OFFICE OF THE ATTORNEY GENERAL
BUREAU OF SECURITIES
STATE OF NEW JERSEY
153 HALSEY STREET
P.O. BOX 47029
NEWARK, NEW JERSEY 07101

IN THE MATTER OF: CITIGROUP GLOBAL MARKETS INC. CRD # 7059	**CONSENT ORDER**

BEFORE FRANKLIN L. WIDMANN, BUREAU CHIEF

Pursuant to the authority granted to the Chief ("Bureau Chief") of the New Jersey Bureau of Securities (the "Bureau") by the Uniform Securities Law (1997), N.J.S.A. 49:3-47 et seq. (the "Securities Law"), and after investigation, review and due consideration of the facts set forth below, the Bureau Chief and Citigroup Global Markets Inc. ("Citigroup"), through counsel (Andrew W. Sidman, Esq. of Bressler, Amery & Ross, P.C.), now desire to resolve this matter by entry of this Consent Order.

WHEREAS the Bureau is the State agency with the responsibility to administer and enforce the Securities Law; and

WHEREAS N.J.S.A. 49:3-67 authorizes the Bureau Chief from time to time to make such orders as are necessary to carry out the provisions of the Securities Law, upon a finding that the action is necessary or appropriate in the public interest or for the

protection of investors and consistent with the purposes fairly intended by the provisions of the Securities Law; and

WHEREAS Citigroup and the Bureau wish to resolve these issues without the expense and delay that formal administrative proceedings would involve; and

WHEREAS Citigroup admits the jurisdiction of the Bureau, neither admits nor denies the Bureau's findings of fact or conclusions of law, and consents to the entry of this Order by the Bureau Chief; and

WHEREAS the Bureau finds that Citigroup's failure to establish and/or enforce procedures necessary to detect the activities of certain agents employed in the Smith Barney branch office located at 150 John F. Kennedy Parkway, Short Hills, New Jersey 07078 (the "Short Hills Branch"), constituted a failure to reasonably supervise, and the unauthorized alteration of certain client account profiles by those agents constituted a failure to maintain accurate books and records, and is grounds, pursuant to N.J.S.A. 49:3-58, 59, 67 and 70.1, for the entry of an order assessing a civil monetary penalty and such other remedies as may be necessary in the public interest; and

WHEREAS Citigroup has voluntarily made, and will make further, remunerations to certain customers, has voluntarily made changes to certain supervisory procedures and has cooperated with the Bureau in its investigation; and

WHEREAS the Bureau Chief has found that the entry of this Order is appropriate in the public interest and consistent with the purposes fairly intended by the policy provisions of the Securities Law and the regulations promulgated thereunder; and

WHEREAS this Order concludes the investigation by the Bureau and any civil or administrative action that could be commenced under the Securities Law on behalf of the

Bureau of Securities as it relates to seeking civil monetary penalties or other relief against Citigroup for the conduct described herein;

FINDINGS OF FACT

The Bureau Chief makes the following findings of fact:

Significant Parties

1. Citigroup Global Markets Inc. (CRD# 7059) is a New York corporation. Citigroup has been registered as a broker-dealer with the Bureau since July 1983.

2. Citigroup maintains corporate headquarters at 388 Greenwich Street, New York, New York 10013.

3. Smith Barney is a division and service mark of Citigroup that provides financial advisory and brokerage services to clients. Smith Barney operates through various branch offices in the United States, including thirty-six branch offices in New Jersey, under the broker-dealer registration of Citigroup.

4. Nicholas A. Boccella (CRD #860147) ("Boccella") has been registered as an agent (i.e., the term for a registered representative that is used in the Securities Law) with the Bureau through Smith Barney since July 1993. He served as branch manager for the Short Hills Branch from July 1993 to December 2005, and is currently a registered representative at the Florham Park, New Jersey branch office of Smith Barney.

5. Michael K. Jones (CRD #730365) ("Jones") was registered as an agent with the Bureau through Smith Barney from July 1993 through March 2004. Jones is not currently registered with the Bureau. At all times relevant herein, Jones was employed in the Short Hills Branch of Smith Barney under the supervision of Boccella.

6. Jerette L. Lerner (CRD #2336016) ("Lerner") was registered as an agent with the Bureau through Smith Barney from July 1997 through March 2004. At all times relevant herein, Lerner was employed in the Short Hills Branch of Smith Barney under the supervision of Boccella. Lerner is currently registered as an agent of Ryan Beck & Co. (CRD #3248) in New Jersey.

Trinity Short Sale Strategy

7. In May 2003, Jones, following advice gleaned from a recently attended investment conference, instituted a short sale strategy involving shares of the common stock of Trinity Industries Inc. ("TRN"), a Delaware corporation. Jones subsequently communicated this strategy to Lerner, and Lerner and Jones solicited over 40 customers[1] to engage and participate in the short selling strategy with respect to shares of TRN.

8. Approximately seven of these solicited customers had experience shorting a stock through Jones or Lerner prior to the TRN short sale strategy. Further, the age, investment objectives and financial profiles for many of these customers made them unsuitable for this investment strategy.

9. The TRN short positions were acquired by Jones and Lerner for the customers' accounts from late May 2003 into the beginning of July 2003. In May 2003, the TRN shares traded at a low of $16.79 per share. Shortly thereafter, the price of TRN shares began to increase in value.

10. The price of TRN stock continued to rise over the coming months, reaching $35.70 per share by January 22, 2004. Over time, total customer losses attributable to the TRN short sale strategy rose to over $3 million.

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[1] Approximately 42 customers comprised 43 accounts. Jones solicited 39 customers and Lerner solicited 3 customers. These 43 accounts do not include accounts owned by Jones, Lerner and Lerner's mother.

Compliance Procedures and Red Flags

11. Smith Barney (i) lacked adequate procedures and (ii) failed to enforce existing procedures, despite red flags (that is, warning indications that the short sales might be unsuitable), to detect and prevent conduct by its agents, Jones and Lerner, which caused significant financial losses for its customers.

Plan of Solicitation

12. The Smith Barney Compliance Manual ("Compliance Manual") required agents to submit a plan of solicitation if an agent sought to solicit customers to purchase designated amounts of certain securities recommended by the agent, but not recommended by Smith Barney. According to the Compliance Manual, the plan of solicitation was required to ensure that sufficient information regarding non-firm recommended securities and their issuer had been reviewed by Smith Barney supervisors and its Compliance Department to determine whether there was a reasonable basis for solicitation by the agent.

13. At the time the TRN strategy commenced in late May 2003, Smith Barney did not have written procedures requiring its agents to submit a plan of solicitation to Smith Barney for agent recommendations involving short sales, nor did Smith Barney have systems in place to detect short sales by its agents in amounts that would have required a plan of solicitation if the agents had been soliciting purchases of such securities.

14. Smith Barney's failure to establish and enforce written procedures to require the submission of a plan of solicitation in circumstances like those applicable to the short sale strategy for TRN enabled Jones and Lerner to initiate the short sale strategy and obtain

stock loan approvals for shares of TRN from Smith Barney's Stock Loan Department without adequate supervision by Smith Barney.

15. Smith Barney's failure to establish and enforce written procedures to enhance its ability to detect short sales to its customers by its agents in the amounts in issue also enabled Jones and Lerner to initiate the short sale strategy and obtain stock loan approvals for shares of TRN from Smith Barney's Stock Loan Department without adequate supervision by Smith Barney.

Daily Order Tickets and Trade Blotters

16. The Compliance Manual allowed branch managers to delegate certain supervisory functions, but not the responsibility for branch office supervision, to the branch operations manager and other individuals who were properly qualified to supervise staff because they held a Series 8 license.

17. Short Hills Branch office manager Nicholas Boccella delegated certain functions to the branch's Series 8-licensed operations manager and two sales managers. Functions delegated by Boccella included (i) signing order tickets requiring prior manager approval, (ii) reviewing order tickets and (iii) reviewing daily blotters (the Compliance Manual specifically allowed the branch manager to delegate either the order ticket or daily blotter review function). These delegations of authority by Boccella were approved by Smith Barney's Regional Manager.

18. The Compliance Manual stated that "...[t]he purpose of daily review of order tickets and trade blotters is to spot any obviously questionable transactions." In reviewing the trading activity, a Branch Office Manager, or approved designee, should consider "...widespread recommendation of a particular security by a [financial

consultant]..." and "...securities which are not Firm Research Recommendations..." Jones and Lerner recommended the TRN short sale strategy to at least 43 customer accounts. Smith Barney had not issued a research recommendation concerning TRN stock at the time the short sale strategy was implemented.

19. The order tickets for the month of June 2003 revealed TRN short sales transactions initiated by Jones which were signed and approved by the operations manager and the two sales managers. For example, on June 20, 2003, approximately eleven TRN short sale order tickets were approved by at least one of these managers for eleven different accounts, one account of which was owned by Jones.

20. The daily trade blotters for the months of May 2003 through July 2003, which reflected many TRN short sale transactions initiated by Jones and Lerner, were reviewed and approved by Boccella. During the period of June 2, 2003 through June 5, 2003 at least 67 short sale transactions in 25 accounts were listed on daily trade blotters signed by Boccella. Certain of these transactions occurred in the accounts of retired elderly customers that maintained a moderate risk tolerance for their accounts, despite the fact that the TRN short sale strategy was not consistent with a moderate risk tolerance. Information regarding the age and risk tolerance of each customer executing a transaction was clearly visible on the daily trade blotter, and thus easily reviewable by the branch manager.

Concentration Levels of Short Positions in Accounts

21. By early July 2003, Jones and Lerner had accumulated short positions of nearly 263,000 shares of TRN among 43 Smith Barney customer accounts. The concentration

levels of the margined TRN short positions in certain accounts were nearly 70 percent of the accounts' total value by the end of July 2003.

22. When the short sale trading strategy commenced, 26 customers were over the age of 60 and 21 customers were dependent on investments or retirement assets as a primary source of income.

CAES Exception Reports

23. Smith Barney produced monthly Compliance Account Evaluation System Standard Exception Reports ("CAES Reports"), which detailed the previous month's activities for certain accounts that triggered one or more pre-determined parameters. One such parameter included 20 or more trades in the previous month. The second line of the CAES Reports states that "[Branch Office Managers] or their qualified designees are responsible to review this report to identify any accounts which may justify further review and appropriate follow-up action."

24. On July 2, 2003, two CAES Reports were produced detailing accounts that had effected short sales of TRN and had triggered the parameter for 20 or more trades in a month. In the first account, 14 of the 22 trades for the month of June 2003 were TRN short sales. In the second account, a joint account owned by a retired elderly couple, 17 of the 29 trades for the month of June 2003 were TRN short sales. Neither the Branch Office Manager nor any designee took effective action to address the high incidence of short selling in these two accounts, despite red flags highlighted in the CAES Reports.

Margin Maintenance Calls and Settlement of Obligations

25. By the middle of August 2003, as the market price of TRN stock had increased, margin maintenance calls were generated against 13 of the 43 accounts involved in the

TRN short sale strategy. This required the clients to deposit funds or liquidate other holdings in order to satisfy the margin maintenance calls. In one instance, funds were distributed from a client's Smith Barney Investment Retirement Account to satisfy the client's TRN margin maintenance call in another account. The use of proceeds from an Investment Retirement Account to satisfy a margin call obligation was a red flag that should have triggered additional supervisory review by branch office management.

26. Despite these and the other red flags set forth herein, Smith Barney failed to detect and prevent conduct enunciated in this consent order by its agents that ultimately harmed its customers.

Client Account Profiles were changed to conform to prior trading activity

27. The Smith Barney Branch Manager Guide for Account Suitability Reviews and the FC Guide for Account Suitability prohibited any change to a client's stated investment objectives to reflect or conform to account activity, unless the change truly reflected the client's current investment objectives. From August 19, 2003 through August 22, 2003, client account profiles for 21 of the 43 accounts engaged in the TRN short sale strategy were altered by Jones and/or Lerner without prior client consent. The alterations involved raising the level of risk tolerance in these client account profiles from moderate to aggressive, and in certain instances allowing for speculative trading where it was not previously authorized.

28. The changes to the customer account profiles were made more than one month after the accounts had stopped acquiring short positions in TRN, and soon following a

complaint received by the firm from a client that had incurred losses attributable to the TRN short sale strategy.

29. The changes to the customer account profiles were made for the purpose of making these short sales appear suitable for the customers by conforming, after the fact, the customer account profiles to the trading activity (although, as stated above, the more conservative profiles for these customers that existed at the time of the transactions in issue appeared on the trade blotters that were approved by branch management each day).

30. The changes in the customer account profiles occurred during a time of increasing exposure to risk of loss and margin calls on the accounts. Jones and Lerner knew, and certain managers in the Short Hills Branch should have known, that the prior moderate risk tolerance levels, and in certain instances a known desire not to engage in speculative trading, in these client account profiles was inconsistent with the TRN short sale activity. After the profiles were changed, the short positions remained open, causing additional losses in these accounts.

31. Smith Barney's procedures for altering customer account profiles did not require the branch manager to review or approve changes. However, in each instance, a negative consent letter, generated in New York and bearing the electronic signature of the branch manager, was sent to customers to notify them of the changes.

32. Although only one of the customers in issue responded to the negative consent letters, in certain instances, customers whose account profiles were inappropriately changed by agents of Smith Barney later changed their risk tolerance and speculative allowance back to levels that were consistent with their profiles prior to their alteration.

33. Smith Barney failed to establish and enforce written procedures necessary to prevent and detect the unauthorized alteration of certain client profiles.

34. By not detecting and preventing the unauthorized alteration of certain client profiles, Smith Barney failed to maintain books and records which accurately reflected the account profiles of certain of its clients.

CONCLUSIONS OF LAW

Solely for the purpose of this Consent Order, and without admitting or denying the allegations set forth herein, Citigroup consents to the Bureau Chief making the following conclusions of law:

1. In connection with the unsuitable short sale trading strategy employed by certain agents and the alteration of customer account profiles as set forth above, Smith Barney failed to reasonably supervise, and establish and enforce procedures necessary to detect and prevent such conduct, in violation of its duties under N.J.S.A. 49:3-58(a)(2)(xi).

2. In connection with the alteration of certain customer account profiles as set forth above, Smith Barney failed to maintain books and records which accurately reflected the account profiles of certain of its clients, in violation of its duties under N.J.S.A. 49:3-59, and N.J.A.C. 13:47A-1.10.

3. The activities set forth herein are grounds, pursuant to N.J.S.A. 49:3-70.1, to assess a civil monetary penalty, and pursuant to N.J.S.A. 49:3-67, to impose such other appropriate remedial measures as may be necessary in the public interest.

REMEDIAL MEASURES

1. To date, Smith Barney voluntarily has settled with and made certain remunerations to approximately twenty-five (25) of the affected accounts. These payments to investors totaled approximately $1.6 million.

2. Smith Barney will make additional remuneration to certain customers, in accordance with the procedure ordered below.

3. Prior to the commencement of this investigation by the Bureau, Smith Barney enhanced certain firm compliance procedures, including:

   a. Amendment of the Plan of Solicitation policy to require that agents submit to and receive approval from Smith Barney for any Plans of Solicitation involving short sale strategies; and

   b. Formulated a new system which requires any changes to customer account profiles to be reviewed and approved by a Series 8 licensed individual located at each branch office. The Series 8 licensed individual is supervised by or is the branch office manager.

4. Smith Barney also has made the following changes at the Short Hills Branch:

   a. Accepted the resignations of Jones and Lerner from the Short Hills Branch;

   b. Replaced Boccella as branch office manager of the Short Hills Branch; and

   c. Hired an additional Series 8 licensed individual for the Short Hills Branch to assist with supervisory and compliance matters.

5. Smith Barney also represents that it will review its current system relating to account profile changes, and shall take appropriate action to enhance the supervision of such changes.

ORDER

NOW THEREFORE, it is on this 26th day of JUNE 2007,

ORDERED that upon entry of this Consent Order, Smith Barney shall pay the amount of $478,000.00 as restitution to compensate for the losses of certain customers affected by the TRN short sale strategy described above. The restitution payment shall be made within 30 days of the entry of this Consent Order. Customer restitution will be administered in accordance with a procedure to be developed by Smith Barney and the Bureau. Any restitution funds not distributed to investors, after due diligence, to compensate for the conduct by Smith Barney set forth in this Consent Order, shall not be returned to Smith Barney, but shall be paid to the Bureau as an additional civil monetary penalty; and it is

FURTHER ORDERED that, pursuant to N.J.S.A. 49:3-70.1, Smith Barney is assessed and shall pay a civil monetary penalty in the amount of $500,000.00, due and payable upon entry of this Consent Order to "State of New Jersey, Bureau of Securities," 153 Halsey Street, 6th Floor, Newark, New Jersey 07102, or to be mailed to "Bureau of Securities," P.O. Box 47029, Newark, New Jersey 07101. The civil monetary penalty payment shall be deposited in the Securities Enforcement Fund, pursuant to N.J.S.A. 49:3-66.1.

This Consent Order is not intended by the Bureau Chief to subject Citigroup 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.

This Consent Order shall not be a ground to deny, suspend or revoke the broker-dealer or investment adviser registration of Citigroup pursuant to N.J.S.A. 49:3-58, shall not be a ground of denial or revocation of the transactional or securities exemptions from registration in N.J.S.A. 40:3-50, and shall not be a ground to issue a stop order denying effectiveness to, or suspending or revoking the effectiveness of any securities registration statement pursuant to N.J.S.A. 49:3-64.

NEW JERSEY BUREAU OF SECURITIES

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

DATED: June 26, 2007

Citigroup Global Markets Inc. hereby consents to the form and entry of this order without admitting or denying the allegations, findings and conclusions of law set forth herein.

CITIGROUP GLOBAL MARKETS INC.

By: _____
Michael J. Sharp
General Counsel
Citigroup Global Markets Inc.

DATED: June 22, 2007