BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

Direct Testimony of Michael L. Noel,

Appearing on Behalf of Staff

DOCKET NO. 060038-EI

March 31, 2006

DIRECT TESTIMONY OF MICHAEL L. NOEL

Q. Please state your name and business address.

A. Michael L. Noel, Saber Partners, LLC, 44 Wall Street, New York, New York

Professional Qualifications and Education

Q. By whom are you employed and what is your position?

A. I am a member of Saber Partners, LLC, and serve as a Senior Managing Director and Senior Advisor.

Q. Please describe your duties and responsibilities in that position.

A. I serve in a senior advisory position which includes participating in business strategy and procurement of new business; meeting with Saber Partners' clients and potential clients such as public service commissions; meeting with senior officers of the utilities and investment banks with which we work; and assisting in the development and review of presentations we make to our clients and potential clients.

Q. Please describe your educational background and professional experience.

A. I have a Bachelor's degree in Finance from California State University at Long Beach where I graduated cum laude. I also have a Master's degree in Business Administration from the University of Southern California where I graduated summa cum laude.

I began working with Southern California Edison Company (Edison) as a Financial Analyst, where I enjoyed a thirty-year career prior to my retirement. During those thirty years, I also worked as the Manager of Financial Planning, Manager of Corporate Planning, Treasurer, Vice President of Finance, and Senior Vice President and Chief Financial Officer. I was a member of the Officers' Council, which was composed of the Company's top five officers. I also served as Senior Vice President and Chief Financial Officer at the Company's parent, Edison International Company. Some of my other assignments included serving as an officer and on the Board of Directors for two of Edison International's nonregulated subsidiaries, Edison Mission Energy Company and Edison Mission Land Company. During my career at Edison, I was a member of the Los Angeles Society of Financial Analysts.

In 1998, subsequent to my retirement, I established Noel Consulting Company, providing financial advice to corporations and financial institutions. The business evolved into one of working with Saber Partners (since 2002) and serving on several Boards of Directors. I have served on seven corporate boards, and at the current time I serve on three: Avista Corporation (an electric and gas utility serving the Pacific Northwest), HighMark Funds (a mutual fund family) and SCAN Health Plan. I currently serve or have served in the leadership positions of Chairman of the Board, Chairman of the Audit Committee, Chairman of the Compensation Committee, Chairman of the Governance Committee and a member of the Finance Committee. On the three boards where I currently serve, I am a named Audit Committee Financial Expert under the Sarbanes-Oxley Act. I am a member of the National Association of Corporate Directors, and in 2004 I co-authored an article for that organization, "Board Transformation: Does Change Have a Chance?"

Purpose of Testimony

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to describe in what respects utility securitization financings are different from those traditionally transacted in the utility industry and why the uniqueness of ratepayer-backed securitization bonds requires them to be marketed differently from traditional utility bonds. In addition, I will give a professional opinion on whether the proposed transaction should be sold through a competitive bid or negotiated offering process. I also will describe why an active commission, with the assistance and advice of a financial advisor, is in the best interest of ratepayers, and discuss the potential savings that could result from the Commission's involvement.

Q. Can you provide some of your background and experience with utility financings while you were at Southern California Edison?

A. Yes. During most of my career at Edison, the power needs in our service territory were growing rapidly. We were building plant and equipment that required billions of dollars of external financing, including large nuclear and coal plants. As a result, I oversaw dozens of financings and billions of dollars of debt and equity offerings in the U.S. and internationally.

Q. Did Edison accomplish those financings through competitively bid or negotiated offerings?

A. In California at that time, the California Public Utilities Commission (CPUC) worked under a "rebuttable presumption" that financings must be done on a competitive-bid basis unless the Company could show that a negotiated offering could produce a lower cost and was in the best interest of ratepayers. So, in the majority of cases, especially with debt offerings, we issued our securities by forming multiple underwriting groups and having them submit sealed bids. The lowest-cost bidding syndicate was awarded the deal.

Q. Why did the CPUC believe that a competitive bid was likely to produce the lowest cost for ratepayers?

A. This view was held because Edison was typically issuing first mortgage bonds ("FMBs"). There was nothing unique or special about these bonds. The investment banking firms were purchasing FMBs from us and then re-selling the bonds to investors who understood the bonds well, including the underlying credit worthiness of the bonds. Investors knew what they were getting and were well acquainted with the appropriate pricing for those bonds in the marketplace. This made it possible for us to bring the bonds to market quickly and get them sold efficiently. It also provided a benefit to the Company of not having to provide proof to the CPUC that we indeed received the lowest cost for our bonds. That was inherently assumed in the competitive-bid process.

Q. Were there instances of Edison doing negotiated offerings?

A. Yes, there were many. Examples of some of these negotiated deals include nine offerings in Europe, the world's first corporate "Shogun Bonds" (dollar-denominated bonds sold in Japan), currency swaps where Australian and New Zealand dollars were swapped for U.S. dollars, and interest-rate swaps to convert floating-rate obligations into fixed-dollar obligations.

Q. Couldn't those issues have been done through a competitive bid?

A. Theoretically, yes. However, from a practical standpoint, no. In order to obtain the lowest-cost of funds for the benefit of ratepayers, we believed it necessary to work diligently to communicate with the rating agencies and potential investors the unique characteristics and underlying credit of these securities which were not well understood. It involved a team of underwriters selected by us. It also included our management and financial staff and attorneys. All of those parties, to one extent or another, traveled--often internationally--to meet with the rating agencies and potential investors, making presentations and answering their questions. These were not simple, straightforward offerings. It took time and effort to conduct educational sessions with investors and hard-fought negotiations with the underwriters who first purchased the securities from us before re-selling them in the marketplace. We had to first assure ourselves and then the CPUC that we had obtained the lowest cost of funds. We were required to file exhibits, and if necessary, testify before the CPUC regarding our results. If we couldn't show ratepayer savings, we faced disallowances in our rate cases.

Q. With that in mind, would you recommend that Florida Power & Light Company's (FPL) proposed storm-recovery bond issue, the first utility securitization issue in Florida, be sold through a competitive bid or through a negotiated offering?

A. Saber Partners will evaluate both options, but in my opinion, it's likely that this issue will need to be sold through a negotiated offering. First, although the benefits and value of a securitization offering are becoming more widely known to bond investors, these bonds still are not being sold or traded at the yields they should command. There is more education to do both in the U.S. and internationally. I believe that a robust effort on the part of FPL and the underwriters to reach a broad array of investors and to educate them on the incredible features these bonds hold can bring down the yields in a meaningful way. This first Florida securitization issue is a large one, and even a few basis points of savings on the bonds' yield can benefit ratepayers significantly. Second, interested investors will want to scrutinize this first-time Florida issuance to see how it may differ from securitization bonds that have been issued in other states. Investors will want to be certain that Florida's pledges of safety to the investor are not weaker than similar pledges in other states. That will take some added effort on the part of FPL and the underwriters to talk with investors and get them comfortable with such items as the State's pledge and the true-up mechanism. The true-up mechanism will be an especially important topic because investors will speculate on how effectively and efficiently the true-up mechanism will work if another large hurricane were to strike Florida. Investors have no experience with bonds issued to pay for hurricane recovery costs and the bond-safety features that would kick in because no other state has issued storm-recovery bonds. Investors will need to get comfortable with the assurances that the Florida mechanisms would provide. By contrast, a competitively bid offering would, by definition, not enable the much-needed and thorough communication program that this offering will require to achieve the best price for the bonds. As a result, I believe the costs to ratepayers likely would be higher with a competitively bid offering.

Q. In either type of issuance, are the interests of ratepayers aligned with the interests of the underwriters?

A. No. The interests of underwriters are fundamentally adverse to the interests of ratepayers. Underwriters will want to negotiate for relatively high rates of interest so that their sales forces will be able to sell the storm-recovery bonds with the least effort, satisfying the desires of their investor clients for high interest rates. Underwriters also will negotiate for the highest possible underwriting fees.

There is nothing inherently wrong about the interests of underwriters being adverse to the interest of ratepayers. It is part of the market system. But this fundamental adversity of interests is important to keep in mind in selecting underwriters, in negotiating underwriters' fees, in negotiating a marketing plan, and especially in negotiating the final prices and interest rates with underwriters and investors. This will be especially true in connection with storm-recovery bonds where 100% of the economic burden will be borne by ratepayers.

In addition, we must recognize that some abusive practices and malfeasance by underwriters in the public capital markets is well documented and we must always be diligent in our dealings. See EXH MLN-1 which provides examples of such occurrences, including severely under-priced public offerings, and alleged overcharging of state and local governments for U.S. treasury securities. These cases add support for Commission involvement and oversight in the issuance of the storm-recovery bonds.

For all of these reasons, it will be vital for the Commission, with the assistance of a qualified and independent financial advisor without any potential conflicts of interest, and cooperation of FPL, to be vigilant and play an active and visible role throughout the process of structuring, marketing and pricing storm-recovery bonds. As Alan Greenberg, the chairman of Bear Stearns, a large underwriting firm, once said "We believe everybody is honest, but they are more honest if you watch them like a hawk."

Q. Will the interests of ratepayers and FPL be aligned in the underwriting of the storm-recovery bonds?

A. Not entirely. While FPL has a general business interest to keep overall customer rates low, FPL will have no obligation to repay the storm-recovery bonds and will have no responsibility to pay any of the costs. All costs will be borne solely by the ratepayers; therefore FPL will have a less-than-normal economic incentive to achieve the lowest possible cost. FPL may have other incentives; indeed it may have corporate policies to achieve the lowest costs and to keep rates low, but in this storm-recovery bond transaction, all of the traditional checks and balances on FPL will be missing. FPL's highest priority in this transaction likely will be to get the issuance done quickly, with cost taking a lower priority.

In more typical debt and equity offerings, utilities have strong incentives to negotiate hard with underwriters for the lowest possible interest rates as well as the lowest possible underwriting fees. Utilities also have strong incentives to minimize other issuance costs. Because a utility's allowed rate of return on rate base generally is adjusted only periodically to reflect changes in the utility's blended cost of capital, the benefit from a low net cost of funds is captured at least in part by the utility's shareholders, and the detriment from a high net cost of funds is borne at least in part by the utility's shareholders during the period of regulatory lag. Consequently, at least in the short run, the utility's shareholders must bear a part of the detriment from a high net cost of funds. These same consequences and incentives do not come into play in connection with ratepayer-backed bonds.

Q. Why do you believe that FPL's proposed securitization issue needs the oversight of the Commission?

A. Ratepayers need to be represented during the entire process because they are the sole obligors for this debt. Without the Commission's oversight, the bond pricing will not be as high due to less aggressive marketing and the transaction documents will probably not have the desired protections for ratepayers. The extra cost borne by ratepayers from an inefficient transaction and potential liabilities could be significant.

Q. Why couldn't the Commission simply rely on FPL and its investment bankers to ensure the lowest cost for the benefit of ratepayers, without Commission involvement and without a financial advisor?

A. First, although I believe FPL would be well intentioned, it is human nature to not invest the time and effort needed to produce maximum ratepayer savings when there is no adverse consequence to management or its shareholders for a mediocre result. In securitization offerings, ratepayers are totally and solely responsible for the repayment of the bonds. For example, in my experience in a securitization transaction in another state, management showed its indifference in many ways. It assigned mid-level personnel to the task and didn't show leadership in directing the investment bankers to keep the plan on schedule. This utility allowed the investment bankers to miss deadlines and produce less than satisfactory drafts of the "Roadshow," which is an Internet-based investor-education slide show with accompanying voice-over. The utility also allowed the investment bankers to assign inexperienced personnel to the production of the Road Show, so it continually missed the mark until senior, experienced bankers eventually stepped in at the financial advisor's urging. Moreover, management often pressured the Commission's financial advisor to bring the issue to market well before it was ready, given all she missed deadlines and inadequate preparation. We often heard, "Let's go. We need our money." I don't recall ever hearing the utility speak of obtaining the lowest cost of funds for ratepayers.

Second, as I alluded to earlier, there is an inherent flaw in the process of selling securities. Many people don't realize that the underwriters first buy the bonds from the utility before re-selling them to investors. Hence, the underwriters have an incentive to buy the bonds from the issuer with a cushion built in so that they can sell the bonds to investors at a price that will provide the underwriters with a more robust profit. Underwriters also deal with large insurance companies, mutual funds and other financial institutions who threaten to move their business from Investment Banker-A to Investment Banker-B if Investment Banker-A does not sell the bonds at an "attractive" price (i.e., a low price) to its largest clients. Furthermore, investment banks operate under the principle of transacting deals quickly, with as little effort as possible and with pricing that will move the bonds out the door. It is a high-volume, high-turnover, high-margin business. Their sales force moves day-to-day from one transaction to another, one phone call to another, and they don't like to be bothered with having to get involved in understanding the story of why securitization bonds hold excellent value and then having to explain that story to their customers. Hence, without oversight from a financial advisor who is experienced in the financial markets and understands in detail the inner-workings of securities pricing conventions, and without a broad-based investor group to provide maximum competition for the bonds, an inexperienced or uninvolved commission will not get the lowest interest rates and the lowest fees on behalf of ratepayers.

Q. How then does Saber Partners propose that a group of underwriters be hired who will work to achieve the lowest cost of funds for ratepayers?

A. Saber Partners believes in conducting a competitive process for the selection of underwriters. First, Saber Partners has successfully innovated a "pay-for-performance" compensation plan in other states that it proposes be adopted in Florida. Traditionally, utilities have selected investment bankers on a fixed-fee arrangement. That is, once the investment bankers have been selected, the vast majority of the economics (i.e., compensation) is decided. At that point, the investment banking firm has little incentive to perform other than to try to ensure it is included in the next deal. Sometimes, a utility will put an underwriter in a deal or promise to include it in the next deal because of other business the underwriter is doing with the utility, such as making loans to the utility. Saber Partners believes in hiring underwriters who: (a) have proven themselves in other securitization issues and who have reasonable fees, and then providing them incentives to bring investors to the table at the appropriate price for the bonds rather than trying to bring in a few big-ticket orders at unfavorable prices in order to satisfy their favorite customers; (b) bring new investors to the deal; and (c) do a great job with the communications effort. This, we propose, would be done through a selection and compensation process that has both competitive and negotiated aspects in a joint effort involving FPL, the Commission and the Commission's financial advisor, as has been done successfully in other states. Although the underwriters then selected would become part of the team, they would be competing among each another to provide excellent results and to be rewarded accordingly.

Q. Are you familiar with the actions and protocols which Mr. Fichera has referred to in his testimony as "best practices" in utility securitization bond issues?

A. Yes, I am.

Q. Regarding these "best practices," what is your opinion of this approach for this proposed transaction?

A. I find this approach to be a well-reasoned and sound approach. It is one I endorse based on my years of experience in overseeing financings and being a Chief Financial Officer.

Q. What studies have you reviewed that measure the impact of Saber Partners' advice on the costs of ratepayer-backed-bond transactions?

A. In addition to my own involvement in some ratepayer-backed bond pricings, I have reviewed the Wisconsin Public Service Commission's analysis, Exhibit MLN-2, and Citigroup's compilations of data on many transactions, along with data Saber Partners has compiled with the help of some investment banking firms.

Q. Can you identify the completed transactions and the pending transactions where Saber Partners was the financial advisor or will be the financial advisor?

A. Yes. Exhibit MLN-3 provides that information. Saber Partners has acted as the financial advisor in six transactions and has five transactions pending in four states.

Q. In the six completed transactions in Exhibit MLN-3, is it true that Saber Partners and the Commissions followed an active, "best practices" role?

A. Yes.

Q. What about the pending transactions?

A. In West Virginia, Wisconsin and Texas, Saber Partners has been authorized by those Commissions to employ "best practices" as part of its active role in those transactions.

Q. Do you have any comments on the upcoming storm-recovery bond financing in Florida?

A. Yes. A major issue in this proceeding is whether the Commission should grant Saber Partners authority to play an active role as its financial advisor.

Q. Have you reviewed data on the performance of Saber Partners in its transactions compared to transactions where Saber was not the financial advisor?

A. Yes, I have. First, as I mentioned earlier, the Wisconsin Public Service Commission authored a study in 2004, "Analysis of the Potential Savings from Using Saber Partners." I have included in EXH MLN-2 two tables taken directly from that study. The first shows the average number of basis points saved when Saber Partners has been the financial advisor versus transactions where Saber was not the financial advisor. The first table shows that the "Savings Attributable to Saber" ranged from 14-19 basis points.

The second table is similar, but it shows comparisons by maturities. It concludes that "Savings Attributable to Saber" ranged from 5 basis points on a one-year maturity to 29 basis points on a 15-year maturity.

It is important to note that the Wisconsin Public Service Commission analysis was undertaken for that Commission by its economist to test the credibility of the alleged "Saber effect," not to measure expected dollar savings. It also was not intended as a testimonial to Saber Partners. Rather, it reflects one commission's approach for testing the credibility of a potential financial advisor. Saber Partners believes the favorable results that came out of the study is because of the "best practices" process Saber Partners employs.

Comparison of Yield Spreads (basis points)

(Benchmark: LIBOR Swap Rate)

	Saber Advised	No Saber Advice	Savings Attributable to Saber
No. of Tranches	16	38	***
Mean Yield Spread	26	45	19
Median Yield Spread	26	40	14

Comparison of Yield Spreads (basis points)
(Benchmark: LIBOR Swap Rate)

Term to Maturity (Years)	Saber Advised	No Saber Advice	Savings Attributable to Saber
1	19	24	5
2	20	27	7
3	21	30	9
4	23	33	10
5	24	36	12
6	25	39	14
7	26	42	16
8	28	45	17
9	29	48	19
10	30	51	21
11	31	54	23
12	33	57	24
13	34	60	26
14	35	63	28
15	37	66	29

I have also included in EXH MLN-2 a chart from the Wisconsin Public Service Commission study where interest-rate spreads were plotted for ratepayer-backed bond transactions. As you will see, the "Saber Deals" plot points are quite consistently more favorable (i.e., at lower interest-rate spreads) than the "non-Saber" plot points.

Q. Are there any more Exhibits you would discuss in confirming Saber Partners' effectiveness in providing ratepayer savings?

A. Yes. I have included as Exhibit MLN-4 a chart showing data prepared and provided by Lehman Brothers and charted by Saber Partners. The horizontal bars show interest-rate spreads relative to a commonly used benchmark for states with multiple ratepayer-backed bond issues from 2001 to 2005. This schedule includes a timeline which indicates that, when a utility came to market without an advisor or with an advisor that wasn't Saber Partners, that deal was followed by a Saber-advised deal with more favorable interest-rate spreads to the benchmark. In each case, the differential in Saber's favor was significant. That difference translated to meaningful savings for ratepayers.

Q. Does a lowest cost standard ensure that the standard is achieved?

A. No. Exhibit MLN-4 shows that, despite a lowest cost standard in the New Jersey statute, the result is not always the lowest cost relative to the value of comparable securities. In New Jersey from 2001 – 2004, the companies, underwriters, and the Commission advisors were allowed to place qualifications on the lowest cost standard in their certifications. Rather than being strictly held to a lowest cost standard in the certification process, the Companies and their underwriters were allowed to 1) qualify certain aspects of their certifications with terms such as "reasonable", and 2) avoid accountability for their certifications. In contrast, for the 2005 transaction for Public Service Electric & Gas (PSEG), the New Jersey Commission and its financial advisor eliminated these provisions by adopting the Texas financing order certification model. The results speak for themselves.

Summary of Testimony and Recommendations to Commission

Q. Can you briefly summarize your testimony?

A. I hope I have accomplished my goal of showing why securitization bonds are different from traditional bonds and, hence, need to be marketed differently. Securitization bonds contain incredible value for investors, and if FPL, the Commission, and its financial advisor, working together with the investment-banking group selected, can effectively communicate the value and safety of these bonds, Florida ratepayers will enjoy the lowest cost of funds available in the marketplace. I also hope I have shown that a commission's active involvement, with Saber Partners acting as its financial advisor, can result in meaningful savings for ratepayers.

Q. Can you list your recommendations to the Commission?

A. I recommend that the Commission direct FPL to work in a collaborative manner with the Commission and its financial advisor in the selection of underwriters and the structuring, marketing and pricing of the bonds, while following the "best practices" outlined by Mr. Fichera in his testimony.

Q. Does this conclude your testimony?

A. Yes it does.

Recent Press Releases Regarding Abusive Practices and Malfeasance by Underwriters

APPENDIX B

"Spinning"

18 of 35 DOCUMENTS

The Wall Street Journal

April 29, 2003 Tuesday

SECTION: Pg. C1

LENGTH: 699 words

HEADLINE: IPO `Spinning' Comes Under Regulatory Fire

BYLINE: By Randall Smith

BODY:

Washington -- REGULATORS TOOK special aim at IPO "spinning" yesterday, warning that corporate executives who received hot initial public offerings of stock in exchange for investment-banking business may have accepted "virtual commercial bribery" from Wall Street and could be forced to disgorge IPO profits.

Securities regulators yesterday, as part of a broader $1.4 billion global-research pact, brought formal spinning charges against two of the securities firms in the settlement, the Credit Suisse First Boston unit of Credit Suisse Group and the former Salomon Smith Barney unit of Citigroup Inc.

Spinning occurs when securities firms allocate initial public stock offerings to the personal brokerage accounts of corporate or venture-capital executives -- so the shares can then be sold, or "spun," for quick profits -- in a potential bid to get future business from the executives' companies.

CSFB declined to comment. But Charles Prince, chairman and ceo of Citigroup's global corporate and investment bank, said in an unusual public apology accompanying the settlement: "We deeply regret that our past research, IPO and distribution practices raised concerns about the integrity of our company and we want to take this opportunity to publicly apologize to our clients, shareholders and employees."

New York Attorney General Eliot Spitzer, who has filed suit against five telecommunications executives who received hot IPOs, warned executives who received IPO profits that should have gone to their companies may be forced to return those profits to the companies.

Under a legal doctrine known as "corporate opportunity," executives are barred from taking personal advantage of financial opportunities that come to them by virtue of their position at the company. Rather, executives are supposed to offer the opportunity to their companies.

And Robert Glauber, chairman and chief executive of the National Association of Securities Dealers, said the cases sent Wall Street "an unmistakeable signal . . . that hot IPOs cannot be doled out to corporate insiders as virtual commercial bribes." The spinning charges yesterday were brought by the Securities and Exchange Commission and the NASD.

Yesterday's charges included new details about how Salomon Smith Barney, now named Citigroup Global Markets, directed the IPO shares to corporate executives through a special team of two brokers that functioned as a separate branch.

Between June 1996 and August 2000, Bernard Ebbers, the former WorldCom Inc.

Chief Executive, received a total of $11.5 million in profits on 21 IPOs from Salomon; in the same period, WorldCom, now named MCI, paid Salomon $76 million in investment-banking fees, according to the settlement papers filed yesterday. Both firms neither admitted or denied wrongdoing.

The executives named in Mr. Spitzer's suit were Mr. Ebbers, Philip Anschutz, the former chairman and founder of Qwest Communications International Inc.; Joseph Nacchio, former Qwest CEO; Stephen Garofalo, founder of Metromedia Fiber Network Inc.; and Clark E. McLeod, founder of McLeod Telecommunications. The executives have denied wrongdoing.

Mr. Anschutz and some of the other telecom executives have been in talks to settle the charges by Mr. Spitzer's office, said people familiar with the situation.

Separately, the Securities and Exchange Commission may also issue new rules governing the practice of spinning. SEC Chairman William Donaldson said while the firms involved in the settlement agreed to ban the allocations to executive officers and directors, he views this "as a temporary solution to the problem of spinning.

In the months ahead we will explore addressing these issues with revised or new rulemaking."

The NASD had already brought spinning charges in March against former CSFB investment banker Frank Quattrone. (Mr. Quatttrone, who declined to comment yesterday, is fighting the charges.)

Deborah Solomon contributed to this story.

Question of the Day: Will the Wall Street settlement eliminate conflicts of interest? Vist WSJ.com/Question to vote. Also, read internal e-mails from investment firms and profiles of key players in the settlement, in the Online Journal at WSJ.com/Analysts.

NOTES:
PUBLISHER: Dow Jones & Company

LOAD-DATE: December 5, 2004

The Wall Street Journal

August 27, 2002 Tuesday

SECTION: Pg. C1

LENGTH: 1061 words

HEADLINE: Salomon Says It Sent Hot IPOs WorldCom's Way

BYLINE: By Charles Gasparino

BODY:

SALOMON SMITH BARNEY, responding to a congressional investigation into its business practices during the stock boom of the 1990s, publicly acknowledged directing thousands of shares of hot initial public offerings to executives of WorldCom Inc., one of its biggest corporate clients.

Salomon, a unit of financial-services firm Citigroup Inc., made the disclosure in response to a subpoena from the House Financial Services Committee. That panel has launched a wide-ranging investigation into the collapse of WorldCom, which recently filed for bankruptcy-court protection after announcing a massive earnings overstatement.

As part of it inquiry, the committee is investigating the myriad relationships between WorldCom and Salomon -- one of the telecommunications companys staunchest supporters on Wall Street during the telecom boom of the late 1990s. Salomon was an adviser to WorldCom during the late 1990s, earning millions of dollars in investment-banking fees while its former top research analyst, Jack Grubman, published positive reports on the company even as its finances began to slip.

The committee is particularly interested in whether Salomon, one of the biggest underwriters of telecom shares during the late 1990s, used its standing in the telecom IPO arena to win lucrative banking business from WorldCom by doling out shares of hot new companies to the companys top executives, including former Chief Executive Bernard Ebbers. An attorney for Mr. Ebbers couldn't be reached to comment.

Recently, a former Salomon broker sued the company in Los Angeles claiming that WorldCom executives, including Mr. Ebbers, received below-market IPO allocations from Salomon.

In a letter to the committee, Salomon conceded that it handed IPO allocations to WorldCom executives and directors. While the firm says the practice is lawful, the allocations "were sufficiently large as to raise questions about the appearance of conflicts." In one instance, Salomon acknowledged allocating 35,000 IPO shares to a WorldCom executive -- an unusually large tranche for an individual. Prior to a merger in 1997, the firm says the amounts involved in stock allocations were much larger.

"This is substantial corroboration that these shares were being allocated to win investment-banking business," said John Coffee, a professor of law at Columbia University in New York. Mr. Coffee says he suspects that the vast majority of the IPOs were handed to WorldCom executives under a "friends and family" program, even though the executives had no connections to the companies themselves. "That doesnt mean its illegal, but it shows that the stock was being given for the underwriters best interest, not the issuers best interest."

Salomon declined to publicly disclose who at WorldCom received the allocations, at what price and when they may have sold them, referring all questions to the committee. The firm also declined to provide details on what stocks were involved in the allocation, again referring questions to the panel. Salomon said such a disclosure would violate privacy laws.

During the stock-market boom, it was a common practice for favored investors who were in positions to direct banking business back to the firms to obtain shares of IPOs at below-market prices, a practice known as "spinning." These investors often would quickly "flip," or sell the stock, once the shares grew in value, as they often did in the days following hot public offerings.

But in an interview, a Salomon spokesman acknowledged that the firm provided some IPO shares to WorldCom executives at below-market prices, calling it an "as-of trading" arrangement that is common in the industry.

People at Salomon said the pricing method is legal as long as such arrangements arent made to win banking deals. These arrangements can occur when an underwriter is left with excess shares after a customer reneges on an order. The underwriter then is free to reallocate them at the original IPO price. In fact, the spokesman said last night that some WorldCom executives received shares under this pricing method. "There are some `as-of trades' in the submission," the spokesman said. "Typically in the industry it would not be unusual for allocations to occur one or two days after" the IPO was launched at its initial price.

Salomon said neither research analysts nor investment bankers "are responsible for the allocation of IPO shares," but hinted that Mr. Grubman may have played some role. The firm says it has "located very few documents that even connect Jack Grubman to IPO allocations to these investors." One person close to the matter said Salomon handed over two documents in which brokers asked for allocations of IPOs -- documents Mr. Grubman appears to have been copied in on.

The firm added that it has "no knowledge from any source" that Mr. Grubman had "responsibility" for IPO allocations. An attorney for Mr. Grubman didnt return a call for comment.

A spokeswoman for the House committee, which is headed by Rep. Michael Oxley (R., Ohio), also couldnt be reached.

In its letter to the committee, Salomon said it has done nothing illegal and noted that WorldCom executives were major clients of its brokerage division, meaning they would naturally be in a position to receive IPO allocations. In fact, the company said the largest IPO allocations to WorldCom occurred several years ago.

The firm said Salomon Bros. Inc. made some of the largest allocations of shares prior to its merger with Smith Barney in 1997. The company released to the committee documents showing four allocations of 200,000 or more shares to officers and directors of WorldCom before the merger.

The move comes as Salomon faces a number of investigations into its business practices during the recent stock-market boom that could mean further problems for the firm and Mr. Grubman, who left the firm earlier this month.

As reported, New York State Attorney General Elliot Spitzer is investigating whether Mr. Grubman misled small investors by issuing positive assessments of companies that were also investment-banking clients.

The National Association of Securities Dealers has evidence that Salomon handed a number of clients free money by directed shares of initial-public offerings into clients' personal-brokerage accounts at below-market prices, said people with knowledge of the matter. Salomon has denied wrongdoing.

NOTES:
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The Wall Street Journal

June 30, 2003 Monday

SECTION: Pg. C1

LENGTH: 895 words

HEADLINE: New Inquiries Are Targeting IPO `Spinning'

BYLINE: By Randall Smith

BODY:

TWO MONTHS AFTER they agreed to pay $1.4 billion to settle research-conflict charges with regulators, Wall Street securities firms are facing an unexpected number of additional regulatory and financial threats stemming from alleged market-bubble abuses.

The latest: Three U.S. securities regulators including the National Association of Securities Dealers have launched a new leg of an investigation into "spinning" of initial public offerings of stock, or the allocation of hot IPOs to executives of Wall Street's potential investment-banking clients.

The spinning probe was disclosed last week by U.S. Bancorp in a registration statement for the proposed spinoff of its Piper Jaffray Cos. securities unit. "We are currently involved in an investigation by the NASD relating to the allocation of IPO shares to directors and officers of existing or potential investment-banking clients," the filing said. A spokeswoman for Piper Jaffray, Erin Freeman, declined to elaborate.

In addition to the NASD, the Securities and Exchange Commission and the New York Stock Exchange are also examining whether spinning occurred, according to people familiar with the probes. The investigation is expected to include some of the eight firms, including Piper, that weren't charged with spinning in the global research settlement April 28, as well as others, the same people said. About a half-dozen firms are currently being reviewed.

More regulatory cases are in the works that may affect the Street. In early June, regulators began a second-wave inquiry, seeking documents, e-mails and other material from more than 50 chief executive officers, research and investment-banking executives who may have overseen instances in which analysts' research was tainted by the pursuit of banking business. Regulators are expected to bring charges soon against some individuals who were examined in specific instances of alleged analysts' misconduct cited in the $1.4 billion settlement.

And last week, lawyers for hundreds of investors who lost money on hot IPOs at the height of the bubble won a preliminary agreement assuring their clients of at least $1 billion in a possible future settlement of class-action allegations that Wall Street firms acted improperly in how they distributed hot new stocks of more than 300 companies.

Taken together, these regulatory and court actions indicate that the market-bubble scandals "are going to take years to clean up," said attorney Stanley Bernstein of Bernstein Liebhard & Lifshitz, LLP, vice chairman of the plaintiffs' executive committee in the IPO class-action case. "The courts are now deluged with cases, and the regulators have just scratched the surface."

While regulators have brought charges of "spinning" against two firms and a few related individuals, the latest probe by the NASD and other regulators means such charges could proliferate.

In September, New York State Attorney Eliot Spitzer filed a civil lawsuit demanding that five officials of telecommunications firms repay profits they earned on hot IPOs they received from the former Salomon Smith Barney unit of

Citigroup Inc., which had acted as their companies' investment banker. Last month, Denver investor Philip Anschutz agreed to donate $4.4 million in profit from such IPOs to dozens of nonprofit organizations. The cases against the other executives are pending.

In March, the NASD charged that Frank Quattrone, the former head of technology investment banking at Credit Suisse First Boston, improperly doled out IPOs to as many as 300 corporate executives who could direct additional banking business to CSFB. Mr. Quattrone is fighting the charges.

And on April 28, regulators including Mr. Spitzer, the SEC, the NASD and the Big Board brought spinning charges against CSFB, a unit of Credit Suisse Group, as well as Citigroup. Both CSFB and Citigroup consented to the filing of the charges without admitting or denying wrongdoing.

In addition to Piper, firms that participated in the settlement included Bear Stearns Cos., Goldman Sachs Group Inc., Lehman Brothers Holdings Inc., Merrill Lynch & Co., J.P. Morgan Chase & Co., Morgan Stanley and UBS AG. None of those firms had any comment yesterday.

When regulators announced those cases, Robert Glauber, chairman and CEO of NASD, warned "hot IPOs cannot be doled out to corporate insiders as virtual corporate bribes."

Congress has taken aim at spinning as well. In October, the House Financial Services Committee released a list of executives at 21 companies who personally were allocated hot IPO shares from Goldman Sachs Group Inc., which received investment-banking fees from the companies. They included William Clay Ford Jr., now CEO of Ford Motor Co., who received 400,000 shares of Goldman's own IPO in 1999, and Michael Eisner, CEO of Walt Disney Co., who received 30,000 Goldman shares.

Disney said Mr. Eisner received the IPO shares as part of a personal-banking relationship with Goldman unrelated to Disney business. Mr. Ford said in February he would sell the Goldman shares and donate the profit, then estimated at $4.7 million, to charity. He acted after a Ford shareholder complained that the profit belonged to the company instead. Mr. Ford said he had acquired the Goldman shares as a private investor at a time when he was nonexecutive chairman of Ford. Goldman at the time denied spinning or other wrongdoing.

NOTES:
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APPENDIX C

"Flipping"

The New York Times

March 23, 2005

MARKET PLACE

Goldman Sachs Unit Is Fined for Skirting Rules on the Resale of I.P.O. Stock

By FLOYD NORRIS

WHEN an initial public offering is hot, a sure-fire way to make money is to buy shares at the offering price and sell them immediately - a practice known as flipping.

A decade ago, that practice worried Wall Street underwriters, who felt that it damaged a company by not allocating shares to long-term investors who really believed in the company's promise.

Underwriters persuaded the Securities and Exchange Commission to approve an automated system that made it possible to identify accounts that had flipped shares - with the presumed threat of cutting them off from future offerings or of penalizing the brokerage firm that sold the shares in the first place.

But regulators said that one brokerage firm, Spear Leeds & Kellogg, found a way around the rule, enabling hedge funds and institutional investors to evade it for more than three years. Yesterday, regulators fined the firm, now part of Goldman Sachs, $1 million. Goldman accepted the penalty without admitting or denying the activities, and a Goldman spokesman declined to comment.

Barry Goldsmith, executive vice president for enforcement at NASD, said it appeared that Spear Leeds was the only firm on Wall Street that adopted the strategy of evading the disclosure policies. He said 90 percent of the firm's customers had used the tactic to hide their trades. He said NASD did not know how much money Spear Leeds might have made from customers who were attracted to the firm by the practice.

The violations went on, NASD said, from August 1997 until early 2001, shortly after Goldman bought the firm. But Mr. Goldsmith said that while Goldman stopped the practice, it did not tell regulators what had happened. Instead, they learned of it when investigating different abuses of the market in initial offerings - abuses in which investment bankers not only condoned flipping but sought to share in the profits.

The Spear Leeds violations related to a system proposed by the Depository Trust Company, where most shares are held, and approved by the S.E.C. in 1996. It required brokers to put shares of companies that had made new offerings into two different accounts, one for shares bought in the offering and the other for shares bought at market prices after trading had begun. If shares were sold from the initial public offering account during a period of up to 90 days, the underwriter would be told the identity of the seller.

To evade the rule, NASD said, Spear Leeds permitted its customers to sell shares without notifying the underwriter. When they sold, it would borrow shares to permit the customer to sell them short from the account that did not need to be reported. If it could not borrow shares, it would simply fail to deliver the shares, a practice known as naked shorting. After the reporting period was over, the share loan would be repaid with shares from the I.P.O. account.

NASD concluded that the practice violated a rule requiring firms to act "consistent with high standards of commercial honor."

Spear Leeds was best known as a specialist firm that made a market in stocks on the New York Stock Exchange. But it also operated a prime brokerage business, in which hedge funds and institutional investors that had bought shares from an underwriter could deposit the shares. Its practice meant the underwriter would never learn the shares had been flipped.

While the Depository Trust system was intended to let underwriters try to reduce the amount of flipping, by the height of the I.P.O. boom, underwriters were instead trying to profit from the practice. They allocated shares to favored customers, including officers of companies that could provide underwriting business to Wall Street firms. In other cases, institutional investors received allocations only if they promised to pay unusually high commissions on later trades to effectively share the profits with the underwriter.

Mr. Goldsmith said NASD learned of the Spear Leeds practice when it was investigating other I.P.O. abuses, which led to far greater fines for Wall Street firms. Asked why Spear Leeds received a much smaller penalty, he noted that any penalty would be paid by Goldman, which had ended the practice.

Goldman bought Spear Leeds at the end of 2000 and, NASD said, shut down the practice early in 2001. By then the stock market bubble had burst, and few initial public offerings were being sold.

APPENDIX D

"Laddering"

9 of 28 DOCUMENTS

The Wall Street Journal

December 11, 2001 Tuesday

SECTION: Pg. A1

LENGTH: 2451 words

HEADLINE: Coming to Terms: CSFB Agrees to Pay $100 Million to Settle Twin IPO Investigations --- Probes by SEC and NASD Grew Out of Conduct During Dot-Com Frenzy --- A Legacy of Wheat's Reign

BYLINE: By Wall Street Journal staff reporters Susan Pulliam, Randall Smith, Anita Raghavan and Gregory Zuckerman

BODY:

Few Wall Street players profited more from the technology-stock bubble than Credit Suisse First Boston. During the height of the boom, in 1999 and 2000, the powerful securities unit of Zurich's Credit Suisse Group reaped more than $700 million in fees for helping bring tech upstarts public -- far more than any rival.

Now the big securities firm is paying the price. CSFB has agreed to pay $100 million to resolve a federal investigation into alleged abuses in its distribution of shares of initial public offerings of stock, according to people familiar with the matter.

The proposed settlement marks the biggest regulatory crackdown on the excesses of the dot-com stock boom of the 1990s. And it foreshadows the issuance of new rules that could help level the playing field for small investors.

The pact grows out of an 18-month probe of whether CSFB gave favored investors larger shares of IPO stocks. In exchange, these clients allegedly kicked back part of their quick profits on IPOs to CSFB, in the form of inflated commissions on other stock trades.

The settlement, expected to be officially announced around the end of the year, is likely to include a pledge from CSFB to prevent future improprieties in selling IPOs. Details are being hammered out between the firm and both the Securities and Exchange Commission and the regulatory unit of the National Association of Securities Dealers over what the regulators will formally allege CSFB did. The charges are likely to include the underwriter's improperly sharing in the IPO profits of its customers and various bookkeeping violations. Spokespeople for CSFB, the SEC and the NASD declined to comment.

The payment -- which all sides have agreed to -- would rank as the fifth-largest regulatory settlement by a securities firm, underscoring the seriousness with which regulators viewed the allegations. As is typical in such pacts, CSFB would neither admit nor deny guilt.

"It's a stiff penalty," said Edward Fleischman, a former SEC commissioner and now a senior counsel at Linklaters, a London-based law firm. "That would quite clearly send a very strong message."

In the tech-stock boom, Wall Street securities firms helped nourish companies whose market value once reached $400 billion before melting in the past 20 months. Investors who received extra-large shares of hot IPO stocks had more of an opportunity to rake in big profits before the bubble burst.

The sort of deals CSFB allegedly did with its preferred customers also helped whip up a frenzy over who was getting special access to tech IPOs. Many small investors ended up as losers when they rushed to buy those new stocks just as the favored customers were selling.

The CSFB settlement represents an unusual action against alleged abuses in a major Wall Street firm's bread-and-butter business of handling the issuance of securities. Most such disciplinary cases involve small, obscure firms allegedly engaged in "boiler-room" operations to cheat individual investors, regulators have said.

Now, regulators appear set to rewrite the playbook for IPOs, one of Wall Street's most lucrative businesses. Murky regulations and financial-industry secrecy have allowed a backroom culture of IPO side deals with customers to flourish.

Following the announcement of the CSFB settlement, securities regulators are expected to issue new rules on how Wall Street awards shares of IPOs to its customers. The rules are likely to encourage broader distribution of IPOs and limits on deals favoring certain clients, people familiar with the situation said.

Meanwhile, the cost to CSFB could far exceed the settlement. Wall Street firms, including CSFB, face more than 1,000 lawsuits seeking class-action status, brought on behalf of investors in 263 companies that went public during the boom. The suits typically allege that the firms manipulated IPO shares in deals benefiting preferred investors. The potential tab in these cases could be steepest for CSFB, the leader in the tech-securities business. CSFB and the other Wall Street firms have denied the allegations in the suits.

Beyond the lawsuits, other Wall Street firms face more regulatory scrutiny of their IPO practices, as well. In another leg of its civil investigation, the SEC is looking at whether other firms manipulated trading by giving IPO shares to customers willing to buy more of the same stock once it started trading. Such promises of "aftermarket" purchases would help boost the stock price in the weeks and months after the IPO.

That prong of the probe, which is at an earlier stage, focuses on Goldman Sachs Group Inc., Morgan Stanley, J.P. Morgan Chase & Co. and the Robertson Stephens unit of FleetBoston Financial Corp., according to people familiar with the situation. The firms all declined to comment.

For CSFB, the pact will close a difficult chapter. As its executives have grappled with a turbulent period on Wall Street, they have also fretted about limiting the damage from the IPO case.

The settlement is large but won't crush CSFB. The $100 million compares to $717.5 million the firm earned in fees for underwriting tech IPOs in 1999 and 2000, according to Thomson Financial.

As part of the settlement, CSFB is expected to avoid civil securities-fraud charges. Instead, regulators are likely to allege that CSFB committed other violations of securities laws, including a prohibition against Wall Street firms sharing in the IPO profits of its customers. Unlike some other major regulatory cases, none of the $100 million -- which includes civil fines and disgorgement of profits -- will go toward a fund for aggrieved investors. Rather, it will go into the U.S. Treasury and the NASD's coffers.

Investigators began focusing last year on CSFB's alleged practice of awarding shares of hot IPOs to some investors who agreed to pay the firm large commissions on other transactions. As detailed in a series of Wall Street Journal stories beginning in December 2000, some of these commissions came on big batches of trades at hugely inflated rates.

For example, an investor favored in an IPO would pay CSFB as much as $2.75 a share to trade other stocks, compared with the typical five or six cents a share a big institutional client would pay to trade the same stocks. Regulators concluded that the oversize commissions were a way for the investors effectively to pay back to CSFB a portion of their IPO profits at a time when IPOs were soaring in value.

Regulators have found it difficult to bring fraud charges over major Wall Street firms' IPO practices, in part because they must show a clear intention to violate securities law in a fraud case, according to people familiar with the situation. In the CSFB case, regulators have struggled with what law to apply to the firm's practices. In recent weeks, the Manhattan U.S. attorney's office decided not to bring criminal charges against CSFB and closed its own investigation into whether the firm had taken illegal kickbacks.

The relatively quick settlement in the civil case, which began in mid-2000, is partly a reflection of the desire by new SEC Chairman Harvey Pitt to bring enforcement actions swiftly. He has said his goals are to prevent future infractions and help securities firms minimize the harm from lingering investigations.

The Sept. 11 terrorist attacks destroyed the New York office of the SEC, where many of the documents in the IPO investigation were stored. SEC staffers had to scramble to reconstruct their files, with some working at home for several weeks.

CSFB already has taken a number of steps to make a settlement possible. In July, its parent, Credit Suisse Group, ousted CSFB chief executive Allen Wheat. He was replaced by former Morgan Stanley executive John Mack. Mr. Wheat had been criticized for a series of run-ins with regulators in the U.S., Europe and Asia, culminating in the IPO case.

Mr. Wheat declined repeated requests for comment for this article. But in late summer, he told a former company official he believed the regulatory scuffles on his watch had arisen from the firm's fast growth, which led to a "chaotic" atmosphere during the past two years, according to the former official.

CSFB's freewheeling ways "were early warning signals that the aggressiveness of the organization was testing the regulatory limit," said Michael Holland, another former First Boston official, who now runs his own money-management firm. Under Mr. Wheat, he added, "the controls that were part of First Boston's previous culture were lessened in the pursuit of success."

Mr. Mack quickly took steps to pave the way for a settlement, such as hiring former SEC enforcement chief Gary Lynch as the firm's new general counsel.

Another high-profile CSFB official, star technology banker Frank Quattrone, isn't likely to face charges in the case, according to people familiar with the situation. Mr. Quattrone's group received attention after three of its San Francisco brokers were fired in connection with the IPO probe.

Mr. Mack gave Mr. Quattrone his personal endorsement last month, just before federal prosecutors dropped their criminal probe. Messrs. Mack and Quattrone declined to comment.

While Mr. Wheat held the reins at CSFB -- as president from 1993, and later as CEO -- he helped to cultivate a risk-taking culture that emphasized quick profits and market-share gains. Among the side effects, some Wall Street executives have said, was loose oversight of compliance.

Mr. Wheat embarked on a risky strategy to lure top bankers and traders by paying them more than any other firm and giving them unmatched independence. Trolling the halls at CSFB's plush offices in Manhattan's Flatiron district, he routinely stopped executives to ask: "How much did you make for us today?" according to former employees.

One of Mr. Wheat's more controversial moves was the special deal he cut in 1998 for Mr. Quattrone. The prominent tech banker wanted his own brokerage force, his own press people, oversight of the firm's technology research analysts -- and a cut of his group's banking and trading revenue. Some Credit Suisse executives were wary of Mr. Quattrone's conditions. But Mr. Wheat dismissed these concerns.

Such moves helped increase the firm's prominence in such areas as tech-stock underwriting and helped it rise to No. 4 in overall underwriting fees in 2000, from No. 5 in 1997. But additional profits proved more elusive. CSFB's revenues rose 71%, to $12.2 billion, between 1997 and 2000. Its profits inched up only 17%, to $1.41 billion, during that period.

The IPO investigation traces its roots to a look by the NASD at Wall Street's practice of awarding hot IPO shares to the personal brokerage accounts of executives at potential investment-banking clients. That earlier probe, into what is known as "spinning" IPOs, hasn't resulted in charges, partly because securities law is unclear about the issue, regulators said.

Initially, Mr. Wheat played down the gravity of the IPO inquiry in the U.S. He told colleagues the focus on CSFB reflected the aggressiveness of the NASD's regulatory arm. Once the SEC emerged as the primary investigator, Mr. Wheat said, other securities firms would be under the gun as well.

But by this spring, CSFB remained the focus of regulatory interest in the probe, even after it became clear that the SEC and federal prosecutors were involved.

Mr. Wheat's bosses in Zurich began to pressure him. At a meeting at Credit Suisse's Zurich headquarters, Lukas Muhlemann, chairman of parent Credit Suisse Group, asked Mr. Wheat point-blank if the firm had run afoul of regulations in allocating IPOs. "You have to get your hands around this," Mr. Muhlemann told Mr. Wheat, according to a person at the meeting.

Apart from the IPO probe, CSFB's Swiss owners were getting frustrated over the firm's results. Profits had lagged behind those of other Wall Street firms because of the expensive $13 billion acquisition of Donaldson Lufkin & Jenrette Securities Inc. in November 2000.

Mr. Wheat didn't see the end coming, according to former aides. At a dinner this summer with some of his bond chiefs in Manhattan's tony Danube restaurant, he sounded upbeat, telling them, "We're going to put this behind us."

A few days later, Mr. Muhlemann told him he was fired.

Biggest Hits

Settlements by Wall Street firms of regulatory cases, in millions

YEAR	COMPANY	AMOUNT
1988	Drexel Burnham Lambert	$650
1993	Prudential Securities	371
1996	PaineWebber	298
1992	Salomon Brothers	290
2001/2002	Credit Suisse First Boston	100
1996	Nasdaq Stock Market	100*
1995	First Jersey Securities	75
2000	Salomon Smith Barney	45
1999	Bear Stearns	39

*Promised by Nasdaq to strengthen regulation; Wall Street firms paid as much as $100 million apiece to settle related civil litigation

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The Path of an Investigation

Key points in the probe of IPO allocations on Wall Street:

-- Mid-2000: Regulators led by the SEC and the U.S. Attorney's office in Manhattan begin probing whether Wall Street firms sought outsize commissions as kickbacks for distributing shares of sought-after initial public offerings of stock, or IPOs.

-- December 2000: SEC expands IPO probe to include allegations that Wall Street also required some IPO recipients to submit orders for additional stock after trading began, a practice known as "laddering." The probe follows a page-one Wall Street Journal article on this aftermarket practice.

-- March 2001: Regulatory unit of the NASD notifies Credit Suisse First Boston and six or more of its employees that they may be charged with rule violations for charging big commissions in exchange for shares of hot IPOs.

-- April 2001: CSFB, an early focus of the IPO probes, suspends, then later terminates, three brokers amid evidence they violated firm's policy on IPO allocations.

-- July 2001: Credit Suisse Group sacks Allen Wheat as head of CSFB, replacing him with former Morgan Stanley President John Mack.

-- August 2001: Mr. Mack hires former SEC enforcement chief Gary Lynch in a move that could help firm negotiate a settlement to the IPO case.

-- November 2001: Four major securities emerge as a focus of the "aftermarket" IPO probe; settlement talks heat up between CSFB and regulators on the IPO-kickback probe.

-- December 2001: CSFB moves to finalize a civil settlement with the SEC in which it will pay a $100 million fine, without admitting or denying charges involving improperly sharing IPO profits with customers and books-and-records violations.

NOTES:

PUBLISHER: Dow Jones & Company

LOAD-DATE: December 5, 2004

The Wall Street Journal

January 26, 2005 Wednesday

SECTION: Pg. C3

LENGTH: 611 words

HEADLINE: Moving the Market: Morgan Stanley, Goldman Fined For IPO Practices

BYLINE: By Ann Davis

BODY:

A settlement unveiled yesterday lays bare how hard two Wall Street firms worked to pump up the prices of new-stock offerings during the tech-stock mania of 1999 and 2000.

Their strategy, which the Securities and Exchange Commission says may have distorted prices, involved offering customers a chance to buy hot initial public offering shares that were sure to rise in exchange for pledges that the customers would help that process along by buying more of the shares later during the first day of trading.

At Morgan Stanley, a sales representative told her customer that an IPO was "multiple, multiple times oversubscribed." If the customer wanted to get a shot at buying some of it at the offering price, she needed to know whether the customer would buy more of it on the day it debuted -- and at what price. "What's your target?" she asked, according to the SEC.

At Goldman Sachs Group Inc., a managing director told an in-house salesman that a customer should get fewer IPO shares if the customer wasn't willing to pay as high a price as other investors after it began trading. On another occasion, a managing director asked a Goldman sales representative about a customer's intentions once the stock started trading. The customer "will do what we say," the salesman replied. In some deals, Goldman had "deal captains" who controlled IPO allocations and tracked how much customers who wanted in on the IPO planned to buy later in that deal.

The settlement ends a long-running investigation. As expected, the SEC ordered Goldman Sachs and Morgan Stanley each to pay $40 million to settle civil allegations that they improperly induced or tried to induce customers to bid up stock in exchange for hot allocations of new technology-company shares. The firms consented to orders barring them from future violations of stock-underwriting rules without admitting or denying wrongdoing.

A Morgan Stanley spokeswoman said, "We are happy that this is now resolved." A Goldman spokesman declined to comment.

The cases go to the heart of what was behind some of the run-ups in IPOs of tech stocks several years ago. Such deals produced hundreds of millions of dollars in fees for Wall Street firms.

At issue in the investigation was whether the firms had engaged in an improper practice called "laddering," in which customers are induced to help drive IPO share prices up by buying at increasingly higher rungs. In this case, Goldman and Morgan initially argued that they were doing due diligence on IPOs they were overseeing by checking what the appetite would be for the shares and to discourage the quick selling of them for short-term profit.

The SEC says Goldman and Morgan went too far. "This case is about protecting the integrity of the market, about making sure that the demand for stock in the aftermarket reflects true demand," said Mark Schonfeld, director of the SEC's Northeast Regional Office, who oversaw the suit against Goldman.

The SEC stopped short of accusing Morgan and Goldman of actually manipulating the market, but said any conduct that has a chance of artificially stimulating higher prices is illegal.

The SEC cited Morgan documents that said the firm deliberately sought to "create perception of scarcity" with an IPO, and marketed itself as consistently having "oversubscribed" investor interest. Having created interest in a deal, the SEC said, the firm then asked investors whether they planned to buy more stock after the IPO began trading. Morgan allegedly kept detailed dossiers of customers' stated "commitments" and tracked whether they followed through with them, saying it would help them obtain allocations of other IPOs.

NOTES:
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LOAD-DATE: January 27, 2005

APPENDIX E

Undue Influence on Securities Research

7 of 13 DOCUMENTS

SECURITIES LAW DAILY

April 29, 2003

LENGTH: 2757 words

SECTION: IN TODAY'S ISSUE

TITLE: Research Analysts: Federal, State Securities Regulators, NYSE, NASD, Spitzer Finalize Wall Street Settlement

BYLINE: By Rachel McTague and Kip Betz (New York)

TEXT:

Federal and state securities regulators, officials of the New York Stock Exchange and NASD, and New York Attorney General Eliot Spitzer April 28 announced the long-awaited final, nearly $ 1.4 billion global settlement of enforcement actions alleging research analyst conflicts of interest against 10 Wall Street investment banks and two formerly top-tier research analysts.

The landmark settlement by the 10 firms, which was announced by regulators at a large news conference, had been reached in principle in December. However, completion of the process was protracted by concerns about contingent liabilities in anticipated future private litigation against the banks. Along with the announcement of the final settlement, regulators released great quantities of supporting documents and e-mails that could be used in private actions against the defendants.

As Securities and Exchange Commission Chairman William Donaldson said at the news conference, the settlement lays down broad structural reforms for the industry that are "more significant and far-reaching" than the monetary relief. The relief goes a great distance towards ensuring that firms' investment banking and research operations are separate.

Regulators indicated that the rules carved out in the settlement will likely be superseded in future years by a set of national regulations to be promulgated either by the SEC or NASD.

In the settlement, the firms agreed to make payments -- in one case a record-breaking penalty of $ 150 million against a broker-dealer -- and to be subject to injunctions over allegations that their investment banking units exercised undue influence on their securities research.

The 10 investment banks and their respective total payments were: Bear, Stearns & Co. ($ 80M), Credit Suisse First Boston LLC (CSFB) ($ 200M), Goldman Sachs & Co. ($ 110M), Lehman Brothers Inc. ($ 80M), Merrill Lynch, Pierce, Fenner & Smith Inc. ($ 200M), J.P. Morgan Securities Inc. ($ 80M), Morgan Stanley & Co. ($ 125M), UBS Warburg LLC ($ 80M), U.S. Bancorp Piper Jaffray Inc. ($ 32.5M), and Citigroup Global Markets Inc. f/k/a Soloman Smith Barney Inc. (SSB) ($ 400M).

Collective Amounts.

The firms collectively will pay $ 387.5 million in disgorgement, $ 487.5 million in penalties, and $ 432.5 million to fund independent research. In addition, seven firms will pay $ 80 million to fund investor education. CSFB will pay the record $ 150 million penalty.

Spitzer, who spearheaded the move to hold Wall Street accountable for allegedly misleading research with his suit against Merrill Lynch last spring, said: "Risk is inherent in the markets. We thrive on it. ... What is not tolerated," he added, "is fraud."

The $ 100 million penalty Merrill Lynch paid last summer to settle Spitzer's charges was counted as part of its current $ 200 million settlement amount. Over five years, Merrill Lynch will also pay $ 75 million to provide the firm's clients with independent research. In addition, the firm will pay $ 25 million for investor education.

CSFB, Merrill Lynch, and SSB, were charged with issuing fraudulent research reports, while charges against the other firms stopped short of fraud. Bear Stearns, CSFB, Goldman, Lehman, Merrill Lynch, Piper Jaffray, SSB, and UBS Warburg allegedly issued research reports that were "not based on principles of fair dealing and good faith." These reports, regulators charged, contained exaggerated or unwarranted claims about the covered companies, and/or contained opinions for which there were no reasonable bases.

CSFB and SSB also were alleged to have engaged in inappropriate spinning of "hot" initial public offering allocations -- that is, the allocation of sought after, "hot" IPOs to executives of potential investment banking clients. This allegedly violated self-regulatory organization rules requiring adherence to "high business standards and just and equitable principles of trade."

Five firms were cited for allegedly receiving payments and/or making undisclosed payments for research. They are UBS Warburg, Piper Jaffray, Bear Stearns, J.P. Morgan, and Morgan Stanley.

High Tech Sector.

The two research analysts who settled were Henry Blodget, who was a well known Internet analyst for Merrill Lynch during the stock market bubble, and Jack Grubman, the former leading telecom analyst for Salomon Smith Barney. The two men neither admitted nor denied wrongdoing in agreeing, among other things, to being barred from the securities industry for life.

Grubman was charged with issuing several fraudulent research reports in SSB's name on two telecom stocks (Focal Communications and Metromedia Fiber), while regulators alleged that Blodget issued fraudulent research reports in Merrill's name on one Internet company (GoTo.com). In both cases, the men allegedly recommended securities when they privately held inconsistent negative views about them.

In addition to being barred from the industry, both Blodget and Grubman were censured and agreed to pay $ 4 million and $ 15 million in penalties, respectively.

Under the terms of the settlement, the firms will not seek reimbursement or indemnification, or any tax deduction or tax credit for any penalties that they pay.

Meanwhile, Donaldson said, "I am profoundly saddened and angry about the conduct that's alleged in our complaint." He agree with Spitzer that "it cannot be tolerated."

Donaldson, Spitzer, and NASD, New York Stock Exchange, and North American Securities Administrators Association (NASAA) heads agreed that the sweeping settlement represents the dawn of a new era of honesty and integrity in research and in investors' ability to have confidence in the markets. They also hearkened to the wave of the future, which they said would be new national rules in this area.

Marketwide Rules.

Similarly, Christine Bruenn, NASAA's president and the securities administrator for Maine, said that the settlement has the potential to change the culture on Wall Street, but that new marketwide rules are needed. Similarly, Spitzer said that new rules will redefine how these firms' investment banking and research departments interact.

One regulator told BNA that there is a good possibility that the regulations, which are already in the works, will be promulgated by the NASD rather than the SEC. This might be the case because NASD rules permit greater latitude for enforcement action in that they require adherence to principles of fair dealing and good faith, while the SEC standard is generally an antifraud standard.

On the question of which organization would adopt the rules, SEC Commissioner Cynthia Glassman told BNA, "We have to step back and make a decision about how to proceed."

In the settlement, regulators sought to eliminate bias in research by removing situations in which investment banking could improperly influence the objectivity of analysts. In particular, as Donaldson summarized, the settlement:

-- requires firms to have separate reporting and supervisory structures for their research and banking operations;

-- requires that research analysts' compensation be unrelated to investment banking business, and instead be tied to the quality and accuracy of their research;

-- prohibits investment banking personnel from evaluating the performance of research analysts, and requires decisions concerning compensation of analysts to be documented and reviewed by an independent committee within the firm;

-- prohibits research analysts from soliciting investment banking business or participating in so-called "road shows"; and

-- prohibits communications between firms' research and banking operations except as necessary for an analyst to advise the firm concerning the viability of a transaction. This is designed to keep the analyst from acting as a cheerleader or marketer.

In addition, investors will be given better information about the limitations of research, Donaldson said. For example, firms will have to give a warning notice on the first page of research reports explaining that their firm does business with the companies the firm covers, and that this may affect the objectivity of the firms' research reports. In addition, the disclosure must state that the investor "should consider the report as only a single factor in making their investment decision."

Quarterly Disclosures.

Further, each firm must disclose quarterly the price targets, ratings, and earnings per share forecasted in its research reports. Finally, Donaldson recounted, firms must adopt policies and procedures reasonably designed to ensure that their personnel cannot and do not seek to influence the contents of research reports in order to promote investment banking business.

The agreement also mandates that firms purchase independent, third-party research for their customers over the next five years. Each firm will retain an independent research monitor who will oversee this process -- to ensure the quality and usefulness of the research for the firm's customer base -- and report periodically to the regulators.

Donaldson also explained that the settlement addresses the problem of "spinning" of IPOs. However, he said, the commission is looking at revising rules or adopting new rules in this area. For the time being, the 10 firms agreed in the settlement to ban spinning practices.

Under the settlement agreements, half of the $ 775 million payment by the firms other than Merrill Lynch will be paid in resolution of actions brought by the SEC, NYSE, and NASD, and will be put into "Distribution Funds" to benefit customers of the firms. The remainder of the funds will be paid to the states.

The Distribution Funds will be administered by an SEC-recommended, court-appointed administrator who will formulate a plan to distribute the funds in an equitable, cost-effective manner to customers who purchased through the firms the equity securities of companies referenced in the complaint. Spitzer predicted that the process for investor recovery of funds will be "cumbersome" and "lengthy." He also foresaw many private suits that will be brought against the investment banks' chief executives and other leaders. Stephen Cutler, director of the SEC's Division of Enforcement, emphasized that there will be much private litigation because government action supplies no substitute for private actions.

Spitzer noted that there was not more insistence on bringing fraud charges and imposing even greater penalties in the cases because "we did not want to destroy these companies." He said regulators made a decision not to eliminate these financial institutions, an allusion to the case of Arthur Andersen, the accounting firm that went out of business shortly after it was convicted on obstruction of justice charges arising from its role as independent auditor for Enron Corp.

In the coming months, there are ongoing investigations by civil and criminal authorities, Cutler said, and these focus in particular on supervision at the firms. The complaints in the current cases alleged supervisory failures by the 10 firms and these failures will be pursued at an individual level, if appropriate, Cutler indicated.

Oxley's Reaction.

Also April 28, House Financial Services Committee Chairman Michael G. Oxley (R-Ohio) issued a statement saying he was "pleased that the negotiating parties have reached a resolution on this important enforcement proceeding."

"SEC Chairman William Donaldson, Enforcement Division Director Steve Cutler, the New York Stock Exchange, the NASD, and the other regulators all have worked hard over the past months to achieve this agreement, to protect investors, and to restore investor confidence by improving Wall Street practices," Oxley said. He said his committee would review the agreement's details in the days ahead.

"The investor restitution portion of the settlement is critical, and I am particularly gratified that 100 percent of the federal penalty and disgorgement money will go to harmed investors," Oxley said. "This is the right thing to do. To further this goal, I would encourage states that may be earmarking their portions of the settlement for other, unrelated programs to consider actually returning the money to harmed shareholders. Investors should be made whole to the greatest extent possible."

Oxley said the announcement of the settlement represents "important progress" to the goal of restoring the integrity of Wall Street research.

Markey's View.

Rep. Edward Markey (D-Mass.), a senior Democrat on the House Energy and Commerce Committee, issued a statement calling the SEC settlement "another step towards renewing investor confidence in the integrity of the nation's securities markets."

Markey said that "double-talking research analysts, who publicly pumped up stocks while denigrating them privately, contributed to a stock market bubble that eventually burst, ravaging the investment accounts of millions of Americans."

Markey said the investigation revealed what he called "Wall Street's dirty little secret," that the public recommendations made by stock analysts "were not nearly as accurate as their private assessments and were colored by a desire to produce investment banking fees and promote investment banking relationships."

He said "vigilant oversight will be required to ensure compliance with the agreement" and he urged the SEC to "trust, but verify." He said adequate funding "and a strong, sustained will to conduct ongoing oversight are essential to ensure that the settlement puts an end to research tainted by investment banking priorities."

In what he called a positive development, Markey said that it appears documents uncovered during the investigation will become public and available to individuals duped by the deception of "duplicitous research analysts."

"I am also pleased that the settlement explicitly states that the firms may not write-off their civil penalties or seek to have them covered by their insurance policies," he said. "Today's settlement should signal the start of a new period of accountability and transparency in the securities industry."

Brokerages' Comments.

In a prepared statement, Charles O. Prince, chairman and chief executive officer of Citigroup's Global Corporate and Investment Bank, which includes Salomon Smith Barney, said, "This settlement, and the resulting reforms, are immensely important to the future of our financial system and the critical goal of restoring the confidence of investors in our markets. While the process was difficult and sometimes painful, our company, our industry, and the financial markets are stronger as a result."

Prince went on to say that the firm deeply regrets "that our past research, IPO and distribution practices raised concerns about the integrity of our company and we want to take this opportunity to publicly apologize to our clients, shareholders and employees. We do, however, take pride in the way this company responded once the concerns were raised and we are proud of the progress we have made," he added.

Andrew Duff, president and chief executive of U.S. Bancorp Piper Jaffray, said in a prepared statement,"From the beginning, Piper Jaffray has cooperated with the regulators in the investigation, and worked with them and the other involved firms in the process of redefining the role of equity research and its relationship to investment banking."

"We take our role in protecting the integrity of the marketplace seriously," Duff said. "Our industry is undergoing significant changes to the regulatory structure aimed at restoring investor confidence. We strongly support those reforms," he added.

Paul Marrone, a spokesman for UBS Warburg, said the settlement "marks a significant step toward restoring investor confidence in the securities market. We fully support the efforts to restore investor confidence and assist investors in making informed market decisions."

Mark Herr, a spokesman for Merrill Lynch, told BNA the firm joined the industrywide settlement to bring the matter to a conclusion. "That way, we can focus on serving our clients," Herr added.

Jeanmarie McFadden, of CSFB, declined to comment on the settlement.

Lehman Brothers, through a spokeswoman, said, "We are happy to have the matter behind us." The firm declined to comment further on the settlement.

Extensive information about the settlement can be found on the SEC's Web site, at http://www.sec.gov/news/press/2003-54.htm.

LANGUAGE: ENGLISH

LOAD-DATE: April 28, 2003

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U.S. Securities and Exchange Commission

Securities and Exchange Commission

Litigation Release No. 18438 / October 31, 2003

Federal Court Approves Global Research Analyst Settlement

***SEC v. Bear, Stearns & Co. Inc.*, No. 03 Civ. 2937 (WHP) (S.D.N.Y.)**

***SEC v. Jack Benjamin Grubman*, No. 03 Civ. 2938 (WHP) (S.D.N.Y.)**

***SEC v. J.P. Morgan Securities Inc.*, No. 03 Civ. 2939 (WHP) (S.D.N.Y.)**

***SEC v. Lehman Brothers, Inc.*, No. 03 Civ. 2940 (WHP) (S.D.N.Y.)**

***SEC v. Merrill Lynch, Pierce, Fenner & Smith Incorporated*, , No. 03 Civ. 2941 (WHP) (S.D.N.Y.)**

***SEC v. U.S. Bancorp Piper Jaffray, Inc.*, No. 03 Civ. 2942 (WHP) (S.D.N.Y.)**

***SEC v. UBS Securities LLC, f/k/a UBS Warburg LLC*, No. 03 Civ. 2943 (WHP) (S.D.N.Y.)**

***SEC v. Goldman, Sachs & Co.*, No. 03 Civ. 2944 (WHP) (S.D.N.Y.)**

***SEC v. Citigroup Global Markets Inc., f/k/a Salomon Smith Barney Inc.*, No. 03 Civ. 2945 (WHP) (S.D.N.Y.)**

***SEC v. Credit Suisse First Boston LLC, f/k/a Credit Suisse First Boston Corporation*, , No. 03 Civ. 2946 (WHP) (S.D.N.Y.)**

***SEC v. Henry McKelvey Blodget*, No. 03 Civ. 2947 (WHP) (S.D.N.Y.)**

***SEC v. Morgan Stanley & Co. Incorporated*, No. 03 Civ. 2948 (WHP) (S.D.N.Y.)**

The Securities and Exchange Commission announced today that the Honorable William H. Pauley III, United States District Judge for the Southern District of New York, issued an Order approving the $1.4 billion global settlement of the SEC enforcement actions against ten of the nation's top investment firms and two individuals alleging undue influence of investment banking interests on securities research at brokerage firms.

In addition to the Order, which applies to all 12 actions that are part of the global settlement, the Court also entered separate Final Judgments as to each of the 12 defendants, Orders Regarding Distribution Fund Plan as to nine of the investment firms and Orders Regarding Investor Education as to seven of the firms. The Orders Regarding Distribution Fund Plan provide further details as to investors who may be eligible to receive proceeds from the Distribution Funds to be created as part of the global settlement. The Orders Regarding Investor Education set forth a framework and guidelines for the formation of a non-profit grant administration organization to fund worthy and cost-efficient programs designed to equip investors with the knowledge and skills necessary to make informed investment decisions.

The Allegations of the SEC's Complaints

The SEC filed its Complaints, the defendants' consents and proposed judgments on April 28, 2003. In its Complaints, the allegations of which the defendants neither admit nor deny, the SEC alleged that, from approximately mid-1999 through mid-2001 or later, all of the firms engaged in acts and practices that created or maintained inappropriate influence by investment banking over research analysts, thereby imposing conflicts of interest on research analysts that the firms failed to manage in an adequate or appropriate manner. The Complaints also alleged supervisory deficiencies at every firm.

In addition to these allegations, the Complaints included additional charges specific to each firm. According to the Complaints:

- Salomon Smith Barney (now known as Citigroup Global Markets) ("SSB"), Credit Suisse First Boston ("CSFB") and Merrill Lynch issued fraudulent research reports in violation of Section 15(c) of the Securities Exchange Act of 1934 and Rule 15c1-2 thereunder as well as various state statutes;

- Bear Stearns, CSFB, Goldman, Lehman, Merrill Lynch, Piper Jaffray, SSB and UBS Warburg (now known as UBS Securities) ("UBS") issued research reports that were not based on principles of fair dealing and good faith and did not provide a sound basis for evaluating facts, contained exaggerated or unwarranted claims about the covered companies, and/or contained opinions for which there were no reasonable bases in violation of New York Stock Exchange ("NYSE") Rules 401, 472 and 476(a)(6), and NASD, Inc., Rules 2110 and 2210 as well as state ethics statutes;

- UBS and Piper Jaffray received payments for research without disclosing such payments in violation of Section 17(b) of the Securities Act of 1933 as well as NYSE Rules 476(a)(6), 401 and 472 and NASD Rules 2210 and 2110. Those two firms, as well as Bear Stearns, J.P. Morgan and Morgan Stanley, made undisclosed payments for research in violation of NYSE Rules 476(a)(6), 401 and 472 and NASD Rules 2210 and 2110 and state statutes; and

- SSB and CSFB engaged in inappropriate spinning of "hot" Initial Public Offering ("IPO") allocations in violation of NYSE and NASD rules requiring adherence to high business standards and just and equitable principles of trade, and the firms' books and records relating to certain transactions violated the broker-dealer record-keeping provisions of Section 17(a) of the Securities Exchange Act of 1934, NYSE Rule 440 and NASD Rule 3110.

The Complaint against Grubman alleged that Grubman, a former SSB research analyst covering the telecommunications sector, issued research reports that were fraudulent, misleading, or that were not based on principles of fair dealing and good faith and did not provide a sound basis for evaluating facts, contained exaggerated or unwarranted claims about the companies, and/or contained opinions for which there was no reasonable basis under SSB's name. As a result, the Complaint alleges, Grubman aided and abetted SSB's violations of Section 15(c) of the Exchange Act and Rule 15c1-2 thereunder, which are antifraud provisions of the federal securities laws relating to broker-dealers, and violated NASD and NYSE rules as well as New York State law.

The Complaint against Blodget alleged that Blodget issued fraudulent research under the name of his former employer, Merrill Lynch, as well as research in which he expressed views that were inconsistent with privately expressed negative views. As a result, the Complaint alleges, Blodget aided and abetted Merrill Lynch's violations of Section 15(c) of the Exchange Act and Rule 15c1-2 thereunder and violated NASD and NYSE rules.

The Terms of the Final Judgments and Orders

The Final Judgments, Orders Regarding Distribution Fund Plan and Orders Regarding Investor Education entered today are substantially similar to the final judgments originally submitted to the Court. In particular, they impose the identical injunctive relief and monetary sanctions, and they impose the same requirements regarding separation of research and banking, disclosure, transparency and independent research.

Under the terms of the Final Judgments and Orders that Judge Pauley approved today, the ten firms, Grubman and Blodget will pay a total of $894 million in penalties and disgorgement, consisting of $397 million in disgorgement and $497 million in penalties (which includes Merrill Lynch's previous payment of $100 million in connection with its prior settlement with the states relating to research analyst conflicts of interest). Half of the $775 million payment by the firms other than Merrill Lynch will be paid in resolution of actions brought by the SEC, NYSE and NASD and will be put into Distribution Funds to benefit customers of those firms. Half of Grubman's $15 million total payment will be added to the SSB Distribution Fund. The SEC will in the future propose a plan of distribution for Blodget's $4 million payment; that plan must be approved by the Court. The remainder of the funds has been paid or will be paid to the states.

In addition, the Final Judgments require the firms to make payments totaling $432.5 million to fund independent research. Further, seven of the firms will make payments of $80 million to fund and promote investor education. $52.5 million of these funds will be put into an Investor Education Fund that will develop and support programs designed to equip investors with the knowledge and skills necessary to make informed decisions. The remaining $27.5 million will be paid to state securities regulators and used for investor education purposes.

In addition to the monetary payments, the firms are required to undertake dramatic reforms to their future practices, including separating their research and investment banking departments and making independent research available to investors. Among other significant reforms included in the Final Judgments as to the firms are the following:

- To ensure that stock recommendations are not tainted by efforts to obtain investment banking fees, research analysts will be insulated from investment banking pressure. The firms will be required to sever the links between research and investment banking, including prohibiting analysts from receiving compensation for investment banking activities, and prohibiting analysts' involvement in investment banking "pitches" and "roadshows."
- To ensure that individual investors get access to objective investment advice, the firms will be obligated to furnish independent research. For a five-year period, each of the firms will be required to contract with no fewer than three independent research firms that will make available independent research to the firm's customers. An independent consultant for each firm will have final authority to procure independent research.
- To enable investors to evaluate and compare the performance of analysts, research analysts' historical ratings will be disclosed. Each firm will make its analysts' historical ratings and price target forecasts publicly available.

Key Differences Between the Final Judgments and Orders Entered Today and Those Originally Proposed

There are four primary differences between the Final Judgments and Orders entered today and the original proposed judgments. First, the Orders Regarding Distribution Fund Plan provide further details as to investors who may be eligible to receive proceeds from the Distribution Funds. The Final Judgments for each firm (other than Merrill Lynch) state that, to be an eligible recipient from that firm's Distribution Fund, a person must have purchased "equity securities in question" through that firm during the "relevant period of purchase." The Orders Regarding Distribution Fund Plan list the specific "equity securities in question" for each firm and the "relevant period of purchase" for each such equity security. The Orders state that the identification of "equity securities in question" and "relevant periods of purchase" is solely for the purpose of facilitating the efficient administration of the Distribution Fund Plans, is not a judicial or Commission finding, and is not intended to have precedential effect in other actions.

Second, the Orders Regarding Investor Education call for the establishment of a new Investor Education Entity, which may remain in existence for an indefinite period. As mentioned above, the Investor Education Entity will fund worthy and cost-efficient programs from the Investor Education Fund created as a result of the firms' investor education payments. These programs will be designed to equip investors with the knowledge and skills necessary to make informed investment decisions. The Investor Education Entity will be organized as a tax exempt organization pursuant to Section 501(c) of the Internal Revenue Code and will be structured so that it can receive additional money from sources other than the investor education payments that the firms are required to make under the Final Judgments. The Entity will have a Chairman, a Board of Directors and an Executive Director, who will oversee its day-to-day operations. Within the next 90 days, the Commission will propose an Investor Education Plan that will, among other things, provide further details on the structure and operation of the Investor Education Entity.

Third, the Final Judgments require the defendants to make their Distribution Fund and investor education payments to accounts established at the Federal Reserve Bank of New York ("FRB-NY"). The original proposed judgments had called for those payments to be made to the Court Registry Investment System ("CRIS"). As the Court pointed out in its June 2, 2003 Order in these actions, however, an affiliate of one of the defendants manages the CRIS accounts for the U.S. Courts and derives certain fees for its activities, thus creating a potential conflict of interest. Accordingly, the Court suggested, and the parties agreed to, the establishment of accounts at the FRB-NY.

Fourth, the Final Judgments call for a smaller administrative fee to be paid to the Court Clerk than did the original proposed judgments. This will allow more money to be provided to investors. Federal law requires court registry funds, such as the Distribution Funds, to pay a fee usually equal to ten percent of the income earned on the funds to the Court Clerk. The Court suggested that the Commission petition the Administrative Office of the U.S. Courts ("AOUSC") for a reduction in the fee. The Commission did so, and the AOUSC approved a reduction in the fee for the Distribution Funds to four percent of the income earned on the funds. The Final Judgments reflect this reduction.

* * * * *

The Commission acknowledges the assistance of NASD, NYSE, and state securities regulators in the investigation of this matter.

Information by Company

Bear, Stearns & Co. Inc.

- SEC Final Judgment, *SEC v. Bear, Stearns & Co. Inc.*
  - Final Judgment Appendix A
  - Final Judgment Appendix B
- Bear Stearns Investor Education Order
- Bear Stearns Distribution Fund Plan Order

Citigroup Global Markets Inc., f/k/a Salomon Smith Barney Inc.; Jack Benjamin Grubman

Citigroup Global Markets

- SEC Final Judgment, *SEC v. Citigroup Global Markets Inc.*
  - Final Judgment Appendix A
  - Final Judgment Appendix B

- Citigroup Global Markets Investor Education Order
- Citigroup Global Markets Distribution Fund Plan Order

Jack B. Grubman

- SEC Final Judgment, *SEC v. Jack Benjamin Grubman*

Credit Suisse First Boston LLC, f/k/a Credit Suisse First Boston Corporation

- SEC Final Judgment, *SEC v. Credit Suisse First Boston LLC*
  - Final Judgment Appendix A
  - Final Judgment Appendix B
- Credit Suisse First Boston Distribution Fund Plan Order

Goldman, Sachs & Co.

- SEC Final Judgment, *SEC v. Goldman, Sachs & Co.*
  - Final Judgment Appendix A
  - Final Judgment Appendix B
- Goldman Sachs Investor Education Order
- Goldman Sachs Distribution Fund Plan Order

J.P. Morgan Securities Inc.

- SEC Final Judgment, *SEC v. J.P. Morgan Securities Inc.*
  - Final Judgment Appendix A
  - Final Judgment Appendix B
- J.P. Morgan Investor Education Order
- J.P. Morgan Distribution Fund Plan Order

Lehman Brothers Inc.

- SEC Final Judgment, *SEC v. Lehman Brothers Inc.*
  - Final Judgment Appendix A
  - Final Judgment Appendix B
- Lehman Brothers Investor Education Order
- Lehman Brothers Distribution Fund Plan Order

Merrill Lynch, Pierce, Fenner & Smith Incorporated; Henry M. Blodget

Merrill Lynch, Pierce, Fenner & Smith Incorporated

- SEC Final Judgment, *SEC v. Merrill Lynch, Pierce, Fenner & Smith Incorporated*
  - Final Judgment Appendix A
  - Final Judgment Appendix B
- Merrill Lynch Investor Education Order

Henry M. Blodget

- SEC Final Judgment, *SEC v. Henry M. Blodget*

Morgan Stanley & Co. Incorporated

- SEC Final Judgment, *SEC v. Morgan Stanley & Co. Incorporated*
  - Final Judgment Appendix A
  - Final Judgment Appendix B
- Morgan Stanley Distribution Fund Plan Order

UBS Warburg LLC

- SEC Final Judgment, *SEC v. UBS Warburg LLC*
  - Final Judgment Appendix A
  - Final Judgment Appendix B
- UBS Warburg Investor Education Order
- UBS Warburg Distribution Fund Plan Order

U.S. Bancorp Piper Jaffray Inc.

- SEC Final Judgment, *SEC v. U.S. Bancorp Piper Jaffray Inc.*
  - Final Judgment Appendix A
  - Final Judgment Appendix B
- Piper Jaffray Distribution Fund Plan Order

See also: Spotlight on: The Global Research Analyst Settlement

http://www.sec.gov/litigation/litreleases/lr18438.htm

Appendix A

ELIGIBLE DISTRIBUTION FUND RECIPIENTS are those investors who (1) bought a stock through one of the Settling Firms; (2) that stock is on the list of equities for that specific firm; (3) the purchase was made during the relevant time period for that stock; and (4) the investor suffered a net loss.

Settling Party	*Size of Distribution Fund*	*Relevant Equity Security*	*Relevant Period of Purchase*
Bear, Stearns & Co. Inc.	$25 million	CAIS Internet, Inc.	Nov 7, 2000 - Apr 24, 2001
		Digital River, Inc.	Jan 30, 2002 - Apr 1, 2002
		Micromuse, Inc.	Jul 18, 2001 - Oct 16, 2001
		Sonic Wall	Jan 25, 2001 - May 15, 2001
Citigroup Global Markets Inc., f/k/a Salomon Smith Barney and Jack Benjamin Grubman	$157.5 million	Adelphia Business Solutions Inc.	May 14, 2001 - Aug 13, 2001
		AT&T Corp.	Nov 29, 1999 - Jan 25, 2000
		Focal Communications Corp.	Apr 10, 2000 - Oct 17, 2000; Feb 21, 2001 - Aug 13, 2001
		Level 3 Communications Inc.	Apr 18, 2001 - Jun 18, 2001
		Metromedia Fiber Networks, Inc.	Apr 30, 2001 - Jul 25, 2001
		RCN Corp.	May 3, 2001 - Aug 2, 2001
		Williams Communications Group Inc.	May 1, 2001 - Nov 1, 2001
		XO Communications Inc.	Apr 26, 2001 - Nov 1, 2001
Credit Suisse First Boston LLC, f/k/a Credit Suisse First Boston Corporation	$75 million	Agilent Technologies, Inc.	Jul 21, 2000 - Feb 20, 2001
		Digital Impact, Inc.	Jul 23, 2001 - Oct 2, 2001
		New Power Holdings, Inc.	Oct 30, 2000 - Dec 31, 2001
		Numerical Technologies, Inc.	May 4, 2000 - Aug 2, 2000
		Synopsys, Inc.	Jul 23, 1999 - Jun 29, 2000
		Winstar Communications, Inc.	Jan 5, 2001 - Apr 5, 2001
Deutsche Bank Securities Inc.	$28.75 million	Empisphere Technologies, Inc.	Jan 26, 2000 - Apr 25, 2000
		E-Prise Corporation	Apr 26, 2001 - Jul 25, 2001
		Getty Images, Inc.	Apr 5, 2002 - Jul 4, 2002
		Oracle Corporation	May 31, 2001 - Aug 29, 2001
		Transkaryotic Therapeutics, Inc.	Jul 13, 2001 - Oct 11, 2001
		Trimeris, Inc.	Dec 28, 2001 - Mar 28, 2002
		United Therapeutics, Inc.	Mar 7, 2000 - Jun 5, 2000
Goldman, Sachs & Co.	$25 million	360networks, Inc	Apr 27, 2001 - May 15, 2001
		AT&T Corp.	Jul 26, 2000 - Dec 19, 2000; Apr 25, 2001 - Jun 30, 2001
		Exodus Communications Inc.	Jun 11, 2001 - Jun 20, 2001
		Global Crossing Ltd.	Mar 21, 2000 - Jun 19, 2000
		WorldCom Inc.	Aug 7, 2000 - Dec 5, 2000; Apr 26, 2001 - Jun 30, 2001
Henry McElvey Blodget [1]	$4 million	Goto.com	Jan 11, 2001 - Jun 6, 2001
J.P. Morgan Securities Inc.	$25 million	Epicor Software Corp [2]	Oct 22, 1999 - Jan 30, 2001
		International Rectifier Corp. [3]	Jul 1, 1999 - Nov 1, 2000
Lehman Brothers Inc.	$25 million	Broadwing, Inc.	Jan 25, 2001 - Apr 25, 2001
		DDi Corp	Jun 30, 2000 - Sep 28, 2000
		Razorfish Inc.	May 24, 1999 - Aug 22, 1999
		Real Networks, Inc.	Jul 11, 2000 - Oct 17, 2000
		RSL Communications	Mar 2, 2000 - Sep 6, 2000
Morgan Stanley and Co. Incorporated	$25 million	Ask Jeeves Inc.	Apr 20, 2000 - Jul 19, 2000
		drugstore.com Inc.	Apr 25, 2000 - Jul 24, 2000
		Inktomi Corp.	Dec 7, 2000 - Jan 4, 2001
		Ventro Corp. (formerly Chemdex Corp.)	Apr 5, 2000 - Jul 4, 2000
Thomas Weisel Partners LLC	$5 million	Hotjobs.com Ltd	Nov 4, 1999 - Feb 2, 2000
		InfoSpace, Inc.	Jan 11, 2001 - Jul 25, 2001
		Level 3 Communications Inc.	May 21, 2001 - Jun 19, 2001
		Sprint FON Group	Jun 19, 2001 - Jul 19, 2002
UBS Securities LLC, f/k/a UBS Warburg LLC	$25 million	Interspeed, Inc.	Jan 3, 2000 - Jul 21, 2000
		Triangle Pharmaceuticals Inc.	Oct 8, 1999 - Mar 10, 2000
		Atmel Corp. [4]	Feb 9, 2000 - May 9, 2000
		Flextronics International, Ltd [4]	Mar 2, 2001 - Jun 1, 2001
US Bancorp Piper Jaffray Inc.	$12.5 million	Esperion Therapeutics, Inc.	Oct 18, 2001 - Jun 28, 2002
		Triton Networks Systems Inc.	Mar 30, 2001 - May 1, 2001
		Just for Feet, Inc. [5]	Apr 21, 1999 - Jul 20, 1999
		JDS Uniphase Corp. [5]	Jul 27, 1999 - Oct 25, 1999
		Comverse Technology, Inc. [5]	Mar 28, 2001 - Jun 26, 2001

(1) Limited to purchases of Goto.com through Merrill Lynch, Pierce, Fenner & Smith Incorporated.

(2) Limited to purchases of Epicor Software Corp by clients of Hambrecht & Quist LLC and Chase H&Q; purchasers of Epicor from J.P. Morgan Securities Inc. are not eligible.

(3) Limited to purchases of International Rectifier Corp by clients of J.P. Morgan Securities Inc.

(4) Per the Distribution Fund Order, payments will be first allocated to purchasers of Triangle Pharmaceuticals, Inc. and Interspeed, Inc. If such allocations do not exhaust the available funds, payments will then be allocated to purchasers of these equity securities.

(5) Per the Distribution Fund Order, payments will be first allocated to purchasers of Esperion Therapeutics, Inc. and Triton Networks Systems Inc. If such allocations do not exhaust the available funds, payments will then be allocated to purchasers of these equity securities.

The Wall Street Journal

August 27, 2004 Friday

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HEADLINE: Moving the Market: Deutsche Bank Unit Settles Charges

BYLINE: By Rob Wells Dow Jones Newswires

BODY:

Deutsche Bank Securities Inc., which had held out for more than a year on settling conflict-of-interest charges in a wide-ranging investigation into Wall Street investment-banking research, will pay $87.5 million to resolve the matter, the Securities and Exchange Commission and state regulators said.

Thomas Weisel Partners LLC, another holdout, will pay $12.5 million to settle similar charges, the SEC said.

In April of 2003, 10 other Wall Street firms charged in the investigation, including Citigroup Inc. and J.P. Morgan Chase & Co., reached a landmark $1.4 billion settlement with the SEC, state securities regulators such as the California Department of Corporations, the National Association of Securities Dealers and the New York Stock Exchange.

Investigators charged that investment-banking interests had undue influence on securities research at brokerage firms. Wall Street market research allegedly was manipulated by investment bankers to win business from clients whose stock their firms touted.

Under the settlement announced yesterday, the payment by the Deutsche Bank AG unit will comprise $25 million in repayments, $25 million in penalties, $25 million to fund independent research and $5 million to fund and promote investor education. Deutsche Bank Securities also was fined $7.5 million for failing to promptly produce all e-mail, which delayed the investigation for more than a year, the SEC said.

Thomas Weisel Partners' payment comprises $5 million in restitution, $5 million in penalties and $2.5 million to fund independent research.

According to the SEC, Deutsche Bank Securities and Thomas Weisel Partners, which is based in San Francisco, will have to significantly reform their practices. This will include separating the research and investment-banking departments at the firms, restructuring how research is reviewed and supervised, and prohibiting analysts from receiving compensation for investment-banking activities. They will also have to make independent research available to investors.

These changes are consistent with those imposed against the other 10 firms in the "global settlement," the SEC said.

The SEC and the regulators charged that from mid-1999 through mid-2001, both firms engaged in acts and practices "that created or maintained inappropriate influence by investment banking over research analysts," resulting in conflicts of interest, the SEC said.

Regulators also found supervisory deficiencies at both firms. Neither firm admitted or denied the allegations.

Deutsche Bank spokeswoman Rohini Pragasam said the company is "pleased to reach this final resolution" with regulators to join the global settlement. "We have already voluntarily implemented the industrywide reforms that separate research and investment banking," she said.

A Thomas Weisel spokeswoman didn't return a phone call seeking comment.

The SEC charges that both Deutsche Bank Securities and Thomas Weisel Partners issued research reports "that were not based on principles of fair dealing and good faith and did not provide a sound basis for evaluating facts." The reports also "contained exaggerated or unwarranted claims about the covered companies," the SEC said.

Both firms are also charged with failing to disclose payments for research.

Under the settlement, the two firms agreed to voluntarily restrict their allocations of securities in hot initial public offerings of shares, or IPOs, to certain company executive officers and directors, a practice known as "spinning." The proposed final judgments in the SEC actions are subject to court approval, the agency said.

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Securities and Exchange Commission

Litigation Release No. 18111 / April 28, 2003

Securities and Exchange Commission v. Citigroup Global Markets Inc., f/k/a Salomon Smith Barney Inc., 03 CV 2945 (WHP) (S.D.N.Y.)

Securities and Exchange Commission v. Jack Benjamin Grubman, 03 CV 2938 (WHP) (S.D.N.Y.)

SEC SUES CITIGROUP GLOBAL MARKETS, FORMERLY KNOWN AS SALOMON SMITH BARNEY, AND FORMER RESEARCH ANALYST JACK B. GRUBMAN FOR RESEARCH ANALYST CONFLICTS OF INTEREST

FIRM TO SETTLE WITH SEC, NASD, NYSE, NY ATTORNEY GENERAL, AND STATE REGULATORS; GRUBMAN TO SETTLE WITH SEC, NASD, NYSE, AND NY ATTORNEY GENERAL

The Securities and Exchange Commission announced today that it has settled charges against Citigroup Global Markets Inc., formerly known as Salomon Smith Barney Inc. ("SSB"), a New York-based brokerage firm and investment bank, arising from an investigation of research analyst conflicts of interest. This settlement, and settlements with nine other brokerage firms, are part of the global settlement the firms have reached with the Commission, NASD, Inc., the New York Stock Exchange, Inc. ("NYSE"), the New York Attorney General, and other state regulators. As part of the settlement, SSB has agreed to pay $150 million as disgorgement and an additional $150 million in penalties. One-half of the total of these payments - $150 million - will be paid in connection with the SEC action and related proceedings by the NASD and NYSE and will be placed into a distribution fund for the benefit of customers of the firm. The remainder will be paid to resolve related proceedings by state regulators. In the SEC action, SSB has agreed to a federal court order that will enjoin the firm from future violations of the federal securities laws and NASD and NYSE rules and require the firm to make changes in the operations of its equity research and investment banking departments. In addition, SSB will pay, over five years, $75 million to provide the firm's clients with independent research, and $25 million to be used for investor education.

The Commission also announced today that it has settled charges against Jack B. Grubman, formerly a research analyst at Salomon Smith Barney, arising from an investigation of his research on companies in the telecommunications ("telecom") sector. As part of the settlement, Grubman has agreed to pay $7.5 million as disgorgement and an additional $7.5 million in penalties. One-half of the total of these payments - $7.5 million - will be paid in connection with the SEC action and related proceedings by the NASD and NYSE and will be placed into the distribution fund that will be created pursuant to the Final Judgment against SSB. The remainder will be paid to resolve related proceedings by the Office of the New York Attorney General. Grubman also has consented to be barred from associating with a broker, dealer, or investment adviser.

In connection with these matters, the Commission today filed separate Complaints against SSB and Grubman in the U.S. District Court for the Southern District of New York, alleging direct and aiding-and-abetting violations of the federal securities laws and NASD and NYSE rules. According to the Commission's Complaints, from 1999 through 2001, research analysts at SSB - including Grubman - were subject to inappropriate influence by investment banking at the firm. The Complaints also allege that SSB and Grubman published false or misleading research reports and published research reports that were exaggerated, unwarranted, or lacked a reasonable basis. The Complaint against SSB further alleges that the firm engaged in "spinning" of hot initial public offering ("IPO") shares to executives of investment banking clients, and failed to maintain appropriate supervision over its research and investment banking operations.

Specifically, the Commission's Complaints allege that:

- Research analysts at SSB were expected to promote SSB's investment banking business to issuers during "pitches" and to market investment banking deals to the firm's customers. When SSB secured investment banking business, research analysts were expected to provide favorable coverage of SSB's investment banking clients. Investment banker evaluations and investment banking revenues generated in an analyst's sector were important factors in evaluating an analyst's performance and determining his or her compensation. These business practices created a culture in which investment bankers could and did pressure research analysts to maintain coverage or favorable ratings for investment banking clients and created the incentive for analysts to use research to obtain, retain, and increase revenue from investment banking deals. SSB failed to manage the conflicts created by its practices.

- Grubman was one of the most prominent analysts on Wall Street and the linchpin for SSB's investment banking efforts in the telecom sector. During 1999-2001, SSB earned approximately $790 million in investment banking fees from companies in the telecom sector. Between 1999 and August 2002, when he left the firm, Grubman's total compensation exceeded $67.5 million, including his multi-million dollar separation agreement.

- SSB and Grubman published certain fraudulent research reports on two of the firm's telecom investment banking clients, Focal and Metromedia Fiber Networks, Inc. These reports were contrary to the true views that Grubman and another analyst on his team privately expressed, presented an optimistic picture that overlooked and minimized the risk of investing in these companies, predicted substantial growth in the companies' revenues and earnings without a reasonable basis, did not disclose material facts about these companies, and contained material misstatements about the companies.

- On February 21, 2001, Grubman issued a note on Focal that "reiterated" a 1 (Buy) recommendation and left the target price unchanged from $30 (approximately twice the stock price of $15.50). The company, however, apparently complained about the note. When Grubman heard about the complaint, he e-mailed two investment bankers:

  > I hear company complained about our note. I did too. I screamed at [the analyst] for saying "reiterate buy." If I so much as hear one more f----g peep out of them we will put the proper rating (ie 4 not even 3) on this stock which every single smart buysider feels is going to zero. We lose credibility on MCLD and XO because we support pigs like Focal.

  On the same day, an institutional investor e-mailed a research analyst who worked for Grubman, "Mcld [McLeod USA Inc.] and Focal are pigs aren't they?" and asked whether Focal was "a short." The analyst responded, "Focal definitely . . . ." Later, in an April 18, 2001 e-mail, Grubman stated the need to downgrade Focal, among other companies. Nevertheless, he issued a note on April 30, 2001 that again advised investors to buy Focal. Neither the February 21 note nor the April 30 note disclosed the actual views of Grubman and his colleague regarding Focal.

- Like Focal, Metromedia Fiber was an investment banking client of SSB. In early 2001, the company entered into an agreement with Citicorp USA, Inc. (a SSB affiliate) to provide it with a credit facility that it needed to fund its operations. The deadline for closing on the facility was extended twice and, in the end, the facility was completed for less than half its full amount. The notes Grubman issued on Metromedia Fiber between April 2001 and July 2001 did not adequately disclose the red flags concerning the credit facility or Grubman's view that the company might not get the funding. Moreover, in June 2001, a research analyst working for Grubman told him that while the company had funds through the end of 2001, thereafter the company's fundamentals would deteriorate. This contradicted the ratings and price targets SSB and Grubman published on the stock in a note dated June 28, 2001. For these reasons, the notes dated April 30, 2001, June 6, 2001, and June 28, 2001 were fraudulent and misleading.

- In April 2001, Grubman expressed a need to downgrade six telecom companies: Level 3 Communications, Inc., Williams Communications Group, Inc., XO Communications, Inc., Focal Communications Corp., Adelphia Business Solutions, Inc., and RCN Corporation. Investment bankers pressured Grubman not to downgrade these companies, and Grubman did not. He continued to advise investors to buy these stocks and did not disclose the influence of investment bankers on his ratings.

- In late November 1999, Grubman upgraded AT&T Corporation from a Neutral (3) - his longtime rating on the stock - to a Buy (1). SSB and Grubman did not disclose in the report that Grubman had a conflict of interest relating to his evaluation of AT&T or that his objectivity had been compromised. Prior to the upgrade, Sanford I. Weill, the co-CEO and Chairman of Citigroup (and a member of the AT&T board of directors), had asked Grubman to take a "fresh look" at AT&T. Thereafter, during the time that Grubman was conducting his "fresh look" at the company, Grubman had asked Weill for assistance in gaining admission for his children to the selective 92nd Street Y preschool in New York City. After Grubman upgraded AT&T and his children had been admitted to the preschool, Grubman stated privately that he had upgraded AT&T to help his children get into the 92nd Street Y preschool.

- During the relevant period, SSB did not maintain written policies and procedures reasonably designed to prevent the sharing and misuse of material, non-public information between a person affiliated with SSB who served as a director of another company and a SSB research analyst covering that company.

- SSB, in a practice known as "spinning," provided preferential access to hot IPO shares to officers of existing or potential investment banking clients who were in a position to direct their companies' investment banking business to SSB. The officers sold the shares provided to them for substantial profit. Subsequently, the companies for which the officers worked provided SSB with investment banking business. Executives of five telecom companies made approximately $40 million in profits from approximately 3.4 million IPO shares allocated from 1996-2001, and SSB earned over $404 million in investment banking fees from those companies during the same period.

- Finally, SSB failed to establish and maintain adequate procedures to protect research analysts from conflicts of interest from its investment banking operation. SSB failed to supervise adequately the activities of its research analysts and failed to respond to indications that its research was misleading. SSB also failed to supervise adequately its employees engaged in spinning.

SSB has agreed to settle the Commission's action and has consented, without admitting or denying the allegations of the Complaint, to the entry of a final judgment that, if approved by the court, permanently enjoins SSB from violations of antifraud provision Section 15(c) of the Securities Exchange Act of 1934 ("Exchange Act") and Rule 15c1-2 thereunder, Section 15(f) of the Exchange Act, Section 17(a) of the Exchange Act and Rule 17a-3 thereunder, and NASD and NYSE rules pertaining to just and equitable principles of trade (NASD Rule 2110; NYSE Rules 401 and 476), advertising (NASD Rule 2210; NYSE Rule 472), broker-dealer record keeping (NASD Rule 3110; NYSE Rule 440), and supervisory procedures (NASD Rule 3010; NYSE Rule 342). The final judgment also orders the firm to make the payments described above, and provides for the appointment of a fund administrator who, subject to court approval, will formulate and administer a plan of distribution for those monies placed into the distribution fund.

Grubman has agreed to settle the Commission's action and has consented, without admitting or denying the allegations of the Complaint, to the entry of a final judgment that, if court-approved, permanently enjoins him from aiding and abetting violations of Section 15(c) of the Exchange Act and Rule 15c1-2 thereunder, and from violating NASD and NYSE rules governing just and equitable principles of trade and advertising. The final judgment also orders him to make the payments described above, and provides that the amount he pays as disgorgement will be added to the SSB distribution fund. Grubman also has agreed to settle administrative proceedings that will be instituted by the Commission based upon the entry of the final judgment by consenting to the issuance of a Commission order that permanently bars him from associating with any broker, dealer, or investment adviser.

In addition, the final judgment against SSB orders SSB to implement structural reforms and provide enhanced disclosure to investors, including a broad range of changes relating to the operations of its equity research and investment banking operations. SSB has agreed to sever the links between research and investment banking, such that: research and investment banking are physically separated with completely separate reporting lines; analysts' compensation cannot be based directly or indirectly upon investment banking revenues; investment bankers may no longer evaluate analysts; investment bankers will have no role in determining what companies are covered by the analysts; and research analysts will be prohibited from participating in efforts to solicit investment banking business, including pitches and roadshows. In addition, SSB must disclose on the first page of each research report whether the firm does or seeks to do investment banking business with that issuer, and when SSB decides to terminate coverage of an issuer, SSB must issue a final research report discussing the reasons for the termination. Each quarter, SSB also will publish on its website a chart showing its analysts' performance, including each analyst's name, ratings, price targets, and earnings per share forecasts for each covered company, as well as an explanation of the firm's rating system.

SSB also has agreed as part of this settlement to retain, at its own expense, an Independent Monitor to conduct a review to provide reasonable assurance that the firm is complying with the structural reforms. This review will be conducted eighteen months after the date of the entry of the Final Judgment and the Independent Monitor will submit a written report of his or her findings to the SEC, NASD, and NYSE within six months after the review begins. Five years after the entry of the final judgment, SSB must certify to the SEC and other regulators that it has complied in all material respects with the requirements and prohibitions of the structural reforms.

* * *

The Commission acknowledges the assistance of NASD, NYSE, the Office of the New York Attorney General, and other state regulators in the investigation of this matter.

- SEC Complaint in this matter (Citigroup Global Markets)
- SEC Complaint in this matter (Jack B. Grubman)
- SEC Final Judgment in this matter (Citigroup Global Markets)

- SEC Final Judgment in this matter (Jack B. Grubman)
- Final Judgment Appendix A (PDF)
- Final Judgment Appendix B (PDF)
- Consent (Citigroup Global Markets) (PDF)
- Consent (Jack B. Grubman) (PDF available)

http://www.sec.gov/litigation/litreleases/lr18111.htm

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APPENDIX F

"Yield Burning"

The New York Times

April 6, 2000, Thursday, Late Edition

Settlement Reported in Bond-Pricing Case

By PATRICK McGEEHAN

More than a dozen Wall Street securities firms, led by the Salomon Smith Barney unit of Citigroup, have agreed to pay more than $120 million to end long-running federal investigations into whether state and local governments nationwide were overcharged for Treasury securities they bought, according to people close to the parties in the agreement.

With the settlement, expected to be announced today, the Securities and Exchange Commission, the Justice Department and the Internal Revenue Service are wrapping up their investigations into a practice known as yield burning.

In several lawsuits filed against investment banks in the 1990's, regulators and municipal officials contended that the banks charged artificially high prices for Treasury securities, which lowered, or "burned down," the yield, or rate of interest, those securities paid. Yield moves in the opposite direction from the price.

The settlement will result in the dismissal of some of the suits, including one filed in United States District Court in Manhattan by Michael R. Lissack, who had been an investment banker at the former Smith Barney. It will also extinguish fears that some investors could face tax liabilities for buying bonds that had been promoted as tax exempt.

The I.R.S. had been studying whether to take away the tax-exempt status of some bonds issued by municipalities. But lawyers involved in the negotiations said they had been told that the I.R.S. would not do that.

A spokesman for PaineWebber Group, the big brokerage firm, said: "We are pleased with this industry wide settlement. It covers municipal reinvestment transactions done throughout the industry from 1990 through 1994 and resolves any uncertainty regarding tax liability for the affected municipal bond issuers and bondholders."

As part of the settlement, PaineWebber is paying about $26 million to the United States Treasury and to clients that issued municipal bonds, people close to the parties said. That amount ranks PaineWebber second only to Salomon Smith Barney, which is paying about $40 million, these people said.

Most of the parties to the settlement, including Salomon Smith Barney, the I.R.S. and the United States attorney's office, would not comment on the agreement before it was announced.

The amount each firm is paying is based on the number and pricing of underwritings they managed that regulators contend involved illegal markups. Some of the biggest firms on Wall Street are paying as little as $2 million, while some smaller competitors are paying much more. Dain Rauscher, a smaller brokerage firm based in Minneapolis, is paying about $10 million, while the Prudential Securities unit of the Prudential Insurance Company of America is paying about $6 million, these people said.

As the one who blew the whistle on yield burning, Mr. Lissack, who no longer works on Wall Street, stands to reap a reward of $20 million or more. John Phillips, a lawyer for Mr. Lissack, said his client intended to keep only about $4 million and give the rest to charity and to his alma mater, Williams College.

"Any global resolution involving all the firms will put to rest the issue of yield burning," said Mr. Phillips, a partner in Phillips & Cohen in Washington. "The big benefit is this lawsuit has totally cleaned up this industry."

Mr. Lissack became a pariah in the municipal bond business after he went public with his allegations that investment banks were overcharging for the Treasuries that municipal governments used to refinance their debt. After Smith Barney fired him, he filed suit against a group of investment banks under the federal False Claims Act. That law provides for whistle-blowers to receive 15 percent to 25 percent of amounts recovered from defendants.

Micah S. Green, chief operating officer of the Bond Market Association, an industry trade group, welcomed word of an impending settlement. "In a sense this is everyone standing up and saying, 'Let's put this issue behind us and hold investors harmless and preserve the safety and soundness of the municipal bond market, which is so important to state and local governments.' "

The New York Times

December 31, 1997, Wednesday, Late Edition - Final

Feeling Burned by Wall Street; Firms Accused of Bilking Government in Securities Deals

By DAVID BARBOZA

DATELINE: LOS ANGELES It was billed as the largest public works project west of the Mississippi, one that would give this city a subway and light rail system that might rival those of Boston or New York. But in 1993, the vision dreamed up by so many political figures here began to falter after a giant deficit opened up in the county budget even as subway workers were burrowing deep under the city. It was then that county officials turned to Wall Street for advice. And it was soon after, they contend, that Lazard Freres & Company quietly and deftly cheated the county out of millions of dollars.

"They came to us and said, 'Do we have a deal for you,' " said Zev Yaroslavsky, chairman of the Los Angeles Metropolitan Transportation Agency, which is suing Lazard. " But in the end, we lost over $3 million. And what's worse than that to me, as a public official, is not the money -- it's the betrayal."

Through its lawyers, Lazard heatedly disputes the accusation, saying it simply earned a healthy profit as it refinanced the agency's debt.

But for some time, Federal officials have been investigating whether Lazard and other Wall Street firms illegally overcharged state and local government agencies nationwide by as much as $1 billion in debt refinancings in the early 1990's through a practice known as yield burning.

Although the accusations have not received much notice outside the halls of municipal government and the corridors of Wall Street, the implications are huge because most of the supposed overcharges came out of money that state and local governments were supposed to forward to the Treasury. As a result, Federal officials are pressing the local agencies, and they, in turn, are pointing the finger at Wall Street.

In the coming months, Federal regulators and the Internal Revenue Service are expected to complete multiyear investigations. The result may be that several local governments will lose their tax-exempt status for some municipal bond issues from the early 1990's. Meanwhile, several Wall Street firms could be hit with heavy fines and sanctions.

"This is one of the most serious matters that the enforcement division is grappling with," said William Baker 3d, associate director of enforcement at the Securities and Exchange Commission. "We're trying to find out whether municipal issuers were overcharged, and if they were, was fraud involved."

The Los Angeles case is just one among many under investigation. Similar accusations have emerged in Berks County, Pa., where money was raised to build a prison; in Duval County, Fla., where a public school program was financed, and in dozens of other municipalities.

Indeed, the arcane world of municipal finance -- rocked in recent years by a rash of political scandals and charges of kickbacks -- is once again under a harsh spotlight, one that threatens to further disrupt the $1.3 trillion market.

The accusations in the refinancing cases can be boiled down to this: A municipal agency retires some old high-interest debt by issuing new, lower-interest bonds. Because in many cases the older bonds cannot be immediately retired, the money raised from the new bonds is placed in an escrow account that invests in a mix of Government securities. By Federal law, that account cannot yield an interest rate higher than the refinanced bonds. If the yield is higher, the excess interest is supposed to be forwarded to the Treasury.

But in many cases in the early 1990's, investigators think, Wall Street firms artificially raised the prices of the securities they sold to the escrow accounts, thereby reducing the yield -- which moves in the opposite direction -- to the restricted rate. In doing so, they reaped huge profits that would have otherwise gone to the Government.

The practice -- known in the industry as yield burning -- is illegal only if the prices charged are unfair. The securities firms all say that their prices were fair, reflecting the work and risks they faced in completing the transactions.

The case in Los Angeles, more than any other, underscores how even the biggest, most sophisticated government bodies can stumble when doing business with Wall Street. In fact, while the purported overcharging in most cases involved only money that would have gone to the Treasury, Lazard is accused in the Los Angeles lawsuit of burning the yield down so low that the county lost money.

In some respects, the county would seem to have been well prepared. The board of the Metropolitan Transportation Agency was made up of 13 members, including the Mayor. The treasurer was a graduate of the Harvard Business School. And the legal counsel was O'Melveny & Myers, the law firm once headed by former Secretary of State Warren Christopher.

But when a huge budget gap emerged in 1993, the agency turned to Lazard. With interest rates falling, the agency was told it could save up to $20 million in interest by refinancing about $560 million of debt at lower rates. "We were motivated to find cost savings anywhere we could," recalled Terry Matsumoto, the chief financial officer.

Bear, Stearns was chosen as the lead underwriter in the new bond offering. But Lazard made a pitch to handle the escrow account, saying it could "optimize the escrow portfolio, thereby saving the most money." Agency officials say that only in retrospect did they realize how badly the firm wanted that business and how lofty its ambitions were.

Lazard had been muscling its way into the world of municipal finance since the mid-1980's, when the firm hired Michael J. DelGiudice, chief of staff to Gov. Mario M. Cuomo of New York.

The idea was to push Lazard to the forefront not with new investment strategies but with sheer political power. To bolster that effort, Mr. DelGiudice hired a cast of political rainmakers. He tapped Mark S. Ferber, a former aide to William M. Bulger, who had been the state Senate leader in Massachusetts; Richard P. Poirier Jr., who had close ties to Gov. Jim Florio of New Jersey; James E. Eaton, a one-time aide to Gov. Bob Graham of Florida, and Grover L. McKean, a longtime associate of Jesse Unruh, who had been the Treasurer of California.

By 1992, Lazard had broken into the top ranks in municipal underwriting, winning large contracts in Boston, New Jersey and New York.

Just three years later, though, Lazard closed its municipal finance department after a series of Federal investigations, including on into the case in Los Angeles. Today, the department's legacy seems to be a spider chart of political intrigue. All but one of its rainmakers -- Mr. McKean -- has been charged by Federal authorities with conspiracy or fraud.

Mr. Ferber is serving a 33-month sentence for illegally steering underwriting business to Merrill Lynch when he was supposed to be acting as an independent adviser with Lazard, which received a secret fee from Merrill. Mr. Poirier and Mr. Eaton were charged this month with doing something strikingly similar in Georgia and Florida. Mr. Eaton has pleaded guilty to fraud; Mr. Poirier has denied any wrongdoing.

Mr. McKean has not been charged with any crime. But officials of the Los Angeles transit agency say he aggressively pursued the escrow account contract, even assuring them that Lazard would make, at most, $300,000 on the deal. While Mr. McKean denies he ever made such an assurance, he said in a statement that he was eager to secure the account.

Lazard did not win the escrow account in 1993 without a challenge. Smith Barney asked one of its leading bankers, Michael R. Lissack, to make a counterproposal that promised large savings. In the end, though, Lazard was selected.

What happened next is in dispute. What is clear is that Lazard bought Treasury bonds on the open market for the account. Los Angeles officials contend that Lazard resold them to the agency at a substantial markup, burning the yield down to the restricted rate -- and then some.

"Unlike most cases, where the apparent victim is the Treasury, in this case a lot of the cost went to the County of Los Angeles," said Bill Wood, a former Merrill Lynch banker who has an Internet site devoted to yield burning. "What happened in Los Angeles, I've heard, is they just kept on burning."

The contentions of price markups, however, did not emerge until two years later, when Mr. Lissack disclosed that he had been cooperating with Federal officials who were investigating possible fraud in the municipal finance industry. Mr. Lissack, who by then had been dismissed by Smith Barney, told them about yield burning. And one of the deals he cited was in Los Angeles.

"We seemed to be very pleased until we read articles about the possibility of yield burning," said Mr. Matsumoto of the Los Angeles transit agency. After all, to win approval for the price of the bonds from O'Melveny & Myers, the agency's bond counsel, Lazard had presented a so-called certificate of fairness issued by Paine Webber. Paine Webber declined to comment.

In June 1995, in the wake of the disclosures by Mr. Lissack, the agency asked Public Financial Management Inc., a consultant to municipalities, to study the 1993 transaction. The firm later determined that Lazard had overcharged the transit agency by about $3.6 million.

Six months later, Los Angeles County joined a civil suit against Lazard. The suit was initiated by Mr. Lissack under the False Claims Act, which permits any individual with knowledge of fraud against a public entity to file a suit and, if successful, recover a percentage of the damages. The suit was filed by Phillips & Cohen, a Washington firm that specializes in "whistle blower" cases.

Lazard, in turn, hired Wachtell, Lipton, Rosen & Katz, and lawyers there say their defense is solid.

"You get to make a reasonable profit," said John Savarese of Wachtell. "These prices were not out of line. They were consistent with the market."

Lazard's defense is predicated on the notion that the Los Angeles transit agency was charged a premium because of the risks involved in such a large transaction, including the risk that Lazard might get stuck with the securities.

Lazard's defense is similar to arguments set forth by the Bond Market Association. Both contend that there were significant flaws in a Phillips & Cohen study suggesting that yield burning was widespread and had bilked up to $1 billion from the Treasury.

Moreover, lawyers for Lazard, without conceding that anything wrong went on, contend that the municipalities and their bond counsel, who ultimately approved the transactions, were capable of assessing the prices.

In fact, many outside experts believe the issuers in at least some of the cases were not entirely innocent. Some were clearly aware that yield burning was taking place, they argue, but many did not care because the money was, for the most part, not coming out of their pockets but those of the Government.

Mr. Lissack, who admits to having been involved in some questionable practices during the 90's, concurred. "They knew," he said of the municipalities. "The question is whether they understood it was wrong."

What was the responsibility of bond counsel? Do issuers have a responsibility to protect their tax-exempt status? To some extent, bond counsel and issuers say, their hands are tied.

But soon after losing the Los Angeles account, Mr. Lissack says he went to O 'Melveny & Myers to complain that Lazard had artificially inflated its prices. O 'Melveny & Myers, which refused comment, ignored him, he said.

Whether or not there was collusion between issuers and dealers, Federal regulators are pressing forward with several cases.

Meanwhile, Los Angeles County, which is still struggling to finish its subway system, says its problems were compounded by old-fashioned greed on Wall Street.

"We're not out there claiming ignorance," Mr. Matsumoto said. "But we have to rely on outside expertise. We're not Wall Street bankers."

GRAPHIC: Photo: Terry Matsumoto, the chief financial officer of the Los Angeles transportation agency, said the agency was looking to save money on its subway project. But refinancing debt cost it millions of dollars, the agency says. (Edward Carreon for The New York Times) (pg. D5)

Chart/Photo: "Higher Profits, Lower Yields" Federal regulators are looking into whether Lazard Freres and other Wall Street firms broke the law when they helped municipalities refinance some of their debt. The investigations concern a somewhat arcane process called yield burning. Here is how it works and how regulators say the process may have been abused.

NEW BONDS FOR OLD -- When interest rates fall, municipalities often issue new bonds to refinance their debt and lower their interest payments. Usually, there are restrictions on when the old bonds can be retired, so an issuer has to wait before using the new proceeds to retire the old debt. During that time, the money is put in escrow, earning interest.

DON'T MAKE TOO MUCH -- By law, the escrow account cannot earn a higher return than the interest rate paid by the new bonds. If it does, the excess goes to the Treasury. Most escrow accounts invest in Treasury securities, which usually pay higher rates than tax-exempt municipal bonds. So if the newer municipal bonds are earning 5 percent interest and the Treasuries earn 6 percent, the Wall Street firms that handle the account often buy some special Treasury issues that pay little or no interest to help lower the overall yield.

PRICE THE BONDS HIGHER -- In some cases, Wall Street firms buy ordinary Treasuries and resell them to a municipality at an artificially high price. Raising the price pushes down the yield. This is called yield burning. With the markups, Wall Street firms earn extra money while denying profits to the Federal Government.

GREED OR A FAIR PRICE? -- In one such case, Lazard Freres bought Treasuries for the Los Angeles transportation agency for a markup estimated at $4 for every $1,000 bond, a markup that county officials say should have been 22 cents. Wall Street firms say the price markups are fair because they assume the risk of getting stuck with the Treasuries, but regulators contend the markups cost the Federal Government money. (pg. D1)

IRS Steps Up Probes of Yield Burning Agency Examines 20 More Underwriters

Posted on Wednesday, September 26, 2001
Source: The Bond Buyer
By Ola Kinnander

The Internal Revenue Service has expanded its latest **yield-burning** investigation during the last couple of weeks and has launched examinations of about 20 more regional underwriters.

The new examinations which are part of the IRS effort launched in April focusing on regional broker-dealers that had not been part of any past settlements bring to at least 25 the total number of firms now under IRS scrutiny for **yield-burning** abuse.

The IRS also expects over the next several months to broaden its latest round of **yield-burning** examinations which, unlike past probes, the agency is carrying out by itself without the involvement of other government agencies.

"It could be that six months or so down the road we might be opening another 30 or so," said Charles Anderson, the manager of IRS tax-exempt bond field operations. "So we might be looking at 50 or 60 additional targets beyond the firms that have already settled."

The IRS' weapon of choice against the firms is the tax code's Section 6700, which imposes monetary penalties on parties that helped promote an abusive transaction.

When it began the new round of investigations a few months ago, the IRS first contacted about a half-dozen broker-dealers to find out whether they had underwritten any bond issues in the 1990s that gave rise to **yield burning**.

"We're still talking settlements with several of those firms ," Anderson said. "They haven't been finalized, but there are a couple on the home stretch that we think have a pretty good chance of wrapping up shortly. It was on the basis of this that we opened up additional cases."

Unlike last year's $138 million settlement which involved 17 larger firms and thousands of deals the new cases may involve a handful of bond issues per firm. One of the cases that is close to settlement involves a penalty of about $100,000, while a bigger pending case may result in a payment of about $1 million, Anderson said. He would not identify any firms.

Yield burning occurs when firms excessively mark up open-market Treasury securities they sell to issuers for refunding escrows, and the markups reduce or "burn" the investment yield so that it is below the bond yield and does not generate illegal arbitrage profits. The IRS maintains that any yield that was burned should be rebated to the government.

Anderson said he expects most bond issues involving **yield burning** to have been sold between 1990 and 1997.

He said recent letters the IRS has sent out to firms explaining that they are being examined under Section 6700 declare that the firms should contact the IRS within 14 days if they want to be able to take part in the same type of settlement terms that applied to last year's big agreement. If they don't establish contact with the agency within that time, "they take their chances," Anderson said, indicating their potential penalty could be much higher. He called last year's settlement terms "very generous" because they permitted a higher markup of the Treasuries.

A few months ago the IRS also sent out letters to several issuers informing them that their bond issues are under investigation for **yield burning**. Most of these issuers now expect the investment firms involved to settle with the IRS, according to Anderson. But he added that the agency is also meeting with a couple of issuers that "have assured us that if we can't settle with the investment banker, they may settle with us and then sue the investment banker at the same time as we go forward with our 6700 examination ."

"Hopefully some of these examinations are not going to amount to anything," Anderson said. "But I think that a lot of them will."

APPENDIX G

Investigations of Dealers in the Bond Market

The Bond Buyer

December 23, 2005

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HEADLINE: A Significant Year for Enforcement?: Some Muni Cases Continuing Into '06.

BYLINE: Hume, Lynn

BODY:

WASHINGTON -- The coming year could be a significant one for securities law enforcement in the municipal market, according to federal securities regulators and market participants.

That may sound familiar. Last year Securities and Exchange Commission officials said a lot of muni enforcement cases would surface in 2005, but many of the commission's investigations were not concluded during the year. As a result, a number of the cases are expected to continue into 2006.

There are almost 15 muni enforcement investigations pending at the SEC, Martha Mahan Haines, chief of the SEC's Office of Municipal Securities, said recently, in one of about a dozen interviews with regulators and market participants who were willing to give crystal ball predictions for 2006 in the securities area.

"I think enforcement may be the biggest area this year," she said. "But enforcement is unpredictable because you don't know how many people in pending cases will be found to have engaged in violations and you don't know how long the investigations will take."

"Frequently our actions are delayed because of parallel criminal investigations," she added.

Walter St. Onge, president of the National Association of Bond Lawyers and a partner at Edwards Angell Palmer & Dodge LLP in Boston, said NABL also is expecting more SEC actions after the commission's decision in a bond lawyer case. "The SEC is continuing its enforcement program and there will be other things that develop over the next year," he said.

SEC officials would not specify the general issues or areas of the market under investigation.

But The Bond Buyer has reported that the SEC is working with broker-dealer firms to cobble together a global settlement over their failure to make adequate disclosures to issuers and investors about the operations of their auction-rate securities programs.

The paper also has reported that the SEC launched an informal inquiry into whether Georgia-Pacific Corp. violated the securities laws in connection with its disclosures about the Internal Revenue Service's investigation of solid waste bonds and that the commission was investigating potential securities fraud that may have occurred in connection with tax law violations stemming from pooled bonds and notes.

In addition, both the SEC and IRS are believed to be looking at the selling, bidding for, and placement of investments like guaranteed investment contracts as well as payments related to derivatives and whether those may have involved tax or securities law violations.

Two major securities fraud cases -- one against a bond lawyer and another against a broker-dealer and its chairman -- that the SEC argued before administrative law judges in 2004 are still pending and should be resolved during the year.

In one case, the SEC ruled earlier this month that Pittsburgh-based bond lawyer Ira Weiss was negligent and violated the securities fraud laws by misrepresenting to investors that $ 9.6 million of three-year school notes sold by the Neshannock, Pa., Township School District in June 2000 would be used to finance capital projects and were tax-exempt. But Weiss' attorney, David Hickton, at Burns, White & Hickton, has said Weiss plans to ask an appeals court to overturn that ruling.

In the other case, the Philadelphia-based broker-dealer firm of Dolphin & Bradbury and its chairman, Robert Bradbury, have asked the SEC to overturn or significantly modify a Feb. 25 ruling from SEC Administrative Law Judge James T. Kelly that found the firm and Bradbury violated the securities fraud laws by failing to ensure key information was disclosed in connection with $ 75.4 million of bonds issued by the Dauphin County, Pa., General Authority in 1998. The now-defaulted bonds were to have been used to finance the purchase of the Forum Place office building in Harrisburg.

Apart from the SEC, securities regulator NASD is expected to continue investigating broker-dealers for violating Municipal Securities Rulemaking Board's Rule G-14 on transaction reporting and other MSRB rules.

Haines said also that both the SEC and NASD will be vigilant in pursuing any abuses associated with the MSRB's Rule G-37 on political contributions and G-38 on consultants.

REGULATIONS

In the regulatory arena, Haines hopes the SEC will issue an interpretative release requiring all municipal issuers to use the Central Post Office disclosure facility to file their secondary market disclosure documents with the nationally recognized repositories. Haines did not use the word "require" when discussing this issue because, as she points out, issuers already are required to send secondary market disclosure documents to the repositories.

"Uniform use of the Central Post Office will be considered and hopefully approved by the commission," she said. She added that the interpretative release will have to be issued in proposed form for public comment before the commission can approve it.

The Government Finance Officers Association has urged Haines not to move forward with the interpretative release and has pushed for the continuation of the current regime, under which issuers voluntarily use the CPO to file their disclosure documents, said Patrick Born, chairman of GFOA's governmental debt management committee and Minneapolis' chief finance officer.

Representatives of dealer, analyst, bond lawyer, and other market groups said they have not taken official positions on this issue, but would like to see the CPO used by as many issuers as possible.

Haines also plans to keep pressing for comments from muni market groups and participants on the SEC's 10-year-old Rule 15c2-12 on disclosure. "I'm going to want to encourage industry input about the substantive provisions of 15c2-12 and how they might be improved," she said.

Most market groups, with the notable exception of the National Federation of Municipal Analysts, do not want to see the rule opened up for possible changes.

However, Haines said she's already gotten some good informal suggestions from market participants. One lawyer pointed out, for example, that the current rule does not say whether or how issuers can modify their continuing disclosure agreements if changed conditions dictate the need for the disclosure of different information than they initially promised would be disclosed to investors in their agreements.

But Haines stressed that she just expects to see a discussion about the rule at this time. "I do not believe we would be proposing any changes to the rule this year," other than possibly allowing the MSRB to halt the collection of material event notices under its CDINet program, she said. The MSRB is expected to ask the SEC to allow it to exit the program, because it does not collect as many of these documents as the repositories.

The SEC has been moving slowly on regulatory issues this year, in part because several key positions are vacant or are filled by people expected to soon leave the commission, observers said. Christopher Cox, the SEC chairman, has yet to appoint a director for the market regulation division, which has not had a full-time director since Annette Nazareth became a commissioner earlier this year. He also must appoint a director for the investment management division and a new general counsel.

Real-time transaction reporting will be the key area of focus for the MSRB and the dealer community.

"From our vantage point, the emphasis is largely on the real time-transaction reporting system and making it run smoothly," said Christopher Taylor, the MSRB's executive director. "While there's been a lot of progress since the system went up in January, there is still a lot to do."

Leslie Norwood, TBMA's vice president and assistant general counsel, said: "The association will be focusing on outstanding technical and operational issues related to real-time transaction reporting."

Norwood said the dealer group "eagerly awaits" an expected notice from the MSRB that will propose creating a new symbol for bonds priced before the bond purchase agreement is signed. The need for a new symbol is key to distinguishing the pricing and other data from these bonds, which is not reported until after the bond purchase agreement is signed, at which time the trades then become officially executed and recognized as trades.

The MSRB is also considering whether to change its Rule G-23, which allows a dealer-owned financial adviser to become the underwriter on a transaction as long as it discloses potential conflicts of interest to the issuer and obtains the issuer's permission for the role switch.

The rule has pitted the National Association of Independent Public Finance Advisers -- which wants the rule abandoned or changed -- against TBMA, which believes the rule works and should not be revised.

The MSRB is currently collecting public comments on the rule and plans to take them up at its next board meeting in February in Amelia Island, Fla.

TIME TO REASSESS

But mostly the MSRB is hoping to catch a breather during the current year, having put in place the real-time transaction reporting system and changes to Rules G-37 and G-38 in the current year.

"It's been 12 years of terrific building in the municipal community and for the first time we have a shot at consolidating and making sure that everything is working smoothly," Taylor said.

Another area of concern for the board is the SEC's efforts to reform self-regulatory organizations. If SEC reforms are approved, the MSRB may make some changes, like disclosing financial and administrative information on a quarterly basis or disclosing the compensation of its top five officials, Taylor said. The SEC proposals do not apply to the MSRB but board officials have said they would like to try to adopt, to the extent possible, whatever governance reforms are put in place for the securities exchanges.

Haines said that bond lawyer conduct "may be the big issue for this coming year" from the standpoint of market groups, given the SEC's recent ruling in the Weiss case, and the Treasury Department's anticipated release of Circular 230 rules that will set standards for lawyers writing muni bond opinions.

"I think the message from both the Ira Weiss case and Circular 230 is that bond lawyers need to do adequate due diligence to support their tax-exempt bond opinions," she said. "They can't just rely on bare certificates of legal conclusions."

"For the vast majority of bond lawyers, I doubt Circular 230 will involve any major changes because they're already practicing under very high standards," Haines said. But for some lawyers, she added, Circular 230 "may cause significant changes."

The dealer community is concerned the rules may disrupt the muni market, Norwood said.

NABL's St. Onge said the Circular 230 rules will pose challenges for the bond lawyer community.

"I think initially people will be wrestling with what the regulations say and there may be some additional disclosure requirements," he said. "We'll be working with our members to help educate them."

As for market groups, TBMA is working with the Depository Trust Corp. to develop a state-of-the-art, new-issue information dissemination system, according to Norwood. The group also plans to provide input to Standard & Poor's about its planned revision of its derivatives profile criteria, she said.

NABL has established a working group to examine current practices on how to determine the proper new issue prices of tax-exempt bonds and may make recommendations in this area, St. Onge and other NABL officials said.

Some market participants have questioned whether dealers can determine new-issue prices if they sell the bonds to "flippers," institutional investors that plan to immediately sell the bonds to retail investors. New-issue prices are based on the prices paid when bonds are first sold to the public, and many market players have assumed historically that "the public" means retail investors.

IRS officials have said they also plan to obtain information from market participants about this issue.

NABL is also working with the American Bar Association to update its Disclosure Rules of Counsel, St. Onge said. The book details the disclosure obligations of lawyers in the muni market. In addition, NABL has set up a working group to examine securities issues related to derivatives. The group is expected to develop some recommended practices in this area.

The National Federation of Municipal Analysts in 2006 plans to unveil its Gateway project, which will feature links to state bond-related information, said Donald Cirillo, the group's chairman and a vice chairman of Dexia Credit Local. The NFMA also hopes to finalize its recommended disclosure practices for sewer and water bond financings. In addition, the federation has established a group to consider whether analysts should be certified, Cirillo said.

One big area of focus for the GFOA's debt committee is likely to be issuer relationships with their advisers, particularly given the MSRB's review of its Rule G-23 and the Treasury's release of Circular 230 rules, Born said. The debt committee plans to hold its winter meeting here on Jan. 19 and 20.

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HEADLINE: SEC Is Discussing Settling Probe of Auction-Rate Bonds --- Enforcement Staff Finds Widespread Problems In Programs at 25 Firms

BYLINE: By Siobhan Hughes Dow Jones Newswires

BODY:

WASHINGTON -- The Securities and Exchange Commission is in talks with several brokerage firms about reaching a global settlement of an investigation into the auction-rate bond market, according to a person familiar with the matter.

The SEC's enforcement staff has found widespread problems in the operation of auction-rate bond programs that could amount to violations of securities laws, two people familiar with the matter said. There isn't any time frame yet for reaching a settlement or presenting an offer to the commission, the person said.

John Nester, an SEC spokesman, declined to comment.

The SEC investigation covers about 25 brokerage firms that sell auction-rate bonds. The yields on auction-rate bonds are reset periodically through a "Dutch auction" process that determines the rates that states, cities and other issuers must pay to investors.

The SEC investigators are looking into whether dealers may manipulate the auction process by sharing information about bids, forcing the municipalities that issue the bonds to pay higher interest rates, one person said.

Another problem involves disclosures that set out how the auctions will run, two people said. When auctions aren't managed according to the practices outlined in the disclosure documents, that could violate securities laws.

The settlement talks were earlier reported by Bond Buyer.

Last year, the SEC wrote investment banks that it had been made aware of "potentially deceptive, dishonest or unfair" practices in the auction bond market and asked them to conduct a voluntary investigation into their firms' practices, according to a third person familiar with the matter. The SEC asked for a written report on any findings by late June 2004.

A.G. Edwards & Sons Inc. disclosed Monday in a regulatory filing that it has completed its internal investigation. It said that while regulatory actions or claims may result, it doesn't expect that any resolution would materially harm its earnings or cash flow. A.G. Edwards spokeswoman Margaret Welch declined to elaborate.

Treasurys

Led by longer maturities, Treasurys ended broadly higher, with the difference between two- and 10-year yields shrinking to about one percentage point, the smallest margin since April 2001.

Investors drew a sigh of relief as economic data releases showed only a slightly bigger-than-forecast rise in December retail sales and a surprise increase in weekly jobless claims. Economists said neither was likely to deter the Federal Reserve from a measured pace of raising rates. Gains in longer maturities also reflected some outright buying, said Lundy Wright, head Treasurys and agencies trader at Nomura Securities in New York.

Meanwhile, the Treasury sold $10 billion of 10-year Treasury Inflation Protected Securities (TIPS) at a high rate of 1.725%. The bid-to-cover ratio, a gauge of demand, was 1.88.

At 4 p.m., the benchmark 10-year note was up 14/32 point, or $4.375 per $1,000 face value, at 100 17/32. Its yield fell to 4.185% from 4.240% Wednesday, as yields move inversely to prices. The 30-year bond's price rose one full point to 109 28/32 for a yield of 4.713%, down from 4.775% Wednesday.

AUCTION RESULTS

Here are the results of the Treasury auction of 10-year inflation-indexed notes, also known as Treasury inflation-protected securities, or TIPS. All bids are awarded at a single price at the market-clearing yield. Rates are determined by the difference between that price and the face value.

Applications	$18,847,758,000
Accepted bids	$10,000,003,000
Bids at market-clearing yield accepted	87.22%
Accepted noncompetitively	$165,658,000
" foreign noncompetitively	$50,000,000
Auction price (Rate)	99.09064 (1.725%)
Interest rate	1.625%
Cusip number	912828DH0

The notes are dated Jan. 15, 2005, and mature Jan. 15, 2015.

Judith Burns and Shayna Stoyko contributed to this article.

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HEADLINE: NASD Settles Overcharge Claims --- Merrill Lynch, UBS Are Among Firms to Pay Fines And Make Restitution

BYLINE: By Aaron Lucchetti

BODY:

The National Association of Securities Dealers settled cases with eight Wall Street firms over allegations the companies overcharged investors who bought and sold municipal bonds.

Merrill Lynch & Co., Charles Schwab Corp., Edward Jones, Morgan Stanley, Prudential Equity Group, UBS AG's UBS Financial Services Inc. unit, Wachovia Corp.'s Wachovia Securities LLC unit and First Trust Portfolios LP, all agreed to pay fines and restitutions without admitting or denying allegations.

The total financial penalties added up to about $610,000, with $200,666 being paid by UBS, $118,680 by First Trust Portfolios, $109,527 by Merrill and $60,869 by Schwab. Other firms paid smaller amounts.

While the penalties are small compared with other regulatory fines in recent years, the matter represents one of the largest cases to date that regulators have brought about pricing discrepancies in the $23 trillion bond market. Bonds, unlike many stocks, are traded over the counter between dealer firms that take proprietary positions and make money by collecting a spread between their buying and selling prices instead of collecting a commission.

The cases also come several months before more up-to-the-minute pricing information is due to be made available to bond investors. The bond market has grown in recent years as nervous stock investors have shifted cash to bonds, just as Americans growing older allocated a larger portion of their investments to bonds.

The $2 trillion municipal-bond market is a haven for individual investors, mostly because of the tax benefits they provide. But in recent years, the market has come under scrutiny from regulators who said it isn't transparent enough. These critics said prices investors paid when buying and selling bonds differed widely on the same day, even when there was no major news or market activity.

The NASD investigated bond-trading activity and found problems in the way municipal bonds were priced. The NASD didn't find that dealers took "unfair profits" in dealing with customers, but said firms also failed to take reasonable steps to get fair prices for customers.

The NASD identified about 60 trades in an arbitrarily selected period in 2002 and 2003 in which investors sold bonds at below market prices. The bonds were later resold by dealers hours or days later at prices from 6% to more than 100% greater than where investors had sold them.

In one trade at UBS, an investor received about $81,250 for Beaver County, Pa., industrial-developments bonds with a par value of $200,000. NASD alleged that other trades after the initial sell order established the true market value of the bonds at $155,820, nearly $75,000 more than the investor received for them.

The investigation now turns to the interdealer brokers who participated in many of the trades. NASD officials declined to comment on this phase of the investigation, but said that they had other cases they were working on with interdealer brokers as well as brokerage firms that sold both municipal and corporate bonds.

"This is an area we're very much focused on," said Barry Goldsmith, head of enforcement at NASD, the main regulatory body for brokerage firms.

Schwab released a statement saying it supports "efforts to enhance the municipal market's efficiency related to retail customer pricing." UBS said it had changed its procedures and reimbursed investors involved in the case. Prudential, which is paying penalties of $17,306, said it has also paid restitution to the investors involved in the transactions. Spokesmen for Merrill and Morgan Stanley declined to comment, as did representatives of Edward Jones and Wachovia Securities, which are paying penalties of $25,181 and $39,486 respectively. Representatives for First Trust couldn't be reached for comment.

The settlement comes as lawmakers and regulators increase their scrutiny of the bond market, especially in corporate and municipal bonds. The Securities and Exchange Commission recently opened an investigation into conduct of auctions in the $200 billion auction-rate debt market.

Treasury Bonds

Treasurys ended higher despite a strong consumer-confidence report, as investors focused mostly on today's Federal Reserve policy meeting. The market dipped briefly on news that the Conference Board's consumer-confidence index jumped to 101.9 for June from 93.1 in May, well above an expected 95 level. But analysts noted that yields already had risen in recent months as the market priced in Fed tightening, and some believe bonds are now fairly valued for a series of gradual rate increases.

At 4 p.m., the benchmark 10-year note was up 15/32 point, or $4.69 per $1,000 face value, at 100 16/32. Its yield fell to 4.686% from 4.743% Monday, as yields move inversely to prices. The 30-year bond's price was up 22/32 point at 100 3/32 to yield 5.368%, down from 5.417% Monday.

AUCTION RESULTS

Here are the results of the Treasury auction of four-week bills. All bids are awarded at a single price at the market-clearing yield. Rates are determined by the difference between that price and the face value.

Applications	$24,122,113,000
Accepted bids	$9,000,125,000
Accepted noncompetitively	$40,634,000
Accepted frgn noncomp	$0
Auction price (Rate)	99.910 (1.155%)
Coupon equivalent	1.174%
Bids at market-clearing yld accepted	89.56%
Cusip number	912795QV6

The bills are dated July 1 and mature July 29.

Brian Blackstone of Dow Jones Newswires contributed to this article.

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Study by the Wisconsin Public Service Commission

In 2004 the Wisconsin Public Service Commission performed an independent study analyzing the benefit of hiring Saber Partners on the pricing of utility fee bond transactions. Historical utility fee bond pricing data from April of 2000 to June of 2004 were analyzed using numerous statistical techniques. The study concluded that "...for a 10-year securitization issue, Saber's advice would reduce the yield spread on the security by about 15-20 basis points. For a $500 million security, this amounts to a savings of $750,000 to $1,000,000 per year." [1]

[1] Kihm, Steven G. Analysis of the Potential Savings from Saber Partners. Wisconsin Public Service Commission, 2004, pg 1.

Public Service Commission of Wisconsin

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Analysis of the Potential Savings From Saber Partners

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Executive Summary

Statistical analysis of actual securitization data suggests that for a 10-year securitization issue, Saber's advice would reduce the yield spread on the security by about 15 to 20 basis points. For a $500 million security, this amounts to a savings of $750,000 to $1,000,000 per year. The savings estimates are statistically robust in that several different approaches provide similar answers.

This analysis confirms the strong recommendation received from the staff of the New Jersey Board of Public Utilities and Texas Public Utility Commission that Saber Partners' advice adds substantial value for the ratepayer. It also confirms some of the concerns of our staff that the proposed deal in this proceeding reflects a potentially less-than-cost-effective relationship-type arrangement between the utility and its investment bankers, rather than a more competitively arranged deal.

Overview

Saber Partners provided us with a database containing information regarding utility securitizations that have been completed over the past three years. In some cases Saber advised the regulator overseeing the transaction; in other cases it did not.

The key variable in question is the yield spread on the securitized debt relative to a benchmark, in this case the LIBOR Swap rate. This is a commonly used benchmark for asset-backed securities. I analyzed the data using a variety of techniques ranging from a simple comparison of means to multiple regression (including multiplicative interaction terms). The null hypothesis in this analysis is that the average yield spread when Saber advised on the transaction is the same as the average yield spread when it did not provide advice. The alternative hypothesis is that the yield spreads are significantly lower when Saber advised on the transaction.

The Data

Saber presented, but did not include in its data analysis, the spreads on a few short-term securitizations. There are two reasons for this: (1) most utility securitizations involve long-term issues, suggesting that the short-term issues may not be particularly relevant; and (2) two of the short-term deals on which Saber did not advise had extremely high yield spreads. As to the latter point, Saber actually would have demonstrated greater savings if it had included the two extreme points.

I prefer not to remove outliers from the data. If one has time, robust statistical techniques can be used to reduce the influence of extreme points without actually eliminating them from the data set. Nevertheless, given the short amount of time afforded for the analysis of this data, the Saber approach seems reasonable, especially since eliminating those points makes it more difficult for Saber to make its case that it can lower the yield spread.

Comparison of Means and Medians

A relatively simple method of comparing the spreads on the securities is to examine measures of central tendency (means and medians). This provides a rough-cut comparison that is a jumping-off point more than a definitive answer.

The following table shows the means and median for the two groups of securitizations:

Comparison of Yield Spreads (basis points)
(Benchmark: LIBOR Swap Rate)

	Saber Advised	No Saber Advice	Savings Attributable to Saber
No. of Deals	16	38	***
Mean Yield Spread	26	45	19
Median Yield Spread	26	40	14

This simple analysis suggests that there is a noticeable difference between the yields on the Saber-advised deals relative to the yields on the other deals. The difference in means is highly significant (t-statistic = 4.7).[1]

One might conclude from this analysis that, if all other factors were similar, Saber's advice reduces the yield spread by about 15 basis points relative to that which would result in a non-Saber-advised deal. On a $500 million issue, such as the one being proposed in our proceeding, that would amount to $750,000 per year in interest costs savings.

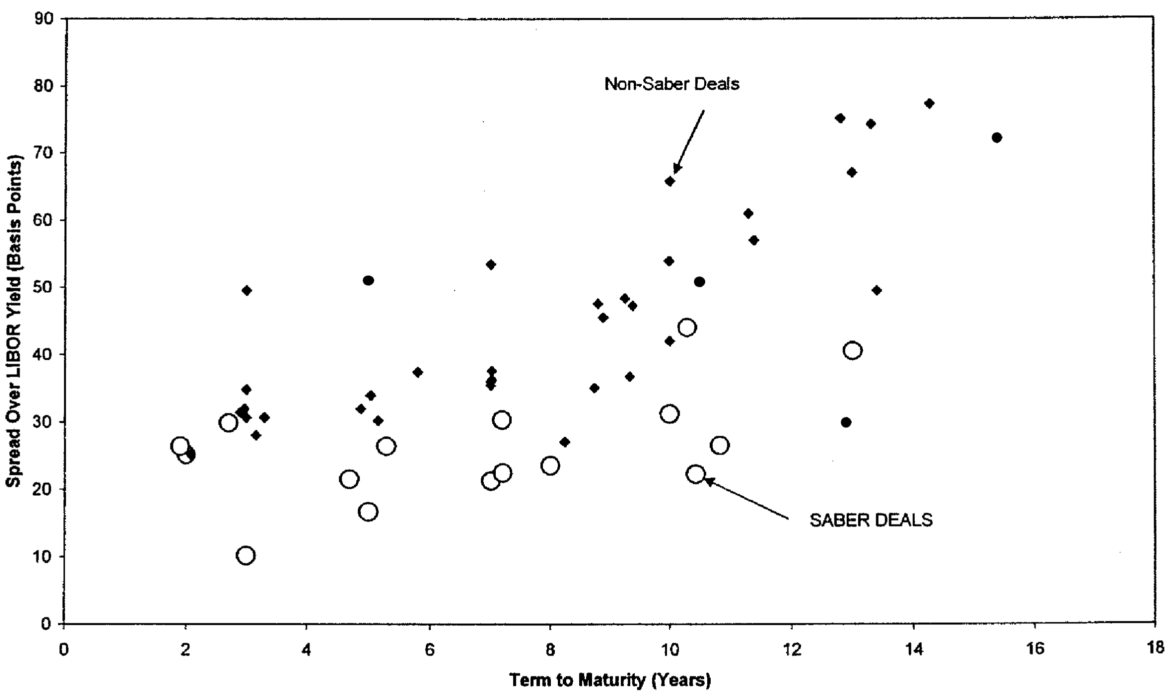
Yield Spread Versus Term to Maturity

The major problem with the comparison of the measures of central tendency is that other factors may confound the analysis. For example, it could be the case that all of the Saber-advised deals involved securities with a term to maturity of 10 years or less while the other deals had terms to maturity in excess of 10 years.

[1] Calculating the statistical significance of the difference in medians requires a more complex non-parametric statistical analysis, which given the time constraints is beyond the scope of this investigation.

Analysis of the data reveals that term to maturity is not a confounding factor. The following chart is a plot of the yield spread and the term to maturity for all the deals in the data set. Note that most of the Saber-advised deals produced yield spreads below those of the other deals regardless of the term to maturity.

Spreads Versus Term of Securities



A simple regression model that adjusts for time to maturity (term) can be estimated using the entire data. (Alternatively, two separate regressions, one on the Saber data and one on the non-Saber data could be estimated.)

The regression model that I estimated[2] has the following functional form:

$$Spread = \beta_0 + \beta_1 \times Term + \beta_2 \times Saber$$

The variables are defined as follows:

Spread = yield spread over LIBOR Swap rate
Term = years to maturity
Saber = indicator as to whether Saber advised (1 = yes; 0 = no)

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[2] All regression models in this analysis are ordinary least squares models.

The estimated regression model is:

$$Spread = 24.58 + 2.54 \times Term - 15.65 \times Saber$$

The coefficients on the *Term* and *Saber* variables are highly significant. The interpretation of these coefficients is: (1) increasing the term to maturity by 1 year adds about 2.5 basis points to the yield spread; and (2) including Saber as advisor reduces the yield by about 16 basis points, regardless of the term to maturity.

We can allow for an interaction between the *Term* variable and the *Saber* variable by estimating the following model (the reason for doing this will be obvious in a moment):

$$Spread = \beta_0 + \beta_1 \times Term + \beta_2 \times Saber + \beta_3 \times (Term \times Saber)$$

Estimating this model yields the following result:

$$Spread = 21.06 + 2.97 \times Term - 3.48 \times Saber - 1.71 \times (Term \times Saber)$$

Interpreting the statistical significance of individual variables when interaction terms are included in a regression model is a bit more complicated than it is when only non-interactive variables are considered. In this case, the *Term* and *Term x Saber* variables are significant, but when viewed in isolation, the *Saber* variable is not. Anyone who has even a small amount of knowledge of regression analysis would know that this does not suggest that Saber's advice is not valuable. To estimate the net effect of Saber's advice, we must know whether Saber advised and the term to maturity of the security. The following table shows the estimated net effect:

Comparison of Yield Spreads (basis points)
(Benchmark: LIBOR Swap Rate)

Term to Maturity (Years)	Saber Advised	No Saber Advice	Savings Attributable to Saber
1	19	24	5
2	20	27	7
3	21	30	9
4	23	33	10
5	24	36	12
6	25	39	14
7	26	42	16
8	28	45	17
9	29	48	19
10	30	51	21
11	31	54	23
12	33	57	24
13	34	60	26
14	35	63	28
15	37	66	29

This reveals that the savings attributable to Saber increase as the term to maturity increases. At a 1-year maturity, the savings attributable to Saber are only about 5 basis points; at a 10-year maturity, the savings increase to 21 basis points. For a $500 million issue with a weighted average life of 10 years, the savings in interest cost due to Saber's advice are estimated to be about $1,000,000 per year.

While not necessary in a technical sense, to assuage any concerns among non-statistically-trained people about the insignificant term in the regression, we can re-estimate model with the Saber term deleted to show that the savings attributable to Saber are significant. In that case the model is:

$$Spread = \beta_0 + \beta_1 \times Term + \beta_3 \times (Term \times Saber)$$

Note that the Saber variable is in the model, but now only as a component of an interaction term. Estimating this model yields:

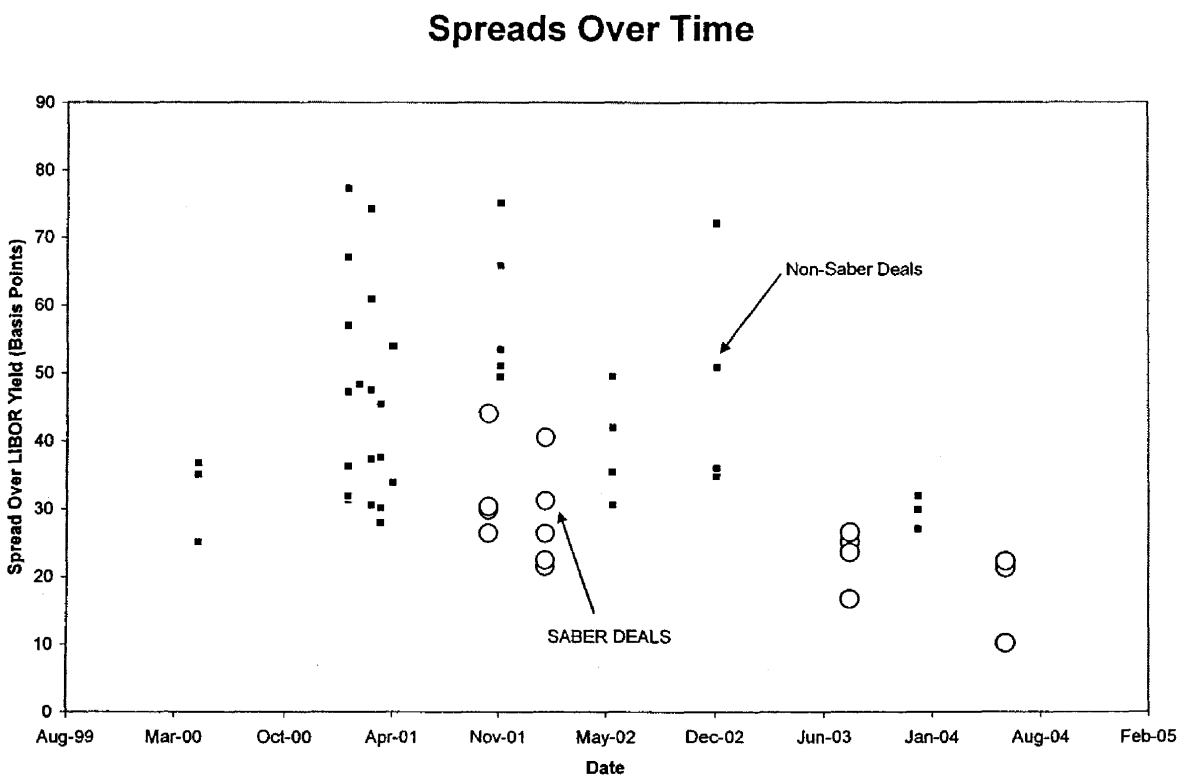
$$Spread = 19.94 + 3.09 \times Term - 2.11 \times (Term \times Saber)$$

Both slope coefficients are highly statistically significant. According to this model, if Saber advised on a deal involving a 10-year security, the estimated savings would be 21 basis points, which is exactly the same as the estimate from the prior model.

Yield Spread Versus Time

Another variable that could confound the analysis is time. It is hypothetically possible that Saber could have advised on deals at a time when market conditions for securitized securities were more favorable than they were when the other securities, for which Saber was not the advisor, were issued.

Analysis of the data again reveals that such is not the case. The following chart shows the yield spread for the Saber-advised and non-Saber-advised deals over time.



The yields on the Saber-advised deals are consistently below the yields on the bulk of the non-Saber-advised deals regardless of the timing of those deals.

We can include the time variable in our regression model as follows:

$$Spread = \beta_0 + \beta_1 \times Term + \beta_2 \times Saber + \beta_3 \times (Term \times Saber) + \beta 4 \times Time$$

The time variable is an index based on the Microsoft Excel® date convention. That number is adjusted so that on an annual basis January 1, 2001 equals the value of 1. The estimated model is:

$$Spread = 346.17 + 3.03 \times Term + 0.63 \times Saber - 1.79 \times (Term \times Saber) - 323.21 \times Time$$

All terms are significant, again with the exception of the stand-alone Saber variable. The Saber effect is picked up via the interaction term, which is highly significant. This model suggests that for a security with a 10-year term, the savings from Saber's advice would on net be about 17 basis points.

If one prefers the model with only the interaction term for Saber, and not the stand-alone variable, the result is:

$$Spread = 343.19 + 3.01 \times Term - 1.72 \times (Term \times Saber) - 320.06 \times Time$$

This model suggests that the savings from a Saber-advised 10-year deal would be 17 basis points, which is again identical to the estimate from the previous model.

Conclusion

The analysis of the data suggests that for a 10-year security, Saber's advice is worth about 15 to 20 basis points per year, on net, in terms of reduced interest charges. For a $500 million bond issue, this amounts to interest cost savings of $750,000 to $1,000,000 per year.

Saber Partners Ratepayer-Backed Bond Assignments

The following table highlights the completed and pending ratepayer-backed bond transactions on which Saber Partners, LLC has been hired to act as Financial Advisor.

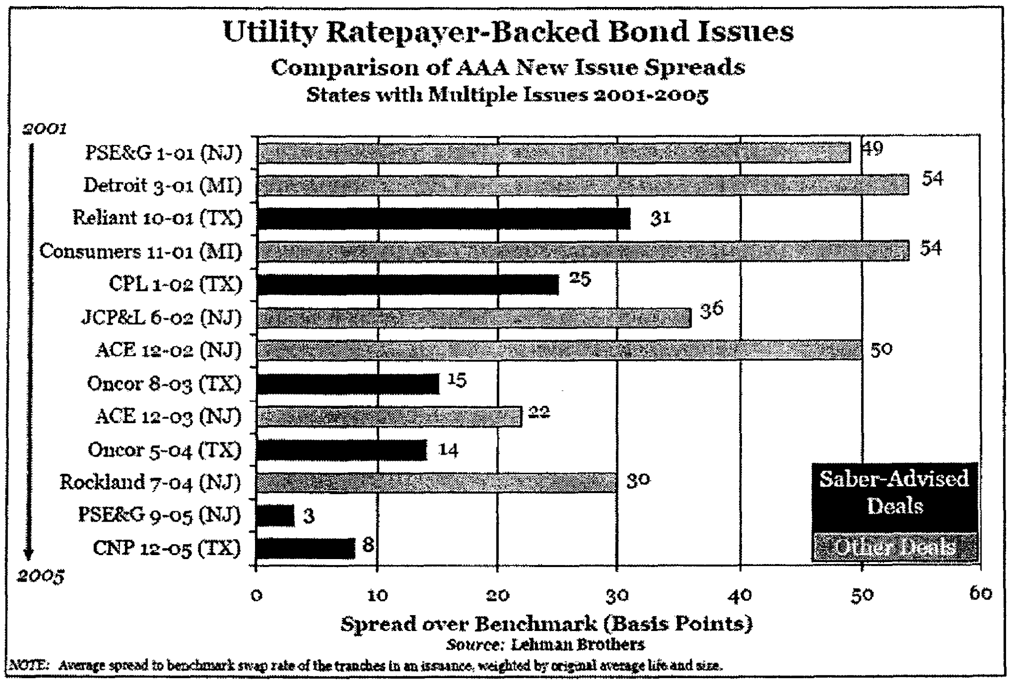
Saber Partners Ratepayer-Backed Bond Assignments, Completed and Pending.

Date	Transaction	State	Size ($mm)	Financial Advisor	Commission Approach
2001-Oct-17	CenterPoint Energy, Ser. 2001-1	Texas	$ 748.90	Saber Partners, LLC	Active
2002-Jan-31	CPL, Ser. 2002-1	Texas	797.33	Saber Partners, LLC	Active
2003-Aug-14	Oncor Electric, Ser. 2003-1	Texas	500.00	Saber Partners, LLC	Active
2004-May-28	Oncor/TXU Electric, Ser. 2004-1	Texas	789.78	Saber Partners, LLC	Active
2005-Sep-09	PSE&G, Ser. 2005-1	New Jersey	102.70	Saber Partners, LLC	Active
2005-Dec-09	CenterPoint Energy, Ser. 2005-A	Texas	1,851.00	Saber Partners, LLC	Active
	Subtotal Completed Deals		**$ 4,789.71**		
Pending	AEP	Texas	$ 1,300.00	Saber Partners, LLC	Active
Pending	Allegheny Power	West Virginia	381.00	Saber Partners, LLC	Active
Pending	Florida Power & Light	Florida	1,050.00	Saber Partners, LLC	Pending
Pending	Gulf Power	Florida	150.00	Saber Partners, LLC	Pending
Pending	Wisconsin Electric Power	Wisconsin	450.00	Saber Partners, LLC	Active
	Subtotal Pending Deals		**$ 3,331.00**		
	Total Pending and Completed Saber-Advised Deals		**$ 8,120.71**		

Historical Pricing of Ratepayer-Backed Bonds

The chart below shows the weighted average spread to the benchmark swap rate for ratepayer-backed bonds issued since 2001 in states with multiple issues. The chart is adapted from data sourced to Lehman Brothers[1].

Pricing of Ratepayer-Backed Bond transactions from states with multiple issuances, and 10 year or longer maturities, 2001-2005.



[1] Lehman Brothers, CSFB and RBS Greenwich Capital. *CenterPoint Energy Senior Secured Transition Bonds Series A Pricing Book.* Page 4. January 13, 2006.

BEFORE THE PUBLIC SERVICE COMMISSION

In re: Petition for issuance of a storm recovery financing order, by Florida Power & Light Company.	DOCKET NO. 060038-EI DATED: MARCH 31, 2006

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that one correct copy of the DIRECT TESTIMONY AND EXHIBITS OF MICHAEL L. NOEL, has been served by U.S. Mail to R. Wade Litchfield, Esq. at 700 Universe Blvd., Juno Beach, Florida 33408-0420 on behalf of Florida Power & Light Company, and that a true copy thereof has been furnished to the following by U.S. Mail this 31st day of March, 2006:

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