

# BELL RINGERS

## Bait-and-switch firms were picked to toll market's bell

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EVERY weekday morning at 9:30, a group of executives from one or another of the companies listed for trading on Nasdaq gathers before a camera at a midtown Manhattan TV studio.

Then, while standing behind a stage prop designed to suggest a balcony above a trading floor, the group begins waving at the camera while a soundtrack of bustling crowd noises plays in the background. Welcome to Nasdaq's make-believe version of the New York Stock Exchange ceremony known as "ringing the opening bell" which is aired live on CNBC, followed by a similar closing-bell ceremony each afternoon.

In reality, Nasdaq is an all-electronic network that disseminates stock quotes via computer to subscribing members, so it needs no bell to mark the start or end of daily trading. Nor does it need or have a trading floor teeming with workers, or a balcony for visiting dignitaries.

It only pretends to have these things, and CNBC plays along with the ruse.

As TV deceptions go, Nasdaq's faked daily rituals seem harmless enough—the outgrowth of the quotation service's ultimately successful decade-long campaign to elevate itself to the status of an actual, self-regulating exchange on a par with the NYSE.

Yet behind the charade lurks a more troubling deception, which arises from Nasdaq's efforts to infuse the bell-ringing stunt with significance.

The effort reflects an aggressive new commitment on Nasdaq's part to help boost the investment appeal of a listing on the exchange, which became officially self-regulating on Aug. 1.

Yet since Nasdaq not only runs the exchange but is itself a public company with shares listed on the exchange, its promotional efforts on behalf of the exchange automatically benefit its primary investor in the company's own shares.

Reviewing an exchange's advertising campaigns for

hyped or exaggerated claims is the responsibility of the Securities and Exchange Commission, and Nasdaq's bell-ringing activities certainly invite such scrutiny.

On its Web site, Nasdaq says the CEOs of its bell-ringing companies belong to the top echelon of the "world's business leaders," implying that it is both a great honor and a special achievement to be selected to ring the bell. The unstated but obvious subtext to the message: that Nasdaq's bell-ringer companies make great investments.

**A** Nasdaq official claimed last week that companies selected for bell-ringing duty are picked through a special pre-selection vetting process having tougher standards than those of ordinary Nasdaq-listed companies.

But when the official was pressed for specifics, the only such additional standard turned out to be a minimum market capitalization "guideline" of at least \$500 million for those selected to ring the opening bell, and \$250 million for the closing bell.

According to the official, Nasdaq has the right to waive the guidelines when it wants to. A review by The Post of the more than 500 companies that have rung the bell for Nasdaq

since January of 2005 reveals that the waiver right is exercised quite frequently.

As a result, rock-solid companies like Cisco Systems and Intel can turn up ringing the bell for Nasdaq at any moment. But so can troubled Nasdaq penny-stock companies that might at that very moment be mired in ongoing disciplinary or regulatory proceedings, or be the target of well-publicized law enforcement investigations.

Consider Greg Manning

### Buzzer brigade

The Nasdaq's opening buzzer has been pushed by a veritable rogues' gallery of companies under scrutiny.



Paul Dillio/Comptel

Name	Bell-ringing date	Sleaze highlight
<b>Overstock.com</b>	Feb. 9, 2005	CEO nut job claims his stock is being manipulated by a Wall Street cabal run by the mysterious Sith Lord.
<b>Take-Two Interactive</b>	April 11, 2005	SEC charges maker of video game that includes extreme violence and hidden explicit sex scenes with accounting fraud.
<b>Hythiam</b>	May 17, 2006	Business based on drug detox cure developed by accused Spanish quack.
<b>Ionatron</b>	Aug. 17, 2005	Founder and largest shareholder has a well-documented history of regulatory run-ins.
<b>Pegasus Wireless</b>	July 21, 2006	Major shareholder named as Taiwan's top stock swindler.

Auctions Inc., which rang the Nasdaq opening bell on Sept. 28, 2005. Four months earlier, Barron's weekly had published a lengthy investigative article questioning the company's extensive ties to a Spanish group that appeared to be operating an

share after Spanish police raided the offices of Escala's owners and charged them with defrauding 350,000 small investors around the world.

Similarly, there's Take-Two Interactive, Inc., which rang the opening bell

share. Its business plan: to develop computers with "self-organizing memories."

Available records for the company show that Nestor has reported an annual profit only once in the last 15 years (1996). As a result, the company was almost out of money from a group of backers that included the fraud-drenched Bayou hedge fund group, when it sold a \$6 million private placement note, convertible into stock at \$6 per share.

Now Nestor says the SEC wants it to undertake a massive financial restatement dating to 2003 for improperly accounting for the money; and has formally warned investors to steer clear of its stock until the matter is settled.

Nasdaq's most recent bell-ringer boo-boo: Allowing a company called Pegasus Wireless Corp. to ring the bell last July 21.

One of Wall Street's best known short sellers, Manuel Aensio, spotted Pegasus' ties to an accused Taiwan super-embezzler

named Hung Chiu-Hu, as well as to a group of securities fraudsters in Las Vegas, and to a disbarred lawyer in Florida.

Aensio posted his research on the Web, then sent a letter to Nasdaq asking why the exchange, which presumably knew much the same things about Pegasus as he had uncovered, had nonetheless decided to allow the firm to ring the bell.

He never received a response.

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international pyramid scheme in collectibles.

The official purpose of the bell-ringing had been to commemorate the company's name change from Greg Manning Auctions to Escala Group Inc. But the high-visibility event also helped launch the company's stock on an eight-month-long joy ride in which it doubled to more than \$30 per share.

The surge suddenly ended last May when Escala's stock price collapsed overnight to barely \$4 per

for Nasdaq on April 11 of last year. At the time of the bell-ringing, Take-Two Interactive had already been named as the target of an accounting fraud probe by the SEC's enforcement division, and was trying to negotiate a settlement deal with the regulators.

And how about Nestor, which rang the opening bell for Nasdaq on Aug. 24, 2005. Nestor was bolted together by the now-defunct Wall Street wind-up machine of Rooney Pace, Inc. in a 1983 IPO at \$4 per

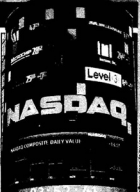


Photo: Nancy Yeh/Comptel