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THE NEW RULES:

Changes in the way stock analysts work and get paid are beginning to ripple through the financial industry. The long-term effect - including unintended consequences - remains to be seen.

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Ben Crabtree is living proof that the days of the superstar, seven-figure, deal-fronting Wall Street analyst are over _ at least for some time.

Crabtree, 59, a veteran of brokerages and investment companies who's better known for his insights than his sales pitch, has joined the restructured investment research department at U.S. Bancorp Piper Jaffray.

"I needed a job," joked Crabtree, who left Advantus Capital in St. Paul after its stock portfolio operation was sold to a Kansas City-based management team last spring. "I can openly tell you that I never had a million-dollar payday in my career. I wasn't exactly a rainmaker.

"A good analyst is kind of a salesman to the extent we sell our ideas. And I think that the much more centralized position of the independent research department at Piper is very positive. But the analyst will not bring deals to corporate finance" anymore.

Meanwhile, Allan Hickok, 47, has left Piper. Also a veteran analyst, Hickok made millions in the 1990s building a national restaurant practice and working with investment bankers to help the companies he followed raise money.

Through his relationships with corporate executives at companies such as Cheesecake Factory, California Pizza Kitchen, Landrys, Buca and Applebees International, Hickok brokered big deals that Piper probably never would have landed otherwise. He declined to comment for this story but said previously that he plans to remain involved in the restaurant industry.

The departure of Hickok and the hiring of Crabtree is emblematic of the changes sweeping Wall Street since Minneapolis-based Piper and nine other major investment banks in the country agreed to separate their research and investment banking operations.

That separation comes as part of a \$1.4 billion settlement with securities regulators of charges that the firms used stock recommendations more as a way to win investment banking clients than to objectively guide investors during the 1990s.

Piper is one of the first of the brokerages to disclose the structure of its new hybrid research department. The company has consolidated its three research departments _ two stock and one fixed-income _ into one unit that reports to a head of investment research, who reports to the CEO. The company revealed the changes recently in Securities and Exchange Commission filings related to its pending spinoff as an independent company from U.S. Bancorp.

Piper said in the filing that "we and the other settling firms have agreed that research and investment banking will be physically separated, analysts' compensation will not be based directly or indirectly upon investment banking revenue and investment banking will not participate in the analyst evaluation process."

Percentage of the deal

In the past, analysts who helped reel in an investment banking deal would receive a percentage of the transaction fee. So if Piper made a \$1 million fee on an initial public offering, the analyst might receive 15 percent. Now the analyst will receive a set annual compensation and might receive a bonus based on the performance of stocks he recommends, among other criteria. But the money will be nothing like the giant paydays that superstars of the past received.

For example, the Oct. 25, 2000, employment contract for Piper analyst Ashok Kumar guaranteed his total compensation for the year at \$2.25 million. Kumar, a leading technology analyst, could make \$3 million or more, depending on the amount of investment banking business he brought in, the contract said. He also had the option of receiving a \$500,000 forgivable loan under the agreement, if he stayed a certain number of years.

Another former analyst, Tom Hancock, who followed biotech firms, was offered a forgivable loan of \$1.25 million in August 2000 and \$1.5 million in February 2001, provided that he stayed through 2003, according to a 2002 compensation memo. He was guaranteed compensation of \$762,300 for 2001 and \$405,833 for 2002.

Now, stock analysts no longer may meet with companies as part of investment-banking pitches, essentially cutting them out of the deal-making that can bring big profits. In fact, analysts can't even talk to investment bankers unless there is a member of the Piper legal compliance team present.

"With the new rules and regulations, I can have a conversation with a Piper analyst on behalf of a client that a Piper investment banker cannot," said Jim D'Aquila, a former

Wall Street investment banker who is now a partner in Minneapolis-based Mercanti Group. "That's how far the pendulum has swung.

"We're going to live with compartmentalized rules, and we're all - investment bankers and analysts - going to make a lot less money."

In an up-and-down stock market, the new premium is on analysts who can pick the right stocks, rather than network for deals that aren't happening.

Bob Peterson, Piper's managing director of the consolidated research department, said the hiring of Crabtree fits the new model.

"We want to get back to our roots, and I've been looking for somebody to cover small- to mid-cap banks," said Peterson, who now reports to CEO Andrew Duff instead of the head of equity capital markets. "Ben came along, was a fit, and people speak highly of him."

Against investors

David Welch, a former investment banker who worked at Dain with Crabtree, said the new rules might work against investors at times.

"A minority of analysts screwed up, and now we're going to have new rules that penalize everybody," Welch said. "On an initial public offering of stock, there is a very legitimate and valuable role for the analyst to explain a company to investors. If Piper is bringing a new bank public, I think investors would be better off if Ben looked at it."

Under the new rules, Crabtree can't provide that service or be compensated for it. The corporate finance department can look at his reports on public companies or prospects, but they can't discuss them with him. Investment bankers are supposed to have no role in determining which companies are covered by research.

Minneapolis-based Dain also has separated research and investment banking, which report to separate executives at the Toronto headquarters of its parent, RBC Financial. Most of the prominent technology analysts at Dain in the late 1990s, who also pocketed millions during the tech boom, have left the firm.

Archie Smith, a nationally known medical-device company analyst at Piper who left the firm in April after 20 years because of "lifestyle and family considerations," sees a roiling of the analyst ranks from all the changes.

"The primary job of the analyst is to get inside companies they cover to find out what makes them tick," said Smith, 48. "That doesn't change. What changes is that the regulators are going to significantly circumscribe the role of the analyst. The analyst is cordoned off in the research role, taken out of the capital-raising process by law.

"In their ultimate wisdom, the regulators have made it difficult for the securities firms to tell analysts how they'll be paid. You combine that with the hours and work, and a lot of people are leaving the analyst slot."

Sven Werwhein, another former Wall Street investment banker who has worked as a CFO and consultant, predicts that analysts at Piper and other firms will figure out ways to play within the new rules that still lead to corporate deals.

"Companies will pick the underwriters whose analysts they want to cover them," Werwhein said. "How you sell that within the spirit and the letter of these evolving rules remains to be worked out. But corporate America wants research coverage from firms that have clout. Piper still has clout."

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STAR ANALYST THEN

Allan Hickok recently left Piper Jaffray after making millions as an analyst in the 1990s.

- Seven-figure compensation.
- Rainmaker for firm, major part of investment-banking deals.
- Bonus based on percentage of investment-banking income generated.

STAR ANALYST NOW

Ben Crabtree recently joined Piper Jaffray's new, independent research department.

- Six-figure base salary.
- Not allowed to interact with investment bankers unless a company legal compliance officer is present.
- Bonus based on performance of recommended stocks.

MORE THAN JUST RESEARCH

Piper Jaffray analyst Ashok Kumar's October 2000 contract guaranteed him \$2.25 million in total pay, but that could climb past \$3 million if he brought in enough investment-banking business.

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