STATE OF OREGON
DEPARTMENT OF CONSUMER AND BUSINESS SERVICES
DIVISION OF FINANCE AND CORPORATE SECURITIES

IN THE MATTER OF: **DEUTSCHE BANK SECURITIES, INC.** 60 Wall Street New York, NY 10005 CRD # 2525 Respondent.	**No. S-05-0003** **ADMINISTRATIVE CONSENT ORDER**

WHEREAS, DEUTSCHE BANK SECURITIES, INC. ("Deutsche Bank") is a broker-dealer registered in the State of Oregon;

WHEREAS, a coordinated investigation into Deutsche Bank activities concerning securities research analysts' conflicts of interest and investment banking business practices during the period of approximately 1999 through 2001 has been conducted by a multi-state task force and the U.S. Securities and Exchange Commission ("SEC");

WHEREAS, the California Department of Corporations conducted an investigation (with the assistance of the District of Columbia Securities Bureau and the State of Maryland Attorney General's Office) into the practices at Deutsche Bank;

WHEREAS, Deutsche Bank has cooperated with the above securities regulators during the investigation;

WHEREAS, Deutsche Bank has agreed to resolve the aforementioned investigation;

WHEREAS, Deutsche Bank agrees to adopt and implement certain changes to securities research analysts' conflicts of

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Salem, OR 97301-3881
Telephone: (503) 378-4387

interest and investment banking business practices and to make certain payments as set forth herein;

WHEREAS, Deutsche Bank voluntarily elects to permanently waive any right to a hearing and appeal under the ORS 59.295, 59.305; and ORS 183.310 to 183.550 with respect to this Administrative Consent Order (the "Order");

WHEREAS, The Director of the Department of Consumer and Business Services (herein-after the "Director") has jurisdiction over this matter pursuant to ORS Chapter 59, the Oregon Securities Law;

WHEREAS, The Director finds the following relief appropriate and in the public interest; and

NOW, THEREFORE, the Director, as administrator of the Oregon Securities Law, hereby enters this Order:

I. ALLEGATIONS OF FACT

1. Deutsche Bank admits the jurisdiction of the State of Oregon, neither admits nor denies the Findings of Fact and Conclusions of Law contained in this Order, and consents to the entry of this Order by the Director.

2. The Director finds the following facts applicable to this action:

A. **General Findings Of Fact**:

3. From July 1999 through 2001 ("the relevant period"), Deutsche Bank engaged in acts and practices that created and/or maintained inappropriate influence by investment banking over research analysts, thereby creating conflicts of interest for

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its research analysts. Deutsche Bank failed to manage these conflicts in an adequate manner. During this time period, Deutsche Bank offered research coverage in order to gain investment banking business and receive investment banking fees. It received over $1 million from other investment banks to provide research coverage of their investment banking clients, and made payments of approximately $10 million to other securities firms primarily for research coverage for its investment banking clients. In addition, Deutsche Bank compensated its research analysts based in part upon their contributions to Deutsche Bank's investment banking business. These relationships and activities constituted substantial conflicts of interest for Deutsche Bank's research analysts.

4. Deutsche Bank failed to establish and maintain adequate policies and procedures reasonably designed to manage these conflicts of interest.

5. Deutsche Bank also failed to promptly produce copies of e-mail communications that had been requested by the staff during the investigation. Despite repeated inquiries from the staff and state investigators, Deutsche Bank insisted during the investigation that its production of the e-mail was complete. In fact, Deutsche Bank had produced less than one-fourth of the responsive e-mail by April 2003. Over the next year, Deutsche Bank produced another 227,000 e-mail, more than tripling its original production and delaying completion of the investigation for over a year.

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RESPONDENT

6. Deutsche Bank Securities Inc. is a Delaware corporation with its headquarters and principal executive offices in New York, New York. It has branch offices throughout the U.S., including Washington, D.C., San Francisco, Los Angeles, and Baltimore. Deutsche Bank is a broker-dealer registered with the Commission pursuant to Section 15(b) [15 U.S.C. § 78o(b)] of the Exchange Act and is a member of NASD and NYSE. Deutsche Bank provides a comprehensive range of advisory, financial, securities research, and investment services to corporate and private clients. Deutsche Bank's clients include both institutional investors and individual investors (often referred to as "retail customers"). Deutsche Bank also provides investment banking services to corporate clients.

7. Deutsche Bank is currently registered with the **State of Oregon** as a broker-dealer, and has been so registered since **November 25, 1985**.

FACTUAL ALLEGATIONS

I. BACKGROUND

A. The Role of Research Analysts at Deutsche Bank

8. Deutsche Bank has a securities research department called the "equity research department," which provides its investment clients and the public with research reports on certain public companies. Research analysts at Deutsche Bank are generally assigned to review the investment outlook of specific public companies within a certain industry or sector, such as

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technology or biosciences. This is called "covering" a company's stock. In their research reports, analysts typically review the performance of the covered companies, evaluate their business prospects, and provide analysis and projections regarding the future prospects of the company. They also provide a rating or recommendation as to whether the company presents a good investment opportunity, and often provide a price target (the market price at which the analyst expects the stock to trade within a given time).

9. During the relevant period, Deutsche Bank analysts made themselves available via telephone, electronic mail, and in person to the firm's institutional and retail sales force to answer questions about industry sectors and companies covered by the analyst. In addition, analysts provided periodic research updates to the sales forces through "morning calls" held before the start of trading.

10. During the relevant period, Deutsche Bank had a four-point rating system: "Strong Buy"; "Buy"; "Market Perform"; and "Market Underperform." According to the firm's policy, a "Strong Buy" or "1" rating meant that "DBSI expects, with a high degree of confidence, that the securities will significantly outperform the market time frame and that the time to buy the securities is now." A "Buy" or "2" rating meant that "DBSI expects that the securities will out perform the market by 10% or more over the next 12 months." A "Market Perform" or "3" rating meant that "DBSI expects that the securities will broadly

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perform in line with the local market over a 12-month period and the share price is likely to trade within a range of +/- 10%." A "Market Underperform" or "4" rating meant that "DBSI expects the securities to underperform against the local market by 10% or more over the next 12 months."

11. During the relevant time period, a substantial majority of the companies covered by Deutsche Bank's analysts in the technology, biotechnology, media, and telecommunications sectors received a Buy or Strong Buy rating. In contrast, only one of the more than 250 companies covered by Deutsche Bank during the time period had lower than a Market Perform. Accordingly, what Deutsche Bank held out as a four-point rating system for stocks in the above sectors was effectively a three-point system.

12. Deutsche Bank distributed its analysts' research reports internally to various departments at the firm, made the reports available to its institutional and retail customers, and disseminated the reports to subscription services such as First Call and Bloomberg. The firm's customers received the research reports through the firm's website and also through electronic mail or postal mail if they were on the firm's mailing lists. Analysts' recommendation were also reported in the U.S. financial news media.

13. Deutsche Bank held out its research analysts as providing independent, objective and unbiased information, reports, and recommendations upon which investors could rely in making informed investment decisions.

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B. Investment Banking at Deutsche Bank

14. Deutsche Bank's investment banking division assists companies with raising capital through initial public offerings ("IPOs"), "follow-on" offerings (subsequent offerings of stock to the public), and private placements of stock. It also assists companies with negotiating and brokering other corporate transactions, such as mergers and acquisitions. During the relevant period, investment banking was an important source of revenue for Deutsche Bank, accounting for approximately 29.2% of its total revenues.

15. Deutsche Bank generally competes with other investment banks for selection by issuers and other sellers of securities as lead underwriter or "bookrunner" on securities offerings. The lead underwriters receive the largest portion of the investment banking fees, called underwriting fees; accordingly, there are significant financial rewards to being selected as the lead underwriter. The lead underwriters also establish the allocation of shares in a securities offering and typically retain the greatest number of shares for themselves. The typical IPO generates significant investment banking fees for the lead underwriters. During the relevant period, Deutsche Bank was the ninth largest underwriter in the U.S. securities market, receiving about $1.15 billion in investment banking fees.

16. In addition to their research responsibilities, analysts assisted investment bankers in performing due diligence on

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investment banking transactions.

II. DEUTSCHE BANK'S RESEARCH STRUCTURE CONTAINED CONFLICTS OF INTEREST

17. Because Deutsche Bank does not charge for its research, the Americas Equity Research Department at Deutsche Bank was a "cost center." Its costs were substantially funded by the firm's departments responsible for institutional clients and investment banking. During the relevant period, the equities department funded 50% of the research department's expenses, the investment banking department funded 43%, and the retail department funded 7%.

18. Investment banking considerations were an important factor in deciding what research to provide and how much research analysts were paid. As stated below, Deutsche Bank's compensation structure rewarded analysts for investment banking deals consummated in their sectors. Investment banking interests also played a role in determining which companies would be covered by the firm's analysts and which would be dropped.

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A. **Analysts' Compensation Was Determined In Part By** <u>**The Analysts' Contribution to Investment Banking Revenues**</u>

19. In order to "align" the interests of the analysts with the interests of the other departments at the firm whose revenues funded the research department, Deutsche Bank created an "analyst performance matrix" that ranked all of Deutsche Bank's analysts based upon several criteria. Beginning in 2000, Deutsche Bank determined bonuses for its research analysts based upon this matrix. These bonuses, which ranged from hundreds of thousands to millions of dollars, made up the vast majority of most analysts' compensation.

20. In 2000, under the matrix, one-third of an analyst's ranking was based upon the analyst's contribution to investment banking, one-third upon his or her contribution to the institutional investor franchise, and one-third upon the research director's subjective assessment. In 2001, a fourth equally-weighted category - the analysts' ranking in independent surveys, such as the All American Institutional Investor Poll - was added to the matrix.

21. Analysts received "credit" for all investment banking deals in their sector (regardless of whether they worked on the deal), as well as deals outside their sector to which they

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contributed personally. This amount was then adjusted upward or downward by 25-30% based upon the reviews provided by the investment bankers who worked with the analyst. Thus, if an analyst was helpful to investment bankers in the analyst's sector by, for example, generating deals for his sector, the analyst could get a high rating from the investment banker and thus increase his rating in the matrix and, potentially, the size of the analyst's bonus.

22. Investment bankers rated analysts based on a scale of 1 ("Analyst Extremely Important To A Majority Of Investment Banking Revenue. Without The Analyst, Our Revenue Would Have Been More Than 50% Below What We Generated.") to 5 ("Analyst Had A Negative Impact On Investment Banking Revenue."). Analysts at the top of the matrix - and thus who received the largest bonuses - typically received all 1's or 2's from investment bankers, as well as scored highly in other areas of the matrix.

23. Deutsche Bank research management circulated draft quarterly investment banking deal reports to analysts to verify the investment banking deals for which analysts were to receive credit. Analysts were encouraged to, and did, respond to these reports with additional examples of deals in their sector or on which they had worked.

24. In these responses and in the yearly performance self-evaluations that analysts completed, many analysts identified the importance of their work in bringing investment banking business to Deutsche Bank and the value of that work to the

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firm. For example, analysts stated in their self-evaluations:

(a) "Won two lead managed IPO mandates ... Won one secondary offering ... as a result of relationship with management team (our investment bankers did not have any previous relationship with the Company). … DBAB generated a $400K (roughly) fee. Participated in winning mandate on … convertible debt offering despite previous … analyst leaving DBAB. … DBAB earned a $10M (roughly) fee…. My previous management relationships allowed the firm to make equity investment in a number of promised private communications equipment companies.";

(b) Completed 8 banking deals ..., generating an estimated $8-10 million in fees; 7 of the 8 were either research driven or solely research driven ... Were invited to pitch ... the $2-3 billion [company] IPO; I started the ball rolling."

25. In certain instances, research management requested that analysts complete "business plans," such as when transitioning coverage from one analyst to another. Analysts discussed the investment banking imperatives that they had addressed through coverage of certain areas or companies or otherwise. For example, in an April 2001 e-mail exchange between two analysts, one analyst said that he was told one of his goals for the year was to "generate at least as much in banking fees as he did last year."

26. Research management based promotion decisions in part upon the analyst's assistance to the firm's investment banking business.

27. In sum, research analysts at Deutsche Bank were compensated millions of dollars in part for their contribution

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in winning the business of investment banking clients, for whom they issued reports, ratings and recommendations.

B. Investment Banking Interests Influenced Coverage Decisions

28. The research department at Deutsche Bank made decisions about the stocks on which its analysts would initiate and maintain coverage based in part upon investment banking concerns. According to the director of research, investment banking opportunities were a factor in determining research coverage. For example, one analyst testified that he agreed to maintain coverage of certain companies he would otherwise drop until the banker had the opportunity to "close" the transactions the banker was hoping to win.

29. In another example, an analyst expressed her disappointment in a February 2001 e-mail that Deutsche Bank had not been included in an offering by Charlotte Russe Holding Inc. The analyst stated that "the only reason we picked up coverage of the stock [Charlotte Russe Holding Inc.] was to be involved in IB flow." The analyst had just rated the company a "Buy" on December 21, 2000.

30. Analysts also routinely identified to their investment banking counterparts private companies that might go public. Often, it was the research analyst's relationship with the company that convinced the company to use Deutsche Bank's investment banking services. If the company did indeed use Deutsche Bank for its investment banking business, the analyst

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would typically cover the company for Deutsche Bank. The fact that the analyst had originated Deutsche Bank's investment banking transaction with the company that he covered presented a potential conflict of interest.

31. In July 2000, a banker in the Hong Kong office of Deutsche Bank sent an e-mail to the director of research stating that "the lack of coverage [of Pacific Century Cyberworks] continues to be a major problem in our relationship, and we have been categorically assured that none of [the company owner's] (very substantial) deal flow will come our way until we make good on our promise . . . ." The director of research later sent an e-mail to his assistant stating "we need to have active, co-coverage of this name in the US. been [sic] a big fee paying customer of ours that we have promised US coverage that past US research management agreed to."

32. In addition to initiating positive coverage on investment banking clients, Deutsche Bank research analysts at times maintained favorable ratings on investment banking clients' stocks, even in the face of precipitous declines in the stocks' prices.

33. For example, Deutsche Bank acted as a lead underwriter for the Webvan IPO in November 1999 and initiated coverage with a Strong Buy rating and $50 price target shortly thereafter. At the time, the stock was trading at $24.69. In a series of reports issued in April-July 2000, although the new analyst covering the stock recognized and discussed significant risk

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factors facing the company in his reports, he maintained the Strong Buy rating (with no price target) even as the stock dropped to the $6-9 range. On September 15, 2000, with the stock trading at $3.47, the analyst downgraded Webvan to a Buy. On January 10, 2001, with Webvan at $0.44, the analyst downgraded it to Market Perform, and held that rating on July 9, 2001, when Webvan declared bankruptcy.

34. Similarly, in March 2000, Deutsche Bank had a Strong Buy recommendation on the stock of Peregrine Systems. At the time, the stock was trading at over $70. In April 2000, although the stock had dropped to $24.50, Deutsche Bank maintained its Strong Buy recommendation. Deutsche Bank continued its Strong Buy recommendation until the stock price hit $0.24 in September 2002.

C. **Deutsche Bank Implicitly Promised Potential Investment Banking Clients Favorable Research Coverage**

35. To win investment banking business for a public company, securities firms typically put together a presentation (soliciting an issuer's investment banking business is called "pitching the company"). Investment banks make "pitches" for any kind of investment banking business, most frequently for initial public offerings ("IPOs") and follow-on offerings. The presentation material is referred to as a "pitchbook." The

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pitchbooks were presented to the company's management by Deutsche Bank investment bankers.

36. During the relevant period, Deutsche Bank implicitly promised in its pitchbooks that its research analysts would cover the company if the company gave it investment banking business. Deutsche Bank pitchbooks spoke of the firm's "commitment to research" and to the company, stating that Deutsche Bank's "commitment doesn't end with the IPO" and that Deutsche Bank would "be [the company's] leading advocate." Analysts prepared one section of the pitchbooks, entitled "Research Positioning." Deutsche Bank analysts typically prepared this section after completing some due diligence on the company and discussed in the section how the analyst would market the company to investors in research reports. Generally, the research positioning section of the pitchbook made a variety of positive statements about the company. For example, the pitchbook would sometimes state that Deutsche Bank analysts would promote the company's "compelling business model," its action in "rebuilding supply chains to provide superior value to producers and customers," or its "huge market opportunity." Pitchbooks described analysts as the "key 'Champion'" of the pitched companies.

37. In other pitchbooks, the promise of positive research coverage was suggested by reference to Deutsche Bank's positive coverage of other companies. Deutsche Bank described how the analyst had covered another company - and how the analyst's

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favorable ratings of the stock corresponded with the stock's rise in price. For example, the December 11, 2001 pitchbook for LeapFrog Enterprises, Inc. ("LeapFrog") similarly promoted the analyst's reports on another company - his Buy and Strong Buy ratings of that company in frequent research reports - and graphed them against the stock price of the company to suggest that the analyst's ratings and reports assisted in the increase in the stock's price. Several months later, Deutsche Bank was selected as a co-manager for LeapFrog and received investment banking fees.

38. Deutsche Banks' pitchbooks also typically discussed the "research commitment" of the firm, stating that the analyst would engage in various activities in connection with the IPO, including pre-marketing, marketing, initial coverage, ongoing coverage, industry reports, sponsorship of visits, dinners with key investors, and investor presentations. The analyst also assisted the investment bankers in performing due diligence on the company, and had a say in whether the firm would participate in the offering. If the analyst did not support the deal, the firm typically would not proceed with the offering.

39. In addition to preparing part of the pitchbook, research analysts often accompanied investment bankers on the pitches to the company. After the pitch and once Deutsche Bank was selected as the underwriter, the analyst typically worked together with the investment banker to (among other things) perform additional "due diligence" on the offering and

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participated in so-called "roadshows" to meet institutional investors.

40. It was understood by all parties involved - the analyst, the underwriters, and the issuer -that the analyst would speak favorably about the issuer when initiating coverage. Indeed, at least one pitchbook implied that Deutsche Bank would provide favorable coverage. In October 1999, Deutsche Bank marketed a European-based company called Autonomy for its U.S. IPO. (At the time, Deutsche Bank had an analyst in London covering the company for the European markets.) The pitchbook for Autonomy showed a timeline for the deal and indicated that after the "quiet period" (statutorily-mandated period of time after an offering during which the underwriting firms cannot publish research), the analyst would "Raise Rating and Estimates." After the pitch, Deutsche Bank became the lead underwriter. The analyst who was involved in the pitch began covering the company in the U.S. after its U.S. IPO at the same Buy rating that his European counterpart had used prior to the U.S IPO.

41. In another example, an analyst sent an e-mail to an issuer stating the analyst would provide bi-monthly research coverage on the issuer "if [Deutsche Bank were] meaningfully included in [the issuer's] financing activities." The analyst also stated that she would present the issuer to Deutsche Bank's sales force once a week and to publish several in-depth reports to send out to Deutsche Bank's institutional base.

42. The foregoing all contributed to Deutsche Bank's ability

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to win investment banking deals and receive investment banking fees from such offerings and subsequent investment banking relationships.

D. **Deutsche Bank Knew That Research Was An Important Factor In Winning Investment Banking Business**

43. Deutsche Bank knew that companies expected the firm to commit to provide them with research coverage before they would award the firm investment banking business. For example, in an e-mail from Deutsche Bank's Asia office, a banker reported that a company told them that "for any future business, [they] had to have research coverage and it had to be from a U.S. analyst … the lack of coverage continues to be a major problem in our relationship, and we have been categorically assured that none of deal flow will come our way until we make good on our promise". Thus, in at least some cases, companies often demanded research coverage before selecting an investment banker.

44. Indeed, at least one company conditioned payment of its investment banking fee to Deutsche Bank upon receiving research coverage after the transaction. Proxima ASA withheld payment to Deutsche Bank of approximately $6 million in investment banking fees relating to its merger with another company in 2000 because Deutsche Bank had not published research on the company. After

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Deutsche Bank subsequently issued a September 21, 2001 research report on the company, the fee was paid.

45. In some instances, Deutsche Bank analysts also internally suggested conditioning the continuation of research coverage upon whether the company gave Deutsche Bank its investment banking business. One analyst e-mailed the director of research in April 2000 and asked whether he should tell a company whom he believed had misled him about its earnings report that he would drop coverage, unless they brought their recently announced financing transaction to Deutsche Bank. The director of research responded, "I think that is EXACLTY *[sic]* what you should do." The firm ultimately did not drop coverage.

III. IN CERTAIN INSTANCES, THE FIRM PUBLISHED EXAGGERATED OR UNWARRANTED RESEARCH

46. In some instances, Deutsche Bank analysts gave advice to institutional clients or others that conflicted with their published ratings on particular stocks, thus indicating that in those instances, Deutsche Bank published research that was exaggerated, unwarranted, or unreasonable.

47. In the spring of 2001, one of Deutsche Bank's analysts met with a large institutional client of the firm to discuss the stocks that analyst covered. One of those stocks was Oracle, on which the analyst had Buy recommendations in his published research on March 1, 2001, March 15, 2001, and April 30, 2001.

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After meeting with the analyst in the spring of 2001, the institutional investor placed an order with Deutsche Bank to sell more than a million shares of its position in the stock. Immediately after the sale, the Deutsche Bank institutional salesperson responsible for the account sent an e-mail to the director of research, commending the analyst's performance and stating that the client would be sending its *Institutional Investor* votes to the analyst. (Subscribers vote for analysts that have provided information in an annual poll of the most influential research analysts conducted by *Institutional Investor* magazine.) Other institutional salespeople also commented about the analyst's helpfulness to them, stating that he had put a "great sell on Oracle."

48. In another example, an analyst in the software application sector e-mailed an investment banker in April 2001 on another stock he covered, Eprise Corp., with a "request to drop coverage," stating that the "stock continues to trade below $1 and these guys are permanent toast." The analyst had a January 5, 2001 Market Perform rating on the stock at the time.

49. In April 2002, an analyst communicated to an executive officer of Deutsche Bank's investment banking client, Getty Images, Inc., about the price target he had given the company in and April 5, 2002 report. He told the executive not to worry about his current price target, because he would consider raising it at another time:

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> I thought my approach was appropriately supportive of my favorite company [the client], but still realistic…. My best guess is the stock stays in a trading range pending another quarter's evidence of [the client's] superior operating skills, *[sic]* leveraged by further improvements in the ad market. This leaves me room to boost the target price in conjunction with future increases in the earnings estimates *[sic]*. I certainly wouldn't want to put you under any near-term pressure by raising the bar too high. After all, I'm only thinking about you!

IV. DEUTSCHE BANK RECEIVED AND MADE PAYMENTS FOR SERVICES THAT INCLUDED THE PROVISION OF RESEARCH

50. During the relevant time period, Deutsche Bank received over $1 million from other investment banks for services that included research coverage of those firms' banking clients. In addition, it directed payments of more than $10 million to other brokers for services that included research coverage of Deutsche Bank's banking clients. These payments were made from the underwriting proceeds of the transaction, and in certain instances, were directed by the issuers.

51. In a January 2000 e-mail discussing the "norm" on Wall Street, a banker stated that for transactions above $75 million, "there are plenty of gross spread dollars to be allocated for future research coverage in the management fee."

A. Deutsche Bank Received Payments for Research

52. During the relevant time period, Deutsche Bank received payments on at least four deals for which it was not the lead or co-lead manager. Internal documents at the firm reflect that these payments were made for research.

53. For example, in the spring of 2001, Deutsche Bank was

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covering Transkaryotic Therapeutics, Inc. with a "Strong Buy" and was pitching for the company's investment banking business. When the company selected another investment bank, the research analyst called Transkaryotic and expressed his displeasure that Deutsche Bank had not been selected to do the deal. The analyst told the company that he had spent his morning on the phone supporting the deal and that it was the analyst's upgrade of the stock from a Market Perform to a Strong Buy several weeks before that had increased the stock price and helped make the deal a success. The company directed that Deutsche Bank receive a payment of $300,000 from the underwriting proceeds. The analyst recorded in his self-evaluation form for that year that the firm had been "paid for our research" on this and one other deal.

54. Similarly, in October 1999, a company called Emisphere, which was not being covered by Deutsche Bank, decided to do a follow-on offering. Although Deutsche Bank did not participate in the deal, it received an $87,500 payment from the proceeds of the deal. The deal sheet and the $87,500 check from the lead manager both reflected that the payment was made "for research." In fact, the deal sheet specifically stated "Not in Deal / Received $87500.00 for research." Moreover, a contemporaneous internal e-mail from Deutsche Bank states that "[t]here was talk about us participating in the deal but b/c of the small size, proposed economics, etc we opted to pass. However, we did agree to pick up research coverage and a[s] result we will be getting the sales credit on 10% of the institutional pot." (During an

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offering, whenever the sale of shares to large institutional clients cannot be attributed to the selling efforts of any one firm, the commissions for the sales are placed into an "institutional pot." The credits are then divided among the firms as selling concessions). Deutsche Bank initiated research coverage of Emisphere with a Buy recommendation on November 17, 1999, after the end of the quiet period. The research report did not disclose the $87,500 payment.

55. Deutsche Bank also received a payment of $150,000 in March 2000 for research on United Therapeutics, Inc. and a payment of $375,764 in December 2001 for covering Trimeris, Inc.

56. In each of the four instances where Deutsche Bank received a payment for research, Deutsche Bank was not a member of the underwriting syndicate. (In several of the instances, Deutsche Bank was considered a member of the "selling group;" however, the selling group members do not retain any underwriting risk and Deutsche Bank did not acquire or sell any shares in these offerings). The payments were made from the underwriting proceeds of the offerings. The payments totaled over $900,000.

57. In each instance, Deutsche Bank issued research reports recommending the stocks of the issuers involved in the offerings. Emisphere was initiated at a "Buy"; the ratings of the three stocks already covered by Deutsche Bank did not change. However, in all four instances, Deutsche Bank failed to disclose in its research reports that the firm had received the

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payments and the source and amount of the payments.

B. Deutsche Bank Made Payments To Other Firms for Coverage

58. During the relevant period, Deutsche Bank made payments to other investment banking firms to have them, among other things, provide research coverage of Deutsche Bank's investment banking clients. A senior executive in Deutsche Bank's Equity Capital Markets department testified that, during the relevant time period, these payments were made on "one out of four" deals for which Deutsche Bank was the lead or co-lead manager.

59. Although in many instances the payments were made at the issuer's direction, Deutsche Bank actively participated in the process. In its pitches for the business, Deutsche Bank advised the issuer that it would select members for the underwriting syndicate based upon that firm's ability to provide research coverage. In at least one instance, Deutsche Bank advised its client that it would be possible to "attract specific additional Research Analysts" by offering them free retention shares.

60. During the relevant period, Deutsche Bank made these payments in at least 25 offerings where it was the lead or co-lead manager. The payments, which came from the underwriting proceeds, were made to at least 35 other broker-dealers who either were not part of the underwriting syndicate or who received a payment significantly in excess of their underwriting fee on the transaction. In many of these instances, Deutsche Bank's internal e-mail and other internal documents recorded

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these payments as "research payments."

61. For example, Deutsche Bank was the lead manager for U.S. Aggregates' follow-on offering of 5.475 million shares of stock in August 1999. The dealer book (the document used by Deutsche Bank to track firms' involvement in the deal) noted under one firm's name: "RESEARCH FOR $$. ADDL 100M SHARES OF CREDIT." The dealer book made similar notations for other firms.

62. Similarly, Deutsche Bank was the lead manager for Endwave Corporation's follow-on offering of 6.9 million shares of stock in October 2000. Deutsche Bank's dealer book reflected that another firm would receive payment as part of the deal and notes that the Deutsche Bank deal captain "spoke to Jan - their going rate is $100,000 - no less for research, she will follow with [ ] analyst…." On January 12, 2001, Deutsche Bank sent a $100,000 check to the firm. The accompanying statement reflected that the payment was a "Research Payment."

63. Although not all of the firms appear to have issued research after receiving the payments, internal e-mails indicate that Deutsche Bank policed the other firms to ensure that research was in fact issued. For example, in connection with Deutsche Bank's lead-managed follow-on offering for Align Technologies, Inc. in January 2001, one of the deal captains wrote, "They [another firm] owe us on a past deal for which they promised and got paid on research but lost the analyst prior to rollout. They are picking this up regardless with no fees associated."

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64. In all, Deutsche Bank made payments totaling over $10 million on at least 50 deals in order to have other firms provide research coverage of Deutsche Bank's investment banking clients. These payments were not disclosed in the prospectus or other publicly available documents disclosing the terms of the underwriting deal. Deutsche Bank did not take steps to ensure that these firms disclosed in their research reports that they had been paid to issue research. Further, where applicable, Deutsche Bank did not disclose or cause to be disclosed in the offering documents or elsewhere the details of these payments.

V. DEUTSCHE BANK FAILED TO REASONABLY SUPERVISE RESEARCH ANALYSTS' ACTIVITIES AND TO ESTABLISH PROCEDURES TO GUARD AGAINST IMPROPER CONDUCT

65. Deutsche Bank failed to establish and maintain adequate policies and procedures to ensure the objectivity and independence of its research reports and recommendations. Although Deutsche Bank had written policies governing the preparation and distribution of research during the relevant period, these policies were not reasonably designed to prevent or manage conflicts of interest that existed between research and investment banking.

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66. In addition, at least several analysts were unfamiliar with or did not comply with the policies. Deutsche Bank's written policies in effect after May 2001 prohibited research analysts from sending issuers draft reports containing the

analysts' recommendations and price targets. At least one analyst was unaware of this policy; other analysts admitted that even though they knew of the policy, they violated it by sending draft reports with recommendations and price targets to issuers for comment before the reports were published.

VI. DEUTSCHE BANK FAILED TO PROMPTLY PRODUCE ALL ELECTRONIC MAIL

67. In April 2002, state and federal regulators requested that Deutsche Bank produce all e-mail for a two-year period for certain employees in its research and investment banking departments. At the same time, Deutsche Bank was asked to not delete e-mail or overwrite e-mail backup tapes. Deutsche Bank agreed to the requests, sent out such instructions, and began producing e-mail. State regulators joined in the investigation in coordination with the federal regulators.

68. In their review of Deutsche Bank's production, the SEC and California state regulators noticed apparent discrepancies in the volume of e-mail that was being produced for various individuals. The regulators also believed that anticipated responses to certain e-mails were missing and the production appeared to be incomplete. These discrepancies were immediately brought to the attention of Deutsche Bank. Deutsche Bank repeatedly assured the regulators that its e-mail production was complete. Responding to the issues raised by the regulators, the firm stated that the variance in the volume of emails for

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particular individuals was attributable to a) individual practices (that is, that some people received and kept more e-mail than others), b) the fact that different entities that now comprised Deutsche Bank had differing historical e-mail retention practices, or c) Deutsche Bank's failure to maintain all of its e-mail for the required three-year time period, for which the firm had been fined $1.65 million in joint actions by the SEC, the NASD, and the NYSE in December 2002.

69. The regulators continued to examine the production discrepancies. One discrepancy involved Deutsche Bank's production of e-mails for only twelve of the twenty-four months for the e-mail server located in its San Francisco office. Ultimately, on the eve of the Global Settlement in April 2003, Deutsche Bank, based on inquiries by California state regulators, determined that one or more e-mail backup tapes had not been restored to retrieve available e-mail, and so informed the regulators. Deutsche Bank subsequently learned, and informed the regulators, that in numerous instances, their production retrieval process had failed.

70. Deutsche Bank failed to ensure that it was producing all responsive e-mail. Deutsche Bank relied upon the statements of low level supervisory and information technology personnel that all available e-mail had been produced, without confirming that such assurances were accurate. The information technology personnel who retrieved the email data from backup tapes and other storage media did not have sufficient guidance and had not

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been adequately trained on how to respond to regulatory or other requests for e-mail. Despite Deutsche Bank's assurances to regulators that e-mail would not be overwritten or deleted, a number of electronic backup tapes containing e-mail were discarded during the production period by an employee who believed that they contained no recoverable e-mail. Internal or external third parties with forensic data retrieval expertise were not consulted to confirm that the tapes were corrupted and to assess whether restoration was possible using different technology.

71. In certain instances, Deutsche Bank neglected to restore backup tapes to determine whether they contained responsive e-mail. In other instances, Deutsche Bank incorrectly identified as "unavailable" backup tapes that were, in fact, available or in offsite storage facilities, and also stated that certain tapes had been overwritten when that turned out not to be the case. Deutsche Bank also discovered, after continued questioning by the regulators, that a large volume of e-mail still existed on file servers, an offline help desk server, and backup tapes that had been scrapped but not yet overwritten. Once the tapes were restored and data retrieved from them, Deutsche Bank found certain e-mail for analysts for whom Deutsche Bank had previously stated that no e-mail existed. After Deutsche Bank had informed the regulators that it was close to completing its production, Deutsche Bank determined that it had the ability to retrieve certain previously-deleted

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e-mail which had not been retrieved by Deutsche Bank's original restoration process.

72. Deutsche Bank's inability to reliably locate and produce e-mail in response to regulatory requests and subpoenas, which resulted from a lack of guidance to information technology personnel, a lack of adequate procedures, and a lack of proper supervision, delayed the completion of the investigation into analyst conflicts of interest at Deutsche Bank by over a year. As the investigation continued, the regulators were forced to invest considerable time and resources to probe Deutsche Bank's e-mail production failures, including taking testimony from numerous information technology personnel. In response to the problems that were identified by the regulators in April 2003, Deutsche Bank took steps to ensure that the previously overlooked e-mail was restored and produced to regulators, and revised its procedures and protocol for gathering and producing historical e-mail. Ultimately, however, the failure of Deutsche Bank to fully and completely respond to the initial requests of the regulators significantly delayed the completion of the investigation for an unreasonable length of time.

73. Over the course of the following year, Deutsche Bank produced an additional 227,000 e-mail -- more than three times the volume that it produced during the investigation as of December 2002.

74. By failing to timely produce e-mail, Deutsche Bank breached its obligation to comply with a reasonable regulatory

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request for documents that it is required by law to maintain and produce for inspection to the Commission staff and state regulators.

VII. CONCLUSIONS OF LAW

The **Director** has jurisdiction over this matter pursuant to ORS Chapter 59.

The **Director** finds that the above conduct is in violation of ORS 59.135, ORS 59.195, ORS 59.205 and OAR Ch.441,Div.205.

The **Director** finds the following relief appropriate and in the public interest.

VIII. ORDER

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

IT IS HEREBY ORDERED:

1. This Order concludes the investigation by the Director and any other action that the Director could commence under ORS Chapter 59 on behalf of the State of Oregon as it relates to certain research practices at Deutsche Bank described herein, provided, however, that Director may enforce any claims against defendant arising from or relating to any violation of the "Order" provisions herein.

2. Respondent Deutsche Bank will CEASE AND DESIST from engaging in acts in violation of ORS Chapter 59 in connection with

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the research practices referenced in this Order and will comply with the undertakings of Addendum A, incorporated herein by reference.

3. As a result of the Findings of Fact and Conclusions of Law contained in this Order, Deutsche Bank shall pay a total amount of $87,500,000.00. This total amount shall be paid as specified in the final judgment in the related action by the SEC against Deutsche Bank ("SEC Final Judgment") as follows:

a) $28,750,000 to the states (50 states, plus the District of Columbia and Puerto Rico), which amount includes the states' portion of the penalty for violating Section 17(b) of the Exchange Act as specified in the SEC Final Judgment and related state law (Deutsche Bank's offer to the state securities regulators hereinafter shall be called the "state settlement offer"). Upon execution of this Order, Deutsche Bank shall pay the sum of **$303,166.00** of this amount to **the Oregon Department of Consumer and Business Services** as a civil monetary penalty pursuant to **ORS 59.995**, to be deposited in the **General Fund, ORS 59.995**. The total amount to be paid by Deutsche Bank 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

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accept Deutsche Bank's state settlement offer, the total amount of the **Oregon** payment shall not be affected, and shall remain at **$303,166.00.**

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

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

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

e) $3,750,000 to the SEC, as a penalty for violating Section 17(b) of the Exchange Act, as specified in the SEC Final Judgment.

4. Deutsche Bank 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 Deutsche Bank 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. Deutsche Bank 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 Deutsche Bank shall pay pursuant to this

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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. Deutsche Bank understands and acknowledges that these provisions are not intended to imply that the **Director** would agree that any other amounts Deutsche Bank 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.

5. If payment is not made by Deutsche Bank or if Deutsche Bank defaults in any of its obligations set forth in this Order, the Director may vacate this Order, at its sole discretion, upon 10 days notice to Deutsche Bank and without opportunity for administrative hearing and Deutsche Bank agrees that any statute of limitations applicable to the subject of the Investigation and any claims arising from or relating thereto are tolled from and after the date of this Order.

6. This Order and any dispute related thereto shall be construed and enforced in accordance with, and governed by, the laws of the **State of Oregon** without regard to any choice of law principles.

7. This Order is not intended by the Director to subject any Covered Person to any disqualifications under the laws of any state, the District of Columbia or Puerto Rico

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(collectively, "State"), including, without limitation, any disqualifications from relying upon the State registration exemptions or State safe harbor provisions. "Covered Person" means Deutsche Bank, 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.).

8. 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 Deutsche Bank (collectively, the "Orders") shall not disqualify any Covered Person from any business that they otherwise are qualified, licensed or permitted to perform under the applicable law of the state of Oregon and any disqualifications from relying upon this state's registration exemptions or safe harbor provisions that arise from the Orders are hereby waived.

9. The Orders shall not disqualify Deutsche Bank from any business that they otherwise are qualified or licensed to perform under applicable state law.

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

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Deutsche Bank to any claims.

11. Nothing herein shall preclude the State of Oregon, its departments, agencies, boards, commissions, authorities, political subdivisions and corporations, other than the Director and only to the extent set forth in paragraph 1 above, (collectively, "State Entities") and the officers, agents or employees of State Entities from asserting any claims, causes of action, or applications for compensatory, nominal and/or punitive damages, administrative, civil, criminal, or injunctive relief against Deutsche Bank in connection with securities research analysts' conflicts of interest and investment banking business practices at Deutsche Bank.

12. Deutsche Bank agrees not to take any action or to make or permit to be made any public statement denying, directly or indirectly, any finding in this Order or creating the impression that this Order is without factual basis.

13. This Order shall be binding upon Deutsche Bank and its successors and assigns. Further, with respect to all conduct subject to Paragraph 2 above and all future obligations, responsibilities, undertakings, commitments, limitations, restrictions, events, and conditions, the terms "Deutsche Bank" and "Deutsche Bank's" as used herein shall include Deutsche Bank's successors and assigns which, for these purposes, shall include a successor or assign to Deutsche Bank's investment banking and research operations, and in the case of an affiliate of Deutsche Bank, a successor or assign to Deutsche Bank's

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investment banking or research operations.

Dated this 17th day of March, 2005.

BY ORDER OF THE DIRECTOR OF THE
DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

By ______________________
CORY STREISINGER
DIRECTOR

CONSENT TO ENTRY OF ADMINISTRATIVE ORDER
BY DEUTSCHE BANK SECURITIES, INC.

DEUTSCHE BANK 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.

DEUTSCHE BANK SECURITIES, INC. admits the jurisdiction of the State of Oregon, 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 Director as settlement of the issues contained in this Order.

DEUTSCHE BANK 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.

DEUTSCHE BANK SECURITIES, INC. understands that the

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State of **Oregon** may make such public announcement concerning this Order and the subject matter thereof as the State of **Oregon** may deem appropriate.

I, Robert Kl[illegible] represent that I am General Counsel of DEUTSCHE BANK SECURITIES, INC. and that, as such, have been authorized by DEUTSCHE BANK SECURITIES, INC. to enter into this Order for and on behalf of DEUTSCHE BANK SECURITIES, INC..

Dated this 16 day of Feb, 2005.

DEUTSCHE BANK SECURITIES, INC.

By: Robert Kl[illegible]

Title: General Counsel

SUBSCRIBED AND SWORN TO before me this 16 day of February, 2005.

NYREE A. McALLISTER
Notary Public, State of New York
No. 01MC6045654
Qualified in Queens County
Certificate Filed in New York
Commission Expires July 31, 2006

Nyree A. McAllister

Notary Public

My Commission expires: July 31, 2006

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Telephone: (503) 378-4387