BEFORE THE
STATE OF WISCONSIN
DEPARTMENT OF FINANCIAL INSTITUTIONS
DIVISION OF SECURITIES

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| In the matter of | ) | |
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| BEAR, STEARNS & CO. INC., | ) | **ADMINISTRATIVE CONSENT ORDER** |
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| Respondent. | ) | **File No S-03100(EX)** |
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## CONSENT ORDER

WHEREAS, Bear, Stearns & Co. Inc. ("Bear Stearns" or the "Firm") is a broker-dealer registered in the State of Wisconsin; and

WHEREAS, coordinated investigations into Bear Stearns' activities in connection with certain conflicts of interest that research analysts were subject to during the period of July 1, 1999 through June 30, 2001 have been conducted by a multi-state task force and a joint task force of the U.S. Securities and Exchange Commission, the New York Stock Exchange, and the National Association of Securities Dealers (collectively, the "regulators"); and

WHEREAS, Bear Stearns has cooperated with regulators conducting the investigations by responding to inquiries, providing documentary evidence and other materials, and providing regulators with access to facts relating to the investigations; and

WHEREAS, Bear Stearns has advised regulators of its agreement to resolve the investigations relating to its research practices; and

WHEREAS, Bear Stearns agrees to implement certain changes with respect to its research and banking practices, and to make certain payments; and

WHEREAS, Bear Stearns elects to permanently waive any right to a hearing and appeal under sec. 551.61, Wis. Stats., with respect to this Consent Order (the "Order");

NOW, THEREFORE, the Division of Securities, as administrator of the Wisconsin Uniform Securities Law, Ch. 551, Wis. Stats., hereby enters this Order:

## I. JURISDICTION/CONSENT

Bear Stearns admits the jurisdiction of the Division of Securities, neither admits nor denies the Findings of Fact and Conclusions of Law contained in this Order, and consents to the entry of this Order by the Division of Securities.

## II. FINDINGS OF FACT

### A. Background and Jurisdiction

1. Bear Stearns, a Delaware corporation with its principal place of business in New York, New York, is a subsidiary of The Bear Stearns Companies, Inc. Bear Stearns provides equity research, sales, and trading services; merger and acquisition advisory services; venture capital services; and underwriting services on a global basis.

2. Bear Stearns is registered with the Securities and Exchange Commission ("Commission"), is a member of the New York Stock Exchange, Inc. ("Exchange") and the NASD Inc. ("NASD") and is licensed to conduct securities business on a nationwide basis.

3. Bear Stearns is currently registered with the Division of Securities as a broker-dealer, and has been so registered since July 18, 1940.

4. This action concerns the time period of July 1, 1999 to June 30, 2001 (the "relevant period"). During that time, Bear Stearns engaged in both research and investment banking ("IB") activities.

### B. Overview

1. During the relevant period, the Firm sought and did IB business with many companies covered by its research. Research analysts were encouraged to participate in IB activities, and that was a factor considered in the analysts' compensation system. In addition, the decision to initiate and maintain research coverage of certain companies was in some cases coordinated with the IB Department and influenced by IB interests.

2. As a result of the foregoing, certain research analysts at the Firm were subjected to IB influences and conflicts of interest between supporting the IB business at the Firm and publishing objective research.

3. The Firm had knowledge of these IB influences and conflicts of interest yet failed to establish and maintain adequate policies, systems and procedures that were reasonably designed to detect and prevent the influences and manage the conflicts.

## C. Research Analyst Participation in Investment Banking Activities

1. Research analysts were responsible for providing analyses of the financial outlook of particular companies in the context of the business sectors in which those companies operated and the securities market as a whole.

2. Research analysts evaluated companies by, among other things, examining financial information contained in public filings, questioning company management, investigating customer and supplier relationships, evaluating companies' business plans and the products or services offered, building financial models and analyzing competitive trends.

3. After synthesizing and analyzing this information, analysts produced research in the form of full reports and more abbreviated formats that typically contained a recommendation, a price target, and a summary and analysis of the factors relied upon by the analyst.

4. The Firm distributed its analysts' research internally to various departments at the Firm and externally to the Firm's retail and institutional investing clients. In addition, the Firm sold some of its research directly to non-clients, disseminated it through distribution agreements with other broker dealers, made it available to third party subscription services such as First Call, and offered it for sale via market websites such as MultexInvestor.

5. In addition to performing research functions, certain research analysts participated or assisted in IB activities. These IB activities included identifying companies as prospects for IB services, participating in "pitches"[1] of IB services to companies, attending "road shows"[2] associated with underwriting transactions, and speaking to investors to generate interest in underwriting transactions.

6. In preparation for each "pitch" the bankers, with the analyst's input, prepared a "pitch book" which was distributed at the meeting and contained a summary of the Firm's presentation.

7. The pitch books, in some instances, identified the covering analyst by name, provided information about that analyst's background and reputation, sometimes characterizing the analyst as the "ax" in his or her coverage sector, and

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[1] A "pitch" is a presentation made by bankers and research analysts to a potential IB client in order to obtain the mandate for an upcoming IB transaction. In competing for an IB mandate, the Firm typically sent bankers and the analyst to meet with company management to persuade the company to select the Firm as one of the investment bankers in a contemplated transaction. At these "pitch" meetings Firm bankers would present their level of expertise in the company's sector and discuss their previous experience with other such companies, as well as their view of the company's merits and likelihood of success.

[2] A "road show" is a series of presentations made to potential investors in conjunction with the marketing of an upcoming underwriting.

highlighted the success of Bear Stearns' underwritten IPOs covered by the analyst. The pitch books also highlighted such factors as the number of lead and co-managed IPOs that the Firm currently had under research coverage. This information was intended to convey to the issuer that such treatment would be accorded to it if Bear Stearns received the mandate for the IB transaction.

8. The analyst's reputation played a role in pitching the Firm's IB services to potential clients. Issuers often chose an investment bank because of the reputation of the analyst that would cover the company's stock.

9. The pitch to an issuer by the research analyst contributed to Bear Stearns' ability to win investment banking deals and receive investment banking fees from that and subsequent investment banking relationships.

10. The investment banking division at Bear Stearns advised corporate clients and helped them execute various financial transactions, including the issuance of stock and other securities. Bear Stearns frequently served as the lead or as a co-lead underwriter in initial public offerings ("IPOs") -- the first public issuance of stock of a company that has not previously been publicly traded -- and follow-on offering of securities.

11. During the relevant period, investment banking was an important source of revenues and profits for Bear Stearns. In 2000, investment banking generated more than $965 million in net revenues, or approximately eighteen percent of Bear Stearns' total net revenues.

12. The IB activities in which analysts participated also included participating in commitment committee[3] and due diligence activities in connection with underwriting transactions and from time to time assisting the IB Department in providing merger and acquisition ("M&A") and other advisory services to companies.

13. The Firm encouraged research analysts to support the IB and other businesses of the Firm. With regard to IB, research analysts were encouraged to work in partnership with the IB Department by participating in the foregoing IB activities, and the level of certain research analysts' participation in these IB activities was sometimes significant.

    a. On September 23, 1999, the Head of Research provided research analysts with guidelines to follow in drafting their business plans. The guidelines stated they were "designed to help [the research analysts] focus on executing and delivering [their] goals, improving [their] overall contribution to the firm and enhancing [their] relationships with [their] partners throughout the firm." These guidelines requested the research analysts to describe their contributions to nine separate areas of the Firm's

[3] The "commitment committee" was responsible for, among other things, evaluating and determining the Firm's participation in IPOs and other IB transactions.

business. With respect to the area identified as "Banking," the guidelines stated: "After your business plan meeting with your bankers please discuss any ideas you have generated for deal origination and timing of coverage for existing or proposed corporate relationships. Include or attach to your business plan a list of stocks you and your corporate finance team have agreed upon as priorities. Include plans to help market transactions or to introduce M&A activity. Discuss any plans to drop coverage where there is no longer a strategic fit."

b. In her 1997/1998 business plan, an analyst stated, "If I were any more aggressive in the banking area, my office would be on the third floor [location of IB offices of the Firm]."

14. In connection with their participation in IB activities, certain research analysts and investment bankers ("bankers") communicated, in various frequency and extent, through meetings and via telephone and electronic mail ("e-mail").

15. The IB department at the Firm was organized into industry groups that corresponded to certain research sectors. Research analysts were aware that, in certain circumstances, their positive and continued coverage of particular companies was an important factor for the generation of investment banking business. Thus, some research analysts and bankers coordinated the initiation and maintenance of research coverage, based upon, among other things, investment banking considerations.

a. On February 9, 2000, two bankers and an analyst submitted a joint business plan to the co-heads of the IB technology group. The stated purpose of the memorandum was to "describe a strategy for investment banking and research coverage and coordination of companies which provide Internet enabling technologies. The near-term goal is to establish an organized and prioritized calling effort with an emphasis on cultivating fewer and deeper, lead managed relationships." [Emphasis in original.]

## D. Participation in Investment Banking Activities was a Factor in Evaluating and Compensating Research Analysts

1. The compensation system at the Firm provided an incentive for research analysts to contribute to all areas of the Firm's business, including participating in IB activities and assisting in generating IB business for the Firm. Research analysts' participation in IB activities was one of several factors considered in determining their compensation. Notes of staff meetings reflect the following statements by the Head of Research to analysts:

a. "I'd like to remind everyone how you get paid at Bear Stearns. It is based on your contribution to your team and your contribution to the firm . . . Notice that being a partner with banking is part of the analyst job

description. You are not compared or matrixed or in any way paid on a formula. Working on transactions is not incremental to your compensation, it is an expected part of it."

b. "I need to remind you that investment banking revenues are not incremental to your bonus. Being a partner to banking is part of your job. You are paid on performance and based on your contribution to the firm."

2. The performance of research analysts was evaluated through an annual review process. Where not set by contract, the research analyst's salary and annual bonus were also determined through this process.

3. Information on the analyst's job performance was gathered through annual self-evaluations, analyst's business plans, surveys of management, and trading and institutional sales department personnel, e-mail and oral feedback from employees in the IB and other departments at the Firm, and the Firm's institutional clients.

4. The research analysts' annual business plans contained, among other things, their contributions to various areas of the Firm, including IB, for the past year, and their plans for improving their contribution to these areas of the Firm, including IB, in the coming year.

5. In their self-evaluations, which were used to communicate their accomplishments to and petition management for increased compensation analysts discussed such areas as their rankings in independent research polls, the scope of their research coverage, their participation in industry conferences, and the Firm's Autex rankings in stocks they covered. Certain research analysts provided extensive information regarding their assistance to IB, including accomplishments, goals, and participation in lead- and co-managed underwritings, and sometimes also including the revenues to the Firm associated with the IB transactions on which the analyst worked. In addition, analysts were occasionally requested to inform research management of fees generated by the IB transactions on which they worked.

a. In an October 24, 2000 e-mail to the Head of Research, a senior analyst summarized his 9 key accomplishments during fiscal year 2000. The first and largest point, which dealt with his contributions to IB, stated as follows: "*Corporate finance: generated over $23 million in fees to the firm in nine separate transactions: *Storage networking: identified a new financial opportunity for the firm, which resulted in six transactions... I should be designated as a finder for Ancor [Ancor Communications], JNI [JNI Corp.] and Vixel [Vixel Corp.]. *iAppliances: identified a new industry category ...which was a source of two IPOs... *Agilent [Agilent Technologies]: I should be designated as a finder -- or at least a save for Agilent. BS pitched the business and lost. I went in and re-won the business, generated fees of around $2.5 million to the firm." The e-mail to the Head of Research included a spreadsheet listing the IB transactions on which he had worked and the associated revenues to the Firm. The Head

of Research praised the format of the summary and suggested she might have all research analysts submit theirs in the same form.

b. In a June 21, 2001 e-mail from a member of the research management staff, the research analysts were requested to submit information regarding all banking transactions that had closed or that were pending in their sectors during the prior 6 month period.

6. Certain research analysts perceived that the amount of their bonus would be influenced by their contribution to and impact on the firm's IB business, and the fees generated by IB transactions on which they worked.

7. Research analysts were encouraged to support and assist all areas of the Firm and to participate in IB activities and activities that enhanced the reputation of the Firm's IB business. Based upon statements by research management indicating that partnership with banking was part of their job as research analysts, the inclusion of a "Banking" section in their annual business plans, information regarding IB transactions in their self-evaluations, and requests from research management for specific information regarding IB transactions in their coverage sectors, certain research analysts believed that the revenues generated by their participation in IB activities was an important factor in their evaluations and compensation. Accordingly, some research analysts were encouraged to participate in IB activities, increase IB revenues, and enhance the reputation of the Firm, including its IB business.

8. Research Analysts' salaries and bonuses were determined by a multiple factor-based approach. Among other things, analysts were judged for compensation purposes based on the performance of their stock picks, their impact on the buy-side accounts as measured by votes, the Firm's market share in trading volume in the stocks they covered, their participation in IB activities, and the fees and secondary trading commissions generated from those activities were considered.

**E. Investment Banking Interests Influenced the Firm's Decisions to Initiate and Maintain Research Coverage**

1. In general, the Firm determined whether to initiate and maintain research coverage based upon institutional investors' interest in the company, and the company's importance to the sector or IB considerations, such as attracting companies to the Firm to generate IB business or maintaining a positive relationship with existing IB clients.

2. The nature and duration of research coverage were important criteria for a company's choice of a broker dealer for IB services. The pitch books typically contained information stating, among other things, that: "an important element to successfully executing an IPO is having an assurance that the Firm will provide research coverage to the IPO candidate in the offering and in the aftermarket."

3. The Firm generally initiated coverage on companies that engaged the Firm in an IB transaction. In pitching for IB business, the Firm sometimes represented to the company the frequency with which reports would be issued.

4. The Firm's ratings system, which was intended to reflect the long-term prospects of a rated stock, allowed research analysts to assign one of five ratings to a stock: (1) "Buy" - Expected to outperform the local market by 20% in the next 12 months. Strong conviction and typically accompanied by an identifiable catalyst; (2) "Attractive" - Expected to outperform the local market by 10% or more, it is usually more difficult to identify the catalyst; (3) "Neutral" - Expected to perform in line with the local market; (4) "Unattractive" - Expected to underperform the local market; and (5) "Sell" - Avoid the stock.

5. During the relevant period, there was a sharp downturn in the stock market and stocks in certain sectors performed poorly. During this period, the Firm did not issue ratings of "Unattractive" or "Sell" in connection with any covered companies in these sectors.

6. Research management communicated with IB management to ensure that research opportunities were appropriately aligned with identified IB opportunities.

7. The Stock Selection Committee was ultimately responsible for making the determination to initiate coverage of a given company. The Head of Research was ultimately responsible for making the determination to maintain research coverage. Nonetheless, IB considerations sometimes influenced the decision to initiate and maintain coverage.

8. Some research analysts and bankers actively coordinated the initiation and maintenance of research coverage based upon, among other things, IB considerations. This coordination consisted of meetings and communications by telephone and e-mail.

9. In some circumstances, research coverage was initiated based on IB considerations.

   a. In an April 19, 2000 e-mail from a member of his staff, the head of the IB Technology Group communicated the following to the Heads of Research and IB as well as numerous analysts and bankers: "[Analyst A] and [Analyst B] agree that [Analyst B] will be the analyst covering CacheFlo [Cacheflow]. [Banker] and [Analyst B] will discuss with CacheFlo what the planned timing of their offering will be so as to insure that if we initiate coverage in advance of the transaction we will not be prohibited from being an underwriter. [Analyst B] and [Banker] will also stress to the company that if we initiate coverage we expect our position in the company's future financing and strategy actions to be materially improved."

10. Given that research analysts participated in determining in which IB transactions in their sectors the Firm would participate, if the Firm determined to participate in an equity offering for a company, it was expected the company would qualify for an initial "Buy" rating.

11. An analyst who anticipated initiating coverage of such a company with less than a "Buy" rating informed IB in advance as follows.

    a. In a February 8, 2000 e-mail to bankers and the Head of Research, this analyst stated: "Just wanted to be sure that everyone knows that we will be using an Attractive rating on go.com. If anyone has any comments or issues, please let me know."

    b. In a March 17, 2000 e-mail to research analysts, an associate analyst stated: "I talked to [the liaison between research and IB] and we have the go ahead to initiate on IPET [Pets.com] with an Attractive rating. According to [the liaison] we should explain somewhere in the text, why our opinion about the company's prospects have changed from the time we initiated coverage."[4]

    c. In his annual evaluation, this analyst was criticized as follows: "Has been working poorly w/bankers - in changing opinions after the firm has committed to co. mgmts". The analyst testified that he believed the statement related to his communicating his opinions regarding companies to bankers in a timely manner, and that if his opinion regarding a company changed from a more positive opinion to a more negative opinion about a company after a banker had already made some sort of commitment to a company, it made life difficult for the banker and was not ideal from his standpoint. He went on to testify that, particularly in his highly volatile sector, companies often changed a lot between the time of the first organizational meeting and the date of the IPO.

12. In some circumstances, the determination to maintain research was influenced by IB considerations.

    a. Due to IB influences a supervisory analyst perceived and communicated to others that IB approval was required before coverage could be dropped. In response to an inquiry by an associate analyst regarding dropping coverage of 2 companies, a supervisory analyst stated in an April 19, 2002 e-mail: "[The Head of Research] says before dropping coverage, you need to get permission from both: 1. the market makers on the trading desk, 2. the bankers."

    b. In an April 3, 2000 e-mail to the Heads of Research and IB as well as numerous members of both departments, a banker discussed a company's

[4] In fact, Bear Stearns had not yet initiated coverage on IPET at the time this e-mail was sent.

decision to exclude the Firm from a follow-on offering. He stated: "I expressed significant disappointment with the fact that they neglected to discuss this issue with us prior to this time and that they left us no choice but to drop research coverage and trading, since they obviously did not value our support to date. [Analyst] - As we discussed, feel free to drop at any time. I told the CFO that you would likely put out a note, but did not know when." In a follow-up e-mail the Head of Research stated that she agreed with the decision to drop coverage. The analyst ultimately determined not to drop coverage.

## F. Research Analysts Were Visible on Stocks to Generate Investment Banking Business

1. Issuers also considered investment banks' aftermarket trading support as a factor in selecting an investment bank. The Firm's trading volume and trading rank were factors it promoted to IB clients in pitch presentations.

2. The Firm distributed to sales and trading personnel and research analysts the "Trading Focus List," which contained stocks of companies from which the Firm was seeking or with which the Firm had IB business.

3. A research analyst actively marketed companies on the Trading Focus List in order to obtain IB business.

   a. In a December 10, 1999 e-mail, an analyst wrote the following to Equity Trading copied to the Heads of Research and IB: "Subject: Pls make the trading of Packeteer a top priority. I spent two days with Packeteer ('PKTR') management this week visiting investors. Management are extremely happy with our research coverage and banking services. But they have repeatedly indicated to me that our trading stat. is not satisfactory...CEO hinted to me many times that we have a chance for the books for the secondary if we improve the trading...They are likely to do a secondary in Q1 - mostly likely late January/early February; could be as much as $200 MM deal. Please help us in improving our trading immediately. We will do whatever it takes from the research side."

   b. In a September 14, 2000 e-mail to Equity Trading the same analyst wrote the following regarding banking client SonicWall ("SNWL"): "We need help in boosting our trading stat for SNWL. Both management and their VC called me yesterday complaining about our trading - #2 in August and #3 so far in September. More importantly, they argued that we are not supporting the stock when it is weak...I made a positive call on Monday but am not getting much support. Pls help us here since this important technology client indicated to me that if we do not improve, it will hurt our banking relationship with the company."

c. In a March 8, 2001 e-mail the same analyst again wrote to Equity Trading regarding two IB clients he covered: "Subject: MUSE [Micromuse] and ISSX [Internet Security Systems] autex - both on focus list. On MUSE - we dropped from #3 or 4 in 2000 to #10 in Feb and March to date. I just called the trader to see what we can do. I have been extremely active on the name- took management to Boston, Denver, Minneapolis and KC in February alone. Do not quite understand. Pls follow up. ISSX - we dropped from #2 or #3...to #11 in March. I am very active on ISSX also. Thanks for your help on this." Equity Trading responded: "What do you want me to do? Get some orders on the stock yourself. Generate some order flow!!" The analyst replied: "I am trying...but are the traders on these two stocks good?"

4. In order to raise or maintain the Firm's visibility on stocks with which the Firm wanted to do IB business, certain research analysts nominated companies to participate at Firm sponsored conferences, took company managements on non-deal road shows, hosted field trips for institutional investors to companies' headquarters and arranged other meetings between institutional investor clients and companies.

5. Research analysts were visible on stocks of companies with which the Firm wanted to do IB business in order to generate IB business.

## G. Research Analysts Were Subject to Pressure by Covered Companies

1. Certain research analysts communicated regularly with employees of the companies that they covered, including executive and senior management of those companies. These communications occurred through telephone and e-mail exchanges, company-sponsored events, and analyst calls.

2. Research analysts were sometimes subject to pressure from companies they covered to issue better ratings and recommendations. Research analysts understood that negative ratings and recommendations could adversely affect the Firm's ability to attract and retain IB business from those companies.

a. On November 2, 2000, in his 2000 self-evaluation an analyst wrote in a section entitled "Areas to Improve: We want our banking clients to know that our research is objective and independent but always sensitive to their best interests. There have been instances in my career where certain banking clients felt that our research and public comments weren't sensitive to their interests. This is a very important issue for us and we take it most seriously. We will continue to make every effort to be sensitive to our clients and our banking partners."

3. When research analysts downgraded or issued a negative comment on a banking client, they sometimes received direct feedback from high-ranking company officials.

   a. In an August 24, 2000 e-mail, a banking client responding to a downgrade of his company wrote: "Your earnings estimates are on track, however, given the downgrade, I sure would have liked to see you give us a lower bar on revenue...[W]hile we affirmed the revenue estimate, they were definitely a stretch. Seems a shame to waste a downgrade by not buying the opportunity for us both to over-perform going forward..."

## H. In Certain Instances, the Firm Published Exaggerated or Unwarranted Research

1. On several occasions, the conflicts of interest discussed above resulted in analysts publishing recommendations and/or ratings that were exaggerated or unwarranted, and/or contained opinions for which there was no reasonable basis. The following are examples of how these conflicts affected the research.

   a. Bear Stearns lead managed the IPO and secondary offerings for SonicWall in November 1999 and March 2000 respectively. An analyst rated the stock a "Buy" from the IPO until April 2002. In January 25, 2001 while they were participating in a SonicWall conference call the analyst stated to his associate: "I am trying to make them look good...on the dso and the growth etc." A few minutes later he added: "we got paid for this...and I am going to Cancun tomorrow b/c of them!"

   b. Bear Stearns initiated coverage of MUSE with an "Attractive" rating in September 1999, raised the rating to a "Buy" in January 2000 and maintained a "Buy" rating on the stock until July 2002. While listening to a MUSE analyst call on July 18, 2001, an analyst suggested to his associate that he was going to downgrade his rating on the stock to "Attractive". The associate disagreed with the suggestion and the analyst responded that the stock was "dead money!" However, the analyst did not downgrade his rating on the stock, instead issuing research the same day maintaining his "Buy" rating.

   c. Bear Stearns lead managed the IPO for CAIS Internet, Inc. in May 1999. The analyst rated the stock a "Buy" from the IPO through his last report on the company in November 2000. On January 24, 2001, in response to an e-mail reporting extensive service failures at CAIS the analyst stated: "Any other scoop on this piece of shit?" A few days later, in response to an institutional client's request for his thoughts on CAIS' 4th quarter, the analyst stated: "It's up a lot year to date...don't overstay your welcome on this one."

d. Bear Stearns co-managed the IPO and secondary offerings for Digital River in August and December 1998 respectively. The Firm, via three successive analysts, rated the stock a "Buy" from the IPO until April 2002. In an April 1, 2002 e-mail to his IB counterpart an analyst stated: "I have to tell you, I feel a bit compromised today. I have told every client on the phone that they should avoid or short the stock over the last few months. I have been fairly hands-off on DRIV [Digital River, a stock under his coverage], primarily because of the banking prospect that you and [Another Banker] have noted. Today, clearly the stock is down a lot. The artificial Buy rating on the stock, while artificial, still makes me look bad. In the future, I'd like to have more leeway with the ratings, even for companies like Digital River, where we have a relationship on the banking side. I trust it would benefit all of us."

## I. The Firm Made A Payment for Research

1. In August 2000, as part of an offering that took place in May 2000, the Firm made a payment of $102,750 to another broker-dealer in connection with research coverage it provided for Andrx Corp. ("ADRX"), a Bear Stearns' investment banking client in connection with an underwriting transaction for which Bear Stearns was a lead manager.

2. Bear Stearns did not take steps to ensure that this broker-dealer disclosed in its research that it had been paid to issue research on ADRX. Further Bear Stearns did not disclose or cause to be disclosed the details of this payment.

## J. Bear Stearns Failed to Adequately Supervise Its Research and Investment Banking Departments

1. While the role of the research analysts was to produce objective research, the Firm also encouraged them to participate in IB activities. As a result of the foregoing, research analysts were subject to IB influences and conflicts of interest between supporting the IB business at the Firm and publishing objective research.

2. The Firm had knowledge of these IB influences and conflicts of interest yet failed to manage them adequately to protect the objectivity of its published research.

3. Bear Stearns failed to establish and maintain adequate policies, systems and procedures reasonably designed to ensure the objectivity of its published research. Although Bear Stearns had some policies governing research analyst activities during the relevant period, these policies were inadequate and did not address the conflicts of interest that existed.

## III. CONCLUSIONS OF LAW

1. The Division of Securities has jurisdiction over this matter pursuant to the Wisconsin Uniform Securities Law, Ch. 551, Wis. Stats., and secs. 551.61(1) and 551.63(1) & (2), Wis. Stats.

2. The Division of Securities finds the following relief appropriate and in the public interest.

3. Bear Stearns has engaged in dishonest or unethical practices in the securities business, has taken unfair advantage of its customers and has failed reasonably to supervise agents to assure their compliance with Ch. 551, Wis. Stats.

   a. Bear Stearns failed to ensure that analysts who issued research were adequately insulated from pressures and influences from covered companies and investment banking in violation of sec. 551.34(1)(g), Wis. Stats.

   b. Bear Stearns failed to reasonably supervise its employees to ensure that its analysts who issued research were adequately insulated from pressures and influences from covered companies and investment banking as required by sec. 551.34(1)(j), Wis. Stats.

## IV. ORDER

On the basis of the Findings of Fact, Conclusions of Law, and Bear Stearns' consent to the entry of this Order, for the sole purpose of settling this matter, prior to a hearing and without admitting or denying any of the Findings of Fact or Conclusions of Law.

IT IS HEREBY ORDERED:

1. This Order concludes the investigation by the Division of Securities and any other action that the Division of Securities could commence under the Wisconsin Uniform Securities Law, Ch. 551, Wis. Stats., on behalf of the State of Wisconsin as it relates to Bear Stearns, relating to certain research or banking practices at Bear Stearns.

2. Bear Stearns will CEASE AND DESIST from violating the Wisconsin Uniform Securities Law, Ch. 551, Wis. Stats. in connection with the research practices referenced in this Order, and will comply with the Wisconsin Uniform Securities Law, Ch. 551, Wis. Stats., in connection with the research practices referenced in this Order and will comply with the undertakings of Addendum A, incorporated herein by reference.

3. If payment is not made by Bear Stearns or if Bear Stearns defaults in any of its obligations set forth in this Order, the Division of Securities may vacate this Order, at its sole discretion, upon 10 days notice to Bear Stearns and without opportunity for administrative hearing.

4. This Order is not intended by the Division of Securities to subject any Covered Person to any disqualifications under the laws of any state, the District of Columbia or Puerto Rico (collectively, "State"), including, without limitation, any disqualifications from relying upon the State registration exemptions or State safe harbor provisions. "Covered Person" means Bear Stearns, or any of its officers, directors, affiliates, current or former employees, or other persons that would otherwise be disqualified as a result of the Orders (as defined below).

5. The SEC Final Judgment, the NYSE Stipulation and Consent, the NASD Letter of Acceptance, Waiver and Consent, this Order and the order of any other State in related proceedings against Bear Stearns (collectively, the "Orders") shall not disqualify any Covered Person from any business that they otherwise are qualified, licensed or permitted to perform under applicable law of the State of Wisconsin and any disqualifications from relying upon this state's registration exemptions or safe harbor provisions that arise from the Orders are hereby waived.

6. For any person or entity not a party to this Order, this Order does not limit or create any private rights or remedies against Bear Stearns including, without limitation, the use of any e-mails or other documents of Bear Stearns or of others regarding research practices or limit or create liability of Bear Stearns or limit or create defenses of Bear Stearns to any claims.

7. Nothing herein shall preclude the State of Wisconsin, its departments, agencies, boards, commissions, authorities, political subdivisions and corporations, other than the Division of Securities and only to the extent set forth in paragraph 1 above, (collectively, "State Entities") and the officers, agents or employees of State Entities from asserting any claims, causes of action, or applications for compensatory, nominal and/or punitive damages, administrative, civil, criminal, or injunctive relief against Bear Stearns in connection with certain research and/or banking practices at Bear Stearns.

## V. MONETARY SANCTIONS

IT IS FURTHER ORDERED, ADJUDGED AND DECREED that:

As a result of the Findings of Fact and Conclusions of Law contained in this Order, Bear Stearns shall pay a total amount of $80,000,000.00. This total amount shall be paid as specified in the SEC Final Judgment as follows:

$25,000,000 to the states (50 states, plus the District of Columbia and Puerto Rico) (Bear Stearns' offer to the state securities regulators hereinafter shall be called the "state settlement offer"). Upon execution of this Order, Bear Stearns shall pay the sum of $413,277 of this amount to the State of Wisconsin as a civil monetary penalty to be deposited in the Gifts, Grants, Settlements, and Publications Fund, sec. 20.144(1)(h), Wis. Stats. The total amount to be paid by Bear Stearns to state securities regulators pursuant to the state settlement offer may be reduced due to the decision of any state securities regulator not to accept the state settlement offer. In the event another state securities regulator determines not to accept Bear Stearns' state settlement offer, the total

amount of the State of Wisconsin payment shall not be affected, and shall remain at $413,277;

$25,000,000 as disgorgement of commissions, fees and other monies as specified in the SEC Final Judgment;

$25,000,000, to be used for the procurement of independent research, as described in the SEC Final Judgment;

$5,000,000, to be used for investor education, as described in Addendum A, incorporated by reference herein.

Bear Stearns agrees that it shall not seek or accept, directly or indirectly, reimbursement or indemnification, including, but not limited to payment made pursuant to any insurance policy, with regard to all penalty amounts that Bear Stearns shall pay pursuant to this Order or Section II of the SEC Final Judgment, regardless of whether such penalty amounts or any part thereof are added to the Distribution Fund Account referred to in the SEC Final Judgment or otherwise used for the benefit of investors. Bear Stearns further agrees that it shall not claim, assert, or apply for a tax deduction or tax credit with regard to any state, federal or local tax for any penalty amounts that Bear Stearns shall pay pursuant to this Order or Section II of the SEC Final Judgment, regardless of whether such penalty amounts or any part thereof are added to the Distribution Fund Account referred to in the SEC Final Judgment or otherwise used for the benefit of investors. Bear Stearns understands and acknowledges that these provisions are not intended to imply that the State of Wisconsin would agree that any other amounts Bear Stearns shall pay pursuant to the SEC Final Judgment may be reimbursed or indemnified (whether pursuant to an insurance policy or otherwise) under applicable law or may be the basis for any tax deduction or tax credit with regard to any state, federal or local tax.

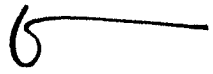
## VI. GENERAL PROVISIONS

This order and any dispute related thereto shall be construed and enforced in accordance, and governed by, the laws of the State of Wisconsin.

The parties represent, warrant and agree that they have received independent legal advice from their attorneys with respect to the advisability of executing this Order.

Dated this 3d day of October, 2003.

BY ORDER OF Division of Securities



Patricia D. Struck
Administrator
Division of Securities

## CONSENT TO ENTRY OF
## ADMINISTRATIVE ORDER BY BEAR, STEARNS & CO. INC.

1. Bear Stearns hereby acknowledges that it has been served with a copy of this Administrative Order, has read the foregoing Order, is aware of its right to a hearing and appeal in this matter, and has waived the same.

2. Bear Stearns admits the jurisdiction of the Division of Securities, neither admits nor denies the Findings of Fact and Conclusions of Law contained in this Order; and consents to entry of this Order by the Division of Securities as settlement of the issues contained in this Order.

3. Bear Stearns states that no promise of any kind or nature whatsoever was made to it to induce it to enter into this Order and that it has entered into this Order voluntarily.

4. Bear Stearns understands that the State of Wisconsin may make such public announcement concerning this agreement and the subject matter thereof as the State of Wisconsin may deem appropriate.

Mark E. Lehman represents that he/~~she~~ is General Counsel of Bear Stearns and that, as such, has been authorized by Bear Stearns to enter into this Order for and on behalf of Bear Stearns.

Dated this 15th day of September, 2003.
Bear, Stearns & Co. Inc.

By: _____

Title: Senior Managing Director and General Counsel

SUBSCRIBED AND SWORN TO before me this 15th day of September, 2003.

_____
Notary Public

My Commission expires: 6/15/07

PATRICK B. MALONEY
Notary Public, State of New York
No. 02MA5011777
Qualified in Westchester County
Certificate Filed in New York County
Commission Expires: 6/15/07

## Addendum A

## Undertakings

The firm shall comply with the following undertakings:

### I. Separation of Research and Investment Banking

1. Reporting Lines. Research and Investment Banking will be separate units with entirely separate reporting lines within the firm – i.e., Research will not report directly or indirectly to or through Investment Banking. For these purposes, the head of Research may report to or through a person or persons to whom the head of Investment Banking also reports, provided that such person or persons have no direct responsibility for Investment Banking or investment banking activities.

    a. As used throughout this Addendum, the term "firm" means the Respondent, Respondent's successors and assigns (which, for these purposes, shall include a successor or assign to Respondent's investment banking and research operations), and their affiliates, other than "exempt investment adviser affiliates."

    b. As used throughout this Addendum, the term "exempt investment adviser affiliate" means an investment adviser affiliate (including for these purposes, a separately identifiable department or division that is principally engaged in the provision of investment advice to managed accounts as governed by the Investment Advisers Act of 1940 or investment companies under the Investment Company Act of 1940) having no officers (or persons performing similar functions) or employees in common with the firm (which, for purposes of this Section I.1.b, shall not include the investment adviser affiliate) who can influence the activities of the firm's Research personnel or the content of the firm's research reports; provided that the firm (i) maintains and enforces written policies and procedures reasonably designed to prevent the firm, any controlling persons, officers (or persons performing similar functions), or employees of the firm from influencing or seeking to influence the activities of Research personnel of, or the content of research reports prepared by the investment adviser affiliate; (ii) obtains an annual independent assessment of the operation of such

policies and procedures; and (iii) does not furnish to its customers research reports prepared by the investment adviser affiliate or otherwise use such investment adviser affiliate to do indirectly what the firm may not do directly under this Addendum.

c. As used throughout this Addendum, the term "Investment Banking" means all firm personnel engaged principally in investment banking activities, including the solicitation of issuers and structuring of public offering and other investment banking transactions. It also includes all firm personnel who are directly or indirectly supervised by such persons and all personnel who directly or indirectly supervise such persons, up to and including Investment Banking management.

d. As used throughout this Addendum, the term "Research" means all firm personnel engaged principally in the preparation and/or publication of research reports, including firm personnel who are directly or indirectly supervised by such persons and those who directly or indirectly supervise such persons, up to and including Research management.

e. As used throughout this Addendum, the term "research report" means any written (including electronic) communication that is furnished by the firm to investors in the U.S. and that includes an analysis of the common stock, any security convertible into common stock, or any derivative thereof, including American Depositary Receipts (collectively, "Securities"), of an issuer or issuers and provides information reasonably sufficient upon which to base an investment decision; provided, however, that a "research report" shall not include:

    i. the following communications, if they do not include (except as specified below) an analysis, recommendation or rating (e.g., buy/sell/hold, under perform/market perform/outperform, underweight/market weight/overweight, etc.) of individual securities or issuers:

        1. reports discussing broad-based indices, such as the Russell 2000 or S&P 500 index;

2. reports commenting on economic, political or market (including trading) conditions;

3. technical or quantitative analysis concerning the demand and supply for a sector, index or industry based on trading volume and price;

4. reports that recommend increasing or decreasing holdings in particular industries or sectors or types of securities; and

5. statistical summaries of multiple companies' financial data and broad-based summaries or listings of recommendations or ratings contained in previously-issued research reports, provided that such summaries or listings do not include any analysis of individual companies; and

ii. the following communications, even if they include information reasonably sufficient upon which to base an investment decision or a recommendation or rating of individual securities or companies:

1. an analysis prepared for a current or prospective investing customer or group of current or prospective investing customers by a registered salesperson or trader who is (or group of registered salespersons or traders who are) not principally engaged in the preparation or publication of research reports; and

2. periodic reports, solicitations or other communications prepared for current or prospective investment company shareholders (or similar beneficial owners of trusts and limited partnerships) or discretionary investment account clients, provided that such communications discuss past performance or the basis for previously made discretionary investment decisions.

2. Legal/Compliance. Research will have its own dedicated legal and

compliance staff, who may be a part of the firm's overall compliance/legal infrastructure.

3. Budget. For the firm's first fiscal year following the entry of the Final Judgment in the SEC's action against Respondent in a related proceeding ("Final Judgment") and thereafter, Research budget and allocation of Research expenses will be determined by the firm's senior management (e.g., CEO/Chairman/management committee, other than Investment Banking personnel) without input from Investment Banking and without regard to specific revenues or results derived from Investment Banking, though revenues and results of the firm as a whole may be considered in determining Research budget and allocation of Research expenses. On an annual basis thereafter, the Audit Committee of the firm's holding/parent company (or comparable independent persons/group without management responsibilities) will review the budgeting and expense allocation process with respect to Research to ensure compliance with this requirement.

4. Physical Separation. Research and Investment Banking will be physically separated. Such physical separation will be reasonably designed to prevent the intentional and unintentional flow of information between Research and Investment Banking.

5. Compensation. Compensation of professional Research personnel will be determined exclusively by Research management and the firm's senior management (but not including Investment Banking personnel) using the following principles:

    a. Investment Banking will have no input into compensation decisions.

    b. Compensation may not be based directly or indirectly on Investment Banking revenues or results; provided, however, that compensation may relate to the revenues or results of the firm as a whole.

    c. A significant portion of the compensation of anyone principally engaged in the preparation of research reports (as defined in this Addendum) that he or she is required to certify pursuant to the U.S. Securities and Exchange's Regulation Analyst Certification

("Regulation AC") (such person hereinafter a "lead analyst") must be based on quantifiable measures of the quality and accuracy of the lead analyst's research and analysis, including his or her ratings and price targets, if any. In assessing quality, the firm may rely on, among other things, evaluations by the firm's investing customers, evaluations by the firm's sales personnel and rankings in independent surveys. In assessing accuracy, the firm may use the actual performance of a company or its equity securities to rank its own lead analysts' ratings and price targets, if any, and forecasts, if any, against those of other firms, as well as against benchmarks such as market or sector indices.

d. Other factors that may be taken into consideration in determining lead analyst compensation include: (i) market capitalization of, and the potential interest of the firm's investing clients in research with respect to, the industry covered by the analyst; (ii) Research management's assessment of the analyst's overall performance of job duties, abilities and leadership; (iii) the analyst's seniority and experience; (iv) the analyst's productivity; and (v) the market for the hiring and retention of analysts.

e. The criteria to be used for compensation decisions will be determined by Research management and the firm's senior management (not including Investment Banking) and set forth in writing in advance.

f. Research management will document the basis for each compensation decision made with respect to (i) anyone who, in the last 12 months, has been required to certify a research report (as defined in this Addendum) pursuant to Regulation AC; and (ii) anyone who is a member of Research management (except in the case of senior-most Research management, in which case the basis for each compensation decision will be documented by the firm's senior management).

On an annual basis, the Compensation Committee of the firm's holding/parent company (or comparable independent persons/group without management responsibilities) will review the compensation process for Research personnel. Such review will be reasonably

designed to ensure that compensation decisions have been made in a manner that is consistent with these requirements.

6. Evaluations. Evaluations of Research personnel will not be done by, nor will there be input from, Investment Banking personnel.

7. Coverage. Investment Banking will have no input into company-specific coverage decisions (i.e., whether or not to initiate or terminate coverage of a particular company in research reports furnished by the firm), and investment banking revenues or potential revenues will not be taken into account in making company-specific coverage decisions; provided, however, that this requirement does not apply to category-by-category coverage decisions (e.g., a given industry sector, all issuers underwritten by the firm, companies meeting a certain market cap threshold).

8. Termination of Coverage. When a decision is made to terminate coverage of a particular company in the firm's research reports (whether as a result of a company-specific or category-by-category decision), the firm will make available a final research report on the company using the means of dissemination equivalent to those it ordinarily uses; provided, however, that no final report is required for any company as to which the firm's prior coverage has been limited to purely quantitative analysis. Such report will be comparable to prior reports, unless it is impracticable for the firm to produce a comparable report (e.g., if the analyst covering the company and/or sector has left the firm). In any event, the final research report must disclose: the firm's termination of coverage; and the rationale for the decision to terminate coverage.

9. Prohibition on Soliciting Investment Banking Business. Research is prohibited from participating in efforts to solicit investment banking business. Accordingly, Research may not, among other things, participate in any "pitches" for investment banking business to prospective investment banking clients, or have other communications with companies for the purpose of soliciting investment banking business.

10. Firewalls Between Research and Investment Banking. So as to reduce further the potential for conflicts of interest or the appearance of conflicts of interest, the firm must create and enforce firewalls between Research

and Investment Banking reasonably designed to prohibit all communications between the two except as expressly described below:

a. Investment Banking personnel may seek, through Research management (or an appropriate designee with comparable management or control responsibilities ("Designee")) or in the presence of internal legal or compliance staff, the views of Research personnel about the merits of a proposed transaction, a potential candidate for a transaction, or market or industry trends, conditions or developments. Research personnel may respond to such inquiries on these subjects through Research management or its Designee or in the presence of internal legal or compliance staff. In addition, Research personnel, through Research management or its Designee or in the presence of internal legal or compliance staff, may initiate communications with Investment Banking personnel relating to market or industry trends, conditions or developments, provided that such communications are consistent in nature with the types of communications that an analyst might have with investing customers. Any communications between Research and Investment Banking personnel must not be made for the purpose of having Research personnel identify specific potential investment banking transactions.

b. In response to a request by a commitment or similar committee or subgroup thereof, Research personnel may communicate their views about a proposed transaction or potential candidate for a transaction to the committee or subgroup thereof in connection with the review of such transaction or candidate by the committee. Investment Banking personnel working on the proposed transaction may participate with the Research personnel in these discussions with such committee or subgroup. However, the Research personnel also must have an opportunity to express their views to the committee or subgroup outside the presence of such Investment Banking personnel.

c. Research personnel may assist the firm in confirming the adequacy of disclosure in offering or other disclosure documents for a transaction based on the analysts' communications with the company and other vetting conducted outside the presence of Investment Banking personnel, but to the extent communicated to Investment Banking personnel, such communication shall only be made in the presence of

underwriters' or other counsel on the transaction or internal legal or compliance staff.

d. After the firm receives an investment banking mandate, or in connection with a block bid or similar transaction, Research personnel may (i) communicate their views on the structuring and pricing of the transaction to personnel in the firm's equity capital markets group, which group's principal job responsibility is the pricing and structuring of transactions (including by participating with the firm's equity capital markets group in the preparation of internal-use memoranda and other efforts to educate the sales force), and (ii) provide to such personnel other information obtained from investing customers relevant to the pricing and structuring of the transaction.

e. Research personnel may attend or participate in a widely-attended conference attended by Investment Banking personnel or in which Investment Banking personnel participate, provided that the Research personnel do not participate in activities otherwise prohibited herein.

f. Research and Investment Banking personnel may attend or participate in widely-attended firm or regional meetings at which matters of general firm interest are discussed. Research management and Investment Banking management may attend meetings or sit on firm management, risk or similar committees at which general business and plans (including those of Investment Banking and Research) and other matters of general firm interest are discussed. Research and Investment Banking personnel may communicate with each other with respect to legal or compliance issues, provided that internal legal or compliance staff is present.

g. Communications between Research and Investment Banking personnel that are not related to investment banking or research activities may take place without restriction.

11. <u>Additional Restrictions on Activities By Research and Investment Banking Personnel</u>.

a. Research personnel are prohibited from participating in company or Investment Banking-sponsored road shows related to a public offering or other investment banking transaction.

b. Investment Banking personnel are prohibited from directing Research personnel to engage in marketing or selling efforts to investors with respect to an investment banking transaction.

12. Oversight. An oversight/monitoring committee or committees, which will be comprised of representatives of Research management and may include others (but not personnel from Investment Banking), will be created to:

a. review (beforehand, where practicable) all changes in ratings, if any, and material changes in price targets, if any, contained in the firm's research reports;

b. conduct periodic reviews of research reports to determine whether changes in ratings or price targets, if any, should be considered; and

c. monitor the overall quality and accuracy of the firm's research reports;

provided, however, that Sections I.12.a and I.12.b of this Addendum shall not be required with respect to research reports limited to purely quantitative analysis.

## II. Disclosure/Transparency and Other Issues

1. Disclosures. In addition to other disclosures required by rule, the firm must disclose prominently on the first page of any research report and any summary or listing of recommendations or ratings contained in previously-issued research reports, in type no smaller than the type used for the text of the report or summary or listing, that:

a. "[Firm] does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report."

b. With respect to Covered Companies as to which the firm is required to make available Independent Research (as set forth in Section III below): "Customers of [firm] can receive independent,

third-party research on the company covered in this report, at no cost to them, where such research is available. Customers can access this independent research at [website address/hyperlink] or can call [toll-free number] to request a copy of this research."

c. "Investors should consider this report as only a single factor in making their investment decision."

2. Transparency of Analysts' Performance. The firm will make publicly available (via its website, in a downloadable format), no later than 90 days after the conclusion of each quarter (beginning with the first full calendar quarter that commences at least 120 days following the entry of the Final Judgment), the following information, if such information is included in any research report (other than any research report limited to purely quantitative analysis) prepared and furnished by the firm during the prior quarter: subject company, name(s) of analyst(s) responsible for certification of the report pursuant to Regulation AC, date of report, rating, price target, period within which the price target is to be achieved, earnings per share forecast(s), period(s) for which such forecast(s) are applicable (e.g., 3Q03, FY04, etc.), and definition/explanation of ratings used by the firm.

3. Applicability. Except as specified in the second and third sentences of this Section II.3, the restrictions and requirements set forth in Sections I [Separation of Research and Investment Banking] and Section II [Disclosure/Transparency and Other Issues] of this Addendum will only apply in respect of a research report that is both (i) prepared by the firm, and (ii) that relates to either (A) a U.S. company, or (B) a non-U.S. company for which a U.S. market is the principal equity trading market; provided, however, that such restrictions and requirements do not apply to Research activities relating to a non-U.S. company until the second calendar quarter following the calendar quarter in which the U.S. market became the principal equity trading market for such company. Notwithstanding the foregoing, Section I.7 [Coverage] of this Addendum will also apply to any research report (other than the Independent Research made available by the firm pursuant to Section III [Independent, Third-Party Research]of this Addendum) that has been *furnished* by the firm to investors in the U.S., but not prepared by the firm, but only to the extent that the report relates to either (A) a U.S. company, or (B) a non-U.S. company for which a U.S. market is the

principal equity trading market. Also notwithstanding the foregoing, Section II.1 [Disclosures] of this Addendum will also apply to any research report (other than the Independent Research made available by the firm pursuant to Section III of this Addendum) that has been *furnished* by the firm to investors in the U.S., but not prepared by the firm, including a report that relates to a non-U.S. company for which a U.S. market is not the principal equity trading market, but only to the extent that the report has been furnished under the firm's name, has been prepared for the exclusive or sole use of the firm or its customers, or has been customized in any material respect for the firm or its customers.

a. For purposes of this Section II.3, the firm will be deemed to have furnished a research report to U.S. investors in the U.S. if the firm has made the research report available to investors in the U.S. or has arranged for someone else to make it available to investors in the U.S.

b. For purposes of this Section II.3, a "U.S. company" means any company incorporated in the U.S. or whose principal place of business or headquarters is in the U.S.

c. For purposes of this Section II.3, the calendar quarter in which a non-U.S. company's "principal equity trading market" becomes the U.S. market is a quarter when more than 50% of worldwide trading in the company's common stock and equivalents (such as ordinary shares or common stock or ordinary shares represented by American Depositary Receipts) takes place in the U.S. Trading volume shall be measured by publicly reported share volume.

4. General.

a. The firm may not knowingly do indirectly that which it cannot do directly under this Addendum.

b. The firm will adopt and implement policies and procedures reasonably designed to ensure that its associated persons (including but not limited to the firm's Investment Banking personnel) cannot and do not seek to influence the contents of a research report or the activities of Research personnel for purposes of obtaining or retaining investment banking business. The firm will adopt and

implement procedures instructing firm personnel to report immediately to a member of the firm's legal or compliance staff any attempt to influence the contents of a research report or the activities of Research personnel for such a purpose.

5. Timing. Unless otherwise specified, the restrictions and requirements of this Addendum will be effective within 120 days of the entry of the Final Judgment, except that Sections I.5 [Compensation], I.6 [Evaluations], I.7[Coverage], I.8[Termination of Coverage], I.9 [Prohibition on Soliciting Investment Banking Business], I.11 [Additional Restrictions on Activities by Research and Investment Banking Personnel], and II.4(a) [General subpart a)] and II.7 [Superseding Rules and Amendments] of this Addendum will be effective within 60 days of the entry of the Final Judgment, and Sections II.1.b [Disclosures (subpart b)] and III [Independent, Third-Party Research]of this Addendum will be effective within 270 days of the entry of the Final Judgment.

6. Review of implementation.

   a. The firm will retain, at its own expense, an Independent Monitor acceptable to the Staff of the SEC, the NYSE, the NASD, the President of NASAA, and the New York Attorney General's Office to conduct a review to provide reasonable assurance of the implementation and effectiveness of the firm's policies and procedures designed to achieve compliance with the terms of this Addendum. This review will begin 18 months after the date of the entry of the Final Judgment. The Independent Monitor will produce a written report of its review, its findings as to the implementation and effectiveness of the firm's policies and procedures, and its recommendations of other policies or procedures (or amendments to existing policies or procedures) as are necessary and appropriate to achieve compliance with the requirements and prohibitions of this Addendum. The report will be produced to the firm and the Staff of the SEC, the NYSE and the NASD within 30 days from the completion of the review, but no later than 24 months from the date of entry of the Final Judgment. (The SEC Staff shall make the report available to the President of NASAA and the New York Attorney General's Office upon request.) The Independent Monitor shall have the option to seek an extension of time by making a written request to the Staff of the SEC.

b. The firm will have a reasonable opportunity to comment on the Independent Monitor's review and proposed report prior to its submission, including a reasonable opportunity to comment on any and all recommendations, and to seek confidential treatment of such information and recommendations set forth therein to the extent that the report concerns proprietary commercial and financial information of the firm. This report will be subject to the protections from disclosure set forth in the rules of the SEC, including the protections from disclosure set forth in 5 U.S.C. § 552(b) (8) and 17 C.F.R. § 200.80(b) (8), and will not constitute a record, report, statement or data compilation of a public office or agency under Rule 803(8) of the Federal Rules of Evidence.

c. The firm will adopt all recommendations contained in the written report of the Independent Monitor; provided, however, that as to any recommendation that the firm believes is unduly burdensome or impractical, the firm may demonstrate why the recommended policy or procedure is, under the circumstances, unreasonable, impractical and/or not designed to yield benefits commensurate with its cost, or the firm may suggest an alternative policy or procedure designed to achieve the same objective, and submit such explanation and/or alternative policy or procedure in writing to the Independent Monitor and to the Staff of the SEC. The firm and the Independent Monitor shall then attempt in good faith to reach agreement as to any policy or procedure as to which there is any dispute and the Independent Monitor shall reasonably evaluate any alternative policy or procedure proposed by the firm. If an agreement on any issue is not reached, the firm will abide by the determinations of the Staff of the SEC (which shall be made after allowing the firm and the Independent Monitor to present arguments in support of their positions), and adopt those recommendations the Staff of the SEC deems appropriate.

d. The firm will cooperate fully with the Independent Monitor in this review, including making such non-privileged information and documents available, as the Independent Monitor may reasonably request, and by permitting and requiring the firm's employees and agents to supply such non-privileged information and documents as the Independent Monitor may reasonably request.

e. To ensure the independence of the Independent Monitor, the firm (i) shall not have the authority to terminate the Independent Monitor without the prior written approval of the SEC staff; and (ii) shall compensate the Independent Monitor, and persons engaged to assist the Independent Monitor, for services rendered pursuant to this Order at their reasonable and customary rates.

f. For the period of engagement and for a period of three years from completion of the engagement, the Independent Monitor shall not enter into any employment, consultant, attorney-client, auditing or other professional relationship with the firm, or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity as such. Any entity with which the Independent Monitor is affiliated or of which he/she is a member, and any person engaged to assist the Independent Monitor in performance of his/her duties under this Order shall not, without prior written consent of the Staff of the SEC, enter into any employment, consultant, attorney-client, auditing or other professional relationship with the firm, or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity as such for the period of the engagement and for a period of three years after the engagement.

g. Five years after the date of the entry of the Final Judgment, the firm shall certify to the Staff of the SEC, the NYSE, the NASD, the President of NASAA, and the New York Attorney General's Office, that the firm has complied in all material respects with the requirements and prohibitions set forth in this Addendum or, in the event of material non-compliance, will describe such material non-compliance.

7. Superseding Rules and Amendments. In the event that the SEC adopts a rule or approves an SRO rule or interpretation with the stated intent to supersede any of the provisions of this settlement, except Section IV [Investor Education] the SEC or SRO rule or interpretation will govern with respect to that provision of the settlement and such provision will be superseded. In addition, the SEC, NYSE, the NASD, the New York Attorney General's Office and any State that incorporates this Addendum into its settlement of related proceedings against the Respondent agrees that the SEC Staff may provide interpretive guidance with respect to the terms of the settlement, except for Section IV [Investor Education], as

requested by the firm and that, subject to Court approval, the SEC and the firm may agree to amend or modify any term of the settlement, except for Section IV [Investor Education], in each case, without any further action or involvement by any other regulator in any related proceeding. With respect to any term in Section I or II of this Addendum that has not been superseded (as set forth above) within five years of the entry of the Final Judgment, it is the expectation of Respondent, the SEC, NYSE, NASD, New York Attorney General's Office and the States that the SEC would agree to an amendment or modification of such term, subject to Court approval, unless the SEC believes such amendment or modification would not be in the public interest.

8. Other Obligations and Requirements. Except as otherwise specified, the requirements and prohibitions of this Addendum shall not relieve the firm of any other applicable legal obligation or requirement.

## III. Independent, Third-Party Research

1. Obligation to Make Available. Each year, for the period ending five years after the effective date of this Section III (as set forth in Section II.5 [Timing] of this Addendum), the firm will be required to contract with no fewer than three independent providers of research ("Independent Research Providers") at a time in order to procure and make available Independent Research (as defined below) to the firm's customers in the U.S. as set forth below. There is, however, no requirement that there be at least three Independent Research Providers for the Common Stock of each Covered Company (as those terms are defined below):

    a. For common stock and equivalents (such as ordinary shares or common stock or ordinary shares represented by American Depositary Receipts) listed on a U.S. national securities exchange or quoted in Nasdaq (such securities hereinafter, collectively, "Common Stock") and covered in the firm's research reports (other than those limited to purely quantitative analysis) (an issuer of such covered Common Stock hereinafter called a "Covered Company"), the firm, through an Independent Consultant (as discussed below) will use its reasonable efforts to procure, and shall make available to its customers in the U.S., Independent Research on such Covered

Company's Common Stock. (If the Independent Research Providers drop coverage or do not timely pick up coverage of the Common Stock of a Covered Company, the firm will not be in violation of any of the requirements in this Section III, and may continue to disseminate its own research reports on the Common Stock of the Covered Company without making available any Independent Research on the Common Stock of the Covered Company, if the firm takes reasonable steps to request that the Independent Consultant procure such coverage promptly.)

i. For purposes of this Section III, the firm's research reports include research reports that have not been prepared by the firm, but only to the extent that such reports have been furnished under the firm's name, have been prepared for the exclusive or sole use of the firm or its customers, or have been customized in any material respect for the firm or its customers.

ii. A non-U.S. company for which a U.S. market is not the principal equity trading market shall only be considered a Covered Company if in the calendar quarter ended March 31, 2003, or in any subsequent calendar quarter during the period that the firm's obligations to procure and make available Independent Research under this Section III are effective, the publicly reported, average daily dollar volume of U.S. trading in such company's Common Stock (measured by multiplying the publicly reported, average daily share volume of U.S. trading during the quarter by the closing price per share of the Common Stock on the last day of the quarter), exceeded $2.5 million, and (b) the outstanding total public float of the Common Stock as of the last day of such calendar quarter exceeded $150 million. Further, the firm's obligation to procure and make available Independent Research with respect to such company shall become effective at the later of: (a) 90 days after the end of the calendar quarter in which the company met the foregoing trading and public float tests; or (b) the effective date of this Section III.

b. For purposes of this Section III, Independent Research means (i) a research report prepared by an unaffiliated person or entity, or (ii) a statistical or other survey or analysis of research reports (including ratings and price targets) issued by a broad range of persons and entities, including persons and entities having no association with investment banking activities, which survey or analysis has been prepared by an unaffiliated person or entity.

c. The firm will adopt policies and procedures reasonably designed to ensure that, in connection with any solicited order for a customer in the U.S. relating to the Common Stock of a Covered Company, and if Independent Research on the Covered Company's Common Stock is available, the registered representative will have informed the customer, during the solicitation, that the customer can receive Independent Research on the Covered Company's Common Stock at no cost to the customer (the "Notice Requirement").

d. Notwithstanding the foregoing, the Notice Requirement will not apply to (i) the solicitation of an institutional customer (an entity other than a natural person having at least $10 million invested in securities in the aggregate in its portfolio and/or under management) unless such customer, after due notice and opportunity, has advised the firm that it wishes to have the Notice Requirement apply to it (any customer who has not so advised the firm is hereinafter referred to as a "Non-Participating Institutional Customer"); (ii) orders as to which discretion was exercised, pursuant to a written discretionary account agreement or written grant of trading authorization; or (iii) a solicitation by an entity affiliated with the Respondent if such entity does not furnish to its customers research reports under the firm's name, prepared by the firm for the exclusive or sole use of the firm or its customers, or research reports that have been customized in any material respect for the firm or its customers.

e. Each trade confirmation sent by the Respondent to a customer with respect to an order as to which the Notice Requirement applies will set forth (or will be accompanied by a separate statement, which shall be considered part of the confirmation,

that will set forth), as of the time the trade confirmation is generated, the ratings, if any, contained in the firm's own research reports and in Independent Research procured for the firm with respect to the Common Stock of the Covered Company that is the subject of the order.

f. Each periodic account statement sent by the Respondent to a customer in the U.S. that reflects a position in the Common Stock of a Covered Company will set forth (or will be accompanied by a separate statement, which shall be considered part of the periodic account statement, that will set forth), as of the end of the period covered by the statement, the ratings, if any, contained in the firm's own research reports and in the Independent Research made available by the firm on the Common Stock of each such Covered Company; provided, however, that this requirement will not apply to Non-Participating Institutional Customers or discretionary accounts.

g. Notice of the availability of Independent Research on Covered Companies' Common Stock will also be included prominently in the periodic account statements of the Respondent's customers in the U.S., in the firm's research reports, and on the firm's website.

h. The firm will make the Independent Research available to its customers in the U.S. using, for each customer, the means of dissemination equivalent to those it uses to provide the customer with the firm's own research reports, unless the firm and customer agree on another means of dissemination; provided, however, that nothing herein shall require or authorize the firm to comply with the Notice Requirement or make available or disseminate Independent Research at a time when doing so would violate Section 5 of the Securities Act of 1933 or the other provisions of the federal securities laws or the rules and regulations thereunder. If and to the extent the firm is able to make available or disseminate its own research reports on the Common Stock of a Covered Company pursuant to Rule 137, Rule 138(a) or Rule 139(a) under the Securities Act of 1933 and in reliance on Regulation M under the Securities Exchange Act of 1934, then the firm is also authorized and

required to make available or disseminate Independent Research on the Common Stock of such Covered Company (even if the Independent Research does not meet the requirements of such Rule). Notwithstanding this Section III.1.h, if the firm determines, because of legal, compliance or similar concerns, not to furnish or make available its own research reports on the Common Stock of a Covered Company for a limited period of time, it shall not be required to make available the Independent Research on such Covered Company for such period of time.

i. If, during the period that the firm's obligations to procure and make available Independent Research under this Section III are effective, the firm terminates coverage of the Common Stock of a Covered Company, the firm, through its Independent Consultant, will make reasonable efforts to continue to procure and make available Independent Research on the Common Stock of such company for a period of at least 18 months after termination of coverage (subject to expiration of the firm's obligations under this Section III).

j. The firm will not be responsible or liable for (i) the procurement decisions of the Independent Consultant (as discussed in Section III.2 [Appointment of Independent Consultant to Oversee the Procurement of Independent Research] of this Addendum) with respect to the Independent Research, (ii) the Independent Research or its content, (iii) customer transactions, to the extent based on the Independent Research, or (iv) claims arising from or in connection with the inclusion of Independent Research ratings in the firm's confirmations and periodic account statements, to the extent such claims are based on those ratings. The firm will not be required to supervise the production of the Independent Research procured by the Independent Consultant and will have no responsibility to comment on the content of the Independent Research. The firm may advise its customers of the foregoing in its discretion.

k. The Independent Consultant will not be liable for (i) its procurement decisions, (ii) the Independent Research or its

content, (iii) customer transactions, to the extent based on the Independent Research, or (iv) claims arising from or in connection with the inclusion of Independent Research ratings in the firm's confirmations and periodic account statements, to the extent such claims are based on those ratings, unless the Independent Consultant has carried out such duties in bad faith or with willful misconduct. The firm will indemnify the Independent Consultant for any liability arising from the Independent Consultant's good-faith performance of its duties as such.

2. Appointment of Independent Consultant to Oversee the Procurement of Independent Research. Within 30 days of the entry of the Final Judgment, an Independent Consultant acceptable to the SEC Staff, the NYSE, the NASD, the President of NASAA, the New York Attorney General and the firm shall be named to oversee the procurement of Independent Research from Independent Research Providers. The Independent Consultant will have the final authority (following consultation with the firm and in accordance with the criteria set forth in Section III.3 [Selection of Independent Research Providers] of this Addendum) to procure the Independent Research. The Independent Consultant will not have had any significant financial relationship with the firm during the prior three years and may not have any financial relationship with the firm for three years following his or her work as the Independent Consultant. The Independent Consultant's fee arrangement will be subject to the approval of the Staff of the SEC, the NYSE, the NASD, the President of NASAA, and the New York Attorney General's Office. In the event that an Independent Consultant must be replaced, the replacement shall be acceptable to the Staff of the SEC, the NYSE, the NASD, the President of NASAA, the New York Attorney General's Office and the firm, and shall be subject to these same conditions.

3. Selection of Independent Research Providers. The Independent Consultant will seek to procure research reports on the Common Stock of all Covered Companies from Independent Research Providers. Independent Research Providers may not perform investment banking business of any kind and may not provide brokerage services in direct and significant competition with the firm. In addition, the Independent Consultant will use the following criteria in selecting and contracting with Independent Research Providers to provide Independent Research.

a. whether and to what extent the Independent Research Provider or any of its affiliates or associated persons is engaged in activities (including, but not limited to, activities involving Covered Companies or their securities), or has a business or other relationship with the firm or any of its affiliates or associated persons, that may conflict or create the appearance of conflict with its preparation and publication of the Independent Research;

b. the desirability of multiple coverage of certain Covered Companies (e.g., by size of company, industry sector, companies underwritten by the firm, etc.);

c. the extent to which the Independent Research Provider has a client base and revenue stream broad enough to ensure its independence from the firm;

d. the utility of the Independent Research Provider's Independent Research to the firm's customers, including the inclusion of ratings and price targets in such research and the extent to which the firm's customers actually use the research; and with respect to surveys or analyses described above in Section III.1.b(ii), the extent to which the Independent Research provides customers with a means of comparing the firm's research reports to those published by other persons and entities, including persons and entities having no association with investment banking activities;

e. the quality and accuracy of the Independent Research Provider's past research, including during the term of the Independent Consultant's tenure;

f. the experience, expertise, reputation and qualifications (including, as appropriate, registrations) of the Independent Research Provider and its personnel; and

g. the cost of the Independent Research, especially in light of the five-year period set forth in Section III.1 above for the firm to

make Independent Research available to its investing customers.

4. Disclosure Language. Language substantially to the effect set forth below may be used by the firm and its registered representatives to inform the firm's customers of the availability of Independent Research:

   a. {Disclosure to customers as required by Section III.1.c [Obligation to Make Available subpart c] of this Addendum.}

      "There is also independent, third-party research available on this company, which you can get at no cost [from our website/hyperlink] or by calling [toll-free number], or which I can arrange to send to you if you would like."

   b. {General website and periodic customer account statement disclosure as required by Section III.1.g. [Obligation to Make Available subpart g] of this Addendum].}

      "Independent, third-party research on certain companies covered by the firm's research is available to customers of [firm] at no cost. Customers can access this research at [our website/hyperlink] or can call [toll-free number] to request that a copy of this research be sent to them."

5. Annual Reporting. The Independent Consultant will report annually to the Staff of the SEC, the NYSE, the NASD, the President of NASAA, and the New York Attorney General's Office on its selection of Independent Research Providers, the Independent Research it has procured, the cost of the Independent Research it has procured to date, and the Independent Consultant's fees and expenses to date.

## IV. Investor Education

1. General. The firm will pay a total of $5,000,000, payable in five equal installments on an annual basis (with the first payment to be made 90 days after the entry of the Final Judgment), to funds earmarked for investor education. Of this money, a total of $2,500,000 shall be paid pursuant to the firm's agreement with the

SEC, NYSE and NASD. The remainder of the funds earmarked for investor education, in the amount of $2,500,000, shall be paid to the Investor Education Fund at the Investor Protection Trust, a Wisconsin charitable trust, pursuant to agreement with the Board of Directors of NASAA, to be used for the purpose of investor education as described in Section IV.3.

2. Payments to the Investor Education Fund.

   a. As referenced in Section IV.1 above, the firm shall pay the amount of $2,500,000 in five equal annual installment payments as designated by the NASAA Board of Directors to the Investor Education Fund ("the Fund") to be held as a separate fund by the Investor Protection Trust, 411 East Wisconsin Avenue, Milwaukee, WI 53202-4497, c/o Quarles & Brady. The amount for investor education to be paid by the firm to the Fund may be reduced due to the decision of any state(s) not to enter into a settlement with the firm.

   b. The firm shall make the first such installment payment within ninety (90) days after the entry of the Final Judgment. This payment shall be made by wire transfer to the Investor Protection Trust at US Bank NA, Milwaukee, WI, ABA #075000022 for credit for the Trust Division Account 112-950-027, for further credit to the Investor Protection Trust Account Number 000012891800 together with a cover letter identifying Bear Stearns as a respondent in this action and the payment designated for the Investor Education Fund. The firm shall simultaneously transmit photocopies of its payment and letter to the President of NASAA, 10 G Street NE, Washington, DC 20002. By making this payment, and those payments referenced in Section IV.2.c. below, the firm relinquishes all legal and equitable right, title, and interest in such funds, and no part of the funds shall be returned to the firm. The Fund shall be administered in accordance with the terms of the investor education plan.

   c. The firm shall make subsequent installment payments annually on or before the month and day of the entry of the Final Judgment. Such payments shall be made into the Fund at the Investor Protection Trust as described in Section IV.2(b).

3. Purpose of and Limitations on the Use of the Fund.

a. The Fund (including all installment payments) shall be used to support programs designed for the purpose of investor education and research and education with respect to the protection of investors, and to equip investors with the knowledge and skills necessary to make informed investment decisions and to increase personal financial literacy. The Investor Protection Trust, in cooperation with NASAA, shall establish an investor education plan designed to achieve these purposes.

b. No principal or income from the Fund shall:
(i) inure to the general fund or treasury of any State;
(ii) be utilized to pay the routine operating expenses of NASAA; or
(iii) be utilized to pay the compensation or expenses of state officials or state employees except such expenses as are necessary to fulfill the purposes of the Fund.

c. Monies in the Fund may also be used to pay any taxes on income earned by such Fund. The firm shall provide the Investor Protection Trust with relevant information and otherwise cooperate with the Investor Protection Trust in fulfilling the Fund's obligations under applicable law.

d. All fees, costs, and expenses incurred by the Investor Protection Trust in connection with and incidental to the performance of its duties under this Addendum, including the fees, costs, and expenses of any persons engaged to assist it and all administrative fees, costs, and expenses related to the investor education plan shall be paid out of the Fund.