

# Did Wall Street Really Learn Its Lesson?

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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 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?

Correction: April 23, 2006, Sunday The Gretchen Morgenson column on April 9, about the firing of a biotechnology stock analyst at Rodman & Renshaw after he downgraded his rating on Halozyme Therapeutics, misstated the terms of a December 2005 stock offering by Halozyme. The shares offered to investors were freely tradable after they were bought; they were not subject to a six-month lockup period.