NASD
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. CAF030026

TO: Department of Enforcement
NASD

RE: Credit Suisse First Boston LLC, Respondent
CRD# 816

Pursuant to Rule 9216 of NASD Code of Procedure, Respondent Credit Suisse First Boston LLC (f/k/a/ Credit Suisse First Boston Corporation) ("CSFB" or "Respondent"), part of the Credit Suisse First Boston business unit (which is part of Credit Suisse Group), submits this Letter of Acceptance, Waiver and Consent ("AWC") for the purpose of proposing a settlement of the alleged rule violations described in Part II below. This AWC is submitted on the condition that, if accepted, NASD will not bring any future actions against CSFB alleging violations based on the same factual findings.

Respondent understands that:

1. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by NASD's Department of Enforcement and National Adjudicatory Council ("NAC"), pursuant to NASD Rule 9216;

2. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against CSFB; and

3. If accepted:

   a. this AWC will become part of CSFB's permanent disciplinary record and may be considered in any future actions brought by NASD or any other regulator against CSFB;

   b. this AWC will be made available through NASD's public disclosure program in response to public inquiries about CSFB's disciplinary record;

   c. NASD may make a public announcement concerning this agreement and the subject matter thereof in accordance with NASD Rule 8310 and IM-8310-2; and

   d. CSFB may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any allegation in this AWC or creating the impression that the AWC is without factual basis. Nothing in this provision affects the testimonial obligations or right of CSFB to take legal or factual positions in litigation or other legal proceedings in which NASD is not a party.

CSFB also understands that its experience in the securities industry and its disciplinary history may be factors that will be considered in deciding whether to accept this AWC. CSFB's disciplinary history includes:

> January 2002: CSFB submitted an AWC in which, without admitting or denying the allegations, it consented to the entry of findings that it violated NASD Conduct Rules 2110, 2330, 2710(B)(5)(B), 3010, and 3110, and Section 17(a) of the Securities Exchange Act of 1934 ("Exchange Act") and Rule 17a-3 thereunder. The findings were that, from April 1999 through June 2000, certain CSFB employees allocated shares in IPOs to customers with whom CSFB had improper profit-sharing arrangements; that CSFB failed to record the profit-sharing arrangements as a term and condition of the trades; that CSFB also failed to inform NASD of the profit-sharing arrangements and that its supervisory system was inadequate for having failed to detect or prevent these violations. Sanctions included disgorgement and a fine of $100 million, divided between NASD and the SEC, which, brought and resolved similar charges.

I.

WAIVER OF PROCEDURAL RIGHTS

CSFB, through its agents, specifically and voluntarily waives the following rights granted under NASD's Code of Procedure:

A. To have a Formal Complaint issued specifying the allegations against CSFB;

B. To be notified of the Formal Complaint and have the opportunity to answer the allegations in writing;

C. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made and to have a written decision issued; and

D. To appeal any such decision to the NAC and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, CSFB specifically and voluntarily waives any right to claim bias or prejudgment of the General Counsel, the NAC, or any member of the NAC, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including acceptance or rejection of this AWC.

CSFB further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of Rule 9143 or the separation of functions prohibitions of Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

II.

ACCEPTANCE AND CONSENT

A. CSFB hereby accepts and consents, without admitting or denying the allegations or findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of NASD, or to which NASD is a party, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by NASD:

1. Summary

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.

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.

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.

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.

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.

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 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.

As a consequence of the activity described above and herein, CSFB violated certain NASD Conduct Rules and federal securities laws. Specifically:

- CSFB issued fraudulent research reports on two companies, Digital Impact and Synopsys, thereby violating Section 15(c) of the Securities Exchange Act of 1934 ("Exchange Act"), Rule 15c-1 thereunder, and NASD Conduct Rules 2110 and 2210(d)(1);

- CSFB issued research on Numerical Technologies, Agilent, and Winstar - that were not based on principles of fair dealing and good faith, did not provide a sound basis for evaluating facts regarding these companies' business prospects and the risks of investing in these companies, made exaggerated or unwarranted claims for which there was no reasonable basis, was imbalanced, or lacked full and accurate disclosures; and issued research reports on NPW that lacked full and accurate disclosures, all in violation of NASD Conduct Rules 2110, 2210(d)(1) and 2210(d)(2);

- CSFB engaged in acts and practices that created or maintained inappropriate influence by investment banking over research analysts and therefore imposed conflicts of interest on its research analysts that the firm in turn failed to manage properly, thereby violating NASD Conduct Rule 2110;

- CSFB engaged in improper "spinning" and IPO distribution activities and failed to create or maintain adequate books and records in connection with those activities, thereby violating Section 17(a) of the Exchange Act, Rule 17a-3 thereunder, and NASD Conduct Rules 2110 and 3110; and

- CSFB failed to establish and maintain a system to supervise the activities of registered representatives and associated persons that was reasonably designed to achieve compliance with applicable securities laws and regulations, and with NASD Rules. This failure relates to the firm's supervision in the areas of publication of research reports, and the firm's "spinning" activities, and thereby violated NASD Conduct Rule 3010.

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

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

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.

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.

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.

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.

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

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

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.

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.

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.

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

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.

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

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.

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.

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."

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

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."

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.

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."

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.

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

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.

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.
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.

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.

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.

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.

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

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.

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.

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."

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.

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.

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."

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.

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.

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.

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?

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.

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, in Violation of NASD Advertising Rules

As to four companies, CSFB's equity research analysts issued research that violated NASD's advertising rules because the research 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.

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.

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.

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.

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.

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.

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."

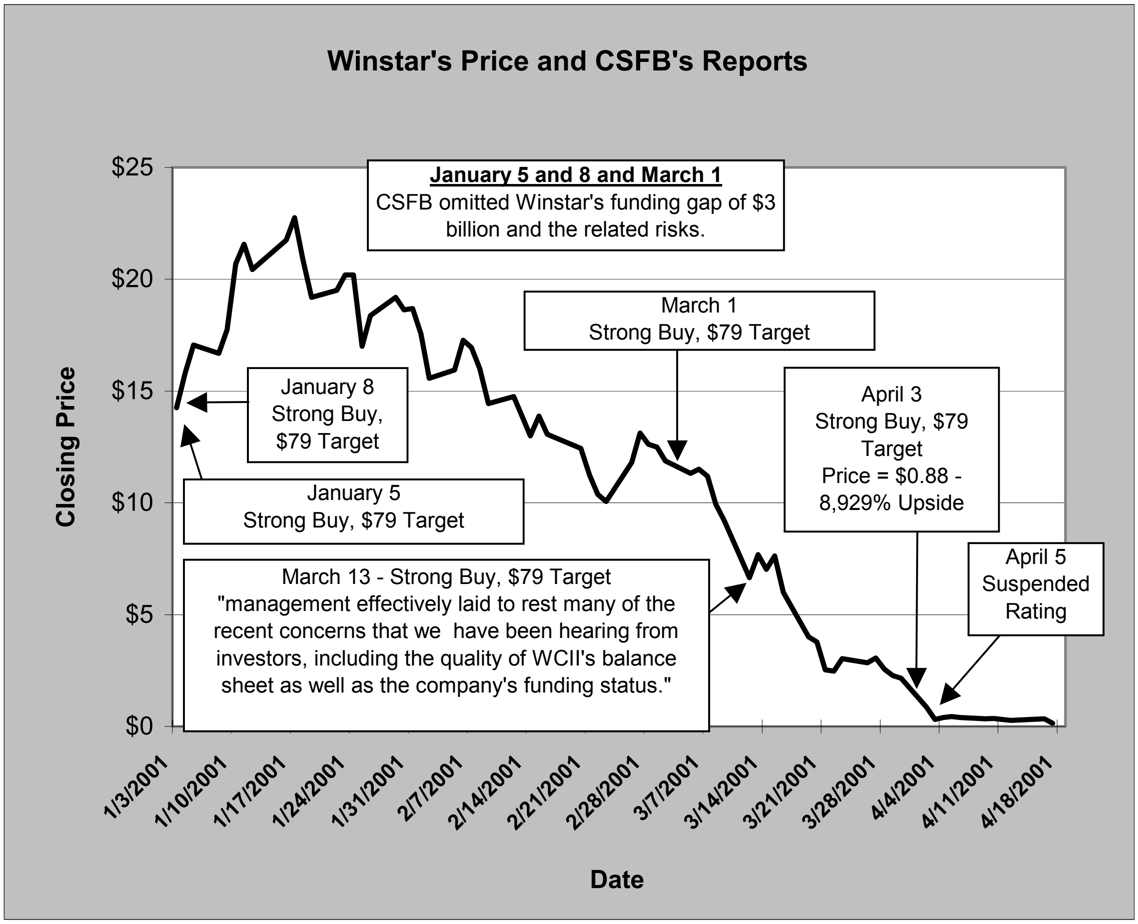
c. Winstar

Winstar Communications, Inc. ("Winstar"), a provider of broadband telecommunications services, traded on the Nasdaq National Market using the symbol WCII. Winstar competed in the capital-intensive competitive local exchange carrier, ("CLEC"), industry with much larger, established regional Bell operating companies to provide "last-mile" networks to businesses.

Winstar never operated at a profit, suffered significant losses, and needed large amounts of capital to survive. As of September 30, 2000, it had more than $2 billion in accumulated deficits. For the year ended December 31, 2000, Winstar had revenue of $759.3 million, a net loss of $894.2 million, and ($9.67) in earnings per share. Net loss to common stockholders totaled more than $1 billion. On April 5, 2001, Winstar announced a scaled-back business plan and the layoff of 2,000 employees - 44 percent of its work force. On April 18, 2001, Winstar filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code.

CSFB, acting through two research analysts in its Equity Research Department, wrote and issued research reports during 2001 that lacked a reasonable basis for its target price and failed adequately to disclose risks of investing in Winstar. Indeed, CSFB's reports during this period did not indicate that investing in Winstar was risky. The firm had initiated equity research coverage of Winstar in May 2000, with a "strong buy" rating and a 12-month target price of $79. CSFB retained the $79 target price from January 5, 2001, through April 3, 2001, even as the stock plummeted from approximately $17 to $0.31 per share and the market capitalization collapsed more than 99%, from $1.6 billion to $30 million.

The following graph demonstrates how CSFB maintained a " strong buy" rating while Winstar's stock price fell:



CSFB Lacked a Reasonable Basis for the $79 Target Price

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%

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.

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

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.

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.

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.

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.

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.

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.

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

d. NPW

CSFB at times had a proprietary interest in NPW that was not disclosed in research reports issued by the firm, in violation of the full and accurate disclosure requirement of NASD Conduct Rules 2110, 2210(d)(1) and 2210(d)(2). 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.

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.

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.

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.

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

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.

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.

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

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.

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.

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

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.

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 to CSFB
RD1210	Egreetings	CFO	3	1.4	$585,000	335.98%	$4,678,000
RD1260	El Sitio	Co-founder	1	1.31	$1,015,000	950.24%	$4,911,000
RD1660	Next Level Comm.	CFO	2	1.25	$710,000	470.45%	$9,860,000
RD1930	Phone.com	Chairman & CEO	1	1.0	$1,285,000	268.71%	$80,720,000
RD2040	iPrint.com	CEO	2	1.15	$353,000	240.46%	$1,297,000

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

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%

6. Violations of Federal Securities Laws and NASD Rules [1]

CSFB Published Fraudulent Research Reports on Two Companies - Digital Impact, Inc. and Synopsys, Inc., Thereby Violating Section 15(c) of the Securities Exchange Act of 1934 ("Exchange Act"), Rule 15c1-2 Thereunder and NASD Conduct Rules 2110, 2210(d)(1) and 2210(d)(2).

As described above, CSFB issued fraudulent research reports for Digital Impact Inc. and Synopsys, Inc. that were false and misleading. By reason of the foregoing, CSFB violated

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[1] NASD Conduct Rule 2110 requires that a member, in the conduct of its business, to observe high standards of commercial honor and just and equitable principles of trade.

NASD Conduct Rule 2120 prohibits a member from effecting any transaction in, or inducing the purchase or sale of, any security by means of any manipulative, deceptive or other fraudulent device or contrivance.

NASD Conduct Rule 2210(d)(1) requires that member communications with the public be based on principles of fair dealing and good faith and that members provide a sound basis for evaluating the facts in regard to any particular security discussed, or service offered. The Rule prohibits members, in the issuance of communications with the public, to omitted facts if the omission, in the light of the context of the material presented, would cause the communication to be misleading. The Rule further prohibits members from using exaggerated, unwarranted or misleading statements or claims in all public communications. No member shall, directly or indirectly, publish, circulate or distribute any public communication that the member knows or has reason to know contains any untrue statement of a material fact or is otherwise false or misleading.

NASD Conduct Rule 2210(d)(2) requires that members, in making a recommendation to the public in advertisements and sales literature, have a reasonable basis for the recommendation

NASD Conduct Rule 3010 requires that each member establish and maintain a system to supervise the activities of each registered representative and associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with the Rules of this Association. Final responsibility for proper supervision rests with the member.

NASD Conduct Rule 3110 requires each member to make and preserve books, accounts, records, memoranda, and correspondence in conformity with all applicable laws, rules, regulations, and statements of policy promulgated thereunder and with the Rules of this Association and as prescribed by SEC Rule 17a-3.

Section 15(c) of the Securities Exchange Act of 1934 provides that broker or dealer shall make use of the mails or any means or instrumentality of interstate commerce to effect any transaction in, or to induce or attempt to induce the purchase or sale of, any security otherwise than on a national securities exchange of which it is a member, by means of any manipulative, deceptive, or other fraudulent device or contrivance.

Section 17(a) of the Securities Exchange Act of 1934 requires every registered broker or dealer, to make and keep certain records for prescribed periods and to furnish such copies thereof, and disseminate such reports as the Commission, by rule, prescribes as necessary or appropriate. Rule 17(a)(3) prescribed thereunder requires that brokers or dealers make and keep current certain specified books and records relating to its business.

Section 15(c) of the Securities Exchange, Rule 15c1-2 thereunder, and NASD Conduct Rules 2110, 2210(d)(1) and 2210(d)(2).

CSFB Published Research That Lacked a Reasonable Basis, Made Exaggerated or Unwarranted Claims or Lacked Full and Accurate Disclosures, Violating NASD Conduct Rules 2110, 2210(d)(1) and 2210(d)(1)(2)

As alleged above, CSFB issued research reports on Numerical Technologies, Inc., Agilent Technologies, Inc, and Winstar Communications, Inc., that were not based on principles of fair dealing and good faith, and did not provide a sound basis for evaluating facts, contained exaggerated or unwarranted claims, contained opinions for which there was no reasonable basis, and/or lacked full and accurate disclosures; and issued research reports on NewPower Holdings, Inc. that, at times, failed to disclose that CSFB and its research analysts had proprietary interests in the company. By reason of the foregoing, CSFB violated NASD Conduct Rules 2110, and 2210(d)(1) and 2210(d)(2).

CSFB Imposed Conflicts of Interest on its Research Analysts and Failed to Manage Those Conflicts Properly, Violating NASD Conduct Rule 2110.

As described above, CSFB engaged in acts and practices that created or maintained inappropriate influence by investment banking over research analysts and therefore imposed conflicts of interest on its research analysts. CSFB failed to manage these conflicts in an adequate or appropriate manner. By reason of the foregoing, CSFB violated NASD Conduct Rule 2110.

CSFB Engaged in Spinning and Maintained Inadequate Books and Records in Connection with its Spinning Activities, Violating Section 17(a) of the Exchange Act and Rule 17a-3 Thereunder, and NASD Conduct Rules 2110 and 3110.

As described above, CSFB engaged in improper "spinning" and IPO distribution practices and failed to maintain books and records in connection with those practices. By reason of the foregoing, CSFB violated Section 17(a) of the Exchange Act and Rule 17a-3 thereunder, and NASD Conduct Rules 2110 and 3110.

CSFB Failed to Supervise, Violating Conduct Rule 3010.

As described above, CSFB failed to establish and maintain a system to supervise the activities of each registered representative and associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with the Rules of this Association. This failure relates to the firm's supervision in the areas of publication of research reports, and the firm's "spinning" activities. By reason of the foregoing, CSFB violated NASD Conduct Rule 3010.

B. Sanctions

CSFB consents to the imposition, at a maximum, of the following sanctions:

1. a censure;

2. a total payment of $200,000,000, as specified in the Final Judgment ordered on a related action filed by the Securities and Exchange Commission (“Final Judgment”), as follows:

   a) $75,000,000, as a fine;

   b) $75,000,000, as disgorgement of commissions, fees and other monies; and

   c) $50,000,000, to be used for the procurement of Independent Research, as described in the undertakings set forth in the Addendum A: Undertakings to the Final Judgment ("Addendum A"); and

The monetary sanctions imposed by NASD shall be reduced by the amounts paid by Respondent pursuant to the Final Judgment. Addendum A and the Voluntary Initiative attached to the Final Judgment, as well as the payment provisions of the Final Judgment, are incorporated herein by reference.

Respondent 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 Respondent shall pay pursuant to Section II of the Final Judgment, regardless of whether such penalty amounts or any part thereof are added to the Distribution Fund Account or otherwise used for the benefit of investors. Respondent further agrees that it shall not claim, assert, or apply for a tax deduction or tax credit with regard to any federal, state, or local tax for any penalty amounts that Respondent shall pay pursuant to Section II of the Final Judgment, regardless of whether such penalty amounts or any part thereof are added to the Distribution Fund Account or otherwise used for the benefit of investors. Respondent understands and acknowledges that these provisions are not intended to imply that NASD would agree that any other amounts Respondent shall pay pursuant to the 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 federal, state, or local tax.

The sanctions imposed herein shall be effective on a date set by NASD staff.

III.

Other Matters

A. CSFB understands that it may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. It further understands that CSFB directly or indirectly through its counsel, employees or other agents, may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by NASD, nor does it reflect the views of NASD or its staff.

B. CSFB specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, any monetary sanction imposed in this matter.

CSFB, through its authorized agent, certifies that it has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it, and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein, has been made to induce CSFB to submit it.

April 21, 2003
Date

Gary G. Lynch
Global General Counsel
Credit Suisse First Boston Corporation
On behalf of Respondent

Reviewed by:

Carey R. Dunne, Esq.
Davis Polk & Wardwell

Accepted by NASD: On behalf of the Director of the Office of Disciplinary Affairs, through delegated authority

4-21-03
Date

Barry R. Goldsmith
Executive Vice President
Department of Enforcement
NASD