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NASD Fines Piper Jaffray $2.4 Million for IPO Spinning

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NASD

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Washington, D.C.—NASD announced today that it has censured and fined Piper Jaffray & Co. $2.4 million for engaging in improper spinning of hot initial public offerings (IPOs). Piper Jaffray violated NASD rules by allocating and selling profitable hot IPOs to executives of corporations from which Piper Jaffray was seeking, or had obtained, investment banking business.

During 1999 through 2001, Piper Jaffray improperly allocated and sold shares of these hot IPOs to 22 corporate executives, primarily CEOs and CFOs of public companies. None of these executives did any personal business with Piper Jaffray during the relevant period. The only activity in each executive's account was the purchase and sale of hot IPO shares. Each individual was a key executive officer (or spouse) of an existing or potential Piper Jaffray investment banking client and was in a position to influence the selection of the investment banker for their employer.

Piper Jaffray earned over $16 million dollars from these issuers, while the 22 key executives made a total of approximately $2.4 million in profits from the hot IPO shares. Individual profits ranged from $9,000 to approximately $242,000. Each executive was allocated at least five hot IPOs, with some executives receiving as many as 20.

"Spinning contributes to the public's perception that the IPO market is rigged in favor of company insiders who receive highly profitable IPO shares as a payoff for lucrative investment banking business," said NASD Vice Chairman Mary L. Schapiro. "NASD is committed to an IPO allocation process that is transparent and fair."

Sales of hot IPO shares to corporate executives were made by Piper Jaffray's Corporate Client Services (CCS) desk, a function within Piper's Investment Banking Department. The head of Piper Jaffray's Investment Banking Department determined the annual bonuses and salaries of CCS employees, and discretionary bonus payments to CCS employees and investment bankers were made from one bonus pool. CCS made it clear, both within the company and to clients, that its role was to add value to the investment banking operation. As one CCS employee wrote in a May 2001 email to a client: "We are not part of our retail business. We are part of Piper Jaffray's Equity Capital Market Group. This is unique to the Street."

Piper Jaffray's investment bankers identified certain corporate executives to CCS for hot IPO allocations, and in some instances gave direction on the number of shares the executives should receive. In making allocation decisions, CCS asked investment bankers to rank company executives in order of priority. The ranking of key executives for the allocation of hot IPOs was accomplished in several different ways. For example, a CCS relationship manager sent a list of individuals to an investment banker, asking him to add executives as necessary and "put in a ranking number." The CCS manager suggested that the investment banker use the following ranking system that was used by other investment bankers:

1. Very important

2. Somewhat important

3. [G]et him about 4 deals a year

0. No stock for you

Piper Jaffray made numerous allocations to key executives. For example, Piper Jaffray sold shares to the CFO of Liquid Audio on numerous occasions prior to Liquid Audio's IPO and its secondary offering five months later. The CFO made over $92,000 in profits from his IPO sales. Piper earned over $764,000 as co-manager of Liquid Audio's IPO and more than $703,000 as co-manager of Liquid Audio's secondary offering.

Piper Jaffray also allocated hot IPO shares to three executives of Go America - the CEO, the CFO and an EVP - shortly after being selected to co-manage that company's IPO. These three individuals collectively made over $330,000 in profits. At the same time, the investment banking transaction by Go America generated over $1.1 million in investment banking fees for Piper Jaffray.

In settling this matter, Piper Jaffray & Co. neither admitted nor denied the charges.

Investors can obtain more information about, and the disciplinary record of, any NASD-registered broker or brokerage firm by using NASD's BrokerCheck. NASD makes available BrokerCheck at no charge to the public. In 2003, members of the public used this service to conduct more than 2.9 million searches for existing brokers or firms and requested almost 180,000 reports in cases where disclosable information existed on a broker or firm. Investors can link directly to the program by going online to www.nasdbrokercheck.com. Investors can also access this service by calling 1-800-289-9999.

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