

1 State of New Jersey
2 Bureau of Securities
3 P.O. Box 47029
4 Newark, New Jersey 07101
5 (973) 504-3600

RECEIPT	
DEPOSIT DATE	JUL 22 2003
NUMBER	
AMOUNT	\$ 648,335. ⁰⁰
C.B.P.	col by: [signature]

6 In the matter of)
7)
8 BEAR, STEARNS & CO. INC.,)
9)
10 Respondent.)
11)
12)
13)
14)
15)

16 CONSENT ORDER

17 WHEREAS, Bear, Stearns & Co. Inc. ("Bear Stearns") is a broker-dealer registered in the
18 State of New Jersey; and

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

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

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

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

WHEREAS, Bear Stearns elects to permanently waive any right to a hearing and appeal
under N.J.S.A. 49:3-58(c) with respect to this Consent Order (the "Order");

NOW, THEREFORE, the Chief of the Bureau of Securities, as administrator of the
Uniform Securities Law (1997), L. 1997, c.276, N.J.S.A. 49:3-47 *et seq.*, hereby enters this
Order:

I. JURISDICTION/CONSENT

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

4 **II. FINDINGS OF FACT**

5 **A. Background and Jurisdiction**

- 6 1. Bear Stearns, a Delaware corporation with its principal place of business in New York,
7 New York, is a subsidiary of The Bear Stearns Companies, Inc. Bear Stearns provides
8 equity research, sales, and trading services; merger and acquisition advisory services;
9 venture capital services; and underwriting services on a global basis.
- 10 2. Bear Stearns is registered with the Securities and Exchange Commission ("Commission"),
11 is a member of the New York Stock Exchange, Inc. ("Exchange") and the NASD Inc.
12 ("NASD") and is licensed to conduct securities business on a nationwide basis.
- 13 3. This action concerns the time period of July 1, 1999 to June 30, 2001 (the "relevant
14 period"). During that time, Bear Stearns engaged in both research and investment
15 banking ("IB") activities.

16 **B. Overview**

- 17 1. During the relevant period, the Firm sought and did IB business with many companies
18 covered by its research. Research analysts were encouraged to participate in IB
19 activities, and that was a factor considered in the analysts' compensation system. In
20 addition, the decision to initiate and maintain research coverage of certain companies was
21 in some cases coordinated with the IB Department and influenced by IB interests.
- 22 2. As a result of the foregoing, certain research analysts at the Firm were subjected to IB
23 influences and conflicts of interest between supporting the IB business at the Firm and
24 publishing objective research.
- 25 3. The Firm had knowledge of these IB influences and conflicts of interest yet failed to
26 establish and maintain adequate policies, systems and procedures that were reasonably
designed to detect and prevent the influences and manage the conflicts.

27 **C. Research Analyst Participation in Investment Banking Activities**

- 28 1. Research analysts were responsible for providing analyses of the financial outlook
29 of particular companies in the context of the business sectors in which those
30 companies operated and the securities market as a whole.
- 31 2. Research analysts evaluated companies by, among other things, examining financial
32 information contained in public filings, questioning company management, investigating
33 customer and supplier relationships, evaluating companies' business plans and the
34 products or services offered, building financial models and analyzing competitive trends.

- 1 3. After synthesizing and analyzing this information, analysts produced research in the form
2 of full reports and more abbreviated formats that typically contained a recommendation, a
price target, and a summary and analysis of the factors relied upon by the analyst.
- 3 4. The Firm distributed its analysts' research internally to various departments at the Firm
4 and externally to the Firm's retail and institutional investing clients. In addition, the Firm
5 sold some of its research directly to non-clients, disseminated it through distribution
6 agreements with other broker dealers, made it available to third party subscription
7 services such as First Call, and offered it for sale via market websites such as
8 MultexInvestor.
- 9 5. In addition to performing research functions, certain research analysts participated or
10 assisted in IB activities. These IB activities included identifying companies as prospects
11 for IB services, participating in "pitches"¹ of IB services to companies, attending "road
12 shows"² associated with underwriting transactions, and speaking to investors to generate
13 interest in underwriting transactions.
- 14 6. In preparation for each "pitch" the bankers, with the analyst's input, prepared a "pitch
15 book" which was distributed at the meeting and contained a summary of the Firm's
16 presentation.
- 17 7. The pitch books, in some instances, identified the covering analyst by name, provided
18 information about that analyst's background and reputation, sometimes characterizing the
19 analyst as the "ax" in his or her coverage sector, and highlighted the success of Bear
20 Stearns' underwritten IPOs covered by the analyst. The pitch books also highlighted such
21 factors as the number of lead and co-managed IPOs that the Firm currently had under
22 research coverage. This information was intended to convey to the issuer that such
23 treatment would be accorded to it if Bear Stearns received the mandate for the IB
24 transaction.
- 25 8. The analyst's reputation played a role in pitching the Firm's IB services to potential
26 clients. Issuers often chose an investment bank because of the reputation of the analyst
that would cover the company's stock.

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

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

- 1 9. The pitch to an issuer by the research analyst contributed to Bear Stearns' ability to win
2 investment banking deals and receive investment banking fees from that and subsequent
3 investment banking relationships.
- 4 10. The investment banking division at Bear Stearns advised corporate clients and helped
5 them execute various financial transactions, including the issuance of stock and other
6 securities. Bear Stearns frequently served as the lead or as a co-lead underwriter in initial
7 public offerings ("IPOs") -- the first public issuance of stock of a company that has not
8 previously been publicly traded -- and follow-on offering of securities.
- 9 11. During the relevant period, investment banking was an important source of revenues and
10 profits for Bear Stearns. In 2000, investment banking generated more than \$965 million
11 in net revenues, or approximately eighteen percent of Bear Stearns' total net revenues.
- 12 12. The IB activities in which analysts participated also included participating in
13 commitment committee³ and due diligence activities in connection with underwriting
14 transactions and from time to time assisting the IB Department in providing merger and
15 acquisition ("M&A") and other advisory services to companies.
- 16 13. The Firm encouraged research analysts to support the IB and other businesses of the
17 Firm. With regard to IB, research analysts were encouraged to work in partnership with
18 the IB Department by participating in the foregoing IB activities, and the level of certain
19 research analysts' participation in these IB activities was sometimes significant.
- 20 a. On September 23, 1999, the Head of Research provided research analysts with
21 guidelines to follow in drafting their business plans. The guidelines stated they
22 were "designed to help [the research analysts] focus on executing and delivering
23 [their] goals, improving [their] overall contribution to the firm and enhancing
24 [their] relationships with [their] partners throughout the firm." These guidelines
25 requested the research analysts to describe their contributions to nine separate
26 areas of the Firm's business. With respect to the area identified as "Banking," the
27 guidelines stated: "After your business plan meeting with your bankers please
28 discuss any ideas you have generated for deal origination and timing of coverage
29 for existing or proposed corporate relationships. Include or attach to your
30 business plan a list of stocks you and your corporate finance team have agreed
31 upon as priorities. Include plans to help market transactions or to introduce M&A
32 activity. Discuss any plans to drop coverage where there is no longer a strategic
33 fit."
- 34 b. In her 1997/1998 business plan, an analyst stated, "If I were any more aggressive
35 in the banking area, my office would be on the third floor [location of IB offices
36 of the Firm]."

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

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

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

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

11 **D. Participation in Investment Banking Activities was a Factor in Evaluating and**
12 **Compensating Research Analysts**

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

18 a. "I'd like to remind everyone how you get paid at Bear Stearns. It is based on your
19 contribution to your team and your contribution to the firm . . . Notice that being a
20 partner with banking is part of the analyst job description. You are not compared
21 or matrixed or in any way paid on a formula. Working on transactions is not
22 incremental to your compensation, it is an expected part of it."

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

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

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

- 1 4. The research analysts' annual business plans contained, among other things, their
2 contributions to various areas of the Firm, including IB, for the past year, and their plans
3 for improving their contribution to these areas of the Firm, including IB, in the coming
4 year.
- 5 5. In their self-evaluations, which were used to communicate their accomplishments to and
6 petition management for increased compensation analysts discussed such areas as their
7 rankings in independent research polls, the scope of their research coverage, their
8 participation in industry conferences, and the Firm's Autex rankings in stocks they
9 covered. Certain research analysts provided extensive information regarding their
10 assistance to IB, including accomplishments, goals, and participation in lead- and co-
11 managed underwritings, and sometimes also including the revenues to the Firm
12 associated with the IB transactions on which the analyst worked. In addition, analysts
13 were occasionally requested to inform research management of fees generated by the IB
14 transactions on which they worked.
- 15 a. In an October 24, 2000 e-mail to the Head of Research, a senior analyst
16 summarized his 9 key accomplishments during fiscal year 2000. The first and
17 largest point, which dealt with his contributions to IB, stated as follows:
18 "*Corporate finance: generated over \$23 million in fees to the firm in nine
19 separate transactions: *Storage networking: identified a new financial
20 opportunity for the firm, which resulted in six transactions... I should be
21 designated as a finder for Ancor [Ancor Communications], JNI [JNI Corp.] and
22 Vixel [Vixel Corp.]. *iAppliances: identified a new industry category ...which
23 was a source of two IPOs... *Agilent [Agilent Technologies]: I should be
24 designated as a finder -- or at least a save for Agilent. BS pitched the business
25 and lost. I went in and re-won the business, generated fees of around \$2.5 million
26 to the firm." The e-mail to the Head of Research included a spreadsheet listing
the IB transactions on which he had worked and the associated revenues to the
Firm. The Head of Research praised the format of the summary and suggested
she might have all research analysts submit theirs in the same form.
- b. In a June 21, 2001 e-mail from a member of the research management staff, the
research analysts were requested to submit information regarding all banking
transactions that had closed or that were pending in their sectors during the prior 6
month period.
6. Certain research analysts perceived that the amount of their bonus would be influenced
by their contribution to and impact on the firm's IB business, and the fees generated by
IB transactions on which they worked.
7. Research analysts were encouraged to support and assist all areas of the Firm and to
participate in IB activities and activities that enhanced the reputation of the Firm's IB
business. Based upon statements by research management indicating that partnership
with banking was part of their job as research analysts, the inclusion of a "Banking"
section in their annual business plans, information regarding IB transactions in their self-
evaluations, and requests from research management for specific information regarding
IB transactions in their coverage sectors, certain research analysts believed that the

1 revenues generated by their participation in IB activities was an important factor in their
2 evaluations and compensation. Accordingly, some research analysts were encouraged to
3 participate in IB activities, increase IB revenues, and enhance the reputation of the Firm,
4 including its IB business.

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

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

- 13 1. In general, the Firm determined whether to initiate and maintain research coverage based
14 upon institutional investors' interest in the company, and the company's importance to the
15 sector or IB considerations, such as attracting companies to the Firm to generate IB
16 business or maintaining a positive relationship with existing IB clients.
- 17 2. The nature and duration of research coverage were important criteria for a company's
18 choice of a broker dealer for IB services. The pitch books typically contained information
19 stating, among other things, that: "an important element to successfully executing an IPO
20 is having an assurance that the Firm will provide research coverage to the IPO candidate
21 in the offering and in the aftermarket."
- 22 3. The Firm generally initiated coverage on companies that engaged the Firm in an IB
23 transaction. In pitching for IB business, the Firm sometimes represented to the company
24 the frequency with which reports would be issued.
- 25 4. The Firm's ratings system, which was intended to reflect the long-term prospects of a
26 rated stock, allowed research analysts to assign one of five ratings to a stock: (1) "Buy" -
Expected to outperform the local market by 20% in the next 12 months. Strong
conviction and typically accompanied by an identifiable catalyst; (2) "Attractive" -
Expected to outperform the local market by 10% or more, it is usually more difficult to
identify the catalyst; (3) "Neutral" - Expected to perform in line with the local market; (4)
"Unattractive" - Expected to underperform the local market; and (5) "Sell" - Avoid the
stock.
5. During the relevant period, there was a sharp downturn in the stock market and stocks in
certain sectors performed poorly. During this period, the Firm did not issue ratings of
"Unattractive" or "Sell" in connection with any covered companies in these sectors.
6. Research management communicated with IB management to ensure that research
opportunities were appropriately aligned with identified IB opportunities.
7. The Stock Selection Committee was ultimately responsible for making the determination
to initiate coverage of a given company. The Head of Research was ultimately

1 responsible for making the determination to maintain research coverage. Nonetheless, IB
2 considerations sometimes influenced the decision to initiate and maintain coverage.

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

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

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

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

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

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

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

32 c. In his annual evaluation, this analyst was criticized as follows: "Has been
33 working poorly w/bankers - in changing opinions after the firm has committed to
34 co. mgmts". The analyst testified that he believed the statement related to his
35 communicating his opinions regarding companies to bankers in a timely manner,
36 and that if his opinion regarding a company changed from a more positive opinion

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

1 to a more negative opinion about a company after a banker had already made
2 some sort of commitment to a company, it made life difficult for the banker and
3 was not ideal from his standpoint. He went on to testify that, particularly in his
4 highly volatile sector, companies often changed a lot between the time of the first
5 organizational meeting and the date of the IPO.

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

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

b. In an April 3, 2000 e-mail to the Heads of Research and IB as well as numerous members of both departments, a banker discussed a company's decision to exclude the Firm from a follow-on offering. He stated: "I expressed significant disappointment with the fact that they neglected to discuss this issue with us prior to this time and that they left us no choice but to drop research coverage and trading, since they obviously did not value our support to date. [Analyst] - As we discussed, feel free to drop at any time. I told the CFO that you would likely put out a note, but did not know when." In a follow-up e-mail the Head of Research stated that she agreed with the decision to drop coverage. The analyst ultimately determined not to drop coverage.

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

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

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

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

a. In a December 10, 1999 e-mail, an analyst wrote the following to Equity Trading copied to the Heads of Research and IB: "Subject: Pls make the trading of Packeteer a top priority. I spent two days with Packeteer ('PKTR') management this week visiting investors. Management are extremely happy with our research coverage and banking services. But they have repeatedly indicated to me that our trading stat. is not satisfactory...CEO hinted to me many times that we have a

1 chance for the books for the secondary if we improve the trading...They are likely
2 to do a secondary in Q1 - mostly likely late January/early February; could be as
3 much as \$200 MM deal. Please help us in improving our trading immediately. We
4 will do whatever it takes from the research side."

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

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

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

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

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

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

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

- 1 a. On November 2, 2000, in his 2000 self-evaluation an analyst wrote in a section
2 entitled "Areas to Improve: We want our banking clients to know that our
3 research is objective and independent but always sensitive to their best interests.
4 There have been instances in my career where certain banking clients felt that our
5 research and public comments weren't sensitive to their interests. This is a very
6 important issue for us and we take it most seriously. We will continue to make
7 every effort to be sensitive to our clients and our banking partners."
- 8 3. When research analysts downgraded or issued a negative comment on a banking client,
9 they sometimes received direct feedback from high-ranking company officials.
- 10 a. In an August 24, 2000 e-mail, a banking client responding to a downgrade of his
11 company wrote: "Your earnings estimates are on track, however, given the
12 downgrade, I sure would have liked to see you give us a lower bar on
13 revenue...[W]hile we affirmed the revenue estimate, they were definitely a stretch.
14 Seems a shame to waste a downgrade by not buying the opportunity for us both to
15 over-perform going forward..."

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

- 12 1. On several occasions, the conflicts of interest discussed above resulted in analysts
13 publishing recommendations and/or ratings that were exaggerated or unwarranted, and/or
14 contained opinions for which there was no reasonable basis. The following are examples
15 of how these conflicts affected the research.
- 16 a. Bear Stearns lead managed the IPO and secondary offerings for SonicWall in
17 November 1999 and March 2000 respectively. An analyst rated the stock a "Buy"
18 from the IPO until April 2002. In January 25, 2001 while they were participating
19 in a SonicWall conference call the analyst stated to his associate: "I am trying to
20 make them look good...on the dso and the growth etc." A few minutes later he
21 added: "we got paid for this...and I am going to Cancun tomorrow b/c of them!"
- 22 b. Bear Stearns initiated coverage of MUSE with an "Attractive" rating in
23 September 1999, raised the rating to a "Buy" in January 2000 and maintained a
24 "Buy" rating on the stock until July 2002. While listening to a MUSE analyst call
25 on July 18, 2001, an analyst suggested to his associate that he was going to
26 downgrade his rating on the stock to "Attractive". The associate disagreed with
the suggestion and the analyst responded that the stock was "dead money!"
However, the analyst did not downgrade his rating on the stock, instead issuing
research the same day maintaining his "Buy" rating.
- c. Bear Stearns lead managed the IPO for CAIS Internet, Inc. in May 1999. The
analyst rated the stock a "Buy" from the IPO through his last report on the
company in November 2000. On January 24, 2001, in response to an e-mail
reporting extensive service failures at CAIS the analyst stated: "Any other scoop
on this piece of shit?" A few days later, in response to an institutional client's

1 request for his thoughts on CAIS' 4th quarter, the analyst stated: "It's up a lot year
2 to date...don't overstay your welcome on this one."

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

15 **I. The Firm Made A Payment for Research**

- 16 1. In August 2000, as part of an offering that took place in May 2000, the Firm made a
17 payment of \$102,750 to another broker-dealer in connection with research coverage it
18 provided for Andrx Corp. ("ADRX"), a Bear Stearns' investment banking client in
19 connection with an underwriting transaction for which Bear Stearns was a lead manager.
20
21 2. Bear Stearns did not take steps to ensure that this broker-dealer disclosed in its research
22 that it had been paid to issue research on ADRX. Further Bear Stearns did not disclose or
23 cause to be disclosed the details of this payment.

24 **J. Bear Stearns Failed to Adequately Supervise Its Research and Investment Banking
25 Departments**

- 26 1. While the role of the research analysts was to produce objective research, the Firm also
encouraged them to participate in IB activities. As a result of the foregoing, research
analysts were subject to IB influences and conflicts of interest between supporting the IB
business at the Firm and publishing objective research.
2. The Firm had knowledge of these IB influences and conflicts of interest yet failed to
manage them adequately to protect the objectivity of its published research.
3. Bear Stearns failed to establish and maintain adequate policies, systems and procedures
reasonably designed to ensure the objectivity of its published research. Although Bear
Stearns had some policies governing research analyst activities during the relevant
period, these policies were inadequate and did not address the conflicts of interest that
existed.

III. CONCLUSIONS OF LAW

- 1 1. The Bureau of Securities has jurisdiction over this matter pursuant to N.J.S.A. 49:3-47 et
2 seq., and more specifically N.J.S.A. 49:3-66.
- 3 2. The Chief of the Bureau of Securities finds the following relief appropriate and in the
4 public interest.
- 5 3. N.J.S.A. 49:3-58(a) states that the Bureau Chief may by order deny, suspend, or revoke
6 any registration if he finds: (1) that the order is in the public interest; and (2) that the
7 applicant or registrant or, in the case of a broker-dealer or investment adviser, any
8 partner, officer, or director, any person occupying a similar status or performing similar
9 functions, or any person directly or indirectly controlling the broker-dealer or investment
10 adviser: (vii) has engaged in dishonest or unethical practices in the securities,
11 commodities, banking, insurance or investment advisory business, as may be defined by
12 rule of the bureau chief; or (xi) has failed reasonably to supervise his agents if he is a
13 broker-dealer or issuer; the agents of a broker-dealer or issuer for whom he has
14 supervisory responsibility, or his employees who give investment advice if he is an
15 investment adviser.
 - 16 a. Bear Stearns failed to ensure that analysts who issued research were adequately
17 insulated from pressures and influences from covered companies and investment
18 banking. This conduct was a dishonest and unethical practice under N.J.S.A. 49:3-
19 58(a)(2)(vii).
 - 20 b. Bear Stearns failed to reasonably supervise its employees to ensure that its
21 analysts who issued research were adequately insulated from pressures and
22 influences from covered companies and investment banking as required by
23 N.J.S.A. 49:3-58(a)(2)(xi).

24 IV. ORDER

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

IT IS HEREBY ORDERED:

1. This Order concludes the investigation by the Bureau of Securities and any other action that
the Bureau of Securities could commence under the Uniform Securities Law (1997), L.
1997, c.276, N.J.S.A. 49:3-47 et seq. on behalf of the State of New Jersey as it relates to
Bear Stearns, relating to certain research or banking practices at Bear Stearns.
2. Bear Stearns will CEASE AND DESIST from violating the Uniform Securities Law (1997),
N.J.S.A. 49:3-47 et seq., and will comply with the Uniform Securities Law (1997), N.J.S.A.
49:3-47 et seq., in connection with the research practices referenced by this Order and will
comply with the undertakings of Addendum A, incorporated herein by reference.
3. If payment is not made by Bear Stearns or if Bear Stearns defaults in any of its obligations
set forth in this Order, the Chief of the Bureau of Securities may vacate this Order, at his

1 sole discretion, upon 10 days notice to Bear Stearns and without opportunity for
2 administrative hearing.

- 3 4. This Order is not intended by the Chief of the Bureau of Securities to subject any Covered
4 Person to any disqualifications under the laws of any state, the District of Columbia or
5 Puerto Rico (collectively, "State"), including, without limitation, any disqualifications from
6 relying upon the State registration exemptions or State safe harbor provisions. "Covered
7 Person" means Bear Stearns, or any of its officers, directors, affiliates, current or former
8 employees, or other persons that would otherwise be disqualified as a result of the Orders
9 (as defined below).
- 10 5. The SEC Final Judgment, the NYSE Stipulation and Consent, the NASD Letter of
11 Acceptance, Waiver and Consent, this Order and the order of any other state in related
12 proceedings against Bear Stearns (collectively, the "Orders") shall not be a ground to deny,
13 suspend or revoke the broker-dealer, agent, investment adviser or investment adviser
14 representative registration of any Covered Person pursuant to N.J.S.A. 49:3-58, shall not be
15 a ground for denial or revocation of the transactional and securities exemptions from
16 registration in N.J.S.A. 49:3-50, and shall not be a ground to issue a stop order denying
17 effectiveness to, or suspending or revoking the effectiveness of, any securities registration
18 statement pursuant to N.J.S.A. 49:3-64.
- 19 6. For any person or entity not a party to this Order, this Order does not limit or create any
20 private rights or remedies against Bear Stearns including, without limitation, the use of any
21 e-mails or other documents of Bear Stearns or of others regarding research practices, limit or
22 create liability of Bear Stearns or limit or create defenses of Bear Stearns to any claims.
- 23 7. Nothing herein shall preclude the State of New Jersey, its departments, agencies, boards,
24 commissions, authorities, political subdivisions and corporations, other than the Bureau of
25 Securities and only to the extent set forth in paragraph 1 above, (collectively, "State
26 Entities") and the officers, agents or employees of State Entities from asserting any claims,
causes of action, or applications for compensatory, nominal and/or punitive damages,
administrative, civil, criminal, or injunctive relief against Bear Stearns in connection with
certain research and/or banking practices at Bear Stearns.

V. MONETARY SANCTIONS

IT IS FURTHER ORDERED, ADJUDGED AND DECREED that:

As a result of the Findings of Fact and Conclusions of Law contained in this Order, Bear Stearns shall pay a total amount of \$80,000,000.00, as follows:

\$25,000,000 to the states (50 states, plus the District of Columbia and Puerto Rico) (Bear Stearns' offer to the state securities regulators hereinafter shall be called the "state settlement offer"). Upon execution of this Order, Bear Stearns shall pay the sum of \$648,335.00 of this amount to the State of New Jersey, Bureau of Securities as a civil monetary penalty pursuant to N.J.S.A. 49:3-70.1, to be deposited in the Securities Enforcement Fund, N.J.S.A. 49:3-66.1. The total amount to be paid by Bear Stearns to state securities regulators pursuant to the state settlement offer may be reduced due to the decision of any state securities regulator

1 not to accept the state settlement offer. In the event another state securities regulator
2 determines not to accept Bear Stearns' state settlement offer, the total amount of the New
Jersey payment shall not be affected, and shall remain at \$648,335.00;

3 \$25,000,000 as disgorgement of commissions, fees and other monies, as specified in the final
4 judgment ordered in the related action filed by the SEC;

5 \$25,000,000, to be used for the procurement of independent research, as described in
Addendum A, incorporated by reference herein;

6 \$5,000,000, to be used for investor education, as described in Addendum A, incorporated by
7 reference herein.

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

17 VI. GENERAL PROVISIONS

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

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

21 Dated this 28th day of April, 2003.

22
23 By: Franklin L. Widmann
Franklin L. Widmann
24 Chief, Bureau of Securities
25
26

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

- 2 1. Bear Stearns hereby acknowledges that it has been served with a copy of this
3 Administrative Order, has read the foregoing Order, is aware of its right to a hearing and
4 appeal in this matter, and has waived the same.
- 5 2. Bear Stearns admits the jurisdiction of the Bureau of Securities, neither admits nor
6 denies the Findings of Fact and Conclusions of Law contained in this Order; and
7 consents to entry of this Order by the Chief of the Bureau of Securities as settlement of
8 the issues contained in this Order.
- 9 3. Bear Stearns states that no promise of any kind or nature whatsoever was made to it to
10 induce it to enter into this Order and that it has entered into this Order voluntarily.
- 11 4. Bear Stearns understands that the State of New Jersey may make such public
12 announcement concerning this agreement and the subject matter thereof as the State of
13 New Jersey may deem appropriate.

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

16 Dated this 22nd day of April, 2003.
17 Bear, Stearns & Co. Inc.

18 By: Mark E. Lehman

19 Title: Senior Managing Director and General Counsel

20 SUBSCRIBED AND SWORN TO before me this 22nd day of April, 2003.

21 Patrick Maloney
22 Notary Public

23 My Commission expires: June 15, 2003

24 **PATRICK B. MALONEY**
25 Notary Public, State of New York
26 No. 02MA5011777
Qualified in Westchester County
Certificate Filed in New York County
Commission Expires: 6/15/2003