Former SEC Chairman to Assist Alabama Securities Commission in Short Selling Investigation

MONTGOMERY, ALABAMA (August 19, 2008) Harvey L. Pitt, former U.S. Securities and Exchange Commission (SEC) Chairman, has been appointed as a Deputy Attorney General by Alabama Attorney General Troy King, at the request of the Alabama Securities Commission (ASC). Pitt will assist in the ASC’s investigation of short sellers and false rumors involving Colonial BancGroup, actions designed to drive down the institution’s stock price.

Pitt is presently the Chief Executive Officer of a Washington, D.C. consulting firm, Kalorama Partners, LLC. Prior to founding Kalorama Partners, Pitt was appointed by President George W. Bush to serve as the 26th Chairman of the U.S. Securities and Exchange Commission. In that role, from 2001 until 2003, Pitt was responsible for overseeing the SEC’s response to the market disruptions resulting from the terrorist attacks of 9/11, among other responsibilities.

ASC Director Joseph Borg said, “Harvey Pitt is a noted legal expert in the securities industry who will assist this Commission in its investigation into naked short selling and financial rumors designed to artificially drive down the value of stock shares. Subpoenas have, and will continue, to be issued as necessary. This Commission is committed to ensuring a fair market for both main street and corporate investors in Alabama. Naked short selling, combined with false rumors, can artificially and illegally lower the value of a company’s stock, causing a loss to investors and damage to the targeted institution for the purpose of generating gains for short sellers.”

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NOTE TO NEWS MEDIA:

In regular short selling, which is legal and when properly used can add liquidity to the market, a short seller borrows securities from a brokerage firm then sells them, betting that the stock will decline in value. The seller buys the stock back at a later time and returns it to the lender, pocketing a profit if the stock price declines.

In naked short selling, the seller never borrows the shares, but continues with the transaction as if he had. This results in fake, or phantom shares. Since the seller is not constrained by the number of available shares, he can sell an unlimited number of securities that may not exist. Naked short selling in large volumes can depress a company’s stock by creating sustained downward pressure and ultimately, can destroy it, driving down the price until the stock is worthless.