

AWARD
NASD Dispute Resolution

In the Matter of the Arbitration Between

Name of Claimant

Mauricia Molnar

And

04-05746
Chicago, Illinois

Name of Respondents

Citigroup Global Markets, Inc. f/k/a Salomon Smith Barney Inc.
d/b/a Smith Barney
William David Hobby
Michael Jay Grace
Phillips L. Spartis

Nature of the Dispute: Customer vs. Member and Associated Persons.

REPRESENTATION OF PARTIES

Mauricia Molnar ("**Claimant**") was represented by Michael Wilner, Esq. and Lori A. Fanning, Esq., Miller Faucher and Cafferty LLP, Philadelphia, Pennsylvania and Chicago, Illinois respectively.

Citigroup Global Markets, Inc. f/k/a Salomon Smith Barney Inc. d/b/a Smith Barney ("**Respondent Salomon Smith Barney**"), William David Hobby ("**Respondent Hobby**") and Michael Jay Grace ("**Respondent Grace**") hereinafter referred to as ("**Respondents**") were represented by Terry D. Weissman, Esq. and Stephen S. Berkeley, Esq., Neal Gerber & Eisenberg LLP, Chicago, Illinois.

Philip L. Spartis ("**Respondent Spartis**") was represented by David Greenberger, Esq., Liddle & Robinson, New York, New York.

CASE INFORMATION

The Statement of Claim was filed on or about August 13, 2004. Claimant's Response to Respondents' Motion to Dismiss was filed on or about April 28, 2006. Submission Agreement of Claimant Mauricia Molnar was signed and undated.

Statement of Answer was filed by Respondents Citigroup Global Markets, Inc. f/k/a Salomon Smith Barney Inc. d/b/a Smith Barney, William David Hobby and Michael Jay Grace on or about June 6, 2005. Respondents' Motion to Dismiss Statement of Claim and

Motion in Limine to Exclude Evidence Relating to Settlements, Settlement Negotiations, and "The Thornburgh Report" were filed on or about April 10, 2006. Respondents' Reply to Claimant's Response to Respondents' Motion to Dismiss and Motion in Limine was filed on or about May 1, 2006. Submission Agreement of Respondent Citigroup Global Markets, Inc. f/k/a Salomon Smith Barney Inc. d/b/a Smith Barney was signed on May 10, 2005. Submission Agreement of Respondent William David Hobby was undated. Submission Agreement of Respondent Michael Jay Grace was undated.

CASE SUMMARY

Claimant asserted the following causes of action: Direct Liability and Respondeat Superior Liability; Negligence; Breach of Express and Implied Contractual Duties; Breach of Fiduciary Duties; Aiding and Abetting Breach of Fiduciary Duties; Fraudulent Misrepresentations and Omissions; and Violation of Illinois and Georgia Law. The misconduct set forth in this statement of claim constituted a breach of state laws, including one or more of the Illinois Consumer Fraud Act, the Illinois Eavesdropping Act and any other applicable state securities or consumer protection provisions (including under Georgia law).

Specifically, Claimant summarized her claims as follows::

Mauricia Molnar's claim arises out of Respondents' unsuitable anti-diversification recommendations, fraud and fraudulent omissions in connection with **the investment strategy relating to WorldCom stock and substantial concentration of net worth in vested deep-in-the-money WorldCom stock options.**[emphasis in original] Molnar's claims are the well-documented misconduct by Respondents that extended from the retail brokerage office in Atlanta to senior management of Salomon Smith Barney [footnote omitted] and its disgraced Wall Street analyst, Jack B. Grubman. There were individual and corporate sanctions by regulators in connection with both the misconduct in the Atlanta retail office and the massive investment banking corruption at issue in this case.

The Atlanta retail branch of SSB served as the exclusive administrator for WorldCom employee options beginning in the late 1990's. Individual respondents Philip Spartis and David Hobby were two of the registered representatives assigned to Ms. Molnar's account and identified by SSB as her "financial consultants." Messrs. Spartis and Hobby were SSB brokers operating their business as SSB's "WorldCom Options Group," which was held out as having financial consultants with special training and experience relating to employee stock options. Individual respondent Michael J. Grace was the branch office manager for SSB's Atlanta office, which included SSB's WorldCom Options Group. Mr. Grace was ultimately censured and suspended by the NYSE for his mismanagement of the WorldCom Option Group for the precise kind of abusive margin and sales practices at issue in

this case. As set forth in detail below, the NYSE Division of Enforcement made extensive findings (set forth in 62 paragraphs over 12 pages) in support of a \$1 million regulatory fine and consent to censure reached with SSB and a related censure and three month suspensions of SSB's former Atlanta branch office manager, Michael J. Grace. See NYSE Hearing Panel Decisions 03-182 and 03-183 dated October 1, 2003 at Exhibit A. These findings should be considered as substantive evidence in the case.

Ms. Molnar will prove that she suffered substantial losses as a result of Respondents' unsuitable anti-diversification recommendations and related fraud, fraudulent omissions and stunning corruption between and among SSB's Wall Street analysts, SSB investment bankers, the senior management of SSB and its affiliates and the senior management of WorldCom. The egregious misconduct was not confined to the retail sales level in Atlanta. Ms. Molnar was equally a victim of the frequent and enduring "table-pounding" reports, ratings and forecasts of SSB's former star Wall Street analyst Jack Grubman, who is now a full-time SSB apologist in the NASD arbitration circuit despite his lifetime industry ban.

Although SSB continues its hollow WorldCom denials in the narrow case-by-case customer arbitration context, on May 10, 2004 there was a public announcement of an agreement by SSB, Mr. Grubman and SSB affiliates to pay \$2.65 billion to settle claims of the class of WorldCom investors in the pending multi-district litigation of securities fraud litigation against SSB and SSB analyst Jack B. Grubman (among others). See May 10, 2004 Article from the New York Times "Citigroup to Pay \$2.65 Billion in Deal With WorldCom Investors" attached as Exhibit B. The proposed settlement contemplates that \$1.45 billion would be paid to WorldCom bondholders and \$1.2 billion paid to shareholders (and not just SSB retail customers, to whom SSB owed additional duties). *Id.* Although set forth with more specific detail and citations below, a summary of SSB's greed and stunning institutional corruption and fraud underlying this settlement with WorldCom investors is set forth in the May 2004 New York Times article "When Citigroup Met WorldCom" attached as Exhibit C. The detailed allegations set forth in these articles are incorporated by reference. [footnote omitted]

Ms. Molnar seeks recovery outside the class litigation and has opted out. Among other things, Ms. Molnar's claims involve additional misconduct and breach of separate duties at the retail brokerage level. At Respondents' urging and based directly and substantially upon tainted and fraudulent SSB/Grubman reports, ratings and forecasts, Ms. Molnar did not exercise, sell and diversify millions of dollars worth of exercisable WorldCom stock options and instead held and maintained a **super concentrated position in vested deep-in-the-money exercisable WorldCom stock options over an extended period of commensurate SSB/Grubman misrepresentations and fraudulent omissions.** [emphasis in

original]. Ms. Molnar sustained multi-million dollar losses as a direct results [sic] of SSB's misrepresentations, omissions, massive corruption and unsuitable anti-diversification recommendations.

Under the law, in view of its material omissions alone, Ms. Molnar's reliance is presumed. Moreover, in the circumstances of its enduring fraud and omissions while hyping WorldCom stock over many months and years, SSB, and not Ms. Molnar, properly bears the risk associated with the sharp decline in the market value in the underlying securities. See, e.g. *Randall v. Loftsgaarden*, 478 U.S. 647 (1986) (in the context of federal securities law claim, "Congress shifted the risk of an intervening decline in the value of the security to defendants, whether or not that decline was actually caused by the fraud."). It is not Ms. Molnar's intention or legal burden to prove that SSB caused the decline in the market price of WorldCom and that bad faith defense favored by SSB is a legalistic red herring concocted by the teams of lawyers charged with cooking up defenses to the massive fraud and stunning corruption at the expense of public investors.

Respondents denied the allegations set forth in the Statement of Claim. Respondents specifically stated

The Statement of Claim in this matter is predicated on the premise that Claimant should be able to shift the responsibility for her own decision not to exercise **all** of her WorldCom employee stock options and immediately sell the ensuing shares while WorldCom was trading at or near its all-time high. (See, e.g., Statement of Claim ("SOC") at p. 6.) Stripped of its hyperbole, the Statement of Claim's central allegation is that she was advised by Smith Barney (including its telecommunications analyst, Jack Grubman, and other Financial Consultants in the Atlanta branch office) to exercise her WorldCom options and hold the shares obtained thereby, using margin to pay for the costs of the exercise. (SOC at p. 6.)

The simple and undeniable fact, however, is that Ms. Molnar never followed this purported advice. To the contrary, she opened a Smith Barney account solely for the purpose of exercising approximately 2,400 WorldCom options, and immediately selling the resulting shares of WorldCom stock. In executing these two transactions (known as exercise and sale), Ms. Molnar received profits in excess of \$100,000 as a result of these transactions. (See Exhibit A.) Moreover, she did not spend a single nickel out of pocket with respect to the options she chose not to exercise. These dispositive facts, which are barely even referenced in more than 54 pages of vituperative rhetoric, fatally belies Claimant's attempt to portray herself as having been somehow induced into "holding" her position in WorldCom. These transactions also establish unequivocally that Ms. Molnar was perfectly capable of exercising and selling her WorldCom options for substantial profits when she wished to do so.

Notwithstanding the foregoing, Claimant's claim here is that she missed out on the opportunity to obtain an even greater windfall on her WorldCom holdings by exercising and selling her WorldCom options at prices artificially inflated by WorldCom's massive accounting fraud. That is, Claimant claim that if she had known in advance that the overall market was going to continue to fall dramatically and that WorldCom itself was going to collapse upon the disclosure of its accounting fraud, she would have liquidated her entire WorldCom position at some unspecified price to profit at the expense of other unwitting market participants. Claimant seeks such profits as "damages," even though she never incurred any out-of-pocket losses with regard to her options, which were actually given to her at no out-of-pocket cost to them whatsoever.

Claimant further asserts that her decision to hold onto a portion of her WorldCom interest was based primarily upon positive research reports regarding WorldCom prepared at Smith Barney by Jack Grubman. There is simply no reasonable factual basis upon which Claimant can properly blame Smith Barney for the loss of this purported "profit" opportunity. Despite her lengthy and verbose Statement of Claim and its countless accusations of wrongdoing, Claimant does not identify a single fact that was misstated by Mr. Grubman in his WorldCom research reports. Moreover, extensive investigations regarding these reports after the fall of WorldCom have not yielded any evidence that Mr. Grubman did not actually hold the views stated in his WorldCom research reports, or that he or anyone else at Smith Barney knew anything about the accounting fraud taking place at WorldCom. In fact, Mr. Grubman's opinions regarding WorldCom were consistent with numerous other analysts covering the telecommunications industry at the same time.

Claimant's repeated allegation that she did not know, and could not have known, of the details of the relationship between Smith Barney and WorldCom is equally false and overblown. Smith Barney expressly disclosed in each and every one of its research reports that it had an existing investment banking relationship with WorldCom. Moreover, with regard to significant potential merger transactions, Smith Barney specifically disclosed in its reports its role as an advisor to WorldCom in each of those transactions. Accordingly, Smith Barney's investment banking relationship with WorldCom, which was the purported motivation and objective for the alleged "omissions" that are referenced in the Statement of Claim, was disclosed in the reports at issue.

In any event, Claimant's decision not to exercise her WorldCom options was based on her own optimism about WorldCom's financial prospects. Just like many other investors at the time, Claimant enjoyed tremendous price appreciation in her WorldCom holdings in the late 1990's and was confident that the stock would rebound from the declines it had sustained in early 2000. Moreover, as the

Statement of Claim concedes, WorldCom employees such as Ms. Molnar received significant pressure from senior management at the company not to liquidate their positions in WorldCom. Unfortunately, WorldCom's stock price continued to decline as part of the dramatic market fall and the stunning disclosure of WorldCom's now infamous accounting scandal – a massive fraud which led directly to WorldCom's bankruptcy and the criminal indictment and conviction of senior company executives, including Bernie Ebbers, its CEO, and Scott Sullivan, the company's CFO. There is no genuine dispute here that the collapse of both the market and WorldCom were not caused by anything Smith Barney did or did not do. (See SOC at p. 5.) Rather, the fraud at WorldCom was committed by Ms Molnar's own co-employees at the company.

RELIEF REQUESTED

Ms. Molnar respectfully requests damages against all of the Respondents, jointly and severally, for: (1) compensatory damages pursuant to Illinois law; (2) exemplary and punitive damages pursuant to the Restatement (Second) of Torts Section 908(2) or, in the alternative, treble damages pursuant to the Illinois Consumer Fraud Act, 815 ILCS 505/1, *et seq.*; (3) disgorgement of all fees and profits earned by SSB or any of its agents; (4) prejudgment interest at the maximum rate permitted by Illinois law; (5) the cost of this arbitration, expert fees, and other disbursements and costs necessary to bring this action together with reasonable attorneys' fees pursuant to the NASD Code, the Illinois Consumer Fraud Act, 815 ILCS 505/1, *et seq.*, and other applicable law; and (6) such other relief, including equitable relief, as determined to be just by the Panel.

If it is determined that Respondents made unlawful recordings in breach of applicable state law provisions and/or altered the recordings, Ms. Molnar seeks all actual damages against the eavesdropper or his principal or both and punitive damages as may be permitted by law and warranted by the circumstances proven at arbitration.

Respondents requested that Claimant's claims be dismissed in their entirety and all forum fees, costs, and attorneys' fees should be assessed against Claimant.

OTHER ISSUES CONSIDERED & DECIDED

On or about April 14, 2005, NASD was advised that the claims against Respondent Spartis were dismissed without prejudice.

At the commencement of the hearing, the parties advised the Arbitration Panel that the claims against Respondents Hobby and Grace were dismissed with prejudice.

The parties have agreed that the Award in this matter may be executed in counterpart copies or that a handwritten, signed Award may be entered. In either case, the parties

have agreed to receive conformed copies of the award while the original(s) remain on file with the NASD Dispute Resolution (the "NASD").

AWARD

After considering the pleadings, the testimony, and the evidence presented at the hearing, the undersigned arbitrators have decided in full and final resolution of the issues submitted for determination as follows:

1. The Arbitration Panel finds in favor of Respondent.
2. That to the extent not specifically awarded or otherwise provided for above, all other claims and requests for relief by any party hereto are denied with prejudice.
3. Other than the Forum Fees noted below, the parties shall each bear all other costs and expenses incurred by them in connection with this proceeding, including but not limited to attorneys fees, not specifically awarded or otherwise provided for above.

FEES

Pursuant to the Code, the following fees are assessed:

Filing Fees

NASD Dispute Resolution will retain or collect the non-refundable filing fees for each claim:

Initial claim filing fee = \$250.00

Member Fees

Member fees are assessed to each member firm that is a party in these proceedings or to the member firm(s) that employed the associated person(s) at the time of the event(s) giving rise to the dispute. In this matter, the member firm(s) is Citigroup Global Markets, Inc. f/k/a Salomon Smith Barney Inc. d/b/a Smith Barney.

Member surcharge	\$	1,500.00
Pre-hearing process fee	\$	750.00
Hearing process fee	\$	2,200.00
Total Member Fees	\$	<u>4,450.00</u>

Forum Fees and Assessments

The Arbitration Panel assesses forum fees for each hearing session conducted. A hearing session is any meeting between the parties and the arbitrator(s), including a pre-hearing conference with the arbitrator(s), that lasts four (4) hours or less. Fees associated with these proceedings are:

3	Pre-hearing session(s) with Panel	x	1,000.00	\$	3,000.00
	August 12, 2005	1	session		
	May 4, 2006	2	sessions		
11	Hearing sessions	x	1,000.00	\$	11,000.00
	June 26, 2006	3	sessions		
	June 27, 2006	2	sessions		
	June 28, 2006	2	sessions		
	June 29, 2006	2	sessions		
	June 30, 2006	2	sessions		
	Total Forum Fees			\$	14,000.00

The Arbitration Panel has assessed \$14,000.00 of the forum fees to Citigroup Global Markets, Inc. f/k/a Salomon Smith Barney Inc. d/b/a Smith Barney.

Fee Summary

Claimant, Mauricia Molnar, is liable for:

Initial Filing Fee	= \$	250.00
Total Fees	= \$	250.00
<u>Less payments</u>	= \$	-1,425.00
Balance to be refunded by NASD Dispute Resolution	= \$	-1,175.00

Respondent, Citigroup Global Markets, Inc. f/k/a Salomon Smith Barney Inc. d/b/a Smith Barney, is liable for:

Member Fees	= \$	4,450.00
<u>Forum Fees</u>	= \$	14,000.00
Total Fees	= \$	18,450.00
<u>Less payments</u>	= \$	-4,450.00
Balance Due NASD Dispute Resolution	= \$	14,000.00

All balances are due to NASD Dispute Resolution

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ARBITRATION PANEL

Ahmed A. Patel - Public Arbitrator, Presiding Chair
James A. Murphy, JD - Public Arbitrator
Ruth Hannenberg - Non-Public Arbitrator

Concurring Arbitrators:

A.A. Patel
Ahmed A. Patel
Public Arbitrator, Presiding Chair

7-6-06
Signature Date

James A. Murphy, JD
James A. Murphy, JD
Public Arbitrator

Signature Date

Ruth Hannenberg
Ruth Hannenberg
Non-Public Arbitrator

Signature Date

7/10/06
Date of Service (For NASD office use only)

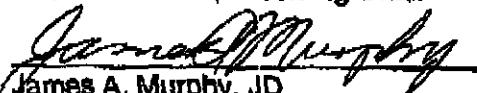
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James A. Murphy, JD - Public Arbitrator
Ruth Hannenberg - Non-Public Arbitrator

Concurring Arbitrators:

Ahmed A. Patel
Public Arbitrator, Presiding Chair


James A. Murphy, JD
Public Arbitrator

Signature Date

7/7/2006
Signature Date

Ruth Hannenberg
Non-Public Arbitrator

Signature Date

Date of Service (For NASD office use only)

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Concurring Arbitrators:

Ahmed A. Patel
Public Arbitrator, Presiding Chair

Signature Date

James A. Murphy, JD
Public Arbitrator

Signature Date



Ruth Hannenberg
Non-Public Arbitrator

7/10/06

Signature Date

Date of Service (For NASD office use only)