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ANALYZING THE ANALYSTS

New Probes Target IPO 'Spinning'

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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.

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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.

SPINNING: OUT OF CONTROL?

- [Quattrone Gets Clarification From Regulators on Charges](#)⁴
06/09/03
- [Anschutz Settles 'Spinning' Case With \\$4.4 Million Donation Pact](#)⁵
05/14/03
- [Page One: Wall Street Firms Settle Charges Over Research in \\$1.4 Billion Pact](#)⁶
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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 Sunday.

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, which received investment-banking fees from the companies. They included William Clay Ford Jr., now CEO of **Ford MotorCo.**, 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.