FOR IMMEDIATE RELEASE

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NH SECURITIES REGULATORS FILE ACTION TARGETING UBS SALES PRACTICES

Concord, NH (June 3, 2009) – The New Hampshire Bureau of Securities Regulation today filed a Cease and Desist order against UBS Financial Services Inc. alleging unfair sales practices and unsatisfactory supervisory procedures and for recommending unsuitable investments to more than 40 New Hampshire investors. The action relates to products underwritten by the now defunct Lehman Brothers Inc. and sold to the public by UBS. Over $2.5 million is at risk for New Hampshire investors.

The products in question are complicated investment vehicles, so-called "structured products," many of which were sold promising principal protection. These are notes connected to complex derivatives that are linked to various investments, such as Asian and other foreign currencies. In theory, if the market value of the investment declined at maturity, Lehman Brothers Bank would ensure that each investor receives his or her initial investment back. However, because Lehman Brothers declared bankruptcy in September 2008, investors who held these notes stand to lose much if not all of their principal.

According to Jeff Spill, Deputy Director of Securities Regulation for Enforcement, "UBS presented these notes as simple, safe investments when in fact they are highly volatile and are subject to shifting market conditions. The safety of these products was exaggerated. We believe UBS engaged in unfair and unlawful sales practices when presenting these investments."

Putting today's action in context, Director of Securities Regulation, Mark Connolly, explained, "The Bureau believes UBS sold these products to New Hampshire investors without adequately explaining the potential for loss. UBS also failed to alert customers as to the declining financial

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condition of Lehman Brothers, which would affect the principal protection on the investment. The Bureau believes UBS wrongly sold complex products to investors in our State. The company violated a long standing legal requirement that a broker must recommend investments which meet the goals of the investor and are within his or her tolerance for potential gains and losses."

"We believe that 'principal protection' meant one thing to investors, but something entirely different to UBS," Kevin Moquin, staff attorney for the Bureau said. "New Hampshire investors would never have invested in derivative-based investments had they understood what they were buying."

Connolly stated, "UBS has not been proactive in addressing regulatory issues at either the Federal or State level. We understand that other regulators have experienced similar inflexibility. We publicly encourage UBS to examine how it conducts its securities business. Changes need to be made." Connolly summarized, "The environment has changed and the system will not tolerate insufficient standards for suitability and supervision."

In relation to today's action, Connolly has sent a letter to Oswald Grübel, UBS' newest Group CEO, requesting his help in resolving the issue. Connolly notes that in April of 2008, UBS issued a report to its shareholders stating that UBS's weaknesses include a "fragmented approval structure," "lack of reaction to changing market" and a "lack of monitoring/visibility." He is asking senior management to become more involved in working with regulators in addressing investor complaints. He also said that without changes in its business practices, UBS may face sanctions.

In 2008, the Bureau alleged UBS had been advising the New Hampshire Higher Education Loan Corporation (NHHELCO) to stay in the failing Auction Rate Securities market at the same time UBS was preparing to extract itself from the market prior to its collapse. NHHELCO is New Hampshire's largest student loan provider. The investment bank division of UBS led NHHELCO to believe that the bank would ease instability in the auction markets. In the past, UBS and other major banks had supported failing auctions. When UBS and other banks decided to stop supporting auctions in February of 2008, the market froze and investors were unable to access their money. As a result, NHHELCO lost a large sum and was unable to provide loans for thousands of students.

In April 2008, New Hampshire was part of a global settlement in which UBS paid $22.1 billion to repurchase Auction Rate Securities from damaged investors or provide liquidity to the market. In addition, UBS paid $150 million in fines.

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STATE OF NEW HAMPSHIRE
DEPARTMENT OF STATE
BUREAU OF SECURITIES REGULATION

IN THE MATTER OF:	)	
	)	**ORDER TO CEASE AND DESIST**
	)	**ORDER TO SHOW CAUSE**
UBS Financial Services, Inc.	)	
	)	**COM08-027**
	)	

NOTICE OF ORDER

This Order commences an adjudicative proceeding under the provisions of RSA 421-B:26-a.

LEGAL AUTHORITY AND JURISDICTION

Pursuant to RSA 421-B:23,I (a), whenever it appears to the Secretary of State that any person has engaged or is about to engage in any act or practice constituting a violation of RSA 421-B or any rule, he shall have the power to issue and cause to be served upon such person or order requiring the person to cease and desist from violation said chapter.

Pursuant to RSA 421-B:24, I, any person who willfully violates a cease and desist order issued pursuant to RSA 421-B:23 shall be guilty of a class B felony.

Pursuant to RSA 421-B:10, I(a) and RSA 421-B:10,I (b)(7), the Secretary of State has the authority to deny, suspend, or revoke any license or application of a broker-dealer or investment adviser if he finds that it is in the public interest and that the broker-dealer or investment adviser has engaged in dishonest or unethical practices in the securities business.

Pursuant to RSA 421-B:10, I(a) and RSA 421-B:10,I (b)(10), the Secretary of State has the authority to deny, suspend, or revoke any license or application of a broker-dealer or investment adviser if he finds that it is in the public interest and that the broker-dealer has failed to reasonably supervise its agents.

Pursuant to RSA 421-B:10, I(a) and (b)(14), the Secretary of State may deny, suspend, or revoke any license or application if he finds that it is in the public interest and that there is good cause shown.

Pursuant to RSA 421-B:10, III, the Secretary of State may issue an order requiring the person to whom any license has been granted to show cause why its license should not be revoked.

Pursuant to RSA 421-B:10, VI, the Secretary of State may, upon hearing and in lieu of, or in addition to any order to suspend or revoke any license, assess an administrative fine up to $2,500.00 for each violation of the New Hampshire Securities Act.

Pursuant to RSA 421-B:26,III, any person who, either knowingly or negligently, violates any provisions of this chapter may, upon hearing, and in addition to any other penalty proved for by law, be subject to such suspension, revocation or denial of any registration or license or an administrative fine not to exceed $2,500 or both.

Pursuant to RSA 421-B:26, III-a, every person who directly or indirectly controls a person liable under paragraph I or III, every partner, principal executive officer, or director of such person, every person occupying a similar status or performing a similar function, every employee of such person who materially aids in the act or transaction constituting the violation, and every broker-dealer or agent who materially aids in the acts or transactions constituting the violation, either knowingly or negligently, may, upon hearing, and in addition to any other penalty provided for by law, be subject to suspension, revocation, or denial of any registration or license, including the forfeiture of any application fee, or an administrative fine not to exceed $2,500, or both.

Pursuant to RSA 421-B:26, V, the Secretary of State may, in addition to any other penalty provided by RSA 421-B, upon notice and hearing, enter an order of rescission, restitution, or disgorgement directed to a person who has violated RSA 421-B.

Pursuant to RSA 421-B:26, VIII, any person who, either knowingly or negligently, engages in any conduct prohibited by RSA 421-B:10,I(b)(7) or (10) may, upon hearing, and in addition to any other penalty provided for by law, be subject to an administrative fine not to exceed $2,500 or both.

NOTICE OF RIGHT TO REQUEST A HEARING

The above Respondent has the right to request a hearing on this order to cease and desist, and order to show cause, as well as the right to be represented by counsel. Any such request for a hearing shall be in writing, shall be signed by the Respondent, or by the duly authorized agent of the above named Respondent, and shall be delivered either by hand or certified mail, return receipt requested, to the Bureau of Securities Regulation, Department of State, 25 Capitol Street, Concord, New Hampshire 03301.

Under the provisions of RSA 421-B:23, I, if Respondent fails to request a hearing relative to this order within thirty calendar days of receipt of this order, respondent shall be deemed in default, and this order shall, on the thirty-first day, become permanent.

Upon request for a hearing being received by the Bureau of Securities Regulation, in the manner and form indicated above, a hearing shall be held not later than ten days after such request is received by the Bureau, and within a reasonable time after such hearing, the Secretary of State, or such other person authorized by statute, shall issue a further order vacating or modifying this order, or making it permanent, as the circumstances require.

STATEMENT OF ALLEGATIONS

The allegations contained in the Staff Petition for Relief dated June 2, 2009 (a copy of which is attached hereto) are incorporated by reference hereto.

ORDER

WHEREAS, finding it necessary and appropriate and in the public interest, and for the protection of investors and consistent with the intent and purposes of the New Hampshire securities laws, and

WHEREAS, finding that the allegations contained in the Staff Petition, if proved true and correct, form the legal basis of the relief requested,

It is hereby ORDERED that:

1. The Respondent is hereby ordered to immediately cease and desist from further violations of RSA 421-B;

2. The Respondent shall show cause why its New Hampshire broker-dealer license should not be revoked;
3. The Respondent shall pay an administrative fine in accordance with RSA 421-B:10,VI, RSA 421-B:26,III, 421-B:26,III-a, and 421-B:26,VIII.
4. The Respondent shall pay restitution to investors who invested in Lehman Brothers structured products for damages caused by Respondent.
5. The Respondent shall pay the Bureau of Securities for costs associated with its investigation.

Failure on the part of the Respondent to request a hearing within thirty days of the date of receipt of this Order shall result in a default judgment being rendered, including imposition of fines and penalties upon the defaulting Respondent.

SIGNED,
~~WILLIAM M. GARDNER~~
SECRETARY OF STATE
BY HIS DESIGNEE:

Date: 6-3-09

MARK CONNOLLY,
DEPUTY SECRETARY OF STATE
AND DIRECTOR, N.H. BUREAU OF
SECURITIES

STATE OF NEW HAMPSHIRE
BUREAU OF SECURITIES REGULATION
DEPARTMENT OF STATE
25 CAPITOL STREET
CONCORD, NH 03301

STAFF PETITION FOR RELIEF
IN THE MATTER OF:

UBS Financial Services, Inc.
COM08-027

Preliminary Statement

This action is brought as a result of UBS Financial Services, Inc. (hereinafter referred to as "UBS") offering and selling unsuitable investments to New Hampshire investors. UBS developed and marketed structured products issued by Lehman Brothers Holdings, Inc. (hereinafter referred to as "Lehman Brothers"), many of which were offered as "protection" strategy investments in which investors were assured that most or all of their principal would be safe. For example, UBS sold a "principal protection note" (hereinafter referred to as "PPN") to an elderly conservative investor (hereinafter referred to as "Investor #1"). UBS advised her son, a Nashua, New Hampshire attorney who represented her, to continue to hold the PPN in the face of Lehman Brothers' possible bankruptcy, never discussing with him the risk this posed to the PPN investment. In another case, UBS sold an investment to a Portsmouth, New Hampshire investor (hereinafter referred to as "Investor #2") seeking a conservative, safe investment. Investor #2 was sold $100,000 worth of PPNs. A third investor from Nashua, New Hampshire (hereinafter referred to as "Investor #3") believed the principal was guaranteed on his investment when he purchased $60,000 in PPN and return optimization structured products. Investor #3 was assured by his Financial Advisor that the principal on these investments would be totally protected. The Bureau is aware of several other investors who have experienced similar problems with Lehman-backed structured products sold by UBS. In each case, the investor is facing the prospect of holding allegedly "safe" investments that are possibly worthless or whose value is substantially diminished.

The Bureau further alleges that in offering and selling Lehman Brothers structured products, UBS failed to adequately supervise its employees in the distribution, offering, and sale of risky structured products and failed in its ongoing duty to assess the suitability of these investments. Moreover, the methods by which UBS offered and sold the Lehman Brothers structured products to its clients constituted dishonest and unethical business practices.

Lehman-issued structured products, such as the PPNs, are complex derivative products which are essentially debt obligations of Lehman Brothers linked to other investments or indices, such as foreign currencies, equity and debt indices, and other investments. These structured products were principally developed and sold by UBS through its "Structured Products Working Group." As part of an extensive production process, the Structured Products Working Group developed and vetted ideas for new structured products. These ideas were then put out to bid to five partner firms with whom UBS worked, including Lehman Brothers. If Lehman Brothers' bid was successful, it then issued the new structured product. In addition to its role in developing new structured products, UBS acted as agent and distributor for the Lehman-issued structured products. The Structured Products Working Group developed prospectuses, training, and marketing materials to promote the sales of new products. Included in the Structured Products Working Group was the Northeast Regional Consultant for the Structured Products – Products Consulting group. This consultant acted as the structured products sales consultant for the Manchester, New Hampshire and Concord, New Hampshire offices of UBS.

Upon information and belief, Financial Advisors of UBS were encouraging clients to purchase Lehman Brothers structured products. UBS sold sixty-four Lehman Brothers structured products to forty-two purchasers in New Hampshire. In fact, UBS continued to push the sale of Lehman Brothers' structured products in the spring of 2008, even after the near-failure of the Bear Stearns Companies (hereinafter referred to as "Bear Stearns") made clear the risk to investors of investing in financial institutions that held large positions in subprime mortgages. In selling structured products that purported to offer full or partial protection of principal, UBS touted them as products that had the potential for gains with little or no risk to principal.

UBS also encouraged Financial Advisors to sell structured products as a way of increasing their Net New Assets. Net New Assets affected the bonuses of Financial Advisors and the Structured Products Consultant. In sworn testimony before the Bureau the compliance manager for the UBS offices in Manchester and Concord, New Hampshire testified as follows:

> Q. How are rep bonuses assigned or broken down?
> A. There's a couple of categories here. They are going to receive a bonus on new assets gathered. (Deposition, p. 35)

The structured product sales consultant testified as follows about his bonus:

> Q. I just want to go back to actually your compensation. The bonus, what's the bonus based upon?
> A. The bonus is based upon a number of factors. Some are quantitative in nature and some are qualitative in nature. The bulk of the compensation from a quantitative standpoint is based upon our region of the country and the net new assets that are brought in to UBS for investment irrespective of what those assets go into as far as investments. (Deposition, pp. 21-22)

Moreover, the average commissions on structured products were often higher than for other securities offered by UBS, thus creating a greater incentive to sell these products. In describing the compensation structure for financial advisors in relation to specific categories of investments, the compliance manager for Concord and Manchester, New Hampshire stated as follows:

> Q. Maybe you can explain that to me, how the compensation is broken down for a financial advisor…
> A. Sure. So for advisory accounts, for example, under the 1940 Act, one percent is common. For insurance products, two percent to four percent. For mutual fund trades, depending on break points, 25 basis points to one and a half percent, somewhere in there. Structured products, as I mentioned earlier, one to three percent. Those are the main categories.
> Q. How about just plain vanilla equities?

A. You mean commissions?

Q. Yeah.

A. It's approximately one percent at full commission roughly, but that varies by the size of the trade and so on. (Deposition, pp. 33-34)

Thus, UBS employees may have been incentivized to sell structured products, creating a potential conflict with their clients' interests. Knowing that these products were debt obligations of Lehman Brothers and aware that Lehman Brothers' financial position was declining, UBS failed to alert investors who were sold these unsuitable investments. As a result of the actions and inaction of UBS, clients were left holding Lehman notes that are substantially discounted, if not worthless.

UBS also failed in its responsibility to adequately supervise the offer and sale of these products. UBS policies created an affirmative duty for branch office managers to be fully familiar with the structured products being offered by Financial Advisors, according to the Supervisory Manual for UBS managers, which stated:

> "It is crucial that Branch Office Managers (BOMs) have a full and balanced understanding of both the risks and benefits of the types of structured products that FAs under their supervision are offering and recommending to clients...BOMs must review each structured product purchase to confirm that the client meets the minimum eligibility standards of the structured product and ensure that general suitability concerns and the client's past trading history are taken into account." (Ex. 1)

UBS highlighted the importance of this in its Compliance Bulleting 06-08, which read:

> "Given the nature of, and the regulatory focus on, structured products, it is crucial that BOMs have a full and balanced understanding of both the risks and benefits of the types of structured products that FAs under their supervision are offering and recommending to clients...BOMs must review each structured product purchase to confirm that the client meets the minimum eligibility standards of the product. The review should also take into

account general suitability concerns such as concentrations and whether the transaction is consistent with a particular client's past trading history." (Ex. 2)

Unfortunately, the official policy of UBS did not translate into action at the branch level in New Hampshire. The compliance manager for the Concord, New Hampshire office was questioned about his oversight of Investor #1's PPN investment and testified as follow:

Q. Okay. Let's get down a little further to the Asian currency basket that (Investor #1) invested in. What kind of risk would be associated with that, any idea?
A. Not on that one... (Deposition, p. 30)

And again later in his deposition:

Q. I'm going to offer you what has been marked as Exhibit Number 12. (A spreadsheet provided by UBS that displayed an account with a Lehman structured product sold by a Financial Advisor under the compliance manager's supervision – NB)
A. Okay...
Q. Would you have reviewed the sale to this account...
A. Not generally, no." (Deposition, p. 85)

In soliciting the sale of Lehman Brothers structured products, UBS had an obligation to make sure that New Hampshire investors were aware of all material information related to the products, including the relationship between UBS and Lehman, the fact that Lehman had issued the products, the derivative nature of the products, and any substantial changes in the risk level associated with the investment. UBS did not meet its obligation. This is demonstrated by an email of September 12, 2008 sent by a sales representative to the regional structured products sales consultant after they had discussed the PPN with Investor #1's son on a conference call. The email indicates that the sales representative himself, who had sold the investment to Investor #1, did not understand the exact nature of the structured products he was selling as he inquired of the sales consultant:

> "After the call a question regarding the UBS backed notes came up. Are they senior unsecured debt as well. Please let me know so I can convey to my client."

To which the sales consultant responded:

> "Yes, all the notes we offer are Senior Unsecured debt in the capital structure." (Ex. 3)

Finally, UBS had the responsibility to insure that products sold to investors looking for a conservative investment met the investors' risk profiles and investment objectives. UBS also failed in this duty.

<u>Lehman Brother's Increasing Credit Risk</u>

Sunday, March 16, 2008 was a critical day in the decline of financial companies such as Lehman Brothers. On that day, the Bear Stearns merged with JP Morgan/Chase & Co. after a weekend of negotiations between federal regulators and major financial services companies to avert a financial disaster. The near-failure of one of the top ten American securities firms generated anxiety throughout the financial services community. Immediately, there were growing concerns that other leading investment banks and securities firms might face the same future, but this time without a federally-sponsored solution.

It quickly became apparent that one of the weakest Wall Street firms was Lehman Brothers Holdings, Inc. Lehman Brothers had been a major player in the buying and selling of securitized subprime mortgages. As a result of holding large positions in securitized subprime mortgages, Lehman Brothers entered 2008 substantially weakened and facing a difficult future. On March 31, 2008, Lehman Brothers reported that it would need to sell at least $3 billion in convertible preferred shares to shore up its balance sheet in the face of reports that it could face problems similar to Bear Stearns. Lehman Brothers reported losses in the second quarter of 2008 of $2.8 billion and needed to raise $6 billion. In June, UBS even suspended the ticketing on Lehman-issued structure products (Ex. 4). An email circulating in the Maine and New Hampshire offices on June 3, 2008 demonstrated concern with regard to credit default rates, a key indicator of issuer risk:

> "Do you have today's rates on the credit default rates? Lehman is smelling a bit to me." (Ex. 5)

The structured product sales consultant himself was concerned about the status of Lehman Brothers and testified as follows:

> Q. Were you concerned at that time (July and August 2008) about the status of Lehman Brothers?
> A. Concerned? I think looking back, you can say maybe concerned...I would say I was concerned. (Deposition, pp. 29-30)

By July 11, 2008, Lehman Brothers had lost 70 percent of its value and its debt protection costs surged as federal regulators were stating that they would not bail out all financial institutions. In August 2008, the news only worsened as analysts predicted more major write-downs in the third quarter. At this point, Lehman Brothers was reported to have a portfolio that included approximately $60 billion in mortgage assets and $40 billion in distressed commercial real estate. By late August of 2008, Lehman Brothers had begun what would be a fruitless attempt to find a buyer for some or all of its assets as write-downs on mortgages and other investments threatened to eliminate its earnings. By September 10, 2008, after the seizure of Fannie Mae and Freddie Mac, media reports indicated Lehman's only prospect for survival was a government bail-out as Lehman Brothers reported a record loss of $3.9 billion. Lehman Brothers filed for bankruptcy on September 15, 2008.

In the wake of the Bear Stearns failure, UBS research analysts rated Lehman Brothers as a "Buy" and its relative position within its market sector as "Outperform." The issuer credit rating was given as "High A" and the credit trend as "Stable." On June 5, 2008, UBS changed the issuer credit rating from "High A" to "Mid A" and the credit trend from "Stable" to "Watch". On July 14, 2008, UBS changed its equity rating of Lehman from "Buy" to "Hold" and its relative position within its market sector from "Outperform" to "Perform."

According to UBS, immediately after the sale of Bear Stearns, the structured products desk for UBS began to encourage financial advisors to contact customers to discuss client's comfort level with the risk of financial institution debt. The structured products sales consultant testified as follows:

> "Q. So taking a look at this big picture as you headed into the end of August (2008), the beginning of September, when you're getting these phone calls from reps, overall this picture, your advice to them is what?
>
> A. We were advising our advisors to...have a conversation about whether or not the clients were comfortable with the risk of the – the credit risk associated with Lehman Brother.
>
> Q. And when did you start advising the reps that they should do this?
>
> A. As soon as the Bear Stearns transaction transpired...
>
> Q. So there was a general concern that clients ought to know that there may be enhanced risk at this point?
>
> A. There was a heightened awareness of credit risk, yes.
>
> Q. And that the reps ought to be talking to their clients about that?
>
> A. Yes.
>
> Q. Did you talk to (Investor #1's sales representative) at all about this at any point?
>
> A. I would just be guessing. The answer would be yes to that because (he) and I communicated fairly regularly, every couple to few weeks...
>
> Q. When reps raised the issue of concerns about Lehman Brothers, is this the type of information – would you reiterate this essentially, have a discussion with the clients?
>
> A. Yes.
>
> Q. Do you know if (Investor #1's sales representative) ever raised any of these types of concerns?
>
> A. ...(he) had asked me for any kind of update on a couple of occasions...

Q. And what would your response have been when he did raise the issue?

A. …what we tried to focus on in our service to our advisors was, you know, the information that was actually printed by the company itself or by the rating agencies or a credible analyst source, mainly our in-house analysts, so I would have shared that opinion and reiterated the fact that due to the volatile nature of the markets, we really stressed that clients should be made aware of perhaps increased risk and a decision should be made from there whether or not they wanted to accept that risk or if they wanted to liquidate the investment and go into some other investment." (Deposition, pp. 36-40)

UBS never took this action in New Hampshire. Indeed, the local branch office manager seemed completely unaware of this UBS policy, testifying as follows:

Q. Are you aware of any efforts to have financial advisors contact clients regarding their investments in debt during the summer of 2008?

A. Sure; yes…

Q. And were there instructions coming from UBS regarding the debt markets?

A. No.

Q. Was this just initiated by the financial advisors?

A. Yes.

Q. Were you involved in instructing financial advisors to talk to client about the debt markets?

A. No. (Deposition, p. 56)

All of this inaction came in the face of a general recognition by UBS analysts that UBS's structured products partner, Lehman Brothers, was experiencing significant problems that were affecting its equity and credit ratings. With the prospect of the increasing credit risk of Lehman Brothers, UBS did nothing. In fact, Investor #1's son was told as late as September 10, 2008 to hold on to the Lehman Brothers structured product, even as he faced the prospect of an investment that might soon be worth almost nothing.

STATEMENT OF FACTS

I. The staff of the Bureau of Securities Regulation, Department of State, State of New Hampshire (hereinafter referred to as the "Bureau") alleges the following issues of fact:

1. UBS is a registered broker-dealer and federal-covered investment adviser, licensed and notice filed with the state of New Hampshire and has a CRD number of 8174. UBS is a subsidiary of UBS AG, a Swiss banking and wealth management company. UBS was part of an active structured products partnership with five firms that included Lehman. UBS would routinely develop and propose ideas for structured products to this partnership. Members of the partnership would then bid on the opportunity to act as the issuer of these products. As part of the distribution agreement, Lehman issued the structured products on which it had successfully bid and UBS acted as the purchaser, agent, and distributor of the products. Structured products purchased by UBS were then sold to UBS clients.

2. The Financial Advisor who sold the PPN to Investor #1 is a registered broker-dealer agent and investment adviser representative of UBS. On October 25, 2007, he executed a solicited sale of a Lehman Brothers Asian Currency Basket Principal Protected Note to the Investor #1 for $25,000.00. Investor #1's account was established in the name of an irrevocable family trust. The primary beneficiary of the trust is an elderly woman. The sale was made to Investor #1's son, an attorney located in Nashua, New Hampshire. He was seeking a conservative investment that might take advantage of the predicted strength of Asian currencies at the time of investment. The records provided to the Bureau by UBS showed that Investor #1's investment objective was "Income." UBS provided no record of the client's risk tolerance. The Financial Advisor testified that his understanding that the account's investment objectives were "Capital Appreciation" was based on a conversation with Investor #1 and her son rather than on any written record. Relying on his understanding, the Financial Advisor sold a risky product that only increased in risk as Lehman Brothers' fortunes declined. The Financial Advisor sold the Lehman PPN as a safe investment in which principal would be preserved. In spite of the investment objectives of the Investor #1, the Lehman PPN did not provide any income. The Financial Advisor selling the Lehman PPN appeared not to understand the nature of structured products and did not make the Investor #1 aware of the derivative nature of the PPN.

3. On April 24, 2007, UBS sold a Lehman Brothers PPN linked to a Global Index Basket to Investor #2, an investor located in Portsmouth, NH. This investment was sold from an office in Springfield, MA, which is within the Structured Product Consulting Group's Northeast Region. Investor #2 believed she was purchasing a conservative and safe investment. Investor #2 was never contacted by UBS or her UBS Financial Advisor to discuss her comfort with the risk of the PPN in light of Lehman Brothers increasing credit risk.

4. In February or March of 2008, UBS sold a Lehman Brothers PPN linked to a Russell index and a Lehman Brother return optimization structured product to Investor #3, an investor located in Nashua, New Hampshire. These investments were sold from an office in Boston, MA, which is within the Structured Product Consulting Group's Northeast Region. Investor #3 believes he was pressured to buy the investments. However, he also believed the principle of his investments would be guaranteed based on conversations with his Financial Advisor. Investor #3 was never contacted by UBS or his Financial Advisor to discuss his comfort with the risk of the structured products in light of Lehman Brothers increasing credit risk.

5. The branch office manager was responsible for supervising the sales activities of Investor #1's Financial Advisor and other Financial Advisors in the Concord and Manchester branch offices. He also had training responsibilities for these offices, to include training in structured products, such as the PPN purchased by the Investor #1. The branch office manager failed to adequately monitor and supervise the sale of these risky investments to UBS clients as required by UBS supervisory procedures. Moreover, he appeared not to be aware that the policy of UBS after the near failure of Bear Stearns was for financial advisors to talk with clients about the credit risk of debt instruments, such as the Lehman Brothers structured products. The branch office manager testified that he was not involved in any efforts to have financial advisors reach out to clients to re-asses their comfort with the risk of financial institution debt.

6. The Northeast Regional Structured Products Consultant for UBS provides sales consulting to all UBS offices in New England and New York outside of New York City. He is also a member of UBS's Structured Products Working Group. The Structured Products Working Group was an internal division of UBS that proposed, developed, and marketed new structured products. The sales consultant was responsible for providing information, training, and support to Financial Advisors relating to the sale of structured products, such as the PPN purchased by the Investor #1. He stated that he had been concerned about the declining status of Lehman Brothers but, upon information and belief, that concern did not reach New Hampshire clients. Moreover, he testified that he told financial advisors in his region to discuss with clients their comfort with the risk of investments such as Lehman Brothers' structured products. New Hampshire investors have stated that this did not occur.

7. On March 16, 2008, the Bear Stearns Companies, Inc. (hereinafter referred to as "Bear Stearns") merged with J.P. Morgan Chase & Co. as part of a federally-managed attempt to save the company from bankruptcy. The events surrounding Bear Stearns' failure sent shock waves through the investment community and led many analysts to reassess the risk of debt in weak financial services companies. As a result of the failure of Bear Stearns, UBS was aware that there was a need to discuss with clients the suitability of their investments in the debt of financial services companies and the enhanced risk of investments in these companies, including Lehman. Neither Investor #1's Financial Advisor nor his branch office manager did anything to initiate this important discussion with Investor #1 until it

was too late.

8. As early as March 2008 and continuing throughout the spring and summer to September 2008, the media was rife with discussions of Lehman's financial problems. As a partner with Lehman in the distribution of structured products issued by Lehman, UBS knew or should have known of the financial problems that threatened the very survival of their structured products partner.

9. Despite clear signs that Lehman was in severe financial trouble, UBS continued to advise Investor #1's son to hold on to the PPN right up to point when Lehman actually went bankrupt, despite the fact that a Lehman bankruptcy would mean the PPNs would be almost worthless. During the period in which the Investor #1 owned the PPN, her son and her Financial Advisor met regularly to discuss Investor #1's investments and investing strategies. The Financial Advisor never advised Investor #1 or her son that they should review the PPN to confirm that they were comfortable with the risk of the product in light of the Bear Stearns situation.

10. On Tuesday, September 9, 2008, UBS's structured products group sent out an email advising that bids on Lehman structured products were being rejected due to excessive volume. (Ex. 6) The email advised that bids should be resubmitted the following day. On Wednesday, September 10, 2008, Investor #1's son arranged a meeting with the Financial Advisor to review Investor #1's investments. The Financial Advisor did not mention the difficulties with Lehman structured products evidenced by the email of September 9. Later that day, the UBS structured products group sent another email advising that bids on Lehman structured products were being rejected due to excessive volume. (Ex. 7) On Thursday, September 11, 2008, the structured products group sent out an email advising that Lehman was no longer operating a secondary market in its structured products. (Ex. 8) At this point, there was essentially no secondary market for the sale of structured products, which were rapidly declining in value. It was only then that the Financial Advisor attempted to contact Investor #1's son. At this point, Investor #1 had no choice but to wait and see what would happen the following Monday.

11. On Monday, September 15, 2008, Lehman filed for bankruptcy. Investor #1 and other investors were left holding almost worthless notes and recovery of anything but pennies on their investments became a remote possibility.

STATEMENT OF THE LAW

II. The staff of the Bureau of Securities Regulation, Department of State, State of New Hampshire alleges the following issues of law:

1. UBS is a person within the meaning of RSA 421-B:2, XVI.

2. UBS is a broker-dealer within the meaning of RSA 421-B:2, III.

3. UBS is a federal covered adviser within the meaning of RSA 421-B:2, V-d.

4. Pursuant to RSA 421-B:3-a, I, in recommending to a customer the purchase, sale, or exchange of a security, a broker-dealer or broker-dealer agent must have reasonable grounds for believing that the recommendation is suitable for the customer upon the basis of the facts, if any, disclosed by the customer after reasonable inquiry as to his or her other security holdings and as to his or her financial situation and needs. Respondent violated this provision by selling risky derivative products to conservative investors and failing in its ongoing obligation to assess risk and other factors as Lehman Brothers' financial position became more precarious.

5. Pursuant to RSA 421-B:3-a, II, before the execution of a transaction recommended to a noninstitutional customer, other than transactions with customers where investments are limited to money market mutual funds, a broker-dealer, salesperson, investment adviser, or investment adviser representative shall make reasonable efforts to obtain information concerning the customer's financial status, the customer's tax status, the customer's investment objectives, and such other information used or considered to be reasonable by the broker-dealer, salesperson, investment adviser, or investment adviser representative in making recommendations to the customer. Respondent violated this provision by selling inappropriate investments that were in conflict with clients' stated investment objectives.

6. Pursuant to RSA 421-B:8, persons licensed under this chapter to conduct securities business shall abide by the rules of the Securities and Exchange Commission, National Association of Securities Dealers, national and regional stock exchanges, and other self-regulating organizations which have jurisdiction over the licensee, which set forth standards of conduct in the securities industry. UBS violated NASD Rule 2310 pursuant to IM-2310-3 which states that members' responsibilities under the suitability rule include having a reasonable basis for recommending a particular security or strategy. UBS violated this provision by failing to initiate contact with New Hampshire clients to discuss the risk of Lehman Brothers structured products and recommending to clients a strategy of holding the Lehman Brothers structured products even as it became apparent that Lehman Brothers was experiencing significant problems that could affect its viability.

7. RSA 421-B:10, I(a) and (b)(2) allow the secretary of state to deny, suspend, or revoke any license or application if he finds that it is in the public interest and that the broker-dealer has willfully violated or failed to comply with any provision of this title or a predecessor law, or of any other state's or Canadian province's securities laws, or the Securities Act of

1933, the Securities Exchange Act of 1934, the Investment Advisers Act of 1940, the Investment Company Act of 1940, or any rule under any of such statutes, or any order thereunder of which he has notice and to which he is subject. UBS is subject to this provision because it violated Rule 2310 of the NASD Rules, which were promulgated pursuant to the federal securities laws.

8. RSA 421-B:10, I(a) and (b)(7) allow the secretary of state to deny, suspend, or revoke any license or application if he finds that it is in the public interest and that the broker-dealer has engaged in dishonest or unethical practices in the securities business. UBS is subject to this provision because it engaged in a course of conduct that prevented Investor #1 or her son from understanding the true nature of the Lehman Brothers PPN and the level of risk the investment faced as Lehman Brothers prospects for survival declined throughout the spring and summer of 2008. Furthermore, efforts to alert New Hampshire investors to the decline in the financial condition of Lehman Brothers and that they should review with their Financial Advisors the risk of debt products of troubled financial institutions like Lehman Brothers were inadequate and not in keeping with UBS's compliance obligations.

9. RSA 421-B:10, I(a) and (b)(10) allow the secretary of state to deny, suspend, or revoke any license or application if he finds that it is in the public interest and that the broker-dealer has failed to reasonably supervise its agents. UBS is subject to this provision because its branch office manager did not adequately review and monitor the activities of his Financial Advisors related to the offer and sale of structured products. Moreover, while UBS recognized that clients should be alerted to review the risk of debt instruments of financial institutions after the Bear Stearns debacle, this did not occur, and the information was either not communicated to branch office managers or branch office managers failed in their duty to acknowledge and act on such information.

10. RSA 421-B:10, I(a) and (b)(14) allow the secretary of state to deny, suspend, or revoke any license or application if he finds that it is in the public interest and that there is good cause shown. UBS is subject to this provision for the reasons stated in statements 4, 5, 6, 7, and 8 in this section above.

11. RSA 421-B:10, III provides that the secretary of state may issue an order requiring the person to whom any license has been granted to show cause why the license should not be revoked. UBS is subject to this provision.

12. RSA 421-B:10, VI provides that the secretary of state, may upon hearing, assess an administrative fine of not more than $2,500 per violation, in lieu of or in addition to, an order to revoke a license. UBS is subject to fine under this section.

13. Pursuant to RSA 421-B:22, IV, in any investigation to determine whether any person has violated or is about to violate Title XXXVIII or any rule or order under Title XXXVIII, upon the secretary of state's prevailing at hearing, or the person charged with the violation

being found in default, or pursuant to a consent order issued by the secretary of state, the secretary of state shall be entitled to recover the costs of the investigation, and any related proceedings, including reasonable attorney's fees, in addition to any other penalty provided for under RSA 421-B. UBS is subject to this provision.

14. Pursuant to RSA 421-B:23, I(a), whenever it appears to the secretary of state that any person has engaged or is about to engage in any act or practice constituting a violation of this chapter or any rule under this chapter, he shall have the power to issue and cause to be served upon such person an order requiring the person to cease and desist from violations of this chapter. UBS is subject to this section.

15. Pursuant to RSA 421-B:23, II, in a proceeding in superior court under RSA 421-B:23 where the state prevails, the secretary of state and the attorney general shall be entitled to recover all costs and expenses of investigation, and the court shall include the costs in its final judgment. UBS is subject to this section.

16. Pursuant to RSA 421-B:26,III, any person who, either knowingly or negligently, violates any provisions of this chapter may, upon hearing, and in addition to any other penalty provided for by law, be subject to such suspension, revocation or denial of any registration or license, or an administrative fine not to exceed $2,500, or both. Each of the acts specified shall constitute a separate violation. UBS is subject to this section.

17. Pursuant to RSA 421-B:26, III-a, every person who directly or indirectly controls a person liable under paragraph I or III every partner, principal executive officer, or director of such person, every person occupying a similar status or performing a similar function, every employee of such person who materially aids in the act or transaction constituting the violation, and every broker-dealer or agent who materially aids in the acts or transactions constituting the violation, either knowingly or negligently, may, upon hearing, and in addition to any other penalty provided for by law, be subject to such suspension, revocation, or denial of any registration or license, including the forfeiture of any application fee, or an administrative fine not to exceed $2,500, or both. UBS is subject to this provision.

18. Pursuant to RSA 421-B26, V, after notice and hearing, the secretary of state may enter an order of rescission, restitution, or disgorgement directed to a person who has violated this RSA 421-B, or a rule or order under RSA 421-B. Rescission, restitution or disgorgement shall be in addition to any other penalty provided for under RSA 421-B. UBS is subject to this provision.

19. Pursuant to RSA 421-B:26, VIII, any person who, either knowingly or negligently, engages in any conduct prohibited by RSA 421-B:10, I(b) (7) or (10) may, upon hearing, and in addition to any other penalty provided for by law, be subject to an administrative fine not to exceed $2,500, or both. UBS is subject to this provision.

RELIEF REQUESTED

The staff of the Bureau of Securities Regulation requests the Director take the following action:

1. Find as fact the allegations contained in Part I of the Statement of Facts of this petition.

2. Make conclusions of law as stated in Part II relative to the allegations contained in Part I of the Statement of Facts of this petition.

3. Order the Respondents to show cause in accordance with RSA 421-B:10, III.

4. Order Respondent to pay an administrative fine in accordance with RSA 421-B:10, VI, RSA 421-B:26, III, RSA 421-B:26, III-a, and RSA 421-B:26, VIII.

5. Order Respondents to cease and desist in accordance with RSA 421-B:23, I.

6. Order the Respondent to pay the cost of investigation of this matter in accordance with RSA 421-B:22, IV and RSA 421-B:23, II as appropriate.

7. Order the Respondents to pay Restitution to New Hampshire investors who invested in Lehman Brothers structured products for damages caused by Respondent pursuant to RSA 421-B:26, V.

8. Take such other actions as necessary for the protection of New Hampshire investors and enforcement of the Act.

RIGHT TO AMEND

The Bureau's Staff reserves the right to amend this Petition for Relief and to request that the Director of Securities take additional administrative action. Nothing herein shall preclude the Staff from bringing additional enforcement action under this NH RSA 421-B or the regulations thereunder.

Respectfully submitted by:

June 3, 2009

Kevin B. Moquin
Staff Attorney

Exhibit 1

Structured Products

Structured products are securities derived from, or based on, a single security, a basket of securities, an index, a commodity, a debt issuance and/or a foreign currency. The Firm develops structured products to meet clients' various risk-return profiles.

The Firm has established minimum eligibility requirements a client must meet in order to purchase a structured product. If a client meets these requirements, but the Firm's records (CAI) do not reflect the requirements, such records should be promptly updated. Additionally, prior BOM approval is required in order for certain types of accounts to purchase structured products.

Supervisory Requirements

It is crucial that Branch Office Managers (BOMs) have a full and balanced understanding of both the risks and benefits of the types of structured products that FAs under their supervision are offering and recommending to clients.

BOMs must review each structured product purchase to confirm that the client meets the minimum eligibility standards of the structured product and ensure that general suitability concerns and the client's past trading history are taken into account. BOMs may conduct this review through the Branch Manager's Supervisory System ("BMSS"). To help BOMs prioritize their daily review of all trade activity in the branch, BMSS uses a filter called Inv Category, which includes Structured Products as a subset.

Additionally, BOMs must confirm that FAs are providing clients with preliminary prospectuses and Free Writing prospectus materials before orders are placed. To accomplish this it is suggested that BOMs reconcile the structured product trades shown on BMSS and the prospectus delivery records found in the Branch Deal file.

For details regarding the Firm's policies on structured products, refer to Compliance Bulletin 06-08 (Structured Products).

Exhibit 2

As a result, FAs may not prepare or distribute any form of their own written communications to clients or prospective clients relating to structured product offerings, nor may FAs highlight or alter excerpts of offering materials.

FAs must also keep in mind that the availability of full or partial principal protection in a structured product does not lessen the FA's obligation to understand and clearly communicate the risks, features and benefits of a particular product to clients. It should be made clear to the client that there is a "cost" to principal protection built into the product, normally in the form of a capped return or limited participation in the return of the underlying instrument. Moreover, the principal protection only applies if the product is held to its stated maturity.

Special Considerations with Regard to Collateralized Mortgage Obligations ("CMOs")

Some classes of CMOs have a greater priority to cash flows than other classes. FAs should discuss with clients that not all CMOs have the same characteristics. Although two CMOs may have the same underlying collateral, each CMO may differ significantly in their risk and prepayment speed, depending on their tranche structure (i.e., the different classes of securities in a CMO offering).

In determining whether a CMO is suitable for a client, it is crucial that the FA discuss the risks associated with CMOs, including the following:

(1) *Prepayment Risk*. The prepayment speed of the underlying mortgage directly impacts the expected average life of the CMO. For example, if declining interest rates accelerate prepayments, the client may receive return of principal sooner, which may force the client to reinvest the principal at a lower rate of interest. Clients should be notified that although a CMO may have a stated final maturity date, the client may receive the entire principal amount prior to maturity. Although certain tranches may have lower prepayment risk associated with them, such risk can never be completely eliminated.

(2) *Risks based on differences from conventional debt securities*. FAs should put clients on notice that although a CMO is a fixed income instrument, it differs substantially from Treasuries or CDs. It should be disclosed that there may be risk of principal loss if the CMO is sold prior to maturity.

(3) *Structure and Liquidity Risk*. FAs should explain the overall tranche structure of the CMO to clients. More specifically, certain tranches may have limited liquidity. For example, there is generally less of a market for more complex CMO tranches.

(4) *Interest Rate Risk*. FAs should explain to clients that CMOs are highly interest rate sensitive.

(5) *Spread Risk*. Clients should be informed that the spread margin between CMOs and comparable Treasuries can vary. Even if the Treasury market were unchanged, spreads between CMOs and Treasuries can fluctuate, possibly resulting in decline in market value for CMOs (the reverse is also true).

(6) *Tax Implications*. There are tax implications associated with investing in CMOs. Clients should consult with their tax advisor to determine their potential tax liability resulting from a CMO investment.

V. Supervisory Requirements for Structured Products

Given the nature of, and the regulatory focus on, structured products, it is crucial that BOMs have a full and balanced understanding of both the risks and benefits of the types of structured products that FAs under their supervision are offering and recommending to clients.

BOMs must review each structured product purchase to confirm that the client meets the minimum eligibility standards of the product. The review should also take into account general suitability

Suitability determinations must take into account the client's overall profile, as recorded in the Firm's books and records, including investment objectives, financial and tax status, risk profile, portfolio composition and concentration, investment time horizon and investment experience, including the client's ability to understand complex investment products.

Before making a recommendation to a client, it is essential that FAs understand the characteristics, risks and benefits of structured products, including factors that would make such products either suitable or unsuitable for certain investors.

The suitability of the structured product and the underlying instrument are not interchangeable. The structured product may have a very different risk-reward profile than the underlying instrument. The volatility of the underlying instrument can be an important factor in determining suitability for certain products.

While structured products are generally issued as debt securities, they vary from traditional debt securities in that they often exhibit very different profit and loss potential. Investors in structured products may not be entitled to receive interest payments or the return of their original principal investment at maturity. The derivative component of structured products and the potential loss of the principal associated with many such products may make them unsuitable for investors seeking alternatives to traditional debt securities.

Some common features of structured products that FAs should understand and take into account when performing a suitability analysis include information such as:

- The risk/return structure of the product;
- The liquidity of the product;
- The existence of a limited secondary market and the lack of transparency of pricing in any secondary market transactions;
- The creditworthiness of the issuer;
- The volatility of the underlying instrument;
- Principal, return, and/or interest rate risks and the factors that determine those risks;
- The tax characteristics of the product; and
- The costs and fees associated with purchasing and selling the product.

Given the particular risks associated with structured products, FAs should assure that clients purchasing structured products are capable of evaluating and are financially willing and able to bear those risks.

IV. Risk Disclosures and Other Client Communications

It is crucial that FAs have a full and balanced understanding of both the risks and the benefits of these products and that they provide clients with this information.

Before an order is placed, FAs must provide clients with a preliminary prospectus via electronic delivery or hard copy, and any Free Writing prospectus approved and provided by the issuer or the Firm. A "Free Writing Prospectus" is a written communication that constitutes an offer to sell or the solicitation of an offer to buy securities that are or will be the subject of a registration statement.

FAs must obtain consent from clients for the electronic delivery of prospectuses. The detailed procedures for the delivery of preliminary prospectuses and Free Writing prospectuses are available at Products Overview (InfoNet) under Products / Equity Syndicate / Compliance Bulletins / Securities Offering Reform Interim Compliance Procedures.

FAs are responsible for confirming that these requirements are met and that the Firm's books and records, such as e-mail communications to clients, are complete and consistent in all material terms.

concerns such as concentrations and whether the transaction is consistent with a particular client's past trading history. BOMs may conduct this review through the Branch Manager's Supervisory System ("BMSS").

In order to prioritize the daily review of all trade activity in the branch, BMSS includes a filter within the daily trade report that BOMs can use to review all Structured Product trades. This filter is called "Inv Category," and includes Structured Products as one of the available sub-sets of trade activity.

BOMs must also conduct reviews to confirm that FAs are providing clients with preliminary prospectuses and Free Writing prospectus materials before orders are placed. The detailed procedures for the delivery of preliminary prospectuses and Free Writing prospectuses are available at Products Overview (InfoNet) under Products / Equity Syndicate / Compliance Bulletins / Securities Offering Reform Interim Compliance Procedures.

It is recommended that BOMs reconcile the structured product trades shown on BMSS with the Branch Deal file, which should contain the prospectus delivery records.

* * * *

Questions regarding this or any other Compliance Bulletin should be directed to your Branch Management team or your Regional Compliance Officer.

Exhibit 3

From: [redacted]
To: [redacted]
CC:
BCC:
Date: 09/12/2008 13:46:20 -0400
Subject: RE: Call after 10am, please?
Attachments:

Yes, all the notes we offer are Senior Unsecured debt in the capital structure.

Thanks.

From: [redacted]
Sent: Friday, September 12, 2008 1:46 PM
To: [redacted]
Subject: RE: Call after 10am, please?

[redacted]

Thanks again for spending the time to discuss LEH backed Structured products with my client and me today. It helped quite a bit. After the call a question regarding the UBS backed notes came up. Are they senior unsecured debt as well. Please let me know so I can convey to my client.

Have a good weekend and let's hope for some good news.

Thanks again.

[redacted]

[redacted]
Vice President - Investments
UBS Financial Services Inc.
10 Park Street
Concord, NH 03301
Tel. [redacted]

From: [redacted]
Sent: Friday, September 12, 2008 9:58 AM
To: [redacted]
Subject: Call after 10am, please?
Importance: High

[redacted]

I keep getting a busy signal when I call you back - there's been a branch mtg called here in Boston regarding this situation that I really need to attend at 10am. I promise you I will get in touch with you immediately following so I can speak with [redacted] with you.

Regards,

[redacted]

[redacted]
Structured Product Consultant

UBS Financial Services Inc.
Northeast Regional Consulting Center (RCC)

Exhibit 4

CC:
BCC:
Date: 06/12/2008 19:31:53 GMT
Subject: FW: June Structured Products Update: Lehman Brothers
Attachments:

I wanted to be sure that everyone saw this announcement and I'm available to field any and all questions you may have. If by chance you don't get me, please call the desk at 877.827.2010.

Thanks.

[redacted]

From: [redacted] On Behalf Of SH-WMUS-Structured Products
Sent: Thursday, June 12, 2008 2:22 PM
To: SH-WMUS-Structured Products
Subject: June Structured Products Update: Lehman Brothers

AB Not For Public Use

Structured Products Update :

We are suspending ticketing on Lehman-issued structured products for this month. We remain confident in our extensive issuer due diligence process, but the recent changes to Lehman's management and the increase in volatility in the credit market warrant that we take additional time to determine if we want to move forward with these offerings this month. If we are unable to obtain additional clarity and comfort regarding Lehman Brothers prior to month end, we will cancel these offerings.

The relevant structured product offerings are:
- 100% Principal Protection Absolute Return Barrier Notes linked to the S&P 500 Index (12mo) (original close of ticketing: 6/25)
- 100% Principal Protection Absolute Return Barrier Notes linked to the S&P 500 Index (12mo, skewed) (original close of ticketing: 6/25)
- 100% Principal Protection Notes linked to CPI (original close of ticketing: 6/25)
- Return Optimization Securities with Partial Protection linked to the PowerShares WilderHill Clean Energy Portfolio (original close of ticketing: 6/25)
- Return Optimization Securities with Partial Protection linked to the Rogers International Commodity Index (original close of ticketing: 6/24)

If you wish to cancel and pending orders for these offerings, please send an email to DL-Struc Prod WM Opts with the account number and the CUSIP/Dummy CUSIP.

Please call the Sales Desk at 877-827-2010 with any questions.

All Current Offering material can be found on the Transaction Products Tools site

ConsultWorks>Products>Transaction Products Tools> Structured Prodcuts Overview

Risks: An investment in UBS Structured Products involves risks. These risks can include but are not limited to: fluctuations in the price, level or yield of underlying instruments, interest rates, currency values and credit quality, substantial or complete loss of principal, limits on participation in appreciation of underlying instrument, limited liquidity, UBS credit risk and/or conflicts of interest.

Investor Concerns: The returns on the UBS Structured Products described here are linked to the performance of the underlying instruments. Investing in UBS Structured Products is not equivalent to investing directly in the underlying instruments. Clients should carefully read the detailed explanation of risks, together with other information in the relevant offering materials, including but not limited to information concerning the tax treatment of the investment, before investing in any UBS Structured Products.

Not For Public Use

Exhibit 5

From:[redacted]
To:[redacted]
CC:
BCC:
Date: 06/03/2008 16:44:59 -0400
Subject: Credit default swap link
Attachments:

Here is the link from the TFI site with CDS numbers. Once they get to the page click on 'Click here for details re 5-Year Credit Default Swap Spreads'.

I would suggest saving this site to your favorites so they can get the most up to date information. I'll follow up to make sure the National Sales link is updated in the meantime.

<http://bw.ubs.com/page/0/79/0,1080,5179-289752-1-0,00.shtml>

From: [redacted]

Sent: Tuesday, June 03, 2008 4:15 PM

To: [redacted]

Subject: FW: Cash

Still does not work.

From:[redacted]
Sent: Tuesday, June 03, 2008 2:30 PM
To:[redacted]
Cc:[redacted]
Subject: FW: Cash

[redacted]

We still can't find these numbers on National Sales. Error on page. Can you help?

[redacted]

Executive Director

Northern New England Market Area

UBS Financial Services

One City Center

7th Floor

Portland, ME 04101

[redacted]

From: [redacted]

Sent: Tuesday, June 03, 2008 1:46 PM

To: [redacted]

Subject: RE: Cash

[redacted]

Do you have today's rates on the credit defualt rates? Lehman is smelling a bit to me. Thanks. MM

[redacted]

UBS Financial Services

Vice President - Investments

[redacted]

From: [redacted]

Sent: Tuesday, June 03, 2008 1:19 PM

To: [redacted]

Subject: RE: Cash

Where are they getting the higher rates?

[redacted]

Executive Director

Northern New England Market Area

UBS Financial Services

One City Center

7th Floor

Portland, ME 04101

[redacted]

From: [redacted]

Sent: Tuesday, June 03, 2008 1:17 PM

To: [redacted]

Subject: Cash

[redacted]

I am soon to see some big redemptions on cash holdings resulting from cleaned up auction rates - $3- $5 million. Any ideas how to compete against much higher rates? I am not going to fight it if it is not best for the client.

Thanks. [redacted]

Exhibit 6

From: [redacted]
Sent: Tue Sep 09 16:19:15 2008
To: SH-WMUS-Structured Products
Subject: Subject: Lehman Brothers Bid/Sell Request
Importance: Normal
Attachments: image001.jpg

Structured Products

Lehman Brothers: Bid/Sell Requests

Not for Public Use

Lehman Brothers maintained a secondary market for their structured products today. Because of the unusually high volume of requests they received, we were unable to facilitate your bid/sell request today. The markets have closed for the day. Please resubmit your request in the morning once markets re-open. If you do wish to transact, we ask that you accept any bids in a timely manner.

All Current Offering material can be found on the Transaction Products Tools site

To get to Transaction Products Tools:
Products >Transaction Products Tools > Structured Products Overview

Exhibit 7

Redacted

From: [redacted] **On Behalf Of** SH-WMUS-Structured Products
Sent: Wednesday, September 10, 2008 5:39 PM
To: SH-WMUS-Structured Products
Subject: Subject: Lehman Brothers Bid/Sell Request

Structured Products

Lehman Brothers: Bid/Sell Requests

Not for Public Use

Lehman Brothers maintained a secondary market for their structured products today. Because of the unusually high volume of requests they received, we were unable to facilitate your bid/sell request today. The markets have closed for the day. Please resubmit your request in the morning once markets re-open. If you do wish to transact, we ask that you accept any bids in a timely manner.

****All Current Offering material can be found on the Transaction Products Tools site****

To get to Transaction Products Tools:
Products > Transaction Products Tools > Structured Products Overview

Exhibit 8

Redacted

From: Employee Communications
Sent: Thursday, September 11, 2008 10:34 AM
To: 'Financial Advisors'; 'Branch Managers'; 'Market Area Managers'
Cc: 'Regional Managers'; Regional Sales Managers
Subject: Message from Jim Hausmann: Lehman bidding on its own structured products

To: Financial Advisors; Branch Managers; Market Area Managers
Cc: Regional Managers; Regional Sales Managers
From [redacted]
Re: Lehman bidding on its own structured products

Lehman has not bid today on its structured products. According to Lehman, the situation is fluid and may change. Lehman structured products are senior unsecured notes of Lehman. Other Lehman senior debt with comparable maturities is currently trading at approximately 70 cents on the dollar. The market for these securities is volatile.

Market makers are continuing to bid on other Lehman securities (such as its common stock, preferreds, and certain long- and short-term debt securities). We have initiated discussions with other broker-dealers about their willingness to bid on Lehman structured products. We will update you at the end of the day.

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