

CHARLES E. GRASSLEY, IOWA, CHAIRMAN

ORRIN G. HATCH, UTAH
TRENT LOTT, MISSISSIPPI
OLYMPIA J. SNOWE, MAINE
JON KYL, ARIZONA
CRAIG THOMAS, WYOMING
RICK SANTORUM, PENNSYLVANIA
BILL FRIST, TENNESSEE
GORDON SMITH, OREGON
JIM BUNNING, KENTUCKY
MIKE CRAPO, IDAHO

MAX BAUCUS, MONTANA
JOHN D. ROCKEFELLER IV, WEST VIRGINIA
KENT CONRAD, NORTH DAKOTA
JAMES M. JEFFORDS (I), VERMONT
JEFF BINGAMAN, NEW MEXICO
JOHN F. KERRY, MASSACHUSETTS
BLANCHE L. LINCOLN, ARKANSAS
RON WYDEN, OREGON
CHARLES E. SCHUMER, NEW YORK

United States Senate

COMMITTEE ON FINANCE

WASHINGTON, DC 20510-6200

KOLAN DAVIS, STAFF DIRECTOR AND CHIEF COUNSEL
RUSSELL SULLIVAN, DEMOCRATIC STAFF DIRECTOR

May 25, 2006

Via Facsimile: (212) 581-5690

Via Electronic Transmission

General Wesley K. Clark (ret.)
Chairman of the Board
Rodman & Renshaw, L.L.C.
1270 Avenue of the Americas
16th Floor
New York, NY 10020

Dear General Clark:

As a member of the United States Senate, and as Chairman of the Committee on Finance, it is my duty under the constitution to conduct oversight into the actions of government agencies and entities that are regulated by them. I write today regarding allegations that were recently presented to our staff and reported on in *The New York Times* regarding certain activities at Rodman & Renshaw L.L.C. (Rodman & Renshaw).

More specifically, the article in *The New York Times* discussed events surrounding the termination of a research analyst's employment with Rodman & Renshaw after his decision to downgrade the stock of one of the firm's investment banking clients. The article further outlines that a series of emails exist where senior managers at Rodman & Renshaw sought to intervene in the decision to downgrade this stock, offering to help the analyst "finesse the price target." Taken on their face, these allegations paint a picture of a firm that was attempting to control the outcome a research analyst report to benefit an investment banking client's stock price.

As you are aware, on April 28, 2003, the Securities and Exchange Commission (SEC), along with the National Association of Securities Dealers (NASD), the New York Stock Exchange (NYSE) and the New York State Attorney General's Office entered into a \$1.4 billion global settlement agreement (global settlement) with 10 major Wall Street brokerage firms. The global settlement was a result of an investigation of practices at the major firms and potential bias in reports issued by research analysts on a stock of a company that is also an investment banking client of the same firm. Resulting from specific instances of manipulation of research reports, the global settlement required the major firms to undertake significant structural reforms, enhance disclosure requirements, create standards for protecting independent research, and provide money for investor education. More importantly, the global settlement served as a symbolic measure to show that independent research by Wall Street firms should in fact be wholly independent of the investment banking and other financial interests of the firms providing the research.

While not a party to the global settlement agreement, nevertheless, Rodman & Renshaw ought to adhere to the principles established in the global settlement. The allegations reported in *The New York Times* regarding Rodman & Renshaw create the appearance that the firm's research may not be sufficiently independent and reliable. I understand that the research analyst contacted you directly, via email on March 23, 2006, to report that the firm was continuing to recommend the stock contrary to his recommendation and seeking your assistance in taking corrective action. His email, and the timeline it contains, raises serious questions about whether your firm may have violated 17 C.F.R. § 242.501 (regarding assurance that research reports accurately reflect the views of the named analyst) and NASD Rule 2711 (prohibiting retaliation against research analysts).

Accordingly, I request that you make yourself available for an interview with Committee staff. Please be prepared to address the following questions:

1. Having received information regarding potential misconduct at Rodman & Renshaw, what steps have you taken as Chairman of the Board to investigate these allegations?
2. Specifically, have you contacted the analyst or other witnesses involved to gather more information? If not, why not?
3. Have you consulted or hired outside counsel to investigate the circumstances and provide objective advice to the Board about how to respond to the allegations? If not why not?

I thank you in advance for having your staff coordinate with ours no later than close of business on May 31, 2006 to provide a point of contact for this inquiry. Any questions or concerns should be directed to Emilia DiSanto or Nick Podsiadly of my staff at (202) 224-4515.

Sincerely,



Charles E. Grassley
Chairman

Attachments

> Date: Thu, 23 Mar 2006 12:27:26 -0800 (PST)
> From: "matt@matthewmurray.com"
> <matthew_murray@yahoo.com>
> Subject: Punishment of a Research Analyst by Rodman
> for Downgrading Banking Client
> To: wclark@wesleykclark.com
>
> March 23, 2006
>
> General Clark
>
> I am writing to you today in regards to your role as
> Chairman of Rodman and Renshaw about a issue that I
> believe has not yet been brought to your attention.
> I
> am a series 86/87 registered financial analyst that
> was removed from the research department at Rodman
> because of my attempt to downgrade my investment
> rating on a company which is an investment banking
> client of the Firm. I believe the Firm is still
> recommending the stock despite my recommendation
> that
> it be rated market perform three weeks ago. Since
> the
> President of Rodman has failed to take proper
> corrective action, you are the last opportunity that
> I
> have to report this matter internally. I have laid
> out below these series of events and have attached a
> chart which superimposes the relevant emails on a
> timeline. I would like to speak with you in regards
> to this matter. I believe that it is in the Firm's
> best interest to take rapid and significant
> corrective
> action prior to what I believe will be inevitable
> scrutiny from a variety of regulatory Agencies.
>
> TIMELINE
>
> December 13, 2005
> Rodman acts as a placement agent for Halozyne in a
> \$17.5M stock offering at \$1.75/share.
>
> February 17-24, 2006
> Halozyne stock price rapidly increases by about 40%
> after presenting at an investment conference despite
> the fact that no new announcements have been made by
> the company.
>
> February 24, 2006 (Friday)
> I speak with the CFO of Halozyne and confirm that
> there are no new fundamental developments at the
> company that would warrant the rapid stock price
> gains. I communicate with four members of the
> investment policy committee (IPC) about my intention
> to lower my investment rating on Halozyne (stock
> ticker: HTI) from "Market Outperform" to "Market

> Perform" because the stock price (\$2.80/share) is
> almost at my target price (\$2.88/share).
>
> February 25-26, 2006 (Saturday/Sunday)
> I receive an email from the Director of Research
> (Michael King) suggesting that I increase my target
> price rather than downgrade the stock.
> Specifically,
> he states "If you'd like some help regarding how to
> finesse the price target on HTI your conversation
> should be had with me."
>
> I send the Director of Research an email which
> states,
> "I have no interest in 'finessing' price targets. I
> do
> not think that a prospectively defined price target
> should be changed unless there is a change in the
> fundamentals of the company."
>
> I agree to meet one more time on Monday with the
> Halozyme CFO to re-analyze the company prior to the
> down-grade. However, I protest that Rodman is
> taking
> the management on a roadshow to meet with clients on
> Monday and that investors should not be told that I
> am
> recommending the stock at the current price.
>
> February 27, 2006 (Monday)
> I meet with the CFO of Halozyme (David Ramsey) one
> more time and confirm my previous investment thesis
> and that there have been no new fundamental
> developments at the company since a February 13
> press
> release on the issuance of a patent. I issued a
> research note following this announcement in which I
> restated my \$2.88/share price target. Following
> this
> meeting, I submitted my down-grade report with a
> justification that the stock closed at \$3.00/share
> on
> Monday and that my price target was \$2.88/share.
>
> I received a hostile email response from the
> Director
> of Research, which states that I am not only
> prohibited from down-grading the stock but also from
> asking the IPC for a vote. In the email he states,
> "did you even read this before you sent it to me?
> the
> language is abysmal. it reads as though an
> illiterate
> wrote it. there is no way this can go out even if we
> hold an IPC in the morning."
>
> February 28, 2006 (Tuesday)

> I request multiple times verbally, without success,
> for an IPC to be convened and for my downgrade
> report
> to be published. Upon advice from outside legal
> council, I also sent two emails to the head of
> compliance asking for my name to be taken off of the
> stock. I state that since I no longer believe in the
> published rating on the First Call system and cannot
> be held accountable for the attestation statement on
> my previous report that states: "
>
> ANALYST CERTIFICATION: I, Matthew Murray, hereby
> certify that the views expressed in this research
> report accurately reflect my personal views about
> the
> subject company(ies) and its (their) securities.
>
> March 2, 2006 (Thursday)
> An internal email is sent to the firm stating that I
> have left the research department.
>
> I appreciate your consideration of this matter.
>
>
> Sincerely
>
>
> Matthew Murray
>
>
>

1 of 1 DOCUMENT

Copyright 2006 The New York Times Company
The New York TimesApril 9, 2006 Sunday
Correction Appended
Late Edition - Final**SECTION:** Section 3; Column 1; Money and Business/Financial Desk; Pg. 1**LENGTH:** 1320 words**HEADLINE:** Did Wall Street Really Learn Its Lesson?**BYLINE:** By GRETCHEN MORGENSON**BODY:**

ALMOST four years have passed since securities regulators and Wall Street firms signed the \$1.4 billion research settlement intended to remove bias from brokerage firm analysts' work. Has enough time gone by for business as usual to return to the Street?

That seems to be what some on Wall Street hope, judging from the story of Matthew N. Murray, a veteran analyst and portfolio manager who was recently fired from his post at Rodman & Renshaw, a small brokerage firm in New York City. Mr. Murray, 38, lost his job in March after downgrading the stock of Halozyme Therapeutics, a small biotechnology company he had followed since September 2005.

Mr. Murray said he downgraded the stock not because he had changed his view on its prospects. Rather, he said, its shares had hit his price target, so he took his rating from "outperform" to "market perform." Halozyme is an investment banking client of Rodman & Renshaw.

An aim of the \$1.4 billion research settlement, you may recall, was to protect analysts from pressure by investment bankers or employees in other parts of their firms to write favorably about the companies they followed. But according to Mr. Murray, that kind of pressure is exactly what he experienced.

Mr. Murray's story begins in 2005, when he was hired by Rodman to help the firm expand its equity research, sales and trading operation. Its main business is raising capital for small companies that can't get in the door at bigger Wall Street firms. Rodman, which is privately held, focuses on health care and technology companies.

Before joining Rodman, Mr. Murray was a portfolio manager at Alliance Capital for five years. He has also worked as an analyst at Lehman Brothers, UBS and Alex. Brown. Mr. Murray's regulatory record — called a C.R.D., for Central Registration Depository — is clean.

Mr. Murray began recommending Halozyme last September, when the stock was at \$1.86. He assigned a price target of \$2.88 to it. In mid-December, Halozyme raised about \$17.5 million from the public in a stock offering managed by S. G. Cowen & Company, Rodman & Renshaw and Roth Capital Partners. The price was \$1.75 a share; buyers of the deal cannot sell their stock until mid-June.

All was quiet in January, but by mid-February, the stock was moving. It rose to \$2; later that month it was \$2.45. On Friday, Feb. 24, the stock hit \$2.80, on no apparent news, Mr. Murray said. Because it was nearing his price target and the company's fundamentals had not changed, he prepared his downgrade report.

First, Mr. Murray said, he called the chief financial officer of Halozyme, to confirm that there were no new developments at the company. Then he asked the four members of Rodman's investment policy committee to meet to discuss his rating change.

The next day, a Saturday, he received an e-mail message from Michael G. King Jr., the research director at Rodman, suggesting that he maintain his rating on Halozyme by raising his price target. "If you'd like some help regarding how to

Did Wall Street Really Learn Its Lesson? The New York Times April 9, 2000

finesse the price target on HTI your conversation should be had with me," Mr. King wrote, referring to the company, in the e-mail message. Mr. Murray provided a copy of the message to The New York Times.

In a return e-mail message, Mr. Murray said he was not interested in finessing the price target. He did, however, agree to meet on Monday, Feb. 27, with the chief financial officer from Halozyme to assess its fundamentals once more. Rodman was about to be host for a series of meetings for Halozyme with the firm's clients. While many meetings like this are related to a securities offering, this one was not.

Halozyme shares hit \$3 that day. Having confirmed his previous investment thesis in his meeting with the C.F.O., Mr. Murray submitted his downgrade report. Mr. King, citing what he called the "abysmal" quality of the writing in the report, advised the analyst that the report could not go out. Mr. Murray asked to convene a meeting with the investment policy committee, to no avail. No report has been published.

On Feb. 28, Mr. Murray sent the first of two e-mail messages to William A. Iommi, Rodman's head of compliance, asking that the firm remove his name from coverage of Halozyme. All analysts must certify that their reports truly reflect their opinions, and because Mr. Murray's previously issued buy recommendation no longer reflected his view, he said he should not be held accountable for it. On Thursday, March 2, Mr. Iommi told the firm's employees that Mr. Murray was leaving its research department. "In his new role at Rodman, he will be exploring the creation of an asset management business for Rodman & Renshaw Holding," Mr. Iommi wrote in an e-mail message. Twelve days later, Mr. Murray was fired.

"I am proud of the success that I helped create in my one year at Rodman," Mr. Murray said. "When I joined the firm in March 2005 it was ranked 17th in biotech research according to First Call. Over the next nine months I recruited new directors of sales, research and health care investment banking. By the end of the year, the firm ranked No. 3, and I was the top-ranked analyst" at the firm.

THERE are two sides to every story, of course. But many of the players in this drama are not talking about it. Mr. Iommi, for instance, declined to comment about the circumstances surrounding Mr. Murray's firing.

Gen. Wesley K. Clark is chairman of Rodman & Renshaw. In late March, Mr. Murray related his story to General Clark in an e-mail message; he got no response. General Clark did not return a phone call seeking comment.

David A. Ramsey, chief financial officer of Halozyme, did not return a phone call seeking comment.

One person who was willing to speak about the matter is Jay S. Auslander, a partner at the law firm Siller Wilk L.L.P. in New York who represents Rodman. "Mr. Murray was not terminated because he wanted to downgrade Halozyme or any other stock," he said. "Rodman has always acted with the highest level of integrity and fully complies with all the rules and regulations relating to target pricing and to analyst recommendation changes. Mr. Murray's termination related to issues concerning his professionalism including the manner in which he interacted with others."

But Mr. Auslander declined to provide details about Mr. Murray's interactions with others, citing Rodman's policy of not discussing personnel matters. He said the firm could not comment on the e-mail messages written to Mr. Murray by Mr. King and Mr. Iommi.

An executive at a company followed by Mr. Murray described him as an analytic professional whose work was comprehensive and intelligent. The executive, who agreed to speak only on the condition of anonymity because he still deals with Rodman, said he had known and respected Mr. Murray for 12 years "through downgrades and upgrades."

Analyst downgrades are bound to disappoint some companies and the investment firms hoping to stay on good terms with them. But a downgrade may have been especially unwelcome in the Halozyme case, given that the investors who bought the stock last December at \$1.75 cannot sell until the lockup expires in June.

Happily, though, the dustup at Rodman has not hurt Halozyme's shares. They closed Friday at \$3.25.

Mr. Murray, meanwhile, has applied to join the National Guard and is awaiting word on his application. He said he has told his story to staff members in the office of Senator Charles E. Grassley, the Iowa Republican who is chairman of the Senate Finance Committee, and to officials at the Securities and Exchange Commission. Mr. Grassley's office confirmed the discussions; the S.E.C. declined to comment, as is its custom.

Wall Street, like politics, ain't beanbag, of course. But wouldn't it be nice if investors could be confident that the analysts whose research they read were opining freely — and without the fear of being fired?