**CSFB, Employees May Face NASD Charges --- Probe Into IPO Sales In Tech Boom Extends To Senior Workers**

By Randall **Smith** and Susan **Pulliam**
Staff Reporters of The Wall Street Journal

05/02/2001
The Wall Street Journal
C1


Credit Suisse First Boston's IPO-related woes could be deepening.

The regulatory unit of the National Association of Securities Dealers has notified Credit Suisse First Boston, the big securities unit of Credit Suisse Group, and several of its employees that it plans to recommend charging them with violating NASD rules connected with sales of hot initial public offerings of stock, according to regulatory records and people familiar with the probe.

The notifications are the most significant development yet in a series of investigations into how Wall Street firms awarded IPOs during the technology-stock boom of 1999 and 2000. The action by the NASD demonstrates that the scope of the probe extends to senior employees in different parts of the firm's New York headquarters, rather than being isolated among a few employees at a single outpost.

Among the half dozen or more employees notified of possible disciplinary action are Andrew S. Benjamin, formerly head of the firm's private-client services unit, which caters to wealthy individuals and hedge funds; George W. Coleman, a senior global stock-trading executive; and Thomas E. Fusco, a salesman who dealt with institutional investors, according to the records. The names of the other employees couldn't be determined.

The potential charges involve receiving inflated commissions on trades with big institutional clients that got IPO allocations from Credit Suisse First Boston, according to people familiar with the matter.

The regulatory records of all three employees, maintained by NASD Regulation Inc. in a computerized registry of securities-industry professionals, use identical language in stating that NASDR has advised them that they are "a subject of an investigation that could result in a disciplinary action under the NASDR rules."

The filings indicated that each individual "denies any wrongdoing." Mr. Fusco and Mr. Benjamin referred requests for comment on the NASD action to CSFB spokesmen. Mr. Coleman didn't return calls requesting comment. CSFB declined to comment on the NASD notifications.

The NASD, a major Wall Street self-regulatory organization, has the ability to fine or suspend individuals. But Wall Street executives say the NASD's move doesn't preclude separate civil and criminal probes of Wall Street's IPO allocations being conducted by the Securities and Exchange Commission and the Manhattan U.S. attorney's office, respectively.

The notifications to CSFB and its employees came in the form of so-called Wells notices, according to people familiar with the inquiries. In this procedure, the NASD informs respondents that its enforcement staff plans to recommend filing civil disciplinary charges against them. Before bringing the charges, the NASD staff invites respondents to file a Wells submission explaining why they shouldn't be charged with wrongdoing.

Regulators in such cases typically confront lower- and middle-level employees with evidence of possible violations at this stage of an investigation in order to ascertain whether their conduct was authorized or sanctioned by more senior officials. According to people familiar with the case, the inquiry began as far back as the middle of last year.

The SEC and the Manhattan U.S. attorney's office have been investigating whether some investors who received shares in hot IPOs paid unusually large commissions on other stock trades, and whether those payments constituted illegal kickbacks. NASDR has also been probing some of the same issues.

Although the probes extend to various Wall Street securities firms, an early focus has been Credit Suisse First Boston. About a month ago, CSFB placed two senior employees of its technology group, John Schmidt and Michael Grunwald, on administrative leave, in the first concrete sign that the probe extended to the empire of technology banking superstar Frank Quattrone. Messrs. Schmidt, Grunwald and Quattrone haven't received Wells notifications, according to NASDR records.

Messrs. Schmidt and Grunwald, as well as a junior employee also placed on leave, Scott Bushley, were part of a small group of private-client brokers who worked within Mr. Quattrone's technology group. A

lawyer for Mr. Schmidt has denied any wrongdoing by his client; lawyers for Messrs. Grunwald and Bushley declined to comment. Both Mr. Schmidt and Mr. Grunwald were involved in handing out shares of hot new issues as part of their jobs in the technology banking group.

Yesterday, CSFB sought to distance Mr. Quattrone and his high-tech investment-banking clients from the probe, which focuses on hedge funds (little-regulated private investment partnerships for large investors) and other fast-trading investors who allegedly paid oversize commissions in efforts to boost their IPO allocations. Clients of the technology private-client services group included top executives of companies Mr. Quattrone took public, as well as hedge funds.

In a statement, Charles G. Ward, CSFB's global co-head of investment banking, said: "The decision to place certain brokers on administrative leave had nothing to do with the technology group's investment-banking clients, or their officers or directors." Mr. Quattrone "is not and was not responsible for overseeing brokerage accounts or commissions, nor is he or was he responsible for IPO allocations, which are the subject of an industry-wide examination by various regulatory authorities," Mr. Ward said, adding that the firm is "cooperating fully with the regulators."

Although Mr. Schmidt, who headed the technology private-client services group, reported to Mr. Quattrone, day-to-day oversight authority over records of the Schmidt brokers' trading and IPO allocations was exercised by CSFB officials in New York including Mr. Benjamin, according to two people familiar with CSFB. News that Mr. Benjamin is under investigation was reported in yesterday's New York Times. Until CSFB acquired Donaldson Lufkin & Jenrette Inc. last fall, Mr. Benjamin headed a cadre of about 50 private-client brokers catering to wealthy individuals, as well as some hedge funds, at CSFB. After that acquisition, responsibility for the group was assumed by Michael Campbell of DLJ, which had a much larger group of about 500 private-client brokers.

CSFB has also taken other steps to distance the private-client brokers from Mr. Quattrone, whose technology banking group was known for its unusual autonomy as a "firm within a firm" at CSFB. In the weeks around the beginning of the leave by employees involved in the probe, the remaining private-client brokers began reporting to Mr. Campbell in New York, instead of to Mr. Quattrone.

--- IPO Machine: Volume Down, Scrutiny Up

Key Dates in the IPO Probe

-- Dec. 6, 2000 The Wall Street Journal details arrangements in which Wall Street securities firms, in selling IPOs, solicit from investors orders to buy the stock in the "after-market" as a condition of being allocated IPO shares. Securities law bars such tie-ins.

-- Dec. 7, 2000 Federal authorities are examining, the Journal reports, whether securities firms asked big investors to pay large trading commissions in exchange for hot IPOs. Credit Suisse First Boston is an early focus of the probe.

-- Dec. 12, 2000 Federal authorities in the IPO-kickback probe focus on the IPO of VA Linux Systems, whose lead underwriter was Credit Suisse First Boston.

-- April 2001 CSFB placed two senior employees in the firm's technology group, run by investment-banking superstar Frank Quattrone, on administrative leave.

-- April 2001 The SEC seeks records from securities firms on alleged tie-in purchases of stocks after their IPOs, as part of a new inquiry into possible IPO abuses following the Journal's Dec. 6, 2000 disclosures.

Sources: Thomson Financial; Wall Street Journal reporting

**Heard on the Street**

# Two at CSFB Put on Leave Amid IPO Probe --- Action Shows Inquiry Touches Tech Team Of Frank Quattrone

By Susan **Pulliam** and Randall **Smith**
Staff Reporters of The Wall Street Journal

04/20/2001
The Wall Street Journal
C1


Two senior employees in the technology group at Credit Suisse First Boston have been placed on administrative leave by the securities firm as a federal probe advances into how Wall Street has awarded hot initial public offerings of stock to customers, according to people familiar with the move.

John Schmidt, a top manager in the group, and Michael Grunwald, who reports to him, began the leaves a few weeks ago, the same people said. Their jobs involve catering to wealthy clients of technology banking superstar Frank Quattrone. The leaves are related to the probe, the people said.

The action by the unit of Zurich-based Credit Suisse Group is the first concrete sign that the probe includes the technology business run by Mr. Quattrone, one of the most powerful and highest-paid investment bankers at any Wall Street firm.

As reported, the Securities and Exchange Commission and the U.S. attorney's office in Manhattan are investigating whether some investors who received shares in hot IPOs paid unusually large commissions on other stock trades, and whether those payments constituted illegal kickbacks. The probes extend to various Wall Street firms. The regulatory arm of the National Association of Securities Dealers is also probing some of the same issues. Both Mr. Schmidt and Mr. Grunwald were involved in handing out shares of hot new issues as part of their jobs in the technology banking group.

One early focus of the investigations has been the big investment bank Credit Suisse First Boston, which under Mr. Quattrone's leadership gained a sizable share of the once-sizzling market for high-tech IPOs, many of which soared more than 100% in price on their first trading day, during a market mania for Internet stocks that began in late 1998 and lasted into the spring of 2000.

Credit Suisse First Boston's hiring of Mr. Quattrone and a group of bankers, analysts and support staff in mid-1998, from the Deutsche Morgan Grenfell unit of Deutsche Bank AG, helped catapult CSFB into the top ranks among Wall Street firms. CSFB more than doubled its share of equity underwriting to 8.6% in 1999 from 3.8% in 1998, boosting its rank to No. 4 from No. 8, according to Thomson Financial.

The firm's stock-underwriting fees more than tripled to $686 million in 1999 from $203 million in 1998; in technology- stock issues, the firm soared to No. 3 in 1999 from No. 12 in 1997. Because he brought in so much business for CSFB, Mr. Quattrone's annual pay has been estimated at well above $20 million, according to people familiar with the firm.

The Credit Suisse unit has previously confirmed receiving requests from U.S. government authorities for information about IPO allocations, while defending its procedures as consistent with industry practice.

Asked about the leaves taken by Messrs. Schmidt and Grunwald, a spokesman for CSFB said, "We don't comment on internal employee matters." He wouldn't elaborate.

In a statement, Mr. Schmidt's attorney, Richard Marmaro of the law firm of Proskauer Rose LLP, said, "We firmly believe that John's conduct as part of CSFB's private-client-services tech group was at all times appropriate, ethical and above-board." Mr. Grunwald couldn't be reached for comment. His lawyer, Brad Brian of Munger, Tolles & Olson LLP, said he had only been retained last week and couldn't comment. Mr. Quattrone declined to comment.

The Quattrone group had unusual autonomy, operating as a "firm within a firm" in the CSFB organization, according to people on Wall Street. It had its own revenue-sharing agreement with CSFB. And, in an unusual arrangement for Wall Street, the technology group's research analysts reported both to executives in the Quattrone group, based in Palo Alto, Calif., as well as to CSFB's senior research executives in New York.

The technology group likewise has had its own private-client services group, a team of high-level stockbrokers led by Mr. Schmidt who also reported jointly to Mr. Quattrone and CSFB executives in New York. The California group caters to clients such as the senior executives of technology companies,

venture-capital executives and other business associates of Mr. Quattrone. Their clients also include many hedge funds, which are trading partnerships for wealthy investors.
The technology private-client group typically got its own slug of IPO shares to allocate among its clients, according to former employees of the group. However, while the latest development involves members of Mr. Quattrone's group, the investigations continue to look into the activities of the New York operations of CSFB, which manages IPO allocations and includes equity syndicate executives, institutional sales executives and traders.
Mr. Schmidt, who works in San Francisco and reports directly to Mr. Quattrone, has overseen the tech group's private-client services department at CSFB. His title is listed on the CSFB Web site as managing director, technology client services. He and Mr. Grunwald are being paid while on leave.
Mr. Schmidt, 54 years old, is a securities-industry veteran. He served as deputy assistant secretary of the Treasury for debt management in the Carter administration, later becoming a regional manager for institutional sales at CSFB, then known as First Boston Corp., from 1981 to 1994. After a stint at Lehman Brothers Inc. from 1994 to 1997, he joined the Quattrone group, then at Deutsche Morgan Grenfell. He was also a governor of the NASD board from 1993 to 1996 and chairman of the Western District of the Securities Industry Association in 1991.
Mr. Schmidt's attorney, Mr. Marmaro, referred questions about the reasons for the leave to CSFB, and declined to discuss the investigation in detail except to say that Mr. Schmidt didn't engage in "profit-sharing" of IPOs. According to people familiar with the probes, such profit sharing -- in which some investors agreed to share their IPO profits with some Wall Street firms in order to boost their allocations of hot issues -- is one of the issues being examined. Although Mr. Marmaro said Mr. Schmidt hasn't spoken with the agencies conducting the probes, the lawyer wouldn't say whether the agencies have sought to question him.
Mr. Grunwald, who graduated in 1988 from Colorado State University, worked successively in the 1990s at Trammell Crow Co., a Dallas real-estate company; Andersen Consulting in San Francisco; Morgan Stanley & Co.; Osprey Partners LLC in Greenwich, Conn.; and Lehman Brothers, before joining CSFB in October 1999. He reports to Mr. Schmidt, and is a longtime personal friend of Bill Brady, one of Mr. Quattrone's two top aides. Mr. Brady is head of global technology corporate finance.
In the CSFB technology group, Mr. Grunwald's job has included handling cash-management chores for high-tech companies that are CSFB clients, duties that put him in close touch with senior executives of technology-company clients. In the group, he was considered the point man for many of those client relationships, according to people familiar with the firm.
Meanwhile, the regulatory unit of the NASD could bring its own enforcement actions against Wall Street firms and their employees, apart from the probes of the SEC and U.S. attorney in Manhattan. At a seminar on securities enforcement held by the New York law firm of Schulte Roth & Zabel LLP on March 4, Barry Goldsmith, executive vice president for enforcement at NASD Regulation Inc., said his agency has "concerns about sales and pricing practices" related to IPOs. NASDR wouldn't confirm or deny any probe.
Deborah Meshulam, a former SEC lawyer now at the firm Piper Marbury Rudnick & Wolfe in Washington, said that while the SEC has broad authority to investigate fraud or manipulation in IPOs, the NASD has its own separate rules requiring brokers and dealers to observe standards of fair practice and conduct. The NASD also has a number of rules that specifically govern IPO allocations, she added.
Daniel J. Kramer, a partner at the Schulte Roth firm, said one rule that could apply is the NASD's "Free-Riding and Withholding" rule, which requires that IPOs be fully distributed, meaning dealers must sell all the shares in the issue and can't retain an equity interest in the company issuing the stock.
Requiring customers to return a prearranged percentage of their IPO profits to their brokers could violate that rule, some Wall Street executives have said. From the SEC's point of view, lawyers say, such profit-sharing arrangements could also amount to undisclosed underwriters' compensation.
In December, the SEC issued subpoenas to several major securities firms seeking data on which investors received shares of IPOs in 1999 and 2000, as well as which investors paid commissions of more than 10 cents a share on trades of 10,000 shares or more. In January, the U.S. attorney for the Southern District of New York issued subpoenas to the same firms, seeking the same data.
Among the recipients of the latest round of subpoenas from the U.S. attorney's office were many of the top firms on Wall Street, including Goldman Sachs Group Inc., Morgan Stanley, J.P. Morgan Chase & Co., Lehman Brothers Holdings Inc., Bear Stearns Cos. and the UBS Warburg unit of UBS AG, according to people familiar with those firms.

It couldn't be determined whether two other firms that led numerous IPOs by high-tech companies -- the Robertson Stephens unit of FleetBoston Financial Corp. and the Deutsche Banc Alex. Brown unit of Deutsche Bank AG -- received the same subpoenas.

**Sharing the Wealth: At CSFB, Lush Profit Earned on IPOs Found Its Way Back to Firm --- Favored Clients Did Trades That Gave Underwriter Very High Commissions --- Scoring Big on VA Linux**

By Susan **Pulliam** and Randall **Smith**
Staff Reporters of The Wall Street Journal

11/30/2001
The Wall Street Journal
A1


Steve Kris is a small fish in the investment world, but he made a big splash in the IPO market.

In late 1999, as the red-hot software firm VA Linux Systems was preparing an initial public offering, investors were clamoring for shares. Among them was Mr. Kris, head of a small Denver investment firm called Ascent Capital. But Ascent drew only a modest allocation of 2,500 shares from the lead underwriter, Credit Suisse First Boston.

Mr. Kris pressed a CSFB salesman for more, and the salesman made a plea to a CSFB allocation official. Ascent "has done $100,000 in business in the last week" and "will do close to $1 million all in this year," the salesman's e-mail said, adding that Ascent was sure to be a buyer on the open market once Linux started trading.

Bingo. CSFB allotted Ascent 17,950 Linux shares at the offering price, seven times as many as before. The stock soared a record 698% on its first trading day, bringing Ascent paper profits of $3.8 million.

That very day, Ascent traded big blocks of other stocks through CSFB at astronomical commissions. In contrast to normal fees of a few cents a share on such trades, Ascent paid CSFB $2.70 a share to trade 50,000 shares of Citigroup -- handing the underwriter a $135,000 commission, CSFB trading records show. Ascent also traded blocs of Compaq, Kroger, K mart and AT&T through CSFB at far-above-normal commissions.

The next day, the CSFB salesman thanked the allocation official. "Ascent ended up doing $500,000 in commissions with us yesterday. Thanks again for your help with this account," wrote salesman Robert Paglione in an e-mail. CSFB declines to comment, while Messrs. Paglione and Kris didn't return phone calls.

The IPO boom that was one of the bull market's most dramatic features also bred questionable deals, some of which now are are the subject of a multifaceted investigation. Both the Securities and Exchange Commission and the National Association of Securities Dealers are looking into IPO practices, although a parallel criminal inquiry was dropped this week.

Now -- thanks to trading records, e-mails and interviews with dozens of investors and current and former CSFB employees -- it is possible to get an inside look at how some of this IPO trading worked.

The Kris episode is part of one investigative focus. This focus is on whether CSFB arranged to have favored investors share their quick IPO profits with the underwriter, in deals that amounted to illegal kickbacks.

Another investigative track looks at whether underwriters illegally gave bigger IPO allotments to investors who promised to do some "after-market" buying, picking up more shares once the stock went public. That part of the probe focuses on four other securities firms -- Goldman Sachs Group, Morgan Stanley, the securities unit of J.P. Morgan Chase & Co. and the Robertson Stephens unit of FleetBoston Financial Corp. -- according to people familiar with the case.

Such after-market buying would add fuel to the spectacular first-day runups seen during the Internet bubble -- runups that proved a trap for countless unwary public investors. The 1999-2000 IPO market gave birth to 637 public companies whose peak values totaled $400 billion. Most of that has since vanished. So small investors lured in by those first-day frenzies often ended up big losers.

"The public is taking things at face value, and in the meantime there is a set of under-the-table deals going on that completely distorts the expectations of the individual investor's decision to buy," says Samuel Hayes, professor emeritus at Harvard Business School.

Improper allocation practices affected some large investors, too -- namely, those who played by the rules. Their allocations were reduced to the extent that shares were being shunted to investors who did favors for the underwriters.

CSFB, which is discussing a possible settlement with investigators, says its method of distributing IPOs has been in line with industry practices. Still, the firm, a unit of Zurich's Credit Suisse Group, shifted into a

damage-control mode in the spring that led to the firing of three California brokers. The pressure of the case also contributed to the departure in July of CSFB Chief Executive Allen Wheat.
CSFB has portrayed the problem as limited to a small group at its California technology banking group. However, the interviews and records suggest that for CSFB, collecting a share of investors' profits was an integral part of the IPO operation.
The December 1999 VA Linux deal was just about the zaniest of the IPO frenzy. The coming deal had investors buzzing at a CSFB technology conference in Scottsdale, Ariz., just after Thanksgiving. VA Linux, based in Freemont, Calif., provided software, hardware and services for the free Linux operating system, an alternative to Microsoft's Windows. The surging price of an already-public Linux provider, Red Hat Inc., showed how torrid the VA Linux deal was likely to be.
Trader John Hurley could tell it would be special when his broker clammed up. "Normally, the broker keeps calling you and telling you how hot the deal is," says Mr. Hurley, then head trader at Bowman Capital, a hedge fund in San Mateo, Calif., This time: radio silence.
When a deal is hot, the lead underwriter's brokers compete to get shares for their best clients, continually pressing officials at their firm for bigger allocations. For the underwriters, just how they are supposed to assign shares is somewhat murky. In general, they are allowed to allot shares to their best customers -- those who trade with them day in and day out -- and also to favor investors they consider best suited to hold the stock for the long haul. But regulations prohibit anything that could be construed as a quid pro quo or payment for receiving IPO shares. In addition, a 1934 law, which is designed to prevent underwriters from receiving undisclosed profits on deals or manipulating the IPO market for their benefit, requires that an underwriter fully disclose its IPO-related fees to the company going public.
As the Dec. 9 Linux IPO neared, traders at AIM Management, a large mutual-fund family in Houston, tried to find out how many shares they'd be allowed to buy at the offer price and were told that demand far exceeded supply. At another mutual-fund firm, Munder Group in Birmingham, Mich., portfolio manager Carl Wilk says, "We were told they were going to allocate among long-term clients that were going to hold the stock," and things were so tight that all investors would have their allocations cut back.
Big mutual funds like AIM, a unit of London's Amvescap PLC, and Munder routinely get IPO allocations because they are steady customers of the underwriters, trading millions of shares at commissions of a few cents a share. But behind the scenes, some obscure investment funds were playing a different IPO game. These mostly-tiny funds, usually managing just a few investors' money, are referred to as "flipper funds" because of their penchant for flipping whatever IPO shares they get for quick profits.
One such fund was Ascent Capital, run by Mr. Kris in Denver. A small firm like this would normally be able to buy no more than 500 to 1,000 shares of a sought-after IPO at the offer price. But two salesmen in CSFB's Boston office, Mr. Paglione and Dan Gilbert, pushed to get Mr. Kris a bigger allocation.
CSFB often monitored the profits its customers made on IPOs it underwrote. It wanted to make sure that as some customers' IPO profits grew, so did the stock-trading commissions they paid to CSFB, according to former CSFB employees and investors. Former salesmen say CSFB's global sales trading chief, George Coleman, would meet with them, brandishing records of clients' profits and urging the salesmen to get the clients to "step up" their commissions. And if clients had a problem with the size of their allocations, he would sometimes meet with them.
One investor who wanted a bigger IPO allocation says Mr. Coleman visited him in early 2000 and told him CSFB expected him to pay commissions equal to a big chunk of his profits on CSFB-led new stock issues. The message was, "You get $3 -- we get $1," says this investor, manager of a hedge fund, or private investment pool for wealthy individuals. CSFB and a lawyer for Mr. Coleman and CSFB deny such a conversation took place.
CSFB documents and interviews with former salesmen show that CSFB even calculated the ratios of its customers' IPO profits to the trading commissions they paid to the firm. Three days before the VA Linux IPO, Mr. Gilbert, the salesman who was trying to get Mr. Kris a bigger allocation, sent Mr. Coleman an e-mail saying: "Steve Kris at Ascent Capital has been listening to us, he paid us $150,000 in secondary commissions in November in an attempt to bring the ratio down." It isn't clear what ratio this e-mail refers to.
Mr. Coleman responded a few minutes later: "We should get the updated November P&L report on Tues Wed. We'll talk Thanks, gc." CSFB and Mr. Coleman's lawyer decline to comment on the e-mails, which have been reviewed by regulators. Messrs. Gilbert and Paglione didn't return calls.
Two days later -- the day before the Dec. 9 IPO -- the other CSFB salesman, Mr. Paglione, also made an appeal on Mr. Kris's behalf. He told an allocation official that after Linux went public, Mr. Kris was willing

to buy additional shares in the open market after the IPO and was "price insensitive." The twin appeal worked. The 17,950-share IPO allocation that tiny Ascent suddenly received was nearly a third as big as that given to AIM, a mutual-fund colossus that manages $141 billion in assets.

The next morning, Wall Street waited expectantly as CSFB prepared for the start of trading in VA Linux, whose IPO shares were priced at $30. When traders at AIM heard that the estimate, or "indication," for the opening price was $100, some gasped, says AIM chief stock officer Ed Larsen. Then came an indication of $200. Finally the IPO opened -- at a first trade of $299, nearly ten times the price the ground-floor investors paid. Ascent's paper profits were in the millions.

Almost immediately, Ascent began making large trades of other stocks through CSFB. They involved five blue chips for which millions of shares exchange hands, so no attention was drawn to Ascent's trades. Ascent traded 50,000 shares of Citigroup, according to the CSFB's trading records, paying the securities firm a commission of a whopping $135,000, or $2.70 a share.

Ascent also traded 100,000 shares of Compaq, handing CSFB a $125,000 commission, the records show. It traded 50,000 shares of K mart -- a $25,000 commission for CSFB -- and 100,000 shares of Kroger -- an $80,000 commission. Finally, Ascent's Mr. Kris traded 50,000 shares of AT&T through CSFB, giving the underwriter a $137,500 commission, or $2.75 a share.

The ranks of flipper funds pursuing this or other IPO strategies grew during the bull market of the 1990s. Among these little-known funds was PTJP Partners in lower Manhattan. PTJP was founded by a man named Anthony Bruan and is a customer of a broker-dealer owned by Bruan family members, called Worldco.

Among strategies PTJP used to increase the amount of IPO stock it could buy was an elaborate system of multiple names, known on Wall Street as "DBAs" for "doing business as." Using account names that numbered in the dozens and changed frequently, PTJP was able to increase its overall piece of deals by obtaining numerous separate allocations rather than just one. Mr. Bruan and PTJP were interviewed by New York federal prosecutors before the criminal probe ended. They decline to comment.

Among PTJP's DBA accounts, one called Back Bay Management, run by trader Ronald Barnes, received a large allocation in the VA Linux deal. CSFB granted Back Bay the right to buy 17,950 Linux shares at the $30 IPO price. As soon as the stock went public, earning Back Bay huge paper profits, Mr. Barnes routed a series of high-commission trades to CSFB, according to the CSFB trading records. In seven trades on the day of the Linux IPO, Back Bay paid CSFB a total of $387,550 in commissions, ranging from 57 cents a share to $3 a share, according to trading records.

Again, the trades involved high-volume stocks, likely to escape attention. CSFB records show Back Bay's trades included 20,000 shares of American International Group, generating $54,000 in commissions, or $2.70 a share; 20,000 shares of Anheuser-Busch, generating $37,000 in commissions, or $1.85 a share; 7,500 shares of Champion International for $10,500 in commissions, or $1.40 a share; 36,000 shares of IBM for $108,000 in commissions, or $3 a share; and 30,000 shares of Merck for commissions of $55,500, or $1.85 a share. Back Bay's Mr. Barnes declines to comment.

Trades with high commissions right after an IPO were often done to pay back the underwriter, according to numerous interviews with people who run small hedge funds. They add that to avoid the risk of losing money on such trades, the hedge funds would frequently make opposite, offsetting trades elsewhere. CSFB declines to comment on the purpose of the unusually high commissions.

The commissions Ascent and Back Bay paid to CSFB never exceeded 5% of the stock's value, conforming to an NASD cap. In the Ascent trades, the commissions were exactly 5%, while the Back Bay trades came to 2.5% of the transactions' value.

But "the limit of 5% was never intended to apply to Fortune 500 stocks where there is a very liquid market. The typical commission for an institutional trade for that kind of stock would be five cents" a share, notes Harvard's Mr. Hayes. "There's no way you can rationalize these kinds of commissions for the service rendered."

The wave of ultrahigh-commission trades the same day as the Linux IPO caught the eye of CSFB's legal and compliance departments. The firm had an internal policy capping allowable commissions for some of its brokers at 3%, or $1 a share. CSFB made an effort to address the issue. Twelve days after the Linux IPO, Andrew Benjamin, then chief of the brokers catering to wealthy individuals and some smaller hedge funds, announced a new policy on mark-ups and mark-downs, a form of commission. In a Dec. 21 e-mail to his sales force and Mr. Coleman, he wrote that "beginning Jan. 1, you may not charge /mark-up/down more than 2% or 75 cents per share without the approval of" himself, Mr. Coleman or Tom Rice, head of CSFB's U.S. small-stock sales trading operation.

Commissions kept flowing, however. Many small hedge funds that wanted IPO stock now held their CSFB commission payments to 75 cents a share but spread them over a larger number of transactions, say investors and lawyers involved in the case.

And CSFB continued to handle IPOs, such as Riverdeep Interactive Learning, and the firm's commissions continued to climb. They were up 72% in total in the first half of 2000, compared with a year earlier, according to an internal CSFB document. The increases ranged from 63% in the New York operation to 85% in San Francisco and 129% in Atlanta. The securities industry as a whole averaged a much smaller 27% commission increase in the period.

But investors started to complain. Brothers Robert and Joseph Cooper, who ran a small hedge fund in New York, grew jealous of a colleague who got large IPO allocations from CSFB, say people familiar with the matter. A spat broke out after the Coopers tried to get a piece of the IPO action by opening an account with a Boston stockbroker for CSFB, according to several people familiar with the incident.

When the Coopers were rebuffed, Joseph Cooper sent an anonymous e-mail to CSFB supervisors alleging abusive IPO practices, including the payment of mega-commissions, say people familiar with the events. CSFB traced the e-mail to him, whereupon, unable to prove his allegations, he withdrew them. Mr. Cooper declines to discuss the incident. His lawyer, Larry Stumpf, says, "This is the ultimate pimple on the elephant's behind."

Meanwhile, the SEC began to turn up unusual commission payments during a routine audit of CSFB in mid-2000. People familiar with its investigation also say that in mid-2000, the SEC got an anonymous e-mail from an angry IPO investor who complained of commissions being requested by CSFB. The SEC declines to explain what prompted its IPO investigation.

**Silicon Touch: For Frank Quattrone, With a Fief at CSFB, Tech Was a Gold Mine --- Both Banker and Investor, He Made the Most of IPOs And Venture-Capital Ties --- Getting In on Ground Floor**

By Susan **Pulliam** and Randall **Smith**
Staff Reporters of The Wall Street Journal

05/03/2001
The Wall Street Journal
A1


Frank Quattrone always stood apart. Growing up in a working-class Philadelphia neighborhood, he spun jazz albums even as other kids soaked up rock. At Stella Maris parochial school, he read four grade levels above his own. In Latin class at St. Joseph's prep school, he got a grade of 105% on his first test from a teacher known for failing the whole class on the first exam.

These days, Mr. Quattrone stands out on Wall Street. One of the nation's most powerful investment bankers, he has built a technology-banking powerhouse at Credit Suisse First Boston and transformed the firm from an also-ran in initial public offerings into the nation's second-largest IPO underwriter.

In the process, he has become one of the richest men in investment banking. The 45-year-old Mr. Quattrone may have earned as much as $100 million a year, by the estimate of former CSFB employees with knowledge of his pay package. CSFB disputes the number as "overstated" but won't elaborate. Mr. Quattrone declines to be interviewed.

In any case, the figure doesn't include the wealth Mr. Quattrone has accumulated through personal investments in tech stocks, including ground-floor investments in companies his banking group later took public. In just one instance, he and two colleagues made a total of about $2 million after paying a bargain price for shares of Interwoven Inc., an Internet software firm, a few months before CSFB took Interwoven public, according to regulatory filings.

Mr. Quattrone, operating out of Palo Alto, Calif., acts in multiple roles encompassing research, investing and underwriting, and does so with less home-office oversight than is common at other firms. With his unusual autonomy, he has operated almost as a firm within a firm.

Mr. Quattrone's rise shows how some who were on the inside during the tech boom piled up huge fortunes in part through special access, unavailable to other investors, to the machinery of that era's frenzied stock market. But now he faces a crunch. The steep yearlong downturn in tech stocks has hurt the profits of his technology group. And in recent weeks, the group he heads has come under scrutiny in connection with a federal probe into whether some investment-bank employees awarded shares of hot IPOs in exchange for unusually high commissions, and whether those commissions amounted to kickbacks.

The regulatory unit of the National Association of Securities Dealers has told CSFB it plans to recommend charging the firm with violating NASD rules related to commissions paid by investors who received IPO allocations. CSFB denies doing anything wrong but declines to comment on what the NASD might do.

CSFB placed two senior brokers in Mr. Quattrone's group on administrative leave last month. In a statement this week, CSFB said Mr. Quattrone "is not and was not responsible for overseeing brokerage accounts or commissions, nor is he or was he responsible for IPO allocations, which are the subject of an industry-wide examination by various regulatory authorities." CSFB says that its IPO allocation practices have been consistent with industry standards. Addressing Mr. Quattrone's level of autonomy, it says his group is "fully integrated" within the firm.

No securities firm did more technology IPOs during the boom years than Credit Suisse First Boston. The volume more than tripled CSFB's stock-underwriting revenue in 1999, according to Thomson Financial. This business showered vast wealth on the Quattrone group. With a revenue-sharing agreement with CSFB after certain costs, the group had as much as $500 million to divide among its members in 1999, according to some former and current CSFB employees. The group eventually numbered as many as 350 people.

The tech-stock whirlwind also generated tremendous stock-market profits for Mr. Quattrone's network of venture capitalists, technology entrepreneurs and investment bankers. And the powerful group he built inside CSFB put him in the catbird seat. High-tech research analysts at most firms report only to the

research chief. At CSFB, they report jointly to Mr. Quattrone and the research chief. Ditto the tech-group brokers catering to well-heeled clients, who until recently reported both to Mr. Quattrone and New York.
As part of his deal with CSFB, which he joined in 1998, Mr. Quattrone was given $25 million each year to invest for the firm in potential underwriting clients about to go public. Mr. Quattrone told associates the fund would not only help the bank win underwriting business, but deliver a rich investment return as well.
Mr. Quattrone and two top CSFB aides -- George Boutros and William Brady, his mergers and corporate-finance chiefs, respectively -- were general partners of the fund through a partnership named QBB Management. The general partnership allowed the three executives to invest personally in the companies the fund invested in, some of which Mr. Quattrone's group brought public only months later. Messrs. Brady and Boutros decline to comment.
It is unusual for an investment banker such as Mr. Quattrone to run his own venture-capital fund. Other securities firms let their employees participate in venture-capital funds run by the firm. But they typically have them managed by separate business units uninvolved in the IPO process, to avoid any potential conflicts.
In the spring of 1999, CSFB tech-group banker Cameron Lester met David Allen, Interwoven's chief financial officer, who was looking to raise one last slug of venture-capital financing before going public. The CSFB bankers asked for a piece of the action.
"We said OK. We liked the idea of our bankers having some skin in the game," Mr. Allen says. "But we wanted to keep it limited." In June 1999, Mr. Quattrone and other members of his group bought shares of Interwoven at an effective price of $5.66 a share. Four months later, CSFB took the company public at $17 a share.
When Messrs. Quattrone, Boutros and Brady sold shares in October 2000, a year after the IPO, Interwoven shares were near their peak. Sale proceeds on their combined $126,000 investment totaled more than $2 million. Interwoven shares are now down from their peak but still well above their IPO price. CSFB says the investment was by a CSFB affiliate, and was "checked by the firm for conflicts and approved."
Mr. Quattrone and his group made similar investments in some of the companies CSFB later took public, including Riverdeep Group PLC, according to regulatory filings. CSFB says that not all the companies the group invested in were CSFB clients or eventually went public.
Beyond CSFB's investment vehicles, Mr. Quattrone was a longtime investor in funds run by some of the most prominent venture capitalists in Silicon Valley. He was an investor in Technology Crossover Ventures, Foundation Capital, Accel Partners, New Enterprise Associates, Integral Partners and the venture fund run by hedge-fund investor Larry Bowman.
One of his strongest relationships was with Technology Crossover Ventures, which chose CSFB more than other securities firms to manage IPOs of companies TCV had invested in. These ties were beneficial for both sides. When CSFB brought VA Linux public in December 1999, TCV stood out among investors that got some of the coveted shares of the red-hot IPO.
Even though TCV had no prior involvement with VA Linux as a venture investor, TCV got the right to buy 50,000 shares of the IPO. That stock generated a first-day paper profit for TCV of $10.5 million, with the shares rocketing 697.5%. In January, Jay Hoag, a TVC general partner, confirmed that his funds had received VA Linux shares and said TCV had enjoyed "great relationships" with Quattrone group members.
Some executives of high-tech firms that were clients of Mr. Quattrone or of elite brokers in his group also got in on the action. According to a former CSFB employee, executives of CSFB underwriting clients who had IPO shares allocated to their personal brokerage accounts included Nancy Pierce, corporate development officer of Carrier Access Corp., and Garry Betty, CEO of Earthlink Inc. Ms. Pierce confirms she had IPOs allocated to her brokerage account, but declines to comment on how much money she made. A spokesman for Mr. Betty says he is a client of CSFB's technology brokerage unit but declines to discuss IPO allocations.
Mr. Quattrone grew up in south Philadelphia, the setting for the movie "Rocky," in a small two-story rowhouse in a neighborhood where the Italian-American New Year's celebration the "Mummers Parade" was born. Young "Frankie" kept the company of one best friend, Rosario "Rusty" Lamberto, staying off the rough streets of his neighborhood. Says Mr. Lamberto: "Even in grade school, Frank had the foresight to know he wanted to be something special."
In 1979, at Stanford University, Mr. Quattrone attended a lecture by Apple Computer Co. founder Steven Jobs and became friendly with business-school classmates such as Steven Ballmer, now chief executive

of Microsoft Corp. He also bonded with a circle of future venture capitalists including William Elmore of Foundation Capital, Steven Dow of Sevin Rosen and Michael Levinthal of Mayfield Capital.
He joined Morgan Stanley and, in a move that set him apart from other bankers, in 1983 he put down roots in Silicon Valley. In the 1980s, tech-stock dealmaking was dominated by smaller California firms and largely ignored by Wall Street. Mr. Quattrone joined the community of venture capitalists and technology entrepreneurs. Says William Reichert, president of garage.com and another Stanford classmate: "He said, `We are setting up shop here. This is not an outpost.'"
Mr. Quattrone cultivated an image in sharp contrast to his East Coast banking peers. Sporting a collection of kitschy golf and skiing sweaters -- some of them gifts from his daughter, a colleague says -- as well as a bushy mustache and hair parted in the middle, he sang karaoke at late-night client functions. A favorite tune: "Rocky Raccoon."
Among early deals he worked on was the 1990 IPO for Cisco Systems Inc. At the height of the tech boom a decade later, Cisco briefly had the largest market value of any U.S. company.
Despite success at Morgan Stanley, Mr. Quattrone wanted more. Three times a year in the early 1990s, he went to New York and delivered the same message to then-president John Mack: Mr. Quattrone wanted more control over technology banking. He wanted more control over the research analysts who followed the young companies. He wanted to control the ranks of investment bankers who worked for him. And, says a person familiar with the meetings, he wanted credit for the commissions the firm received for trading in technology stocks.
He didn't get it, but sometimes that didn't stop him. In 1990, for example, Mr. Quattrone prodded computer analyst Rick Ruvkun to issue a positive report on Mips Computer Systems Inc., according to people familiar with Morgan. Mr. Ruvkun rated the stock "hold" instead of the "buy" that Mr. Quattrone had sought. Mr. Quattrone has previously denied pressuring Mr. Ruvkun to make favorable comments. But he did acknowledge pressing for resumed research coverage on the company, which Morgan Stanley had taken public.
Mr. Quattrone eventually got the kind of control he sought, but not at Morgan Stanley. In 1996, he joined Deutsche Morgan Grenfell Securities, which was bulking up its investment-banking unit. The Deutsche Bank AG unit now called Deutsche Bank Securities gave Mr. Quattrone his own technology-banking fief, with control over his own bankers and research staff, plus a share of the revenue for tech stocks traded by Deutsche Bank.
His group paid quick dividends. In 1997, it scored a coup by winning the underwriting for the IPO of Amazon.com. To help set his pitch apart, he had his group's marketing material bound into a hardcover book with "Amazon.com IPO" on the spine -- far splashier than the standard spiral-bound "pitch" booklets usually presented by bankers.
Mr. Quattrone got a still bigger stage when he jumped to CSFB in the summer of 1998. The timing was perfect. It was just before a tidal wave of technology-stock deals hit the market, and it put Mr. Quattrone in position to ride the wave.
Mr. Quattrone showed his creativity in getting IPO business. Peter Jackson, CEO of Intraware Co., complained to CSFB bankers that he was tiring of listening to bankers' pitches for the company's IPO, saying that courting investors would make him "feel like a mule." The next morning, a CSFB banker stood in Intraware's lobby with a live mule, a bottle of wine and a sign urging the company to pick CSFB to lead its IPO. The gimmick worked.
Mr. Jackson says bankers at Goldman Sachs Group Inc. had advised him to hold off on an IPO in November 1998, but Mr. Quattrone was eager to move. "We will stay up all night to get this deal done," Mr. Jackson says Mr. Quattrone told him. Indeed, the Intraware CEO recalls that one of Mr. Quattrone's junior bankers "slept under his desk" at CSFB while working on the deal.
During the boom, Mr. Quattrone drew together a circle of venture capitalists and technology entrepreneurs that eventually became know as the "friends of Frank." Each year, he treated these associates to weekend-long ski retreats in Aspen. And he kicked off his group's technology conference in Phoenix each fall with an elaborate wine-tasting dinner, serving $400 bottles of Chateau d'Yquem, a dessert wine. CSFB says such outings are routine among Wall Street firms.
---
Suzanne McGee contributed to this article.

**Strictly Routine? Not for CSFB, Where Review Became Probe**
By Susan **Pulliam** and Randall **Smith**
Staff Reporters of The Wall Street Journal

11/30/2001
The Wall Street Journal
C1


A routine regulatory examination of Credit Suisse First Boston about 18 months ago has culminated in one of the highest-profile Wall Street investigations in years.

In the summer of 2000, the Securities and Exchange Commission noticed unusually large commission payments at CSFB during a standard review of the firm, according to people familiar with the matter. The initial tip from that exam eventually triggered a civil investigation into whether the securities firm, which is a unit of Credit Suisse Group, as well as other securities firms improperly sought outsize commissions in exchange for doling out shares of initial public offerings.

Now, that sweeping probe is nearing an end. CSFB, which remains a focus of the investigation, currently is in negotiations with the SEC in an effort to avoid securities-fraud charges, according to people familiar with the matter. This week, the U.S. Attorney's office in Manhattan informed CSFB that neither the firm nor its employees will be charged criminally in the broad government investigation.

Representatives for CSFB and the SEC decline to comment generally on the investigation. CSFB has said that its practices in distributing IPOs to clients have been in line with industry practices.

In any event, the episode underscores that the hum-drum inspections by regulators that sometimes are taken lightly on Wall Street can be helpful in finding possible abuses, some legal specialists say. "This case demonstrates the importance of the commission's inspection program," says Deborah Meshulam, a former SEC lawyer now with Piper Marbury Rudnick & Wolfe LLP in Washington. "These compliance examinations can sometimes uncover issues that are anything but routine."

Meanwhile, around the same time the SEC began its probe, the National Association of Securities Dealers launched its own investigation. The NASD's review stemmed from earlier allegations of "spinning" IPOs, a practice in which firms allocated IPO shares to the personal brokerage accounts of corporate executives in hope of gaining their firms' business and spun, or quickly sold them, for profits. Earlier this year, the NASD's regulatory unit notified CSFB and several of its employees that it plans to recommend charging them with violating NASD rules connected with sales of hot IPOs, according to regulatory records and people familiar with the probe.

Inside CSFB, the flurry of regulatory activity quickly caught executives' attention. Throughout the fall of 2000, Allen Wheat, then CSFB's chief executive, briefed an executive committee that included a dozen or so top executives from the firm on the investigation. The work on the case was led by the firm's two top lawyers, Joseph McLaughlin, the former general counsel, and David Brodsky, general counsel for the Americas.

Initially, CSFB took the stance that the firm hadn't done anything wrong, arguing that its allocation practices were in line with the rest of the securities business.

But the serious nature of the probe became obvious in late 2000, just after the U.S. Attorney's office in Manhattan called a grand jury to consider criminal charges relating to the IPO allocation practices. Over the next months, CSFB's legal strategy shifted from arguing that its activities weren't improper to a damage-control strategy that involved placing the blame on some individual employees, according to several lawyers close to the case.

At this point, CSFB began looking more closely at the facts related to the regulatory probe, the lawyers say. The firm began zeroing in on three brokers in the California technology-banking group run by star banker Frank Quattrone after its internal look into the matter found possible violations of firm policy in that office. John Schmidt, who headed the group of brokers involved, first got wind that he and his group were on the spot in late December.

"We're being set up," Mr. Schmidt told Mr. Quattrone in late December 2000, a few days after The Wall Street Journal reported a regulatory probe of IPO allocations, according to a person familiar with the encounter. A draft of an audit by CSFB indicated that brokers in Mr. Schmidt's group, which catered to investment-banking clients of Mr. Quattrone's as well as a group of investment funds, were operating without a set of written procedures. Mr. Quattrone declined to comment.

When he was questioned by CSFB representatives about his group's practices, Mr. Schmidt explained that the group's policy had been to seek enough commissions from trading accounts that got IPOs so that they were paying roughly the same amount in commissions for non-IPO business as they were for new issues. At different stages of the inquiry, Mr. Schmidt was asked about his brokers' collecting commissions of as much $2 a share on some trades, and about possible arrangements to share IPO profits with some investors.

Mr. Schmidt's lawyer, Richard Marmaro of the firm of Proskauer Rose LLP in Los Angeles, said that in response to questions by CSFB auditors, Mr. Schmidt had advised them "that his department followed all known guidelines."

Regulators continued to focus on practices in New York. But in late March, one CSFB lawyer and two lawyers hired to represent the firm flew to California to talk to the group about the investigation, people familiar with the matter say. Around the same time, the people say, the firm hired lawyers to represent Mr. Schmidt and Scott Bushley, a junior broker in the group.

As CSFB lawyers were flying to California, however, the NASD took the first step that led to a public filing related to the investigation, telling six or more CSFB employees in New York and Boston that they could be charged with rule violations related to collecting big commissions in IPOs.

The NASD didn't reveal the potential charges. But in a later response to the NASD, CSFB said the agency cited an NASD rule requiring securities firms to observe "just and equitable principles of trade," as well as keep accurate books and records. By collecting the outsize commissions, NASD explained, CSFB could have violated a corporate-financing rule that bars firms from receiving undisclosed or excessive underwriters' compensation.

The East Coast employees who received NASD notices weren't suspended. In California, the pressure mounted on the three brokers.

In early April, Mr. Brodsky, the CSFB lawyer, began calling some members of the group, questioning them about the firm's findings in its own study of the situation, a person familiar with the matter says. Soon after, CSFB hired a lawyer for Michael Grunwald, another member of the group. By April 11, Mr. Grunwald, Mr. Schmidt and Mr. Bushley were suspended from the firm; they were fired in June. Lawyers for Messrs. Grunwald, Schmidt and Bushley say their clients did nothing wrong.

One of the reasons the California brokers were singled out, according to people familiar with the matter, was one or more e-mails detailing the brokers' requirement that clients pay back specific percentages of their IPO profits in the form of commissions to CSFB. The policy that they were accused of violating was simply a general requirement that clients be treated fairly.

Though Mr. Quattrone remained at the helm of the tech group, he sought to distance himself from employees being singled out. Furious that initial media reports of the brokers' suspensions played up the fact that they worked for him, Mr. Quattrone called Mr. Wheat, demanding that the firm put out a statement saying the probe didn't center on his group's allocations to the tech entrepreneurs that were his clients, a person familiar with the matter says. CSFB's statement, on May 1, said Mr. Quattrone didn't oversee IPO allocations, brokerage accounts or commissions.

But the suspensions didn't put the brakes on the probe. Indeed, the moves put CSFB in a difficult predicament: arguing that its IPO practices were proper while maintaining that at least a few of its brokers had run afoul of its own policies.