

Courtesy of [The Tennessean](#) 6/11/05

Citigroup settles Enron suit for \$2 billion

Financial services company finds out penalty for its role in huge accounting scandal.

By **JOE BEL BRUNO**
Associated Press

NEW YORK — Citigroup Inc., the nation's largest financial services company, will pay \$2 billion to settle a class-action lawsuit over its role in helping Enron Corp. orchestrate a massive accounting fraud that led to the energy trader's collapse.

The settlement announced yesterday marks the largest payout pledged to Enron investors, who claim they were bilked out of bil-

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lions of dollars when the energy company went bankrupt in 2001. It also becomes one of the largest corporate settlements in history but is still below the \$2.58 billion that New York-based Citigroup agreed to pay WorldCom Inc. investors last year.

Some 50,000 stock and bond holders led by the University of California's board of regents filed claims as part of the lawsuit. The suit alleges that a number of banks and brokerages helped Enron continue operations and raise money even as the company was imploding.

The settlement was the fifth made in the long-running Enron debacle and was seen as a catalyst for future deals with eight other banks targeted in the case, including JPMorgan Chase & Co.

"Citigroup was a substantial participant as a financial institution involved in Enron. ... This will have a salutary effect on the others," said William Lerach, the lawyer representing the University of California, which lost \$144.7 million when Enron declared bankruptcy.

He added: "We can't predict the future, we don't want to try and

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AP / FILE

Citigroup Inc., the nation's biggest financial institution, says it will pay \$2 billion to settle a class-action lawsuit over its role in the sale of Enron Corp. stock and bonds before the energy company's collapse.

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predict the future, but this development is obviously very favorable for our side of the case.”

Besides JPMorgan Chase, other financial institutions named in the case are Barclays PLC, Credit Suisse First Boston, Merrill Lynch & Co., Toronto Dominion Bank, Royal Bank of Canada, Deutsche Bank AG and the Royal Bank of Scotland.

Among the individuals named as defendants are Enron founder Kenneth Lay, former Chief Executive Officer Jeffrey Skilling and former top accountant Richard Causey. All have pleaded innocent to charges of fraud and conspiracy in a case scheduled to go to trial in January.

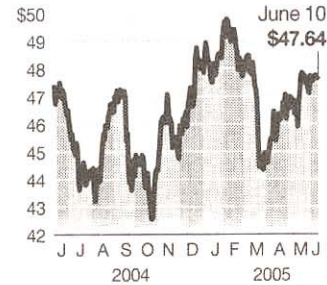
The payment agreed to by Citigroup is more than four times the total of \$491.5 million already received from deals with Lehman Brothers Holdings Inc., Bank of America Corp., Andersen Worldwide, Enron's outside directors and Enron's former vice chairman, Ken Harrison.

The financial institutions allegedly helped Enron set up partnerships that the company used to improperly boost profits

Settling stock

Shares of Citigroup Inc. remained relatively unchanged Friday amid news that the financial services company would pay \$2 billion to settle a class-action lawsuit over its role in the Enron Corp. accounting scandal.

Citigroup Inc. daily stock price



SOURCE: Telerate

AP

while moving billions of dollars of debt off its balance sheet. That allowed Enron to report higher cash flow from operations and lower debt, making its financial picture look better than it was and artificially inflating the company's stock and bond prices, according to the lawsuit.

Citigroup was accused of helping Enron disguise debt through commodity trades and aiding in

other off-balance-sheet financing.

In the settlement, Citigroup denied breaking any laws. It said it agreed to the settlement “solely to eliminate the uncertainties, burden and expense of further protracted litigation.”

It covers holders of stock and bonds that were issued by Enron between Sept. 9, 1997, and Dec. 2, 2001.

Citigroup shares dropped 4 cents to close at \$47.64 on the New York Stock Exchange. Its shares have traded in a 52-week range of \$42.10 to \$49.99.

Investors who file claims likely won't see a check in the mail for the next few years, according to Lerach. The settlement still must be approved by a federal judge in Texas, who will then determine a formula under which claimants will be paid.

The collapse of Enron caused between \$40 billion and \$45 billion of market losses, and investors can also seek tens of billions of dollars more in damages under securities laws.

The Enron settlement is the latest in a series of such deals for Citigroup.

Citigroup Chief Executive Charles Prince said in a statement

that it was “a key priority for Citigroup to resolve major cases like this one and to put a difficult chapter in our history behind us.”

In May 2004, Citigroup agreed to pay nearly \$2.58 billion as its part of the record \$6.13 billion settlement by investment banks, auditors and former board members to resolve class-action claims stemming from the 2002 collapse of WorldCom Inc. The telecommunications company has since emerged from bankruptcy to operate as MCI Inc.

In March, Citigroup agreed to pay \$75 million to settle class action litigation brought on behalf of purchasers of securities in Global Crossing, which filed for bankruptcy in 2002.

In July, Citigroup paid \$135 million and JPMorgan Chase paid \$120 million in fines to settle allegations from the Securities and Exchange Commission, New York state and New York City that they helped Enron manipulate its financial statements and mislead investors.

Citigroup said its legal reserves were sufficient to cover the settlement, and that the remaining funds should be adequate for its future exposure to other cases. ■