COMMISSION NEWS

ARIZONA CORPORATION COMMISSION, 1200 W. WASHINGTON, PHOENIX, AZ 85007

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ARIZONA TO RECEIVE $6.13 MILLION IN WALL STREET SETTLEMENT

Historic Settlement Requires Brokerage Houses to Pay Fines, Fund Independent Research and Fund Investor Education Programs

PHOENIX – Under the terms of a settlement announced today between securities regulators and several prominent Wall Street firms, Arizona stands to receive $6.13 million upon final acceptance of the terms of the agreement. The settlements result from allegations of conflicts of interest at brokerage houses. The alleged conflicts of interest arose when analysts recommended stocks that may have been improperly influenced by their investment banking colleagues.

The ten firms against which enforcement actions are being announced today are:

- Bear, Stearns & Co. Inc. ("Bear Stearns")
- Credit Suisse First Boston, LLC ("CSFB")
- Goldman Sachs & Co. ("Goldman")
- Lehman Brothers, Inc. ("Lehman")
- J.P. Morgan Securities, Inc. ("J.P. Morgan")
- Merrill Lynch, Pierce, Fenner & Smith, Incorporated ("Merrill Lynch")
- Morgan Stanley & Co. Incorporated ("Morgan Stanley")
- Citigroup Global Markets Inc. f/k/a Salomon Smith Barney, Inc. ("SSB")
- UBS Paine Webber and UBS Warburg LLC ("UBS")
- U.S. Bancorp Piper Jaffray Inc. ("Piper Jaffray")

The agreements require approval of the five Arizona Corporation Commissioners in a future Open Meeting. If approved, the agreements could go a long way to restoring the public's confidence in the ratings and advice of stock analysts. Industry reforms agreed upon in these settlements will provide for more objective research and stronger protections for investors.

Investigators and attorneys from the Arizona Corporation Commission's Securities Division took the lead in one of the ten cases, the case involving UBS Paine Webber. Officials from Connecticut and Oklahoma assisted with the investigation. The UBS Warburg investigation was headed by regulators from Illinois.

The $6.13 million will go into Arizona's General Fund. Settlements or payments arising from securities law violations are directed by law to the General Fund and do not remain with the Arizona Corporation Commission. Funding for the Commission's regulatory activities is appropriated through the normal state budget process. In January, Arizona regulators approved an $854,732 settlement with Merrill Lynch over similar "analyst conflict" issues.

The firms named in the settlement are also required to distribute $30 million over the next five years to the Investor Protection Trust (IPT). The money will be used to fund investor education initiatives on the state and national levels. The IPT is an established charitable organization with experience handling settlement funds and a history of investor education successes.

These historic settlements, along with the completion of several enforcement actions, were announced at a press conference at the SEC today.[1]

In 2001 and early 2002, Congress and the SEC were examining the issue of analyst conflicts of interest. In April of 2002, the New York Attorney General's office announced an enforcement action against Merrill Lynch based on internal e-mails it uncovered that showed analysts were pressured to issue bullish stock recommendations to please investment banking clients. Soon afterwards, regulators from the states, industry self-regulatory organizations and the SEC formed a joint task force to investigate Wall Street's leading investment banks. In December, regulators announced an agreement in principle with the firms. Today's announcement marks the

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1 Officials attending the press conference included North American Securities Administrators Association President Christine Bruenn Securities and Exchange Commission Chairman William H. Donaldson, New York Attorney General Eliot Spitzer, NASD Chairman and CEO Robert Glauber and New York Stock Exchange Chairman and CEO Dick Grasso. Organized in 1919, the North American Securities Administrators Association (NASAA) is the oldest international organization devoted to investor protection. Its membership consists of 66 state, provincial, and territorial securities administrators in the 50 states, the District of Columbia, Puerto Rico, Canada, and Mexico.

finalization of that agreement.

The Arizona Corporation Commission's Securities Division regulates the offer and sale of securities, as well as the registration and oversight of securities, securities dealers and brokers, investment advisers and adviser representatives. Investors can check the background of an investment professional or obtain educational information on a wide variety of topics by contacting the Division at 602-542-4242.

Q & A about the Analyst Conflict Settlements

Were Arizona investors harmed by these alleged analyst conflicts?

Yes. Experts who have studied the so-called "stock market bubble" believe conflicts of interest between investment bankers and analysts led, in part, to the over-inflated stock prices seen in the late 1990s and into 2001.

Nearly all experts agree that what investors believed was objective information – information that they, as individual investors used to make buy and sell decisions – could have been improperly influenced by the close relationships between some analysts and investment bankers.

How were the penalties calculated?

The calculations were based on per capita populations and the funds were divided among the states. None of the states received less than one percent of the total settlement but states with a substantially higher population, such as California, received more than Arizona.

How will the money be used?

Because the funds arise from a securities enforcement action, they are considered fines and penalties. By law, fines and penalties flow into the Arizona General Fund. In addition to the money Arizona receives, $30 million will fund investor education efforts at the federal and state levels. Ultimately, the Arizona State Legislature will determine how the funds are used.

Why isn't the money going to the investors?

Even if the Commission could order that the money go back to investors, it would be impossible to allocate the money proportionately and fairly among those investors who were harmed by the alleged activity.

Arizona's population is estimated to be 5.1 million people. It is generally assumed that during the height of the stock market rally, nearly half of all Arizonans had money invested in the stock market. But which half? The cost of sending every Arizonan a check for less than $2 – not even enough to rent the movie *Wall Street* – would cost the state hundreds of thousands of dollars.

What is the breakdown in funds across all the firms? How much will go toward fines, funding independent research and funding investor education?

The table below, provided by the North American Securities Administrators Association, shows the breakdown in funds by investment firm.

Payments in Global Settlement Relating to
Firm Research and Investment Banking Conflicts of Interest

Firm	Retrospective Relief* ($ millions)	Independent Research ($ millions)	Investor Education ($ millions)	Total ($ millions)
Bear Stearns	50	25	5	**80**
CSFB	150	50	0	**200**
Goldman	50	50	10	**110**
J.P. Morgan	50	25	5	**80**
Lehman	50	25	5	**80**
Merrill Lynch	100**	75	25	**200**
Morgan Stanley	50	75	0	**125**
Piper Jaffray	25	7.5	0	**32.5**
SSB	300	75	25	**400**

UBS	50	25	5	**80**
Total ($ millions)	**875**	**432.5**	**80**	**$1,387.5**

* Fines and disgorgement funds.
**Payment made in prior settlement of research analyst conflicts of interest with the states securities regulators.

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