

APPENDIX B:

Global Research Analyst Settlement Distribution Fund Plan

This Appendix describes the process for an equitable and practicable distribution of funds from the Global Research Analyst Settlement. It is based upon provisions of the various Final Judgments and Orders applicable to the Global Research Analyst Settlement, which are available at <http://www.sec.gov/spotlight/globalsettlement.htm> or <http://www.globalresearchanalystsettlement.com>.

I. Identification and Categorization of Eligible Distribution Fund Recipients

The first step in the Distribution Fund Plan is to identify Eligible Distribution Fund Recipients.¹

The Final Judgments specify that Eligible Distribution Fund Recipients are limited to those who purchased, through a Settling Firm, certain equity securities during specified periods of purchase.² Subsequent Orders identified the relevant equity securities and the relevant periods of purchase for each Distribution Fund. The relevant securities and relevant periods of purchase for each Fund are set forth in Appendix A.

The Final Judgments with Settling Firms with their own Distribution Funds exclude a specific set of purchasers from qualifying as Eligible Distribution Fund Recipients. To the extent practicable, the Eligible Distribution Fund Recipient pool excludes the following entities: (a) the Settling Firms, their predecessors, successors, and their subsidiaries, affiliates, present or former officers and directors;³ (b) W-2 employees of the Settling Firms and family members of W-2 employees of Settling Firms eligible to obtain “employee” accounts (if the underlying employee was employed during the relevant period of purchase); (c) those persons identified in Sections III(c)(3)-(5) of the Final Judgments as ineligible for compensation; and (d) the Distribution Fund Administrator, the Distribution Fund Administrator’s immediate family, and those

¹ The terms contained in the Final Judgments and in this Distribution Fund Plan have legal and plain language meanings. For purposes of this Distribution Fund Plan, we interpret terms in a manner appropriate for the circumstances associated with this Plan. These interpretations should not serve as a precedent beyond this Plan.

² The Global Research Analyst Settlement created twelve separate distribution funds totaling \$432.75 million. One of the Distribution Funds contains payments made by Henry Blodget, formerly a Merrill Lynch, Pierce, Fenner & Smith Incorporated (“Merrill Lynch”) research analyst. Merrill Lynch, which previously reached settlements with state regulators, does not have its own Distribution Fund. The payment of Jack Grubman, formerly an analyst with Citigroup Global Markets Inc. (f/k/a Salomon Smith Barney Inc.), is included in the Citigroup Global Markets Inc. Distribution Fund. In this document, the term “Settling Firms” refers to the eleven financial institutions with their own Distribution Funds and Merrill Lynch, the former employer of Henry Blodget. In this document, the term “Settling Parties” refers to the twelve Settling Firms and two individuals.

³ The fact that an investment entity is advised by a Settling Firm will not disqualify that entity as an Eligible Distribution Fund Recipient, even if similarities exist in the names of the investment entity and the Settling Firm.

persons engaged to assist the Distribution Fund Administrator in developing and implementing this Distribution Fund Plan.

There are additional restrictions. Specifically, derivatives, such as options and futures, are excluded from the definition of “equity securities in question” for purposes of the Distribution Fund Plan, which is consistent with the guidance that the SEC provided to the Court on this question. It will also be required that Eligible Distribution Fund Recipients have purchased the equity security *before* selling the equity security (i.e., investors who lost money on short sales are ineligible for compensation). Finally, since the purchases by funds following automatic investment rules (e.g., index funds) could by definition not have been influenced by the analyst research, investors in such funds will not, to the extent practicable, be Eligible Distribution Fund Recipients.

The Final Judgments state that an Eligible Distribution Fund Recipient “must have suffered a net loss on his equity securities purchases in question.” A person who has realized a net gain on that security is therefore ineligible for compensation. Economic principles suggest that unrealized losses represent a loss of wealth, and such losses therefore are reasonably viewed as a “net loss” for this purpose. The specific determinations of “net losses” will be discussed in the next section.

II. Determination of Compensation Amounts

In determining compensation amounts, eligible losses will be calculated on a last-in, first-out (“LIFO”) accounting basis and will include commissions and other fees charged by Settling Firms to the extent practicable. Losses will be computed in nominal terms, with no adjustment for opportunity costs, inflation, or risk. Losses will be determined by aggregating across transactions in each relevant equity security for the same entity.

In determining net losses eligible for compensation, it is helpful to identify four categories of gains or losses:

- Realized Net Gain. Any person who bought in the “relevant period of purchase” and subsequently realized a net gain is ineligible for compensation.⁴
- Realized Net Loss. Any person who bought in the “relevant period of purchase” and subsequently realized a net loss before the Settlement Date⁵ is eligible for compensation. If the person realized a net loss on or prior to 90 days after the end of the “relevant period of purchase,” the person is eligible for compensation up to the amount of the realized net loss. If, however, the

⁴ “Selling short against the box” will not be treated as a realization for this purpose.

⁵ On April 28, 2003, ten Settling Firms and two individuals announced the Global Research Analyst Settlement with the Securities and Exchange Commission and other regulators. For these Settling Parties, the Settlement Date is, therefore, April 28, 2003. On August 26, 2004, two additional Settling Parties announced a settlement with the Securities and Exchange Commission and other regulators. For these two additional Settling Parties, the Settlement is, therefore, August 26, 2004.

See <http://www.sec.gov/spotlight/globalsettlement.htm>

person realized a net loss more than 90 days after the end of the “relevant period of purchase,” the person will be eligible for compensation up to the implied unrealized net loss (as determined below for unrealized net losses) or the actual realized net loss, whichever is smaller.

- Unrealized Net Gain. Any person who bought in the “relevant period of purchase” and had not sold as of the Settlement Date is not eligible for compensation if the closing stock price on the Settlement Date implies an unrealized net gain.
- Unrealized Net Loss. Any person who bought in the “relevant period of purchase” and had not sold as of the Settlement Date is eligible for compensation if the closing stock price on the Settlement Date implies an unrealized net loss. In this case, the person will be eligible for compensation up to the implied unrealized net loss as determined using the average daily closing price for the equity security during the 90 days following the end of the “relevant period of purchase,” or the implied unrealized net loss on the Settlement Date, whichever is smaller.

After eligible losses are defined, the second stage in determining compensation amounts involves allocating the available funds among Eligible Distribution Fund Recipients. The following decisions have been made regarding the methodology for determining compensation payments.

Adjustment Principles

If there is enough money available in a Distribution Fund to meet all claims for losses from purchases through the relevant Settling Firm, investors will receive 100 cents on the dollar. If, however, there is not enough money to meet all claims, then a key goal is to distribute settlement funds to investors who are more likely to have been affected by the events that are the subject of the settlement. Although that goal may not be perfectly achievable, the plan uses two principles to achieve a better approximation of that goal.

A. *The Proximity Principle*

The first principle is that purchases of equity securities that were made shortly after the events that are the subject of the settlement are more likely to have been affected by those events than purchases made more distant in time from the events: the proximity principle. This principle is consistent with provisions in the Final Judgments. If funds are not sufficient to compensate investors in full for their eligible losses, the compensation formula will involve a “proximity adjustment.”

Specifically, those investors who purchased the equity security closer to the beginning of the “relevant period of purchase” will receive a higher compensation rate

(that is, compensation as a share of eligible losses) than those who purchased later.⁶ A maximum proximity adjustment rate of three percent per trading day will help to ensure an equitable distribution of funds. The proximity adjustment rate will be set at zero for the first eleven trading days of the “relevant period of purchase.”

Example of Proximity Principle

Consider two persons who both realized a net loss of \$10,000. If the first investor purchased the equity security six trading days after the beginning of the “relevant period of purchase,” the investor would be eligible to receive up to 100 percent of net losses. If the second investor purchased the equity security 35 trading days after the beginning of the “relevant period of purchase,” the investor would be eligible to receive up to approximately 50 percent of net losses.*

* The adjustment factor is applied multiplicatively after the eleventh trading day such that the proximity adjustment for an investor who purchased a relevant equity security 35 trading days after the beginning of the relevant period of purchase is equal to $(1-.03)^{(35-11)}$ or 0.48.

B. The Information Principle

The second principle focuses on the consumption of information prior to making equity security purchases: the information principle. Purchasers who make larger investments in equity securities are more likely to spend more on obtaining information regarding those equity securities. Conversely, purchasers of smaller amounts of equity securities are more likely to spend less on information. This principle suggests, therefore, that the events that are the subject of the settlement are more likely to have affected those investors making smaller purchases than those investors making larger purchases. Like the proximity principle, the information principle is consistent with provisions in the Final Judgments.

Specifically, if an investor’s total purchases from a Settling Firm over the relevant periods of purchase are larger than the median value for purchases of the relevant equity securities from the Settling Firm, the adjustment will equal a maximum of three percent for each multiple above the median.⁷ The information adjustment will not apply to those investors with total purchases from a Settling Firm over the relevant periods of purchase that are smaller than the median value for purchases of the relevant equity securities from the Settling Firm.

⁶ If the Distribution Fund has resources more than sufficient to compensate in full all proximity-adjusted and volume-adjusted losses (see below for discussion of volume adjustment), the proximity adjustment factor will be reduced accordingly to increase payments to recipients.

⁷ As with the proximity-dependent decay rate, if the Distribution Fund has more than sufficient resources to compensate in full all proximity-adjusted, information-adjusted losses, the adjustment will be reduced, which would then raise total proximity- and information-adjusted losses. The proximity-dependent decay rate and the information-dependent adjustment factor would be revised simultaneously.

Example of Information Principle

If the median of all purchases of relevant equity securities from a Settling Firm is \$25,000, an investor purchasing \$100,000 of relevant securities from that Settling Firm will be assigned an adjustment of 8.7 percent.* For all investors purchasing less than \$25,000 in relevant equity securities, this adjustment factor will be equal to zero.

* The adjustment factor is applied multiplicatively for each increment above the median. The \$75,000 difference between the \$100,000 purchase and the \$25,000 median is three times the median. The adjustment factor is therefore $(1-.03)*(1-.03)*(1-.03)$, or 0.912. The adjustment is therefore 8.7% ($1-.912=.087$).

Other Factors Affecting the Determination of Compensation

The total compensation rate for investors will be based on the adjusted net loss, which reflects both the proximity and information adjustments. For each investor, this adjusted net loss will not be less than ten percent of the investor's eligible net loss. For example, consider an investor who realized a net loss of \$20,000. The investor's adjusted net loss will be no lower than \$2,000. If the application of the proximity and information adjustment were to result in an adjusted net loss of less than \$2,000, the investor's adjusted net loss will nonetheless be maintained at \$2,000 (ten percent of eligible losses).

If a Distribution Fund is insufficient to compensate persons in full for their adjusted net losses, each person will receive a proportion of such losses. That is, a Distribution Fund will use a simple proportional formula that allows all persons to receive the same compensation per dollar of adjusted net losses.⁸

Finally, in accordance with the cost-effectiveness mandate in the Final Judgments, payments will be made only if they exceed \$100.

III. Distribution Issues

Data available from the Settling Firms will allow the implementation of much of the plan presented above. In certain specific cases, however, additional information will be necessary.

To ensure that the information available from the Settling Firms is accurate and complete, a letter will be sent to all potential recipients.⁹ If the data from the Settling Firms are correct, potential recipients will be informed that they do not need to respond to the letter.

⁸ For UBS Securities LLC and US Bancorp Piper Jaffray Inc., payments will be first allocated to the equity securities identified in the Distribution Fund Orders as eligible for compensation in the first instance. If such allocations do not exhaust the available funds, payments will then be allocated to the equity securities identified in the Distribution Fund Orders as eligible for compensation if the allocation to the first equity securities does not exhaust the Distribution Funds.

⁹ As part of the notice campaign described below, any potential recipient who does not receive a letter by June 3, 2005 will be instructed to write to a specified address or call a specified phone number.

If the data maintained by the Settling Firms have incorrect information or fail to include necessary information for a purchaser, the potential recipient will be asked to provide the necessary information. For example, if the transactional data maintained by the Settling Firms indicate a relevant purchase but no relevant sale, the letter will inform potential recipients that they must provide such information to be eligible to receive funds.¹⁰

To ensure an equitable distribution of funds, large payments to Eligible Distribution Fund Recipients will be subject to additional scrutiny. Potential recipients of payments of more than \$100,000 identified using the data maintained by the Settling Firms will be required to complete a claim form (which will be attached to the letter sent to potential recipients), which will require that they verify certain key information.

Purchasers with 500 or more underlying beneficiaries, and purchasers with fewer than 500 underlying beneficiaries and eligible losses of less than \$100,000, will be required to attest that the compensation will be allocated to the benefit of current investors and not management.

Purchasers with fewer than 500 underlying beneficiaries and with eligible losses of more than \$100,000 will be required to confirm their total eligible losses. They will also be required to distribute claim forms to the underlying investors at the time the relevant equity security was purchased. In these cases, it is these underlying investors who will be responsible for filing the claim forms and will receive payments directly from the Distribution Funds.¹¹

After the amounts of compensation have been determined, a paying agent will mail a check to each recipient.¹² Investors will be required to attest to the key eligibility requirements identified in Section II of this memorandum as part of endorsing the check for deposit.

In the case that a recipient is not able to endorse a check as written (*e.g.*, if an individual has changed names, a couple has divorced, or an individual is now deceased), the claim form processor and the accounting firm will be responsible for collecting information on such issues and making recommendations regarding how they should be resolved.

After this Distribution Fund Plan is released by the Court, there will be a public notice process which will seek to inform the investing public of the terms, comment period,¹³ and hearing related to this Plan. The notice campaign will commence in

¹⁰ The letter will indicate that those investors with losses of less than \$100 should not fill out the form.

¹¹ Along with distributing the claim form, these purchasers will also be required to provide underlying investors with information about their proportional eligible losses, based on their proportional holdings of the fund at the date of the purchase of the relevant equity securities.

¹² An accounting firm will be responsible for verifying the payment process.

¹³ Any interested person will be able to submit comments on this plan during a comment period provided by the Court.

accordance with the Court's Order and will include a website and advertisements in major newspapers read by the investing public.

There will be a written appeals process. Appeals will be accepted only for mechanical errors in determining eligibility or calculating the distribution fund payment to a recipient. Appeals will not be allowed for any other reason.

The Internal Revenue Code and associated Internal Revenue Service regulations may require tax withholding on and/or reporting of compensation payments from the Distribution Funds. All necessary steps will be taken to comply with these statutes and regulations, including informing recipients about them if appropriate.

After payments are made to investors, any amounts that remain in the Distribution Funds will be transferred to the Investor Education Fund.

In the course of distributing the Funds, additional issues may arise that require decisions to be made. These decisions will be made consistent with the overriding goal of an equitable distribution of the funds as stated in this Distribution Fund Plan, and the relevant parties will be notified as necessary.