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

In the Matter of J. P. Morgan Securities Inc., Respondent. 270 Park Avenue New York, NY 10017	))))))))	**ADMINISTRATIVE CONSENT ORDER** **File No S-03104(EX)**

WHEREAS, J. P. Morgan Securities Inc. ("JPMSI") is a broker-dealer registered in the State of Wisconsin; and

WHEREAS, coordinated investigations into J. P. Morgan Securities Inc.'s activities in connection with certain of its equity research practices during the period of approximately July 1999 through June 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 ("NYSE"), and the NASD, Inc. ("NASD") (collectively, the "regulators"); and

WHEREAS, J. P. Morgan Securities Inc. 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, J. P. Morgan Securities Inc. has advised regulators of its agreement to resolve the investigations relating to its research practices; and

WHEREAS, J. P. Morgan Securities Inc. agrees to implement certain changes with respect to its research practices, and to make certain payments; and

WHEREAS, J. P. Morgan Securities Inc. elects to permanently waive any right to a hearing and appeal under sec. 551.61, Wis. Stats., with respect to this Administrative Consent Order (the "Order");

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

I.

FINDINGS OF FACT

A. Background

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

2. Respondent JPMSI is a subsidiary of J.P. Morgan Chase & Co. ("JPMC"), a Delaware corporation with its principal place of business in New York, New York. Respondent JPMSI provides equity research, sales, and trading services; merger and acquisition advisory services; private banking services; and underwriting services.

3. Hambrecht & Quist LLC ("H&Q") engaged in research and IB activities until it was acquired by The Chase Manhattan Corporation ("Chase") in December 1999. H&Q was merged into Chase Securities Inc. ("CSI"), a subsidiary of Chase, and the merged entity engaged in research and IB activities under the name CSI and the trade name Chase H&Q. CSI did not publish equity research prior to the acquisition of H&Q by Chase.

4. In 1999, RESPONDENT JPMSI engaged in both research and IB activities as a subsidiary of J.P. Morgan & Co. Incorporated ("JPM"). In December 2000, Chase acquired JPM, creating the combined entity JPMC. In May 2001, CSI and RESPONDENT JPMSI merged, and CSI assumed the name JPMSI. Since then, RESPONDENT JPMSI has engaged in equity research under the name JPMSI and the trade names J.P. Morgan and J.P. Morgan H&Q.

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

6. For purposes of this Consent, the RESPONDENT JPMSI predecessor entities that engaged in both research and investment banking activities—H&Q, CSI, and JPMSI—shall be referred to, collectively, individually, or in any combination, as "the Firm."

B. Overview

1. During the relevant period, the Firm sought to do and did IB business with many companies covered by its Research Department. Research analysts were encouraged to participate in IB activities, and this participation was a factor used by the Firm to evaluate analysts and determine their compensation. In addition, the decision to initiate and maintain research coverage on certain companies was coordinated with the IB Department and influenced by IB interests.

2. As a result of the foregoing, certain research analysts were subject to IB influences and conflicts of interest between supporting the Firm's IB business 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 reasonably designed to detect and prevent the influences or 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 and other 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, research analysts drafted research reports and more abbreviated "notes" that typically contained a recommendation, a price target, and a summary and analysis of the factors upon which the analyst relied in issuing the price target and recommendation.

4. The Firm published research on publicly traded companies, and this research was distributed to the Firm's institutional and private equity customers. Published research was made available through mailing lists, the Firm's website, and subscription services provided by First Call. In addition, the research was made available to some retail customers of another broker dealer and offered via websites offering brokerage and investment services.

5. In addition to performing these research functions, certain research analysts participated in IB activities.

6. These IB activities included identifying and/or vetting companies as prospects for IB services, participating in pitches of IB services to companies, participating in "roadshows" associated with underwriting transactions, and speaking to investors to generate interest in underwriting transactions.[1]

7. These IB activities also included participating in commitment committee and due diligence activities in connection with underwriting transactions and assisting the IB

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

Department in providing merger and acquisition ("M&A") and other advisory services to companies.[2]

8. The Firm encouraged all research analysts to support its businesses, including the Firm's IB business, and in some cases, research analysts were expected to participate in the foregoing IB activities. The level of analyst participation in these IB activities was sometimes significant.

9. For example, in an e-mail dated May 23, 2000, and sent by a research analyst to the Head of Research at RESPONDENT JPMSI, the analyst requested approval to hire another junior analyst. The analyst stated: "**I'd like to get yet another junior**....The deals are really dragging me down, and I'm not spending nearly enough time with buy-side clients. Even though the market is crap, we continue to process deals in hopes of market recovery....I am trying to remove myself from the day-to-day production of research. I actually like doing it, but it's not what you pay me for." (Emphasis in the original.)

10. IB business was an important source of revenue for the Firm. In 2000, the combined operating revenues for JPM and Chase totaled $32.793 billion, and the combined revenues for the Equity Capital Markets ("ECM") and the M&A Departments at JPM and Chase totaled $1.687 billion.

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 participate in IB activities and to assist in generating IB business for the Firm.

2. The performance of research analysts was evaluated by the Head of Research through an annual review process and, where not set by contract in advance, the research analyst's bonus was determined through this process.

3. The Head of Research evaluated the research analysts' job performance through responses to self-evaluation forms; surveys of the sales force; input from the IB, Sales, and Trading departments; consideration of market factors and rankings by investor publications; and, in some cases, written "team reviews" submitted by individual investment bankers.

4. The self-evaluation forms contained questions on areas constituting the major allocations of research analysts' time, including questions relating to participation in IB activities.

5. In response to questions relating to participation in IB activities, research analysts reported one or more of the following: their IB activities, accomplishments, and goals; their participation in lead- and co-managed underwritings; and the fees associated with IB transactions on which the analyst worked.

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[2] The "commitment committee" was responsible for, among other things, evaluating and then either approving or rejecting the Firm's participation in initial public offerings ("IPOs") and other IB transactions.

6. For example, the "Investment Banking Activities" section of a 1999 self-evaluation form queried: "In what way have you assisted in discovering or executing banking transactions (i.e., due diligence sessions, pitches)? Be specific." In response, a research analyst stated: "Helped put together and develop pitch books for KV Pharma and King Pharmaceuticals;" "Helping to come up with creative ideas and contributing to brainstorming sessions with bankers – ad hoc and in biweekly Monday meetings;" "Have a good handle on which companies will need financing in the near future and stepping up research efforts to ensure a place for H&Q on the cover;" and "Increasing responsibility in the office allows [another research analyst] to travel and be more active in pitching and winning deals with new companies."

7. In another example, a research analyst stated the following in response to IB questions contained in his year 2000 self-evaluation form: "Completed 21 investment banking deals, including 11 lead-managed deals....Biotechnology new issues have generated $70 million in primary fees in fiscal year 2000 YTD. In 2000 we were ranked #1 in healthcare common equity offerings by U.S. Issuers, raising $3.9 billion and capturing 21.9% market share." In addition, the analyst listed all deals on which he worked that were "Lead Managed," "Co-managed, "Pitched," and "Pending."

8. The self-evaluation forms conveyed to research analysts some of the criteria used to evaluate their performance. As reflected in the IB questions contained in the forms, contribution to the Firm's IB business was an important part of the analyst's job.

9. In some circumstances, research analysts requested that individual investment bankers complete a written "team review" of the analyst, which was then submitted to the Head of Research. In these reviews, the investment banker described his or her contact with the analyst and the analyst's participation in IB activities, including pitch and underwriting activities.

10. For example, in a 1999 review of a research analyst by an investment banker, the banker stated the following: "I have worked extensively with [this research analyst] over the past year. I probably speak to her everyday [sic] on topics ranging from executing live transactions, evaluating potential business opportunities, drafting 'pitch' presentations, coordinating scheduling and marketing efforts across IB, and strategizing about the Internet practice....I consider [her] to be a partner in our building of the firm's Internet franchise and, as a result, probably work more closely with her than anyone in IB."

11. Research analysts sometimes provided reviews of investment bankers in conjunction with the banker's performance review. In these reviews, analysts described their contact with the banker and referenced participation in specific IB activities.

12. For example, in an e-mail dated Dec. 14, 2000, a research analyst provided a review of an investment banker. The analyst stated: "I've probably had more opportunity to work with [this investment banker] and observe him in action than anybody else in the bank....[The banker and I] have been in sync about where the quality banking prospects are so that I don't have to fend off garbage banking deals....• **Built semiconductor**

banking practice from nothing:....[The banker and I] have built a profitable semiconductor banking practice, starting from literally zero four years ago....In 1999, we posted a couple of successes....With a touch more luck, we could have doubled the revenue potential this year....We are still banking the semiconductor sector pretty much the way we did three years ago, which means going after a dozen or so key prospects (split evenly between existing public companies and quality IPO candidates) and then doing everything else opportunistically rather than strategically....The message here is that we have not developed the semiconductor banking machine that our strongest dozen competitors have, and that makes it hard to gain market share." (Emphasis in the original.)

13. Based upon comments in the self-evaluations completed by research analysts and the reviews completed by both analysts and investment bankers, the two groups worked closely on IB transactions and shared a common goal of building the Firm's IB business.

14. The Head of Research reviewed the self-evaluations and team reviews and provided a verbal and/or written evaluation of the research analyst. The written evaluations provided feedback on the analyst's performance during the year and in certain cases highlighted the analyst's participation in IB activities, including the revenues generated by IB transactions on which the analyst worked.

15. For example, the Head of Research at RESPONDENT JPMSI stated the following in the first paragraph of his year 2000 evaluation of a research analyst: "By every measure, [the research analyst] had an outstanding year in 2000. Most importantly, [he] led the charge in establishing J.P. Morgan as the #1 biotech shop with a resounding 21.9% share of the underwriting wallet in his sector. [He] supported 21 transactions this year, 11 of which were as the lead underwriter. The revenue attributable to these transactions is over $70 mm." Later in the evaluation, the Head of Research stated that the analyst's contribution to the Firm's "corporate underwriting business" was "enormous."

16. Comments by the Head of Research conveyed to research analysts the performance areas that were important to research management and the Firm. Based upon these comments, certain analysts were encouraged to participate in IB activities, increase IB revenues, and enhance the reputation of the Firm's IB franchise.

17. Research analyst bonuses were determined by the Head of Research in his discretion after considering several factors that contributed to the analyst's market value.

18. The research analyst's contribution to and impact on the Firm's IB business, and the fees generated by IB transactions on which the analyst worked, were some of the factors used to determine the analyst's bonus. If the analyst did not disclose in the self- evaluation form the fees generated by the IB transactions on which he or she worked, the Head of Research requested this information from the ECM Department at the Firm.

E. Investment Banking Interests Influenced the Firm's Decision 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/or based upon IB considerations, such as attracting companies to generate IB business or maintaining a positive relationship with existing IB clients.

2. Regarding companies for which the Firm lead- or co-managed an underwriting transaction, research coverage was typically initiated and maintained for a period of time beyond the transaction.

3. The Head of Research was responsible for approval of the determination to issue, maintain, and drop research coverage. The Head of Research solicited input from other departments, including the IB Department, to determine the coverage preferences of those departments. IB considerations sometimes played a role in the decision to initiate and maintain research coverage.

4. For example, after the merger of JPM and Chase, the Director of U.S. Equity Research at RESPONDENT JPMSI sent an e-mail entitled: "U.S. Equity Research Organizational Announcement." Attached was an internal memorandum "outlining Investment Banking Coordination Responsibilities," which stated: "One of the important duties of the Director of Research is to work closely with Investment Banking to ensure that research resources are appropriately aligned with identified investment banking opportunities."

5. In addition, the Head of Research requested that research analysts obtain from investment bankers lists of companies that the bankers wanted under coverage.

6. For example, an e-mail dated November 4, 1999, from the Head of Research to all equity research analysts, stated: "[T]alk to your counterparts in IB and prepare a list of the companies that they would like you to cover....Please be sure to have a conversation with the appropriate bankers before you submit your list."

7. Some research analysts and investment 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.

8. For example, a research analyst sent an e-mail, dated March 9, 2001, to the Director of U.S. Equity Research at RESPONDENT JPMSI which stated: "[Another research analyst] and I have prioritized the coverage area in coordination with banking, and we are moving to a more **targeted** (no pun intended) investor marketing plan which leverages our combined coverage....We are clearly focused on building both the brokerage and banking businesses....We are actively discussing trimming a couple of the less relevant of these companies and replacing them with larger market capitalization firms which we can bank....In total, I would look to us to initiate on **two** non-deal related stocks this year, keeping the total names under coverage around the current level. In addition to two non-deal initiations, we have mapped out the year and have planned original theme pieces and other value-added activities for investors including non-deal related road shows....**Banking:** We already did KPMG, for which I believe we were paid **$12.5M**. And we have been mandated as a senior co-manager on Accenture, another large transaction. Beyond these, a likely opportunity later in the year is **Technology Partners**

International, an outsourcing consultant. We are well positioned to lead this company's IPO....[An investment banker] leads the coordinated banking effort covering the sector, and we are working closely with [him] and the other coverage bankers to bank existing companies and to identify quality early stage firms." (Emphasis in the original.)

9. In another example, an investment banker sent an e-mail, dated May 17, 2001, to a group of biotechnology analysts and bankers to arrange a meeting to discuss "coverage strategy." The e-mail stated: "On the heels of [a research analyst and a banker] leaving, we probably need to discuss coverage strategy. Also would be a good time to talk about where we might shake loose some business...M&A ideas to pitch, IPOs coming in next wave etc."

10. In another example, a research analyst sent an e-mail, dated March 1, 2001, to biotechnology analysts and the Head of U.S. Equity Research that contained the following subject line: "bankers wish list for biotech research." The e-mail stated: Attached is the culmination of the survey of bankers – as a reminder, I asked them for 3 groups of names....1. Companies we 'owe' research to since they paid us in 2000 and are not covered by research today. Most of these are from analysts who have left (on the H&Q side) and we haven't even had research take a formal look at some of these, which is obviously the first step for deciding on what to do. 2. Public companies where bankers have a good relationship and think we can get banking business if research is on board. The goal here is to have research evaluate the story as soon as possible, so we can either go full bore on getting the business, or re-assign bankers elsewhere if research is negative. 3. Private companies that are focus names—we'll commit to have research spend time with these companies as much as possible before the IPO to put us in the best position possible to win the books. Also, research is going to add their own names if some of their favorites were not mentioned by any of the bankers."

11. The following e-mails reflect the IB influences in the initiation and maintenance of research coverage as perceived by an individual research analyst.

12. In an e-mail dated November 2, 2000, a research analyst provided a team review of an investment banker that stated the following: "I have worked with [the banker] on the International Rectifier (IRF) account since around mid-1998...and he lobbied me very actively to pick up coverage so that JPM could go after the banking business, especially equities but also potentially debt, M&A, etc. My attitude initially was that IRF is a low-grade semiconductor company that would be hard to sell to buy-side clients, but [he] kept pushing the banking potential....Finally, I picked up coverage in December 1998.... Then, IRF threw sand in our eyes by giving the lead to Morgan Stanley....We picked up coverage when they needed us most at the bottom of the semiconductor cycle and supported the stock enormously. When the plum banking assignment came up that would pay us back for our support, IRF handed the deal to MS, which had zero history with the company."

13. In an e-mail dated August 8, 2000, the same research analyst stated: "Given how thoroughly we just got screwed on IRF, [the Head of Research of RESPONDENT JPMSI] is not interested in hearing stories about how if we initiate coverage, then we will be **<u>considered</u>** for banking business. He wants to hear that the banking business is locked

up. We've been screwed too many times....[O]ur not covering IFX [Infineon Technologies] is a direct result of being offered money-losing table scraps in the IPO....I guess I'm still in the same old place. Initiating coverage of IFX some time in the next six months is no problem, especially as [a research analyst] is going to have to cover it eventually anyway. It doesn't make sense to have a European semiconductor analyst that does not cover Infineon." (Emphasis in the original.)

14. In addition, consideration of "investment banking sensitivities" was included in a discussion of the Firm's "Long Term Buy" ("LTB") research rating.

15. An e-mail dated December 29, 2000, which was sent to all Chase H&Q research analysts, including the Head of Research at Chase H&Q, described the stock rating system to be used after the merger of JPM and Chase.

16. The e-mail's subject line stated: "Public dissemination of coverage and Re-Rating your stocks—IMPORTANT*****." The e-mail stated: **The guidelines for determining the rating are below.... Long-Term Buy: 0-10% outperformance of the relevant benchmark target within a twelve to eighteen month time frame. Shorter-term catalysts to explain the 'longer-term' nature of the recommendation, or in certain circumstances investment banking sensitivities, are appropriate for this designation.**" (Emphasis in the original.)

F. The Firm Provided Certain Companies With an Informal "Warranty" of Research Coverage in Conjunction With Investment Banking Transactions

1. The Firm typically initiated research coverage on companies that engaged the Firm in an IB transaction.

2. H&Q and Chase H&Q had an informal policy of providing certain companies with a "warranty" of research coverage in conjunction with IB transactions.

3. For example, in an e-mail dated November 22, 2000, and sent by the Head of eBusiness at Chase H&Q to the Head of Research at Chase H&Q and others, the Head of eBusiness stated the following: "I think that it is important to guaranty [sic] some level of consistent coverage for our fee paying IB clients. In terms of a 'warranty period,' I think that a period of 18 months would be a fair and appropriate coverage period, as well as a reasonable timeframe for a company to show progress and perhaps 'earn' an extension of coverage. During this transition period...we could offer more of a general, maintenance-only, 'no name' research coverage...[that] could be done by a 'team' of junior associates from both the IB and research side of the house as part of the 'pod' approach to a sector. This coverage would allow the pod to continue to maintain a relationship with the company, generating additional income from the account."

4. The Firm verbally promoted this warranty research coverage in conjunction with pitches of IB business to companies, and research coverage would be maintained on certain companies subject to the warranty.

5. For example, in an e-mail dated October 20, 1999, an investment banker sent an e-mail to senior executives at H&Q that contained the following subject line: "Follow Up on a Pitch Please." The e-mail stated: [Head of IB:] Please call...[the] Chairman of CCC Info. Services....Script: You know that [a team of investment bankers] presented to the board yesterday and that we are very excited about the prospect of serving as agent for a private round with financial and strategic parties and as lead manager on their IPO in early 00....Our pitch is...4. Best aftermarket 'warranty.'"

6. Also, in an e-mail dated December 19, 2000, from an investment banker to a member of the board of directors of Epicor Software Corporation ("Epicor"), the banker stated: "Just a heads up that the extended warranty provided for Epicor is running out." In an e-mail dated December 22, 2000, the board member replied: "not a surprise. thanks for sticking to the deal."

G. The Firm's Pitch Materials Contained Discussions of Research Coverage

1. During the relevant period, companies considered research coverage to be an important factor in selecting a firm for an underwriting transaction.

2. In certain pitch materials, the Research Department, and research analysts in particular, were described to implicitly suggest that the Firm would provide favorable research coverage after the IB transaction.[3] The research analyst's reputation and industry ranking, statistics regarding the percentage of lead- and co-managed IPOs currently under coverage, and the Firm's "aftermarket support" were promoted in pitch materials. In addition, the Firm utilized "case studies" of companies under coverage that included charts comparing the dates of positive published research to the company's stock price. The case studies showed the stock price increases following the analyst's positive recommendation and/or placement on the analyst's or the Firm's "Focus Lists."

3. For example, in an e-mail dated February 23, 2000, an investment banker forwarded pitch materials to an employee of Participate.com to persuade the company to employ the Firm as an underwriter for an upcoming IPO and private offering. The pitch materials identified the research analyst who would cover the company after the IB transaction. In pages captioned "[Research analyst's name]: Authoritative Voice in the Marketplace," "case studies" were presented on the analyst's past coverage of two companies: Wireless Facilities and AppNet.

4. The case studies contained charts that showed the stock price increases following placement of the stocks on the analyst's and Firm's focus lists. The "Wireless Facilities Case Study" stated the following: "Chase H&Q adds WFI to Focus List: WFI gains 11.7% (1/27/00)." The "AppNet Case Study stated the following: "Chase H&Q adds AppNet to Focus List: AppNet gains 7.5% (8/2/99)....While on [the research analyst's] Focus List, AppNet appreciates 309% (8/2/99-10/26/99)."

[3] "Pitch materials" are the written materials provided to the management of an issuer in conjunction with the Firm's pitch or presentation of its strengths and capabilities in conducting an upcoming IPO or other IB transaction.

5. Also presented were excerpts of positive commentary by the research analyst that accompanied the Buy ratings and/or placement on the focus lists.

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

1. Research analysts were encouraged to increase their visibility, or level of communication, on certain stocks to generate IB business.

2. Lists of stocks were distributed to various departments at the Firm, including the Research Department.

3. The "ECM [Equity Capital Markets] target list" contained stocks of companies from which the Firm was seeking IB business during the next eighteen (18) months.

4. The "trading focus list" contained stocks of companies from which the Firm was seeking IB or underwriting business during the next three months.

5. The Research Department and other departments were at times encouraged to increase the trading volume of the stocks on the lists for IB purposes.

6. The following e-mail, dated May 11, 2001, and sent from an investment banker to individuals on the "IB Ebusiness" distribution list, explains the rationale for the two lists: "The criteria for being on the [ECM target] list is...potential equity business over the next 18 months where we would like to target the resources of the firm to win the books....Our objective is to make sure we are being as proactive as possible from an equity perspective, and focusing the equity resources of the firm on these targets to help you win the books for these transactions....The criteria for being placed on the trading focus list is an investment banking event with [sic] the NEXT THREE MONTHS....This investment banking list could be an m&a event or an equity event....In cases where the investment banking event will occur far in advance, our first approach is to work with the traders, analysts and sales traders to increase our trading activity naturally, before we start spending the firm's capital." (Emphasis in the original.)

7. Trading rank was important to a company's choice of a firm for IB transactions, and the Firm's trading rank was often promoted in pitch materials provided to potential IB clients.

8. For example, pitch materials provided in conjunction with the AppNet IPO contained a section entitled, "Commitment to Corporate Clients Delivers Institutional Credibility and Trading Strength." There, H&Q's Autex trading rank is identified as "#1," "#2," "#3," and "#4" in the stocks of specific companies that engaged H&Q for an IPO.

9. Certain research analysts were encouraged to increase their visibility, or level of communication, on stocks contained in the lists.

10. For example, in an e-mail dated September 27, 2000, from an investment banker, to a research analyst and others, the banker forwarded September's focus list and stated: "The list is okay but we are falling way short on a few names. Vicinity we are not AT [sic] the goal, we are below the goal for the past two months. This is a problem. On Intertrust and Mypoints, we are not even close to our targets. Less critical, but we need to do a better job. Concord EFS paid us $5 MM last year and we are the #18 trader of that stock. Also disappointing...[Y]ou [research analyst] need to get more visible on these names with the salespeople so that trading doesn't have that excuse to hide behind."

I. Payments for Research

1. During the relevant period, H&Q and Chase H&Q made seven payments totaling $1,312,500 for research issued in conjunction with five underwriting transactions in which the Firm was a lead- or co-manager.

2. H&Q and Chase H&Q made these payments for research without disclosing or ensuring their disclosure in offering documents or elsewhere.

J. The Firm Failed to Adequately Supervise Its Research and Investment Banking Departments

1. While the role of research analysts was to produce objective research, the Firm also encouraged them to participate in IB activities.

2. In addition, the Research and IB Departments had a formal connection within the Firm's organizational structure. From February to December 2000 at RESPONDENT JPMSI, the Head of Research had a dual reporting line to both the Head of Equities and the Head of Investment Banking.

3. Also, in 2000 at Chase H&Q, research analysts were organized and placed into "Analyst Sub-pods" for purposes of managing and monitoring their IB activities. Research analysts reported to "Sub-pod Managers," who were investment bankers and were responsible for the day-to-day coordination of the research analysts' IB activities.

4. The Analyst Sub-pod system for Chase H&Q "Internet Research and Banking" is explained in a May 2000 Chase H&Q interoffice memorandum which contained a "coordination chart." In the chart, the Analyst Sub-pods had a direct reporting line to the Sub-pod Managers. The memorandum stated the following: "The 'Analyst Sub-pod' is the organizational engine for all that we do." Sub-pod Managers, who were investment bankers, were responsible for the "pipeline management and...the day-to-day coordination of the particular analyst as it relates to investment banking activity....The Sub-pod Manager is <u>not</u> responsible for executing <u>all</u> of that particular analyst's transactions, but is responsible for ensuring that appropriate resources are allocated. As such, the Sub-pod Manager should expect to spend a majority of his time banking the Sub-pod Analyst with the balance of his time spent banking other analysts as the demands of the business require it." (Emphasis in the original.)

5. The Analyst Sub-pod system was created to provide "enhanced coordination between Banking and Research."
6. As a result of the foregoing, research analysts were subject to IB influences and conflicts of interest between supporting the Firm's IB business and publishing objective research. The Firm had knowledge of these IB influences and conflicts of interest yet failed to manage them adequately to protect the objectivity of published research.
7. The Firm failed to establish and maintain adequate policies, systems, and procedures reasonably designed to ensure the objectivity of its published research. Although the Firm had some policies governing research analysts' activities during the relevant period, these policies were inadequate and did not address the IB influences and conflicts of interest that existed.

II.

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).

2. The Division of Securities finds that Respondent JPMSI failed to establish and enforce written supervisory procedures reasonably designed to ensure that analysts were not unduly influenced by investment banking concerns in violation of sec. 551.34(1)(j), Wis. Stats.

3. The Division of Securities finds that Respondent JPMSI engaged in acts and practices that created or maintained inappropriate influence by the IB Department over research analysts, therefore imposing conflicts of interest on its research analysts, and failing to manage these conflicts in an adequate or appropriate manner, in violation of sec. 551.34(1)(g), Wis. Stats.

4. The Division of Securities finds that Respondent JPMSI made payments for research to other broker-dealers not involved in an underwriting transaction when the Firm knew that these payments were made, at least in part, for research coverage, and failed to disclose or cause to be disclosed in offering documents or elsewhere the fact of such payments, constituting violations of sec. 551.34(1)(g), Wis. Stats.

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

III.

ORDER

On the basis of the Findings of Fact, Conclusions of Law, and J.P. Morgan Securities Inc.'s consent to the entry of this Order, for the sole purpose of settling this matter, prior to a hearing and without admitting the Findings of Facts 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 applicable Wisconsin law on behalf of the State of

Wisconsin as it relates to J. P. Morgan Securities Inc., relating to certain research practices at J. P. Morgan Securities Inc.

2. J. P. Morgan Securities Inc. will CEASE AND DESIST from violating Ch. 551, Wis. Stats. in connection with the research practices referenced in this Order, and will comply with 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. IT IS FURTHER ORDERED, ADJUDGED AND DECREED that:

As a result of the Findings of Fact and Conclusions of Law contained in this Order, J. P. Morgan Securities Inc 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). Upon execution of this Order, J. P. Morgan Securities Inc. shall pay the sum of $413,277.00 of this amount to the Division of Securities 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 J. P. Morgan Securities Inc. 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 J. P. Morgan Securities Inc.'s state settlement offer, the total amount of the Wisconsin payment shall not be affected, and shall remain at $413,277.00;

$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.

J. P. Morgan Securities Inc. 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 J. P. Morgan Securities Inc. 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. J. P. Morgan Securities Inc. 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 J. P. Morgan Securities Inc. 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. J. P. Morgan Securities Inc.

understands and acknowledges that these provisions are not intended to imply that the State of Wisconsin would agree that any other amounts J. P. Morgan Securities Inc. 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.

4. J. P. Morgan Securities Inc. shall comply with the undertakings of Addendum A, incorporated herein by reference.

5. If payment is not made by J. P. Morgan Securities Inc. or if J. P. Morgan Securities Inc. 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 written notice to J. P. Morgan Securities Inc. and without opportunity for administrative hearing.

6. 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 J. P. Morgan Securities Inc., 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).

7. 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 J. P. Morgan Securities Inc. (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 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.

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

9. 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, or administrative, civil, criminal, or injunctive relief, against J. P. Morgan Securities Inc. in connection with certain research practices at J. P. Morgan Securities Inc.

Dated this 9th day of October 2003.

BY ORDER OF THE DIVISION OF SECURITIES

Patricia D. Struck
Administrator
Division of Securities

CONSENT TO ENTRY OF ADMINISTRATIVE ORDER BY J. P. Morgan Securities Inc.

J. P. Morgan Securities Inc. 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.

J. P. Morgan Securities Inc. 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 without a hearing and solely as settlement of the issues contained in this Order.

J. P. Morgan Securities Inc. 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.

Paul W. Brandow represents that he is Chairman and President of J. P. Morgan Securities Inc. and that, as such, has been authorized by J. P. Morgan Securities Inc. to enter into this Order for and on behalf of J. P. Morgan Securities Inc.

Dated this 6 day of October, 2003.

J. P. Morgan Securities Inc.

By: Paul W. Brandow
Title: Chairman and President

SUBSCRIBED AND SWORN TO before me this 6 day of October, 2003.

Notary Public

My Commission expires:

JULIE ODONNELL
Notary Public, State of New York
No. 01OD6006471
Qualified in Kings County
Commission Expires May 4, 2006

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 the firm 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.