

NASD
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2005000760101

TO: Department of Enforcement
NASD

RE: Citigroup Global Markets Inc. (BD No. 7059)
Jeffrey Sweitzer (CRD # 873672)
Matthew Muller (CRD # 2743664)
Joseph Zentner (CRD # 2797807)
Randall Matz (CRD # 1234476)
Elizabeth Harris (CRD # 1014370)

Pursuant to Rule 9216 of NASD Code of Procedure, Citigroup Global Markets Inc. ("CGMI"), Jeffrey Sweitzer ("Sweitzer"), Matthew Muller ("Muller"), Joseph Zentner ("Zentner"), Randall Matz ("Matz") and Elizabeth Harris ("Harris") (collectively, "Respondents") submit this Letter of Acceptance, Waiver and Consent ("AWC") for the purpose of proposing a settlement of the alleged rule violations described in Part II below. This AWC is submitted on the condition that, if accepted, NASD will not bring any future actions against Respondents alleging violations based on the same factual findings.

Respondents understand that:

1. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by NASD's Department of Enforcement and National Adjudicatory Council ("NAC") Review Subcommittee or Office of Disciplinary Affairs ("ODA"), pursuant to NASD Rule 9216;
 2. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against Respondents; and
 3. If accepted:
 - a. this AWC will become part of Respondents' permanent disciplinary records and may be considered in any future actions brought by NASD or any other regulator against them;
 - b. this AWC will be made available through NASD's public disclosure program in response to public inquiries about Respondents' disciplinary records;
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- c. NASD may make a public announcement concerning this agreement and the subject matter thereof in accordance with NASD Rule 8310 and IM-8310-2; and
- d. Respondents may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. Nothing in this provision affects Respondents' testimonial obligations or right to take legal or factual positions in litigation or other legal proceedings in which NASD is not a party.

Respondents also understand that their experience in the securities industry and disciplinary histories may be factors that will be considered in deciding whether to accept this AWC. That experience and history are as follows:

1. CGMI and its predecessors have been members of NASD since 1936. CGMI maintains its principal place of business in New York City. CGMI engages in a full-service securities business, including retail and institutional sales, investment banking services, trading, and research. At the time of the events underlying this AWC, the firm was known as Salomon Smith Barney. CGMI has approximately 25,400 registered employees, including approximately 12,800 financial advisors in the United States. CGMI's relevant disciplinary history includes the following:

a. On December 20, 2005, CGMI consented to an order of the Rhode Island Department of Business Regulation (Order No. 05-394) finding that the firm had failed to adequately supervise a broker who worked in the firm's branch offices in Newport and Providence, Rhode Island. Among other activities, the broker had conducted unauthorized trades, recommended unsuitable investments, sold an annuity and named himself as the beneficiary, and misappropriated funds from customers' accounts. Without admitting or denying the findings or violations, CGMI agreed to the following: to cease and desist from further violations of the Rhode Island Uniform Securities Act; to pay a fine of \$1,000,000; to retain an independent consultant to conduct a review of the business activities and procedures of CGMI's Rhode Island offices.

b. On September 29, 2004, NASD accepted an AWC from CGMI containing findings that the firm had violated NASD Conduct Rules 2210(d)(1)(A) and (B) by distributing 108 pieces of sales literature that failed to comply with advertising rules. Some of the hedge fund sales materials listed a targeted rate of return without providing a sound basis for evaluating the target, included misleading hypothetical returns in charts or graphs, and/or failed to include adequate risk disclosure. CGMI was censured and fined \$250,000.

c. On October 1, 2003, CGMI consented to an order of the New York Stock Exchange (Panel Decision 03-182) finding that that the firm failed to adequately supervise a group of brokers in its Atlanta Branch Office who handled the accounts of WorldCom employees who participated in WorldCom's Employee Stock Option Plan. Among other activity, the brokers had provided their customers with written analyses that focused on the advantages of an "exercise and hold" strategy for dealing with their stock option grants, without adequately describing relevant risks. Without admitting or denying liability, CGMI consented to a censure for violating NYSE Rule 342 and agreed to pay a fine of \$1,000,000.

2. Jeffrey Sweitzer, age 50, became registered as an associated person with one of CGMI's predecessors in 1984 and joined its Charlotte branch office in February 1992. Sweitzer was registered as a General Securities Representative (Series 7) and a General Securities Sales Supervisor (Series 9/10, previously Series 8). Sweitzer was terminated from CGMI on February 2, 2007 and is not currently registered with any member firm. He has no disciplinary history.

3. Matthew Muller, age 40, became registered as an associated person with one of CGMI's predecessors in 1996 and joined its Charlotte branch office at that time. Muller was registered as a General Securities Representative (Series 7). Muller was terminated from CGMI on February 2, 2007 and is not currently registered with any member firm. He has no disciplinary history.

4. Joseph Zentner, age 35, became registered as an associated person with one of CGMI's predecessors in 1998 and joined its Charlotte branch office at that time. Zentner is currently registered as a General Securities Representative (Series 7). Zentner has no disciplinary history.

5. Randall Matz, age 49, became registered as an associated person with one of CGMI's predecessors in 1984 and has served as the Branch Manager of its Charlotte branch office since 1988. He is currently registered as a General Securities Representative (Series 7), a General Securities Sales Supervisor (Series 9/10, previously Series 8), and an Options Principal (Series 4). Matz has no disciplinary history.

6. Elizabeth Harris, age 54, became registered as an associated person with one of CGMI's predecessors in 1981 and has served as the Operations Manager of its Charlotte branch office since 1986. She is currently registered as a General Securities Representative (Series 7) and a General Securities Sales Supervisor (Series 9/10, previously Series 8). Harris has no disciplinary history.

I.

WAIVER OF PROCEDURAL RIGHTS

Respondents specifically and voluntarily waive the following rights granted under NASD's Code of Procedure:

1. To have a Formal Complaint issued specifying the allegations against them;
2. To be notified of the Formal Complaint and have the opportunity to answer the allegations in writing;
3. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made and to have a written decision issued; and
4. To appeal any such decision to the NAC and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, Respondents specifically and voluntarily waive any right to claim bias or prejudice of the General Counsel, the NAC, or any member of the NAC, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including acceptance or rejection of this AWC.

Respondents further specifically and voluntarily waive any right to claim that a person violated the *ex parte* prohibitions of Rule 9143 or the separation of functions prohibitions of Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

II.

ACCEPTANCE AND CONSENT

Respondents hereby accept and consent, without admitting or denying the findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of NASD, or to which NASD is a party, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by NASD:

A. STATEMENT OF FACTS

1. Summary

From 1994 to 2002, Sweitzer held over 40 seminars alone or with Muller and Zentner and hundreds of face-to-face meetings, some with Muller, with employees of BellSouth Corporation. As a result of those seminars and meetings, some of these employees believed that they could afford to retire early by cashing out their BellSouth pensions and investing their pension proceeds and other retirement assets with the brokers at CGMI. Using charts and graphs, Sweitzer and Muller conveyed to the BellSouth employees, without an adequate disclosure of risks, that the employees could expect to earn approximately 12 percent annually on their investments and withdraw approximately 9 percent annually, leaving them substantially richer after 30 years than when they retired. Sweitzer developed the sales campaign; led all the seminars and most of the face-to-face meetings as well as drafted, revised or directed the revision of the materials used in the seminars and face-to-face meetings. Beginning in 1996, typically at Sweitzer's request, Muller participated in 24 seminars and many of the face-to-face meetings. Sweitzer also requested that Zentner participate in 15 seminars between 2000 and 2002.

The BellSouth employees were generally unsophisticated investors. Many had modest savings for retirement. They trusted the brokers. Over 400 employees and their spouses opened more than 1,100 accounts at CGMI. Many of them entrusted the brokers with most or all of their retirement savings. Fees and commissions from those accounts comprised a majority of the compensation earned by Sweitzer and Muller during the relevant period.

After the burst of the late 90's market bubble, most of the BellSouth customer accounts did not earn 12 percent annually and could not sustain the rate of withdrawals established when their accounts were opened with CGMI. Consequently, over 200 BellSouth employees saw the principal in their accounts decline, in the aggregate, by approximately \$12.2 million.

CGMI and the managers in its Charlotte branch -- Matz, branch manager, and Harris, operations manager -- failed to supervise the activities of the brokers by not following-up on red flags and did not adequately carry out their respective supervisory responsibilities with an eye to preventing the brokers' violations.

2. Background

In 1994, Sweitzer began meeting with employees of BellSouth (then Southern Bell) who were in their 50s and nearing retirement age, using a series of seminars as his primary vehicle to prospect for clients. Between 1994 and 2002, Sweitzer held at least 40 seminars attended by hundreds of BellSouth employees. Sweitzer was solely responsible for BellSouth seminars held between 1994 and 1996 and participated in every seminar held thereafter; Muller joined him in 1996 and participated in 24

seminars. Starting in 1999, Zentner, at Sweitzer's direction, helped prepare materials ultimately adapted for use in seminars and face-to-face meetings. Subsequently, beginning in the fall of 2000, at Sweitzer's request, Zentner participated in 15 seminars. Sweitzer, and later Muller, also held face-to-face meetings with BellSouth employees who had attended seminars and with employees referred to them by other BellSouth employees.

During these seminars and face-to-face meetings, Sweitzer and Muller suggested that certain BellSouth employees could retire early from their jobs, opt to take a lump sum payout (rather than the fixed monthly pension option), and then invest the lump sum and the balance of their 401(k) plans with CGMI. Sweitzer and Muller discussed how the BellSouth employees could meet their income needs through systematic monthly withdrawals pursuant to Section 72(t) of the Internal Revenue Code.¹

As a result of these seminars and face-to-face meetings, over 400 BellSouth employees opened more than 1,100 accounts. Sweitzer and Muller generally recommended a mix of mutual funds to replace the BellSouth employees' pensions and 401(k) investments; some BellSouth employees were advised to allocate some of their funds to privately managed accounts that invested in individual stocks and bonds selected by either Sweitzer or another registered representative in the Charlotte branch office. Commissions and fees from these customers' accounts comprised a substantial majority of the income earned by Sweitzer and Muller.

Most of these BellSouth employees were unsophisticated investors with minimal experience in the financial markets. These clients trusted and relied on Sweitzer and Muller, who presented themselves as knowledgeable and experienced. The customers, by and large, retired in their mid-50s, well before the BellSouth retirement age of 62. They were of modest means, typically with retirement savings of less than \$350,000, and generally invested their entire retirement nest egg (the proceeds from their BellSouth pension plan and 401(k) plans) with the brokers.

3. Sweitzer and Muller Used Inaccurate Materials that Omitted Material Facts in Their Seminars and Meetings with BellSouth Employees

During their seminars and face-to-face meetings, Sweitzer and later Muller used a sales presentation, complete with misleading handouts, PowerPoint presentations, charts and graphs, to persuade BellSouth employees to invest with them.

¹ Section 72(t) outlined the conditions under which an individual under the age of 59 ½ could withdraw a fixed stream of regular payments from their retirement savings without having to pay the usual 10 percent penalty for early withdrawals. Under this waiver, employees who retired early were required to take "a series of substantially equal payments" for at least five years or until the employee reached the age of 59 ½, whichever was longer. If the employee subsequently sought to change the withdrawal amount, all of the withdrawn payments would then be subject to the substantial tax penalty.

One of the documents used in the seminar presentation was a chart that led some of the employees to believe they could annually earn 12 percent returns and withdraw 9 percent for 30 years. (See **Attachments 1-A and 1-B**) This document projected that a generic Bell South employee ("Mr. or Mrs. BellSouth") with an initial investment of \$300,000 at age 53, typical of many BellSouth customers who attended the brokers' seminars, would experience a consistent growth rate of 12 percent compounded annually and withdraw 9 percent. The document suggested that this typical BellSouth employee could, over 30 years, earn more than \$1.8 million, withdraw between \$27,000 and \$69,400 annually (between \$1,800 and \$4,628 monthly) and see his or her principal grow steadily, so that by age 83 the employee would still have \$771,280 in principal remaining.

In their face-to-face meetings with BellSouth employees, Sweitzer and Muller modified the generic projections to reflect the actual amount the BellSouth employees could invest from their pensions and 401(k) plans, as well as the amount the employees indicated they wanted to withdraw monthly to cover their living expenses. (See **Attachment 2**) The brokers recommended a basket of mutual funds and other investments to the BellSouth employees and some of the customers understood that they could expect to earn 12 percent and withdraw 9 percent annually.

In face-to-face meetings involving Sweitzer, Muller, a BellSouth employee, and her husband, Sweitzer said:

- "Now I'm not going to tell you that we're going to try to get 22 or 23 or 24 or 25%. Okay, I'm not going to tell you that. I'm going to tell you that is what we've done in the past. I'm going to tell you by way of expectations that you should be able to expect 12%. That is not guaranteed, but I feel like good times, bad times, ugly times, beautiful times, we should be able to average 12. Now, I have no interest whatsoever in paying out everything that we earn because there's going to be years when we don't get 12. You follow me?"
- "We expect to earn 12%. We pay out 9%."
- "I mean, and basically 10 years down the road you are looking at doubling your money."
- "Over here on the growth side of it where we've been averaging in the low to mid 20's, I would tell you to expect 12%. Are you with me?"
- "We may do 15, may do 18 or 20. But good times, bad times, I think that we would do 12%."
- "Now, the return here is net of fees, and what you should expect out of this part of the portfolio, what you should expect there is 12, 13, 14%. What you should expect here net of fees is 15 to 18. Now, in reality, over the past 10 years, you look and this portfolio has averaged 20%."

In 2000-2001, some employees followed Sweitzer and Muller's recommendations and decided to forego the nearly risk-free fixed monthly pension they could receive from BellSouth in favor of a lump sum payout. Many who ended up pursuing this retirement strategy did not understand the extent to which they were exposed to market risk. The customers' confusion stemmed largely from a "Pension Analysis" slide presented by the brokers at seminars that misleadingly depicted the lump sum option as no more risky than the fixed monthly pension option. (See Attachment 3)

Sweitzer and Muller's sales presentation did not adequately disclose certain risks in their proposed investment strategy. For example, it was not adequately explained that 12 percent annual net returns exceeded the historical return of the Standard & Poor's 500 over 70 years, and that for many periods during that span, the S&P 500 returned far less than 12 percent. Nor did the presentation adequately explain that the recommended investments exposed the BellSouth clients to greater market risk than the clients would otherwise have faced had they opted to retain their monthly fixed annuity pension payments. There was not adequate disclosure that the recommended investments could fluctuate with changes in market conditions and could decline in value so much as to reduce the clients' principal. Moreover, the documents used in the presentations failed to adequately disclose that the customers would pay fees of approximately 2-3 percent, requiring them to earn 14 or 15 percent to achieve the expected 12 percent return. Finally, the brokers' recommendation that their clients could withdraw up to 9 percent was inconsistent with industry consensus that retirees could not withdraw that much without depleting their principal.

Sweitzer and Muller distributed other misleading and unapproved materials to their BellSouth clients, including handouts that overstated their credentials and experience. One handout stated: "It can be comforting to know that the same manager handling the pension plan of a Fortune 500 company is also personally managing your portfolio." In fact, neither Sweitzer nor any other member of his team ever managed the pension plan of a Fortune 500 company. Another handout suggested that Muller was a "Senior Portfolio Manager" when he was not. Other handouts referred to the Sweitzer team as "The Portfolio Management Group," after CGMI's Compliance Department in New York advised that the team should not refer to themselves in that manner because it was misleading. At least one sales brochure implied that the brokers were part of the more elite, experienced "Private Portfolio Group of Smith Barney Asset Management" when they were not.

Other handouts provided to BellSouth clients during face-to-face meetings described the recommended mutual funds. Using a program provided by Morningstar, the brokers generated sales materials that listed the recommended mutual funds, identified the funds' Morningstar rankings, and aggregated the funds' past performance. CGMI procedures prohibited the distribution of these documents, which had not been filed with NASD's Advertising Regulation Department ("NASD Advertising"), as required by applicable NASD rules. Moreover, when Sweitzer distributed the documents, he failed to include Morningstar's required, three-page attachment that contained detailed

information about the funds and relevant risks, such as the risk of relying on the funds' past performance.

4. The Brokers Failed to Secure Approval of Seminars, Seminar Sales Materials, and Other Sales Literature and Did Not File Required Sales Material with NASD

NASD rules required all three brokers to have a principal at CGMI approve, in writing, their seminar materials and to file all sales materials mentioning specific mutual funds within 10 days of first using such materials. Between 1999 and 2001 Zentner, at Sweitzer's direction, substantially revised the materials Sweitzer and Muller used in seminars and face-to-face meetings with their BellSouth clients. Sweitzer and Muller never obtained written principal approval for these various documents, even though they frequently updated the material. In May 2001, Zentner submitted one version of a seminar handout to Harris. Without reviewing the handout, as required by CGMI policy, Harris forwarded the handout to CGMI Compliance in New York for review, also as required by CGMI policy. While Compliance reviewed and edited the handout, it did not approve it, noting that the handout needed to be "revised and resubmitted" before final approval could be granted by branch management. Notwithstanding their failure to have the materials resubmitted and approved, the brokers used various versions of these same sales materials at all of their subsequent seminars.

Moreover, in their face-to-face meetings, Sweitzer and Muller used sales materials that recommended specific mutual funds but failed to take steps to ensure such sales materials were provided to Matz and Harris for filing with NASD Advertising within 10 days of first use. Furthermore, Sweitzer and Muller failed to provide the sales material to Matz and Harris to maintain a file of the sales literature used in the brokers' BellSouth seminars, as required by NASD rules. For their part, Matz and Harris did not take steps to ensure that the brokers were providing them with the materials for filing with NASD Advertising and maintaining a file of sales literature as required by NASD rules.

CGMI required the brokers to obtain advance written permission to hold seminars at BellSouth. They had to prepare and submit Seminar Approval Forms, and complete a Speaking Activity Log that provided Charlotte branch management with pertinent information such as the date, location, and title of the seminar, as well as the number and identity of the seminar attendees. With the exception of their final seminar held in 2002, none of the three brokers obtained the firm's approval before they held any of their seminars. They also failed to complete the required Speaking Activity Logs for all but one of their seminars.

5. When Their BellSouth Clients Began Experiencing Market Losses, Sweitzer and Muller Attempted to Retain Their Accounts

By December 2000, accounts of many of the brokers' clients were not generating the 12 percent returns the customers believed they could expect. Sweitzer and Muller

responded by inviting their clients to participate in a series of conference calls, participate in a question and answer (Q&A) session, and/or call in afterwards to hear an electronically recorded replay of the conference call at a more convenient time.

During these calls, Sweitzer and Muller attempted to address their clients' concerns. In one call, in December 2000, Sweitzer said he believed that the S&P 500 would increase by the end of 2001 and that the Dow Jones Industrial Average could rise above 11,000 and that it might get "closer to 12,000." Sweitzer's long term view was equally positive; he told the clients that he believed the DJIA would double in six years, rising to 20,000 or 21,000 by 2006. Sweitzer had no reasonable basis for making these statements. Based on these and other statements, a number of clients decided to stay the course and not transfer their accounts.

6. Over Half of the BellSouth Employees Lost Approximately \$12.2 Million

Over half of the BellSouth customers saw the value of their investments decline. Many of those clients did not earn 12 percent, as they believed they could expect. The accounts that declined could not sustain the level of withdrawals the clients had elected, thus depleting their principal. As a result, several clients had to alter the amounts they were withdrawing, thereby incurring a penalty under Section 72(t). In all, the affected BellSouth employees lost approximately \$12.2 million.

7. CGMI, Matz, and Harris Failed to Adequately Supervise the Activities of the Brokers

CGMI, Matz, and Harris knew or should have known that the brokers were holding seminars without approval. CGMI, Matz, and Harris also should have known that the brokers used misleading and unapproved sales materials and failed to adequately disclose investment risk and other material information to their prospective customers. CGMI and its Charlotte branch management failed to respond adequately to these red flags and accordingly failed to supervise the activities of the brokers.

Through its branch office audit process, CGMI knew or should have known that the brokers were holding seminars. For most of the years between 1995 and 2003, Sweitzer indicated on a branch audit questionnaire that he had held seminars. Sweitzer was required, but failed, to provide CGMI audit staff with an example of the materials used in these seminars and to demonstrate that he had obtained principal approval before using these sales materials. CGMI audit staff were required to, but did not, obtain an example of the materials used in these seminars and did not confirm that principal approval had been obtained before the seminars were held and these sales materials were used. Moreover, as discussed above, in May 2001 CGMI compliance personnel did not correct some of the misstatements and omissions contained in the seminar handout submitted by Zentner. Although Compliance sent the materials back with an instruction to "revise and resubmit to Compliance," there is no evidence that Compliance or branch management followed-up to ensure that the materials were

revised and resubmitted prior to use.

CGMI's branch manager Matz and operations manager Harris similarly failed to adequately supervise the activities of Sweitzer and his team. Matz had principal responsibility for supervising the brokers' activities and delegated certain tasks to Harris. Matz and Harris did not perform their duties adequately and did not adequately follow up on red flags.

Matz, the branch manager, knew that some seminars were being held for BellSouth employees and, for the majority of the review period, had responsibility for approving such seminars. He should have known the brokers were not obtaining permission to hold their BellSouth seminars and were not completing the Speaking Activity Log after holding their seminars. On at least two occasions, Matz saw BellSouth seminar materials used by Sweitzer and Muller; on one occasion, Sweitzer provided Matz with an overview of their presentation and materials used during certain of the brokers' face-to-face meetings with BellSouth employees.

Matz did not take steps to ensure that the brokers obtained principal approval of their seminar materials, and as a result, he failed to correct the misstatements and omissions in the brokers' sales materials. After delegating responsibility for reviewing and approving seminar materials to Harris, Matz failed to follow-up on, or to even inquire about, whether Sweitzer, Muller, and Zentner had provided their seminar materials to Harris. Matz provided the firm with signed quarterly certifications over a seven-year period confirming that he had followed up on his delegations of authority, even though he had not done so with respect to these seminar materials.

During the relevant time period, Matz delegated to Harris responsibility for reviewing and approving sales literature, including seminar flyers, brochures, handouts, PowerPoint presentations and speaking notes. Although Harris knew that the brokers were holding seminars, she took no steps to ensure that the brokers submitted seminar materials for her approval. Therefore, she did not review any of the brokers' seminar materials to determine whether they complied with CGMI guidelines, NASD rules, or the federal securities laws. On the one occasion when Zentner presented her with a seminar handout in May 2001, rather than review and approve it herself as required, Harris instead forwarded it to Compliance in New York for review. When Compliance returned the document to her with instructions to "revise and resubmit to Compliance," Harris did not adequately follow-up to confirm that the recommended changes were made or that the handout was resubmitted and approved prior to use.

Although the brokers generally did not bring their seminar materials to Harris for review or approval, on some occasions, she reviewed some of the materials the brokers disseminated at their face-to-face meetings. On a few occasions, when Sweitzer or Muller wanted to fax a piece of sales material to a customer before or after such a meeting, the broker would bring it to Harris for review. For example, Harris approved the faxing of customized versions of the 12 percent projection sheets to certain customers. She approved these documents even though the documents a) constituted

misleading projections that violated NASD rules; and b) failed to include the necessary disclaimers and risk disclosures discussed above, also in violation of NASD rules.

B. VIOLATIONS

1. Sweitzer and Muller Violated NASD Rule 2110

As described above, Sweitzer and Muller persuaded BellSouth employees to invest with them through misstatements and omissions in violation of NASD Rule 2110.

2. CGMI, Sweitzer, Muller and Zentner Violated NASD's Advertising Rules, NASD Rule 2210

a. Sales Material Not Fair and Balanced; Contained Misleading Claims, Exaggerated Statements and Improper Projections: Violations of NASD Conduct Rule 2210(d)(1)

As described above, CGMI, Sweitzer, Muller, and Zentner prepared and/or used materials at seminars and at face-to-face meetings that were not fair and balanced, contained misleading claims, exaggerations and unwarranted projections. These materials constituted communications with the public as defined by NASD Conduct Rule 2210. Accordingly, they violated NASD Conduct Rules 2210(d)(1) and 2110.

b. Sales Materials Not Approved by a Principal: Violations of NASD Conduct Rules 2210(b)(1) and 2110

As described above, Sweitzer, Muller, and Zentner prepared and/or used copies of materials at seminars and face-to-face meetings that had not been approved by a principal. These materials constituted "sales literature" as defined by NASD Conduct Rule 2210. As "sales literature", NASD Conduct Rule 2210(b)(1) required these documents to be approved by signature or initial and date by a registered principal of the member firm. Accordingly, Sweitzer, Muller and Zentner violated NASD Conduct Rules 2210(b)(1) and 2110 when they used these documents without approval. By failing to have a registered principal approve the sales literature prior to use, CGMI also violated Conduct Rules 2210(b)(1) and 2110.

c. Sales Materials Not Retained: Violations of NASD Conduct Rules 2210(b)(2)(A) and 2110

As described above, CGMI, Sweitzer, Muller, and Zentner failed to retain records showing which sales materials were disseminated to customers, which registered principal approved the items, and the date of the approval. These failures constituted violations of NASD Conduct Rules 2210(b)(2)(A) and 2110.

d. Sales Materials Mentioning Mutual Funds Not Filed with NASD Advertising Regulation: Violations of NASD Conduct Rules 2210(c)(2)(A) and 2110 (formerly Rule 2210(c)(1))

As described above, Sweitzer and Muller disseminated certain marketing material that identified the specific recommended mutual funds. Because these materials mentioned the funds by name, they "concerned registered investment companies" and needed to be filed with NASD Advertising within 10 days of first use. CGMI violated NASD Conduct Rules 2210(c)(2)(A) and 2110 by failing to file these documents with NASD Advertising. Sweitzer and Muller violated NASD Conduct Rule 2110 by causing CGMI's violation of NASD Conduct Rule 2210(c)(2)(A).

3. CGMI, Matz, and Harris Violated NASD Conduct Rules 3010 and 2110

As described above, CGMI, Matz and Harris violated NASD Rules 3010 and 2110 by failing to supervise Sweitzer, Muller, and Zentner's activities.

C. SANCTIONS

1. Respondent CGMI consents to the imposition, at a maximum, of the following sanctions:

- a. A censure;
- b. A fine in the amount of \$3 million; and
- c. Payment of restitution of approximately \$12.2 million to former BellSouth employees who were clients of CGMI. The restitution amount shall be paid in satisfaction of the recently approved settlement of the North Carolina state court case entitled *Victoria T. McPhatter, Alexis M. Schoenthal and Hugh Q. Smith, et. al. v. Citigroup Global Markets, Inc., et. al.*, N.C. Guilford County Superior Court, Case # 03 CVS 3555 ("McPhatter"), provided that any appeals have been resolved.
- d. Within 120 days after the *McPhatter* appeals (if any) have been exhausted (or the time for appeals has lapsed, if no appeals are taken), CGMI shall provide a letter to NASD stating that CGMI has made payment to an escrow account as directed by the terms of the *McPhatter* settlement. The escrow funds subsequently will be distributed by a Claims Administrator pursuant to the terms of the *McPhatter* settlement. Within 180 days after the acceptance of this AWC, CGMI shall provide NASD Staff with documentation prepared by the Claims Administrator and filed with the North Carolina state court regarding final allocation and payment to claimants in accordance with the terms of the settlement.

- e. For good cause shown, and upon receipt of a timely application from CGMI, NASD Staff may extend any of the procedural dates set forth above.

2. Respondent Sweitzer consents to the imposition, at a maximum, of the following sanctions:

- a. A suspension from associating in all capacities with any member firm for 18 months;
- b. A fine in the amount of \$125,000; and
- c. Within 60 days of reassociation with a member firm following the 18-month suspension noted above, Respondent Sweitzer shall have completed 40 hours of Continuing Education relating to compliance with NASD Rules and federal securities laws, including courses that cover communications with the public and the use of sales materials.

3. Respondent Muller consents to the imposition, at a maximum, of the following sanctions:

- a. A suspension from associating in all capacities with a member firm for 9 months;
- b. A fine in the amount of \$50,000; and
- c. Within 60 days of reassociation with a member firm following the 9-month suspension noted above, Respondent Muller shall have completed 40 hours of Continuing Education relating to compliance with NASD Rules and federal securities laws, including courses that cover communications with the public and the use of sales materials.

4. Respondent Zentner consents to the imposition, at a maximum, of the following sanctions:

- a. A suspension from associating in all capacities with a member firm for 30 days;
- b. A fine in the amount of \$30,000; and
- c. Within 60 days of reassociation with a member firm following the 30-day suspension noted above, Respondent Zentner shall have

completed 40 hours of Continuing Education relating to compliance with NASD Rules and federal securities laws, including courses that cover communications with the public and the use of sales materials.

5. Respondent Matz consents to the imposition, at a maximum, of the following sanctions:

- a. A suspension from acting in any supervisory or principal capacities with a member firm for 90 days;
- b. A fine in the amount of \$60,000; and
- c. Upon reassociation with a member firm as a supervisor or principal following the 90-day suspension noted above, before his registration with that member firm can become effective, Respondent Matz shall pass a Qualification Examination appropriate for a supervisor or principal as specified by the Board of Governors.

6. Respondent Harris consents to the imposition, at a maximum, of the following sanctions:

- a. A suspension from acting in any supervisory or principal capacities with a member firm for 45 days;
- b. A fine in the amount of \$30,000; and
- c. Upon reassociation with a member firm following the 45-day suspension noted above, before her registration as a supervisor or principal with that member firm can become effective, Respondent Harris shall pass a Qualification Examination appropriate for a supervisor or principal as specified by the Board of Governors.

The sanctions imposed herein shall be effective on a date set by NASD staff. The fines imposed on Respondents Sweitzer and Muller shall be due and payable either immediately upon reassociation with a member firm following the suspension noted above, or prior to any application or request for relief from any statutory disqualification resulting from this or any other event or proceeding, whichever is earlier.

III.

OTHER MATTERS

Respondents understand that they may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondents understand that they may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by NASD, nor does it reflect the views of NASD or its staff.

Respondents agree to pay any monetary sanctions imposed on them upon notice that this AWC has been accepted and that such payments are due and payable and have attached Election of Payment forms showing the method by which they propose to pay any fine imposed or upon re-entry as noted above. Respondents specifically and voluntarily waive any right to claim that they are unable to pay, now or at any time hereafter, any monetary sanction imposed in this matter.

Respondents Sweitzer, Muller, and Zentner understand that if they are barred or suspended from associating with any NASD member, they become subject to a statutory disqualification as that term is defined in Section 3(a)(39) of the Securities Exchange Act of 1934, as amended. Accordingly, they may not be associated with any NASD member in any capacity, including clerical or ministerial functions, during the period of the bar or suspension. (See NASD Rule 8310 and IM-8310-1.)

Respondents certify that they have read and understand all of the provisions of this AWC and have been given a full opportunity to ask questions about it, and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein, has been made to induce them to submit it.

CGMI Global Markets Inc.

By: Edward Turan
Edward Turan
Managing Director
Senior Deputy General Counsel

May 8, 2007
Date

4/27/07
Date

By: Jeffrey Sweitzer
Jeffrey Sweitzer

5/2/07
Date

By: Matthew Muller
Matthew Muller

4/30/2007
Date

By: Joseph Zentner
Joseph Zentner

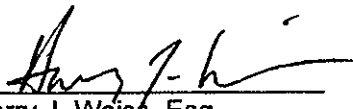
5/1/07
Date

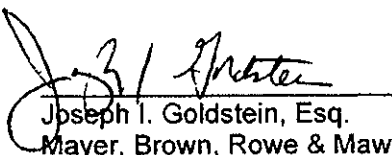
By: Randall Matz
Randall Matz

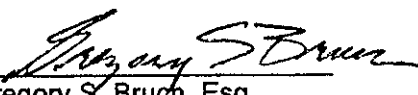
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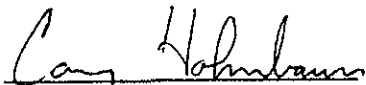
By: Elizabeth Harris
Elizabeth Harris

Reviewed by:


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Counsel for Jeffrey Sweitzer


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Foley & Lardner LLP
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Washington, DC 20007-5143
Ph: (202) 672-5460 Fax: (202) 672-5399
Counsel for Joseph Zentner and Elizabeth Harris



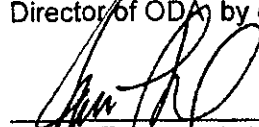
Cory Hohnbaum, Esq.
Kennedy Covington Lobdell & Hickman, L.L.P.
Hearst Tower, 47th Floor
214 North Tryon Street
Charlotte, NC 28202
Ph: (704) 331-7400 Fax: (704) 331-7598
Counsel for Matthew Muller and Randall Matz

Accepted by NASD:

6/6/07

Date

Signed on behalf of the
Director of ODA by delegated authority



James E. Day, Chief Counsel
NASD Department of Enforcement

Attachment 1-A

Client Profile

Mr. BellSouth - Need \$ Monthly

Date 2000
Age 53

The information set forth was obtained from sources we believe reliable, but we cannot guarantee its accuracy. Neither the information nor any opinion expressed constitutes a solicitation by use of the purchase or sale of any securities.

Asset Profile

SALOMON SMITH BARNEY A member of citigroup

Asset Value \$300,000
Asset Growth Rate 12%
Income Yield 9.0%
Tax Bracket 20%

Income Distribution Analysis

Age	Date	Asset Value	Earnings	Payout	Net Income	Net/Month
53	2000	\$300,000	\$36,000	\$27,000	\$21,600	\$1,800
54	2001	\$309,000	\$37,080	\$27,000	\$21,600	\$1,800
55	2002	\$319,080	\$38,290	\$27,000	\$21,600	\$1,800
56	2003	\$330,370	\$39,644	\$27,000	\$21,600	\$1,800
57	2004	\$343,014	\$41,162	\$27,000	\$21,600	\$1,800
58	2005	\$357,176	\$42,861	\$27,000	\$21,600	\$1,800
59	2006	\$373,037	\$44,764	\$27,000	\$21,600	\$1,800
60	2007	\$390,801	\$46,896	\$35,172	\$28,138	\$2,345
61	2008	\$402,525	\$48,303	\$36,227	\$28,982	\$2,415
62	2009	\$414,601	\$49,752	\$37,314	\$29,851	\$2,488
63	2010	\$427,039	\$51,245	\$38,434	\$30,747	\$2,562
64	2011	\$439,850	\$52,782	\$39,587	\$31,669	\$2,639
65	2012	\$453,046	\$54,365	\$40,774	\$32,619	\$2,718
66	2013	\$466,637	\$55,996	\$41,997	\$33,598	\$2,800
67	2014	\$480,636	\$57,676	\$43,257	\$34,606	\$2,884
68	2015	\$495,055	\$59,407	\$44,555	\$35,644	\$2,970
69	2016	\$509,907	\$61,189	\$45,892	\$36,713	\$3,059
70	2017	\$525,204	\$63,024	\$47,268	\$37,815	\$3,151
71	2018	\$540,960	\$64,915	\$48,686	\$38,949	\$3,246
72	2019	\$557,189	\$66,863	\$50,147	\$40,118	\$3,343
73	2020	\$573,905	\$68,869	\$51,651	\$41,321	\$3,443
74	2021	\$591,122	\$70,935	\$53,201	\$42,561	\$3,547
75	2022	\$608,855	\$73,063	\$54,797	\$43,838	\$3,653
76	2023	\$627,121	\$75,255	\$56,441	\$45,153	\$3,763
77	2024	\$645,935	\$77,512	\$58,134	\$46,507	\$3,876
78	2025	\$665,313	\$79,838	\$59,878	\$47,903	\$3,992
79	2026	\$685,272	\$82,233	\$61,674	\$49,340	\$4,112
80	2027	\$705,830	\$84,700	\$63,525	\$50,820	\$4,235
81	2028	\$727,005	\$87,241	\$65,430	\$52,344	\$4,362
82	2029	\$748,815	\$89,858	\$67,393	\$53,915	\$4,493
83	2030	\$771,280	\$92,554	\$69,415	\$55,532	\$4,628

Totals:

\$1,894,269

\$1,119,881

Attachment 1-B

1. Client Profile

Mrs. BellSouth - No Monthly

Date 2000
Age 53

The information set forth was obtained from sources we believe reliable, but we cannot guarantee its accuracy. Neither the information nor any opinion expressed constitutes a solicitation by use of the purchase or sale of any securities.

2. Asset Profile

SALOMON SMITH BARNEY A member of citigroup

Asset Value \$300,000
Asset Growth Rate 12%
Income Yield 9.0%
Tax Bracket 20%

3. Income Distribution Analysis

Age	Date	Asset Value	Earnings	Payout	Net Income	Net/Month
53	2000	\$300,000	\$36,000	\$0	\$0	\$0
54	2001	\$336,000	\$40,320	\$0	\$0	\$0
55	2002	\$376,320	\$45,158	\$0	\$0	\$0
56	2003	\$421,478	\$50,577	\$0	\$0	\$0
57	2004	\$472,056	\$56,647	\$0	\$0	\$0
58	2005	\$528,703	\$63,444	\$0	\$0	\$0
59	2006	\$592,147	\$71,058	\$0	\$0	\$0
60	2007	\$663,204	\$79,585	\$59,688	\$47,751	\$3,979
61	2008	\$683,101	\$81,972	\$61,479	\$49,183	\$4,099
62	2009	\$703,594	\$84,431	\$63,323	\$50,659	\$4,222
63	2010	\$724,701	\$86,964	\$65,223	\$52,178	\$4,348
64	2011	\$746,442	\$89,573	\$67,180	\$53,744	\$4,479
65	2012	\$768,836	\$92,260	\$69,195	\$55,356	\$4,613
66	2013	\$791,901	\$95,028	\$71,271	\$57,017	\$4,751
67	2014	\$815,658	\$97,879	\$73,409	\$58,727	\$4,894
68	2015	\$840,128	\$100,815	\$75,611	\$60,489	\$5,041
69	2016	\$865,331	\$103,840	\$77,880	\$62,304	\$5,192
70	2017	\$891,291	\$106,955	\$80,216	\$64,173	\$5,348
71	2018	\$918,030	\$110,164	\$82,623	\$66,098	\$5,508
72	2019	\$945,571	\$113,469	\$85,101	\$68,081	\$5,673
73	2020	\$973,938	\$116,873	\$87,654	\$70,124	\$5,844
74	2021	\$1,003,156	\$120,379	\$90,284	\$72,227	\$6,019
75	2022	\$1,033,251	\$123,990	\$92,993	\$74,394	\$6,200
76	2023	\$1,064,248	\$127,710	\$95,782	\$76,626	\$6,385
77	2024	\$1,096,176	\$131,541	\$98,656	\$78,925	\$6,577
78	2025	\$1,129,061	\$135,487	\$101,616	\$81,292	\$6,774
79	2026	\$1,162,933	\$139,552	\$104,664	\$83,731	\$6,978
80	2027	\$1,197,821	\$143,739	\$107,804	\$86,243	\$7,187
81	2028	\$1,233,756	\$148,051	\$111,038	\$88,830	\$7,403
82	2029	\$1,270,768	\$152,492	\$114,369	\$91,495	\$7,625
83	2030	\$1,308,891	\$157,067	\$117,800	\$94,240	\$7,853

Totals: \$3,103,019 \$1,643,889

1. Client Profile

[REDACTED]

Date 2000
Age 50

The information set forth was obtained from sources we believe reliable, but we cannot
 guarantee its accuracy. Neither the information nor any opinion expressed constitutes a
 solicitation by use of the purchase or sale of any securities.

2. Asset Profile

SALOMON SMITH BARNEY A member of citigroup

Asset Value → \$183,200
Asset Growth Rate 12%
Income Yield 9.0%
Tax Bracket 20%

3. Income Distribution Analysis

Age	Date	Asset Value	Earnings	Payout	Net Income	Net/Month
50	2000	\$183,200	\$21,984	\$16,488	\$13,190	\$1,099
51	2001	\$188,696	\$22,644	\$16,488	\$13,190	\$1,099
52	2002	\$194,852	\$23,382	\$16,488	\$13,190	\$1,099
53	2003	\$201,746	\$24,209	\$16,488	\$13,190	\$1,099
54	2004	\$209,467	\$25,136	\$16,488	\$13,190	\$1,099
55	2005	\$218,115	\$26,174	\$16,488	\$13,190	\$1,099
56	2006	\$227,801	\$27,336	\$16,488	\$13,190	\$1,099
57	2007	\$238,649	\$28,638	\$16,488	\$13,190	\$1,099
58	2008	\$250,799	\$30,096	\$16,488	\$13,190	\$1,099
59	2009	\$264,407	\$31,729	\$16,488	\$13,190	\$1,099
60	2010	\$279,648	\$33,558	\$25,168	\$20,135	\$1,678
61	2011	\$288,037	\$34,564	\$25,923	\$20,739	\$1,728
62	2012	\$296,678	\$35,601	\$26,701	\$21,361	\$1,780
63	2013	\$305,579	\$36,669	\$27,502	\$22,002	\$1,833
64	2014	\$314,746	\$37,770	\$28,327	\$22,662	\$1,888
65	2015	\$324,189	\$38,903	\$29,177	\$23,342	\$1,945
66	2016	\$333,914	\$40,070	\$30,052	\$24,042	\$2,003
67	2017	\$343,932	\$41,272	\$30,954	\$24,763	\$2,064
68	2018	\$354,250	\$42,510	\$31,882	\$25,506	\$2,125
69	2019	\$364,877	\$43,785	\$32,839	\$26,271	\$2,189
70	2020	\$375,823	\$45,099	\$33,824	\$27,059	\$2,255
71	2021	\$387,098	\$46,452	\$34,839	\$27,871	\$2,323
72	2022	\$398,711	\$47,845	\$35,884	\$28,707	\$2,392
73	2023	\$410,672	\$49,281	\$36,961	\$29,568	\$2,464
74	2024	\$422,992	\$50,759	\$38,069	\$30,455	\$2,538
75	2025	\$435,682	\$52,282	\$39,211	\$31,369	\$2,614
76	2026	\$448,753	\$53,850	\$40,388	\$32,310	\$2,693
77	2027	\$462,215	\$55,466	\$41,599	\$33,280	\$2,773
78	2028	\$476,082	\$57,130	\$42,847	\$34,278	\$2,856
79	2029	\$490,364	\$58,844	\$44,133	\$35,306	\$2,942
80	2030	\$505,075	\$60,609	\$45,457	\$36,365	\$3,030

Totals: \$1,223,646 \$709,295

BELLSOUTH Pension Analysis

Testing Tech Wage Scale 32 Lump Sum: \$236,000

	Monthly Pension	Surviving Spouse	Surviving Friends & Family
Annuity Single Life	\$1380	\$0	\$0
Annuity Joint & Survivor	\$1242	\$621	\$0
Lump Sum Option	\$1770	\$1770	\$1770

(9% withdraw rate on a 30 year Testing Tech's \$236,000 Lump Sum)

STATEMENT OF CORRECTIVE ACTION

Citigroup Global Markets Inc. ("CGMI") submits this Statement of Corrective Action in connection with its Letter of Acceptance, Waiver and Consent ("AWC") (Case No. 20050007601). This statement does not constitute factual or legal findings by NASD, nor does it reflect the views of NASD or its staff.

The AWC relates to events that allegedly occurred between 1994 to 2002. Intermittently throughout this time, certain brokers in a CGMI branch office conducted seminars and when clients subsequently invested, the brokers allegedly failed to adequately disclose risks in their proposed investment strategy, among other things.

Since the period under review, CGMI has enhanced its policies and procedures to strengthen the firm's and branch management's supervision of brokers' use of marketing materials at seminars and otherwise. For example, written guidelines address the specific process for review and approval of sales material (including materials used in the seminar and speaking engagement context), describe branch process and record keeping/retention requirements, outline sample disclaimers and disclosures for sales and marketing materials, and provide a checklist for branch manager review. These written procedures are routinely updated.