STATE OF ALASKA
DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT
DIVISION OF BANKING, SECURITIES, AND CORPORATIONS
P.O. BOX 110807
JUNEAU, ALASKA 99811-0807

In the matter of CREDIT SUISSE FIRST BOSTON LLC, f/k/a CREDIT SUISSE FIRST BOSTON CORPORATION, Respondent.	Alaska Order 04-08 S **CONSENT ORDER**

WHEREAS, Credit Suisse First Boston LLC, f/k/a Credit Suisse First Boston Corporation ("CSFB"), is a broker-dealer registered in the State of Alaska; and

WHEREAS, coordinated investigations into CSFB's activities in connection with certain of its equity research and IPO stock allocation practices during the period of 1998 through 2001 have been conducted by a multi-state task force and a joint task force of the U.S. Securities and Exchange Commission, the New York Stock Exchange, and the National Association of Securities Dealers (collectively, the "regulators"); and

WHEREAS, CSFB has advised regulators of its agreement to resolve the investigations relating to its research and stock allocation practices; and

WHEREAS, CSFB agrees to implement certain changes with respect to its research and stock allocation practices, and to make certain payments; and

WHEREAS, CSFB elects to permanently waive any right to a hearing and appeal under the Alaska Securities Act (Act) with respect to this Administrative Consent Order (the "Order");

NOW, THEREFORE, the Alaska division of banking, securities, and corporations (division) as administrator of the Act, hereby enters this Order:

I. FINDINGS OF FACT

CSFB admits the jurisdiction of the Alaska division, neither admits nor denies the Findings of Fact and Conclusions of Law contained in this Order, and consents to the entry of this Order by the division.

1. Summary

A. From July 1998 through December 2001 (the "relevant period"), CSFB used its equity research analysts to help solicit and conduct investment banking business. By providing incentives for equity research analysts to assist in the generation of investment banking revenues, CSFB created and fostered an environment with conflicts of interest that, in some circumstances, undermined the independence of research analysts and affected the objectivity of the reports they issued.

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B. The conflicts of interest and pressure on equity research analysts to contribute to investment banking revenue were particularly present in CSFB's Technology Group, headed by Frank Quattrone, where research analysts' supervision and compensation were closely aligned with investment banking. CSFB's investment banking revenue, driven mostly by technology stocks, steadily and significantly increased, from $1.79 billion in 1998, to $2.32 billion in 1999, and to $3.68 billion in 2000. The sphere of influence and authority that Quattrone exercised at CSFB remained significant throughout the technology boom.

C. CSFB's efforts to attract potential and continued investment banking business created pressure on equity research analysts to initiate and maintain favorable coverage on investment banking clients. This pressure at times undermined equity research analyst objectivity and independence. CSFB's marketing, or "pitch," materials in some instances implicitly promised that a company would receive favorable research if it agreed to use CSFB for its investment banking business. In addition, companies, in some instances pressured analysts to continue coverage or maintain a certain rating or else risk losing the company as an investment-banking client. In certain instances, these factors compromised the independence of equity research analysts and impaired the objectivity of research reports.

D. The independence of some of CSFB's equity research analysts was also impaired by the fact that they were evaluated, in part, by investment banking professionals and that their compensation was influenced by their contribution to investment banking revenues. Indeed, the vast majority of their overall compensation, in the form of bonuses, was based on the investment banking revenues generated by the firm. In many instances, bonuses for non-technology equity research analysts' were directly linked to revenue generated by the firm on specific investment banking transactions. The fact that an equity research analyst's bonus was in part related to revenue from investment banking business created pressure on analysts to help generate more investment banking revenue.

E. The undue and improper influence imposed by CSFB's investment bankers on the firm's technology research analysts caused CSFB to issue fraudulent research reports on two companies: Digital Impact, Inc. ("Digital Impact") and Synopsys, Inc. ("Synopsys"). The reports were fraudulent in that they expressed positive views of the companies' stocks that were contrary to the analysts' true, privately held beliefs. In these instances, investment bankers pressured research analysts to initiate or maintain positive research coverage to obtain or retain investment banking business, and the analysts were pressured or compelled to compromise their own professional opinions regarding the companies at the direction of the firm's investment bankers. In addition, as to Numerical Technologies, Inc. ("Numerical Technologies"), Agilent Technologies, Inc. ("Agilent"), and Winstar Communications, Inc. ("Winstar") - the pressure on analysts resulted in the issuance of research reports that lacked a reasonable basis, failed to provide a balanced presentation of the relevant facts, made exaggerated or unwarranted claims, or failed to disclose material facts; as to NewPower Holdings, Inc. ("NPW"), CSFB issued research reports which, at times, failed to disclose that CSFB and the research analysts covering NPW had proprietary interests in NPW.

F. CSFB also engaged in improper IPO "spinning" activities. From 1999 until April 2001, CSFB, through its Technology Private Client Services Group, a department within the Technology Group, allocated shares in CSFB's lead-managed technology IPOs to executive officers of its investment banking clients who were in a position to provide investment banking business to CSFB. This group engaged in such spinning with the belief and expectation that the executives would steer investment banking business for their

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companies to CSFB. CSFB opened discretionary trading accounts on behalf of these executives. Since most of the IPOs offered by CSFB were "hot" (i.e., they began trading in the aftermarket at a premium), and since portions of the allocations were typically "flipped" out (i.e., sold almost immediately) once the aftermarket opened, the spinning produced large, instantaneous profits for those executives who participated in these arrangements. By having CSFB brokers control trading in these accounts, the executives who owned some of these accounts were able to realize profits in excess of $1 million through this IPO activity.

2. CSFB's Structure and Procedures Created Conflicts of Interest for Equity Research Analysts and, in Certain Circumstances, Undermined Their Independence and Affected the Objectivity of Their Reports

a. Overview of CSFB

A. CSFB LLC ("CSFB"), or a predecessor firm thereof, has been an NASD member since 1936. CSFB, headquartered in New York, is part of the Credit Suisse First Boston business unit, a global investment bank whose businesses include securities underwriting, sales and trading, investment banking, private equity, financial advisory services, investment research, and asset management. The Credit Suisse First Boston business unit is a subsidiary of Credit Suisse Group, which is headquartered in Switzerland. On November 3, 2000, Credit Suisse Group acquired Donaldson, Lufkin & Jenrette Securities Corporation ("DLJ"), another NASD member firm. As of December 31, 2002, the Credit Suisse First Boston business unit had approximately 23,400 employees worldwide.

b. The Supervisory Structure of CSFB's Technology Group Created Conflicts of Interest for Equity Research Analysts and Lacked Sufficient Supervision of the Technology PCS Group

A. Until June 1998, all of CSFB's equity research was issued through research analysts who worked in the Equity Research Department and who reported to the Director of Equity Research. Until that time, no equity research analysts were supervised by or had any reporting obligations to anyone in any investment banking department.

B. In June 1998, CSFB recruited Frank Quattrone, who was then in a senior position at Deutsche Bank Securities (also known as Deutsche Morgan Grenfell Inc. or "DMG") to head a distinct unit, the Technology Group, at CSFB that would provide an array of services to technology companies. Quattrone became the Managing Director of the CSFB Technology Group's Investment Banking Division, and negotiated a contract with CSFB to maintain the Technology Group as a semi-autonomous, "firm-within-a-firm" unit within CSFB through December 2001.

C. Quattrone established separate departments within the Technology Group for corporate finance (investment banking), mergers and acquisitions, equity research, and a department devoted to private client services ("PCS"), each of which reported to him. One of the purposes of the PCS department was to provide personal brokerage services to officers of investment banking clients of the Technology Group. The directors of the Technology Group Research Department and PCS Department had dual reporting obligations to Quattrone and to department directors in the firm's Equities Division, but as a practical matter, the principal reporting line was to Quattrone until a change in procedures instituted in June 2001.

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C. CSFB hired individuals who had worked closely with Quattrone at DMG to fill many senior level positions, including each of the department directors, within the Technology Group. Many of the people whom CSFB hired to work in the Technology Group had worked together previously at DMG. In fact, many of the equity research analysts and investment bankers whom CSFB employed from July 1998 through 2001 were recruited or merged into CSFB from other firms. The first infusion of those professionals came in July and August 1998, when the directors and others from DMG formed the Technology Group at CSFB. Given the wholesale move of the personnel, including senior management in research and investment banking, the reporting structure, work ethic, and future expectations of their roles likewise carried over to their new positions at CSFB.

D. As a result of the structure set forth above, Quattrone exercised his authority to apply an overall Technology Group strategy in his supervision of the Group's research analysts. He used that authority for "resource allocation" to influence the determination of those sectors, and in some cases the particular companies on which Technology Group research would initiate or maintain coverage. As a consequence of Quattrone's influence, Technology Group investment bankers were, at times, able to influence the sectors, and in some cases the particular companies, for which CSFB technology research analysts initiated or maintained coverage. At times, this determination was based on the level of CSFB's actual or anticipated investment banking business with a particular company.

c. Investment Banking Revenue Was a Major Source of Revenue and Influence at CSFB

A. From 1998 to 2000, CSFB's income from investment banking rose dramatically, fueled primarily by the technology sector offerings completed under Quattrone's leadership. In 1998, driven in large part from the revenue generated by the newly formed Technology Group, CSFB's investment banking revenue increased from approximately $1.47 billion to approximately $1.79 billion or 21 percent. In 1999, the importance of investment banking as a major source of revenue continued to grow, as did its revenue and number of employees. That year, revenue from investment banking grew to approximately $2.318 billion, a 22 percent increase over 1998. Also in 1999, largely through the efforts of the Technology Group, CSFB managed more domestic IPOs than any other investment banking firm. By 2000, CSFB's investment banking revenue had mushroomed to approximately $3.681 billion, a full 59 percent increase over the previous year. Investment banking revenue in 2000 represented the largest percent increase in revenue for CSFB, constituting its second largest revenue source behind equity trading and sales and accounting for 30 percent of the firm's total revenues.

d. CSFB's Equity Research Analysts' Bonuses Were Determined, in Part, by the Degree to Which They Assisted Investment Banking, Thereby Compromising Research Independence

Non-Technology Research

A. From July 1998 until May 2001, equity research analysts in non-technology sectors at CSFB received bonuses that were directly and indirectly based on the amount of investment banking revenue they helped generate. This created a conflict of interest for research analysts who had an incentive to help win investment banking deals for CSFB while they were also expected to issue objective research regarding those companies.

Specifically, equity research analysts were paid up to three percent of the net revenue generated by an investment banking deal, with a maximum bonus of $250,000 per deal. Some equity research analysts were also guaranteed a minimum bonus of either $15,000 or $20,000 for the investment banking deals on which they worked, depending on whether CSFB was lead or co-manager of the deal. This compensation was not part of the annual bonus, but was pursuant to employment contracts, paid on a quarterly basis. This program was initiated to provide an incentive for research analysts to assist in winning investment banking business. According to the Director of Equity Research:

> the head of equity capital markets and investment banking, felt that they needed some help in '98 in generating additional ... help on investment banking transactions or at least ... having analysts feel that it was somewhat part of their compensation.

B. The actual amount paid to a research analyst was based on the level of contribution that the research analyst made in connection with investment banking deals, as decided with input from the investment bankers. The conflict was evident in the reviews performed by investment bankers as well as self-reviews prepared by research analysts.

C. In evaluating the performance of equity research analysts to determine their compensation, investment bankers used a form that judged the analyst by origination of the deal, execution of the deal, and follow-through. Each section allowed for handwritten comments and called for the investment banker to rank the research analyst from one to three.

D. In one such evaluation, an investment banker wrote that the research analyst's "input and track record was critical to winning this business.... [The analyst] performed at her normal high level making a lot of investor calls.... [The analyst's] initiation of research coverage was timely and insightful. She has been a supporter of the stock despite difficult Internet environment."

Technology Group Research

E. From July 1998 until December 2001, equity research analysts employed in the Technology Group were compensated, in part, based on their contribution to investment banking deals. The vast majority of equity research analysts' compensation was derived from the bonus received rather than the base salary. At CSFB, it was not uncommon for a more senior level Technology Group research analyst to have a salary of $100,000 - $250,000, and also receive a bonus of $5,000,000 - $10,000,000 or higher. The Technology Group bonus pool was funded by fifty percent of technology-related investment banking revenues minus select expenses (including mergers and acquisitions) as well as a percentage of revenue generated by secondary sales and trading in technology stocks, and a percentage of Technology PCS revenues. In determining the allocation for each analyst, the Director of Technology Research stated that he would review revenue generated with respect to each company followed by the analyst, including revenues relating to banking, sales, trading, derivatives, high yield, private placements, and specialty gains on the desk. That amount of revenue formed the "starting point" of determining an individual's bonus, after which additional factors such as the analysts' rating in polls were considered. The Director of Technology Research made an initial recommendation regarding the bonus component of a research analyst's compensation. The final decision was made by three people: Quattrone, and the heads of the Technology Group Mergers and Acquisitions and Corporate Finance departments.

F. The influence of investment banking revenue to the bonus is evidenced in an e-mail from Quattrone to Technology Group officers, including officers in the research department. The subject line of the e-mail included "Please submit your revenue sheets if you want the highest bonus possible." In the e-mail, Quattrone wrote in part, "Your trusty management team is meeting ... to determine compensation for the group...." The message then urged all the officers to submit a list of the banking deals they participated in so as to ensure a complete list for determining compensation. The emphasis on a research analyst's contribution to investment banking revenues, along with the influence of Quattrone and other department head in determining compensation, created a conflict of interest for analysts who were charged with the responsibility of preparing and issuing objective research reports.

e. Investment Bankers Evaluated Research Analysts' Performance, Thereby Influencing Their Bonuses and Compromising Research Analysts' Independence

A. From July 1998 through 2001, investment bankers who worked with equity research analysts on investment banking deals, in both the Equity and Technology Groups, participated in the analysts' annual performance evaluations, which in turn affected analysts' bonuses. This input from investment bankers provided a further incentive to equity research analysts to satisfy the needs of investment bankers and their clients, and placed additional pressure on research analyst to compromise their independence.

B. In 2000, CSFB investment bankers used a specific form in order to evaluate equity research analysts, entitled "Evaluation By Banking and Equity Capital Markets Professionals." On the form, investment bankers reviewed the work of specific research analysts under different categories and provided an overall ranking for the analyst.

C. As an example, in one section called "Business Leadership," an investment banker wrote of a research analyst: "Coordinates ideas in support of Banking Business; good commercial instinct. Develops and utilizes relationships with client Senior Management, including CEO's, in pursuing business. Represents firm well."

D. The conflict between conducting objective research and attracting and retaining investment banking clients was also evidenced in analysts' self-reviews. For example, one analyst wrote in his self-evaluation: "Trying to manage the research/banking balance. Particularly challenging for me given the amount of banking we do and our dominant banking franchise that has deep roots at CSFB."

f. CSFB's Technology Research Analysts Played a Key Role at Investment Banking "Pitches" to Help CSFB Win Investment Banking Deals – Including at Times the Implicit Promise of Favorable Research

A. Between July 1998 and 2001, Technology Group research analysts played a key role in helping to win investment banking business for CSFB. Once CSFB's technology bankers – with the assistance of the technology research analysts – determined that a company was a strong candidate for an offering, a technology research analyst assisted in CSFB's sales "pitch" to the company, in which CSFB would explain why it should be chosen as the lead managing underwriter for the offering. Quattrone described the relationship between the technology research analysts and investment bankers as follows: "[I]n many of the things that we did with our clients, both groups [Technology Banking and Technology Research] were involved. And the clients experienced CSFB, and in some sense both bankers and analysts worked together in a collaborative fashion to deliver service to a client."

B. As part of the sales pitch, technology research analysts prepared selling points regarding their research to be included in the pitch books presented to the company. They also routinely appeared with investment bankers at the pitches to help sell CSFB to the potential client. The Director of Research for the Technology Group, described the technology research analyst as the "star of the show" at pitches. CSFB pitch books to potential clients included representations about the role the technology research analyst would play if CSFB obtained the business. The analyst's written and oral presentations, and the presence of a research analyst at the pitch, strongly implied and at times implicitly promised that CSFB would provide positive research if awarded the investment banking business.

C. For example, in the pitch book for Numerical Technologies, the discussion regarding research coverage headlined "Easy Decision...Strong Buy," implicitly promising that CSFB would issue a "strong buy" rating upon initiation of coverage. In another example, in a Fall 1999 pitch to a different technology company, CSFB's pitch book stated that the particular CSFB technology research analyst who would cover the company "[g]ets it," would "pound the table" for the company, and would be the company's "strongest advocate." In addition, the pitch book stated that research analyst would engage in "pre-marketing one-on-one meetings [with potential investors] prior to launch."

D. In describing the "Role of Research," the pitch book provided a roadmap for the amount and type of coverage that the equity research department would issue in the first year after initiating research, including some research issued at least monthly, and inclusion of the company's stock as a "focus stock." The pitch book noted that CSFB's equity research department would also provide (a) "[s]ignificant 'front-end' effort to position the company's story in a prospectus and at roadshows"; (b) a "[s]ales force 'teach-in' to begin communicating the [company's] opportunity to investors"; (c) "active involvement on roadshow"; (d) "[d]irect follow-up with key investors after one-on-one meetings"; and (e) "standalone" company reports.

E. In another pitchbook, CSFB highlighted that it maintained the highest post-IPO trading volume in a company whose public offering it led while noting that other investment banks did not maintain similar trading volume for their banking clients. At the same time, CSFB highlighted that its research analysts maintained a "strong buy" rating even though the company announced results below estimates. In the pitchbook, CSFB distinguished itself from other deal managers who were shown to have reduced their ratings based upon that financial information. CSFB implied through this pitchbook that the firm would maintain positive research for companies that have entered into investment banking deals with CSFB.

g. Equity Research Analysts Were at Times Pressured by Investment Bankers to Initiate or Maintain Positive Research Coverage

A. CSFB investment bankers, including senior bankers, at times pressured research analysts to initiate or maintain coverage on companies to further ongoing or potential investment banking relationships. Bankers at times applied undue pressure on equity research analysts to initiate research on companies they otherwise would not have covered, maintain ratings they otherwise would have lowered, and maintain coverage of companies they otherwise would have dropped, but for the investment banking relationship.

B. In June 1999, CSFB's Technology Group investment bankers learned from a corporate official at Gemstar-TV Guide International, Inc. ("Gemstar") that the company was interested in conducting a secondary offering of its stock. Company officials informed the CSFB investment bankers that publication of research by CSFB was a prerequisite to CSFB being named the investment banker for the planned offering. A Technology Group investment banker informed the company official that CSFB would initiate coverage by July. The investment banker then informed the analyst of the potential investment banking business and noted that it was conditioned on CSFB initiating research for the company. When the research analyst informed the investment banker that other obligations, including administrative responsibilities, would keep him from conducting the necessary research in the time frame mentioned by the banker, Quattrone challenged the research analyst's priorities and directed that he conduct the review of the company on a more aggressive schedule.

C. On June 15, 1999, an investment banker in the Technology Group wrote an e-mail to the research analyst with a copy to Quattrone, stating that one of Gemstar's representatives had:

> adamantly stated that there will be no [investment banking] transaction without prior research. As you know [another Gemstar representative] has also expressed this same sentiment with regards to working on CSFB. We informed [the Gemstar representative] that you intend to initiate coverage by July, which would facilitate a September offering. ... The main takeaway from the meeting was that there is an opportunity for a very large secondary offering in the second half of this year. We need research for this to happen.

D. Later that day, the research analyst e-mailed the investment banker, with a copy to Quattrone, stating that he could not even look at the matter for almost another three weeks, given his need to study for an examination. In response to that e-mail, Quattrone instructed the research analyst by e-mail to "take a day off from your test prep and go down this week or next." Quattrone then e-mailed the chain of messages to the heads of other Technology Group departments and another individual, noting that Quattrone was "trying to shame" the research analyst into conducting the due diligence and ultimately initiating research coverage of the company without delay.

E. Another example of this kind of conduct relates to Allaire Corp. ("Allaire"), which develops and supports software for a variety of web applications. In January 1999, CFSB acted as the lead manager for Allaire's IPO, earning more than $3.5 million from the offering. CSFB was also the lead manager of a secondary offering for Allaire in September 1999. The total fees for that offering exceeded $10 million. On February 19, 1999, CSFB initiated coverage of Allaire with a "buy" rating. CSFB continued to cover and issue research on Allaire until the research analyst covering the company left CSFB in April 2000. At the time of his departure when the stock was trading at approximately $130 per share, the research analyst had a buy rating on the company. Another research analyst was tapped to assume coverage of Allaire at that time.

F. The new research analyst's assumption of coverage was delayed and, as of early July 2000, the analyst assigned to cover Allaire had issued no new research on the company. In a July 17, 2000 e-mail to Quattrone, the Head of Technology Research, and others, a CSFB investment banker insisted that "[w]e need to do everything in our power to ensure that" the new research analyst "initiates coverage on Allaire." In that e-mail, the investment banker noted, among other things, that CSFB had received favorable fees and splits in connection with its underwriting services for the IPO, the secondary and another transaction and that Allaire's CEO was unhappy with CSFB's research sponsorship of Allaire since late 1999. In a responsive e-mail, Quattrone stated: "We need to make this happen asap." On August 14, 2000, a new research analyst assumed coverage of Allaire, maintaining the previous analyst's a buy rating while the stock was trading between $30 - $35 per share. A month later, on September 18, 2000, once the stock had dropped below $10 per share, the research analyst downgraded the stock to a "hold" rating.

G. On one occasion, Quattrone urged certain bankers and research analysts to threaten to drop coverage of a company in an effort to obtain the lead manager position for an investment banking offering. In January 2000, CSFB was attempting to obtain a lead manager position for Aether Systems, Inc. ("Aether"). When Quattrone was informed that Aether had offered CSFB only the co-manager role, and not the bookrunner position for the offering, Quattrone attempted to use his authority by stating in a January 29, 2000 e-mail to investment bankers and research analysts:

> [N]o ...way do we accept this proposal. [P]lease discuss with me [and others] first thing in the morning. [W]e have agreed on the script, which is books or walk and drop coverage.

h. CSFB Technology Group's Practice of Allowing Equity Research Analysts to Discuss a Proposed Rating with Company Executives in Advance of Publishing the Rating Caused Undue Pressure to Initiate or Maintain Positive Research Coverage, and at Times Compromised Equity Research Analyst Independence

A. CSFB Technology Group allowed its research analysts to provide executives of companies for whom they were about to issue research, with copies of analyses and proposed ratings of their reports for editorial comment prior to dissemination. Technology Group research analysts provided this information, in part, in an attempt to maintain their good standing with the company. This type of direct interaction between analysts and issuers provided additional pressure on the equity research analysts and at times compromised the independence of the research analysts.

B. For example, on October 29, 1999, while preparing to re-initiate coverage for Razorfish, Inc. ("RAZF"), a Technology Group research analyst wrote to the RAZF CEO:

> With icube about to close, we need to think about resuming coverage of the fish. I want your opinion on rating. We would have taken you to a strong buy but given the recent stock run, does it make sense for us to now keep the upgrade in our back pocket in case we need it? Either way, I don't care. You guys deserve it, I just don't want to waste it.

C. The CEO of RAZF responded to the research analyst, stating: "I think we should re-initiate with a buy and a higher price target and keep the upgrade for a little while.... Although its [sic] getting hard to justify the valuations."

D. In this case, the research analyst re-initiated coverage on November 3, 1999 with a strong buy rating when the stock was trading at $34. He reiterated and maintained that strong buy from January 12, 2000, when the stock was trading at $39 per share, until October 27, 2000, when he finally lowered his rating to a buy rating when the stock was trading at $4. The research analyst maintained that buy rating until May 4, 2001, when

RAZF was trading at just $ 1.14. At that time, he once again downgraded to a hold rating.

3. CSFB Issued Fraudulent Equity Research Reports on Two Companies in the Technology Sector: Digital Impact and Synopsys. Those Reports Were Unduly Influenced by Investment Banking Considerations

The undue, improper influence that investment banking exerted over research analysts caused technology research analysts to issue fraudulent research reports on two companies, Digital Impact and Synopsys. Specifically, investment bankers pressured research analysts to initiate or maintain positive research coverage of these two companies in order to obtain or retain investment banking business. The analysts were pressured or compelled to compromise their own professional opinions regarding companies at the direction of the firm's investment bankers.

a. Digital Impact, Inc.

A. Digital Impact, Inc. ("DIGI") is a company involved in online direct marketing. CSFB acted as the lead manager for the DIGI IPO in November 1999, earning more than $5 million from the offering. Following the IPO, a CSFB technology research analyst initiated coverage with a "buy" rating. At that time, DIGI traded for just under $50 per share. Between January 2000 and April 2001, as the stock price declined to less than $2 per share, CSFB maintained either a "buy" or a "strong buy" rating on the stock.

B. In May 2001, after the original analyst had left CSFB, a senior research analyst in the Technology Group was assigned coverage of DIGI. At that time, DIGI was trading for less than $2 per share. CSFB assumed coverage and "buy" ratings in June and July 2001. Thereafter, the senior research analyst then met with the company and determined that he wanted to drop coverage of DIGI, noting that DIGI's "market opportunity was just very competitive ... and ... they were going to have ... a difficult time thriving in that environment."

C. The senior research analyst attempted to drop coverage of DIGI on two occasions. On both attempts, the senior research analyst acceded to requests from an investment banker in the Technology Group that he not drop coverage. In a September 4, 2001 e-mail, the senior research analyst informed two investment bankers of his continued desire to drop coverage of DIGI. That day, one of the investment bankers responded:

> I think [the other investment bankers] will ask for continued cov'g on DIGI given ongoing relationship, good [venture capitalists] and CSFB led IPO.

D. Despite his own desire to drop coverage of the stock, the research analyst acceded to the desires of the investment banker and did not drop coverage on DIGI. The research analyst maintained coverage, and left the "buy" rating unchanged until October 2, 2001, when CSFB downgraded DIGI to a "hold" rating.

b. Synopsys, Inc.

A. Internal e-mail correspondence among research analysts regarding Synopsys shows that the pressure imposed by investment bankers on research analysts to initiate or maintain favorable coverage was not an isolated problem at CSFB. In May 2001, a technology research analyst wrote an e-mail to the Head of Technology Research, complaining of:

> Unwritten Rules for Tech Research: Based on the following set of specific situations that have arisen in the past, I have 'learned' to adapt to a set of rules that have been imposed by Tech Group banking so as to keep our corporate clients appeased. I believe that these unwritten rules have clearly hindered my ability to be an effective analyst in my various coverage sectors.

B. The research analyst wrote that, after downgrading a company in 1998, his investment banking counterpart "informed [him] of unwritten rule number one: that 'if you can't say something positive, don't say anything at all.'" Regarding a second company about which he had reported in 1999, the analyst wrote that he:

> issued some cautionary comments in the Tech Daily. ... CEO completely lost his composure and swore to the banker, ... that [second company] would never do any business with CSFB (another GS client we were trying to court). At the time, [the investment banker] informed me of unwritten rule number two: 'why couldn't you just go with the flow of the other analysts, rather than try to be a contrarian?

C. The technology research analyst applied these "unwritten rules" to Synopsys, which he had rated as a "strong buy" from July 1999 through June 2000. Specifically, the technology research analyst wrote that he

> [s]uspected a down-tick in guidance coming and wanted to moderate rating from strong buy to buy. However, banking felt this might impact CSFB's ability to potentially do business with the company downstream. ... By following rules 1 & 2, I had successfully managed not to annoy the company, or banking.

D. Based on these incidents, the analyst concluded that he was "not naïve enough to lack a sense of appreciation of the role of investment banking (and banking fees) for the franchise."

4. CSFB Issued Research on Four Companies that Lacked a Reasonable Basis, Made Exaggerated or Unwarranted Claims, was Imbalanced, or Lacked Full and Accurate Disclosures

As to four companies, CSFB's equity research analysts issued research that lacked a reasonable basis for the claims made, made exaggerated or unwarranted claims, failed to provide a balanced presentation of the relevant facts, and/or failed to disclose important information about the company or CSFB's and its research analyst's relationship to the company.

a. Numerical Technologies, Inc.

A. In April 2000, CSFB acted as lead manager on the IPO of Numerical Technologies for which it received a fee of more than $5.4 million. Following the IPO, a Technology Group research analyst informed a company official that he planned to initiate coverage with a "buy" rating. The official complained about the proposed rating to an investment banker at CSFB. According to the analyst, the investment banker successfully urged the analyst, "against [the analyst's] better judgment," to initiate coverage with a "strong buy" rating.

b. Agilent Technologies, Inc.

A. In certain instances, CSFB equity research analysts maintained positive ratings in published research reports, while conveying a more negative outlook regarding the stock to their institutional customers within the text of the written research reports. In describing the ratings used from July 1998 through 2001 and beyond, research analysts did not use the same description of the rating as CSFB's published description. According to one senior research analyst:

> Different analysts have different ways they would interpret a hold rating ... And I think it's probably fair to say that for a number of analysts, particularly because of the fear of backlash that we get from a company ... or ... that we get from institutional investors, there would be a hesitancy to use the "sell" rating. So analysts did have a tendency to somehow use a hold with more of a negative slant to it.
>
> [T]he monthly review and comment we would verbally describe what we meant by each of the four ratings that I mentioned before. But there was a lot of latitude left to the individual analyst to kind of use the rating I don't want to say in a custom tailored way, but certainly there would be some judgment applied by the analyst in terms of how they would use this specific rating to their sector.

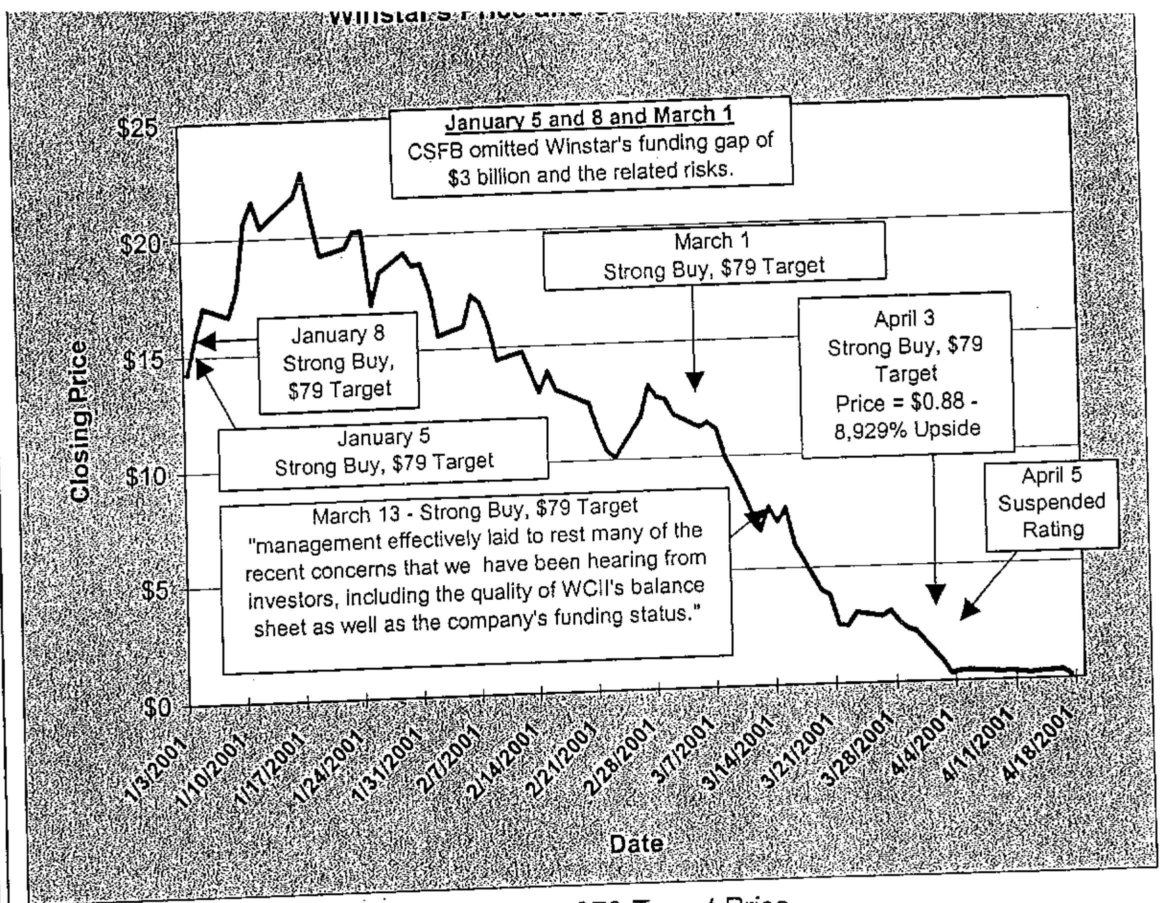
B. This approach manifested itself with regard to Agilent Technologies, Inc. CSFB was the co-manager for the November 17, 1999 IPO, earning more than $5.7 million in fees. A technology research analyst initiated coverage of the company with a "buy" rating on December 13, 1999. On July 21, 2000, the analyst reiterated his "buy" rating, while also describing in his research report that the company had announced that its healthcare business was likely to have an operating loss at least as wide as the previous quarter's loss of $30 million. The report reiterating the "buy" rating also disclosed in the body of the report that the company announced that third quarter earnings would be 18-22 cents per share, compared to the 35 cents average estimate of analysts polled.

C. The report also indicated that:

> Agilent is rated Buy, only in the most generous sense, though in the short term we would only buy it on extreme weakness, with a 12-24 month time horizon. Our near-term concern is that problems are not typically resolved in one or two quarters.

D. CSFB maintained its "buy" rating until February 2001 when it finally downgraded to "hold." This came only after Agilent preannounced second quarter revenues and suspended earnings guidance for the remainder of the year, citing a "dramatic slowdown in customer demand." CSFB's positive rating of Agilent for an extended period of time despite negative news was cited by a research analyst in CSFB as an example of maintaining a positive rating while signaling negative news to large institutional clients.

E. Following the July 21, 2000 report on Agilent, a CSFB technology research analyst cited the coverage of Agilent to another CSFB research analyst who was facing some "tough decisions" on rating two companies that CSFB had helped take public. The first analyst noted that he wanted to give one of the companies a neutral rating but was "wondering how to approach this based on banking sensitivities." The other analyst responded suggesting that the analyst "ask [the analyst who covered Agilent for the July 21, 2000 report] about the 'Agilent Two-Step'. That's where in writing you have a buy rating (like we do on [the other company], and thank God it's not a strong buy) but verbally everyone knows your position."



CSFB Lacked a Reasonable Basis for the $79 Target Price

E. In three reports between March 1, 2001 and April 5, 2001, when CSFB suspended its rating for Winstar, CSFB's $79 target price for the company was not reasonable. The target price failed to reflect Winstar's deteriorating stock price, extensive funding needs, likely changes in fundamentals, and over-leveraged balance sheet, as well as the bleak capital markets environment. The target price of $79 per share represented unreasonably high returns:

- 3/01/01 -- actual price: $12.5000 % Upside: 632%
- 3/13/01 -- actual price: $ 7.6875 % Upside: 1028%
- 4/03/01 -- actual price: $ 0.3125 % Upside: 25,280%

F. From March 1, 2001 forward, CSFB's target price was more than 50 percent higher than the target price of any other firm covering Winstar.

G. Reports issued in 2001 also failed to disclose that the terms "target price," "price objective," or "percentage upside" did not represent the price at which CSFB believed Winstar stock would be trading in 12 months. Instead, CSFB used those terms to reflect the theoretical value of Winstar's worth in 12 months if a buyer valued Winstar using CSFB's valuation methodology. CSFB, however, failed to disclose that it was using the terms in this manner.

CSFB Failed Adequately to Disclose Significant Risks of Investing in Winstar

H. The January 5, 2001, January 8, 2001, and March 1, 2001 reports failed adequately to disclose the risks of investing in Winstar, particularly the risks related to funding, including Winstar's need to raise more than $3 billion to fund its business plan to reach a free cash flow positive status and the risk that Winstar might not be able to raise the necessary funds.

I. In a March 13, 2001 research report, CSFB again failed adequately to disclose the risks of investing in Winstar. While disclosing for the first time that Winstar needed to raise more than $3 billion, the report significantly downplayed the risk that Winstar might not be able to do so:

> [W]e maintain our forecast that WCII is funded into 1Q02 . . . . While we currently forecast that WCII needs over $3B of additional capital to reach a free cash flow positive status, ... WCII management effectively laid to rest many of the recent concerns that we have been hearing from investors, including the quality of WCII's balance sheet as well as the company's funding status.

J. While CSFB research reports identified certain issues relating to funding, those reports did not adequately disclose funding risks or other concerns regarding funding that CSFB equity analysts discussed in internal e-mails. On February 8, 2001, a CSFB equity analyst sent an e-mail with a chart showing Winstar's cash flows. The e-mail stated:

> this is FYI ... I worked this up to convince myself that wcii was indeed funded through FY01... I've included everything I know about for them over the next year, and it looks like they have $185M left at the end of the year.

K. Such analysis should have been included in CSFB's disseminated research in order to present a balanced picture of the risks of investing in Winstar.

L. On March 22, 2001, CSFB's senior Winstar equity research analyst e-mailed a customer, who had raised questions about investor concerns and funding in the CLEC sector. The analyst acknowledged in his e-mail that there were funding concerns.

M. On April 5, 2001 when Winstar's price closed at $0.44, CSFB issued a report suspending its rating. In the report, CSFB explained that the suspension was:

> following the announcement of a major scale back in the firm's expansion plans but without any positive developments on the much anticipated drive to secure additional sources of funding – both equity and network capacity sales. Given WCII's lack of balance sheet flexibility due to approximately $360M of cash interest obligations in FY01 (growing to over $400M in FY02) and the current bleak capital markets environment, we believe that a significant balance sheet restructuring is one of the only situation under which the company can avoid more draconian scenarios.

N. CSFB had not adequately disclosed in earlier reports the concerns mentioned in the April 5, 2001 report.

d. NPW

A. CSFB at times had a proprietary interest in NPW that was not disclosed in research reports issued by the firm. Further, CSFB research analysts covering NPW also had personal proprietary interests in the company but the firm failed to disclose those interests in the published reports. The ownership interests of the firm and the research analysts created a conflict of interest that should have been disclosed.

B. NPW was incorporated in November 1999 as EMW Energy Services Corporation, a division of Enron Energy Services (a division of Enron Corporation ("Enron")). Until January 6, 2000, Enron held all issued and outstanding shares of NPW. NPW's business was to provide natural gas and electricity to retail customers in newly deregulated state markets while obtaining the gas and electricity wholesale from Enron. In January and July 2000, DLJ assisted with two private placements for NPW and received approximately $1 million in investment banking revenues. DLJ invested $42.5 million in the two private placements through its affiliated partnerships, known as the "DLJ Merchant Banking Partnerships," in return for approximately 9.7 percent of NPW.

C. On October 5, 2000, NPW conducted an IPO and offered 24 million shares at $21 per share. DLJ and CSFB were the joint lead underwriters and earned approximately $15.7 million in fees. After the IPO, CSFB, through its acquisition of DLJ, owned 7.9 percent of NPW, while Enron owned 44 percent of the company. In 2000, CSFB and DLJ combined received approximately more than $12.4 million in investment banking revenues from Enron. In 2001, CSFB received approximately $21.6 million in investment banking revenues from Enron. From October 2000 to November 2001, CSFB issued 18 "Buy" or "Strong Buy" research reports on NPW. CSFB failed to disclose its proprietary interest in NPW in four of these research reports issued to the public during that period.

D. Also during that period, the senior research analyst covering NPW held undisclosed investments in NPW. The senior analyst invested approximately $21,000 of his own money, which was leveraged 5:1 by CSFB, in NPW through DLJ partnerships that owned NPW shares. In addition, an associate research analyst who assisted in preparing the reports, and whose name appeared on the reports, held 200 shares of NPW from November 7, 2000, to June 14, 2001. From October 2000 to November 2001, CSFB did not disclose either of the research analysts' financial interests in NPW in the 18 NPW research reports issued to the public.

6.CSFB's Technology PCS Group Engaged In Improper IPO "Spinning" Allocations to Corporate Executives of Investment Banking Clients

A. Quattrone established the Technology PCS (Private Client Services) Group to be part of the Technology Group. The Director of Technology PCS had a primary and direct reporting responsibility to Quattrone with a secondary "dotted-line" reporting responsibility to the Director of CSFB's PCS Department. Technology PCS focused exclusively on the technology sector. Technology PCS operated independently of CSFB's other PCS brokers. The Technology PCS client base consisted, almost exclusively, of officers of investment banking clients of the Technology Group.

B. From approximately March 1999 through April 2001, Technology PCS improperly allocated "hot" IPO stock to executives of investment banking clients and improperly managed the purchase and sale of that stock through discretionary trading accounts. CSFB's Technology Group gave improper preferential treatment to these company executives with the belief and expectation that the executives would steer investment banking business for their companies to CSFB.

C. These executives profited from their allocations of "hot" IPO stock. During this time period, the share value of the technology-related IPOs in which CSFB served as bookrunning manager increased dramatically, with the average share price increase in the immediate aftermarket exceeding 99 percent. In some instances, the aftermarket trading was significantly higher. On December 9, 1999, for example, IPO shares of VA Linux

Systems stock, which had a public offering price ("POP") of $30 per share, closed after the first day of aftermarket trading at $239.25 per share, representing a 698 percent increase over the offering price. Technology PCS began selling its clients' VA Linux IPO shares on a discretionary basis when the stock was at $227 per share. Technology PCS allocated 92,000 VA Linux IPO shares to 110 discretionary accounts. Within one day of the offering, the Technology PCS brokers sold 41,400 shares (representing approximately 45 percent of the Technology PCS allocation) out of the discretionary accounts, resulting in one-day realized profits of almost $6.4 million.

a. Discretionary Accounts were Established for "Strategic" Executive Officers of Issuers

A. Pitchbooks used by the Technology Group to win an issuer's investment banking business referenced the discretionary accounts. Consistent with those references and representations made at "pitches," an issuer had to award CSFB its investment banking mandate before the issuer's officers were afforded the opportunity to open discretionary accounts and given access to IPO shares by CSFB. Likewise, CSFB considered ways to reduce or eliminate IPO allocations to executives who changed employment and were no longer affiliated with those companies.

B. Once Technology Group received a mandate, Technology PCS established discretionary accounts for executives who were considered to be "strategic." "Strategic" was commonly understood by Quattrone and Technology PCS managers to refer to the overall business relationship CSFB had with the issuer, including potential future investment banking business. The head of Technology PCS defined "strategic as "senior decision makers" at existing or prospective investment banking clients of the Technology Group who could influence their companies' choice of investment banker. The accounts were ranked based on the executive's perceived influence in this regard, and "hot" IPO shares were allocated based on the ranking. Allocations ranged from 1200 shares for accounts ranked one, to 300 shares for accounts ranked 4.

C. Technology PCS did not apply standard CSFB qualification standards (i.e. assets under management, trading revenue production, length of the brokerage relationship, etc.) for the opening of these discretionary accounts. Instead, the decision was based largely on the executive's position and influence at the company. Technology PCS established a minimum funding level of $100,000 that was subsequently raised to $250,000. Technology PCS also set $250,000 as the maximum level of funds with which customers could fund the discretionary accounts. These discretionary accounts were limited to the purchase and sale of stock purchased through CSFB IPOs. The account holders were not permitted to buy or sell other securities in these accounts, as a result of which Technology PCS turned away millions of dollars of potential customer investments. The number of discretionary accounts serviced by Technology PCS reached a peak in 2000 of approximately 285.

b. Technology PCS Allocated Shares in Every IPO to the Discretionary Accounts and "Flipped" Stock out of the Accounts, Generating Large Trading Profits for the Favored Executives

A. The Technology PCS Group allocated shares to the discretionary accounts in every IPO in which the Technology Group was involved. Senior Technology Group managers participated in determining allocations to discretionary accounts and deciding for whom such accounts were to be opened. The overwhelming majority of those IPOs were "hot." Technology PCS personnel decided when and how many IPO shares to sell from the discretionary accounts. In some cases, all the shares allocated to discretionary accounts were sold for a profit on the IPO's first day of trading in the secondary market. In other cases, half the shares were sold within one or two days of the offering and the remaining half sold sometime later. In virtually all instances, the "flipping" of IPO shares out of the discretionary accounts resulted in the account holders receiving substantial profits with no individual effort and minimal market risk.

B. The table below provides examples of the extraordinary gains realized in these discretionary accounts and correlates them with the investment banking fees paid to CSFB by the companies with which the accountholders were associated:

Account #	Company	Position	Rank	Life of Acct. (in years)	Total Gain	Internal Rate of Return	IB fees CSFB
RD1210	Egreetings	CFO	3	1.4	$585,000	335.98%	$4,678,0[illegible]
RD1260	El Sitio	Co-founder	1	1.31	$1,015,000	950.24%	$4,911,0[illegible]
RD1660	Next Level Comm.	CFO	2	1.25	$710,000	470.45%	$9,860,0[illegible]
RD1930	Phone.com	Chairman & CEO	1	1.0	$1,285,000	268.71%	$80,720,[illegible]0
RD2040	iPrint.com	CEO	2	1.15	$353,000	240.46%	$1,297,0[illegible]

c. Unofficial "Performance Reports" were Developed and Distributed by Technology PCS Group Personnel to the Account Holders

A. Technology PCS prepared unofficial "Performance Reports" measuring the extraordinary performance of these discretionary accounts and furnished the reports to the discretionary account holders. These reports, distributed monthly, showed, among other things, the length of time the account had been open, the amount of contributions to the account, the total gain in the account (before fees) and the account's rate of return. These unofficial reports were meant to ensure that the discretionary account holders were aware of the extraordinary gains being generated for them through the flipping of IPO shares. Some show total gains over the life of the account exceeding $1 million. One report shows that in little more than a year and a half (September 19, 1999 to June 8, 2001), the account had a rate of return in excess of 3,800%.

II. CONCLUSIONS OF LAW

1. The Alaska division of bankings, securities, and corporations has jurisdiction over this matter pursuant to the Alaska Securities Act.

2. The division finds that the above conduct is in violation of the Act. *See* AS 45.55.010, 45.55.025, and 45.55.028, and AS 45.55.060. The division finds the following relief appropriate in the public interest.

III. ORDER

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

IT IS HEREBY ORDERED:

3. This Order concludes the investigation by the division and any other action that the division could commence on behalf of the State of Alaska as it relates to CSFB relating to certain research or banking practices at CSFB.

4. CSFB will CEASE AND DESIST from violating the Act and will comply with the Act in connection with the research practices referenced in this Order and will comply with the undertakings of Addendum A, incorporated herein by reference.

5. As a result of the Findings of Fact and Conclusions of Law contained in this Order, and in accordance with the terms of the Final Judgment entered in a related proceeding filed by the U.S. Securities and Exchange Commission, CSFB shall pay a total amount of $200,000,000.00. This total amount shall be paid as specified in the SEC Final Judgment as follows:

a. $75,000,000 to the states (50 states, plus the District of Columbia and Puerto Rico) (CSFB's offer to the state securities regulators hereinafter shall be called the "state settlement offer"). Upon execution of this Order, CSFB shall pay the sum of $750,000.00 of this amount to the State of Alaska as a civil monetary penalty pursuant to the agreement of the parties, to be deposited in the general fund. The total amount to be paid by CSFB to state securities regulators pursuant to the state settlement offer may be reduced due to the decision of any state securities regulator not to accept the state settlement offer. In the event another state securities regulator determines snot to accept CSFB's state settlement offer, the total amount of the Alaska payment shall not be affected, and shall remain at $750,000.00;

b. $75,000,000 as disgorgement of commissions, fees and other monies as specified in the SEC Final Judgment;

c. $50,000,000, to be used for the procurement of independent research, as described in the SEC Final Judgment;

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

6. If payment is not made by CSFB or if CSFB defaults in any of its obligations set forth in Order, the division may vacate this Order, at its sole discretion, upon 10 days notice to CSFB a without opportunity for administrative hearing.

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

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

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

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

Dated this 11th day of September, 2003.

BY ORDER OF THE ADMINISTRATOR OF SECURITIES

/s/ Mark R. Davis

Mark R. Davis
Administrator of Securities