Our proposal is for the board of directors to vote on a Share Exchange Agreement that would include exchanging all held family trust shares and any other shares held by principal shareholders.

1. These shares would be exchanged into a Registrant's Series "D" preferred, restricted shares on a 10 –to 1 basis (ex: 1,600,000,000 shares into 160,000,000 Series "D").
2. These shares could be exchanged in separate tranches.
3. These shares would be held at DTC for accounting purposes and counteracting any NSS position to provide actual, physical shares.
4. These shares would ultimately retire common shares and reducing the company's overall O/S to from 2,459,982,109 –to 1,003,983,899, thus reducing A/S from 2,500,000,000 –to 1,100,000,000 and retiring 59.2% of outstanding shares, respectively.
5. These Series "D" shares would remain restricted until these conditions; (1.) a period of 3 years, (2.) the share price reaches \$2, or (3.) up listing to NASDAQ occurs.
6. These Series "D" shares shall have a par value of .0001 with a preferred dividend rate up to 4% per annum, with consideration to market conditions, respectively.
7. This would be advantageous in regards to the previously announced incentive to a 50,000,000 common shareholder, adjusted accordingly and allowed to convert into Series "D" shares under Item 5 conditions, thus retiring an additional 45,000 common shares in each instance.

Our goal is to support the company with large, loyal, long-term shareholders & increasing share price appreciation up to \$2 & providing a clear path meet NASDAQ listing requirements.

Respectfully,

Kitt Kittredge, Sudharshan Minumula, John Guerriero, Ryan H. Leininger, EFLN Shareholders

27 June 2017

**MEMORANDUM**

Again, our goal is to support the company with large, loyal, long-term shareholders & increasing share price appreciation up to \$2 & providing a clear path meet NASDAQ listing requirements.

We wish you at the least consider looking into this proposal & PRESS RELEASE that you are pursuing these progressive ideas. This action would be a clear message to Naked Short Share (NSS) positions that your/our company has strong leadership & loyal shareholders and will not tolerate non-progressiveness any further.

These actions will be tremendously positive in attracting & creating global ownership in this extremely undervalued company.

Respectfully,

Kitt Kittredge, Sudharshan Minumula, John Guerriero, Ryan H. Leininger, EFLN Shareholders



Ryan

Sent from my iPhone

On Jul 5, 2017, at 12:57 PM, LJUBICA STEFANOVIC <[efuelefn@yahoo.com](mailto:efuelefn@yahoo.com)> wrote:

This is 2nd qut. 2017 filing to otc market.

On Wednesday, July 5, 2017 1:48 PM, Ryan Leininger <[billbowtique@gmail.com](mailto:billbowtique@gmail.com)> wrote:

Gypsy Penny Stock Traders??? Really???

Thanks.

Sent from my iPhone

On Jul 5, 2017, at 12:27 PM, LJUBICA STEFANOVIC <[efuelefn@yahoo.com](mailto:efuelefn@yahoo.com)> wrote:

Show original message

On Friday, June 30, 2017 11:17 PM, Matthew Mundt <[matthewmundt\\_6@hotmail.com](mailto:matthewmundt_6@hotmail.com)> wrote:

While I really don't know what these people are rambling about...I'd offer...

Tell 'em to keep buying and they can contribute their shares to the suspension as well...get each of the undersigned to verify ownership of 75 million shares a piece (minimum, I think I saw four names) and we could entertain...I only say this because the quantity they hold is probably not of a significant amount....doesn't mean a thing if they represent a 100 person "collective" band of gypsy penny stock traders who hold \$10k...if they get some skin in the "game" and the share structure as described is true, it would be fine...however, still need buying pressure (which there is none) for the stock to rise...just reducing perceived (non issued) shares doesn't increase demand...

Ultimately means nothing to BOD...only the STEFANOVIC family's shares and whoever owns the 160 million of the

"trust" shares they describe which has been communicated.

Either way, however a potential share re-structuring would occur, the ultimate ownership should never change...whatever (knowing this will probably never happen) happens would need to keep the proper amount of shares in EAFN ownership to protect ownership.

Larry, while I agree a lot can happen in a three year window, it's less than the time we've held this in the trips...I'd be more inclined to link it to a value of a dime for the company/trust and a dollar for their shares and see if they are committed or not...

Matt

Sent from my iPad

On Jun 28, 2017, at 8:07 AM, Larry  
<[adjusterfor@yahoo.com](mailto:adjusterfor@yahoo.com)> wrote:

What theyre claiming makes sense, and would probably work to their advantage

On the other hand we would guve up our rights to benefit from this scheme That is absolutely one sided, and very unfair to the BOD

I dont see any reason to do this. Very unresonable for them to even ask Three years is anl long time, and anything can happen.

Sent from Yahoo Mail on Android

On Tue, Jun 27, 2017 at 1:03 PM, LJUBICA  
STEFANOVIC  
<[efuelefn@yahoo.com](mailto:efuelefn@yahoo.com)> wrote:

The proposal of some shareholder are unacceptable to Stefanovica family and to company . ( Company can loss buying and financial pour for future business activities and limit financial growth.) We will like Board of Directors to Vote on this Memorandum. See they attachment.

Ljubica Stefanovic, President  
eFUEL EFN CORPORATION



On Tuesday, June 27, 2017 11:57 AM, K KITT  
<[lookingoveryourshoulder@yahoo.com](mailto:lookingoveryourshoulder@yahoo.com)> wrote:

Ljubica Stefanovic, President & Slavoljub  
Stefanovic, CFO of eFuel EFN Corporation,

Please accept and share to your Board of  
Directors our Team \$EFLN proposal.

Attached: Proposal & Memorandum, dated June  
27th, 2017

Sincerely,

Kitt Kittredge  
IHub Moderator - [lookingoveryourshoulder@yahoo.com](mailto:lookingoveryourshoulder@yahoo.com)  
Twitter Handle: [looking7777](#)

<2017 2 ND QUT. FINANCIAL REPORT-EFLN-.pdf>

**Subject:** Re: Shareholder Proposal & Memorandum, June 27th, 2017  
**From:** Ryan Leininger (bilbowtique@gmail.com)  
**To:** efuelefn@yahoo.com;  
**Date:** Thursday, July 6, 2017 1:49 PM

Are you buying up these cheap shares???

Regards.

Sent from my iPhone

On Jul 6, 2017, at 10:21 AM, Ryan Leininger <bilbowtique@gmail.com> wrote:

When will we be Pink Current? In my email from May, it says beginning of June...maybe August?

Regards,  
Ryan

Sent from my iPhone

On Jul 5, 2017, at 3:00 PM, LJUBICA STEFANOVIC <efuelefn@yahoo.com> wrote:

YOU NOT GOING TO LOES YOUR INVESTMENT. YOU WILL MAKE MONEY WITH EFUEL EFN CORPORATION. STEFANOVIC

On Wednesday, July 5, 2017 2:45 PM, Ryan Leininger <bilbowtique@gmail.com> wrote:

Yes, I saw it: It is very good. To be honest, we don't want control of the company. We are just trying to come up with ideas. At best, just an acknowledgement such as, "We appreciate your ideas and will keep them for consideration. We would like to increase our shareholder value by \_\_\_\_\_". You fill in the blank. Be considerate.

I am a low to middle class type of person. I have \$25k invested. May not be a lot to you or your family, but it is pretty substantial for me. I don't invest more than what I can afford to lose. I appreciate you looking at the proposal, but to be called a "Gypsy Penny Trader" is very disrespectful to someone, who only wants the value of this company to increase.

How are you going to create value? It's a fair question. Put your answer in a PR...

Regards.



**The  
Intercept\_**

# NAKED SHORTS CAN'T STAY NAKED FOREVER

David Dayen

September 24 2016, 12:49 p.m.



Illustration: Erik Carter for The Intercept.



## Part 3

David Dayen, a persistent chronicler of how oligarchs exploit the financial system to enrich themselves at the expense of others, writes about Chris Dilorio, a stock analyst who for 10 years has obsessively investigated how exactly he came to lose \$1 million on one penny stock. A remarkable story ensues.

✓ [EXPAND ALL PARTS](#)

A few years into his personal quest to understand how he had lost a million dollars on a penny stock, Chris Dilorio developed a sweeping hypothesis involving Knight Capital, the mammoth brokerage company that frequently traded in them.

Knight [earned \\$333 million](#) in pre-tax profits in 2008, and another \$232 million in 2009. But Dilorio didn't think Knight was making that kind of money simply from executing transactions for clients.

As a market maker, Knight was in the rare position of being able to legally sell a stock it didn't have (the principle being that it will get that stock soon, so no worries). That's called naked shorting. It's illegal when regular people do it.

Dilorio suspected that Knight, either on its own behalf or on behalf of clients, made a practice of artificially increasing the number of shares available in a stock through naked shorting, thereby depressing the price.

His suspicion grew when he noticed that Knight often traded in securities that were red-flagged on the [Depository Trust Company's "chill list."](#)

The [DTC](#) is an obscure financial industry-owned company that manages the custody of more than \$1 quadrillion in securities annually, recording the transfers with journal entries and guaranteeing the trade. The



company makes it easy for people to buy and sell securities without needing to exchange paper stock.

But when the DTC senses trouble, it will stop clearing trades on a stock temporarily.

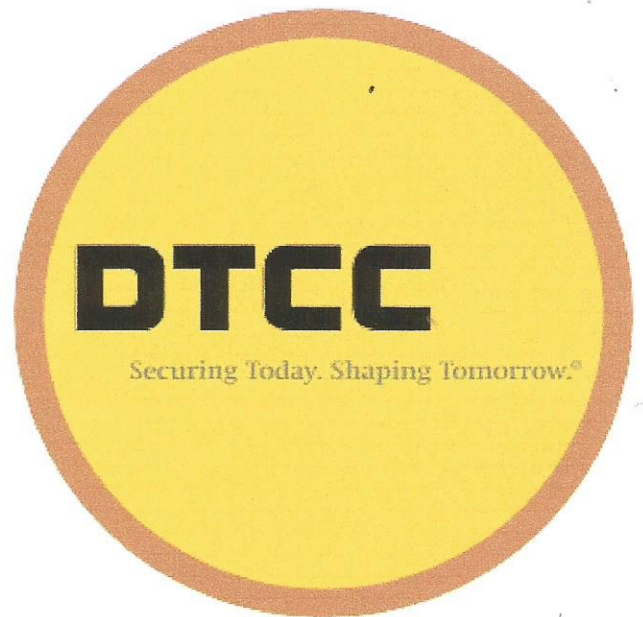
A chilled stock can still trade – as long as the market participants handle the physical certificates themselves. But it can be a sign that something is gravely wrong. The DTC states on its [website](#) that it chills stocks “when there are questions about an issuer’s compliance with applicable law.”

That doesn’t stop Knight from buying and selling them, though. Its chief legal officer, Thomas Merritt, [acknowledged](#) at a 2011 Securities and Exchange Commission roundtable that the company actively traded chilled stocks, saying that as long as the security still trades, “we are going to be involved in that business.” And DiIorio found numerous examples of Knight trading chilled penny stocks.

“I didn’t know they did that,” said Jim Angel, a Georgetown University business school professor. “I’m kind of shocked to think that Knight would be working with paper stock certificates.”

He suggested that Knight might simply want to accommodate customers trying to get out of chilled stocks. “Or maybe they feel there’s enough interest in a security that they can trade profitably, even if they have to shuffle the certificates.”

Because most other market makers flee chilled stocks, however, this means Knight can assume even more control over the stock price.



# Naked Manipulation

The thing about naked short sales is they can't stay naked forever.

Even if you don't have the stock when you sell it, at some point it is expected that you hand it over.

And even with its market-maker exemption, Knight is required by SEC rules to eventually deliver the shares in a naked short transaction to the buyer and close out the trade.

Not doing so results in a "fail to deliver," which DiLorio describes as the securities version of an IOU. And that IOU comes with rules: Under the SEC's [Regulation SHO](#), short sellers have to cough up the stock within one day of incurring the fail. Routine failures to deliver can lead to [fines by the SEC](#), or even a ban from the securities markets.

Instead of complying with the rule, however, DiLorio alleges that Knight circumvented it by manipulating an obscure process within the machinery of the nation's clearing system known as the "[Obligation Warehouse](#)."

This service facilitates the matching of self-cleared trades (often known as "ex-clearing") that don't go through the DTC – for instance if the stock was chilled.

The Obligation Warehouse instead simply asks the buyer and seller of these ex-cleared trades if they "know" the transaction. If they both agree, the trade gets confirmed with a journal entry – and the buyer receives their stock purchase. *It actually shows up in the buyer's brokerage account.*

The trades still have active IOUs, but according to DiLorio's theory, buyers wouldn't clamor for the trades to be closed because they



would've already received their purchase.

If true, this would allow Knight to bury its naked short trades.

"They set up a shadow clearing system," DiIorio said.

Furthermore, DiIorio recognized what he considered a persistent cycle in the stocks Knight traded. After being beaten down through what he suspected was naked shorting, they would often engage in a reverse stock split or reverse merger, like E Mobile did with Best Rate Travel in the trade that ended up losing DiIorio over \$1 million.

This, he observed, could enable Knight to rerun the scheme over and over again, pummeling the stock price and then letting it move back up like a yo-yo.

Laura Posner of the New Jersey Securities Commission said constant reverse splits would require a coordinated relationship between the penny stock issuer and the broker-dealer. "I know that there are situations in which fraudsters will take advantage of a stock split to commit fraud," Posner said. "But it's different than a typical pump-and-dump, where you don't have to have a personal relationship."



Photo: Louisa Gouliamaki/AFP/Getty Images

Alternately, the cycle could be a cat-and-mouse game playing out between the short sellers and the stock issuers. Hawk Associates, a consulting firm to small companies, recommends that penny stock issuers victimized by naked shorting engage in reverse mergers and/or reverse splits to stop the rapid degradation of their stock price. "It may be useful as part of a larger



strategy to deter naked shorting,” the firm writes on its website. “This may be more trouble than it’s worth, however. Once the new shares are in circulation, there’s nothing to stop a new round of naked shorting by determined parties.”

Knight’s involvement with suspicious stocks following this same pattern kept cropping up.

For example, NewLead Holdings (NEWL) – a shipping company with a mining concern on the side that was accused in federal court of having “no coal mines, no coal, and no ability whatsoever to engage in the coal business” – engaged in 1-1,125,000 worth of reverse splits over nine months in 2013 and 2014, meaning that 1,000 shares prior to the splits were equivalent to 0.0008 shares afterward. NewLead did another 1-300 stock split just this spring; it now trades as NEWLF, at 0.00030 as of August 23. Its 2015 annual report admits, “There is substantial doubt about our ability to continue as a going concern.”

FreeSeas (FREE), another penny stock, did a 1-60 reverse split on January 15 of this year, and then another 1-200 split on April 13, changing its stock symbol to FREEF. The company has engaged in seven reverse splits in the last five years; someone with 900 million shares five years ago would have one share today, trading at less than a penny. The company’s annual report says it currently has no employees. Private equity firm Havensight Capital made an alleged bid to purchase FreeSeas in June at \$0.43 a share, about 80 times its price at the time of this writing, which FreeSeas called “false and misleading.”

While one might think this cycle of splits and price declines would trigger red flags with federal regulators, Joseph Borg of the Alabama Securities Commission doubted they would pay attention. “It’s like asking the SEC, of all the 35,000 private placements issued, you look at how many? And if they were telling the truth they would say we’re



putting them in a drawer,” Borg said. “Anything like that on miniscule levels, they just get filed away.”

Furthermore, while there are “circuit breaker” rules preventing short sales when a stock loses more than 10 percent of its value in a day, these swings were more gradual. Knight made a lot of money on these plays, not just from the spread in trading profits, but because it often traded on its own account rather than on behalf of customers, DiIorio concluded. When the stock dropped, Knight got rich from the short. And it could rerun this repeatedly

“He’s got a theory that, without studying it, I see theoretically where he’s going with it,” concluded Borg. “It’s an interesting idea.”

Knight is now known as KCG. Its spokesperson Sophie Sohn declined to comment when asked about this and other matters.

Attempts to reach spokespeople at FreeSeas have proven unsuccessful. Elisa Gerouki, corporate communications manager at NewLead, asked me to prove I wrote for The Intercept; after I did so, Gerouki failed to respond to questions.

## Where Naked Shorts Go to Die

DiIorio also spotted a significant, seemingly toxic byproduct of this sort of activity.

Reverse mergers and reverse splits typically result in a change in the **CUSIP**, the nine-digit identification symbol assigned to a public stock.

Once that CUSIP changes, the naked shorter has no apparent way to close out the naked short position. No stock under the old CUSIP number exists anymore; it all automatically converts to the new CUSIP.



Those trades can sit in the Obligation Warehouse forever, in theory. But the “aged fails” – essentially orphaned naked short transactions – remain on the naked shorter’s balance sheet as a liability to be paid later.

By Dilorio’s reckoning, then, the cycle of naked shorting and reverse splits would inevitably result in an ever-increasing number of aged fails. And if that was happening, and those liabilities grew bigger and bigger, then federal regulators could see the outlines of the scheme on any financial statement.

Dilorio believed Knight accounted for its aged fails in the “sold not yet purchased” liability on its balance sheet.

That’s supposed to be an inventory of stocks for use in future market making, which goes up and down as orders are filled. But Dilorio says it was a hiding place for a billowing structural liability.

And consider this: According to its [own financial reports](#), Knight’s “sold not yet purchased” liability jumped from \$385 million at the beginning of 2008 to [\\$1.9 billion](#) by mid-2011.



Graphic: The Intercept.



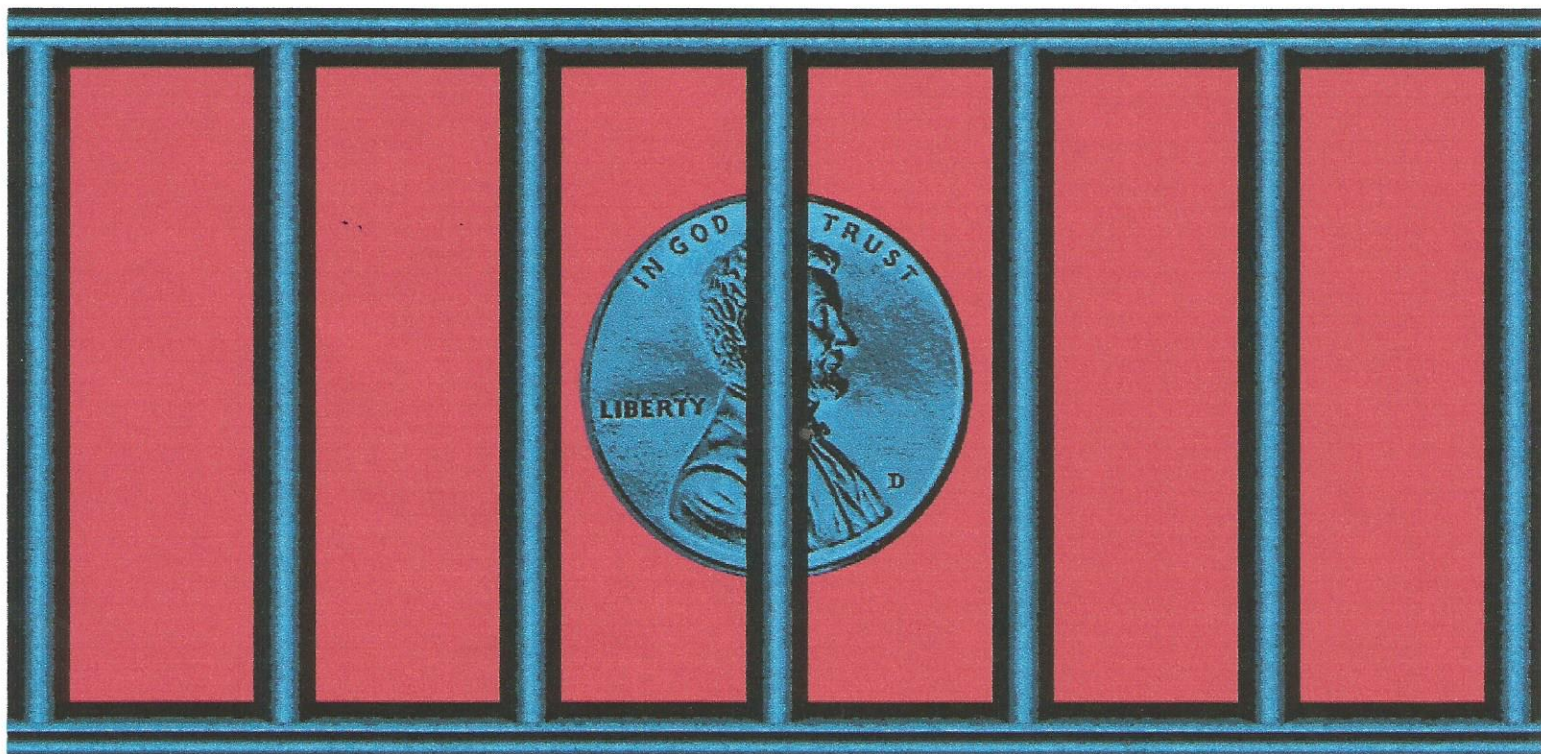
Jim Angel, the business professor, said there could be other explanations – such as Knight's growth as a company during that period – for why the “sold not yet purchased” liability ballooned. But, he said, market makers are typically “in the moving, not storing, business, and like to keep their inventories as small as possible.”

DiIorio had no such doubts. He saw the fact that Knight was blowing a hole in its own balance sheet as undeniable evidence of the naked shorting play.

KCG spokesperson Sophie Sohn was asked specifically about that claim and declined to comment.

If DiIorio was correct, Knight was driving penny stocks down over and over again with naked shorting, then not actually closing the trades, and racking up enormous paper liabilities.

This was even more complicated than he thought. It was time to call the cops.



## PART 4

# Calling the SEC



David Dayen, a persistent chronicler of how oligarchs exploit the financial system to enrich themselves at the expense of others, writes about Chris Dilorio, a stock analyst who for 10 years has obsessively investigated how exactly he came to lose \$1 million on one penny stock. A remarkable story ensues.

✓ [EXPAND ALL PARTS](#)





David Dayen

September 23 2016, 12:16 p.m.



S1



Illustration: Erik Carter for The Intercept.



## Part 2

A self-appointed stock sleuth finds financial giants trading extensively in little penny stocks like the one he owned that tanked. And he learns something amazing: Some brokers can sell shares that don't actually exist.

EXPAND ALL PARTS

**CHRIS DIORIO HAD** lost a million dollars when the penny stock he was betting on shed 98 percent of its value in a matter of weeks. But when he looked deeper, he found this wasn't a typical penny stock pump-and-dump scheme. He was determined to get to the bottom of it.

For one thing, there were two huge companies involved.

UBS, one of the world's largest private banks, seemed to have no business trading in penny stocks. "This was a \$50 billion-plus bank, it didn't seem like penny stocks would move the needle," Diorio said. But



just in December 2011, UBS's trades in 32 penny stocks represented over half of the firm's total share volume, according to his calculations.

In a one-line response to a series of detailed questions from The Intercept, UBS media relations director Peter Stack wrote in an email: "UBS applies strict due diligence and anti-money-laundering standards to all its business."



After some research, DiIorio became even more disturbed by the presence of the other company, Knight Capital, which has traded an average of more than 2 billion shares of penny stocks daily for the past three years.

Based in Jersey City, N.J., Knight is what is called a "market maker," a dealer that facilitates trading by actually **holding shares itself**, if ever so briefly, so investors can buy and sell without any delay. "They're selling the service of convenience to investors, like a car dealer makes it easier to buy or sell a car quickly," said Jim Angel, an associate professor specializing in market structure at Georgetown University.

Knight Capital is a giant in the field; it alone was responsible for **11 percent of all trading** in U.S. stocks by volume as of 2012. It's known in particular for speed. The ability to jump in and out of stocks quickly through electronic markets is attractive to customers and enables Knight to trade nearly **\$30 billion** every single day. "Market making is a business where the spreads are small but the volumes are large," Angel said. The spread is the difference between the buy price and the sell price, and it's how Knight makes money.

DiIorio looked closely at how Knight operated. He determined that between 80 and 90 percent of its share volumes came from penny and fractional penny stocks. According to DiIorio's calculations, Knight traded over 10 trillion shares of OTC and Pink Sheets securities from 2004 to 2012.

This level of volume persists – the most recent statistics show that 73 percent of the company's equity share volumes in August 2016 came from penny stocks, and 81 percent as recently as May.

A share in a penny stock is worth magnitudes less than a share in Google or Apple. But the spreads – where the market makers cash in – are proportionately bigger on a penny stock. For example, if the market maker earns a penny per share of a \$50 stock, that's only a spread of .02 percent. But a stock worth 25 cents where a market maker sees even a tenth of a penny in profit represents a spread of 2 percent – a 100-fold increase.

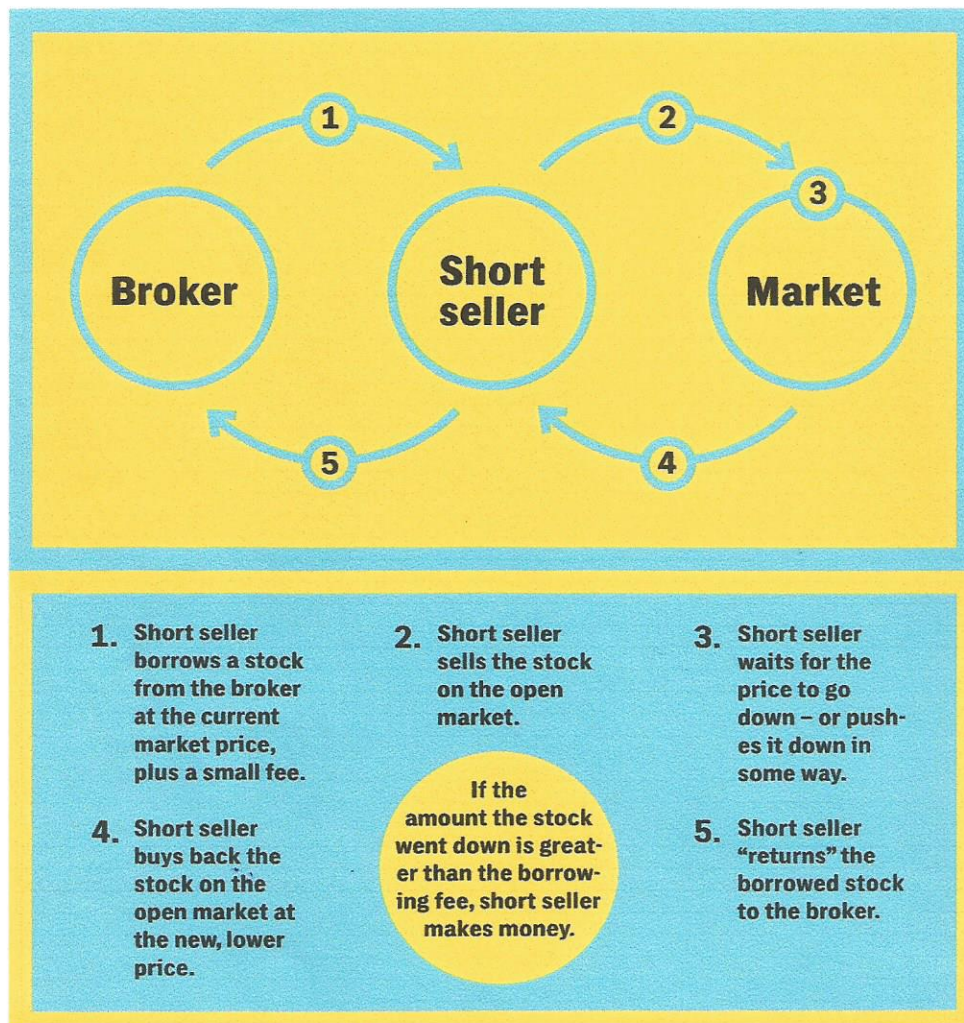
Still, DiIorio wondered how much volume a broker would need to make any money through penny stock trading. "You would have to move hundreds of millions of shares per trade," he said.

And, because his personal investigation had started after his shares in a company called Best Rate Travel tanked precipitously, he also wondered: Why was Knight so involved with them in particular?



While DiIorio was mulling that, he started talking to his fellow traders and reading rumors online from owners of dozens of small companies who blamed the rapid destruction of their penny stocks on a practice known as naked short selling.

Let's take that step by step. A short sale, generally speaking, is a bet that a stock price will drop over time. Typically, short sellers borrow shares of a stock from a broker and sell them on the open market, hoping to buy them back at a cheaper price in the future and make money on the exchange. This can become a self-fulfilling prophecy, if done right. Short selling can cause a market panic, and the prices drop in the frenzy.



How to short a stock. Graphic: The Intercept.

But in naked short selling, you don't even borrow the stock. You sell additional, phantom shares. This is even more likely to drive down the price than regular shorting, because suddenly the supply is larger but the demand is the same. “I can think of a number of stocks where the shares on the short exceeded the shares ever issued by the company,” said Alabama Securities Commission Director Joseph Borg. “You can't do that unless it's naked.”

Naked short selling is, not surprisingly, illegal in most circumstances.

But market makers like Knight have an exemption from naked short selling restrictions, on the grounds that they use the practice to maintain liquidity in markets. For example, if there's high demand for a stock, the market maker can fill orders even if it doesn't have the shares available.

As the Securities and Exchange Commission [explains](#), "A market maker engaged in bona fide market making, particularly in a fast-moving market, may need to sell the security short without having arranged to borrow shares." This often occurs in thinly traded stocks, like penny stocks.

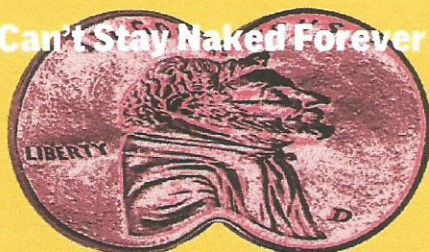
DiIorio reasoned that naked short selling would explain where all the trades were coming from on Best Rate Travel; while he and his counterparts were locked into their investments for a year after the company's merger, maybe someone was flooding the market with shares and battering the stock with ease.

At this point, DiIorio had no evidence that Knight did anything but facilitate trades. But he began to suspect that Knight somehow used naked short selling for its own devices. DiIorio's attempts to get some explanations from Knight were brushed off — as were The Intercept's during the reporting of this series.

Did Knight manipulate the stock price of Best Rate Travel, costing DiIorio and other investors millions? If so, why? Who benefited? Who needed this obscure, tiny penny stock to tank?

**READ NEXT: PART 3**

## Naked Shorts Can't Stay Naked Forever



David Dayen, a persistent chronicler of how oligarchs exploit the financial system to enrich themselves at the expense of others, writes about Chris DiIorio, a stock analyst who for 10 years has obsessively investigated how exactly he came to lose \$1 million on one penny stock. A remarkable story ensues.

EXPAND ALL PARTS

### CONTACT THE AUTHOR:



David Dayen





## U.S. Securities and Exchange Commission

### Key Points About Regulation SHO

#### I. Short Sales

##### A. What is a short sale?

A short sale is generally the sale of a stock you do not own (or that you will borrow for delivery).<sup>[1]</sup> Short sellers believe the price of the stock will fall, or are seeking to hedge against potential price volatility in securities that they own.

If the price of the stock drops, short sellers buy the stock at the lower price and make a profit. If the price of the stock rises, short sellers will incur a loss. Short selling is used for many purposes, including to profit from an expected downward price movement, to provide liquidity in response to unanticipated buyer demand, or to hedge the risk of a long position in the same security or a related security.

##### B. Example of a short sale.

For example, an investor believes that there will be a decline in the stock price of Company A. Company A is trading at \$60 a share, so the investor borrows shares of Company A stock at \$60 a share and immediately sells them in a short sale. Later, Company A's stock price declines to \$40 a share, and the investor buys shares back on the open market to replace the borrowed shares. Since the price is lower, the investor profits on the difference -- in this case \$20 a share (minus transaction costs such as commissions and fees). However, if the price goes up from the original price, the investor loses money. Unlike a traditional long position — when risk is limited to the amount invested — shorting a stock leaves an investor open to the possibility of unlimited losses, since a stock can theoretically keep rising indefinitely.

##### C. How does short selling work?

Typically, when you sell short, your brokerage firm loans you the stock. The stock you borrow comes from either the firm's own inventory, the margin account of other brokerage firm clients, or another lender. As with buying stock on margin,<sup>[2]</sup> your brokerage firm will charge you interest on the loan, and you are subject to the margin rules. If the stock you borrow pays a dividend, you must pay the dividend to the person or firm making the loan.

##### D. Are short sales legal?

Although the vast majority of short sales are legal, abusive short sale practices are illegal. For example, it is prohibited for any person to engage in a series of transactions in order to create actual or apparent active trading in a security or to depress the price of a security for the purpose of

inducing the purchase or sale of the security by others. Thus, short sales effected to manipulate the price of a stock are prohibited.

## II. "Naked" Short Sales

In a "naked" short sale, the seller does not borrow or arrange to borrow the securities in time to make delivery to the buyer within the standard three-day settlement period.<sup>[3]</sup> As a result, the seller fails to deliver securities to the buyer when delivery is due (known as a "failure to deliver" or "fail").

Failures to deliver may result from either a short or a long sale. There may be legitimate reasons for a failure to deliver. For example, human or mechanical errors or processing delays can result from transferring securities in physical certificate rather than book-entry form, thus causing a failure to deliver on a long sale within the normal three-day settlement period. A fail may also result from "naked" short selling. For example, market makers who sell short thinly traded, illiquid stock in response to customer demand may encounter difficulty in obtaining securities when the time for delivery arrives.

"Naked" short selling is not necessarily a violation of the federal securities laws or the Commission's rules. Indeed, in certain circumstances, "naked" short selling contributes to market liquidity. For example, broker-dealers that make a market in a security<sup>[4]</sup> generally stand ready to buy and sell the security on a regular and continuous basis at a publicly quoted price, even when there are no other buyers or sellers. Thus, market makers must sell a security to a buyer even when there are temporary shortages of that security available in the market. This may occur, for example, if there is a sudden surge in buying interest in that security, or if few investors are selling the security at that time. Because it may take a market maker considerable time to purchase or arrange to borrow the security, a market maker engaged in bona fide market making, particularly in a fast-moving market, may need to sell the security short without having arranged to borrow shares. This is especially true for market makers in thinly traded, illiquid stocks as there may be few shares available to purchase or borrow at a given time.

## III. Regulation SHO

Compliance with Regulation SHO began on January 3, 2005. Regulation SHO was adopted to update short sale regulation in light of numerous market developments since short sale regulation was first adopted in 1938 and to address concerns regarding persistent failures to deliver and potentially abusive "naked" short selling.

Due to continued concerns about failures to deliver, and to promote market stability and preserve investor confidence, the Commission has amended Regulation SHO several times since 2005 to eliminate certain exceptions, strengthen certain requirements and reintroduce the price test restriction.<sup>[5]</sup>

As initially adopted, Regulation SHO included two major exceptions to the close-out requirement: the "grandfather" provision and the "options market maker" exception. Due to continued concerns about failures to deliver, and the fact that the Commission continued to observe certain securities with failure to deliver positions that were not being closed out under then existing requirements, in 2007 the Commission eliminated the



"grandfather" provision and in 2008 the Commission eliminated the "options market maker" exception.

In addition, the Commission adopted temporary Rule 204T in 2008 and final Rule 204 in 2009, which strengthened further the close-out requirements of Regulation SHO by applying close-out requirements to failures to deliver resulting from sales of all equity securities and reducing the time-frame within which failures to deliver must be closed out.

In 2010, the Commission adopted Rule 201 of Regulation SHO. Rule 201 restricts the price at which short sales may be effected when a stock has experienced significant downward price pressure. Rule 201 is designed to prevent short selling, including potentially manipulative or abusive short selling, from driving down further the price of a security that has already experienced a significant intra-day price decline, and to facilitate the ability of long sellers to sell first upon such a decline.

Regulation SHO's four general requirements are summarized below:

- *Rule 200 – Marking Requirements.* Rule 200 requires that orders you place with your broker-dealer must be marked "long," "short," or "short exempt."<sup>[6]</sup>
- *Rule 201 – Short Sale Price Test Circuit Breaker.* Rule 201 generally requires trading centers to establish, maintain, and enforce written policies and procedures that are reasonably designed to prevent the execution or display of a short sale at an impermissible price when a stock has triggered a circuit breaker by experiencing a price decline of at least 10 percent in one day. Once the circuit breaker in Rule 201 has been triggered, the price test restriction will apply to short sale orders in that security for the remainder of the day and the following day, unless an exception applies.
- *Rule 203(b)(1) and (2) – Locate Requirement.* Regulation SHO requires a broker-dealer to have reasonable grounds to believe that the security can be borrowed so that it can be delivered on the date delivery is due before effecting a short sale order in any equity security.<sup>[7]</sup> This "locate" must be made and documented prior to effecting the short sale.
- *Rule 204 – Close-out Requirement.* Rule 204 requires brokers and dealers that are participants of a registered clearing agency<sup>[8]</sup> to take action to close out failure to deliver positions. Closing out requires the broker or dealer to purchase or borrow securities of like kind and quantity. The participant must close out a failure to deliver for a short sale transaction by no later than the beginning of regular trading hours on the settlement day following the settlement date, referred to as T+4. If a participant has a failure to deliver that the participant can demonstrate on its books and records resulted from a long sale, or that is attributable to bona fide market making activities, the participant must close out the failure to deliver by no later than the beginning of regular trading hours on the third consecutive settlement day following the settlement date, referred to as T+6. If the position is not closed out, the broker or dealer and any broker or dealer for which it clears transactions (for example, an introducing broker)<sup>[9]</sup> may not effect further short sales in that security without borrowing or entering into a bona fide agreement to borrow the



security (known as the “pre-borrowing” requirement) until the broker or dealer purchases shares to close out the position and the purchase clears and settles. In addition, Rule 203(b)(3) of Regulation SHO requires that participants of a registered clearing agency must immediately purchase shares to close out failures to deliver in securities with large and persistent failures to deliver, referred to as “threshold securities,” if the failures to deliver persist for 13 consecutive settlement days.<sup>[10]</sup> Threshold securities are equity securities<sup>[11]</sup> that have an aggregate fail to deliver position for five consecutive settlement days at a registered clearing agency (e.g., National Securities Clearing Corporation (NSCC)); totaling 10,000 shares or more; and equal to at least 0.5% of the issuer’s total shares outstanding. As provided in Rule 203 of Regulation SHO, threshold securities are included on a list disseminated by a self-regulatory organization (“SRO”). Although as a result of compliance with Rule 204, generally a participant’s fail to deliver positions will not remain for 13 consecutive settlement days, if, for whatever reason, a participant of a registered clearing agency has a fail to deliver position at a registered clearing agency in a threshold security for 13 consecutive settlement days, the requirement to close-out such position under Rule 203(b)(3) remains in effect.

#### IV. Answers to Frequently-Asked Questions from Investors

##### 1. Is all “naked” short selling abusive or illegal?

When considering “naked” short selling, it is important to know which activity is the focus of discussion.

- *Selling stock short without having located stock for delivery at settlement.* This activity would violate Regulation SHO, except for short sales by market makers engaged in bona fide market making. Market makers engaged in bona fide market making do not have to locate stock before selling short, because they need to be able to provide liquidity. However, market makers are not excepted from Regulation SHO’s close-out and pre-borrow requirements.
- *Selling stock short and failing to deliver shares at the time of settlement.* Rule 204 requires firms that clear and settle trades to deliver securities to a registered clearing agency for clearance and settlement on a long or short sale in any equity security by the settlement date or to take action to close out failures to deliver by borrowing or purchasing securities of like kind and quantity by no later than the beginning of regular trading hours on T+4 for short sale fails or T+6 for long sale fails and fails attributable to bona fide market making. If a firm that clears and settles trades has a failure to deliver that is not closed out by the beginning of regular trading hours on T+4 or T+6, as applicable, the firm has violated Rule 204 and the firm, and any broker-dealer from which it receives trades for clearance and settlement, is subject to the pre-borrow requirement for that security.
- *Selling stock short without having located stock for delivery at settlement and failing to deliver shares at the time of settlement.* This activity may violate Regulation SHO’s locate and close-out requirements, as explained above. In addition, in fall 2008 the Commission adopted Rule 10b-21, referred to as the “naked” short



selling antifraud rule. Those who deceive about their intention or ability to deliver securities in time for settlement are committing fraud, in violation of Rule 10b-21, when they fail to deliver securities by the settlement date.

- *Selling stock short and failing to deliver shares at the time of settlement with the purpose of driving down the security's price.* This manipulative activity, in general, would violate various securities laws, including Rule 10b-5 under the Exchange Act.

## **2. Is "naked" short selling the reason my stock has lost value?**

Investors should always use caution before investing in high-risk, speculative stocks, especially with regard to their retirement portfolios, because all stocks may decline in value. There are many reasons why a stock may decline in value. The value of a stock is determined by the basic relationship between supply and demand. If many people want a stock (demand is high), then the price will rise. If a few people want a stock (demand is low), then the price will fall. The main factor determining the demand for a stock is the quality of the company itself. If the company is fundamentally strong, that is, if it is generating positive income, its stock is less likely to lose value.

Speculative stocks, such as microcap stocks, often have a high probability of declining in value and a low probability of experiencing above average gains.<sup>[12]</sup> For example, investors should take extra care to thoroughly research any company not listed for trading on a national securities exchange, including companies which are closely held, extremely small or thinly traded.<sup>[13]</sup> Such companies may not meet the minimum listing requirements for trading on a national securities exchange, such as the New York Stock Exchange or the Nasdaq Stock Market. Many of these companies do not file periodic reports or audited financial statements with the SEC, making it very difficult for investors to find reliable, unbiased information about those companies.

There also may be instances where a company insider or paid promoter provides false and misleading excuses for why a company's stock price has recently decreased. For instance, these individuals may claim that the price decrease is a temporary condition resulting from the activities of "naked" short sellers. The insiders or promoters may hope to use this misinformation to move the price back up so they can dump their own stock at higher prices. Often, the price decrease is a result of the company's poor financial situation rather than the reasons provided by the insiders or promoters.

"Naked" short selling, however, can have negative effects on the market. Fraudsters may use "naked" short selling as a tool to manipulate the market. Market manipulation is illegal.<sup>[14]</sup> The SEC has toughened its rules including through the adoption of Rule 10b-21 in 2008, referred to as the "naked" short selling antifraud rule, and is vigilant about taking actions against alleged wrongdoers.<sup>[15]</sup>

Failures to deliver that persist for an extended period of time may result in a significantly large unfulfilled delivery obligation at the clearing agency where trades are settled. Regulation SHO is intended to reduce the number of potential failures to deliver, and limit the time in which a broker can permit a failure to deliver to persist. For instance, as explained above,



Regulation SHO generally requires firms that clear and settle trades to close out a failure to deliver resulting from a short sale by the beginning of regular trading hours on T+4.

### **3. Do all failures to deliver reflect improper activity? After adoption of Rule 204, why are there still failures to deliver?**

A failure to deliver occurs when a broker-dealer fails to deliver securities to the party on the other side of the transaction on the settlement date. There are many justifiable reasons why broker-dealers do not or cannot deliver securities on the settlement date. A broker-dealer may experience a problem that is either unanticipated or is out of its control, such as (1) delays in customers delivering their shares to a broker-dealer, (2) the inability to obtain borrowed shares in time for settlement, (3) issues related to the physical transfer of securities, or (4) the failure of a broker-dealer to receive shares it had purchased to fulfill its delivery obligations. Failures to deliver can result from both long and short sales.

Regulation SHO was designed to target potentially problematic failures to deliver. Prevention of fails is the goal of the locate requirement. Regulation SHO requires broker-dealers to identify a source of borrowable stock before executing a short sale in any equity security with the goal of reducing the number of situations where stock is unavailable for settlement. But, because the locate is usually done three days before settlement, the stock may not be available from the source at the time of settlement, possibly resulting in a fail.

Regulation SHO also requires firms that clear and settle trades to take action to close out failures to deliver by borrowing or purchasing securities of like kind and quantity. For short sale transactions, failures to deliver must be closed out by no later than the beginning of regular trading hours on the settlement day following the settlement date, referred to as T+4. For long sale transactions or bona fide market making activities, failures to deliver must be closed out by no later than the beginning of regular trading hours on the third settlement day following the settlement date, referred to as T+6.

Rule 204 provides an extended period of time to close out certain failures to deliver. Specifically, if a failure to deliver position results from the sale of a security that a person is deemed to own and that such person intends to deliver as soon as all restrictions on delivery have been removed, the firm has up to 35 calendar days following the trade date to close out the failure to deliver position by purchasing securities of like kind and quantity. Such additional time is warranted and does not undermine the goal of reducing failures to deliver because these are sales of owned securities that cannot be delivered by the settlement date due solely to processing delays outside the seller's or broker-dealer's control. Moreover, delivery is required to be made on such sales as soon as all restrictions on delivery have been removed and situations where a person is deemed to own a security are limited to those specified in Rule 200 of Regulation SHO. A common example of a deemed to own security that cannot be delivered by the settlement date is a security subject to the resale restrictions of Rule 144 under the Securities Act of 1933.

### **4. What is meant by T+3?**



Generally, investors must complete or settle their security transactions within three business days. This settlement cycle is known as "T+3," shorthand for "trade date plus three days."

T+3 means that when you buy a security, your payment must be received by your brokerage firm no later than three business days after the trade is executed. When you sell a security, you must deliver your securities, in certificated or electronic form, to your brokerage firm no later than three business days after the sale.

The three-day settlement date applies to most security transactions, including stocks, bonds, municipal securities, mutual funds traded through a brokerage firm, and limited partnerships that trade on an exchange. Government securities and stock options settle on the next business day following the trade.<sup>[16]</sup>

Delivery on sales should be made by the settlement date. Under Rule 204, firms that clear and settle trades must deliver securities to a registered clearing agency for clearance and settlement on a long or short sale in any equity security by the settlement date or must take immediate action to close out failures to deliver by no later than the beginning of regular trading hours on T+4 (for short sales) or T+6 (for long sales and fails attributable to bona fide market making).

#### **5. After adoption of Rule 204, why are there still threshold securities and why is there still a threshold securities close-out requirement?**

Even after adoption of Rule 204, failures to deliver may occur in certain circumstances. The appearance of a security on a threshold list does not necessarily mean that there has been abusive "naked" short selling or any impermissible trading in the stock. Delivery failures can be caused by both long and short sales. In addition, notwithstanding actions by broker-dealers to close out delivery failures, certain securities may remain on an SRO's <sup>[17]</sup> threshold securities list for a variety of legitimate reasons, such as:

- Despite proper action to close out fails, new delivery failures from long or short sales, at the same or other broker-dealers, result in the security staying on the threshold list;
- One or more broker-dealers may have temporary but legitimate problems in obtaining the stock they borrowed in time for delivery;
- Long sellers may have difficulty in producing stock in good deliverable form to their broker-dealer.

Rule 203(b)(3) applies to fails to deliver in threshold securities if the participant's fails to deliver persist for 13 consecutive settlement days. Although as a result of compliance with Rule 204, generally a participant's fail to deliver positions will not remain for 13 consecutive settlement days, if, for whatever reason, a participant of a registered clearing agency has a fail to deliver position at a registered clearing agency in a threshold security for 13 consecutive settlement days, the requirement to close-out such position under Rule 203(b)(3) remains in effect.

#### **6. Do the issuers of threshold securities have "problems?"**

Inclusion on the threshold list simply indicates that the aggregate failures to deliver in an issuer's equity securities have reached the level required to

become a "threshold security" as defined in Regulation SHO. Inclusion on the list should not be interpreted as connoting anything negative about the particular issuer.

### **7. Will close-out purchases required by Regulation SHO drive up a security's price?**

Close-out purchases of stock will not necessarily drive up prices of such stocks. One of the primary purposes of Regulation SHO is to clean up open fail positions, but not to cause short squeezes. The term "short squeeze" refers to the pressure on short sellers to cover their positions as a result of sharp price increases or difficulty in borrowing the security the sellers are short. The rush by short sellers to cover produces additional upward pressure on the price of the stock, which then can cause an even greater squeeze. Although some short squeezes may occur naturally in the market, a scheme to manipulate the price or availability of stock in order to cause a short squeeze is illegal.

### **8. Where can I obtain information on short sales?**

To increase the transparency surrounding short sale transactions, several SROs are providing on their websites daily aggregate short selling volume information for individual equity securities. The SROs are also providing website disclosure on a one-month delayed basis of information regarding individual short sale transactions in all exchange-listed equity securities. Hyperlinks to short sale data provided by specific SROs are provided at the following website: <http://www.sec.gov/answers/shortsalevolume.htm>.

The SROs also publish monthly statistics on short interest in securities that trade on their markets. Short interest is the aggregate number of open short sale positions. Short interest does not address the number of failures to deliver that may have occurred or may occur in connection with these short sales.

Short interest for NYSE stocks can be found at:

<http://www.nyxdata.com/nyse/default.aspx?tabID=748>.

Short interest for Nasdaq stocks can be found at:

<http://www.nasdaqtrader.com/Trader.aspx?id=ShortInterest>.

Short interest for over-the-counter equity securities can be found at:  
<http://otce.finra.org/ESI>.

There also are many commercial websites and some newspapers that offer this information. If you enter the words "short interest" into most Internet search engines, you'll quickly find websites that can provide this information.

### **9. Where can I obtain fails information?**

The Commission publishes on its website failures to deliver data for all equity securities, regardless of the fails level, twice per month. For current failures to deliver information, see <http://www.sec.gov/foia/docs/failsdata.htm>.

### **10. Where can I find threshold lists?**



Threshold securities are included on a list disseminated by an SRO. If a threshold security is listed on more than one market system, the SROs have agreed that the security will appear only on the threshold list of the SRO that maintains the primary listing. FINRA publishes a list of OTC threshold securities. You can obtain SRO threshold lists at the following websites:

The Nasdaq Stock Market LLC

<http://www.nasdaqtrader.com/Trader.aspx?id=RegSHOThreshold>

New York Stock Exchange LLC, NYSE MKT LLC and NYSE Arca, Inc.

<https://www.nyse.com/regulation/threshold-securities>

Chicago Stock Exchange, Inc. (CHX)

<http://www.chx.com/trading-information/threshold-securities/>

BATS Exchange, Inc.

[http://batstrading.com/market\\_data/reg\\_sho\\_threshold\\_list/](http://batstrading.com/market_data/reg_sho_threshold_list/)

FINRA

<http://otce.finra.org/RegSHO>

Other national securities exchanges that are not the primary listing exchange for any securities at this time are currently not publishing threshold securities lists.

Currently, threshold lists include the name and ticker symbol of securities that meet the threshold level on a particular settlement date. Some investors have requested that the SROs provide more detailed information for each threshold security, including the name of the broker-dealer firm responsible for the fails and the names of the customers of responsible brokers and dealers responsible for the short sales. The fails statistics of individual firms and customers is proprietary information and may reflect firms' trading strategies.

**11. I read on an internet chat room or website that a specific security has a large number of fails; are these sources reliable?**

Investors can and should verify the number of failures to deliver in a specific security by checking publicly available data on failures to deliver. The Commission publishes on its website failures to deliver data for all equity securities, regardless of the fails level, twice per month. For current failures to deliver information, see <http://www.sec.gov/foia/docs/failsdata.htm>.

Investors should always be cautious that issuers, promoters, or shareholders may be seeking to stimulate buying interest by making false, misleading or unfounded statements in internet chat rooms or other such forums about alleged large "naked" short positions in some smaller issuers. Some individuals may encourage other investors to buy these issuers' securities by claiming that there will be an imminent short squeeze, in which the alleged "naked" short sellers will be forced to cover open short positions at increasing prices. These claims in fact may be false.

The Commission's Office of Investor Education and Assistance has made available publications on the Commission's website (<http://www.sec.gov/investor.shtml>) that provide helpful guidance on the securities markets and sales and trading practices, including short selling.



The Office of Investor Education and Advocacy has also established a website dedicated to retail investors, <http://investor.gov/>. Investors and prospective investors should be cautious of rumors on chat rooms where the intent of nameless and faceless computer users is in doubt.

## **12. Where can I find information on specific issuers or securities?**

To find information on issuers and securities, see <http://www.sec.gov/investor/pubs/easyaccess.htm>. Information on researching public companies is also available at <http://investor.gov/researching-managing-investments/researching-investments>.

## **13. Does NSCC's stock borrow program create "counterfeit shares?"**

NSCC's stock borrow program, as approved by the Commission, permits NSCC to borrow securities from its participants for the purpose of completing settlements only if participants have made those securities available to NSCC for this purpose and those securities are on deposit in the participant's account at DTC.

## **14. Where can I submit information on potential violations of the federal securities laws?**

If you have specific enforcement-related information, please see <http://www.sec.gov/complaint/tipscomplaint.shtml> for information on how to submit a complaint. You may also call 1-800-SEC-0330.

## **15. Where can I find information on investigations or enforcement actions pending against specific issuers or regarding specific securities?**

As a policy, the SEC will neither confirm nor deny the existence of an investigation unless, and until, it becomes a matter of public record as the result of a court action or administrative proceeding. SEC investigations are conducted on a non-public and confidential basis to help assure the integrity of the investigative process. See <http://www.sec.gov/complaint/tipscomplaint.shtml> for more information on how the Commission handles complaints.

To view enforcement actions that the Commission has taken, see <http://www.sec.gov/litigation/litreleases.shtml>.

## **V. Reporting Alleged Abusive "Naked" Short Selling Activity**

The markets and the SROs are primarily responsible for the surveillance and enforcement of trading activity pursuant to their rules. The SEC, however, independently or in conjunction with the SROs and other regulatory authorities, actively investigates and prosecutes violations of the federal securities laws.

The SEC takes information alleging violations of the federal securities laws very seriously. If you have specific enforcement-related information, please submit the information at <http://www.sec.gov/complaint/tipscomplaint.shtml>. Please note, however, the SEC will neither confirm nor deny the existence of an investigation unless, and until, it becomes a matter of public record as the result of a court action or administrative proceeding. As you may also be aware, SEC



investigations are conducted on a non-public and confidential basis to help assure the integrity of the investigative process. See [http://www.sec.gov/complaint/info\\_tipscomplaint.shtml](http://www.sec.gov/complaint/info_tipscomplaint.shtml) for more information on how the Commission handles complaints.

## **VI. Regulation SHO – Releases and Other Guidance**

The final adopting release for Regulation SHO and other key documents relating to short sale regulation, such as the “Frequently Asked Questions Regarding Regulation SHO” published by the Staff of the Division of Trading and Markets, are available on the Commission’s website at: <http://www.sec.gov/spotlight/shortsales.htm>.

## **VII. Who Do I Contact If I Have Questions about Regulation SHO?**

Individual investors who have comments or information should feel free to contact the SEC’s Office of Investor Education and Assistance at 1-800-SEC-0330 or (202) 942-7040. Investors can also file complaints at <http://www.sec.gov/complaint/tipscomplaint.shtml>.

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[1] For more information on short sales, see <http://www.sec.gov/answers/shortsale.htm>.

[2] For information regarding margin, please see <http://www.sec.gov/answers/margin.htm>.

[3] For more information on the three-day settlement period, also known as “T+3,” see <http://www.sec.gov/answers/tplus3.htm> and <http://www.sec.gov/investor/pubs/tplus3.htm>.

[4] For more information about market making, see <http://www.sec.gov/answers/mktmaker.htm> and <http://www.sec.gov/answers/specialist.htm>.

[5] See Exchange Act Release No. 55970 (Jun. 28, 2007), 72 FR 36348 (Jul. 3, 2007); Exchange Act Release No. 56212 (Aug. 7, 2007), 72 FR 45544 (Aug. 14, 2007); Exchange Act Release No. 58775 (Oct. 14, 2008), 73 FR 61690 (Oct. 17, 2008); Exchange Act Release No. 60388 (July 27, 2009), 74 FR 38266 (July 31, 2009); Exchange Act Release No. 61595 (Feb. 26, 2010), 75 FR 11232 (Mar. 10, 2010).

[6] Under the rule, an order can be marked “long” when the seller owns the security being sold and the security either is in the physical possession or control of the broker-dealer, or it is reasonably expected that the security will be in the physical possession or control of the broker or dealer no later than settlement. However, if a person does not own the security, or owns the security sold but it is not reasonably expected that the security will be in the possession or control of the broker-dealer prior to settlement, the sale should be marked “short.” The sale could be marked “short exempt” if the seller is entitled to rely on an exception from the short sale price test circuit breaker.

[7] Broker-dealers engaged in bona fide market making are excepted from having to borrow or arrange to borrow shares due to their potential need to facilitate customer orders in fast-moving markets without possible delays



associated with complying with Regulation SHO. For instance, as explained above, they may be required by their market making obligations to sell short in situations where it may be difficult to quickly locate and borrow securities. However, this exception is limited. For example, bona fide market making does not include activity that is related to speculative selling strategies or investment purposes of the broker-dealer or that is disproportionate to the usual market making patterns or practices of the broker-dealer in that security. Further, bona fide market making does not include transactions whereby a market maker enters into an arrangement with another broker-dealer or customer in an attempt to use the market maker's exception for the purpose of avoiding compliance with the locate requirement in Regulation SHO by the other broker-dealer or customer.

[8] Clearing Agencies are self-regulatory organizations that are required to register with the Commission. See

<http://www.sec.gov/divisions/marketreg/mrclearing.shtml> and [www.dtcc.com](http://www.dtcc.com) for more information about the clearance and settlement process and DTCC. A participant of a clearing agency means any person or firm, such as a broker-dealer, that uses a clearing agency to clear and settle securities transactions or to transfer, pledge, lend, or hypothecate securities. It does not include a person or firm whose only use of a clearing agency is (a) through another person or firm that is a participant or (b) as a pledgee of securities. Section 3(a)(24) of the Exchange Act, 15 U.S.C. 78c(a)(24).

[9] Introducing brokers are typically brokers that perform all the functions of a broker except for the ability to accept money, securities, or property from a customer. They are usually not participants of registered clearing agencies and do not perform clearance and settlement functions. See Footnote 9 for more information about participants of a clearing agency.

[10] Settlement day means any business day on which deliveries of securities and payments of money may be made through the facilities of a registered clearing agency.

[11] Under Regulation SHO, threshold securities only include issuers registered or required to file reports with the Commission ("reporting companies"). FINRA Rule 4320 applies threshold close-out requirements to non-reporting securities.

[12] See <http://www.sec.gov/investor/pubs/microcapstock.htm> for more information.

[13] Many of these stocks are also considered "penny stocks." See <http://www.sec.gov/answers/penny.htm>. Because penny stocks are generally risky investments, before a broker-dealer can sell a penny stock, SEC rules require the firm to first approve the customer for the transaction and receive from the customer a written agreement to the transaction. The firm must furnish the customer a document describing the risks of investing in penny stocks. The broker-dealer must tell the customer the current market quotation, if any, for the penny stock and the compensation the firm and its broker will receive for the trade. Finally, the firm must send monthly account statements showing the market value of each penny stock held in the customer's account.

[14] The Commission brought an enforcement action against certain parties, alleging manipulative "naked" short selling, in a scheme sometimes



termed as a "death spiral." See Rhino Advisors, Inc. and Thomas Badian, Lit. Rel. No. 18003 (February 27, 2003) at <http://www.sec.gov/litigation/litreleases/lr18003.htm>.

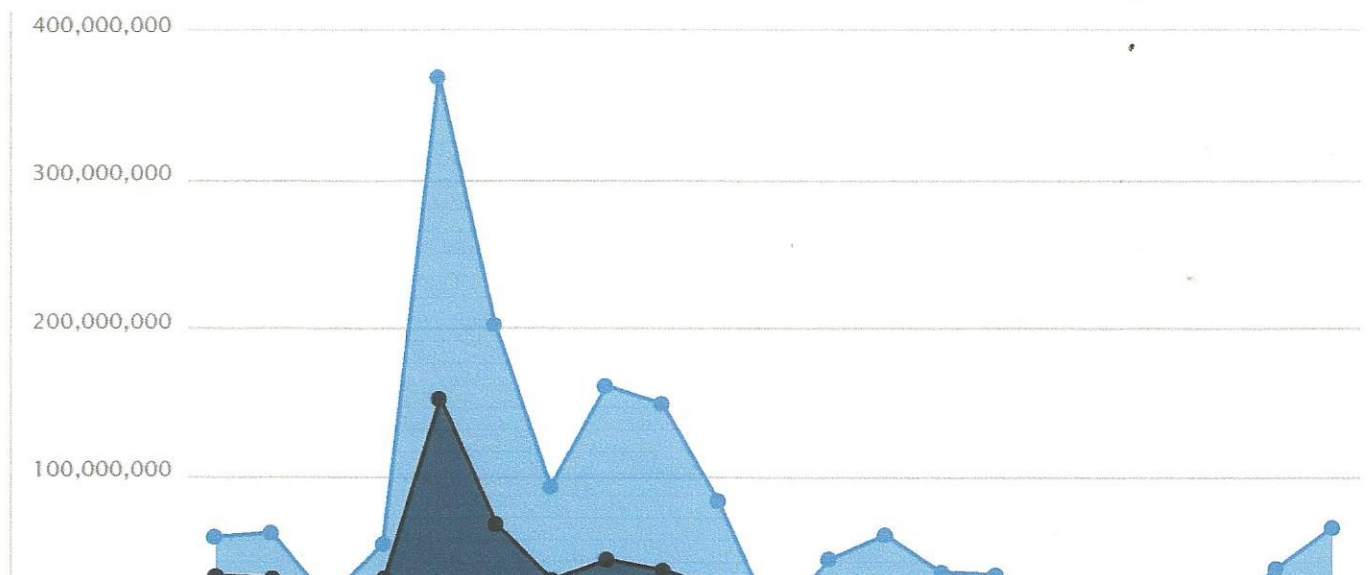
[15] See *In the Matter of Gonul Colak and Milen K. Kostov*, Exchange Act Release No. 71461 (Jan. 31, 2014) (settled administrative proceeding), available at <http://www.sec.gov/litigation/admin/2014/33-9522.pdf>; *In the Matter of optionsXpress, et al.*, Admin. Proc. File No. 3-14848 (June 7, 2013), available at <http://www.sec.gov/alj/aljdec/2013/id490bpm.pdf>; *In the Matter of Jeffrey Wolfson, et al.*, Exchange Act Release No. 67450 (July 17, 2012) (settled administrative proceeding) available at <http://www.sec.gov/litigation/admin/2012/34-67450.pdf>; *In the Matter of Jeffrey Wolfson, et al.*, Exchange Act Rel. No. 67451 (July 17, 2012) (settled administrative proceeding) available at <http://www.sec.gov/litigation/admin/2012/34-67451.pdf>; *In the Matter of Gary S. Bell*, Exchange Act Release No. 65941 (Dec. 13, 2011) (settled administrative proceeding), available at <http://www.sec.gov/litigation/admin/2011/34-65941.pdf>; *In the Matter of Rhino Trading, LLC, Fat Squirrel Trading Group, LLC, Damon Rein, and Steven Peter*, Exchange Act Release No. 60941 (Nov. 4, 2009) (settled administrative proceeding), available at <http://www.sec.gov/litigation/admin/2009/34-60941.pdf>; *In the Matter of Hazan Capital Management, LLC and Steven M. Hazan*, Exchange Act Release No. 60441 (Aug. 5, 2009) (settled administrative proceeding) available at <http://www.sec.gov/litigation/admin/2009/34-60441.pdf>; *In the Matter of TJM Proprietary Trading, LLC, et al.*, Exchange Act Release No. 60440 (Aug. 5, 2009) (settled administrative proceeding) available at <http://www.sec.gov/litigation/admin/2009/34-60440.pdf>.

[16] For more information about T+3, see <http://www.sec.gov/investor/pubs/tplus3.htm>.

[17] A self-regulatory organization is a membership-based organization that creates and enforces rules for its members based on the federal securities laws. SROs, which are overseen by the SEC, are the front line in regulating broker-dealers. See <http://investor.gov/introduction-markets/how-markets-work/market-participants#.VFuPujZONcs> for more information.

<http://www.sec.gov/investor/pubs/regsho.htm>

The Office of Investor Education and Advocacy has provided this information as a service to investors. It is neither a legal interpretation nor a statement of SEC policy. If you have questions concerning the meaning or application of a particular law or rule, please consult with an attorney who specializes in securities law.



Historical Short Volume Data for EFLN

| Date   | Close   | High    | Low     | Volume      | Short Volume | % of Vol Shorted |
|--------|---------|---------|---------|-------------|--------------|------------------|
| Apr 28 | 0.001   | 0.0013  | 0.0008  | 65,406,290  | 9,040,009    | 13.82%           |
| Apr 27 | 0.0013  | 0.0017  | 0.0011  | 37,642,175  | 12,722,167   | 33.80%           |
| Apr 26 | 0.00165 | 0.002   | 0.0015  | 7,114,108   | 3,228,800    | 45.39%           |
| Apr 25 | 0.0018  | 0.0019  | 0.0015  | 10,636,284  | 1,814,482    | 17.06%           |
| Apr 24 | 0.0018  | 0.0019  | 0.0015  | 11,614,314  | 3,502,690    | 30.16%           |
| Apr 21 | 0.0018  | 0.0018  | 0.0013  | 14,211,466  | 2,900,501    | 20.41%           |
| Apr 20 | 0.0015  | 0.0021  | 0.0015  | 33,203,992  | 7,566,063    | 22.79%           |
| Apr 19 | 0.002   | 0.0026  | 0.0018  | 34,894,584  | 8,417,715    | 24.12%           |
| Apr 18 | 0.0024  | 0.0028  | 0.0018  | 60,122,238  | 21,705,200   | 36.10%           |
| Apr 17 | 0.0019  | 0.0019  | 0.0013  | 43,932,161  | 12,598,220   | 28.68%           |
| Apr 14 | 0.0018  | 0.0018  | 0.0018  | 0           | 0            | 0%               |
| Apr 13 | 0.0018  | 0.0021  | 0.0013  | 83,141,645  | 23,665,947   | 28.46%           |
| Apr 12 | 0.0018  | 0.0034  | 0.0015  | 148,264,864 | 36,359,708   | 24.52%           |
| Apr 11 | 0.003   | 0.00425 | 0.0023  | 160,352,316 | 43,546,883   | 27.16%           |
| Apr 10 | 0.0041  | 0.0063  | 0.0036  | 92,597,244  | 29,928,653   | 32.32%           |
| Apr 07 | 0.0051  | 0.0069  | 0.0038  | 202,033,167 | 67,566,070   | 33.44%           |
| Apr 06 | 0.0034  | 0.0043  | 0.00095 | 369,051,406 | 151,932,000  | 41.17%           |
| Apr 05 | 0.0009  | 0.001   | 0.0004  | 54,121,807  | 31,095,005   | 57.45%           |
| Apr 04 | 0.0004  | 0.0005  | 0.0004  | 16,160,300  | 0            | 0%               |
| Apr 03 | 0.0006  | 0.0007  | 0.0004  | 61,357,109  | 30,812,000   | 50.22%           |
| Mar 31 | 0.0006  | 0.0006  | 0.0004  | 58,798,885  | 32,544,187   | 55.35%           |