

UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

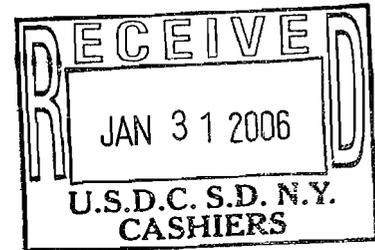
v.

VICTOR J. MENEZES,

Defendant.

JUDGE KEENAN

06 CV No. 07017



COMPLAINT

Plaintiff Securities and Exchange Commission ("Commission") alleges as

follows:

SUMMARY

1. On March 28, 2002, Defendant Victor J. Menezes ("Menezes") exercised 825,960 of his non-qualified stock options in Citigroup Inc. ("Citigroup") common stock and sold 597,000 of the resulting shares to cover the taxes and costs of the options exercise while in possession of material, nonpublic information. Menezes retained 228,960 of the resulting shares, which he holds. When he engaged in this transaction, Menezes was the chief executive officer ("CEO") of both Citigroup's Emerging Markets division and Citigroup's Citibank, N.A. ("Citibank") subsidiary. Prior to the transaction, Menezes was aware that Citigroup would be reporting losses totaling hundreds of millions of dollars related to its Argentine operations in the first quarter of 2002. Menezes also was aware that the company would miss quarterly consensus earnings estimates.

2. On April 15, 2002, Citigroup issued a press release announcing its first quarter earnings, including significant Argentina losses. As a result of these losses, Citigroup failed to meet consensus earnings estimates by \$0.04 per share. The company's stock price, which had been \$49.99 when Menezes sold the shares in connection with the exercise of options, closed on April 15 at \$45.92, down \$1.18 from the previous day's closing price and down \$4.07 from the price when Menezes traded.

3. By his conduct, Menezes recklessly engaged in acts that violated Section 17(a) of the Securities Act of 1933 ("Securities Act") [15 U.S.C. § 77q(a)]. Accordingly, the Commission seeks a final judgment permanently enjoining Menezes from violating Section 17(a) of the Securities Act, requiring Menezes to disgorge the amount of losses avoided by virtue of his sale, plus prejudgment interest, and to pay a civil penalty, and granting such other relief as the Court deems appropriate.

JURISDICTION and VENUE

4. This Court has jurisdiction over this action pursuant to Sections 20(b) and 22(a) of the Securities Act [15 U.S.C. §§ 77t(b) and 77v(a)]. In connection with the transactions, acts, practices, and courses of business described in this Complaint, defendant Menezes, directly or indirectly, made use of the means or instruments of transportation or communication in interstate commerce or of the mails.

5. Venue is proper in this Court pursuant to Section 22(a) of the Securities Act because certain of the acts, practices, and courses of business occurred within this District.

DEFENDANT

6. Victor J. Menezes, age 56, resides in Larchmont, New York. Menezes was, at all relevant times, the CEO of Citigroup's Emerging Markets division and the CEO of Citibank. On or about June 11, 2002, Menezes became a senior vice chairman of Citigroup. In December 2004, Menezes retired from Citigroup.

RELEVANT ENTITY

7. Citigroup Inc. is a Delaware corporation with its principal place of business in New York, New York. Citigroup is a global financial services company whose businesses provide a broad range of financial services to consumer and corporate clients. Citigroup's securities are registered with the Commission under Sections 12(b) and 12(g) of the Securities Exchange Act of 1934 [15 U.S.C §§ 78l(b) and 78l(g)], and its common stock is traded on the New York Stock Exchange.

FACTS

Menezes's Employment at Citigroup

8. Menezes worked at Citigroup or its predecessor, Citibank, for over thirty years. During that time, he received numerous promotions and became the Chairman and CEO of Citibank in March 2000. From July 2000 through June 2002, Menezes also served as the CEO of Citigroup's Emerging Markets division. Among his many duties in this position, Menezes supervised Citigroup's Argentina business.

9. During the period from 2000 through 2002, Menezes was a member of Citigroup's Management Committee, which met regularly to discuss the company's business strategies. He was also a member of the Business Heads group, which was comprised of the company's most senior executives, including the CEO and the chief

financial officer (“CFO”), and which met weekly to discuss current trends or issues affecting the company. The meetings of these committees often included discussions of earnings trends and estimates.

**The Impact of the Argentine
Economic and Political Crisis on Citigroup**

10. Beginning in late 2001 and continuing into 2002, Argentina experienced a severe economic and political crisis during which the Argentine government defaulted on its foreign debt obligations and devalued its currency. At the time, Citigroup was the largest foreign bank in Argentina, with market share of approximately 9% and assets totaling more than \$6 billion.

11. As a result of the Argentina crisis, Citigroup reported \$470 million of losses related to its Argentina business for the fourth quarter of 2001. Notwithstanding these losses, Citigroup’s earnings per share for the quarter exceeded consensus earnings estimates by \$.01 per share. After announcing its fourth quarter earnings on January 17, 2002, including its Argentina losses, Citigroup’s stock price rose more than 2% from the previous day’s closing price.

12. In January 2002, Citigroup began making internal projections of additional Argentina-related losses that it likely would incur in the first quarter of 2002. In February and March 2002, Citigroup internally projected increasing Argentina losses for the first quarter of 2002. During February, Menezes received a presentation from Citigroup employees in Argentina estimating that Argentina losses could be between \$709 million and \$769 million for the first quarter. On March 1, Menezes received a memorandum from a senior financial executive in the Emerging Markets division, projecting that first quarter Argentina losses could be as much as \$809 million.

13. On March 14, 2002, Menezes attended Citigroup's weekly Business Heads meeting. At this meeting, Citigroup's CFO provided Menezes and the other attendees with a written presentation that included a projection of Citigroup's first quarter earnings in relation to analyst estimates of Citigroup's earnings. The presentation indicated that Citigroup's earnings per share for the quarter could be \$0.03 below consensus earnings estimates.

14. On the evening of March 26, 2002, Menezes arrived in the United States after a trip to Asia. On March 27, Menezes met with the Emerging Markets risk manager regarding Argentina and then met with senior officers of the Emerging Markets division to discuss issues related to Citigroup's consumer business in Argentina. Later that day, he received a document projecting Argentina first quarter income losses to be in the range of \$691 million to \$1,381 million, with additional equity losses of over \$500 million. The document reflected that total estimated Argentina first quarter losses would be between \$1.3 billion and \$2 billion.

Menezes's March 28, 2002 Sell-to-Cover Transaction

15. On the evening of March 27, 2002, Menezes signed stock option exercise forms that directed Citigroup to execute a sell-to-cover transaction for 825,960 of Menezes's non-qualified Citigroup stock options. A sell-to-cover transaction is a transaction in which an individual exercises stock options, sells in the open market only enough of the shares received from the exercise to cover the exercise price plus all taxes, commissions and fees, and then retains any remaining shares.

16. On the morning of March 28, 2002, Menezes faxed his option exercise forms to Citigroup's Executive Compensation department, and the transaction was

executed later that day. March 28, 2002, was the last trading day on which Menezes could execute his sell-to-cover transaction before Citigroup announced its first quarter 2002 earnings, including its Argentina losses, on April 15. The markets were closed on March 29 for Good Friday. Menezes would have been unable to trade between April 1 and April 15 because of a blackout period that Citigroup imposed on senior employees.

17. The information regarding the magnitude of Citigroup's estimated first quarter Argentina losses and the fact that Citigroup expected to miss consensus earnings estimates for the first quarter was not publicly known on March 28, 2002.

18. On the evening of March 28, 2002, Menezes received a confirmation that the sell-to-cover transaction had been executed. The confirmation indicated that Menezes had exercised 825,960 options and sold 597,000 of the resulting stock on the open market (at a price of \$49.99 per share) to cover the option exercise costs. As a result of the transaction, Menezes acquired 228,960 Citigroup shares, which he holds.

Citigroup Announces First Quarter Argentina Losses and Earnings Miss

19. On April 15, 2002, Citigroup issued a press release announcing its first quarter 2002 earnings. Among other things, the press release reported that Citigroup had recorded \$858 million in pre-tax losses and recorded a \$512 million reduction in equity relating to its business in Argentina. Largely as a result of these losses, Citigroup's earnings per share for the first quarter were \$0.74, which was \$0.04 below consensus earnings estimates of \$0.78. This was the first time since Citigroup was formed in 1998 by the merger of Citibank and Travelers Group that the company had failed to meet consensus earnings estimates.

20. Following Citigroup's April 15 earnings release, Citigroup's stock price closed at \$45.92, down \$1.18 or 2.6% from the previous day's closing price of \$47.10, and down \$4.07 or approximately 8% from the \$49.99 price that Menezes received from the sale of the 597,000 shares on March 28.

21. As CEO of Citibank and CEO of Citigroup's Emerging Markets division, Menezes owed a duty to Citigroup and its shareholders not to misuse information that he learned in the course of his employment by Citigroup. Menezes was reckless in not knowing that the information he learned about Citigroup's projected Argentina losses and its projected failure to meet consensus earnings estimates was material, nonpublic information. He also was reckless in not knowing that, because the options exercise included the sale of 597,000 Citigroup shares on the open market, he could not engage in the transaction while in possession of such information.

CLAIM FOR RELIEF

Violation of Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)]

22. Paragraphs 1 through 21 are re-alleged and incorporated herein by reference.

23. Defendant Menezes, directly or indirectly, by use of the means or instruments of transportation or communication in interstate commerce, or of the mails, in the offer or sale of securities, has employed devices, schemes, or artifices to defraud, has made untrue statements of material facts or omitted to state material facts necessary to make the statements made, in the light of the circumstances under which they were made, not misleading, or has engaged in acts, practices or courses of business which operate or would operate as a fraud or deceit upon a purchaser.

24. By engaging in the foregoing conduct, defendant Menezes violated Section 17(a) of the Securities Act.

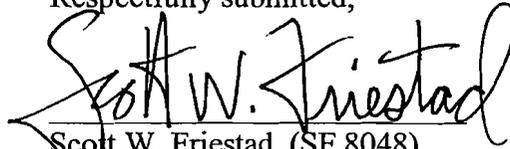
RELIEF REQUESTED

Wherefore, the Commission respectfully requests that this Court enter a final judgment:

- A. permanently enjoining Victor J. Menezes from violating Section 17(a) of the Securities Act;
- B. ordering Menezes to disgorge the amount of his losses avoided as a result of the conduct described above, plus prejudgment interest thereon;
- C. ordering Menezes to pay a money penalty pursuant to Section 20(d) of the Securities Act; and
- D. granting such other and further relief as this Court deems appropriate.

Dated: January 30, 2006

Respectfully submitted,


Scott W. Friestad (SF 8048)
Laura B. Josephs
Russell D. Duncan
Thomas D. Silverstein
Christine E. Neal
Scott E. Seewald
Mark L. Keene

Attorneys for Plaintiff
Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549
(202) 551-4962 (Tel.)
(202) 772-9231 (Fax)