In one of the largest class-action settlements ever, Citigroup Inc. agreed to pay $2.65 billion to settle a suit brought by investors of the former WorldCom Inc., who lost billions when the telecommunications giant filed for bankruptcy in 2002 after a massive accounting scandal.

The world's largest financial-services firm, facing many other lawsuits tied to its role in other corporate scandals, also announced it was substantially beefing up its reserves earmarked for pending litigation. Following the bank's addition of $5.25 billion pretax to reserves, and the payment of the WorldCom settlement, Citigroup will have $6.7 billion in litigation reserves remaining.

The actions open an expensive new chapter in the bank's continuing clean-up efforts. Coming nearly a year after its last major settlement with regulators, settlement of the WorldCom lawsuit, which stemmed from Citigroup's underwriting of WorldCom securities, suggests that resolving complaints from private investors could be far more costly for the bank than making amends with the government.

The round of corporate and investment-banking scandals that shook the markets in 2001 and 2002 led to a spate of regulatory actions against New York-based Citigroup and other Wall Street titans. In an unprecedented series of pacts last year, Citigroup and other investment banks settled with regulators at a collective cost of more than $1 billion. But lawsuits brought by investors claiming billions of dollars of damages continue to hang over the banking industry.

Citigroup said it would take a second-quarter after-tax charge of $4.95 billion, or 95 cents a share, to cover the settlement and increase in litigation reserves. Other cases facing the company involve financing that it arranged for energy giant Enron Corp. before its collapse and alleged abuses in the way it allocated shares in hot initial public offerings during the stock-market boom.

The WorldCom settlement itself, with certain buyers of WorldCom shares and bonds, will cost Citigroup $1.64 billion after tax, because the $2.65 billion payout is tax deductible, the company...
said.

The WorldCom lawsuit, certified as a class action on behalf of hundreds of thousands of bond and stock purchasers, alleges that Citigroup and other investment banks that underwrote about $17 billion of WorldCom bonds in May 2000 and May 2001 didn't conduct adequate due diligence before bringing the securities to market. Besides Citigroup, the defendants include 17 other underwriters that handled about two-thirds of the bonds, including J.P. Morgan Chase & Co., Deutsche Bank AG and Bank of America Corp.

The suit also focused in part on Citigroup's Salomon Smith Barney unit and its former star telecommunications analyst Jack Grubman, who was accused of touting WorldCom stock until two months before the telecommunications company collapsed. The lawsuit alleged that Mr. Grubman knew that his public statements about WorldCom, which the suit claims helped drive up the value of the stock, weren't accurate. Mr. Grubman, one of the most influential Wall Street analysts during the tech boom, left Citigroup in August 2002 amid allegations of conflict of interest.

WorldCom filed for bankruptcy protection in July 2002, and recently emerged from court protection under the name of MCI Corp. Its former bondholders received new stock and bonds, but its former shareholders received nothing.

Citigroup and Mr. Grubman, as well as other defendants in the suit, have previously denied the accusations. Citigroup didn't admit to any wrongdoing under the settlement Monday.

"I personally believe we did not participate in any way in fraudulent activities," Citigroup's chief executive, Charles Prince, said Monday. But in light of "the current litigation environment," he said, "I was not willing to roll the dice for the stockholders to try to score a big win."

The plaintiffs, led by the New York State Common Retirement Fund, described the settlement with Citigroup as the second-largest securities class action settlement ever, after a $3.2 billion settlement against Cendant Corp. in 2000, but the largest against a third party in connection with work conducted for a corporate wrongdoer. MCI wasn't a party to the settlement.

The size of the new reserve took some analysts by surprise. Citigroup shares fell to $45.41, down $1.31, or 2.8%, in 4 p.m. New York Stock Exchange composite trading.

But the company made it clear that in its eyes, a settlement was preferable to the potential costs of a jury trial. "We have spent a quarter's earnings, roughly, to close this chapter in our company's history," Mr. Prince told analysts. "What I have done, I think, is to buy an insurance policy for $1.64 billion after tax against a roll of the dice in front of a jury in a few months on a $54 billion claim."

Mr. Prince said that in conjunction with the settlement Citigroup had re-evaluated its "remaining exposure for Enron and other litigation related to the 2003 regulatory settlements and have adjusted our reserves accordingly."

Mr. Prince said that there are "literally hundreds of cases" outstanding, but that the Enron litigation "is probably the largest single matter in the pool."

Monday's accord with WorldCom will certainly increase the pressure on other defendants in the
lawsuit to resolve claims brought by investors. The case against the remaining defendants is slated to go to trial in January.

"They are the gatekeepers," said New York State Comptroller Alan G. Hevesi, sole trustee of the lead plaintiff, referring to the investment banks targeted in the lawsuit. "They have the obligation to present the most accurate picture for investors."

Mr. Hevesi said Monday that the other defendant banks have 45 days to settle under the same formula used by the Citigroup settlement. If those banks accept the formula, he said, they would have to pay about $2.8 billion to bond investors. "This is not the end of our third-party litigation," he vowed.

The lawsuit doesn't specify damages for the individual banks, and the plaintiffs' lawyers yesterday declined to comment on how much the class members had suffered in damages. The New York State pension fund had lost more than $300 million on its WorldCom investments.

New York lawyer John P. Coffey, one of the lead lawyers representing WorldCom investors, said that all parties were prevented by a judicial gag order from discussing the status of negotiations with the other banks. He estimated that if other banks agreed to the terms used in the Citigroup settlement, J.P. Morgan would have to pay about $1.3 billion, Bank of America about $375 million and Deutsche Bank about $240 million.

Mr. Coffey maintained that the case against the other three largest underwriters was "at least as strong, if not stronger" than the Citigroup case. Unlike Citigroup, he said, the other three banks had raised cautions inside their own banks about WorldCom's creditworthiness.

A representative for Bank of America said that the bank "has not yet reviewed the terms of Citigroup's settlement, but it has not caused us to increase our view of potential liability. Citigroup played a considerably larger role in the issuance of securities than did Bank of America."

Representatives for J.P. Morgan and Deutsche Bank declined to comment.

Mr. Coffey's firm and the several other firms working on the case, under their complex fee agreement with the plaintiffs, would be entitled to fees of about 5% to 6% of the Citigroup settlement, or at least $132 million. But Mr. Coffey said the final fee would be subject to potential adjustment by the client and approval of the court.

Columbia Law School professor John Coffee Jr., a specialist on white-collar crime, saw Citigroup's announcement on its litigation reserves as a "signal" to plaintiffs' lawyers that it will fight to hold down the cost of settling a class-action lawsuit over its involvement the Enron scandal. The two sides in that case, he said, appear to be far apart on settlement.

The WorldCom settlement came under the prodding of U.S. District Court Judge Denise Cote, the New York federal judge presiding over the case. She had ordered all parties to participate in a mediation process conducted by fellow federal judge Robert W. Sweet.

Last Thursday afternoon, Mr. Prince and Mr. Hevesi met for a negotiating session in a locked jury room near Judge Sweet's chambers. By late afternoon, they had a handshake agreement for a settlement, Mr. Hevesi said yesterday. Citigroup's board approved the terms of the deal Saturday.

Mr. Prince told analysts Monday that the timing was dictated by a critical court hearing slated for
Monday. Citigroup was seeking a ruling setting aside the court's certification of the case as a class action. Its motion depended on how Mr. Grubman's statements about WorldCom would be regarded under what Mr. Prince described as the "fraud on the market theory" of securities law.

Citigroup had argued that the doctrine, under which corporate executives have been held accountable for issuing inaccurate public statements, shouldn't be extended to analysts. But the Securities and Exchange Commission had filed a brief disputing Citigroup's legal interpretation.

Because the issue hadn't been clarified in previous case law, Mr. Prince said, "to have the SEC come out against that obviously worsened the odds against us."

The settlement covers investors who bought WorldCom securities between April 29, 1999, and June 25, 2002. About $1.46 billion will go to bond buyers, and $1.19 billion to stock purchasers. The amount also will cover lawyers' fees, which have yet to be set.

Mr. Coffey said he expected settlement negotiations to continue with the other investment banks but that he was prepared to take the case to trial. "If a couple of the underwriters want to roll the dice, then we'll do that," he said.

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The SEC and WorldCom concluded a deal in which WorldCom agreed to pay a civil penalty of $2.25 billion. The deal was approved by federal judge Jed Rakoff during July 2003.[13] In a sweeping consent decree, the SEC and Rakoff essentially took control of WorldCom. Rakoff appointed former SEC chairman Richard C. Breeden to oversee WorldCom's compliance with the SEC agreement.Â In March 2007, 16 of WorldCom's 17 former underwriters reached settlements with the investors.[20] Citigroup settled for $2.65 billion on May 10, 2004.[21]. See also[edit]. Virginia portal. Goldman Sachs Group agreed to pay $2 million to settle an administrative proceeding with the SEC. According to the SEC, sales traders at Goldman violated the waiting period for marketing an IPO before a registration became effective.Â To settle its part as a defendant in the WorldCom securities class action suit, Citigroup agreed to pay $2.65 billion, including plaintiffs' attorneys' fees, to settle a pending case in the U.S. District Court of the Southern District of New York. In the settlement papers, Citigroup "denies it committed any violation of law," according to a press release.Â Merrill Lynch agreed to settle a 1996 case brought by investors in three mortgage-backed securities funds run by Askin Capital Management.