STATE OF ALABAMA
ALABAMA SECURITIES COMMISSION

IN THE MATTER OF	)	
	)	
BEAR, STEARNS & CO. INC.,	)	ADMINISTRATIVE ORDER
	)	No. CO-2003- 0023
RESPONDENT	)	
	)	
	)	
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	)	

CONSENT ORDER

WHEREAS, Bear, Stearns & Co. Inc. ("Bear Stearns" or the "Firm") is a broker-dealer registered in Alabama; and

WHEREAS, coordinated investigations into Bear Stearns' activities in connection with certain conflicts of interest that research analysts were subject to during the period of July 1, 1999 through June 30, 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, Bear Stearns has cooperated with regulators conducting the investigations by responding to inquiries, providing documentary evidence and other materials, and providing regulators with access to facts relating to the investigations; and

WHEREAS, Bear Stearns has advised regulators of its agreement to resolve the investigations relating to its research practices; and

WHEREAS, Bear Stearns agrees to implement certain changes with respect to its research and banking practices, and to make certain payments; and

WHEREAS, Bear Stearns admits the jurisdiction of Alabama Securities Commission, 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 Alabama Securities Commission.

WHEREAS, Bear Stearns elects to permanently waive any right to a hearing and appeal under Title 8, Chapter 6, Code of Alabama 1975, with respect to this Consent Order (the "Order");

NOW, THEREFORE, the Alabama Securities Commission, as administrator of the Alabama Securities Act ("Act"), hereby enters this Order:

RESPONDENT

1. Bear Stearns, a Delaware corporation with its principal place of business in New York, New York, is a subsidiary of The Bear Stearns Companies, Inc. Bear Stearns provides equity research, sales, and trading services; merger and acquisition advisory services; venture capital services; and underwriting services on a global basis. Bear Stearns is registered with the Securities and Exchange Commission ("Commission"), is a member of the New York Stock Exchange, Inc. ("Exchange") and the NASD Inc. ("NASD") and is licensed to conduct securities business on a nationwide basis. Bear Stearns is currently registered with the Alabama Securities Commission as a broker-dealer, and has been so registered since October 22, 1981.

I. FINDINGS OF FACT

A. Background

2. During time period of July 1, 1999 to June 30, 2001 the relevant period, the Firm sought and did IB business with many companies covered by its research. Research analysts were encouraged to participate in IB activities, and that was a factor considered in the analysts' compensation system. In addition, the decision to initiate and maintain research coverage of certain companies was in some cases coordinated with the IB Department and influenced by IB interests.

3. As a result of the foregoing, certain research analysts at the Firm were subjected to IB influences and conflicts of interest between supporting the IB business at the Firm and publishing objective research.

4. The Firm had knowledge of these IB influences and conflicts of interest yet failed to establish and maintain adequate policies, systems and procedures that were reasonably designed to detect and prevent the influences and manage the conflicts.

B. Research Analyst Participation in Investment Banking Activities

5. Research analysts were responsible for providing analyses of the financial outlook of particular companies in the context of the business sectors in which those companies operated and the securities market as a whole.

6. Research analysts evaluated companies by, among other things, examining financial information contained in public filings, questioning company management, investigating customer and supplier relationships, evaluating companies'

business plans and the products or services offered, building financial models and analyzing competitive trends.

7. After synthesizing and analyzing this information, analysts produced research in the form of full reports and more abbreviated formats that typically contained a recommendation, a price target, and a summary and analysis of the factors relied upon by the analyst.

8. The Firm distributed its analysts' research internally to various departments at the Firm and externally to the Firm's retail and institutional investing clients. In addition, the Firm sold some of its research directly to non-clients, disseminated it through distribution agreements with other broker dealers, made it available to third party subscription services such as First Call, and offered it for sale via market websites such as MultexInvestor.

9. In addition to performing research functions, certain research analysts participated or assisted in IB activities. These IB activities included identifying companies as prospects for IB services, participating in "pitches"[1] of IB services to companies, attending "road shows"[2] associated with underwriting transactions, and speaking to investors to generate interest in underwriting transactions.

10. In preparation for each "pitch" the bankers, with the analyst's input, prepared a "pitch book" which was distributed at the meeting and contained a summary of the Firm's presentation.

11. The pitch books, in some instances, identified the covering analysts by name, provided information about that analyst's background and reputation, sometimes characterizing the analyst as the "ax" in his or her coverage sector, and highlighted the success of Bear Stearns' underwritten IPOs covered by the analyst. The pitch books also highlighted such factors as the number of lead and co-managed IPOs that the Firm currently had under research coverage. This information was intended to convey to the issuer that such treatment would be accorded to it if Bear Stearns received the mandate for the IB transaction.

12. The analyst's reputation played a role in pitching the Firm's IB services to potential clients. Issuers often chose an investment bank because of the reputation of the analyst that would cover the company's stock.

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[1] A "pitch" is a presentation made by bankers and research analysts to a potential IB client in order to obtain the mandate for an upcoming IB transaction. In competing for an IB mandate, the Firm typically sent bankers and the analyst to meet with company management to persuade the company to select the Firm as one of the investment bankers in a contemplated transaction. At these "pitch" meetings Firm bankers would present their level of expertise in the company's sector and discuss their previous experience with other such companies, as well as their view of the company's merits and likelihood of success.

[2] A "road show" is a series of presentations made to potential investors in conjunction with the marketing of an upcoming underwriting.

13. The pitch to an issuer by the research analyst contributed to Bear Stearns' ability to win investment banking deals and receive investment banking fees from that and subsequent investment banking relationships.

14. The investment banking division at Bear Stearns advised corporate clients and helped them execute various financial transactions, including the issuance of stock and other securities. Bear Stearns frequently served as the lead or as a co-lead underwriter in initial public offerings ("IPOs") -- the first public issuance of stock of a company that has not previously been publicly traded -- and follow-on offering of securities.

15. During the relevant period, investment banking was an important source of revenues and profits for Bear Stearns. In 2000, investment banking generated more than $965 million in net revenues, or approximately eighteen percent of Bear Stearns' total net revenues.

16. The IB activities in which analysts participated also included participating in commitment committee[3] and due diligence activities in connection with underwriting transactions and from time to time assisting the IB Department in providing merger and acquisition ("M&A") and other advisory services to companies.

17. The Firm encouraged research analysts to support the IB and other businesses of the Firm. With regard to IB, research analysts were encouraged to work in partnership with the IB Department by participating in the foregoing IB activities, and the level of certain research analysts' participation in these IB activities was sometimes significant.

a. On September 23, 1999, the Head of Research provided research analysts with guidelines to follow in drafting their business plans. The guidelines stated they were "designed to help [the research analysts] focus on executing and delivering [their] goals, improving [their] overall contribution to the firm and enhancing [their] relationships with [their] partners throughout the firm." These guidelines requested the research analysts to describe their contributions to nine separate areas of the Firm's business. With respect to the area identified as "Banking," the guidelines stated: "After your business plan meeting with your bankers please discuss any ideas you have generated for deal origination and timing of coverage for existing or proposed corporate relationships. Include or attach to your business plan a list of stocks you and your corporate finance team have agreed upon as priorities. Include plans to help market transactions or to introduce M&A activity. Discuss any plans to drop coverage where there is no longer a strategic fit."

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[3] The "commitment committee" was responsible for, among other things, evaluating and determining the Firm's participation in IPOs and other IB transactions.

b. In her 1997/1998 business plan, an analyst stated, "If I were any more aggressive in the banking area, my office would be on the third floor [location of IB offices of the Firm]."

18. In connection with their participation in IB activities, certain research analysts and investment bankers ("bankers") communicated, in various frequency and extent, through meetings and via telephone and electronic mail ("e-mail").

19. The IB department at the Firm was organized into industry groups that corresponded to certain research sectors. Research analysts were aware that, in certain circumstances, their positive and continued coverage of particular companies was an important factor for the generation of investment banking business. Thus, some research analysts and bankers coordinated the initiation and maintenance of research coverage, based upon, among other things, investment banking considerations.

a. On February 9, 2000, two bankers and an analyst submitted a joint business plan to the co-heads of the IB technology group. The stated purpose of the memorandum was to "describe a strategy for investment banking and research coverage and coordination of companies which provide Internet enabling technologies. The near-term goal is to establish an organized and prioritized calling effort with an emphasis on cultivating fewer and deeper, lead managed relationships." [Emphasis in original.]

C. Participation in Investment Banking Activities was a Factor in Evaluating and Compensating Research Analysts

20. The compensation system at the Firm provided an incentive for research analysts to contribute to all areas of the Firm's business, including participating in IB activities and assisting in generating IB business for the Firm. Research analysts' participation in IB activities was one of several factors considered in determining their compensation. Notes of staff meetings reflect the following statements by the Head of Research to analysts:

a. "I'd like to remind everyone how you get paid at Bear Stearns. It is based on your contribution to your team and your contribution to the firm . . . Notice that being a partner with banking is part of the analyst job description. You are not compared or matrixed or in any way paid on a formula. Working on transactions is not incremental to your compensation, it is an expected part of it."

b. "I need to remind you that investment banking revenues are not incremental to your bonus. Being a partner to banking is part of your job. You are paid on performance and based on your contribution to the firm."

21. The performance of research analysts was evaluated through an annual review process. Where not set by contract, the research analyst's salary and annual bonus were also determined through this process.

22. Information on the analyst's job performance was gathered through annual self-evaluations, analyst's business plans, surveys of management, and trading and institutional sales department personnel, e-mail and oral feedback from employees in the IB and other departments at the Firm, and the Firm's institutional clients.

23. The research analysts' annual business plans contained, among other things, their contributions to various areas of the Firm, including IB, for the past year, and their plans for improving their contribution to these areas of the Firm, including IB, in the coming year.

24. In their self-evaluations, which were used to communicate their accomplishments to and petition management for increased compensation analysts discussed such areas as their rankings in independent research polls, the scope of their research coverage, their participation in industry conferences, and the Firm's Autex rankings in stocks they covered. Certain research analysts provided extensive information regarding their assistance to IB, including accomplishments, goals, and participation in lead- and co-managed underwritings, and sometimes also including the revenues to the Firm associated with the IB transactions on which the analyst worked. In addition, analysts were occasionally requested to inform research management of fees generated by the IB transactions on which they worked.

a. In an October 24, 2000 e-mail to the Head of Research, a senior analyst summarized his 9 key accomplishments during fiscal year 2000. The first and largest point, which dealt with his contributions to IB, stated as follows: "*Corporate finance: generated over $23 million in fees to the firm in nine separate transactions: *Storage networking: identified a new financial opportunity for the firm, which resulted in six transactions... I should be designated as a finder for Ancor [Ancor Communications], JNI [JNI Corp.] and Vixel [Vixel Corp.]. *iAppliances: identified a new industry category ...which was a source of two IPOs... *Agilent [Agilent Technologies]: I should be designated as a finder -- or at least a save for Agilent. BS pitched the business and lost. I went in and re-won the business, generated fees of around $2.5 million to the firm." The e-mail to the Head of Research included a spreadsheet listing the IB transactions on which he had worked and the associated revenues to the Firm. The Head of Research praised the format of the summary and suggested she might have all research analysts submit theirs in the same form.

b. In a June 21, 2001 e-mail from a member of the research management staff, the research analysts were requested to submit information regarding all banking transactions that had closed or that were pending in their sectors during the prior 6 month period.

25. Certain research analysts perceived that the amount of their bonus would be influenced by their contribution to and impact on the firm's IB business, and the fees generated by IB transactions on which they worked.

26. Research analysts were encouraged to support and assist all areas of the Firm and to participate in IB activities and activities that enhanced the reputation of the Firm's IB business. Based upon statements by research management indicating that partnership with banking was part of their job as research analysts, the inclusion of a "Banking" section in their annual business plans, information regarding IB transactions in their self-evaluations, and requests from research management for specific information regarding IB transactions in their coverage sectors, certain research analysts believed that the revenues generated by their participation in IB activities was an important factor in their evaluations and compensation. Accordingly, some research analysts were encouraged to participate in IB activities, increase IB revenues, and enhance the reputation of the Firm, including its IB business.

27. Research Analysts' salaries and bonuses were determined by a multiple factor-based approach. Among other things, analysts were judged for compensation purposes based on the performance of their stock picks, their impact on the buy-side accounts as measured by votes, the Firm's market share in trading volume in the stocks they covered, their participation in IB activities, and the fees and secondary trading commissions generated from those activities were considered.

D. Investment Banking Interests Influenced the Firm's Decisions to Initiate and Maintain Research Coverage

28. In general, the Firm determined whether to initiate and maintain research coverage based upon institutional investors' interest in the company, and the company's importance to the sector or IB considerations, such as attracting companies to the Firm to generate IB business or maintaining a positive relationship with existing IB clients.

29. The nature and duration of research coverage were important criteria for a company's choice of a broker dealer for IB services. The pitch books typically contained information stating, among other things, that: "an important element to successfully executing an IPO is having an assurance that the Firm will provide research coverage to the IPO candidate in the offering and in the aftermarket."

30. The Firm generally initiated coverage on companies that engaged the Firm in an IB transaction. In pitching for IB business, the Firm sometimes represented to the company the frequency with which reports would be issued.

31. The Firm's ratings system, which was intended to reflect the long-term prospects of a rated stock, allowed research analysts to assign one of five ratings to a stock: (1) "Buy" - Expected to outperform the local market by 20% in the next 12

months. Strong conviction and typically accompanied by an identifiable catalyst; (2) "Attractive" - Expected to outperform the local market by 10% or more, it is usually more difficult to identify the catalyst; (3) "Neutral" - Expected to perform in line with the local market; (4) "Unattractive" - Expected to underperform the local market; and (5) "Sell" - Avoid the stock.

32. During the relevant period, there was a sharp downturn in the stock market and stocks in certain sectors performed poorly. During this period, the Firm did not issue ratings of "Unattractive" or "Sell" in connection with any covered companies in these sectors.

33. Research management communicated with IB management to ensure that research opportunities were appropriately aligned with identified IB opportunities.

34. The Stock Selection Committee was ultimately responsible for making the determination to initiate coverage of a given company. The Head of Research was ultimately responsible for making the determination to maintain research coverage. Nonetheless, IB considerations sometimes influenced the decision to initiate and maintain coverage.

35. Some research analysts and bankers actively coordinated the initiation and maintenance of research coverage based upon, among other things, IB considerations. This coordination consisted of meetings and communications by telephone and e-mail.

36. In some circumstances, research coverage was initiated based on IB considerations.

a. In an April 19, 2000 e-mail from a member of his staff, the head of the IB Technology Group communicated the following to the Heads of Research and IB as well as numerous analysts and bankers: "[Analyst A] and [Analyst B] agree that [Analyst B] will be the analyst covering CacheFlo [Cacheflow]. [Banker] and [Analyst B] will discuss with CacheFlo what the planned timing of their offering will be so as to insure that if we initiate coverage in advance of the transaction we will not be prohibited from being an underwriter. [Analyst B] and [Banker] will also stress to the company that if we initiate coverage we expect our position in the company's future financing and strategy actions to be materially improved."

37. Given that research analysts participated in determining in which IB transactions in their sectors the Firm would participate, if the Firm determined to participate in an equity offering for a company, it was expected the company would qualify for an initial "Buy" rating.

38. An analyst who anticipated initiating coverage of such a company with less than a "Buy" rating informed IB in advance as follows.

a. In a February 8, 2000 e-mail to bankers and the Head of Research, this analyst stated: "Just wanted to be sure that everyone knows that we will be using an Attractive rating on go.com. If anyone has any comments or issues, please let me know."

b. In a March 17, 2000 e-mail to research analysts, an associate analyst stated: "I talked to [the liaison between research and IB] and we have the go ahead to initiate on IPET [Pets.com] with an Attractive rating. According to [the liaison] we should explain somewhere in the text, why our opinion about the company's prospects have changed from the time we initiated coverage."[4]

c. In his annual evaluation, this analyst was criticized as follows: "Has been working poorly w/bankers - in changing opinions after the firm has committed to co. mgmts". The analyst testified that he believed the statement related to his communicating his opinions regarding companies to bankers in a timely manner, and that if his opinion regarding a company changed from a more positive opinion to a more negative opinion about a company after a banker had already made some sort of commitment to a company, it made life difficult for the banker and was not ideal from his standpoint. He went on to testify that, particularly in his highly volatile sector, companies often changed a lot between the time of the first organizational meeting and the date of the IPO.

39. In some circumstances, the determination to maintain research was influenced by IB considerations.

a. Due to IB influences a supervisory analyst perceived and communicated to others that IB approval was required before coverage could be dropped. In response to an inquiry by an associate analyst regarding dropping coverage of 2 companies, a supervisory analyst stated in an April 19, 2002 e-mail: "[The Head of Research] says before dropping coverage, you need to get permission from both: 1. the market makers on the trading desk, 2. the bankers."

b. In an April 3, 2000 e-mail to the Heads of Research and IB as well as numerous members of both departments, a banker discussed a company's decision to exclude the Firm from a follow-on offering. He stated: "I expressed significant disappointment with the fact that they neglected to discuss this issue with us prior to this time and that they left us no choice but to drop research coverage and trading, since they obviously did not value our support to date. [Analyst] - As we discussed, feel free to drop at any time. I told the CFO that you would likely put out

[4] In fact. Bear Stearns had not yet initiated coverage on IPET at the time this e-mail was sent.

a note, but did not know when." In a follow-up e-mail the Head of Research stated that she agreed with the decision to drop coverage. The analyst ultimately determined not to drop coverage.

E. Research Analysts Were Visible on Stocks to Generate Investment Banking Business

40. Issuers also considered investment banks' aftermarket trading support as a factor in selecting an investment bank. The Firm's trading volume and trading rank were factors it promoted to IB clients in pitch presentations.

41. The Firm distributed to sales and trading personnel and research analysts the "Trading Focus List," which contained stocks of companies from which the Firm was seeking or with which the Firm had IB business.

42. A research analyst actively marketed companies on the Trading Focus List in order to obtain IB business.

a. In a December 10, 1999 e-mail, an analyst wrote the following to Equity Trading copied to the Heads of Research and IB: "Subject: Pls make the trading of Packeteer a top priority. I spent two days with Packeteer ('PKTR') management this week visiting investors. Management are extremely happy with our research coverage and banking services. But they have repeatedly indicated to me that our trading stat. is not satisfactory...CEO hinted to me many times that we have a chance for the books for the secondary if we improve the trading...They are likely to do a secondary in Q1 - mostly likely late January/early February; could be as much as $200 MM deal. Please help us in improving our trading immediately. We will do whatever it takes from the research side."

b. In a September 14, 2000 e-mail to Equity Trading the same analyst wrote the following regarding banking client SonicWall ("SNWL"): "We need help in boosting our trading stat for SNWL. Both management and their VC called me yesterday complaining about our trading - #2 in August and #3 so far in September. More importantly, they argued that we are not supporting the stock when it is weak...I made a positive call on Monday but am not getting much support. Pls help us here since this important technology client indicated to me that if we do not improve, it will hurt our banking relationship with the company."

c. In a March 8, 2001 e-mail the same analyst again wrote to Equity Trading regarding two IB clients he covered: "Subject: MUSE [Micromuse] and ISSX [Internet Security Systems] autex - both on focus list. On MUSE - we dropped from #3 or 4 in 2000 to #10 in Feb and March to date. I just called the trader to see what we can do. I have been extremely active on the name- took management to Boston, Denver, Minneapolis and KC in February alone. Do not quite understand. Pls follow up. ISSX - we dropped from #2 or #3...to #11 in March. I am very active on ISSX also. Thanks for your help on this." Equity Trading responded: "What do you want me to do? Get some orders on the stock yourself. Generate some order flow!!" The analyst replied: "I am trying...but are the traders on these two stocks good?"

43. In order to raise or maintain the Firm's visibility on stocks with which the Firm wanted to do IB business, certain research analysts nominated companies to participate at Firm sponsored conferences, took company managements on non-deal road shows, hosted field trips for institutional investors to companies' headquarters and arranged other meetings between institutional investor clients and companies.

44. Research analysts were visible on stocks of companies with which the Firm wanted to do IB business in order to generate IB business.

F. Research Analysts Were Subject to Pressure by Covered Companies

45. Certain research analysts communicated regularly with employees of the companies that they covered, including executive and senior management of those companies. These communications occurred through telephone and e-mail exchanges, company-sponsored events, and analyst calls.

46. Research analysts were sometimes subject to pressure from companies they covered to issue better ratings and recommendations. Research analysts understood that negative ratings and recommendations could adversely affect the Firm's ability to attract and retain IB business from those companies.

a. On November 2, 2000, in his 2000 self-evaluation an analyst wrote in a section entitled "Areas to Improve: We want our banking clients to know that our research is objective and independent but always sensitive to their best interests. There have been instances in my career where certain banking clients felt that our research and public comments weren't sensitive to their interests. This is a very important issue for us and we take it most seriously. We will continue to make every effort to be sensitive to our clients and our banking partners."

47. When research analysts downgraded or issued a negative comment on a banking client, they sometimes received direct feedback from high-ranking company officials.

a. In an August 24, 2000 e-mail, a banking client responding to a downgrade of his company wrote: "Your earnings estimates are on track, however, given the downgrade, I sure would have liked to see you give us a lower bar on revenue...[W]hile we affirmed the revenue estimate, they were definitely a stretch. Seems a shame to waste a downgrade by not buying the opportunity for us both to over-perform going forward..."

G. <u>In Certain Instances, the Firm Published Exaggerated or Unwarranted Research</u>

48. On several occasions, the conflicts of interest discussed above resulted in analysts publishing recommendations and/or ratings that were exaggerated or unwarranted, and/or contained opinions for which there was no reasonable basis. The following are examples of how these conflicts affected the research.

a. Bear Stearns lead managed the IPO and secondary offerings for SonicWall in November 1999 and March 2000 respectively. An analyst rated the stock a "Buy" from the IPO until April 2002. In January 25, 2001 while they were participating in a SonicWall conference call the analyst stated to his associate: "I am trying to make them look good...on the dso and the growth etc." A few minutes later he added: "we got paid for this...and I am going to Cancun tomorrow b/c of them!"

b. Bear Stearns initiated coverage of MUSE with an "Attractive" rating in September 1999, raised the rating to a "Buy" in January 2000 and maintained a "Buy" rating on the stock until July 2002. While listening to a MUSE analyst call on July 18, 2001, an analyst suggested to his associate that he was going to downgrade his rating on the stock to "Attractive". The associate disagreed with the suggestion and the analyst responded that the stock was "dead money!" However, the analyst did not downgrade his rating on the stock, instead issuing research the same day maintaining his "Buy" rating.

c. Bear Stearns lead managed the IPO for CAIS Internet, Inc. in May 1999. The analyst rated the stock a "Buy" from the IPO through his last report on the company in November 2000. On January 24, 2001, in response to an e-mail reporting extensive service failures at CAIS the analyst stated: "Any other scoop on this piece of shit?" A few days later, in response to an institutional client's request for his thoughts on CAIS' 4^{th} quarter, the analyst stated: "It's up a lot year to date...don't overstay your welcome on this one."

d. Bear Stearns co-managed the IPO and secondary offerings for Digital River in August and December 1998 respectively. The Firm, via three successive analysts, rated the stock a "Buy" from the IPO until April 2002. In an April 1, 2002 e-mail to his IB counterpart an analyst stated: "I have to tell you, I feel a bit compromised today. I have told every client on the phone that they should avoid or short the stock over the last few months. I have been fairly hands-off on DRIV [Digital River, a stock under his coverage], primarily because of the banking prospect that you and [Another Banker] have noted. Today, clearly the stock is down a lot. The artificial Buy rating on the stock, while artificial, still makes me look bad. In the future, I'd like to have more leeway with the ratings, even for companies like Digital River, where we have a relationship on the banking side. I trust it would benefit all of us."

H. The Firm Made A Payment for Research

49. In August 2000, as part of an offering that took place in May 2000, the Firm made a payment of $102,750 to another broker-dealer in connection with research coverage it provided for Andrx Corp. ("ADRX"), a Bear Stearns' investment banking client in connection with an underwriting transaction for which Bear Stearns was a lead manager.

50. Bear Stearns did not take steps to ensure that this broker-dealer disclosed in its research that it had been paid to issue research on ADRX. Further Bear Stearns did not disclose or cause to be disclosed the details of this payment.

I. Bear Stearns Failed to Adequately Supervise Its Research and Investment Banking Departments

51. While the role of the research analysts was to produce objective research, the Firm also encouraged them to participate in IB activities. As a result of the foregoing, research analysts were subject to IB influences and conflicts of interest between supporting the IB business at the Firm and publishing objective research.

52. The Firm had knowledge of these IB influences and conflicts of interest yet failed to manage them adequately to protect the objectivity of its published research.

53. Bear Stearns failed to establish and maintain adequate policies, systems and procedures reasonably designed to ensure the objectivity of its published research. Although Bear Stearns had some policies governing research analyst activities during the relevant period, these policies were inadequate and did not address the conflicts of interest that existed.

III. CONCLUSIONS OF LAW

54. The Alabama Securities Commission has jurisdiction over this matter pursuant to the Alabama Securities Act.

55 The Alabama Securities Commission finds the following relief appropriate and in the public interest.

a. Respondent, during July 1, 1999 to June 30, 2001 engaged in acts or practices that created and/or maintained influences by Investment Banking over Research Analysts and therefore imposed conflicts of interest on its Research Analysts. Respondent failed to establish and maintain adequate policies, systems and procedures that were reasonably designed to detect and prevent these influences and manage these conflicts in violation of just and equitable principles of trade.

The NASD and NYSE have both established rules governing ethical practices and conduct. The standards established by the NASD and the NYSE are recognized by the Alabama Securities Commission as minimum standards of ethical conduct for the purposes of § 8-6-3(j)7, relating generally to dishonest or unethical practices in the securities business. During the relevant period, Bear Stearns engaged in acts and practices violative of:

(a) NASD Conduct Rule 2110 requiring members to observe high standards of commercial honor and just and equitable principles of trade;

(b) NYSE Rule 401 requiring that broker dealers shall at all times adhere to the principles of good business practice and the conduct of his or its business affairs;

(c) NYSE Rule 476 (a)6 prohibiting the engagement in practices of conduct inconsistent with just and equitable principles of trade;

(d) NASD Conduct Rule 2210(d)1 requiring that members communications with the public be based on principles of fair dealing and good faith and should provide a sound basis for evaluating the facts in regard to any particular security or securities or any type of security, industry discussed, or service offered;

(e) NYSE Rule 472 requiring communications with the public, including requirements relating to research communications and research reports.

b. RESPONDENT, during July 1, 1999 to June 30, 2001, failed to exercise supervision over all the securities activities of its associated persons and failed to establish, maintain or enforce written procedures which set forth the procedures adopted by the dealer, issuer or investment adviser to comply with the listed duties imposed in violation of rule 830-X-3.13(1), (3) Alabama Securities Act.

IV. ORDER

On the basis of the Findings of Fact, Conclusions of Law, and Bear Stearns' 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:

1. This Order concludes the investigation by the Alabama Securities Commission and any other action that the Alabama Securities Commission could commence under the Alabama Securities Act on behalf of Alabama as it relates to Bear Stearns, relating to certain research or banking practices at Bear Stearns.

2. Bear Stearns will CEASE AND DESIST from violating 8-6-3(j)(7) and 830-x-3-.13(1) and (3) in connection with the research practices referenced in this Order and will comply with the 8-6-3-(j)(7) and 830-x-3-.13(1) and (3) in connection with the research practices referenced in this Order and will comply with the undertakings of Addendum A, incorporated herein by reference.

3. If payment is not made by Bear Stearns or if Bear Stearns defaults in any of its obligations set forth in this Order, the Alabama Securities Commission may vacate this Order, at its sole discretion, upon 10 days notice to Bear Stearns and without opportunity for administrative hearing.

4. This Order is not intended by the Alabama Securities Commission 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 Bear Stearns, 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).

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

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

7. Nothing herein shall preclude Alabama, its departments, agencies, boards, commissions, authorities, political subdivisions and corporations, other than the Alabama Securities Commission 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 Bear Stearns in connection with certain research and/or banking practices at Bear Stearns.

IT IS FURTHER ORDERED, ADJUDGED AND DECREED that:

As a result of the Findings of Fact and Conclusions of Law contained in this Order, Bear Stearns shall pay a total amount of $80,000,000.00. This total amount shall be paid as specified in the SEC Final Judgment as follows:

$25,000,000 to the states (50 states, plus the District of Columbia and Puerto Rico) (Bear Stearns' offer to the state securities regulators hereinafter shall be called the "state settlement offer"). Upon execution of this Order, Bear Stearns shall pay the sum of $342,654 of this amount to Alabama as a civil monetary penalty as follows:

a) That in accordance with Section 8-6-19(j)(1), Code of Alabama 1975, Bear Stearns shall pay to the State of Alabama an administrative penalty in the total sum $300,000 said funds to be tendered in certified funds contemporaneously with the entry of this Order;

b) That in accordance with Section 8-6-19(k)(1), Code of Alabama 1975, Bear Stearns shall pay to the Alabama Securities Commission, as partial reimbursement for the Commission's cost of investigating this matter, the sum of $2,654 said funds to be tendered in certified funds contemporaneously with the entry of this Order;

c) Bear Stearns shall pay the sum of $20,000 payable to the office of the Attorney General, State of Alabama for reimbursement of its cost in this investigation and past and future investigations and for the use of that office as it sees fit in its efforts to continue to safeguard the citizens of the State of Alabama;

d) Bear Stearns shall pay the sum of $20,000 to the Investor Protection Trust, a non-profit corporation and such funds are designated specifically for investor education and investor protection in the State of Alabama as directed by the Alabama Securities Commission in its sole discretion.

The total amount to be paid by Bear Stearns 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 not to accept Bear Stearns' state settlement offer, the total amount of the Alabama payment shall not be affected, and shall remain at $342,654.

$25,000,000 as disgorgement of commissions, fees and other monies as specified in the SEC Final Judgment;

$25,000,000, to be used for the procurement of independent research, as described in the SEC Final Judgment;

$5,000,000, to be used for investor education, as described in Addendum A, incorporated by reference herein.

Bear Stearns 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 Bear Stearns 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. Bear Stearns 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 Bear Stearns 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. Bear Stearns understands and acknowledges that these provisions are not intended to imply that Alabama would agree that any other amounts Bear Stearns 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.

This order and any dispute related thereto shall be construed and enforced in accordance, and governed by, the laws of Alabama.

The parties represent, warrant and agree that they have received independent legal advice from their attorneys with respect to the advisability of executing this Order.

Dated this 10th day of September 2003.

The Attorney General of Alabama

Approved By: Bill Pryor
Bill Pryor, Attorney General

The Alabama Securities Commission

By:
Joseph P. Borg, Director

CONSENT TO ENTRY OF
ADMINISTRATIVE ORDER BY BEAR, STEARNS & CO. INC.

1. Bear Stearns hereby acknowledges that it has been served with a copy of this Administrative Order, has read the foregoing Order, is aware of its right to a hearing and appeal in this matter, and has waived the same.

2. Bear Stearns admits the jurisdiction of the Alabama Securities Commission, neither admits nor denies the Findings of Fact and Conclusions of Law contained in this Order; and consents to entry of this Order by the Alabama Securities Commission as settlement of the issues contained in this Order.

3. Bear Stearns states that no promise of any kind or nature whatsoever was made to it to induce it to enter into this Order and that it has entered into this Order voluntarily.

4. Bear Stearns understands that Alabama may make such public announcement concerning this agreement and the subject matter thereof as Alabama may deem appropriate.

Mark E. Lehman represents that he/~~she~~ is General Counsel of Bear Stearns and that, as such, has been authorized by Bear Stearns to enter into this Order for and on behalf of Bear Stearns.

Dated this 21st day of August, 2003.

Bear, Stearns & Co. Inc.

By: Mark E. Lehman

Title: Senior Managing Director and General Counsel

SUBSCRIBED AND SWORN TO before me this 21st day of August, 2003.

Patrick Maloney
Notary Public

PATRICK B. MALONEY
Notary Public, State of New York
No. 02MA5011777
Qualified in Westchester County
Certificate Filed in New York County
Commission Expires: 6/15/2007

My Commission expires: 6/15/07