

William E. Klawonn, Esq.

Kuvendi I Bujanit #11, Taslixhe 1
Pristina 10000
Republic of Kosovo
Phone: 377-44-175-241
Phone/Fax: 381-38-516-219

201 Honey Hill Drive
Bluffton, SC 29909
USA
Phone: 843-705-2037
Mobile: 843-368-0975

E-mail: william_klawonn@hotmail.com

18 September 2008

U.S Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: Comments on Proposed Emergency Rule Requiring Disclosure by Hedge Funds of Short Positions mentioned in the third paragraph of SEC Press Release 2008-209 ("Proposed Emergency Rule")

To whom it may concern:

I fully support the Proposed Emergency Rule, but believe it does not go far enough, specifically with regard to hedge funds providing PIPES financing to small-cap and micro-cap companies on the OTCBB or the Pink Sheets (usually on terms and conditions that are highly detrimental to retail investors in those companies).

I therefore submit the following comments and proposals for the SEC's consideration:

Comments

1. The market for the stocks of small-cap and micro-cap companies is routinely very thin, and it takes very little money to manipulate the stock price. The incentive for a hedge fund to manipulate the price of a company's stock down through short sales is particularly acute if the hedge fund holds a security or other instrument that is convertible into the common stock of the company at a "fixed" price that is actually a formula linked to the market price of a publicly traded security of the company (e.g., a formula that is linked to the lowest price of the company's stock in preceding 30-day period).

2. I should also note that the terms of the convertible security/instrument often give the hedge fund the right to vote the underlying security, and such voting rights may sometimes give the hedge fund voting power that exceeds the 10% threshold triggering the insider fining requirements. In such case, the hedge fund should be filing as an insider, but, due to the exemption provided by Rule 16b-6, they may not feel compelled to do so because they are not liable for short-swing profit disgorgement when they convert and sell on the public market the underlying security. The basis for the 16b-6 exemption is the existence of a "fixed" conversion price (or formula) in the convertible

security/instrument because Rule 16b-6 apparently assumes that this "fixed" price (or formula) is beyond the ability of one party to alter. That assumption is, however, simply not valid if such formula is linked to the market PPS of a thinly traded small-cap or micro-cap company.

3. By manipulating, either directly or through an affiliate, the market price of the stock down through short sales, the hedge fund is in a position to dramatically increase the number of underlying securities it receives on conversion.

4. Further compounding this problem is that these conversions are often not made the subject of an 8-K or a press release. The retail investor often only learns of these conversions, if at all, much later in the next 10Q.

5. Many times the PIPES agreement contains contractual provisions prohibiting or otherwise restricting the hedge fund from engaging in short transactions in the company's stock; however, there is currently no way for the company or a shareholder to determine if those contractual provisions are being violated. And it is also true that very often the hedge fund has or acquires such control or influence over the company's management that it is highly unlikely that the company would take action against the hedge fund even if it were to acquire information that the hedge fund had violated such contractual provisions.

Proposals

First proposal. The SEC should amend Rule 16b-6 as follows: if the fixed price referenced in 16b-6 is established by a formula that is linked to the market price of a publicly traded security, no aspect of the exemption provided by 16b-6 shall be available to any person who has engaged, or who has an affiliate who has engaged, in market short sales of that publicly traded security in the 6-month period preceding the exercise of any conversion or similar rights established by the derivative security.

Second Proposal: The SEC should adopt a rule requiring any publicly traded company to immediately 8K the issuance of any shares of the company as the consequence of the exercise by any person of any option, warrant, right of conversion or similar right.

Third Proposal: The SEC should adopt rules that will require any hedge fund, and any affiliate of a hedge fund, to disclose market short sales in the publicly traded securities of a client company of the hedge fund. Furthermore, such information, or a summary thereof, should be made available for review to the concerned company's management and its retail shareholders upon request if there is an agreement in place between hedge fund and the company containing prohibitions or restrictions on the hedge fund's right to engage in such short sales. Alternatively, such information might be made available, under a protective order, to a lawyer of the company or a lawyer of a shareholder for the purpose of determining whether the contractual prohibition/restriction has been violated. With particular regard to providing this information to shareholders or their attorneys, it must be noted that this information is required if the shareholders are to be able to

effectively exercise their right to bring and maintain a derivative suit against the hedge fund for violating such contractual prohibitions/restrictions; it is often unlikely that the management of the company will desire to properly enforce the company's rights against the hedge fund, which – as noted above - is often able to exert substantial influence over management.

Fourth Proposal: The Proposed Emergency Rule should also be applicable to the affiliates of a hedge fund, as there is substantial reason to believe that such affiliates, especially off-shore affiliates, may be being used by such hedge funds to conduct such manipulative and/or contractually prohibited short sales.

Respectfully submitted,

/s/ William E. Klawonn, Esq.