

AWARD
NASD Dispute Resolution

In the Matter of the Arbitration Between

Name of Claimant

William D. Youngberg

and

05-00250
Chicago, Illinois

Name of Respondents

Citigroup Global Markets, Inc. f/k/a Salomon Smith Barney Inc.

Nature of the Dispute: Customer vs. Member.

REPRESENTATION OF PARTIES

William D. Youngberg ("**Claimant**") was represented by Joel Bellows, Esq. and Helen B. Bloch, Esq., Bellows & Bellows, P.C., Chicago, Illinois.

Citigroup Global Markets, Inc. f/k/a Salomon Smith Barney Inc. ("**Respondent**") was represented by H. Nicholas Berberian, Esq., Stephen S. Berkeley, Esq. and Edward Walton, Esq., Neal Gerber & Eisenberg, LLP, Chicago, Illinois.

CASE INFORMATION

The Statement of Claim was filed on or about January 18, 2005. Submission Agreement of Claimant William D. Youngberg was signed on January 13, 2005.

Respondent Citigroup Global Markets, Inc. Answer and Affirmative Defenses to the Statement of Claim of William Youngberg was filed on or about May 16, 2005.

CASE SUMMARY

Claimant asserted the following causes of action: breach of fiduciary duty; breach of contract; violation of Securities Exchange Act; violation of Missouri Securities Act; violation of Missouri Merchandising Practices Act; and negligence. Claimant specifically alleged as follows:

By 1999, at the time when William and Patricia's investment needs turned more toward income and security, and the addition of a bond portfolio for William's IRA became obligatory, SSB was converting from its role as a traditional brokerage firm to that of a retail outlet of an investment bank. [citation deleted] To support the

market for the shares of issuers with which SSB and its affiliates had financial arrangements, SSB through its FCs (including Ross) used the accounts of its public customers to absorb the enormous volume of shares of new issues coming onto the market, regardless of the financial needs of those customers or the quality of the issuers. Beginning in April, 2000, Ross began buying tech stocks aggressively and the trading in William's account increased drastically. Ross used reports of inflated value and potential profits authored by Jack Grubman and other SSB analysts to justify his purchases of technology stocks. Ross' new purchases were funded by his sales of stocks in other groups. The new strategy materially reduced the pre-existing diversification.

On subsequent inspection, trade confirmations that William received falsely listed the transactions as "unsolicited." In fact, after March 31, 2000, Ross determined which stocks he would buy and sell, the timing of the trades and the number of shares to be traded. Sometimes, he would call William before the transaction and sometimes he would not. William never even heard of the majority of technology stocks that Ross purchased through his *de facto* control over the account. As shown on the schedule of "Post 3/31/2000 Purchases and Sales By Ross" [citation omitted], Ross used his control not only to increase his commissions, but also to benefit SSB, as discussed below. In exercising control in this fashion, Ross purchased and held stocks in companies that were too speculative for William and Patricia and otherwise increased the IRA's volatility by reducing the diversification that existed in the account previously. Ross' motivating consideration in deciding what, when and how much to buy and sell, and what to hold, was prompted by SSB's self interest and not by William's best interest.

William became concerned as he watched the value of his IRA drop. Ross responded to this concern by telling William that, "our research indicates that we will just have to hold on until the market comes back up," that "AT & T would never let Excite At Home go broke," that "WorldCom is way too big for the government to allow to go broke," and other comments of that nature.

Unknown to William, SSB sold technology stocks to its customers and encouraged them to continue to hold those shares on and after March 31, 2000 because SSB's research analysts, specifically Jack Grubman, SSB's investment bankers, and certain Citibank affiliates' executives had secret *quid pro quo* arrangements in which SSB would issue positive analyst reports and its retail brokers would support the stocks in exchange for SSB and affiliates receiving investment banking business from the issuers. These secret arrangements were extremely lucrative for Grubman personally, for SSB, and for the affiliates. Consequently, even though these stocks continually lost value, SSB recommended that William maintain deliberately overrated stocks.

Despite William's repeated calls to Ross seeking relief from increasing losses, it was not until an SSB sham initiative to review clients' accounts (to ensure that they were suitably balanced and diversified) that Ross scheduled a meeting with William. At their meeting in January, 2002, Ross told William that his account had been thoroughly reviewed and that SSB's advice was to "just wait it out." No alternative strategies were discussed at that meeting or at any other time. [footnote deleted]

Aside from selling shares of an AIM mutual fund in March 2002, to generate enough funds to purchase 150 shares of Travelers Property in an IPO transaction he did not bother to discuss with William, Ross abandoned William's account to the vicissitudes of the market for over a year. After encouraging William to permit him to control the account, Ross concentrated the IRA in technologies and then, when the SSB/Grubman bubble burst, Ross walked away from William's account without a word, a thought, or a care and without extracting William from the losses that continued to mount in the account.

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

Claimant combines a hodgepodge of unrelated and unsupportable allegations in an attempt to craft a viable cause of action against Respondent. Claimant's efforts fail and his claims should be dismissed. Specifically, Claimant's allegations are based on purported changes in investment strategy allegedly recommended by Respondent in March 2000. Claimant contends that such recommendations were made in reliance on fraudulent Smith Barney research reports and as part of an elaborate scheme entered between Smith Barney and various companies (including, among others, WorldCom, AT & T and Williams Communications) to artificially inflate the companies' stock prices and to garner the companies' investment banking business. [footnote deleted] Claimant's allegations are without merit and should be dismissed.

In reality, although Claimant contends that the holdings in the portfolio were unsuitable for his investment objectives, Claimant confirmed a growth objective and an aggressive risk tolerance, including speculation, consistent with the holdings in Claimant's account. In fact, Claimant admits in the Statement of Claim that the investment activity and strategies employed in his account were suitable through March 2000. It is only in hindsight and after the peak of the NASDAQ market did the same investments and investment strategies purport to become unsuitable. Moreover, even though Claimant contends that Respondent recommended the account activity, Claimant placed the majority of the transactions in his account through unsolicited orders.

In addition to his allegations of unsuitable recommendations, Claimant also attempts to establish a fraud claim against Smith Barney based on alleged misrepresentations in various research reports and Smith Barney's purported failure to disclose in its research reports alleged conflicts of interest in its investment banking business. Claimant's allegations are vague, unspecific and cannot be substantiated. [footnote omitted] As an initial matter, Claimant does not allege that he received or reviewed any particular research reports. Moreover, although he contends that several research reports contained fraudulent representations, he fails to identify such representations and instead relies on unsubstantiated hyperbole. Further more, if Claimant had received or reviewed the research reports, he would have seen that these reports made such disclosures as were required at the time, including that certain issuers were investment banking clients of Smith Barney. In any event, the alleged non-disclosures are in no way the cause of Claimant's losses.

Claimant's assertion of unauthorized trading is made only in passing and fails to identify a single unauthorized transaction. In fact, Claimant authorized all the transactions in his account, and Smith barney never had discretion to make trades without approval by Claimant. Claimant further received confirmations and monthly statements reflecting each and every trade in his account. Never once did Claimant challenge the propriety of any trade, and he thereby waived any right to raise such a claim now.

RELIEF REQUESTED

Claimant requested an award in the amount of \$173,145.00 in compensatory damages; attorneys' fees; costs; interest; and punitive damages.

Respondent requested that the Statement of Claim be dismissed in its entirety and Respondent should be awarded its attorneys' fees and costs.

OTHER ISSUES CONSIDERED & DECIDED

Respondent Citigroup Global Markets, Inc. f/k/a Salomon Smith Barney Inc. [R2] [R3] [R4] did not file with the NASD Dispute Resolution a properly executed submission to arbitration but is required to submit to arbitration pursuant to Rule 10301 of the NASD Code of Arbitration Procedure (the "Code") and having answered the claim, appeared and testified at the hearing is bound by the determination of the arbitration panel on all issues submitted.

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. Award for Respondent on all issues.
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 = \$300.00

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.

Member surcharge	\$	1,700.00
Pre-hearing process fee	\$	750.00
Hearing process fee	\$	2,750.00
Total Member Fees	\$	<u>5,200.00</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:

1	Pre-hearing session(s) with a single arbitrator	x	\$450.00	\$	450.00
	October 12, 2005	1	session		
2	Pre-hearing session(s) with Panel	x	1,125.00	\$	2,250.00
	July 19, 2005	1	session		
	February 23, 2006	1	session		
5	Hearing sessions	x	1,125.00	\$	5,625.00
	May 16, 2006	2	sessions		
	May 17, 2006	2	sessions		
	May 18, 2006	1	session		
	Total Forum Fees			\$	8,325.00

The Arbitration Panel has assessed \$4,162.50 of the forum fees to William D. Youngberg. The Arbitration Panel has assessed \$4,162.50 of the forum fees to Citigroup Global Markets, Inc. f/k/a Salomon Smith Barney Inc.

Fee Summary

Claimant, William D. Youngberg, is liable for:

Initial Filing Fee	= \$	300.00
<u>Forum Fees</u>	= \$	4,162.50
Total Fees	= \$	4,462.50
<u>Less payments</u>	= \$	-1,425.00
Balance Due NASD Dispute Resolution	= \$	3,037.50

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

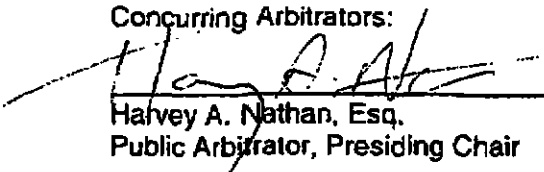
Member Fees	= \$	5,200.00
<u>Forum Fees</u>	= \$	4,162.50
Total Fees	= \$	9,362.50
<u>Less payments</u>	= \$	-5,200.00
Balance Due NASD Dispute Resolution	= \$	4,162.50

All balances are due to NASD Dispute Resolution

ARBITRATION PANEL

Harvey A. Nathan, Esq. - Public Arbitrator, Presiding Chair
Sondra Sellars, Esq. - Public Arbitrator
Jerome J. Brault - Non-Public Arbitrator

Concurring Arbitrators:



Harvey A. Nathan, Esq.
Public Arbitrator, Presiding Chair

5/18/06

Signature Date

Sondra Sellars, Esq.
Public Arbitrator

Signature Date

Jerome J. Brault
Non-Public Arbitrator

Signature Date

Date of Service (For NASD office use only)

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ARBITRATION PANEL

Harvey A. Nathan, Esq. - Public Arbitrator, Presiding Chair
Sondra Sellars, Esq. - Public Arbitrator
Jerome J. Brault - Non-Public Arbitrator

Concurring Arbitrators:

Harvey A. Nathan, Esq.
Public Arbitrator, Presiding Chair

Signature Date

Sondra Sellars
Sondra Sellars, Esq.
Public Arbitrator

May 18, 2006
Signature Date

Jerome J. Brault
Non-Public Arbitrator

Signature Date

Date of Service (For NASD office use only)

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ARBITRATION PANEL

Harvey A. Nathan, Esq. - Public Arbitrator, Presiding Chair
Sondra Sellars, Esq. - Public Arbitrator
Jerome J. Brault - Non-Public Arbitrator

Concurring Arbitrators:

Harvey A. Nathan, Esq.
Public Arbitrator, Presiding Chair

Signature Date

Sondra Sellars, Esq.
Public Arbitrator

Signature Date



Jerome J. Brault
Non-Public Arbitrator

5/19/06

Signature Date

Date of Service (For NASD office use only)