BEFORE THE SECURITIES COMMISSIONER

OF THE STATE OF DELAWARE

In the Matter of J. P. Morgan Securities Inc., Respondent. 270 Park Avenue New York, NY 10017	))))))))	C.A. No. 03-6-9

ADMINISTRATIVE CONSENT ORDER

WHEREAS, J. P. Morgan Securities, Inc. ("JPMSI") is a broker-dealer registered in the State of Delaware; and

WHEREAS, coordinated investigations into J. P. Morgan Securities Inc.'s activities in connection with certain of its equity research practices during the period of approximately July 1999 through June 2001 have been conducted by a multi-state task force and a joint task force of the U.S. Securities and Exchange Commission, the New York Stock Exchange ("NYSE"), and the NASD, Inc. ("NASD") (collectively, the "regulators"); and

WHEREAS, J. P. Morgan Securities Inc. has cooperated with regulators conducting the investigations by responding to inquiries, providing documentary evidence and other materials, and providing regulators with access to facts relating to the investigations; and

WHEREAS, J. P. Morgan Securities Inc. has advised regulators of its agreement to resolve the investigations relating to its research practices; and

WHEREAS, J. P. Morgan Securities Inc. agrees to implement certain changes with respect to its research practices, and to make certain payments; and

WHEREAS, J. P. Morgan Securities Inc. elects to permanently waive any right to a hearing and appeal under 6 Del. C. Chap. 73 with respect to this Administrative Consent Order (the "Order");

NOW, THEREFORE, the Securities Commissioner ("Commissioner"), as the principal executive officer of the Division of Securities of the State of Delaware Department of Justice, and

as administrator of the Delaware Securities Act (6 Del. C. Chap. 73), hereby enters this Order:

I.

FINDINGS OF FACT

A. Background

1. This action concerns the period of July 1, 1999 to June 30, 2001 (the "relevant period"). During that time, several JPMSI predecessor entities engaged in both research and investment banking ("IB") activities.

2. Respondent JPMSI is a subsidiary of J.P. Morgan Chase & Co. ("JPMC"), a Delaware corporation with its principal place of business in New York, New York. Respondent JPMSI provides equity research, sales, and trading services; merger and acquisition advisory services; private banking services; and underwriting services.

3. Hambrecht & Quist LLC ("H&Q") engaged in research and IB activities until it was acquired by The Chase Manhattan Corporation ("Chase") in December 1999. H&Q was merged into Chase Securities Inc. ("CSI"), a subsidiary of Chase, and the merged entity engaged in research and IB activities under the name CSI and the trade name Chase H&Q. CSI did not publish equity research prior to the acquisition of H&Q by Chase.

4. In 1999, RESPONDENT JPMSI engaged in both research and IB activities as a subsidiary of J.P. Morgan & Co. Incorporated ("JPM"). In December 2000, Chase acquired JPM, creating the combined entity JPMC. In May 2001, CSI and RESPONDENT JPMSI merged, and CSI assumed the name JPMSI. Since then, RESPONDENT JPMSI has engaged in equity research under the name JPMSI and the trade names J.P. Morgan and J.P. Morgan H&Q.

5. RESPONDENT JPMSI is registered with the Securities and Exchange Commission ("Commission"), is a member of the New York Stock Exchange and NASD, and is licensed to conduct securities business on a nationwide basis.

6. For purposes of this Consent, the RESPONDENT JPMSI predecessor entities that engaged in both research and investment banking activities—H&Q, CSI, and JPMSI—shall be referred to, collectively, individually, or in any combination, as "the Firm."

B. Overview

1. During the relevant period, the Firm sought to do and did IB business with many companies covered by its Research Department. Research analysts were encouraged to participate in IB activities, and this participation was a factor used by the Firm to evaluate analysts and determine their compensation. In addition, the decision to initiate and maintain research coverage on certain companies was coordinated with the IB Department and influenced by IB interests.

2. As a result of the foregoing, certain research analysts were subject to IB influences and conflicts of interest between supporting the Firm's IB business and publishing objective research.

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

C. Research Analyst Participation in Investment Banking Activities

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

2. Research analysts evaluated companies by, among other things, examining financial and other information contained in public filings; questioning company management; investigating customer and supplier relationships; evaluating companies' business plans and the products or services offered; building financial models; and analyzing competitive trends.

3. After synthesizing and analyzing this information, research analysts drafted research reports and more abbreviated "notes" that typically contained a recommendation, a price target, and a summary and analysis of the factors upon which the analyst relied in issuing the price target and recommendation.

4. The Firm published research on publicly traded companies, and this research was distributed to the Firm's institutional and private equity customers. Published research was made available through mailing lists, the Firm's website, and subscription services provided by First Call. In addition, the research was made available to some retail customers of another broker dealer and offered via websites offering brokerage and investment services.

5. In addition to performing these research functions, certain research analysts participated in IB activities.

6. These IB activities included identifying and/or vetting companies as prospects for IB services, participating in pitches of IB services to companies, participating in "roadshows" associated with underwriting transactions, and speaking to investors to generate interest in underwriting transactions.[1]

7. These IB activities also included participating in commitment committee and due diligence activities in connection with underwriting transactions and assisting the IB Department in providing merger and acquisition ("M&A") and other advisory services to companies.[2]

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

8. The Firm encouraged all research analysts to support its businesses, including the Firm's IB business, and in some cases, research analysts were expected to participate in the foregoing IB activities. The level of analyst participation in these IB activities was sometimes significant.

9. For example, in an e-mail dated May 23, 2000, and sent by a research analyst to the Head of Research at RESPONDENT JPMSI, the analyst requested approval to hire another junior analyst. The analyst stated: "I'd like to get yet another junior....The deals are really dragging me down, and I'm not spending nearly enough time with buy-side clients. Even though the market is crap, we continue to process deals in hopes of market recovery....I am trying to remove myself from the day-to-day production of research. I actually like doing it, but it's not what you pay me for." (Emphasis in the original.)

10. IB business was an important source of revenue for the Firm. In 2000, the combined operating revenues for JPM and Chase totaled $32.793 billion, and the combined revenues for the Equity Capital Markets ("ECM") and the M&A Departments at JPM and Chase totaled $1.687 billion.

D. Participation in Investment Banking Activities Was a Factor in Evaluating and Compensating Research Analysts

1. The compensation system at the Firm provided an incentive for research analysts to participate in IB activities and to assist in generating IB business for the Firm.

2. The performance of research analysts was evaluated by the Head of Research through an annual review process and, where not set by contract in advance, the research analyst's bonus was determined through this process.

3. The Head of Research evaluated the research analysts' job performance through responses to self-evaluation forms; surveys of the sales force; input from the IB, Sales, and Trading departments; consideration of market factors and rankings by investor publications; and, in some cases, written "team reviews" submitted by individual investment bankers.

4. The self-evaluation forms contained questions on areas constituting the major allocations of research analysts' time, including questions relating to participation in IB activities.

5. In response to questions relating to participation in IB activities, research analysts reported one or more of the following: their IB activities, accomplishments, and goals; their participation in lead- and co-managed underwritings; and the fees associated with IB transactions on which the analyst worked.

6. For example, the "Investment Banking Activities" section of a 1999 self-evaluation form queried: "In what way have you assisted in discovering or executing banking

[2] The "commitment committee" was responsible for, among other things, evaluating and then either approving or rejecting the Firm's participation in initial public offerings ("IPOs") and other IB transactions.

transactions (i.e., due diligence sessions, pitches)? Be specific." In response, a research analyst stated: "Helped put together and develop pitch books for KV Pharma and King Pharmaceuticals;" "Helping to come up with creative ideas and contributing to brainstorming sessions with bankers – ad hoc and in biweekly Monday meetings;" "Have a good handle on which companies will need financing in the near future and stepping up research efforts to ensure a place for H&Q on the cover;" and "Increasing responsibility in the office allows [another research analyst] to travel and be more active in pitching and winning deals with new companies."

7. In another example, a research analyst stated the following in response to IB questions contained in his year 2000 self-evaluation form: "Completed 21 investment banking deals, including 11 lead-managed deals....Biotechnology new issues have generated $70 million in primary fees in fiscal year 2000 YTD. In 2000 we were ranked #1 in healthcare common equity offerings by U.S. Issuers, raising $3.9 billion and capturing 21.9% market share." In addition, the analyst listed all deals on which he worked that were "Lead Managed," "Co-managed, "Pitched," and "Pending."

8. The self-evaluation forms conveyed to research analysts some of the criteria used to evaluate their performance. As reflected in the IB questions contained in the forms, contribution to the Firm's IB business was an important part of the analyst's job.

9. In some circumstances, research analysts requested that individual investment bankers complete a written "team review" of the analyst, which was then submitted to the Head of Research. In these reviews, the investment banker described his or her contact with the analyst and the analyst's participation in IB activities, including pitch and underwriting activities.

10. For example, in a 1999 review of a research analyst by an investment banker, the banker stated the following: "I have worked extensively with [this research analyst] over the past year. I probably speak to her everyday [sic] on topics ranging from executing live transactions, evaluating potential business opportunities, drafting 'pitch' presentations, coordinating scheduling and marketing efforts across IB, and strategizing about the Internet practice....I consider [her] to be a partner in our building of the firm's Internet franchise and, as a result, probably work more closely with her than anyone in IB."

11. Research analysts sometimes provided reviews of investment bankers in conjunction with the banker's performance review. In these reviews, analysts described their contact with the banker and referenced participation in specific IB activities.

12. For example, in an e-mail dated Dec. 14, 2000, a research analyst provided a review of an investment banker. The analyst stated: "I've probably had more opportunity to work with [this investment banker] and observe him in action than anybody else in the bank....[The banker and I] have been in sync about where the quality banking prospects are so that I don't have to fend off garbage banking deals....• Built semiconductor banking practice from nothing:....[The banker and I] have built a profitable semiconductor banking practice, starting from literally zero four years ago....In 1999, we posted a couple of successes....With a touch more luck, we could have doubled the

revenue potential this year....We are still banking the semiconductor sector pretty much the way we did three years ago, which means going after a dozen or so key prospects (split evenly between existing public companies and quality IPO candidates) and then doing everything else opportunistically rather than strategically....The message here is that we have not developed the semiconductor banking machine that our strongest dozen competitors have, and that makes it hard to gain market share." (Emphasis in the original.)

13. Based upon comments in the self-evaluations completed by research analysts and the reviews completed by both analysts and investment bankers, the two groups worked closely on IB transactions and shared a common goal of building the Firm's IB business.

14. The Head of Research reviewed the self-evaluations and team reviews and provided a verbal and/or written evaluation of the research analyst. The written evaluations provided feedback on the analyst's performance during the year and in certain cases highlighted the analyst's participation in IB activities, including the revenues generated by IB transactions on which the analyst worked.

15. For example, the Head of Research at RESPONDENT JPMSI stated the following in the first paragraph of his year 2000 evaluation of a research analyst: "By every measure, [the research analyst] had an outstanding year in 2000. Most importantly, [he] led the charge in establishing J.P. Morgan as the #1 biotech shop with a resounding 21.9% share of the underwriting wallet in his sector. [He] supported 21 transactions this year, 11 of which were as the lead underwriter. The revenue attributable to these transactions is over $70 mm." Later in the evaluation, the Head of Research stated that the analyst's contribution to the Firm's "corporate underwriting business" was "enormous."

16. Comments by the Head of Research conveyed to research analysts the performance areas that were important to research management and the Firm. Based upon these comments, certain analysts were encouraged to participate in IB activities, increase IB revenues, and enhance the reputation of the Firm's IB franchise.

17. Research analyst bonuses were determined by the Head of Research in his discretion after considering several factors that contributed to the analyst's market value.

18. The research analyst's contribution to and impact on the Firm's IB business, and the fees generated by IB transactions on which the analyst worked, were some of the factors used to determine the analyst's bonus. If the analyst did not disclose in the self- evaluation form the fees generated by the IB transactions on which he or she worked, the Head of Research requested this information from the ECM Department at the Firm.

E. Investment Banking Interests Influenced the Firm's Decision to Initiate and Maintain Research Coverage

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

2. Regarding companies for which the Firm lead- or co-managed an underwriting transaction, research coverage was typically initiated and maintained for a period of time beyond the transaction.

3. The Head of Research was responsible for approval of the determination to issue, maintain, and drop research coverage. The Head of Research solicited input from other departments, including the IB Department, to determine the coverage preferences of those departments. IB considerations sometimes played a role in the decision to initiate and maintain research coverage.

4. For example, after the merger of JPM and Chase, the Director of U.S. Equity Research at RESPONDENT JPMSI sent an e-mail entitled: "U.S. Equity Research Organizational Announcement." Attached was an internal memorandum "outlining Investment Banking Coordination Responsibilities," which stated: "One of the important duties of the Director of Research is to work closely with Investment Banking to ensure that research resources are appropriately aligned with identified investment banking opportunities."

5. In addition, the Head of Research requested that research analysts obtain from investment bankers lists of companies that the bankers wanted under coverage.

6. For example, an e-mail dated November 4, 1999, from the Head of Research to all equity research analysts, stated: "[T]alk to your counterparts in IB and prepare a list of the companies that they would like you to cover....Please be sure to have a conversation with the appropriate bankers before you submit your list."

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

8. For example, a research analyst sent an e-mail, dated March 9, 2001, to the Director of U.S. Equity Research at RESPONDENT JPMSI which stated: "[Another research analyst] and I have prioritized the coverage area in coordination with banking, and we are moving to a more targeted (no pun intended) investor marketing plan which leverages our combined coverage....We are clearly focused on building both the brokerage and banking businesses....We are actively discussing trimming a couple of the less relevant of these companies and replacing them with larger market capitalization firms which we can bank....In total, I would look to us to initiate on two non-deal related stocks this year, keeping the total names under coverage around the current level. In addition to two non-deal initiations, we have mapped out the year and have planned original theme pieces and other value-added activities for investors including non-deal related road shows....Banking: We already did KPMG, for which I believe we were paid $12.5M. And we have been mandated as a senior co-manager on Accenture, another large transaction. Beyond these, a likely opportunity later in the year is Technology Partners International, an outsourcing consultant. We are well positioned to lead this company's IPO....[An investment banker] leads the coordinated banking effort covering the sector, and we are working closely with [him] and the other coverage bankers to bank existing companies and to identify quality early stage firms." (Emphasis in the original.)

9. In another example, an investment banker sent an e-mail, dated May 17, 2001, to a group of biotechnology analysts and bankers to arrange a meeting to discuss "coverage strategy." The e-mail stated: "On the heels of [a research analyst and a banker] leaving, we probably need to discuss coverage strategy. Also would be a good time to talk about where we might shake loose some business...M&A ideas to pitch, IPOs coming in next wave etc."

10. In another example, a research analyst sent an e-mail, dated March 1, 2001, to biotechnology analysts and the Head of U.S. Equity Research that contained the following subject line: "bankers wish list for biotech research." The e-mail stated: Attached is the culmination of the survey of bankers – as a reminder, I asked them for 3 groups of names....1. Companies we 'owe' research to since they paid us in 2000 and are not covered by research today. Most of these are from analysts who have left (on the H&Q side) and we haven't even had research take a formal look at some of these, which is obviously the first step for deciding on what to do. 2. Public companies where bankers have a good relationship and think we can get banking business if research is on board. The goal here is to have research evaluate the story as soon as possible, so we can either go full bore on getting the business, or re-assign bankers elsewhere if research is negative. 3. Private companies that are focus names—we'll commit to have research spend time with these companies as much as possible before the IPO to put us in the best position possible to win the books. Also, research is going to add their own names if some of their favorites were not mentioned by any of the bankers."

11. The following e-mails reflect the IB influences in the initiation and maintenance of research coverage as perceived by an individual research analyst.

12. In an e-mail dated November 2, 2000, a research analyst provided a team review of an investment banker that stated the following: "I have worked with [the banker] on the International Rectifier (IRF) account since around mid-1998...and he lobbied me very actively to pick up coverage so that JPM could go after the banking business, especially equities but also potentially debt, M&A, etc. My attitude initially was that IRF is a low-grade semiconductor company that would be hard to sell to buy-side clients, but [he] kept pushing the banking potential....Finally, I picked up coverage in December 1998.... Then, IRF threw sand in our eyes by giving the lead to Morgan Stanley....We picked up coverage when they needed us most at the bottom of the semiconductor cycle and supported the stock enormously. When the plum banking assignment came up that would pay us back for our support, IRF handed the deal to MS, which had zero history with the company."

13. In an e-mail dated August 8, 2000, the same research analyst stated: "Given how thoroughly we just got screwed on IRF, [the Head of Research of RESPONDENT JPMSI} is not interested in hearing stories about how if we initiate coverage, then we will be considered for banking business. He wants to hear that the banking business is locked up. We've been screwed too many times....[O]ur not covering IFX [Infineon Technologies] is a direct result of being offered money-losing table scraps in the IPO....I guess I'm still in the same old place. Initiating coverage of IFX some time in the next six months is no problem, especially as [a research analyst] is going to have to cover it

eventually anyway. It doesn't make sense to have a European semiconductor analyst that does not cover Infineon." (Emphasis in the original.)

14. In addition, consideration of "investment banking sensitivities" was included in a discussion of the Firm's "Long Term Buy" ("LTB") research rating.

15. An e-mail dated December 29, 2000, which was sent to all Chase H&Q research analysts, including the Head of Research at Chase H&Q, described the stock rating system to be used after the merger of JPM and Chase.

16. The e-mail's subject line stated: "Public dissemination of coverage and Re-Rating your stocks—IMPORTANT*****." The e-mail stated: The guidelines for determining the rating are below.... Long-Term Buy: 0-10% outperformance of the relevant benchmark target within a twelve to eighteen month time frame. Shorter-term catalysts to explain the 'longer-term' nature of the recommendation, or in certain circumstances investment banking sensitivities, are appropriate for this designation." (Emphasis in the original.)

F. The Firm Provided Certain Companies With an Informal "Warranty" of Research Coverage in Conjunction With Investment Banking Transactions

1. The Firm typically initiated research coverage on companies that engaged the Firm in an IB transaction.

2. H&Q and Chase H&Q had an informal policy of providing certain companies with a "warranty" of research coverage in conjunction with IB transactions.

3. For example, in an e-mail dated November 22, 2000, and sent by the Head of eBusiness at Chase H&Q to the Head of Research at Chase H&Q and others, the Head of eBusiness stated the following: "I think that it is important to guaranty [sic] some level of consistent coverage for our fee paying IB clients. In terms of a 'warranty period,' I think that a period of 18 months would be a fair and appropriate coverage period, as well as a reasonable timeframe for a company to show progress and perhaps 'earn' an extension of coverage. During this transition period...we could offer more of a general, maintenance-only, 'no name' research coverage...[that] could be done by a 'team' of junior associates from both the IB and research side of the house as part of the 'pod' approach to a sector. This coverage would allow the pod to continue to maintain a relationship with the company, generating additional income from the account."

4. The Firm verbally promoted this warranty research coverage in conjunction with pitches of IB business to companies, and research coverage would be maintained on certain companies subject to the warranty.

5. For example, in an e-mail dated October 20, 1999, an investment banker sent an e-mail to senior executives at H&Q that contained the following subject line: "Follow Up on a Pitch Please." The e-mail stated: [Head of IB:] Please call...[the] Chairman of CCC Info. Services....Script: You know that [a team of investment bankers] presented to the board yesterday and that we are very excited about the prospect of serving as agent for a

private round with financial and strategic parties and as lead manager on their IPO in early 00....Our pitch is...4. Best aftermarket 'warranty.'"

6. Also, in an e-mail dated December 19, 2000, from an investment banker to a member of the board of directors of Epicor Software Corporation ("Epicor"), the banker stated: "Just a heads up that the extended warranty provided for Epicor is running out." In an e-mail dated December 22, 2000, the board member replied: "not a surprise. thanks for sticking to the deal."

G. The Firm's Pitch Materials Contained Discussions of Research Coverage

1. During the relevant period, companies considered research coverage to be an important factor in selecting a firm for an underwriting transaction.

2. In certain pitch materials, the Research Department, and research analysts in particular, were described to implicitly suggest that the Firm would provide favorable research coverage after the IB transaction.[3] The research analyst's reputation and industry ranking, statistics regarding the percentage of lead- and co-managed IPOs currently under coverage, and the Firm's "aftermarket support" were promoted in pitch materials. In addition, the Firm utilized "case studies" of companies under coverage that included charts comparing the dates of positive published research to the company's stock price. The case studies showed the stock price increases following the analyst's positive recommendation and/or placement on the analyst's or the Firm's "Focus Lists."

3. For example, in an e-mail dated February 23, 2000, an investment banker forwarded pitch materials to an employee of Participate.com to persuade the company to employ the Firm as an underwriter for an upcoming IPO and private offering. The pitch materials identified the research analyst who would cover the company after the IB transaction. In pages captioned "[Research analyst's name]: Authoritative Voice in the Marketplace," "case studies" were presented on the analyst's past coverage of two companies: Wireless Facilities and AppNet.

4. The case studies contained charts that showed the stock price increases following placement of the stocks on the analyst's and Firm's focus lists. The "Wireless Facilities Case Study" stated the following: "Chase H&Q adds WFI to Focus List: WFI gains 11.7% (1/27/00)." The "AppNet Case Study stated the following: "Chase H&Q adds AppNet to Focus List: AppNet gains 7.5% (8/2/99)....While on [the research analyst's] Focus List, AppNet appreciates 309% (8/2/99-10/26/99)."

5. Also presented were excerpts of positive commentary by the research analyst that accompanied the Buy ratings and/or placement on the focus lists.

[3] "Pitch materials" are the written materials provided to the management of an issuer in conjunction with the Firm's pitch or presentation of its strengths and capabilities in conducting an upcoming IPO or other IB transaction.

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

1. Research analysts were encouraged to increase their visibility, or level of communication, on certain stocks to generate IB business.

2. Lists of stocks were distributed to various departments at the Firm, including the Research Department.

3. The "ECM [Equity Capital Markets] target list" contained stocks of companies from which the Firm was seeking IB business during the next eighteen (18) months.

4. The "trading focus list" contained stocks of companies from which the Firm was seeking IB or underwriting business during the next three months.

5. The Research Department and other departments were at times encouraged to increase the trading volume of the stocks on the lists for IB purposes.

6. The following e-mail, dated May 11, 2001, and sent from an investment banker to individuals on the "IB Ebusiness" distribution list, explains the rationale for the two lists: "The criteria for being on the [ECM target] list is...potential equity business over the next 18 months where we would like to target the resources of the firm to win the books....Our objective is to make sure we are being as proactive as possible from an equity perspective, and focusing the equity resources of the firm on these targets to help you win the books for these transactions....The criteria for being placed on the trading focus list is an investment banking event with [sic] the NEXT THREE MONTHS....This investment banking list could be an m&a event or an equity event....In cases where the investment banking event will occur far in advance, our first approach is to work with the traders, analysts and sales traders to increase our trading activity naturally, before we start spending the firm's capital." (Emphasis in the original.)

7. Trading rank was important to a company's choice of a firm for IB transactions, and the Firm's trading rank was often promoted in pitch materials provided to potential IB clients.

8. For example, pitch materials provided in conjunction with the AppNet IPO contained a section entitled, "Commitment to Corporate Clients Delivers Institutional Credibility and Trading Strength." There, H&Q's Autex trading rank is identified as "#1," "#2," "#3," and "#4" in the stocks of specific companies that engaged H&Q for an IPO.

9. Certain research analysts were encouraged to increase their visibility, or level of communication, on stocks contained in the lists.

10. For example, in an e-mail dated September 27, 2000, from an investment banker, to a research analyst and others, the banker forwarded September's focus list and stated: "The list is okay but we are falling way short on a few names. Vicinity we are not AT [sic] the goal, we are below the goal for the past two months. This is a problem. On Intertrust and Mypoints, we are not even close to our targets. Less critical, but we need to do a better job. Concord EFS paid us $5 MM last year and we are the #18 trader of that stock. Also

disappointing...[Y]ou [research analyst] need to get more visible on these names with the salespeople so that trading doesn't have that excuse to hide behind."

I. Payments for Research

1. During the relevant period, H&Q and Chase H&Q made seven payments totaling $1,312,500 for research issued in conjunction with five underwriting transactions in which the Firm was a lead- or co-manager.

2. H&Q and Chase H&Q made these payments for research without disclosing or ensuring their disclosure in offering documents or elsewhere.

J. The Firm Failed to Adequately Supervise Its Research and Investment Banking Departments

1. While the role of research analysts was to produce objective research, the Firm also encouraged them to participate in IB activities.

2. In addition, the Research and IB Departments had a formal connection within the Firm's organizational structure. From February to December 2000 at RESPONDENT JPMSI, the Head of Research had a dual reporting line to both the Head of Equities and the Head of Investment Banking.

3. Also, in 2000 at Chase H&Q, research analysts were organized and placed into "Analyst Sub-pods" for purposes of managing and monitoring their IB activities. Research analysts reported to "Sub-pod Managers," who were investment bankers and were responsible for the day-to-day coordination of the research analysts' IB activities.

4. The Analyst Sub-pod system for Chase H&Q "Internet Research and Banking" is explained in a May 2000 Chase H&Q interoffice memorandum which contained a "coordination chart." In the chart, the Analyst Sub-pods had a direct reporting line to the Sub-pod Managers. The memorandum stated the following: "The 'Analyst Sub-pod' is the organizational engine for all that we do." Sub-pod Managers, who were investment bankers, were responsible for the "pipeline management and...the day-to-day coordination of the particular analyst as it relates to investment banking activity....The Sub-pod Manager is <u>not</u> responsible for executing <u>all</u> of that particular analyst's transactions, but is responsible for ensuring that appropriate resources are allocated. As such, the Sub-pod Manager should expect to spend a majority of his time banking the Sub-pod Analyst with the balance of his time spent banking other analysts as the demands of the business require it." (Emphasis in the original.)

5. The Analyst Sub-pod system was created to provide "enhanced coordination between Banking and Research."

6. As a result of the foregoing, research analysts were subject to IB influences and conflicts of interest between supporting the Firm's IB business and publishing objective research. The Firm had knowledge of these IB influences and conflicts of interest yet failed to manage them adequately to protect the objectivity of published research.

7. The Firm failed to establish and maintain adequate policies, systems, and procedures reasonably designed to ensure the objectivity of its published research. Although the Firm had some policies governing research analysts' activities during the relevant period, these policies were inadequate and did not address the IB influences and conflicts of interest that existed.

II.

CONCLUSIONS OF LAW

1. The Commissioner has jurisdiction over this matter pursuant to 6 Del. C. § 7325.

2. The Commissioner finds that Respondent JPMSI failed to establish and enforce written supervisory procedures reasonably designed to ensure that analysts were not unduly influenced by investment banking concerns in violation of 6 Del. C. § 7316(a)(10).

3. The Commissioner finds that Respondent JPMSI engaged in acts and practices that created or maintained inappropriate influence by the IB Department over research analysts, therefore imposing conflicts of interest on its research analysts, and failing to manage these conflicts in an adequate or appropriate manner, which constituted a violation of 6 Del. C. § 7316(a)(7).

4. The Commissioner finds that Respondent JPMSI made payments for research to other broker-dealers not involved in an underwriting transaction when the Firm knew that these payments were made, at least in part, for research coverage, and by failing to disclose or cause to be disclosed in offering documents or elsewhere the fact of such payments constituted a violation of 6 Del. C. § 7316(a)(7).

5. The Commissioner finds the foregoing relief appropriate and in the public interest.

III.

ORDER

On the basis of the Findings of Fact, Conclusions of Law, and the Firm's consent to the entry of this Order, for the sole purpose of settling this matter, prior to a hearing and without admitting the Findings of Facts or Conclusions of Law

IT IS HEREBY ORDERED:

1. This Order concludes the investigation by the Commissioner and any other action that the Commissioner could commence under the Delaware Securities Act (6 Del. C. Chap. 73) on behalf of the state of Delaware as it relates to J. P. Morgan Securities Inc., relating to certain research practices at J. P. Morgan Securities Inc.

2. J. P. Morgan Securities Inc. will CEASE AND DESIST from violating the Delaware Securities Act in connection with the research practices referenced in this Order and will comply with the Delaware Securities Act in connection with the research practices referenced in this Order and will comply with the undertakings of Addendum A, incorporated herein by reference.

3. IT IS FURTHER ORDERED, ADJUDGED AND DECREED that:

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

$25,000,000 to the states (50 states, plus the District of Columbia and Puerto Rico). Upon execution of this Order, J. P. Morgan Securities Inc. shall pay the sum of $250,000.00 of this amount to the State of Delaware as a civil monetary penalty pursuant to 6 Del. C. § 7325, to be deposited in the Investor Protection Fund pursuant to 6 Del. C. § 7329. The total amount to be paid by J.P. Morgan Securities, Inc. to state securities regulators pursuant to the state settlement offer may be reduced due to the decision of any state securities regulator not to accept the state settlement offer. In the event another state securities regulator determines not to accept J.P. Morgan Securities' state settlement offer, the total amount of the Delaware payment shall not be affected, and shall remain at $250,000.00;

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

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

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

J. P. Morgan Securities Inc. 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 J. P. Morgan Securities Inc. shall pay pursuant to this Order or Section II of the SEC Final Judgment, regardless of whether such penalty amounts or any part thereof are added to the Distribution Fund Account referred to in the SEC Final Judgment or otherwise used for the benefit of investors. J. P. Morgan Securities Inc. further agrees that it shall not claim, assert, or apply for a tax deduction or tax credit with regard to any state, federal or local tax for any penalty amounts that J. P. Morgan Securities Inc. shall pay pursuant to this Order or Section II of the SEC Final Judgment, regardless of whether such penalty amounts or any part thereof are added to the Distribution Fund Account referred to in the SEC Final Judgment or otherwise used for the benefit of investors. J. P. Morgan Securities Inc. understands and acknowledges that these provisions are not intended to imply that Delaware would agree that any other amounts J. P. Morgan Securities Inc. shall pay pursuant to the SEC Final Judgment may be reimbursed or indemnified (whether pursuant to an insurance policy or

otherwise) under applicable law or may be the basis for any tax deduction or tax credit with regard to any state, federal or local tax.

4. J. P. Morgan Securities Inc. shall comply with the undertakings of Addendum A, incorporated herein by reference.

5. If payment is not made by J. P. Morgan Securities Inc. or if J. P. Morgan Securities Inc. defaults in any of its obligations set forth in this Order, the Commissioner may vacate this Order, at its sole discretion, upon 10 days written notice to J. P. Morgan Securities Inc. and without opportunity for administrative hearing.

6. This Order is not intended by the Commissioner to subject any Covered Person to any disqualifications under the laws of any state, the District of Columbia or Puerto Rico (collectively, "State"), including, without limitation, any disqualifications from relying upon the State registration exemptions or State safe harbor provisions. "Covered Person" means J. P. Morgan Securities Inc., or any of its officers, directors, affiliates, current or former employees, or other persons that would otherwise be disqualified as a result of the Orders (as defined below).

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

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

9. Nothing herein shall preclude Delaware, its departments, agencies, boards, commissions, authorities, political subdivisions and corporations, other than the Commissioner, and only to the

extent set forth in paragraph 1 above (collectively, "State Entities") and the officers, agents or employees of State Entities from asserting any claims, causes of action, or applications for compensatory, nominal and/or punitive damages, or administrative, civil, criminal, or injunctive relief, against J. P. Morgan Securities Inc. in connection with certain research practices at J. P. Morgan Securities Inc.

Dated this 11th day of September, 2003.

BY ORDER OF THE SECURITIES COMMISSIONER OF THE STATE OF DELAWARE

James B. Ropp
Securities Commissioner

CONSENT TO ENTRY OF ADMINISTRATIVE ORDER BY J.P. MORGAN SECURITIES, INC.

J. P. Morgan Securities Inc. hereby acknowledges that it has been served with a copy of this Administrative Order, has read the foregoing Order, is aware of its right to a hearing and appeal in this matter, and has waived the same.

J. P. Morgan Securities Inc. admits the jurisdiction of the Securities Commissioner of the Division of Securities of the State of Delaware Department of Justice ("Commissioner"), neither admits nor denies the Findings of Fact and Conclusions of Law contained in this Order; and consents to entry of this Order by the Commissioner without a hearing and solely as settlement of the issues contained in this Order.

J. P. Morgan Securities Inc. states that no promise of any kind or nature whatsoever was made to it to induce it to enter into this Order and that it has entered into this Order voluntarily.

Paul W. Brandow represents that he/~~she~~ is Chairman and President of J. P. Morgan Securities Inc. and that, as such, has been authorized by J. P. Morgan Securities Inc. to enter into this Order for and on behalf of J. P. Morgan Securities Inc..

Dated this 25 day of August, 2003.

J. P. Morgan Securities Inc.

By: Paul W. Brandow

Title: Chairman and President

SUBSCRIBED AND SWORN TO before me this 25th day of August, 2003.

Notary Public

My Commission expires:

RICHARD J. CARRANZA
Notary Public, State of New York
No. 01CA5031635
Qualified in Nassau County
Commission Expires Feb. 6, 2007