



ARIZONA CORPORATION COMMISSION

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COMMISSION APPROVES CITIGROUP SETTLEMENT, SANCTIONS OTHERS FOR SECURITIES FRAUD

PHOENIX, AZ—The Arizona Corporation Commission today ordered Citigroup Global Markets, Inc. to pay a \$455,128 fine for providing misleading information on its auction-rate securities (ARS) sales in Arizona. In other cases, the Commission sanctioned two individuals and their affiliated companies for securities fraud, ordering them to pay over \$3.6 million in restitution and \$150,000 in administrative penalties. The consent order approved today is the final step in Arizona's auction rate securities case against Citigroup, which was tentatively settled in August 2008.

The investigation into Citigroup's role in the marketing of auction-rate securities is part of a larger state-led effort to address problems in connection with ARS investments. As a result of investor complaints, 12 states, including Arizona, formed a task force to investigate whether the nation's prominent Wall Street firms had systematically misled investors when placing them in auction-rate securities. During the investigation, regulators discovered that Citigroup failed to adequately inform customers and train employees on the risks associated with buying auction-rate securities.

Although marketed and sold to investors as safe, liquid, and cash-like investments, auction-rate securities are actually long-term investments subject to a complex auction process that, upon failure, can lead to illiquidity and lower interest rates. The Commission found that Citigroup fostered misconceptions about the liquidity of auction-rate securities by providing customers with account portfolio summaries that listed auction-rate securities as "cash equivalents."

Citigroup's fine amount represents Arizona's pro-rata share of a \$50 million settlement and marks the second settlement of an auction-rate securities case in Arizona since the widespread market failure last year. Last month, the Commission sanctioned Wachovia Securities, LLC and Wachovia Capital Markets, LLC for similar conduct. Among the principal components of the settlement, Citigroup agreed to buy back the auction-rate securities at par value from owners who purchased them from Citigroup Global Markets, Inc. In Arizona, Citigroup's buyback involves over \$97.7 million worth of auction-rate securities from 839 investors.

To each investor who sold auction rate securities below par after February 11, 2008, but before December 11, 2008, Citigroup agreed to reimburse any investor who sold at a financial loss, plus reasonable interest. Additionally, Citigroup agreed to refund refinancing fees from specified municipal auction rate issuers and would make a best effort to provide liquidity solutions for institutional investors and other customers by December 31, 2009. Any investor who purchased auction-rate securities from Citigroup during the specified time frame, but have not received notice from them, has until June 1, 2009 to call Citigroup's ARS assistance line at 1-866-720-4802 to request repurchase from the company.

In settling this matter, Citigroup Global Markets, Inc neither admitted nor denied the Commission

findings, but agreed to the entry of the consent order. Settlements or payments arising from securities law violations are directed by law to the Arizona General Fund and do not remain with the Arizona Corporation Commission. The Commission's funding is appropriated through the normal state budget process.

In a separate case, the Commission ordered a Surprise man and his affiliated companies to pay \$3,000,800 in restitution and a \$100,000 in administrative penalties for committing securities fraud. Travis Richey managed two Arizona-based companies, Trademark Capital Management, LLC and Blue Investments, LLC, but neither was registered to sell securities in Arizona. Richey convinced at least 13 investors to buy unsecured promissory notes in Blue Investments, LLC. To some investors, he claimed that their money would be submitted to a bank that would in turn use the funds as collateral to borrow 10 times that amount from the Federal Reserve, thereby allowing the bank to make higher profits and repay Richey back at above-market rates. The Commission found that Richey misled investors by telling them that the 24% to 60% returns from the investments were guaranteed and that he was a licensed securities salesman. Also, Richey falsely claimed to run a profitable, multimillion-dollar hedge fund that could produce above-market returns. If investors could not invest directly into the hedge fund, Richey offered to sell them a shelf corporation that would secure a line of credit and then invest the line of credit into his hedge fund. To date, investors have only received a small amount of interest payments from Richey. In settling this matter, Richey agreed to the entry of the consent order and admitted to the Commission's findings only for the purposes of the administrative proceeding.

In another matter, David W. Cole of Chandler and his affiliated companies agreed to pay \$651,570 in restitution and \$50,000 in administrative penalties for fraudulently selling unregistered deed of trust investments. Cole was affiliated with three Arizona limited liability companies—Highline Estates, LLC, Mutual Financial Services, LLC and Dream Craft, LLC. As the former managing member of Highline Estates, LLC, Cole sold promissory notes secured by deeds of trust to at least 18 investors, most of whom resided in Arizona. He sought to raise funds to build single-family houses in a 65-lot development in Arizona, but the Commission found that Cole failed to inform investors of his limited real estate development experience, that the project was not fully funded and whether or not any future homes were pre-sold. Additionally, Cole did not have the deeds of trust recorded within six months, as promised. In settling this matter, Cole neither admitted nor denied the Commission's findings, but agreed to the entry of the consent order.

More caution for investors:

Even when investing with someone they know, investors should verify the registration of sellers and investment opportunities and investigate disciplinary histories by contacting the Arizona Corporation Commission's Securities Division at 602-542-4242 or toll free in Arizona at 1-866-VERIFY-9. The Division's investor education web site also has helpful information at www.azinvestor.gov.

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