

1 STATE OF NEW JERSEY  
2 BUREAU OF SECURITIES  
3 P.O. Box 47029  
4 Newark, New Jersey 07101  
5 (973) 504-3600

6 In the matter of )  
7 )  
8 CITIGROUP GLOBAL MARKETS INC. )  
9 (formerly known as Salomon Smith Barney )  
10 Inc.) )  
11 388 Greenwich Street )  
12 New York, New York 10013 )  
13 CRD # 7059, )

**CONSENT ORDER**

14 Respondent.

15 WHEREAS, SSB now known as Citigroup Global has been registered as a broker-dealer  
16 State of New Jersey since January 1, 1961; and

17 WHEREAS, an investigation into the practices, procedures and conduct of Salomon Smith  
18 Barney Inc. ("SSB")<sup>1</sup> respecting: (a) the preparation and issuance by SSB's U.S. equity research  
19 analysts ("Research Analysts") of research, analysis, ratings, recommendations and  
20 communications concerning common stocks of publicly traded companies covered by such  
21 analysts ("Research Coverage"), during the period 1999 through June 2002, including without  
22 limitation, commencement and discontinuance of Research Coverage, actual or potential conflicts  
23 of interests affecting Research Coverage, Research Analysts or termination of Research Analysts,  
24 and misleading statements, opinions, representations or non-disclosure of material facts in  
25 Research Coverage; (b) the allocation by SSB and its predecessor Salomon Brothers, Inc. of stock  
26 from initial public offerings that traded at a premium in the secondary market when trading in the  
secondary market begins and spinning by SSB (i.e., allocating such offerings as preferential  
treatment to officers and directors of companies having or potentially having investment banking  
business with SSB), during the period 1996 through 2001 ("IPO Allocations") and; (c) any other  
conduct referred to in the Findings of Fact set forth below in paragraphs 3 through 153 has been

<sup>1</sup> On or about April 7, 2003, SSB changed its name to Citigroup Global Markets Inc. ("Citigroup Global"). The U.S. Equity Research of SSB continues as part of Citigroup Global. Since the matters which were the subject of the Investigations occurred prior to the name change, the Findings of Fact herein generally refer to SSB.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26

II.

FINDINGS OF FACT

A. Summary and Jurisdiction

1. Citigroup Global is, and under its former name SSB was, at all relevant times, a registered broker-dealer with its principal place of business located at 388 Greenwich Street, New York, New York 10013. SSB has engaged and Citigroup Global continues to be engaged, in a full-service securities business, including institutional and retail sales, investment banking services, trading and research.
2. The Bureau of Securities has jurisdiction over this matter pursuant to N.J.S.A. 49:3-47 et seq., and more specifically N.J.S.A. 49:3-66.
3. In 1999, 2000, and 2001 (the "relevant period"), as described below, SSB issued research reports on two telecommunications ("telecom") companies that were fraudulent and issued research reports on several telecom companies that were misleading.
4. During the relevant period, SSB employed business practices that required research analysts to promote SSB's investment banking efforts. Research alone did not generate substantial profits for SSB; investment banking did, and it needed the services of research analysts to do so. Research analysts were expected to vet prospective investment banking deals, promote SSB's investment banking business to issuers during pitches, and market investment banking deals to SSB's customers. When SSB secured investment banking business, research analysts were expected to provide favorable coverage of SSB's investment banking clients. Important factors in evaluating an analyst's performance and determining an analyst's compensation at SSB were investment banker evaluations and investment banking revenues generated in an analyst's sector. These business practices created a culture in which investment bankers could and did pressure research analysts to maintain coverage or favorable ratings for investment banking clients and created the

1 In addition, a research report on Williams Communications lacked a reasonable basis  
2 because it did not disclose the true views Grubman and others on his team privately  
3 expressed at the same time about the company and certain research reports on Focal failed  
4 to disclose facts as described below.

5 8. In November 1999, Grubman upgraded AT&T from a Neutral (3) – his longtime rating on  
6 the stock -- to a Buy (1). SSB and Grubman did not disclose in the report that Grubman  
7 had a conflict of interest relating to his evaluation of AT&T. Prior to the upgrade, Sanford  
8 I. Weill (“Weill”), the co-CEO and Chairman of Citigroup (and a member of the AT&T  
9 board of directors), had asked Grubman to take a "fresh look" at AT&T, and Grubman had  
10 asked Weill for assistance in gaining admission for his children to the selective 92<sup>nd</sup> Street  
11 Y preschool in New York City at the same time Grubman was conducting his "fresh look"  
12 at the company. Subsequently, Grubman stated privately that he had upgraded AT&T to  
13 help his children get into the 92nd Street Y preschool. After Grubman upgraded AT&T and  
14 his children were admitted to the preschool, Weill arranged a pledge of \$1 million payable  
15 in equal amounts over five years from Citigroup to the 92nd Street Y.

16 9. Grubman’s upgrade of AT&T also helped SSB gain investment banking business from  
17 AT&T. In late fall 1999, AT&T determined to make an initial public offering (“IPO”) of a  
18 tracking stock for its wireless unit – the largest equity offering in the United States. In  
19 February 2000, AT&T named SSB as one of the lead underwriters and joint book-runners  
20 for the IPO, in large part because of Grubman’s “strong buy” rating of, and “strong  
21 support” for, AT&T. SSB earned \$63 million in investment banking fees from this  
22 engagement.

23 10. During the period 1996 through 2000, SSB engaged in improper spinning practices by  
24 allocating hot IPO shares<sup>2</sup> to executives of current or potential investment banking clients  
25

---

26 <sup>2</sup> A “hot IPO” is one that trades at a premium in the secondary market whenever trading in the secondary market begins.

1 and providing special treatment for these executives. The executives profited significantly  
2 from selling IPO stock allocated to them. The investment banking business generated by  
3 the firms for which these executives worked represented a substantial portion of SSB's  
4 revenues during this period.

5 11. Additionally, SSB failed to maintain books and records sufficient to determine whether or  
6 not the distribution of IPO shares had been completed prior to the initiation of secondary  
7 market trading. Further, SSB failed to administer Issuer Directed Share Programs  
8 appropriately and failed to establish and maintain written supervisory procedures for the  
9 appropriate management of such programs.

10 **B. SSB Failed to Manage Conflicts of Interest Between Research and Investment Banking**

11  
12 12. SSB's business practices intertwined research with investment banking, thus creating the  
13 vehicle for investment banking to exert inappropriate influence over research analysts.  
14 SSB failed to manage the resulting conflicts of interest in an adequate or appropriate  
15 manner.

16 **1. SSB's Business Practices Required Research Analysts to Support Investment**  
17 **Bankers**

18 13. Companies paid SSB's investment bankers to assist them with (a) capital raising activities  
19 such as IPOs, "follow on" offerings (subsequent offerings of stock to the public), and  
20 private placements of stock, and (b) other corporate transactions, such as mergers and  
21 acquisitions. During the relevant period, investment banking was an important source of  
22 revenue for SSB; revenues from investment banking grew from approximately \$3.0  
23 billion in 1999, to approximately \$3.6 billion in 2000, and to approximately \$3.9 billion in  
24 2001. Investment banking fees comprised over 21% of SSB's revenue in 1999, over 22%  
25 in 2000, and over 25% in 2001.

1 14. SSB's equity research analysts provided SSB's investing clients and the public with  
2 research reports on certain public companies. SSB held out its research analysts as  
3 providing independent, objective and unbiased information, reports, ratings, and  
4 recommendations upon which investors could rely in reaching investment decisions. SSB  
5 distributed its analysts' reports to its clients directly and by placing the reports on its  
6 website.

7 15. At SSB, research was a cost center. In contrast, investment banking generated substantial  
8 profits for SSB. To leverage its research, SSB required research analysts to serve, among  
9 others, investment banking. Accordingly,

- 10 • SSB expected research analysts to prepare business plans each year that, among  
11 other things, highlighted what the research analysts had done and would do to help  
12 SSB's investment bankers;
- 13 • SSB's research analysts were encouraged to develop investment banking business  
14 from issuers and private companies in their sectors;
- 15 • SSB's research analysts were expected to support investment banking by pitching  
16 business to prospective clients and marketing investment banking deals to  
17 institutional customers through roadshows;
- 18 • Investment banking concerns sometimes affected research analysts' decisions to  
19 initiate coverage, rate companies, and drop coverage. SSB's research analysts were  
20 generally expected to initiate coverage of SSB's investment banking clients with  
21 favorable ratings;
- 22 • Investment bankers reviewed the performance of the principal research analysts in  
23 their sector as part of the analysts' annual review; and
- 24 • Investment banking revenue generated in an analyst's sector and attributable to an  
25 analyst was an important factor SSB used to evaluate an analyst's performance and  
26 determine an analyst's compensation.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26

16. This integration of research analysts with investment banking was an SSB objective. In a January 1998 presentation to senior management at Travelers Corporation, then the parent of SSB, the head of SSB wrote: "There is a continuing shift in the realization that an analyst is the key element in banking success." Underscoring the same theme two years later, on December 8, 2000, the head of SSB's Global Equity Research wrote to the CEO of SSB that one of his goals since becoming global head of research was "to better integrate our research product with the business development plans of our constituencies, particularly investment banking . . . ."

17. In reviewing his performance for 2000, the head of SSB's Global Equity Research stated: We have become much more closely linked to investment banking this year as a result of participating in their much-improved franchise review process this year. There has been a yearend [sic] cross review of senior analysts and bankers particularly in the U.S. and Europe and with the development of the Platinum Program in the investment bank, the analyst's understanding of the relative importance of clients for IB [investment banking] and GRB [global relationship bank] is much improved.

18. In January 2000, SSB held a "Best Practices Seminar" for research analysts that was hosted by the head of U.S. Equity Research Management. At that seminar, a senior member of Research Management stated:

[W]hen you look at the market share gap between us and the three competitors who are trying to close. When I just eyeballed it, it looked like to me there is something like roughly a billion dollars of, maybe not Equity Capital Markets but Investment Banking revenues, on the table for this firm. And that's a lot of money. And its clear...that Research is driving a lot of this increasingly. And therefore, as a [research] department our goal has to be, to be a really effective partner in terms of helping drive initiation, execution and everything else. Because there is a lot of money on the table for this company. And we'll all benefit from it.

## 2. SSB Analysts Helped Investment Bankers Identify and Obtain Business

1  
2 19. Research analysts at SSB helped investment banking by identifying prospective clients and  
3 mandates and by participating in sales “pitches” for investment banking business. SSB  
4 bankers would not pitch for investment banking business unless they knew the SSB analyst  
5 who would cover the company was going to support the proposed deal.

6 20. SSB’s pitchbooks to potential investment banking clients routinely highlighted the  
7 experience and qualifications of the lead analyst in the company’s sector and how the  
8 analyst would help market the proposed deal. During the “pitch” process, SSB conveyed  
9 that its research analysts would cover the company if the company gave it investment  
10 banking business, and analysts frequently attended the “pitch” sessions. Once a company  
11 selected SSB as the underwriter, SSB analysts worked together with investment bankers to  
12 (among other things) perform due diligence on the deal and take the company executives  
13 out on “roadshows” to market the potential transaction to institutional investors.

14 21. During the relevant period, all parties involved – the analyst, the firm, and the issuer –  
15 understood that the analyst would initiate coverage of the company if SSB was given  
16 investment banking business and would initially rate the company favorably.

## 3. SSB’s Research Analysts Supported Investment Banking Through Their Ratings and Coverage

17  
18  
19 22. SSB encouraged analysts to support SSB’s investment banking business through their  
20 ratings. Each research report SSB issued included an investment rating that purportedly  
21 reflected the analyst’s objective opinion of the relative attractiveness of the company to the  
22 investors.

23  
24 23. During the relevant time period, SSB advised its customers that it utilized the following  
25 five-point investment rating system:

26 1 - Buy

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26

- 2 - Outperform
- 3 - Neutral
- 4 - Underperform
- 5 - Sell

24. In addition, SSB during the relevant period included in each research report a risk rating of L (low risk), M (moderate risk), H (high risk), S (Speculative), or V (Venture). Each of the research reports and call notes discussed below, other than those on AT&T, rated the company S (Speculative).

25. In practice during the relevant period, SSB's research analysts rarely rated companies a 4 (Underperform) and never a 5 (Sell) in part to avoid antagonizing issuers in a way that would harm SSB's investment banking business. As a Director who provided Research Management Support stated in a March 30, 2001 e-mail:

[W]e in U.S. Research currently have no "4" (Underperform) or "5" (Sell) ratings. We use neutral rating as a statement that we are not at all enthusiastic about a stock. That effectively conveys the message that customers should not be in the stock. If we were to use 4 or 5 ratings that approach would be perceived as highly antagonistic to buy side accounts . . . [and] company management teams.

26. In a later e-mail, the same person suggested that the common terms SSB used to rate stocks did not mean what they said: "various people in research and media relations are very easy targets for irate phone calls from clients, reporters, etc. who make a very literal reading of the rating . . . . [I]f someone wants to read the ratings system for exactly what it says they have a perfect right to do that."

27. The head of SSB's Global Equity Research raised the issue of research integrity directly with the head of SSB in a memorandum entitled "2000 Performance Review," when he expressed a "legitimate concern about the objectivity of our analysts which we must allay

1 in 2001.” The head of Global Equity Research also addressed the nature of the research  
2 ratings at an SSB equities management meeting. He made a presentation regarding the  
3 SSB “Stock Recommendations as of 1/29/01,” which showed that, out of a total of 1179  
4 stock ratings, there were no Sell ratings and only one Underperform rating. In  
5 handwritten notes attached to this presentation, he described these ratings in the U.S. as  
6 the “worst” and “ridiculous on face.” He observed that there was a “rising issue of  
7 research integrity” and a “basic inherent conflict between IB [investment banking],  
8 equities and retail.” In a February 22, 2001 memo, the head of Global Equity Research  
9 told the managing directors in the U.S. equity research division that the global head of  
10 SSB’s private client (i.e., retail) division said SSB’s “research was basically worthless”  
11 and threatened to terminate his division’s contribution to the research budget.

- 12 28. SSB did not change its rating system, however, and the de facto three-category rating  
13 system remained in place throughout 2001. As of the end of 2001, SSB covered over  
14 1000 U.S. stocks but had no Sell ratings and only 15 Underperform ratings (1.4%).

#### 15 16 **4. Investment Banking Influenced SSB’s Evaluation and Compensation of Research 17 Analysts**

- 18 29. SSB established a compensation structure that linked research analysts with investment  
19 banking. Research analysts were requested to draft business plans that discussed, among  
20 other things, their steps to support investment banking business in the past year and their  
21 plans to support investment banking in the upcoming year.
- 22 30. In addition, investment bankers among others evaluated the performance of research  
23 analysts. Bonuses for research analysts – comprising most of their compensation – were  
24 tied to several factors, one of the most important of which was the investment banking  
25 revenue SSB attributed to the research analyst.
- 26

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26

**C. Grubman Supported SSB's Investment Banking Business in the Telecom Sector**

31. During the relevant period, Grubman was one of the most prominent analysts on Wall Street. He was a Managing Director of SSB, and the preeminent research analyst at SSB. He managed a team of analysts who issued research reports ("Reports") and call notes ("Notes) on telecom companies. Grubman was principally responsible for each Report and Note SSB issued on these companies.

**1. Grubman Helped Obtain Investment Banking Clients for SSB**

32. Grubman helped to obtain and maintain business for SSB's investment bankers from telecom companies in his sector. Grubman also vetted proposed transactions involving telecom companies and vetoed those he could not view favorably. Once he determined he could support a proposed transaction, he and other telecom analysts who reported to him often participated in pitching the potential client to award SSB investment banking business and in roadshows that marketed offerings to investors.

**2. Grubman's Ratings Assisted SSB's Investment Banking Business**

33. During the relevant period, SSB was the lead underwriter on 6 IPOs for telecom companies. For each company, Grubman initiated coverage with a 1 (Buy) recommendation. In virtually every instance, Grubman also issued favorable research reports on telecom companies for which SSB acted as lead or co-manager of a secondary offering of equity stock offering. In fact, Grubman and his group, with only one exception, did not rate a stock a 4 during the relevant period and never rated a stock a 5. Rather, he and the research personnel who reported to him would drop coverage altogether rather than rate a stock at less than a Neutral.

1                   **3.       Grubman Helped Generate Substantial Revenue for SSB's Investment Banking**  
2                   **Department and Was Highly Compensated**

- 3                   34. Grubman's efforts contributed to the telecom sector generating substantial investment  
4                   banking revenue for SSB. During the relevant period, as reflected in documents prepared  
5                   in connection with Grubman's evaluation and compensation, SSB earned more than \$790  
6                   million in total gross investment banking fees from telecom companies covered by  
7                   Grubman: approximately \$359 million in 1999, \$331 million in 2000, and \$101 million in  
8                   2001.
- 9                   35. Grubman was well paid for his efforts. During the relevant period, he was one of the most  
10                  highly compensated research analysts at SSB. His total compensation (including deferred  
11                  compensation) from 1999-2001 exceeded \$48 million: over \$22 million in 1999, over  
12                  \$20.2 million in 2000, and over \$6.5 million in 2001. In light of the importance  
13                  investment banking played in SSB's annual evaluations, Grubman and two of his  
14                  assistants in their 2001 performance evaluation highlighted the investment banking deals  
15                  for which they had been responsible.
- 16                 36. As was true of other research analysts, Grubman was evaluated by investment bankers,  
17                 institutional sales, and retail sales. Grubman received high scores and evaluations from  
18                 investment bankers in 2000 and 2001 that reflected his importance to investment banking.  
19                 Investment bankers rated analysts on a scale from 1 (lowest) to 5 (highest). For 2000,  
20                 Grubman received a 5 rating overall from investment bankers, who ranked him first  
21                 among all analysts. His ratings and rankings in specific investment banking categories,  
22                 such as pre-marketing, marketing, and follow-up were also at the top levels. For 2001,  
23                 Grubman's average score (the only score presented that year) from investment bankers  
24                 was 4.382, ranking him 23<sup>rd</sup> among the 98 analysts reviewed.
- 25                 37. SSB's institutional sales force rated Grubman 16<sup>th</sup> out of 113 analysts in 2000 and 46<sup>th</sup> out  
26                 of 115 analysts in 2001.

1 38. Retail brokers ranked analysts on a scale from -1 (lowest) to 2 (highest). For 1999, the  
2 retail sales force gave Grubman an average score of 1.59, ranking him 4<sup>th</sup> out of 159  
3 analysts evaluated. In contrast, for 2000 and 2001, Grubman's evaluations from retail  
4 were dramatically lower and well below his scores from investment bankers and the  
5 institutional sales force in both years. In 2000, retail ranked Grubman last among all  
6 analysts with a score of -0.64. The same was true for 2001 -- the retail force ranked  
7 Grubman last among all analysts reviewed, and his score fell to -0.906.

8 39. Moreover, Grubman received scathing written evaluations from the retail sales force in  
9 2000 and 2001. Hundreds of retail sales people sent negative written evaluations of  
10 Grubman in both years.

- 11 • Many claimed Grubman had a conflict of interest between his role as an analyst and his  
12 role assisting investment banking:
  - 13 o "poster child for conspicuous conflicts of interest";
  - 14 o "I hope Smith Barney enjoyed the investment banking fees he generated,  
15 because they come at the expense of the retail clients";
  - 16 o "Let him be a banker, not a research analyst";
  - 17 o "His opinions are completely tainted by 'investment banking' relationships  
18 (padding his business)";
  - 19 o "Investment banker, or research analyst? He should be fired";
  - 20 o "Grubman has made a fortune for himself personally and for the investment  
21 banking division. However, his investment recommendations have  
22 impoverished the portfolio of my clients and I have had to spend endless hours  
23 with my clients discussing the losses Grubman has caused them."
- 24 • Many criticized his support of companies that were SSB investment banking clients:
  - 25 o "Grubman's analysis and recommendations to buy (1 Ranking) WCOM  
26 [Worldcom], GX [Global Crossing], Q [Qwest] is/was careless";

- 1           o    “His ridiculously bullish calls on WCOM and GX cost our clients a lot of
- 2                    money”;
- 3           o    “How can an analyst be so wrong and still keep his job? RTHM [Rhythm
- 4                    NetConnections], WCOM, etc., etc.”;
- 5           o    “Downgrading a stock at \$1/sh is useless to us.”;
- 6           o    “How many bombs do we tolerate before we totally lose credibility with
- 7                    clients?”

8           40. The evaluations and comments from retail did not appear to affect Grubman. In a January  
9                    2001 e-mail, he stated:

10                    I never much worry about review. For example, this year I was rated  
11                    last by retail (actually had a negative score) thanks to T [AT&T] and  
12                    carnage in new names. As the global head of research was  
13                    haranguing me about this I asked him if he thought Sandy [Weill]  
14                    liked \$300 million in trading commission and \$400 million (only my  
                    direct credit not counting things like NTT [Nippon Telecom] or KPN  
                    [KPN Qwest] our total telecom was over \$600 million) in banking  
                    revenues. So, grin and bear it. . . .

15           41. When Grubman left SSB in August 2002, he signed a separation agreement that included  
16                    compensation worth approximately \$19.5 million plus approximately \$13 million in  
17                    deferred compensation previously accrued in 1999, 2000, and 2001.

18   **D.    Investment Bankers Successfully Pressured Grubman to Maintain Positive Ratings on**  
19           **Stocks**

20           42. Investment bankers pressured Grubman to maintain positive ratings on companies in part  
21                    to avoid angering the covered companies and causing them to take their investment  
22                    banking business elsewhere.

23           43. On April 18, 2001, one of the companies Grubman covered, Winstar Communications,  
24                    Inc. (a Competitive Local Exchange Carrier or CLEC), declared bankruptcy. In the  
25                    aftermath of the Winstar bankruptcy, an SSB investment banker suggested that SSB’s  
26                    telecom investment bankers and research analysts have a conference call followed by a

1 meeting to consider the prospects of other CLECs and similar telecom companies.  
2 Grubman agreed, but made clear that the Winstar bankruptcy had convinced him of the  
3 need to downgrade other CLECs and telecom companies, all of which he rated a Buy (1)  
4 at the time:

5 Also to be blunt we in research have to downgrade stocks lest our  
6 retail force (which Sandy cares about a lot which I know to [sic]  
7 well) end up having buy rated stocks that go under. So part of this  
8 call will be our view that LVLTT [Level 3], WCG [Williams  
9 Communication Group], XOXO [XO Communications], FCOM  
[Focal], ABIZ [Adelphia Business Solutions], RCN [RCN  
Communications] must not remain buys.

10 44. Thereafter, the then-head of investment banking for SSB and the head of telecom  
11 investment banking called Grubman separately. The head of investment banking told him  
12 not to downgrade the stocks because doing so would anger these companies and hurt  
13 SSB's investment banking business. The head of telecom investment banking told him  
14 that they should discuss his proposed downgrades because some of the names were more  
15 sensitive than others. SSB and Grubman did not downgrade these stocks until months  
16 thereafter, continued to advise investors to buy these stocks and, in the weeks and months  
17 following, merely lowered the target prices for each of these companies.

18 45. Grubman acknowledged that investment banking influenced his publicly expressed views  
19 about the companies he covered. He stated in a May 2001 e-mail to an analyst who  
20 reported to him:

21 . . . If anything the record shows we support our banking clients too  
22 well and for too long.

23 46. The analyst agreed and stated that Grubman had helped SSB's investment banking  
24 business by using his influence to sell securities for questionable companies:

25 . . . I told [an investment banker] that you get the good and the bad  
26 with you [Grubman] and to look at all the bad deals we sold for them  
in the past. He agreed.

1 47. On May 31, 2001, Merrill Lynch downgraded XO, one of the stocks Grubman had wanted  
2 to downgrade in April. Merrill's actions caused Grubman to consider again whether he  
3 should have downgraded XO:

4 *Another one. I hope we were not wrong in not downgrading. Try to*  
5 *talk to folks to see what they think of these downgrades. Maybe we*  
6 *should have done like I wanted to. Now it's too late. (Emphasis*  
*added.)*

7 48. A research analyst who reported to Grubman responded to this e-mail by reiterating a  
8 negative view of XO and Level 3:

9 . . . XOXO is a lost cause, its [sic] never too late to do the call, we  
10 could downgrade XO, LVLTL, etc.

11 49. Later the same day, the same analyst e-mailed Grubman, warning him that an institutional  
12 investor thought downgrading XO would:

13 *definitely get the Lame-O award on CNBC & wouldn't help anyone*  
*out, it would just call attention to our negligence on not downgrading*  
*sooner.*

14 50. A few weeks later, Grubman was invited to a dinner with the head of U.S. Equity  
15 Research and two senior investment bankers. Grubman anticipated discussing banking's  
16 displeasure with his commentary on telecom stocks. Grubman e-mailed one of his  
17 research colleagues:

18 . . . I have dinner with [a senior investment banker and the head of  
19 U.S. Equity Research] I bet to discuss banking's displeasure with our  
20 commentary on some names. *Screw [the investment bankers]. We*  
*should have put a Sell on everything a year ago. (Emphasis added.)*

21 51. The next day, Grubman e-mailed the head of U.S. Equity Research, stating that the  
22 pressure from investment banking had caused him not to downgrade stocks he covered:

23 *See you at dinner. If [a senior investment banker] starts up I will*  
24 *lace into him. . . . most of our banking clients are going to zero and*  
25 *you know I wanted to downgrade them months ago but got huge*  
*pushback from banking.*

1 52. SSB and Grubman maintained Buy ratings on Level 3, WCG, XO, RCN, Adelphia, and  
2 Focal for months after April 2001. SSB and Grubman did not downgrade Level 3 until  
3 June 18, 2001; RCN until August 2, 2001; Focal and Adelphia until August 13, 2001; and  
4 WCG and XO until November 1, 2001. In each instance, SSB downgraded these stocks to  
5 a 3 (Neutral). None of the Notes published between April 18 and the date of each  
6 downgrade disclosed the pressure investment bankers had exerted on Grubman and  
7 Grubman's yielding to such pressure. These Notes were inconsistent with the  
8 views Grubman had expressed, as reflected in the emails above, concerning these stocks.

9 **E. SSB and Grubman Published Fraudulent Research That Promoted Focal**  
10 **Communications and Metromedia Fiber, Two of SSB's Investment Banking Clients**

11 53. SSB and Grubman published certain fraudulent research reports on Focal  
12 Communications and Metromedia Fiber, two investment banking clients of SSB. As  
13 described below, certain research reports on these companies were contrary to Grubman's  
14 private views and those of his team. Moreover, certain research reports on these two  
15 companies presented an optimistic picture that overlooked or minimized the risk of  
16 investing in these companies and predicted substantial growth in the companies' revenues  
17 and earnings without a reasonable basis.

18 **1. SSB and Grubman Published Fraudulent Research Reports on Focal**

19 54. Focal was a CLEC – a broadband telecommunications provider of limited reach. As of  
20 December 31, 1999 it operated in 16 locations nationwide and as of December 31, 2000 it  
21 operated in 20 locations nationwide. Focal was never profitable. Focal's net loss was  
22 approximately \$500,000 in 1996, \$3 million in 1997, \$8 million in 1998, \$22 million in  
23 1999, and \$105 million in 2000.

24 55. Focal was an investment banking client for SSB. SSB underwrote Focal's initial public  
25 offering in July 1999. It also assisted the company in other investment banking  
26

1 transactions. In total, SSB earned approximately \$11.8 million in investment banking fees  
2 from Focal.

3 56. Shortly after SSB underwrote Focal's initial public offering, it initiated coverage with a  
4 Buy (1) rating and maintained that rating until August 12, 2001. Grubman was  
5 responsible for SSB's Reports and Notes on the company.

6 57. SSB and Grubman published two Notes on Focal that were fraudulent – one issued on  
7 February 21, 2001 and one issued on April 30, 2001. The February 21 Note "reiterated" a  
8 Buy recommendation. It left the target price unchanged from \$30 (approximately twice  
9 the stock price of \$15.50). The Note reported overall results that were "in line" with  
10 expectations, and a revenue mix that "continues to improve." It also reported that Focal  
11 "continues to gain a stronger foothold in the large business market and continues to grow  
12 sales of existing customers with existing and new products and also into multiple  
13 markets." The February 21 Note reported EBITDA (earnings before interest, taxes,  
14 depreciation, and amortization) that improved over the previous quarter and was in line  
15 with estimates; it advised investors that Focal expected to be EBITDA breakeven  
16 sometime in 2001. Finally, the Note thought the company could continue to perform well  
17 and grow and, if it did, the target price and estimates would be increased:

18 The quarter's results were in line with our expectations. The revenue  
19 and line mix is improving but the fact remains that FCOM still has  
20 exposure to recip comp and exposure to ISPs, which are areas of  
21 concern for investors. While FCOM is collecting recip comp and is  
22 good at reviewing its customer credit profiles with ISPs, which are  
23 areas of concern for investors, we believe it is prudent to see a few  
24 more quarters of good execution and growth before we change  
25 numbers. We continue to remain prudent and thus, we don't think  
26 we should raise our price target to above \$30 when the stock is only  
trading at \$15. But, as we stated in our 3Q note, if [Focal]  
management continues to execute and also delivers on its data  
strategy, we believe this will be reflected in its stock price, and thus,  
we will be in a better position to raise numbers.

1 58. The same day as the February 21 Note, however, Grubman stated that he believed Focal  
2 should be rated an Underperform (4) rather than a Buy(1), that "every single smart  
3 buysider" believed its stock price was going to zero, and that the company was a "pig."  
4 Focal apparently complained about the February 21 Note. When Grubman heard of the  
5 complaint, he e-mailed two investment bankers:

6 I hear company complained about our note. I did too. I screamed at  
7 [the analyst] for saying "reiterate buy." If I so much as hear one  
8 more fucking peep out of them we will put the proper rating (ie 4 not  
9 even 3) on this stock which every single smart buysider feels is going  
to zero. We lose credibility on MCLD and XO because we support  
pigs like Focal.

10 59. Also on February 21, an institutional investor e-mailed a research analyst who worked for  
11 Grubman, "MclD [McLeod USA, Inc.] and Focal are pigs aren't they?" and asked whether  
12 Focal was "a short." The analyst responded to the e-mail: "Focal definitely . . . ."

13 60. Grubman continued to express his true view of Focal in a subsequent communication. As  
14 described in Section D above, he stated on April 18, 2001 that the company needed to be  
15 downgraded in the aftermath of the Winstar bankruptcy.

16 61. Contrary to these negative views of Grubman and his colleague, the April 30 Note on  
17 Focal again advised investors to buy Focal. By April 30, the stock price had fallen to  
18 \$6.48. Although the April 30 Note lowered the target price to \$15, calling the previous  
19 target price of \$30 "stale," the new target price was still more than twice the stock price.  
20 The April 30 Note stated that the company had reported quarterly results in line with  
21 estimates, repeated that Focal's "revenue mix is improving towards telecom," and noted  
22 the "line mix" continued to improve.

23 62. Neither the February 21 Note nor the April 30 Note disclosed the actual views of  
24 Grubman and his colleague about Focal. Indeed, both Notes contradicted such views.  
25 Neither Note described the company as a "pig" or a "short," disclosed that "smart  
26 buysiders" were predicting that Focal's stock price was going to zero, or indicated that the

1 proper rating for Focal was an Underperform (4). The February 21 Note and the April 30  
2 Note did not provide any other reason the stock should be downgraded. To the contrary,  
3 both Notes advised investors to buy the stock, predicted that the company's stock price  
4 could at least double over the next 12 to 18 months, and indicated that the company's  
5 numbers were "in line" and in some respects improving. Accordingly, the Notes issued  
6 on February 21, 2001 and April 30, 2001 were fraudulent.

7  
8 **2. SSB and Grubman Issued Fraudulent Research Reports on Metromedia Fiber**

9 63. Metromedia Fiber built and operated fiber optic systems nationally and in Europe. It  
10 intended to provide telecom services to CLECs and large telecom companies, cable  
11 companies, internet service providers, and Fortune 500 companies in large metropolitan  
12 areas. As of the end of 2000, Metromedia Fiber was increasingly unprofitable, spent  
13 substantial amounts of cash to construct its fiber optic systems and required even more  
14 capital to complete its planned network.

15 64. Metromedia Fiber was an investment banking client for SSB. SSB underwrote  
16 Metromedia Fiber's IPO in 1997 and a secondary offering in November 1999. In  
17 addition, SSB engaged in other investment banking transactions for the company. In total,  
18 SSB earned approximately \$49 million in investment banking fees in Metromedia Fiber  
19 deals. After Metromedia Fiber's IPO, SSB and Grubman initiated coverage of the  
20 company with a Buy (1) rating and maintained that rating until July 25, 2001.

21 65. In 2001, the company entered into an agreement with Citicorp USA, Inc. (an SSB  
22 affiliate) to provide it with a credit facility that it needed to fund its operations. The  
23 deadline for closing on the facility was extended twice and, in the end, the facility was  
24 completed for less than half its full amount. The Notes on Metromedia Fiber issued  
25 between April 2001 and July 2001 did not adequately disclose the red flags concerning the  
26 credit facility or Grubman's view that the company might not get the funding. Moreover,

1 in June 2001, a research analyst working for Grubman told him that while the company  
2 had funds through the end of 2001, thereafter the company's fundamentals would  
3 deteriorate. This contradicted the ratings and price targets SSB and Grubman published  
4 on the stock in a Note dated June 28, 2001. For these reasons, the Notes dated April 30,  
5 2001, June 6, 2001, and June 28, 2001 were fraudulent and misleading.

6 66. Metromedia Fiber announced on January 8, 2001 that it had "obtained a commitment for a  
7 fully underwritten credit facility for \$350 million from Citicorp USA, Inc., which it  
8 expects will fully fund its current business plan of building 3.6 million fiber miles . . . by  
9 the end of 2004."

10 67. As of March 2001, Metromedia Fiber faced a risk of not obtaining financing for its  
11 operations, had sufficient funds for its operations through the end of 2001, and may not  
12 have had sources for additional capital to finance its operations after the end of 2001. In  
13 particular, the company stated at the time that it may not be able to close on the pending  
14 \$350 million credit facility from Citicorp USA.

15 68. In an April 18, 2001 e-mail to a senior investment banker, Grubman indicated he was  
16 aware that Metromedia Fiber might not close the credit facility and would downgrade the  
17 company should it not obtain the additional funding: "If MFNX [Metromedia Fiber] does  
18 not get credit facility they too get downgraded [from a buy]."

19 69. Nevertheless, on April 30, 2001, SSB and Grubman issued a Note that reiterated a Buy (1)  
20 rating for Metromedia Fiber, stating: "We want to make it very clear that [Metromedia  
21 Fiber] remains one of our favorite names." Regarding funding for the company, the Note  
22 stated:

23 As noted in our previous note, MFN has obtained a commitment for  
24 a fully underwritten credit facility for \$350 million from Citicorp  
25 USA, Inc., which it expects will fully fund its current business  
26 plan....

1 70. The April 30 Note failed to disclose that the company believed it might not consummate  
2 the credit facility and that Grubman had expressed doubt that the company might get  
3 funding.

4 71. Metromedia Fiber subsequently announced that the deadline for closing on the credit  
5 facility had been extended from May 15 to June 30, 2001.

6 72. In a June 6, 2001 Note, SSB and Grubman continued to state that the stock was  
7 "exceptionally inexpensive" and opined that the company had "good visibility in its core  
8 fiber business." Grubman began and ended the Note with: "We strongly reiterate our  
9 Buy . . . and we would be aggressive at current prices." Regarding the funding for the  
10 company, Grubman wrote:

11 We continue to believe the \$350 million bank loan, which will bring MFNX to fully-  
12 funded status, will close by the end of June.

13 \* \* \*

14 ...The lack of available capital for MFNX-lookalikes only strengthens MFNX's  
15 position. Most recently private companies, such as OnFiber and other metro builders,  
16 have failed in getting private financing and other companies in the metro space have  
17 an extremely difficult time.

18 \* \* \*

19 MFNX has a business plan that is fully funded and many "would-be" competitors are  
20 never getting to the market.

21 73. The Note did not disclose that (a) the deadline for consummating the bank loan had been  
22 extended from May 15 to the end of June; or (b) after announcing the funding  
23 commitment, the company had determined that it may not be able to successfully  
24 consummate the senior credit facilities. The Note also did not reflect Grubman's opinion  
25 that Metromedia Fiber might not secure the financing. As described above, the Note  
26 emphasized and recognized the importance of Metromedia Fiber's fully-funded position.

1 74. In its June 28, 2001 Note, two days before the expiration of the funding commitment, SSB  
2 and Grubman disclosed that Metromedia Fiber had not consummated the bank loan and  
3 that the deadline had been extended from May 15 to June 30. SSB and Grubman  
4 minimized the funding problem by advising investors that the company had other options  
5 for financing, but added that they "can only guess on the nature or terms of the alternative  
6 financing [Metromedia Fiber] would agree to." Nevertheless, the Note analyzed the  
7 company's financing needs assuming the company could secure the \$350 million in  
8 additional funds under the loan or by other means and therefore would be fully funded  
9 through 2003. The Note continued to project a positive EBITDA for 2003 and reiterated  
10 its Buy (1) rating.

11 75. The Notes published from April to July 2001 on Metromedia Fiber minimized the risks  
12 facing the company, assumed the company was going to be fully funded, and estimated  
13 that the company would enjoy explosive growth in revenues and earnings. The \$25 price  
14 target issued on April 30, 2001 assumed that the company would have estimated revenue  
15 in 2010 of \$10.6 billion and EBITDA of \$4.4 billion. The June 6, 2001 target price of \$15  
16 assumed the company would have \$8.7 billion in revenue nine years out and EBITDA of  
17 \$3.2 billion. The June 28, 2001 target price of \$10 maintained the estimate of future  
18 revenue and EBITDA.

19 76. These reports, and the ratings and price targets included in them, reflected SSB's and  
20 Grubman's publicly expressed opinion that the company's future was secure. This view  
21 was contrary to the actual views of SSB's analysts, which were expressed privately and  
22 not disclosed. On June 21, 2001, a research analyst who reported to Grubman discounted  
23 the prospects of the company, telling Grubman in an e-mail that while the company had  
24 funding through the end of 2001, its fundamentals would deteriorate thereafter:

25 I have received over 50 calls today on MFNX (its down \$0.20 again  
26 to \$1.51). . . . Most people have written off this stock saying that it

1 will go bankrupt, even if they could get an equity infusion here it  
2 would be massively dilutive. At lease [sic] they have some cash  
3 through the end of the year but I doubt the fundamentals recover  
4 which is actually the important thing. I think downgrading right now  
is not advisable since everyone would say "gee thanks." I think we  
need an excuse [sic] from the company, we should have done it the  
day they lowered guidance but of course we were restricted.

5 77. SSB did not downgrade Metromedia Fiber until July 25, 2001 and even then only  
6 downgraded the stock to a Neutral (3) rating. By then, the company's stock price had  
7 sunk to 98 cents, more than a 33 percent drop from its price on June 21, 2001, when the  
8 analyst who reported to Grubman disparaged the company's future.

9  
10 **F. SSB Issued Misleading Research Reports on Level 3, Focal, RCN, Adelphia, WCG,  
and XO**

11  
12 78. Research reports must not contain misleading statements, analysts must have a reasonable  
13 basis for their recommendations, and reports must present a fair, balanced picture of the  
14 risks and benefits of investing in the covered companies and avoid exaggerated or  
15 unwarranted claims regarding the covered companies. As described below, certain  
16 research reports issued on Level 3, Focal, RCN, Adelphia, WCG, and XO violated these  
17 requirements.

18 **1. SSB Issued Misleading Research on Focal**

19  
20 79. As stated above, on February 21, 2001 and April 30, 2001, SSB and Grubman published  
21 fraudulent research reports on Focal. In addition to those reports, SSB and Grubman  
22 published four misleading research reports on Focal, dated April 10, 2000, April 18, 2000,  
23 April 26, 2000, and July 31, 2000.

24 80. In April 2000, Focal selected SSB to be the joint book runner for a secondary offering of  
25 its stock. Focal also announced a major expansion of its business plan. At the time, the  
26 company had significant capital expenditures and required additional capital to complete  
its new business plan. It faced the risks that it could not raise such capital and could not

1 complete its new plan, and that, because of its capital expenditures, it would potentially  
2 have substantial negative operating cash flow and substantial net operating losses for the  
3 foreseeable future, including through 2000 and 2001. Nevertheless, the Notes SSB and  
4 Grubman published on April 10, 2000, April 18, 2000, April 26, 2000, and July 31, 2000  
5 either did not disclose these risks or did not fully address them. In addition, these Notes  
6 published a target price that did not have a reasonable basis.

7 81. On April 10, 2000 SSB and Grubman issued a Note that reiterated a Buy (1)  
8 recommendation on Focal and increased the target price for Focal from \$60 to \$110. The  
9 Note discussed Focal's planned expansion, describing it as "sexy" and "providing the  
10 sizzle in this story." Based on Focal's expanded business plan, SSB and Grubman  
11 predicted that the company's revenue within 10 years would increase to \$6 billion and  
12 EBITDA would increase to \$2.4 billion. The Note described Focal management as  
13 "stellar." The Note did not disclose the additional capital expenditures that would be  
14 necessary to fund Focal's expanded business plan or the risk the company may not be able  
15 to obtain such capital. It did not disclose the likelihood that the expanded business plan  
16 would increase the company's substantial negative operating cash flow and substantial net  
17 operating losses.

18 82. On April 18, 2000, SSB and Grubman issued a Note reiterating the \$110 price target and  
19 Buy rating. The April 18 Note stated that "[Focal] is expanding its business plan to 24  
20 markets and aggressively pursuing data opportunities . . . The name of the game in value  
21 creation is to drive geographic footprint & service capabilities. Focal is dramatically  
22 increasing the latter w/its data initiative while increasing its geographic footprint by 15-  
23 20% . . . We reiterate our Buy rating & \$110 target & would be aggressive buyers." The  
24 April 18, 2000 Note did not disclose the additional capital expenditures that would be  
25 necessary to fund Focal's expanded business plan or the risk the company may not be able  
26 to obtain such capital. It did not disclose the likelihood that the expanded business plan

1 would increase the substantial negative operating cash flow and substantial net operating  
2 losses the company faced in the foreseeable future.

3 83. On April 26, 2000, SSB and Grubman issued a Note that reiterated a Buy  
4 recommendation, the \$110 target price, and Grubman's predictions of substantial growth  
5 in the company's revenues and EBITDA. By this time, Focal's share price had dropped to  
6 \$34.00. The Note repeated Grubman's earlier comments that Focal's new data initiative  
7 "is the real sizzle in this story . . . we believe that [Focal's] recent geographic & data  
8 expansion will enable [Focal] to become one of the critical path points in what is the next  
9 evolution in the Internet." The Note stated:

10 From a liquidity standpoint, no matter what happens with the capital  
11 markets, between the money [Focal] has on hand and its bank  
12 facilities commitments, we believe that [Focal] will be fully funded  
13 through mid- to late-2001. During the first quarter, [Focal]  
14 completed a \$275 million offering of 11 7/8% senior notes due 2010  
15 through a private placement.

16 84. The Note concluded with another recommendation for investors to buy the stock: "We  
17 continue to be very bullish on [Focal] and believe the stock is undervalued at current  
18 levels." The Note did not disclose the additional capital expenditures that would be  
19 necessary to fund Focal's expanded business plan or the risk the company may not be able  
20 to obtain such capital. It did not disclose the likelihood that the expanded business plan  
21 would increase the substantial negative operating cash flow and substantial net operating  
22 losses the company faced in the foreseeable future.

23 85. The Note SSB and Grubman published on July 31, 2000 left the rating and target price  
24 unchanged. The Note extolled the virtues of Focal's management, stating that the  
25 reported strong earnings for second quarter 2000 "highlights the execution abilities of  
26 FCOM management . . . ." It repeated earlier advice to investors that "the stock is  
undervalued at current levels." The July 31 Note stated:

From a liquidity standpoint, [Focal] received a commitment for \$300

1 million of senior secured credit facilities during the quarter. Capital  
2 expenditures totaled \$77 million this quarter and we still expect  
3 [Focal] to spend \$300 million and \$305 million in 2001. We  
4 estimate that with the cash on hand of \$342 million and the available  
5 credit, [Focal] will be fully funded through 2001.

6  
7  
8  
9  
10  
11 86. Missing from the July 31 Note, however, were sufficient risk disclosures adequate to warn  
12 investors of the funding needs facing Focal. The Note did not disclose the additional  
13 capital expenditures that would be necessary to fund Focal's expanded business plan or  
14 the risk that the company may not be able to obtain such capital. It did not disclose the  
15 likelihood that the expanded business plan would increase the substantial negative  
16 operating cash flow and substantial net operating losses the company faced in the  
17 foreseeable future.

18  
19  
20 87. By October 17, 2000, Focal's stock price had plummeted to \$18. That day, SSB and  
21 Grubman issued a Report on Focal and other CLECs entitled "CLECs: Clean Up of  
22 Ratings, Price Targets & DCFs." In this Report, SSB and Grubman maintained a Buy (1)  
23 rating on Focal, but lowered Focal's target price from \$110 to \$30, noting that the  
24 previous target price was "a clearly stale number." Despite advising investors for months  
25 prior to October that Focal's new business strategy was "sexy" and "the sizzle to the  
26 story" and would raise Focal's stock price by \$50, Grubman decreased Focal's price target  
in part by substantially reducing the revenue expected from the new business strategy.

## 2. Level 3, Focal, RCN, Adelphia, WCG and XO

27  
28  
29  
30  
31  
32 88. As described above in Section D, in April 2001 Grubman expressed the need to  
33 downgrade Level 3, Focal, RCN, Adelphia, WCG, and XO in the aftermath of the Winstar  
34 bankruptcy. Investment bankers pressured Grubman not to change the Buy ratings on  
35 these stocks and he did not downgrade them until months later.

1 89. None of the following Notes for these companies issued between April 18, 2001 and the  
2 date the stocks were downgraded disclosed the pressure the investment bankers had  
3 exerted on Grubman or the fact that he had acceded to it; these Notes were inconsistent  
4 with the views Grubman had expressed, as reflected in the e-mails described in Section D.  
5 above, concerning these stocks:<sup>3</sup>

6  
7 Level 3: Report issued on April 18, 2001.

8 WCG: Reports issued on May 1, 2001, August 1, 2001, and September 21, 2001.

9 XO: Reports issued on April 26, 2001, and July 25, 2001.

10 Adelphia: Report issued on May 14, 2001.

11 RCN: Report issued on May 3, 2001.

### 12 3. WCG

13 90. The May 1, 2001 Note on WCG lacked a reasonable basis because it did not disclose the  
14 contrary private views of Grubman and a member of his team. On May 1, 2001, SSB and  
15 Grubman issued a Note that failed adequately to disclose the views of Grubman and  
16 another analyst of the funding risks facing WCG. Before the issuance of that Note,  
17 Grubman and the analyst commented privately that the company “need[s] money.” These  
18 funding concerns were so acute that the analyst warned an institutional investor to “be  
19 careful with WCG.” Similarly, Grubman explained to a SSB retail broker who  
20 complained about Grubman’s target price for WCG that WCG was a “tough one. They  
21 still need money. I think business is ok . . . .”

22 91. The May 1 Note, however, reiterated a Buy recommendation on the stock. It noted that  
23 “visibility on funding better vs. 6 mos. ago.” It reassured investors that WCG had  
24 adequate funds “into 2003.” The Note stated that the company had reduced capital  
25 expenditures and “has made steps to improve its funding situation since the beginning of

26 <sup>3</sup> For the additional reasons set forth in Section E, the Note on Focal for April 30, 2001 was fraudulent.

1 the year and have [sic] raised additional liquidity of more than \$2 billion.” While  
2 predicting that the company may need \$1 billion to fund its operations in 2003, the Note  
3 stated “frankly, if the second tranche of the bank facility gets fully syndicated out, and  
4 WCG does perform as it expects . . . then our funding gap will be cut dramatically.”

- 5 92. The May 1 Note failed to accurately describe the negative view of Grubman and the  
6 analyst who reported to him of the company’s funding concerns. Rather than informing  
7 investors that WCG’s business was merely “ok” or a “tough one,” the May 2001 Note  
8 advised investors to “be more aggressive on [WCG].” The Note did not warn investors to  
9 “be careful” with WCG and did not fully reflect the analysts’ views on the company’s  
10 funding needs.

11  
12 **G. Undisclosed Conflicts of Interest Pervaded Grubman’s Upgrade of AT&T in  
13 November 1999**

14 **1. AT&T Complained About Grubman’s Views of the Company**

15 93. From 1995 through November 1999, Grubman maintained a Neutral (3) rating on AT&T.  
16 Though at times he offered qualified approval of AT&T’s strategy, he also repeatedly  
17 disparaged the company in his research and his public comments.

18 94. Beginning in July 1998 and continuing through the relevant period, Sanford Weill, then  
19 co-CEO and Chairman of Citigroup, was a member of the AT&T Board of Directors.  
20 Prior to November 1999, AT&T management complained to Weill and other SSB  
21 representatives about the tone of Grubman’s comments. In particular, the AT&T CEO  
22 told Weill that Grubman’s unprofessional tone and comments about AT&T made it  
23 difficult for AT&T to do business with SSB.

24 95. At an October 1998 industry trade show, Grubman failed to mention AT&T as one of the  
25 important telecommunications companies of the future. AT&T complained to Weill, and  
26 Weill relayed the complaint to senior SSB investment bankers. As a result, Grubman

1 wrote a letter of apology dated October 9, 1998 to Weill and the heads of SSB's  
2 investment banking and equities departments. Before it was finalized, the letter was  
3 reviewed and approved by Weill and several members of senior management. Grubman's  
4 apology stated, in part:

5           It has come to my attention that a speech I made offended AT&T. I  
6           want to make it perfectly clear that the last thing I want to do is  
7           embarrass the firm or myself or for that matter have AT&T put in an  
8           awkward position in dealing with Salomon Smith Barney. To the  
9           extent I have done so, I apologize to you and to the firm. I will also  
10          find the appropriate time and place to apologize directly to AT&T.  
11          Despite our current investment stance on AT&T, I view AT&T as  
12          one of the most significant companies in this industry, a company  
13          that I hope we can build a long and valued relationship with and one  
14          where I truly am open-minded about changes in investment views.

15 96. In his cover memo to the head of SSB investment banking, and the SSB investment  
16 banker covering AT&T, Grubman indicated that his letter was suitable to send to AT&T.  
17 On October 12, Weill and the investment banker covering AT&T traveled to AT&T's  
18 Basking Ridge, NJ headquarters and met with AT&T's CEO.

## 19 2. Weill Asked Grubman to "Take a Fresh Look" at AT&T

20 97. A few months later, in late 1998 or early 1999, Weill asked Grubman to "take a fresh  
21 look" at AT&T in the hope that Grubman might change his opinion of the company.  
22 Weill had a positive view of AT&T and its CEO whom Weill had known personally for  
23 years. AT&T's CEO was a member of Citigroup's Board of Directors during the relevant  
24 period and, prior to the merger of Citicorp and Travelers Corporation (SSB's corporate  
25 parent), had been a member of the Travelers' Board of Directors since 1993.

26 98. Thereafter, on April 5, 1999, Grubman sent AT&T a seven-page questionnaire seeking  
further information about its business. On June 11, 1999 Grubman sent Weill a  
memorandum noting that AT&T had not responded to his questionnaire. Weill apparently  
then spoke to AT&T's CEO about the questionnaire. AT&T asked Grubman to re-send

1 the questionnaire, and Grubman wrote Weill: "Maybe this time we can actually make  
2 some progress in closing the deal with [AT&T's CEO]." On July 19, 1999, AT&T sent an  
3 eleven-page response to Grubman.

4 99. On August 5, 1999 Grubman and Weill traveled to AT&T's headquarters for a meeting  
5 with AT&T's CEO that Weill had arranged. On August 19, 1999, Grubman wrote to  
6 AT&T's CEO:

7 I am writing to follow up on our meeting with Sandy. . . . I thought it  
8 was important to write to you directly to lay-out what I think we  
9 agreed to in order to get this process going. . . . I need to get to a  
10 level of specificity well beyond what's on the street today and I will  
11 need your help getting to the right people. . . . Wall Street is lacking  
12 analysis that comes remotely close to answering the detailed  
13 economic, technical, and operational questions that investors are  
14 demanding answers to regarding the roll-out of the bundled service  
15 platform using the cable plant . . . . When my analysis is complete  
16 and if the results are in line with what you and I are both anticipating,  
17 once I'm on board there will be no better supporter than I. . . . As I  
18 indicated to you at our meeting, I would welcome the role of being a  
19 "kitchen cabinet" member to you.

20 100. Grubman sent a copy of his August 19, 1999 letter to Weill, SSB's head of investment  
21 banking, and the SSB investment banker covering AT&T.

22 **3. Grubman Requested Weill's Assistance to Get His Children Accepted to the**  
23 **92nd St. Y Preschool and AT&T Considered Issuing a Tracking Stock for Its**  
24 **Wireless Unit**

25 101. In September 1999, Grubman began his efforts to get his children admitted to the  
26 prestigious and competitive preschool at the 92<sup>nd</sup> Street Y in New York City.

102. On October 20, 1999, the AT&T Board of Directors began discussing whether to issue a  
tracking stock for its wireless unit. That day, Weill attended an all-day meeting of the  
AT&T Board, at which AT&T's management presented a number of strategic  
alternatives, including issuing a tracking stock for AT&T's wireless business.

1 103. On October 29, 1999, Weill and Grubman had a 14 minute telephone conversation during  
2 which they discussed the status of Grubman's "fresh look" at AT&T. In that conversation  
3 or one shortly thereafter, they also discussed Grubman's desire to send his children to the  
4 92<sup>nd</sup> Street Y preschool in New York City.

5 104. By November 2, AT&T had taken its first steps towards issuing a tracker stock for its  
6 wireless unit. That day, an investment banking firm advising AT&T on financial  
7 strategies met with AT&T's outside counsel to discuss a proxy statement for AT&T  
8 shareholder approval of the wireless tracker.

9 105. On November 5, 1999, Grubman sent a memo to Weill entitled "AT&T and 92<sup>nd</sup> Street  
10 Y." In it, Grubman updated Weill on his progress in "taking a fresh look" at AT&T and  
11 outlined the future steps he would take to reexamine the company. He referred to his  
12 earlier meeting with AT&T's CEO and to his scheduled meetings in Denver with the head  
13 of AT&T's cable operations and in Basking Ridge with AT&T's network operations  
14 personnel. Grubman also sought Weill's assistance in getting his children admitted to the  
15 92<sup>nd</sup> Street Y preschool. Noting the difficulty in getting into the school, Grubman stated  
16 that "there are no bounds for what you do for your children. . . . it comes down to 'who  
17 you know.'" In the last paragraph of his memo, Grubman concluded: "Anyway, anything  
18 you could do Sandy would be greatly appreciated. As I mentioned, I will keep you posted  
19 on the progress with AT&T which I think is going well."

20 **4. Grubman Kept Weill Apprised of His Reevaluation of AT&T in November**  
21 **1999; AT&T Management Recommended That AT&T Issue a Tracking Stock**

22 106. During November 1999, Grubman intensified his "fresh look" at AT&T. He met and  
23 spoke by telephone with AT&T's CEO and traveled to AT&T's Denver and New Jersey  
24 offices to meet with company officials and view AT&T's operations. Grubman reported  
25  
26

1 on his efforts to Weill during an unprecedented number of telephone calls on November 3,  
2 11, 17, 22, 24 and 30.

3 107. On the morning of November 17, Weill attended an AT&T board meeting at which senior  
4 AT&T management recommended that the board approve the issuance of a tracking stock  
5 for the wireless business. Grubman called Weill from Milan, Italy late that night and the  
6 two discussed the status of Grubman's "fresh look" at AT&T. During a call on November  
7 22 or November 24, Grubman informed Weill that he soon would be issuing a report  
8 upgrading AT&T.

9 **5. Grubman Upgraded AT&T and Subsequently Stated He Did So to Get His**  
10 **Children Into the 92nd St. Y Preschool**

11 108. Grubman announced on November 29, 1999 that he was upgrading AT&T from a Neutral  
12 (3) to a Buy (1) rating. The same day, Grubman sent an e-mail to the SSB publications  
13 department, with a copy to Research Management, stating:

14 The AT&T Report must be edited and mailed out to the printers  
15 today so that it can be distributed in time to meet Sandy Weill's  
16 deadline (before the AT&T meeting.)

17 109. The next day, Grubman issued a 36-page Report setting forth his new rating and rationale.  
18 In his November 30 Report, Grubman wrote that his upgrade rested largely on two points:  
19 (1) the "real economics" of AT&T's cable strategy and (2) AT&T's ability to upgrade its  
20 cable technology to deliver a range of different services to consumers' homes. Grubman  
21 commented positively in his report about the widely-reported wireless tracking stock but  
22 denied upgrading because of the possible IPO.

23 110. After issuing the report, Grubman told an analyst who reported to him and an institutional  
24 investor, in separate conversations, that he upgraded AT&T to help get his children into  
25 the 92<sup>nd</sup> St. Y preschool.

26 111. Roughly a year after the upgrade, on January 13, 2001, in an e-mail to a friend, Grubman  
stated:

1           You know everyone thinks I upgraded T [AT&T] to get lead for  
2           AWE [AT&T Wireless tracker]. Nope. I used Sandy to get my kids  
3           into 92<sup>nd</sup> St Y pre-school (which is harder than Harvard) and Sandy  
4           needed [the AT&T's CEO's] vote on our board to nuke [John] Reed  
5           in showdown. Once coast was clear for both of us (ie Sandy clear  
6           victor and my kids confirmed) I went back to my normal negative  
7           self on T. [AT&T's CEO] never knew that we both (Sandy and I)  
8           played him like a fiddle.

9           112. The following day, Grubman e-mailed the same friend: "I always viewed T [AT&T] as a  
10           business deal between me and Sandy."

11           **6.       After the AT&T Upgrade, Weill Helped Facilitate the Admission of**  
12           **Grubman's Children to the 92nd St. Y Preschool**

13           113. After Grubman issued his November 1999 report on AT&T, Weill helped gain admission  
14           for Grubman's children to the 92<sup>nd</sup> St. Y preschool. On or about December 17, 1999,  
15           Weill called a member of the 92<sup>nd</sup> St. Y board and told her he would be "very  
16           appreciative" if she would help Grubman, a "valued employee" at Citigroup. Weill did  
17           not explicitly offer a donation to the Y during this phone call. By indicating that he would  
18           be "very appreciative," he understood that he was implicitly offering such assistance.

19           114. In March 2000, Grubman's children were admitted to the Y preschool. Subsequently, the  
20           board member called Weill, suggested a donation be made to the Y, and may have  
21           suggested the amount. Weill agreed. Weill was one of three corporate officers who  
22           approved charitable donations from Citigroup or the Citigroup Foundation. During a  
23           subsequent conversation with the president of the Citigroup Foundation, Weill indicated  
24           that the Foundation should make a \$1 million donation to the Y and instructed the  
25           Foundation president to work with the Y to develop a suitable program with the donation.  
26           The program that was subsequently developed consisted of a series of 10 events per year  
              that had cultural, artistic, and educational aims. Weill, the president of the Foundation,

1 and another Citigroup corporate officer approved the donation on July 24, 2000<sup>4</sup> and the  
2 first installment of the donation (\$200,000) was sent to the Y in September 2000. The  
3 president of the Foundation understood the donation was a "thank you" for the admission  
4 of the Grubman children to the preschool at the 92<sup>nd</sup> St. Y.

5 **7. After Grubman's Upgrade of AT&T, AT&T Selected SSB as a Lead**  
6 **Underwriter in the AT&T Wireless IPO**

7 115. Grubman's upgrade of AT&T assisted SSB in being selected as a lead underwriter and  
8 joint book-runner for the IPO of a tracking stock for AT&T's wireless subsidiary.

9 116. The AT&T Board approved the IPO during its December 5, 1999 Board meeting. AT&T  
10 announced its plans at a meeting with analysts the following day.

11 117. In January 2000, SSB competed to be named a lead underwriter and book-runner for the  
12 offering. In its pitch book, it highlighted the experience, prominence, and support for  
13 AT&T of Grubman and the SSB wireless analyst. Among other things, SSB's pitch book  
14 contained numerous statements about Grubman's views regarding the positive impact the  
15 wireless tracking stock would have on AT&T's shares, as well as promises about the role  
16 he would play in marketing the deal to investors.

17 118. In evaluating the various proposals from SSB and other investment banks, AT&T  
18 assigned significant weight (55%) to its views of each investment bank's wireline and  
19 wireless telecommunications analysts. Because Grubman was a highly rated and highly  
20 respected analyst, had a "strong buy" on AT&T stock, and was a "strong supporter" of the  
21 company, AT&T gave him the highest possible score in the internal matrix it used to rank  
22 the competing investment banks. In February 2000, based in large part on this positive  
23 evaluation of Grubman, AT&T named SSB as one of three joint book-runners for the  
24

25 <sup>4</sup> Because of certain tax considerations, and in light of benefits Citigroup employees  
26 received from the program supported by the donation, Citigroup, not Citigroup Foundation, made  
the donation to the Y. The \$1 million donation was payable in equal amounts over five years.

1 AT&T Wireless IPO. The IPO occurred on April 27, 2000. It was the largest equity  
2 offering ever in the United States, and SSB earned \$63 million in fees as lead underwriter  
3 for the offering.

#### 4 **8. Grubman Downgraded AT&T**

5  
6 119. On May 17, 2000, three weeks after the IPO, two months after his children were admitted  
7 to the 92<sup>nd</sup> St. Y preschool, and after AT&T announced disappointing earnings, Grubman  
8 issued a research report in which he compared AT&T with WorldCom. While Grubman  
9 did not change his Buy ratings on the two companies, he lowered his target price for  
10 AT&T from \$75 to \$65 per share and made a number of negative comments about AT&T.

11 120. Institutional investors viewed Grubman's report as a "virtual downgrade" because of his  
12 unfavorable comparisons of AT&T to WorldCom. An internal AT&T document also  
13 reported that Grubman was privately making comments to investors that were  
14 considerably more critical than those in his written reports.

15 121. Grubman subsequently downgraded AT&T twice in October 2000: on October 6 he  
16 downgraded the stock to an Outperform (2) and on October 25 he downgraded it to a  
17 Neutral (3), citing what he described as negative news from the company.

#### 18 **9. SSB's Policies Were Not Reasonably Designed To Prevent The Potential** 19 **Misuse Of Material, Non-Public Information**

20 122. During the relevant period, SSB had general policies in place requiring its employees to  
21 obtain approval before becoming a director of another company and to keep non-public  
22 information about that company confidential. SSB did not, however, have adequate  
23 policies and procedures in place to ensure that communications between a person  
24 associated with SSB who served as a director of another company and the SSB research  
25 analyst who covered that company would not result in the misuse of material, non-public  
26 information by the research analyst. For example, one such step SSB could have taken

1 would have been to require that a company be placed on its watch list if a person  
2 associated with SSB served as a director of that company. Such a procedure would have  
3 helped SSB to monitor whether a research analyst, before publishing research on a  
4 company, had received material non-public information on it from a person associated  
5 with SSB who also served as one of the company's outside directors.

6 **H. SSB Failed to Supervise Adequately the Activities of Its Research Analysts**

7 **1. SSB Failed to Respond Adequately to Red Flags Regarding Research**

8  
9 123. Members of research management received copies of research reports and call notes when  
10 they were issued and routinely reviewed research. Based on this review, complaints from  
11 SSB employees and customers, and otherwise, SSB was aware of problems with its  
12 research. Indeed, as described in Section B above, members of research management  
13 themselves expressed reservations about SSB's research. Nevertheless, SSB did not take  
14 steps to supervise the activities of research analysts adequately.

15 124. By early 2001, one of Grubman's supervisors believed that Grubman's ratings were  
16 inconsistent with the performance and prospects of the some of the companies he covered.

17 125. Moreover, on July 2, 2001, a Director who provided Research Management Support sent  
18 an e-mail to all research personnel, and others, warning that the models SSB analysts,  
19 including Grubman, used to predict future revenues and earnings and generate target  
20 prices "**must make sense**" (emphasis in original) and must be "smell tested." He  
21 criticized these models for using "aggressive inputs to arrive at a predetermined  
22 valuation/outcome." He concluded by noting that, "**Clearly, projected long-term**  
23 **growth rates for many of our companies are too high and would benefit from a**  
24 **thoughtful reappraisal.**" (Emphasis in original.) At least one recipient of this e-mail  
25 thought he was referring to Grubman ("Amen! You should have cc'd this to Grubman  
26

1 just to make sure.”) The author of the e-mail did not disabuse the recipient of this  
2 assumption: “No comment on that, at least not in writing.”

3 126. The same person specifically criticized Grubman’s research in a later e-mail to a senior  
4 member of research management, implying that the research had been compromised by  
5 investment banking concerns and acknowledging that SSB’s lax supervision of Grubman  
6 was at least partly to blame. He focused in particular on Grubman’s coverage of  
7 Metromedia Fiber and the June 6, 2001 Note (discussed above). He stated:

8 Explaining this isn’t easy. My candid opinion is that, until quite  
9 recently, Jack Grubman’s team had not yet come to terms with the  
10 debacle in this sector. While share prices plummeted, they remained  
11 convinced of the longer-term potential of their group and were  
12 unwilling to cut ratings and adopt a more cautious stance. *When you  
13 add the heavy layer of banking involvement into the mix this very  
14 problematic situation gets easier to understand.* (Emphasis added.)

15 127. He criticized Grubman’s coverage of Metromedia Fiber in particular. He noted that  
16 Grubman’s

17 [e]xcessive optimism led to unattainable target prices that should  
18 have been brought down much more quickly and earlier, than they  
19 had been. . . . [T]he target prices were cut again and again, but never  
20 enough to bring them into a more rational alignment with the share  
21 price. The 6/6/01 note talks about reducing projected 2010 revenue  
22 and EBITDA to \$8.7BB and \$3.2BB from \$10.68BB and \$4.4BB  
23 respectively. *How anyone could think those levels could be attained  
24 I cannot explain.* This only underscores the absurd assumptions  
25 pervading many [discounted cash flow] models. (Emphasis added.)

26 128. He concluded by acknowledging that SSB’s supervision of Grubman had been inadequate:

What could have prevented this? . . . Even with all notes going  
through an SA [supervising analyst] and many being scrutinized by  
research legal as well, we clearly rely on senior analysts to do careful  
work, disclose all important data and denote all material risks. In the  
case of MFNX, and in other telecom situations that I could name, our  
approach was inadequate. There was a failure of analysis and, it  
pains me to confess, *a failure of management.* This is the only  
explanation I can offer. (Emphasis added.)

## 2. SSB Knew SSB Investment Bankers Pressured Research Analysts

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26

129. SSB knew that its business practices, which intertwined research and investment banking, created a conflict of interest between investment banking and research, that investment banking pressured research analysts, and that investment banking concerns had the potential to affect, and, as described above with respect to Grubman, did affect, the decisions of research analysts on ratings and coverage. Nevertheless, SSB failed to take adequate steps to prevent such pressure or ensure that SSB's research was independent and objective.

130. SSB was aware that investment bankers pressured Grubman to maintain positive ratings or change negative ratings on companies. Moreover, on November 17, 2000, shortly after SSB was named in a private securities action relating to the AT&T Wireless IPO, Grubman e-mailed the head of Global Equity Research:

I think all legal stuff on ATT should be forwarded to Sandy [Weill] and [the head of SSB Investment Banking] as Exhibit A on why research needs to be left alone. These guys never understand the lingering consequences.

**I. SSB Engaged in Improper Spinning and IPO Distribution Practices**

131. SSB engaged in improper spinning practices whereby it provided preferential access to valuable IPO shares to the executives of corporations from which SSB sought or had obtained investment banking business. During the years 1999 and 2000, SSB earned over \$6.6 billion in investment banking revenue. Obtaining this investment banking business was critical to SSB's success. For example, investment banking fees comprised over 21% of SSB's revenue in 1999, and over 22% in 2000.

132. SSB failed to appropriately administer numerous Issuer Directed Share Programs ("DSPs") it managed during this same period. Further, SSB engaged in significant "as of"

1 trading in IPOs and failed to ensure that its distribution of IPO shares, both through DSPs  
2 and its branch offices, was timely and accurately reflected in its books and records.

3 **1. SSB Established a Special Branch to Facilitate Its Spinning Practices**

4  
5 133. SSB employed two registered representatives (“RRs”) whose primary function was to  
6 open and service accounts for high net worth individuals who were founders, officers or  
7 directors of current and potential banking clients (“Executive Accounts”). The two RRs  
8 had begun servicing these types of accounts at Salomon Brothers and continued to  
9 perform this function after Salomon merged with Travelers in 1997 to create SSB. SSB  
10 took steps and entered into written agreements to provide these two RRs with preferential,  
11 special, and unusual treatment including the following:

- 12 • SSB gave each of these two RRs special compensation, including a draw of \$1 million  
13 for the first 6 months of their employment and a minimum of \$500,000 for the second  
14 6 months;
- 15 • SSB provided office space for one of the two RRs on SSB’s equities trading floor in  
16 New York;
- 17 • SSB treated the business of the two RRs, designated “Private Wealth Management,”  
18 as if it were a separate SSB branch office (“PWM Branch”) for the purpose of  
19 determining IPO allocations, when it was actually only 2 brokers;<sup>5</sup>  
20
- 21 • SSB provided the two RRs with unique access to hot IPO shares to distribute to the  
22 Executive Accounts that was far above and beyond that of any other broker or branch;  
23 and  
24

25 <sup>5</sup> The two RRs ended their partnership in 1999 after which each operated as a separate branch and  
26 the practices described herein continued. However, the two RRs are referred to as the “PWM  
Branch.”

- SSB provided the two RRs with access to IPO shares for distribution to the Executive accounts from (i) the SSB Branch retail allocation, with PWM being treated as a “branch office”; and (ii) the institutional pot, In some cases, the two RRs were able to obtain access to DSP shares from issuers for distribution to the Executive Accounts.

## 2. SSB Provided Preferential Treatment to Executive Accounts in the Allocation of Hot IPOs

134. SSB distributed its IPO shares by dividing the firm’s allocation between its retail and institutional clients. Generally, SSB allocated to its retail clients, as a group, approximately 20-30% of the firm’s allotment in any specific IPO, with a majority of the remaining shares designated for allocations to institutional clients. Those shares set aside for retail clients were designated as the “retail retention,” and the remaining shares were designated as the “institutional pot.”

135. The retail shares were distributed to specific accounts through SSB’s branch managers. For every IPO, SSB gave each branch manager a specific number of shares, and the manager determined which retail brokers received shares and how many shares each retail broker received. The retail broker then determined the allocation of shares among his or her retail accounts, subject to the branch manager’s final approval.

136. The PWM Branch and its clients, however, were treated differently. As noted, the two RRs’ client base consisted primarily of high net worth individuals whose companies were potential investment banking clients or had provided investment banking business to SSB, and these two individual brokers were designated as a special branch with a separate profit and loss assessment. The PWM Branch received favorable treatment in the allocation of hot IPO shares. Although SSB’s written procedures for the distribution of IPO shares specifically prohibited favoritism for the personal accounts of corporate executives, SSB

1 in fact provided preferential treatment to Executive Accounts in connection with the  
2 distribution of hot IPO shares throughout the relevant period.

3 **a. Special Access to Retail and Institutional Shares**

4  
5 137. While other SSB retail branches were ordinarily limited to receiving IPO shares for clients  
6 from the retail retention, in many instances the two RRs in the PWM Branch obtained  
7 shares from both the retail retention and the institutional pot. This arrangement enabled  
8 them to consistently provide the Executive Accounts with larger numbers of shares in  
9 lucrative hot IPOs than were allocated to other retail accounts.

10 138. For example, from June 1996 through August 2000, WorldCom's then-President and CEO  
11 received IPO allocations in 9 offerings from Salomon and 12 offerings from SSB. He  
12 made profits of \$10,612,680 and \$923,360 respectively, totaling \$11,536,041 on these  
13 IPO allocations. From 1996 through 2000, WorldCom paid \$75,955,000 in investment  
14 banking fees to SSB.

15  
16 139. During 1999 and 2000, the two RRs in the PWM Branch received 35% of the total IPO  
17 shares allocated for distribution to SSB's ten largest branches and PWM combined.  
18 During this same period, these two brokers generated less than 3% of this combined  
19 group's commission revenue and had less than 5% of the group's assets under  
20 management. In 5.3% of the IPOs during this period, the two PWM brokers alone  
21 received a greater IPO allocation than the total shares distributed to SSB's ten largest  
22 branches.

23 **b. PWM's Solicitation of Syndicate for Additional IPO Shares**

24 140. In addition to the arrangement that provided the two PWM brokers with special access to  
25 large numbers of IPO shares for its client base, these two RRs aggressively solicited the  
26 Syndicate Department for additional shares in order to give preferential treatment to

1 founders, officers, and directors of investment banking clients. PWM brokers regularly  
2 requested additional shares from Syndicate, while retail brokers did so rarely. This  
3 occurred as early as 1996 and continued throughout the relevant period. For example, in a  
4 June 7, 1996 facsimile to the Syndicate Department, one of the RRs requested shares in  
5 the McLeod USA IPO for "Salomon Brothers Investment Banking Relationships to  
6 receive preferential treatment."

7 **c. Special Access to DSP Shares**

8  
9 141. As well as obtaining hot IPO shares for Executive Accounts from the retail retention and  
10 institutional pot, a PWM broker sought access, on at least one occasion, to shares reserved  
11 for an Issuer's Directed Share Program for allocation to Executive Accounts.<sup>6</sup>

12 142. In a July 6, 1999 letter, one of the two PWM Branch RRs solicited the President and CEO  
13 of Focal for the inclusion of various favored Executive Accounts in Focal's DSP. Of the  
14 seventeen listed PWM clients who were Focal bondholders requesting equity shares, at  
15 least thirteen were telecom company executives. One of these seventeen PWM clients, the  
16 former CEO of McLeod USA, received 100,000 shares through Focal's DSP.

17  
18 143. SSB also directly allocated issuers' DSP shares to the Executive Accounts. When trades  
19 through an Issuer's DSP program could not be confirmed, SSB used those shares for its  
20 own clients and distributed them to its favored accounts. For example, one of the PWM  
21 RRs was assigned by SSB to administer the KQIP DSP. KQIP began trading in the  
22 aftermarket on November 9, 1999. Several days later, the issuer's CFO contacted the  
23 PWM RR and stated that 20,000 shares of IPO stock were left over from the DSP, and

24  
25 <sup>6</sup> In each IPO, shares were set aside for distribution to a group of individuals designated by the  
26 Issuer through its Directed Share Program, sometimes referred to as the "friends and family"  
program.

1 asked if the RR would like to allocate the shares to one of his clients. The RR took the  
2 DSP shares and in turn gave them to another broker who had assisted him with the KQIP  
3 DSP for allocation to that broker's favored customers. On November 12, 1999, the  
4 second broker allocated 5,000 shares of KQIP IPO stock to a customer, who was able to  
5 purchase them at the IPO price. On November 16, 1999, the broker allocated the  
6 remaining 15,000 shares of KQIP IPO stock to the same customer at the IPO price. On  
7 December 24, 1999 the customer sold all 20,000 shares of KQIP for a profit of \$832,540.

8  
9 144. Additionally, several Executive Accounts serviced by the PWM brokers received IPO  
10 shares from a significant number of DSPs. For example, DSP shares were allocated in  
11 more than one-third of the SSB IPOs awarded to the former Executive Vice President of  
12 Qwest Communications International from May 1998 through September 2000.  
13 Likewise, DSP shares were allocated in half of the SSB IPOs awarded to the President of  
14 Qwest Communications International from June 1999 through September 2000.

15 **3. Both SSB and Executives of the Firm's Investment Banking Clients Profited**  
16 **Significantly From SSB's Spinning Practices**

17  
18 145. The spinning practices engaged in by Salomon before the merger with Citigroup, and then  
19 by SSB after the merger through the PWM Branch proved very lucrative to both the firm  
20 and the executives of the firm's investment banking clients. Executives of five telecom  
21 companies made approximately \$40 million in profits from approximately 3.4 million IPO  
22 shares allocated from 1996 – 2001, and SSB earned over \$404 million in investment  
23 banking fees from those companies during the same period.  
24  
25  
26

Company	IPO Shares to Company Executives Pre-Merger (1/96-11/97)	IPO Shares to Company Executives Post-Merger (12/97-12/01)	Net Profits of Executives on Pre-Merger IPO Shares (1/96 – 11/97) (to nearest 000)	Net Profits of Executives on Post-Merger IPO Shares (12/97 – 12/01) (to nearest 000)	Investment Banking Fees Paid to SSB, Pre-Merger (1/96 – 11/97) (to nearest 000)	Investment Banking Fees Paid to SSB, Post-Merger (12/97 – 12-01) (to nearest 000)
Global Crossing	0	37,000	\$ 0	\$254,000	\$0	\$121,049,000
Metromedia Fiber Network	3,000	98,300	\$11,000	\$1,511,000	\$5,243,000	\$43,865,000
McLeodUSA	198,500	459,500	\$4,849,000	\$4,582,000	\$23,071,000	\$48,810,000
Qwest	254,654	838,822	\$1,272,000	\$7,763,000	\$13,998,000	\$32,810,000
WorldCom	1,236,400	262,000	\$20,146,000	(\$273,000)	\$17,631,000	\$97,857,000
<u>Totals</u>	<u>1,692,554</u>	<u>1,695,622</u>	<u>\$26,278,000</u>	<u>\$13,837,000</u>	<u>\$59,943,000</u>	<u>\$344,391,000</u>

**4. SSB Could Not Rely on Its Records to Determine if IPOs Were Fully Distributed**

146. SSB's record keeping and its system of assessing whether the IPO distribution was completed were totally inadequate. The records failed to timely and accurately record the firm's distribution of IPO shares to its clients. As a result, the firm could not rely on these records to ensure that the distribution was complete. This faulty record keeping was particularly evident in the areas of "as of" trades and the distribution of DSP shares. These "as of" trades frequently provided immediate profits to the recipients.

**a. "As Of" Trades**

147. In the Metromedia Fiber offering, SSB booked approximately 68% of all allocations on an "as of" basis two days or more after the IPO date and well after secondary market trading had begun in each stock. In the Juniper Networks offering, over 80% of all allocations booked by SSB were booked on an "as of" basis two days or more after the IPO date. In at least 10 offerings, over 10% of the offering was booked on an "as of" basis two or more days after the IPO date.

1 148. SSB placed a number of these "as of" IPO trades in Executive Accounts. In addition,  
2 SSB's inadequate record keeping led to the appearance that certain IPO allocations were  
3 sold short in violation of industry regulations. For example, Juniper Networks ("JNPR")  
4 IPO stock went public on Thursday, June 24, 1999 at \$34 per share. Trade tickets for the  
5 purchase of 5000 shares by WorldCom's former President and CEO were marked on the  
6 day after the IPO, Friday, June 25 at 3:12 p.m., and the shares were not booked into the  
7 account until the following Tuesday, June 29. SSB recorded this transaction on an "as of"  
8 basis. Though the shares had not yet been booked into the client's account and the tickets  
9 for the IPO trades were not yet written and time stamped, the CEO sold 4,000 JNPR  
10 shares on June 25 at 12:03 p.m., at prices of \$100 and \$100.31 per share, for a profit of  
11 \$264,125. The CEO sold the remaining 1,000 shares of JNPR on April 4, 2000 at \$210  
12 per share, following a 3:1 stock split, for a total profit of \$860,125.

13  
14 149. Similarly, the former Chairman of Qwest Communications also received several "as of"  
15 IPO allocations that traded at a substantial profit in the aftermarket. For example, SSB  
16 booked 5000 JNPR IPO shares into the account of the Qwest Chairman on June 29, 1999,  
17 even though the IPO trade tickets were time stamped at 3:12 p.m. on June 25, one day  
18 after the IPO date. At 11:59 a.m. on June 25, the Qwest Chairman sold 2000 shares of  
19 JNPR for a profit of \$132,063, even though the tickets for the IPO trades had not yet been  
20 written and time stamped, once again giving the appearance that the IPO shares were sold  
21 short. In addition, on June 5, 2000, SSB booked 10,000 shares of ONI Systems Corp.  
22 ("ONIS") IPO stock into this same client's account at the IPO price, even though ONIS  
23 had begun trading in the aftermarket on June 1, 2000. The Qwest Chairman ultimately  
24 sold the ONIS IPO stock for a profit of more than \$562,000.

1                   **b.       Directed Share Programs**

2       150. In many instances in which SSB was retained to administer the issuer's DSP, a large  
3       number of allocations were booked into customers' accounts after the stock began trading  
4       in the secondary market, resulting in a substantial number of "as of" trades. Some of  
5       these instances resulted directly from SSB's failure to ensure that orders for DSP shares  
6       were confirmed prior to the start of secondary market trading. In fact, one of the PWM  
7       brokers acknowledged that, if he could not confirm a DSP allocation with a program  
8       participant, he would continue to attempt to contact participants even after secondary  
9       market trading had begun in the stock. SSB's inadequate record keeping left the firm  
10      unable to ensure that the distribution of DSP shares had been completed before the stock  
11      began trading in the secondary market.

12  
13      151. Moreover, SSB did not appropriately administer DSPs. For example, SSB relied upon  
14      branch offices and their staff to manage these labor-intensive programs without adequate  
15      central supervision and coordination. Further, despite managing numerous DSPs, SSB  
16      had no written procedures or supervisory system in effect to ensure the appropriate  
17      administration of these programs and the complete and timely distribution of DSP shares.

18                   **5.       SSB Failed to Supervise Reasonably the Activities of the PWM Branch and**  
19                   **Others to Prevent Spinning**

20      152. SSB failed to have supervisory procedures and systems in place to (i) prevent spinning;  
21      (ii) create records it could reasonably rely upon to assess whether or not the distribution of  
22      IPO shares was completed in compliance with applicable law; and (iii) ensure that issuers'  
23      DSP programs were managed in conformance with all applicable industry rules and  
24      regulations.

25  
26      153. By establishing the PWM Branch and providing the two RRs with several special  
    considerations, including the ability to obtain significantly larger hot IPO allocations than

1 other brokers, SSB ensured favorable treatment for the Executive Accounts. Moreover,  
2 SSB management failed to adequately supervise the allocation process and specifically  
3 failed to take steps to ensure that the PWM Branch complied with SSB's policy  
4 prohibiting favoritism for the personal accounts of corporate executives. SSB also failed  
5 to accurately and timely record its distribution of IPO shares and failed to have a system  
6 to ensure that IPO distributions were completed, and recorded as completed, prior to the  
7 initiation of aftermarket trading. Finally, SSB failed to adopt written supervisory  
8 procedures and a supervisory system sufficient to ensure that the firm appropriately  
9 administered DSPs.

### 10 III.

#### 11 CONCLUSIONS OF LAW

12 1. The Bureau of Securities has jurisdiction over this matter pursuant to N.J.S.A. 49:3-47 et  
13 seq., and more specifically N.J.S.A. 49:3-66.

14 2. SSB Published Fraudulent Research on Focal and Metromedia Fiber

15 As described in the Findings of Fact above, SSB publicly issued the following fraudulent  
16 reports on Focal Communications and Metromedia Fiber that contained misstatements and  
17 omissions of material facts about the companies covered, contained recommendations that  
18 were contrary to the actual views of its analysts, overlooked or minimized the risk of  
19 investing in these companies and predicted substantial growth in the companies' revenues  
20 and earnings without a reasonable basis:

- 21 • Focal: Reports issued on February 21, 2001 and April 30, 2001; and
- 22 • Metromedia Fiber: Reports issued on April 30, 2001, June 6, 2001, and June 28,  
23 2001.

24 As a result, SSB violated N.J.S.A. 49:3-52.

25 3. N.J.S.A. 49:3-58(a) states that the bureau chief may by order deny, suspend, or revoke  
26 any registration if he finds: (1) that the order is in the public interest; and (2) that the

1 applicant or registrant, or in the case of a broker-dealer or investment adviser, any partner,  
2 officer, or director, any person occupying a similar status or performing similar functions,  
3 or any person directly or indirectly controlling the broker-dealer or investment adviser:  
4 (vii) has engaged in dishonest or unethical practices in the securities, commodities,  
5 banking, insurance or investment advisory business, as may be defined by rule of the  
6 bureau chief; or (xi) has failed reasonably to supervise his agents if he is a broker-dealer  
7 or issuer for whom he has supervisory responsibility, or his employees who give  
8 investment advice if he is an investment adviser.

9 4. SSB Published Exaggerated, Unbalanced or Unwarranted Statements and Made  
10 Recommendations Without a Reasonable Basis

11 As described in the Findings of Fact above, SSB issued certain research reports for Focal,  
12 RCN Communications, Level 3 Communications, XO Communications, Adelphia  
13 Business Solutions, and Williams Communications Group that did not disclose the  
14 pressure exerted by investment banking on Grubman not to downgrade those stocks, did  
15 not disclose other relevant facts, and did not provide a sound basis for evaluating facts  
16 regarding these companies business prospects. In addition, certain of the reports for  
17 Williams and Focal contained exaggerated or unwarranted statements or claims about  
18 these companies, and opinions for which there was no reasonable basis. The treatment of  
19 risks and potential benefits in the reports also was not adequately balanced. Publishing  
20 the following misleading reports, as described in paragraphs 78 – 92, was a violation of  
21 N.J.S.A. 49:3-58(a)(2)(vii):

- 22 • Focal: Reports issued on April 10, 2000, April 18, 2000, April 26, 2000, and July 31,  
23 2000.
- 24 • Level 3: Report issued on April 18, 2001.
- 25 • WCG: Reports issued on May 1, 2001, August 1, 2001, and September 21, 2001.
- 26 • XO: Reports issued on April 26, 2001, and July 25, 2001.

- 1 • Adelpia: Report issued on May 14, 2001.
- 2 • RCN: Report issued on May 3, 2001.

3 5. SSB Published a Misleading Recommendation on AT&T

4 As described in the Findings of Fact above, SSB did not, in the November 1999 research  
5 report upgrading AT&T, disclose that Grubman's objectivity had been compromised by  
6 the facts described above in paragraphs 93 - 122. This would have been material to  
7 investors. As a result, such report was misleading and was a violation of N.J.S.A. 49:3-  
8 58(a)(2)(vii).

9 6. SSB's Business Practices Created Conflicts of Interest

10 As described in the Findings of Fact above, SSB's business practices allowed investment  
11 bankers to wield inappropriate influence over research analysts. SSB failed to manage, in  
12 an adequate or appropriate manner, the conflicts of interest these practices generated.  
13 These SSB business practices fostered the flawed research reports described in Sections  
14 I.E. and I.F. above (paragraphs 53 through 92, inclusive). Accordingly, this was a  
15 violation of N.J.S.A. 49:3-58(a)(2)(vii).

16 7. SSB's Policies Were Not Reasonably Designed To Prevent The Potential Misuse Of  
17 Material, Non-Public Information

18 As described in the Findings of Fact above, during the relevant period SSB did not  
19 maintain written policies and procedures reasonably designed to prevent the sharing and  
20 misuse of material, non-public information between an affiliated person of SSB who  
21 served as a director of another company and an SSB research analyst covering that  
22 company. By reason of the foregoing, this was a violation of N.J.S.A. 49:3-58(a)(2)(vii).

23 8. SSB Engaged in Spinning

24 As described in the Findings of Fact above, SSB provided favorable and profitable  
25 allocations of hot IPO shares to officers of existing or potential investment banking clients  
26 who were in a position to direct their companies' investment banking business to SSB.

1 The officers sold the shares provided to them for substantial profit. Subsequently, the  
2 companies for which the officers worked provided SSB with investment banking business.  
3 As a result of these actions, these were violations of N.J.S.A. 49:3-58(a)(2)(vii).

4 9. SSB Maintained Inaccurate Books and Records in Connection with its Spinning Activities  
5 and IPO Distribution Practices

6 As described in the Findings of Fact above, SSB allowed its employees to engage in “as  
7 of” trading and otherwise failed to maintain accurate books and records with respect to  
8 spinning. SSB also failed to maintain adequate books and records to ensure that its  
9 distributions of IPO shares were completed prior to the initiation of secondary market  
10 trading. As a result, these were violations of N.J.S.A. 49:3-58(a)(2)(vii).

11 10. SSB Failed to Supervise

12 As described in the Findings of Fact above, SSB failed to establish and maintain adequate  
13 procedures to protect research analysts from conflicts of interest from its investment  
14 banking operation. Moreover, SSB failed adequately to supervise the activities of its  
15 research analysts: it failed to respond to indications that SSB research was misleading and  
16 failed to have a system to provide reasonable assurances that its research reports complied  
17 with applicable law. SSB also failed adequately to supervise the employees engaged in  
18 spinning. Finally, SSB failed to establish and maintain adequate procedures to ensure the  
19 proper administration of Issuer Directed Share Programs. As a result, this was a failure to  
20 supervise under N.J.S.A. 49:3-58(a)(2)(xi).

21 11. The Chief of the Bureau of Securities finds the following sanctions appropriate and in the  
22 public interest.

23 **IV.**

24 **ORDER**

25 On the basis of the Findings of Fact, Conclusions of Law, and Respondent Citigroup Global’s  
26 consent to the entry of this Order, for the sole purpose of settling this matter, prior to a hearing and

without admitting or denying any of the Findings of Fact or Conclusions of Law,

**IT IS HEREBY ORDERED:**

1. This Order concludes the Investigation by the Bureau of Securities and any other action that the Bureau of Securities could commence under the Uniform Securities Law (1997), L. 1997, c.276, N.J.S.A. 49:3-47 *et seq.* on behalf of the State of New Jersey as it relates to Respondent Citigroup Global, or its affiliates arising from or relating to the subject of the Investigation, provided however, that excluded from and not covered by this paragraph 1 are any claims by the Bureau of Securities arising from or relating to enforcement of the "Order" provisions contained herein.
2. Respondent Citigroup Global will CEASE AND DESIST from engaging in acts in violation of the Uniform Securities Law (1997), N.J.S.A. 49:3-47 *et seq.* and will comply with the Uniform Securities Law (1997), N.J.S.A. 49:3-47 *et seq.*, in connection with the research practices referenced in this Order and will comply with the undertakings of Addendum A, incorporated herein by reference.
3. This Order is not intended by the Chief of the Bureau of Securities to subject any Covered Person to any disqualifications under the laws of any state, the District of Columbia or Puerto Rico (collectively, "State"), including, without limitation, any disqualifications from relying upon the State registration exemptions or State safe harbor provisions. "Covered Person" means Respondent Citigroup Global, or any of its officers, directors, affiliates, current or former employees, or other persons that would otherwise be disqualified as a result of the Orders (as defined below).
4. The SEC Final Judgment, the NYSE Stipulation and Consent, the NASD Letter of Acceptance, Waiver and Consent, this Order and the order of any other State in related proceedings against Respondent Citigroup Global (collectively, the "Orders") shall not be a ground to deny, suspend or revoke the broker-dealer, agent, investment adviser or

1 investment adviser representative registration of any Covered Person pursuant to N.J.S.A.  
2 49:3-58, shall not be a ground for denial or revocation of the transactional and securities  
3 exemptions from registration in N.J.S.A. 49:3-50, and shall not be a ground to issue a stop  
4 order denying effectiveness to, or suspending or revoking the effectiveness of, any  
5 securities registration statement pursuant to N.J.S.A. 49:3-64.

6 5. For any person or entity not a party to this Order, this Order does not prohibit, limit or  
7 create: (1) any private rights or remedies against Respondent Citigroup Global; (2) liability  
8 of Respondent Citigroup Global; or (3) defenses of Respondent Citigroup Global to any  
9 claims. Nothing herein shall be construed to prohibit the use of any e-mails or other  
10 documents of Respondent Citigroup Global or of others.

11 6. Nothing herein shall preclude the State of New Jersey, its departments, agencies, boards,  
12 commissions, authorities, political subdivisions and corporations, other than the Bureau of  
13 Securities and only to the extent set forth in paragraph 1 above, (collectively, "State  
14 Entities") and the officers, agents or employees of State Entities from asserting any claims,  
15 causes of action, or applications for compensatory, nominal and/or punitive damages,  
16 administrative, civil, criminal, or injunctive relief against Respondent Citigroup Global  
17 arising from or relating to the subject of the Investigation.

18 **V.**

19 **MONETARY SANCTIONS**

20 **IT IS FURTHER ORDERED, ADJUDGED AND DECREED** that:

21  
22 As a result of the Findings of Fact and Conclusions of Law contained in this Order, Respondent  
23 Citigroup Global shall pay a total amount of \$400,000,000.00. This total amount shall be paid as  
24 specified in the final judgment in the related action by the Securities and Exchange Commission  
25 against Respondent Citigroup Global ("SEC Final Judgment") as follows:  
26

- 1 a) \$150,000,000 to the states (50 states, plus the District of Columbia and Puerto Rico)  
2 (Respondent Citigroup Global's offer to the state securities regulators hereinafter shall  
3 be called the "state settlement offer"). Upon execution of this Order, Respondent  
4 Citigroup Global shall pay the sum of \$3,890,011.00 of this amount to the State of  
5 New Jersey, Bureau of Securities as a civil monetary penalty pursuant to N.J.S.A.  
6 49:3-70.1, to be deposited in the Securities Enforcement Fund, N.J.S.A. 49:3-66.1.  
7 The total amount to be paid by Respondent Citigroup Global to state securities  
8 regulators pursuant to the state settlement offer may be reduced due to the decision of  
9 any state securities regulator not to accept the state settlement offer. In the event  
10 another state securities regulator determines not to accept Respondent Citigroup  
11 Global's state settlement offer, the total amount of the State of New Jersey payment  
12 shall not be affected, and shall remain at \$3,890,011.00;
- 13 b) \$150,000,000 as disgorgement of commissions, fees and other monies as specified in  
14 the SEC Final Judgment;
- 15 c) \$75,000,000, to be used for the procurement of independent research, as described in  
16 the SEC Final Judgment;
- 17 d) \$25,000,000, to be used for investor education, as described in Addendum A,  
18 incorporated by reference herein.

19 Respondent Citigroup Global agrees that it shall not seek or accept, directly or indirectly,  
20 reimbursement or indemnification, including, but not limited to payment made pursuant to any  
21 insurance policy, with regard to all penalty amounts that Respondent Citigroup Global shall pay  
22 pursuant to this Order or Section II of the SEC Final Judgment, regardless of whether such penalty  
23 amounts or any part thereof are added to the Distribution Fund Account referred to in the SEC  
24 Final Judgment or otherwise used for the benefit of investors. Respondent Citigroup Global further  
25 agrees that it shall not claim, assert, or apply for a tax deduction or tax credit with regard to any  
26 state, federal or local tax for any penalty amounts that Respondent Citigroup Global shall pay

1 pursuant to this Order or Section II of the SEC Final Judgment, regardless of whether such penalty  
2 amounts or any part thereof are added to the Distribution Fund Account referred to in the SEC  
3 Final Judgment or otherwise used for the benefit of investors. Respondent Citigroup Global  
4 understands and acknowledges that these provisions are not intended to imply that the State of New  
5 Jersey would agree that any other amounts Respondent Citigroup Global shall pay pursuant to the  
6 SEC Final Judgment may be reimbursed or indemnified (whether pursuant to an insurance policy  
7 or otherwise) under applicable law or may be the basis for any tax deduction or tax credit with  
8 regard to any state, federal or local tax.

9 No portion of the payments for independent research or investor education shall be considered  
10 disgorgement or restitution, and/or used for compensatory purposes.

11 If payment is not made by Respondent Citigroup Global or if Respondent Citigroup Global defaults  
12 in any of its obligations set forth in this Order, the Chief of the Bureau of Securities may vacate  
13 this Order, at his sole discretion, upon 10 days notice to Respondent Citigroup Global and without  
14 opportunity for administrative hearing and Respondent Citigroup Global agrees that any statute of  
15 limitations applicable to the subject of the Investigation and any claims arising from or relating  
16 thereto are tolled from and after the date of this Order.

## 17 18 19 VI.

### 20 GENERAL PROVISIONS

- 21 1. This Order and any dispute related thereto shall be construed and enforced in accordance  
22 with, and governed by, the laws of the State of New Jersey without regard to any choice of  
23 law principles.
- 24 2. Respondent Citigroup Global agrees not to take any action or to make or permit to be made  
25 any public statement denying, directly or indirectly, any finding in this Order or creating the  
26 impression that this Order is without factual basis. Nothing in this Paragraph affects

1 Respondent Citigroup Global's: (i) testimonial obligations, or (ii) right to take legal or  
2 factual positions in defense of litigation or in defense of other legal proceedings in which  
3 the Bureau of Securities is not a party.

- 4 3. Respondent Citigroup Global, through its execution of this Consent Order, voluntarily waives  
5 their right to a hearing on this matter and to judicial review of this Consent Order under  
6 N.J.S.A. 49:3-58(c).
- 7 4. Respondent Citigroup Global enters into this Consent Order voluntarily and represents that  
8 no threats, offers, promises, or inducements of any kind have been made by the Bureau of  
9 Securities or any member, officer, employee, agent, or representative of the Bureau of  
10 Securities to induce Respondent Citigroup Global to enter into this Consent Order.
- 11 5. This Order shall be binding upon Respondent Citigroup Global and its successors and  
12 assigns. Further, with respect to all conduct subject to Paragraph 2 above and all future  
13 obligations, responsibilities, undertakings, commitments, limitations, restrictions, events,  
14 and conditions, the terms "Citigroup Global" and "Citigroup Global's" as used herein shall  
15 include Respondent Citigroup Global's successors and assigns (which, for these purposes,  
16 shall include a successor or assign to Respondent Citigroup Global's investment banking  
17 and research operations, and in the case of an affiliate of Respondent Citigroup Global, a  
18 successor or assign to Respondent Citigroup Global's investment banking or research  
19 operations).
- 20 6. This Consent Order shall become final upon entry.

21  
22 Dated this 2nd day of October, 2003.

23  
24 By Order of the Chief of the Bureau of Securities

25 By: Franklin L. Widmann  
26 Franklin L. Widmann  
Chief, Bureau of Securities

