

AWARD
NASD Dispute Resolution

In the Matter of the Arbitration Between

Claimants

Elizabeth H. Rich and Donald W. Rich

v.

02-03627
Louisville, Kentucky

Respondents

**Salomon Smith Barney, Inc.,
k/n/a Citigroup Global Markets, Inc.,
Michael J. Grace, Philip L. Spartis,
W. David Hobby, Amy J. Elias, and
Jack B. Grubman**

Cross-Claimants

Philip L. Spartis and Amy J. Elias

v.

Cross-Respondent

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

Third-Party Claimant

Philip L. Spartis and Amy J. Elias

v.

Third-Party Respondent

Jack B. Grubman

NATURE OF THE DISPUTES

**Customers v. Member Firm and Associated Persons, Associated Persons v. Member Firm and
Associated Persons v. Associated Person**

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REPRESENTATION OF PARTIES

Elizabeth H. Rich and Donald W. Rich, hereinafter referred to as ("Claimants"), were represented by Culver V. Halliday, Esq., and Kathryn V. Eberle, Esq., of Stoll, Keenon & Park, LLP, Louisville, Kentucky.

Salomon Smith Barney, Inc., k/n/a Citigroup Global Markets, Inc., ("SSB"), Michael J. Grace ("Grace") and Jack B. Grubman ("Grubman") were represented by Brett A. Rogers, Esq., Paul W. Stivers, Esq., and Jill E. Steinberg, Esq., of Rogers & Hardin, Atlanta, Georgia.

Philip L. Spartis ("Spartis") and Amy J. Elias ("Elias") were represented by David I. Greenberger, Esq. and Jeffrey L. Liddle, Esq., of Liddle & Robinson, LLP, New York, New York.

W. David Hobby ("Hobby") was represented by William G. Leonard, Esq., of Leonard & Swenson, Atlanta, Georgia.

CASE INFORMATION

The Statement of Claim was filed on or about June 21, 2002. The Submission Agreements of Claimants, Elizabeth H. Rich and Donald W. Rich, were signed on June 18, 2002.

A Statement of Answer was filed jointly by Respondents, Salomon Smith Barney, Inc. k/n/a Citigroup Global Markets, Inc. and Michael J. Grace, on or about September 16, 2002. The Submission Agreement of Respondent, Salomon Smith Barney, Inc. n/k/a Citigroup Global Markets, Inc., was signed on or about October 2, 2002. The Submission Agreement of Respondent, Michael J. Grace, was signed on or about September 13, 2002.

A Statement of Answer was filed by Respondent, W. David Hobby, on or about September 16, 2002. The Submission Agreement of Respondent, W. David Hobby, was signed on or about February 12, 2003.

A Statement of Answer, Motion to Dismiss, Cross-Claim and Third-Party Claim was filed jointly by Respondents, Philip L. Spartis and Amy J. Elias, on or about September 16, 2002. The Submission Agreement of Respondent, Philip L. Spirits, was signed on or about September 9, 2002. The Submission Agreement of Respondent, Amy J. Elias, was signed on or about September 9, 2002.

A Statement of Answer was filed jointly by Respondents, Salomon Smith Barney, Inc. and Jack Grubman, on or about October 25, 2002. Respondent, Jack B. Grubman, did not file a Submission Agreement.

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Motion to Dismiss to the Cross-claim and Third-Party Claim was filed jointly by Respondents, Salomon Smith Barney, Inc. and Jack Grubman, on or about October 25, 2002. An Opposition to Salomon Smith Barney, Inc.'s and Jack Grubman's Motion to Dismiss to the Cross-Claim and Third-Party Claim was filed jointly by Philip L. Spartis and Amy J. Elias on or about December 5, 2002.

CASE SUMMARY

Claimants asserted the following causes of action: lack of suitability; lack of supervision; dishonest and unethical practice; breach of fiduciary duty; negligence and gross negligence. Claimants alleged that Respondents gave them unsuitable investment advice to purchase WorldCom stock by means of a margin account with money borrowed from Salomon Smith Barney, Inc. Claimants also alleged that Respondents never discussed the risks associated with the holding of the WorldCom shares.

Unless specifically admitted in their Joint Answer, Respondents, Citigroup Global Markets, Inc. and Michael J. Grace, denied the allegations made in the Statement of Claim and asserted affirmative defenses including the following: The Statement of Claim failed to state a claim upon which relief can be granted; the Statement of Claim is barred by the doctrines of waiver and estoppel; the Statement of Claim is barred by the applicable statutes of limitations; and the Statement of Claim is barred by the doctrine of laches.

Unless specifically admitted in their Joint Answer, Respondents Philip L. Spartis and Amy J. Elias denied the allegations made in the Statement of Claim and asserted affirmative defenses including the following: The Statement of Claim failed to state a claim upon which relief can be granted; the Statement of Claim is barred by the doctrine of unclean hands; the Statement of Claim is barred by the doctrines of waiver and estoppel; the Statement of Claim is barred by the applicable statutes of limitations; and the Statement of Claim is barred by the doctrine of laches.

Unless specifically admitted in his Answer, Respondent W. David Hobby, denied the allegations made in the Statement of Claim and asserted affirmative defenses including the following: The Statement of Claim failed to state a claim upon which relief can be granted; the Statement of Claim is barred by the doctrines of waiver and estoppel; the Statement of Claim is barred by the applicable statutes of limitations; the Statement of Claim is barred by the doctrine of laches and the Statement of Claim is barred by the doctrines of ratification and acceptance.

In their Third-Party Claim, Third-Party Claimants, Philip L. Spartis and Amy J. Elias, asserted that Grubman failed to disclose, to either the Claimants or Mr. Spartis and Ms. Elias, the serious conflict of interest he had between his duty to publish objective WorldCom research reports and his heavy incentives to help SSB secure investment banking business.

In their Cross-Claim, Cross-Claim Claimants, Philip L. Spartis and Amy J. Elias, asserted that SSB failed to adequately supervise Grubman and insure that his WorldCom research reports were in compliance with legal and regulatory standards, in violation of NASD Rule 3010.

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Unless specifically admitted in their Answer to the Cross-Claim and Third-Party Claim, Respondents Salomon Smith Barney Inc. and Jack Grubman, denied the allegations made in the Cross-Claim and Third-Party Claim and asserted affirmative defenses including the following: The Cross-Claim and Third-Party Claim failed to state a claim upon which relief can be granted; the Cross-Claim and Third-Party Claim are barred by the doctrines of waiver and estoppel; the Cross-Claim and Third-Party Claim are barred by the doctrine of laches; and the Cross-Claim and Third-Party Claim are barred because SSB maintained an adequate and reasonable system of supervision and control over its employees, including Mr. Grubman.

RELIEF REQUESTED

Claimants requested an award of \$1,312,141.08, plus punitive damages, interest, costs and their attorneys' fees.

Respondents, Citigroup Global Markets, Inc. and Michael J. Grace, requested the claims asserted against them be denied in their entirety and that they be awarded their attorneys' fees and costs of litigation in this matter.

Respondent, W. David Hobby, requested that the claims asserted against him be denied in their entirety and that he awarded his costs and attorneys' fees.

Respondents, Philip L. Spartis and Amy J. Elias, requested that the claims asserted against them be denied in their entirety and that they be awarded their costs and attorneys' fees, order that Respondent SSB advance their litigation expenses, including attorney's fees, and grant such other and further relief as the Panel deemed just and appropriate.

In their Cross-Claim and Third-Party Claim, Philip L. Spartis and Amy J. Elias, requested that SSB advance Mr. Spartis and Ms. Elias' litigation expenses, including attorney's fees and SSB and Grubman indemnify them from any attorney's fees and costs, or damages the Panel may award against them.

Respondents, Salomon Smith Barney, Inc. and Jack B. Grubman, requested the Cross-Claim and Third-Party Claim be dismissed and that they be awarded attorneys' fees and costs of litigation in this matter.

OTHER ISSUES CONSIDERED & DECIDED

On or about February 27, 2003, the Panel entered in regard to Respondents' Motion to Dismiss Claimant's claim and Third-Party Respondent, Jack Grubman's Motion to Dismiss, which reflected the following:

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1. Respondents' Motion to Dismiss claim of claimant is denied.
2. On or about February 27, 2003, the Panel ruled that the Motion to Dismiss of Respondent, Jack Grubman, is granted, without prejudice to rights of Respondents to initial separate claims and/or arbitration proceedings with respect to Grubman.

On or about April 20, 2004, the Panel dismissed Respondent, Michael J. Grace, from this case with prejudice.

On or about May 28, 2004, the Claimant dismissed all claims asserted against Respondent, W. David Hobby, 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 and the post-hearing submissions, the undersigned arbitrators have decided in full and final resolution of the issues submitted for determination as follows:

1. Respondents, Salomon Smith Barney, Inc., k/n/a Citigroup Global Markets, Inc., Philip L. Spartis, and Amy J. Elias, are jointly and severally liable for and shall pay to Claimants, Elizabeth H. Rich and Donald W. Rich, the sum of \$315,000.00 (Three Hundred Fifteen Thousand Dollars and No Cents) in compensatory damages;
2. Respondents, Salomon Smith Barney, Inc. k/n/a Citigroup Global Markets, Inc., Philip L. Spartis and Amy J. Elias, are jointly and severally liable for and shall pay to Claimants, Elizabeth H. Rich and Donald W. Rich, the sum of \$63,000.00 (Sixty Three Thousand Dollars and No Cents) in pre-award interest;
3. Respondents, Salomon Smith Barney, Inc. k/n/a Citigroup Global Markets, Inc., Philip L. Spartis and Amy J. Elias, are jointly and severally liable for and shall pay to Claimants, Elizabeth H. Rich and Donald W. Rich, post-award interest on the sums stated herein commencing 30 (thirty) days after the service of this award and until it is paid in full at the rate of 12% per annum;
4. Respondents, Salomon Smith Barney, Inc. k/n/a Citigroup Global Markets, Inc., Philip L. Spartis, and Amy J. Elias, are jointly and severally liable for and shall pay to Claimants,

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Elizabeth H. Rich and Donald W. Rich, the sum of \$50,000.00 (Fifty Thousand Dollars and No Cents) as attorney's fees;

5. Respondents, Salomon Smith Barney, Inc. k/n/a Citigroup Global Markets, Inc., Philip L. Spartis, and Amy J. Elias, are jointly and severally liable for and shall pay to Claimants, Elizabeth H. Rich and Donald W. Rich, the sum of \$20,000.00 (Twenty Thousand Dollars and No Cents) for costs;
6. Respondents, Philip L. Spartis' and Amy J. Elias' Cross-Claim against Salomon Smith Barney, Inc. k/n/a Citigroup Global Markets, Inc. has been denied and dismissed in its entirety with prejudice;
7. 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; and
8. 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.

FES

Pursuant to the Code, the following fees are assessed:

Filing Fees

NASD Dispute Resolution will retain the non-refundable filing fee for each claim:

Initial claim filing fee	= \$500.00
Cross-Claim filing fee/Third-Party Claim filing Fee	= \$500.00

Member Fees

Member fees are assessed to each member firm that is a party in these proceedings or to the member firm that employed the associated persons at the time of the events giving rise to the dispute. In this matter, the member firm is Salomon Smith Barney, Inc. k/n/a Citigroup Global Markets, Inc.

Member surcharge	\$ 2,800.00
Pre-hearing process fee	\$ 750.00
<u>Hearing process fee</u>	\$ <u>5,000.00</u>
Total Member Fees	\$ 8,550.00

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Adjournment Fees

Adjournments requested during these proceedings:

December 1-5, 2003 Hearing Dates, adjournment by Respondent, Philip L. Spartis
 (waived by the Panel) = \$1,200.00

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 arbitrators, including a pre-hearing conference with the arbitrators, that lasts four (4) hours or less. Fees associated with these proceedings are:

2	Pre-hearing sessions with Panel	x	1,200.00	\$	2,400.00
	February 19, 2003	1	session	\$	
	April 7, 2004	1	session		
12	Hearing sessions	x	1,200.00		14,400.00
	April 19, 2004	2	sessions		
	April 20, 2004	2	sessions		
	April 21, 2004	2	sessions		
	April 22, 2004	2	sessions		
	December 13, 2004	2	sessions		
	December 14, 2004	2	sessions		
	Total Forum Fees			\$	<u>16,800.00</u>

The Arbitration Panel has assessed \$16,800.00 of the forum fees jointly and severally to Salomon Smith Barney, Inc. n/k/a Citigroup Global Markets, Inc., Philip L. Spartis and Amy J. Elias.

Fee Summary

Claimants, Elizabeth H. Rich and Donald W. Rich, are jointly and severally liable for:

<u>Initial Filing Fee</u>	= \$	<u>500.00</u>
<u>Total Fees</u>	= \$	<u>500.00</u>
<u>Less payments</u>	= \$	<u>-1,700.00</u>
Balance to be refunded by NASD Dispute Resolution	= \$	<u>1,200.00</u>

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

<u>Member Fees</u>	= \$	<u>8,550.00</u>
<u>Total Fees</u>	= \$	<u>8,500.00</u>

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<u>Less payments</u>		= \$	<u>-8,500.00</u>
	Balance Due NASD Dispute Resolution	= \$	0.00

Respondents, Salomon Smith Barney, Inc. k/n/a Citigroup Global Markets, Inc., Philip L. Spartis and Amy J. Elias, are jointly and severally liable for:

<u>Forum Fees</u>		= \$	<u>16,800.00</u>
<u>Total Fees</u>		= \$	<u>16,800.00</u>
<u>Less payments</u>		= \$	<u>-750.00</u>
	Balance Due NASD Dispute Resolution	= \$	<u>16,050.00</u>

Respondents, Philip L. Spartis and Amy J. Elias, are jointly and severally liable for:

<u>Cross claim Filing Fee</u>		= \$	<u>500.00</u>
<u>Total Fees</u>		= \$	<u>500.00</u>
<u>Less payments</u>		= \$	<u>-1,250.00</u>
	Balance applied to forum fees above	= \$	<u>750.00</u>

All balances are payable to NASD Dispute Resolution and are due upon receipt pursuant to Rule 10330(g) of the Code.

ARBITRATION PANEL

Robert P. Ross, Esq. - Public Arbitrator, Presiding Chair
 Amelia F. Adams, Esq. - Public Arbitrator
 Todd Parker Lowe - Non-Public Arbitrator

Concurring Arbitrators:

/s/ Robert P. Ross, Esq.
 Robert P. Ross, Esq.
 Public Arbitrator, Presiding Chair

01/19/05
 Signature Date

/s/ Amelia F. Adams, Esq.
 Amelia F. Adams, Esq.
 Public Arbitrator

01/20/05
 Signature Date

/s/ Todd Parker Lowe
 Todd Parker Lowe
 Non-Public Arbitrator

01/19/05
 Signature Date

01/20/05
 Date of service

NASD Dispute Resolution, Inc.
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Less payments		= \$	1,500.00
	Balance Due NASD Dispute Resolution	= \$	0.00

Respondents, Salomon Smith Barney, Inc. k/n/s Citigroup Global Markets, Inc., Philip L. Spartz and Amy J. Elias, are jointly and severally liable for:

Forum Fees		= \$	6,800.00
Total Fees		= \$	6,800.00
Less payments		= \$	730.00
	Balance Due NASD Dispute Resolution	= \$	6,050.00


Respondents, Philip L. Spartz and Amy J. Elias, are jointly and severally liable for:

Cross claim Filing Fee		= \$	500.00
Total Fees		= \$	500.00
Less payments		= \$	250.00
	Balance applied to forum fees above	= \$	750.00

All balances are payable to NASD Dispute Resolution and are due upon receipt payment to Rule 10330(g) of the Code.

ARBITRATION PANEL

Robert P. Ross, Esq. - Public Arbitrator, Presiding Chair
Amelia F. Adams, Esq. - Public Arbitrator
Todd Parker Lowe - Non-Public Arbitrator

Consenting Arbitrators:


Robert P. Ross, Esq.
Public Arbitrator, Presiding Chair

1/19/05

Signature Date

Amelia F. Adams, Esq.
Public Arbitrator

Signature Date

Todd Parker Lowe
Non-Public Arbitrator

Signature Date

Date of service

NASD Dispute Resolution, Inc.
Arbitration No. 02-03627
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<u>Less payments</u>		= \$	-2,500.00
	Balance Due NASD Dispute Resolution	= \$	0.00

Respondents, Salomon Smith Barney, Inc. k/a Citigroup Global Markets, Inc., Philip L. Spartz and Amy J. Elias, are jointly and severally liable for:

<u>Forum Fees</u>		= \$	16,800.00
<u>Total Fees</u>		= \$	16,800.00
<u>Less payments</u>		= \$	-750.00
	Balance Due NASD Dispute Resolution	= \$	16,050.00

Respondents, Philip L. Spartz and Amy J. Elias, are jointly and severally liable for:

<u>Cross claim Filing Fee</u>		= \$	500.00
<u>Total Fees</u>		= \$	500.00
<u>Less payments</u>		= \$	-1,250.00
	Balance applied to forum fees above	= \$	750.00

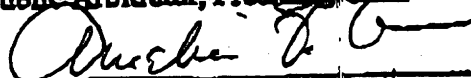
All balances are payable to NASD Dispute Resolution and are due upon receipt pursuant to Rule 10330(g) of the Code.

ARBITRATION PANEL

Robert P. Ross, Esq. - Public Arbitrator, Presiding Chair
Amelia F. Adams, Esq. - Public Arbitrator
Todd Parker Lowe - Non-Public Arbitrator

Concurring Arbitrators:

Robert P. Ross, Esq.
Public Arbitrator, Presiding Chair



Amelia F. Adams, Esq.
Public Arbitrator

Todd Parker Lowe
Non-Public Arbitrator

Date of service

Signature Date

1/20/05

Signature Date

Signature Date

NASD Dispute Resolution, Inc.
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<u>Less payments</u>	= \$	<u>-8,500.00</u>
Balance Due NASD Dispute Resolution	= \$	0.00

Respondents, Salomon Smith Barney, Inc. k/a Citigroup Global Markets, Inc., Philip L. Spartis and Amy J. Elias, are jointly and severally liable for:

<u>Forum Fees</u>	= \$	<u>16,800.00</u>
<u>Total Fees</u>	= \$	<u>16,800.00</u>
<u>Less payments</u>	= \$	<u>-750.00</u>
Balance Due NASD Dispute Resolution	= \$	16,050.00

Respondents, Philip L. Spartis and Amy J. Elias, are jointly and severally liable for:

<u>Cross claim Filing Fee</u>	= \$	<u>500.00</u>
<u>Total Fees</u>	= \$	<u>500.00</u>
<u>Less payments</u>	= \$	<u>-1,250.00</u>
Balance applied to forum fees above	= \$	750.00

All balances are payable to NASD Dispute Resolution and are due upon receipt pursuant to Rule 10330(g) of the Code.

ARBITRATION PANEL

Robert P. Ross, Esq. - Public Arbitrator, Presiding Chair
Amelia F. Adams, Esq. - Public Arbitrator
Todd Parker Lowe - Non-Public Arbitrator

Concurring Arbitrators:

Robert P. Ross, Esq.
Public Arbitrator, Presiding Chair

Signature Date

Amelia F. Adams, Esq.
Public Arbitrator

Signature Date

Todd Parker Lowe
Non-Public Arbitrator

Jan. 19, 2005
Signature Date

Date of service