NASD
OFFICE OF HEARING OFFICERS

DEPARTMENT OF ENFORCEMENT, COMPLAINANT, v. **FRANK PETER QUATTRONE,** CRD NO. 1312126, RESPONDENT.	DISCIPLINARY PROCEEDING NO. CAF030007 HEARING OFFICER

COMPLAINT

The Department of Enforcement alleges:

OVERVIEW

1. This case involves violations of NASD rules by respondent Frank Quattrone during the time period July 1998 through December 2001 arising from his investment banking activities as head of the technology sector investment banking unit (Tech Group) of Credit Suisse First Boston LLC (CSFB).

2. When Quattrone joined CSFB in mid-1998, he was already an established star in high tech investment banking. Just two years earlier, he had left Morgan Stanley & Co., where he had begun his career, for Deutsche Bank Securities in a highly publicized move that reportedly involved a pay package of unprecedented proportions. At Deutsche Bank, Quattrone developed what amounted to an autonomous firm-within-a-firm, a structure that gave him substantial control over not only the investment bankers working with him, but also technology sector

research analysts and a group of brokers formed to provide services to individuals associated with his investment banking client companies. When he agreed to join CSFB, Quattrone insisted on essentially replicating the firm-within-a-firm structure. In setting up the CSFB Tech Group in Palo Alto, Quattrone surrounded himself with dozens of former colleagues from Deutsche Bank and Morgan Stanley and created a structure under which not just investment bankers but also research analysts and sales personnel all reported to him, and all devoted their efforts to securing for him an ever greater share of Silicon Valley's investment banking business.

3. One way Quattrone's Tech Group at CSFB sought to win and retain investment banking business was by giving select technology company insiders entrée to hot IPOs, a much coveted opportunity that was made available to only a select few individual investors. This practice, which came to be known as "spinning," took a uniquely aggressive form in the Tech Group. The investment bankers in the group helped identify executives who occupied "strategic" positions in their respective companies and then, together with the Tech Group's sales force, ranked them according to their perceived influence on their companies' choice of investment bankers. The Tech Group then generated profits for these select executives virtually risk-free by establishing discretionary trading accounts for them, allocating hot IPO shares to their accounts, and quickly "flipping" shares in the aftermarket. To prevent dilution of the IPO profits, the Tech Group discouraged the account owners from trading in the accounts themselves. To ensure that the owners were aware of how much money was being made for them, Quattrone's group sent them monthly unofficial performance reports, prepared by the group, that enumerated realized and unrealized gains and rates of return.

4. The gains generated in the managed discretionary accounts were tantamount to large cash gifts given to technology company insiders as an inducement to direct investment banking business to the Tech Group. For that reason, the Tech Group's "spinning" of IPO shares violated NASD Rule 3060, which prohibits members and associated persons from giving gratuities in excess of $100 to anyone "in relation to the business of the employer of the recipient." The spinning practices also violated NASD Rule 2110, which requires that members and associated persons adhere to just and equitable principles of trade in the conduct of their business, because, for among other reasons, spinning gave an opportunity to executives that rightly belonged to their corporate employers.

5. Another way the Tech Group sought to induce issuers to become investment banking clients was by holding out the prospect of CSFB's issuing favorable research about them. Quattrone had analysts play an active role in making sales pitches to prospective clients along with the group's investment bankers. Pitch books used in these presentations sometimes included excerpts from favorable research reports regarding other issuers written by Tech Group analysts. Quattrone created a powerful incentive for the analysts to initiate and maintain favorable coverage on investment banking clients by linking their annual bonuses — which sometimes amounted to $10 million or more and represented far and away the largest part of their compensation — to investment banking revenues generated by the Tech Group. Quattrone encouraged investment bankers to participate in the research analysts' annual performance evaluations and supported the investment bankers' efforts to pressure analysts into initiating and maintaining coverage of investment banking clients. He also allowed issuers to review and

comment on draft research reports, including proposed recommendations and price targets. All of these practices compromised the independence and objectivity of the Tech Group's analysts.

6. Quattrone created and oversaw at CSFB an anomalous reporting and supervisory structure in which traditional lines of demarcation among the various functions of a securities firm were obliterated, allowing the improper practices alleged in this complaint to flourish. These practices contributed to the undermining of public confidence in the integrity of the securities markets, creating the appearance that the securities underwriting process was a rigged game in which technology company insiders and their financiers were vastly enriched at the expense of the investing public. In 2000, CSFB's investment banking revenue mushroomed to approximately $3.68 billion, nearly a 60% increase over the previous year and constituting its second largest revenue source. Quattrone himself was a principal beneficiary of the process, receiving compensation of more than $200 million between July 1998, when the CSFB Tech Group came into being, and the end of 2001. Engaging in such practices is incompatible with an NASD member's obligation to adhere to "high standards of commercial honor and just and equitable principles of trade." By encouraging, allowing, and participating in the improper practices alleged in this complaint, Quattrone violated NASD Rules 3060, 2110, and 3010.

RESPONDENT

7. Quattrone, 47, graduated from the Wharton School in 1977 and then worked as an analyst for two years at Morgan Stanley before entering the MBA program at Stanford Business School. In 1981, he returned to Morgan Stanley and undertook to develop investment banking business in the technology sector, eventually becoming a managing director and head of the technology industry finance group. Quattrone first became registered with an NASD member as

a General Securities Representative in October 1984 and as a General Securities Principal in August 1991. He joined CSFB in both those capacities in July 1998 and resigned on March 4, 2003. Quattrone is not presently employed in the securities industry, but a Form U-5 has not yet been filed for him.

EVOLUTION OF THE CSFB TECH GROUP

8. In April 1996, Quattrone left Morgan Stanley for a position at Deutsche Bank and was joined there by numerous colleagues and associates from Morgan Stanley. Quattrone took the title of Chief Executive Officer of the Deutsche Bank Technology Group and set up what amounted to a firm-within-a-firm. Quattrone structured his operation so that the heads of corporate finance, mergers and acquisitions, and research all reported to him. He also established Deutsche Bank Tech PCS to provide brokerage services to executives and directors of his investment banking client companies and had the head of that group report to him as well.

9. Little more than two years after Quattrone left Morgan Stanley for Deutsche Bank, he was successfully recruited to join CSFB. At CSFB, Quattrone served as Managing Director of the Tech Group and, in November 2001, became a member of CSFB's Executive Board. At Quattrone's suggestion, most of the Deutsche Bank Technology Group followed him to CSFB, thereby enabling him to recreate, largely intact, the anomalous structure he had developed at Deutsche Bank. The Tech Group at CSFB was organized into four departments: Corporate Finance, Mergers and Acquisitions, Research, and Private Client Services (Tech PCS). All four departments were headed by the same individuals who had headed those functions for Quattrone

at Deutsche Bank and all the department heads reported directly to Quattrone. The heads of research and Tech PCS also had nominal "dotted line" reporting obligations to department directors in CSFB's Equities Division, but in practice the secondary managers had little influence on the operations of the Tech Group.

10. In negotiating the terms of his move to CSFB, Quattrone sought and obtained the exclusive right to provide financial, advisory, and investment banking services to technology clients; revenue attribution for services provided by other CSFB units to technology clients; responsibility for management of the Tech Group's research analysts; and authority to make assignments to the Tech Group's research analysts and decide their compensation. Quattrone's authority over the analysts in the Tech Group was a departure from existing arrangements at CSFB under which no research analysts were supervised by or had reporting obligations to anyone in investment banking.

FIRST CLAIM

(Spinning — Violation of NASD Rules 3060 and 2110)

11. Paragraphs 1 through 10 are incorporated by reference.

12. In the latter half of the 1990s, it became commonplace for the price of IPO shares, particularly in technology IPOs, to soar in trading in the immediate aftermarket. Acquiring IPO stock in such hot issues thus represented an opportunity to realize virtually risk-free profits. Quattrone and his associates were at the forefront of the business of underwriting IPOs in the technology hot issues market. Serving as underwriter on these IPOs put them in the position of allocating IPO shares — and the virtually risk-free profits that went with them — to their clients.

13. Quattrone negotiated agreements with CSFB's Equity Capital Markets and Syndicate groups whereby Tech PCS received shares for allocation to their clients in all IPOs involving Tech Group client companies. Initially Tech PCS received 2 percent of the shares in each deal involving the Tech Group. Quattrone and others lobbied, in some instances successfully, for Tech PCS to be allotted 4 percent or more of the shares in each offering.

14. Customarily underwriters allocated hot IPO shares to their most valued customers, basing the allocations on such considerations as the longevity of the relationship with the customer, the size of the customer's account, and the amount of commissions generated by the customer's trading. Dispensing with such criteria, Quattrone and his associates allocated IPO shares to "strategic" individuals at technology companies. "Strategic" was commonly understood by Quattrone and his associates to refer to senior decision makers at client companies who could influence their companies' choice of investment bankers. With input from the Tech Group's investment bankers, Tech PCS ranked "strategic" individuals according to their perceived influence on that choice, and then used those rankings to allocate IPO shares. Quattrone knew that such ranks were assigned and that they affected the IPO allocations to clients' accounts.

15. Tech PCS effected the allocation of IPO shares to "strategic" individuals through managed discretionary accounts. With no direct participation by the owners, Tech PCS allocated IPO shares to their accounts and thereafter "flipped" shares back to CSFB on a discretionary basis in the first several days of trading, thereby generating substantial profits for the account owners. In buying shares back from the discretionary accounts for resale into the aftermarket, Tech PCS personnel--whose compensation was based largely on revenues generated

by trading in the accounts they serviced--effectively participated in the windfall by basing its markdowns on the profitability of the trades to the accountholders. The investing public, on the other hand, often experienced nothing but losses by buying these new issues at unsustainably high prices in aftermarket trading.

16. Although CSFB generally limited access to its private client services to customers whose accounts had a minimum value of $5,000,000, Tech PCS made its services available to "strategic" individuals without regard to their having large accounts at CSFB. Indeed to avoid having to deal with requests by the account owners for bigger allocations of IPO shares, Tech PCS limited them to depositing a maximum of $250,000 in the accounts. According to the head of the group, Tech PCS "wanted to have kind of a level playing field for these accounts and so we turned down literally millions and millions of dollars that people wanted to give us." Eventually as many as 300 such discretionary accounts were established for "Friends of Frank," as the account owners came to be known both in the press and at CSFB.

17. To prevent the account owners from diluting the "spinning" profits in their accounts, Tech PCS discouraged them from placing orders to trade securities in them. To impress on the owners the magnitude of the extraordinary gains that were being generated for them virtually risk-free, Tech PCS periodically sent them unofficial performance reports showing the accounts' realized and unrealized gains and return on investment. For example, a report, set forth below, for the period July 14, 1999, to April 30, 2001, on a discretionary account managed by Tech PCS for a senior officer of Phone.com Inc. shows total gains of $1,330,882.18 and a rate of return of 57,861.74 percent:

Credit Suisse First Boston

PERFORMANCE REPORT

Discounted Cash Flow Method Gross of Fees

Customer Account

Discretionary Trading Account

From 07-14-99 to 04-30-01

Portfolio Value of 7/14/99	0.00
Contributions	0.00
Withdrawals	-550,000.00
Transfer In	95,772.81
Realized Gains	1,275,322.68
Unrealized Gain	0.00
Interest	55,339.50
Dividends	220.00
Portfolio Value on 4/30/01	876,654.99
Total Gains before Fees	1,330,882.18
IRR for 1.80 Years	**57,861.74%**

During the period this account was receiving hot IPO shares, Phone.com Inc. generated investment banking revenues for CSFB exceeding $76 million.

18. In soliciting business from prospective investment banking clients, the Tech Group made known to the prospective client's executive officers that their choosing CSFB would give them access to the services of Tech PCS. The "pitch books" used by the Tech Group's investment bankers in their presentations referred specifically to discretionary accounts and IPO allocations available through Tech PCS.

19. In a number of instances, Tech PCS opened discretionary accounts for technology company insiders concurrently with CSFB's taking their companies public. For example, on December 9, 1999, CSFB took VA Linux Systems Inc. public at $30 per share. The same day, Tech PCS opened discretionary accounts for three senior officials of El Sitio Inc. and allocated to each of them 1,000 shares of VA Linux IPO stock. Trading in VA Linux closed that day at $250, a 733 percent gain on the offering price. The next day, December 10, 1999, Tech PCS sold half the VA Linux stock in the accounts of the three El Sitio officials, realizing for each of them a net profit of more than $83,000. The same day, El Sitio went public, with lead managing underwriter CSFB netting fees of $1,786,000 in the IPO.

20. Another recipient of 1,000 shares of VA Linux IPO stock on December 9, 1999, was a senior officer of EGreetings Network, Inc.; on December 10, 1999, Tech PCS sold half of his VA Linux IPO shares, realizing a net profit for him of more than $83,000. A week later,

EGreetings Network went public in an IPO in which lead managing underwriter CSFB netted fees of $1,609,000.

21. In a similar scenario, on February 11, 2000, and March 6, 2000, respectively, Tech PCS opened discretionary accounts for two senior officers of iPrint.com and allocated IPO shares to each. On March 8, 2000, iPrint.com went public in an IPO in which lead managing underwriter CSFB netted fees of $1,297,000.

22. All of these corporate officials received additional allocations of hot IPO shares in their discretionary accounts. In each case, CSFB continued to provide investment banking services to their respective companies.

23. Sometimes spinning profits served to reward corporate officials for having brought investment banking business to the Tech Group while also operating prospectively to encourage them to bring their companies' future business to the Tech Group. In January 2000, for example, Tech PCS opened discretionary accounts for three top officials of Interwoven, Inc., a software company that CSFB had taken public the preceding October, and immediately allocated hot IPO shares to them. CSFB thereafter served as lead managing underwriter of a follow-on offering of Interwoven stock that began trading in the secondary market on January 27, 2000. Net fees to CSFB for that follow-on offering were $13,185,000.

24. Giving the insiders of prospective investment banking clients the opportunity to realize risk-free profits by participating in hot IPOs through managed discretionary accounts was tantamount to giving them gratuities. The Tech Group violated NASD Rule 3060 by dispensing these gratuities to technology company insiders as a means of influencing them to steer their employer company's investment banking business to CSFB. Quattrone knew of and

endorsed both the Tech Group's practice of allocating IPO shares to technology company insiders through managed discretionary accounts, and the reasons behind the practice. His input was sought in identifying and ranking "strategic" individuals. He met at least quarterly with the head of Tech PCS to discuss Tech PCS's activities, including the performance of the discretionary accounts. He participated in sales pitches to prospective investment banking clients in which the services of Tech PCS were held out as an inducement to the prospective client to choose CSFB. He referred officers and directors of client companies to Tech PCS to facilitate their opening accounts. By reason of his own conduct, as alleged above, and of his directing and controlling the Tech Group's activities, Quattrone violated Rule 3060. He also violated Rule 2110 by virtue of his having violated Rule 3060.

SECOND CLAIM

(Spinning--Violation of NASD Rule 2110)

25. Paragraphs 1 through 10 and 12 through 24 are incorporated by reference.

26. The Tech Group's "spinning" of IPO shares in the manner alleged above was inconsistent with high standards of commercial honor and just and equitable principles of trade and consequently violated NASD Rule 2110. In the context in which the Tech Group offered corporate officials the opportunity to receive allocations of IPO shares, the opportunity properly belonged to the corporation, not the individuals. Giving the opportunity to the individuals compromised their duty of loyalty to the corporations they served.

27. The Tech Group's spinning violated Rule 2110 also because it contributed to an appearance that the market in technology issues was rigged in favor of technology company insiders and the investing banking firms that took the companies public. Company insiders benefited when they cashed out founders' stock in their own companies' IPOs and again when they received spinning profits in other companies' IPOs. The investment banking firms benefited through their receipt of investment banking fees and commissions paid on aftermarket trading.

28. By reason of his own conduct, as alleged above, and of his directing and controlling the Tech Group's activities, Quattrone violated Rule 2110.

THIRD CLAIM

(Flawed Reporting and Supervisory Structure and Failure to Supervise — Violation of NASD Rules 3010 and 2110)

29. Paragraphs 1 through 10, 12 through 24, and 26 through 28 are incorporated by reference.

30. NASD Rule 3010 requires each member to establish and maintain a system to supervise the activities of associated persons that is reasonably designed to achieve compliance with applicable securities laws and regulations. The procedural and supervisory structure of

Quattrone's Tech Group was inherently flawed. The central problem with the structure was that it insulated the Tech Group from CSFB's supervisory systems while concentrating control over the nominally distinct functions of research, investment banking, and retail brokering in Quattrone's hands, enabling Quattrone to use all of these functions to bolster and enlarge his investment banking franchise.

31. The Tech Group's structural flaws were most apparent in the manner in which the group's research analysts were supervised, evaluated, and compensated. Quattrone sacrificed the research analysts' independence and objectivity by using the analysts as marketing tools and aligning their interests directly with those of the investment bankers. The analysts' compensation consisted of base salary and bonus, of which the bonus was by far the larger component. A senior level Tech Group research analyst might have a base salary ranging from $100,000 to $250,000, but also receive a bonus of $5 to 10 million or more. The pool from which the research analysts' bonuses were paid was funded with 50 percent of the revenues of investment banking, 50 percent of the revenues of mergers and acquisitions, and 20 percent of the trading and sales commissions generated by Tech PCS. For purposes of determining bonuses, Quattrone urged all Tech Group officers, including those in the research department, to submit lists of banking deals in which they had participated.

32. Tech Group investment bankers who worked with research analysts on investment banking deals participated in the analysts' annual performance reviews, which were considered in determining the analysts' compensation. Final decisions regarding the analysts' bonuses were made not by the Tech Group's head of research, but rather by Quattrone together with the heads of corporate finance and mergers and acquisitions.

33. The independence and objectivity of the Tech Group's research analysts were further eroded by their being called upon to participate actively in soliciting investment banking business for CSFB and the manner in which the prospect of favorable research reports was held out as an inducement to would-be investment banking clients. For example, in a September 1999 sales pitch to 724 Solutions Inc., a company involved in mobile networking, the Tech Group's pitch book stated that the 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," and that he would engage in "pre-marketing one-on-one meetings [with potential investors] prior to launch." The pitch book further noted, "Easy Decision…Strong Buy," making it clear to the issuer that CSFB would issue a strong buy recommendation upon initiation of coverage.

34. In describing the "Role of Research," the pitch book for another deal, Virata Corporation, provided a roadmap for the amount and type of coverage the Tech Group research department would issue. CSFB demonstrated through the pitch book that, for companies underwritten by the firm, and in contrast with analysts associated with other deal managers, Tech Group research analysts maintained positive coverage even after a company announced earnings below estimates or other negative information.

35. The objectivity and independence of the Tech Group's analysts were further impaired by the group's investment bankers pressuring the analysts to initiate and maintain favorable coverage for the sake of maximizing investment banking business, as the following examples illustrate:

- **Digital Impact, Inc. (DIGI)**. In November 1999, the Tech Group acted as lead manager of DIGI's IPO. Following the IPO, with the stock trading at just under $50, a

Tech Group research analyst initiated coverage with a "buy" recommendation. Between January 2000 and April 2001, as the price of DIGI dropped to less than $2, CSFB rated the stock as a "buy" or "strong buy." In May 2001, coverage of DIGI was assigned to a different Tech Group research analyst who, based on his own review of the company, determined that the company was unlikely to thrive in the highly competitive environment in which it operated and that CSFB should drop coverage. On both occasions that the analyst attempted to act on that conclusion, Tech Group investment bankers successfully pressured him to maintain coverage. It was not until October 2, 2001, by which time the price of DIGI had dropped below a dollar, that CSFB downgraded DIGI to a "hold" rating.

- **Allaire Corp.** CSFB acted as the lead manager on Allaire's IPO in January 1999 and on a secondary offering in September 1999. The total fees generated by the Allaire offerings exceeded $10 million. On March 16, 2000, with the stock trading at $130, the Tech Group research analyst who was then covering it issued a buy recommendation. After that analyst left CSFB, a CSFB investment banker wrote on July 17, 2000, to Quattrone, the head of Tech Research, and others that "[w]e need to do everything in our power to ensure" research coverage of Allaire. The banker noted 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 response, Quattrone wrote, with copies to all original recipients, "We need to make this happen asap." On August 14, 2000, with the stock trading in the range of $30 to $35 per share, a new research analyst reinitiated coverage on Allaire with a buy recommendation. It was not until more than a month later, when the stock had dropped below $10 per share, that CSFB downgraded it to a "hold" rating.

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

- **Gemstar-TV Guide International Inc.** In June 1999, CSFB's Tech Group investment bankers learned that Gemstar was interested in making a secondary offering of its stock. Company officials told the bankers that publication of research was a prerequisite to being selected as underwriter for the planned offering. A Tech Group investment banker thereupon wrote to the head of Tech Research, with a copy to Quattrone, that a Gemstar 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 with 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.

> When the head of Tech Research cited other obligations in proposing to initiate research on a less aggressive schedule, Quattrone intervened, directing the head of Tech Research to rearrange his priorities and accelerate the initiation of coverage. In doing so, Quattrone failed to inform CSFB's legal and compliance department of the apparent breach of the firm's Chinese wall procedures that occurred when the bankers communicated information about the prospective offering to research.

36. The integrity of the Tech Group's research was further impaired by the Tech Group's allowing companies to review and comment on draft research reports, including proposed recommendations and target prices, before the reports were disseminated. For example, in April 1999, CSFB acted as lead manager on the IPO of Razorfish, Inc., receiving a fee of more than $3 million. In October 1999, CSFB assisted Razorfish in acquiring a company called I-Cube Inc. While the acquisition was pending, a Tech Group research analyst wrote to Razorfish's 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.

37. Despite red flags that problems were arising as a result of the Tech Group's reporting and supervisory structure, Quattrone failed to restructure the operation. An April 2000 report prepared by CSFB's Audit Department observed:

> The Tech Group's relatively autonomous management structure and operating procedures have contributed to insufficient awareness of CSFB policies, procedures and culture among its staff. Consequently, the current level of [Legal and Compliance Department] and administrative resources required to support and control the Tech

> Group's activities must be critically reevaluated to ensure necessary controls are established and/or maintained prospectively.

Quattrone received and accepted the findings of the April 2000 audit.

38. A CSFB Audit Department report dated March 5, 2001, and bearing the legend "Major Action Required" identified significant problems with Tech PCS in the areas, among others, of "Supervision and Related Infrastructure" and "New Issues," as to both of which Quattrone was listed first among "Responsible Executives." The report stated:

> A review of PCS Technology discretionary accounts determined that only new issue securities were held within a majority of these accounts. In the past, there has been scrutiny within the industry regarding allocation of IPO shares to discretionary accounts of executives in a bid to win additional business from their firms. We understand that a significant portion of these clients represent relationships with executives of existing IBD technology clients; however, the use of such accounts for predominately IPO related activity could result in undue scrutiny, which in turn would heighten reputational risks. Further, there are no tools to monitor that individuals continue to be affiliated with such existing clients or that the nature of such discretionary allocations to such accounts includes products other than IPO shares.

The report noted further that Tech PCS

> requests discretionary clients to sign blank approvals for each allocation of any new issues to their accounts rather than obtaining written approval for each allocation. Further, blanket consents for several clients are not on file. A review of Tech PCS discretionary account also highlighted that only new issue securities were held within a significant portion of these accounts.

In response, Quattrone did not attempt to defend Tech PCS's structure and practices. Instead, he commented, "Agree. An assessment of the appropriateness of the manner in which discretionary PCS Tech accounts are being used will be completed by April 30, 2001."

39. The Tech Group's structural problems were also flagged in a lengthy email message sent by a Tech Group research analyst to the head of Tech Research, and then forwarded to

Quattrone, on May 30, 2001. In his email, the analyst described being pressured by investment bankers to skew his analyses so as to advance the interests of CSFB investment banking:

> 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. . . .
>
> [After downgrading a company called Cadence Design Systems Inc. in 1998], my banking counterpart, informed me of unwritten rule number one: "if you can't say something positive, don't say anything at all." . . .
>
> [Regarding Parametric Technology Corp.] in '99: . . . I issued some cautionary comments in the Tech Daily. . . . CEO completely lost his composure and swore to the banker . . . that [the company] would never do any business with CSFB . . . At the time, [the 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?"
>
> [Regarding Synopsys Inc. in 2000, I] suspected 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.
>
> I am not naïve enough to lack a sense of appreciation of the role of investment banking (and banking generated fees) for the franchise.

40. By creating and overseeing the problematic reporting and supervisory structure described above, and by failing to take effective remedial steps in response to red flags calling problems to his attention relating to both the spinning and the compromising of research analysts' objectivity, and by directing that wrongdoing, Quattrone violated NASD Rules 3010(a) and 2110.

PRAYER FOR RELIEF

WHEREFORE, the Department of Enforcement respectfully requests:

A. findings of fact and conclusions of law that Quattrone committed the violations alleged above;

B. sanctions in accordance with NASD Procedural Rule 8310;

C. an order imposing such costs of proceeding as are deemed fair and appropriate under the circumstances in accordance with NASD Procedural Rule 8330; and

D. all further appropriate relief.

Dated: March 6, 2003

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