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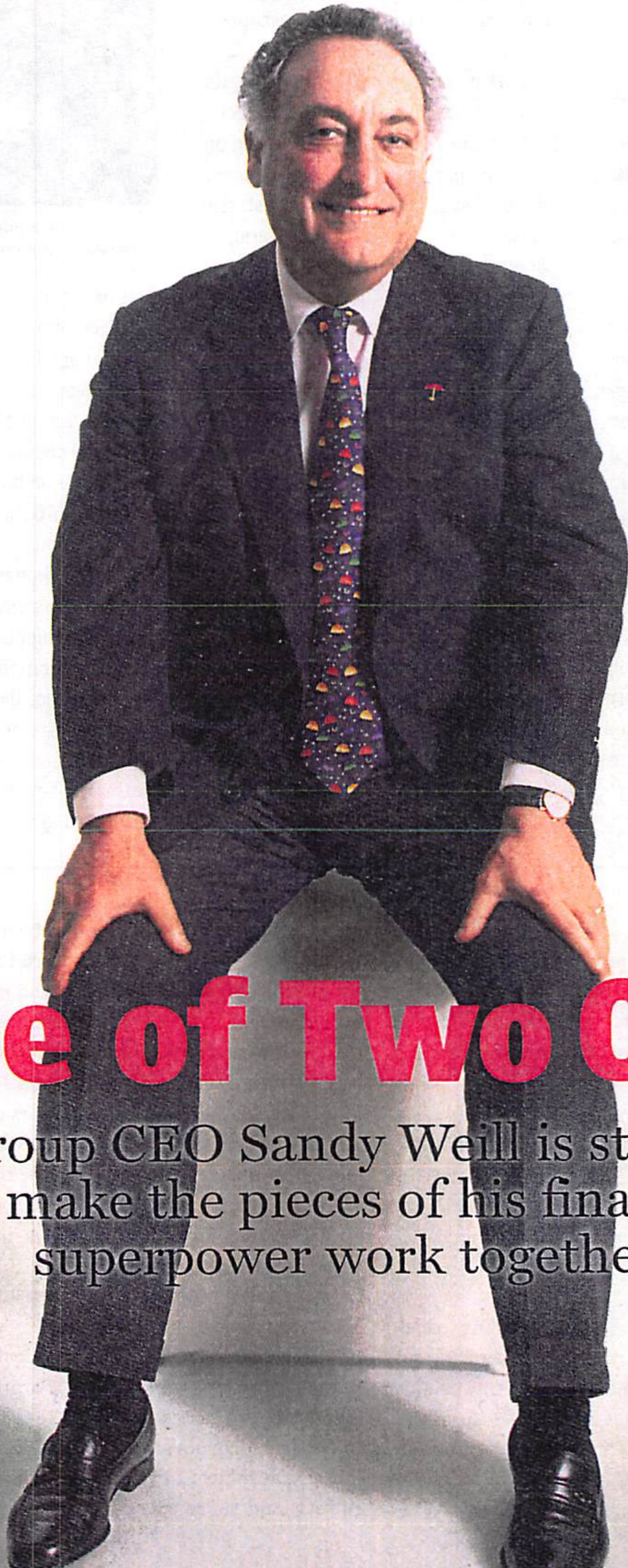

Tale of Two Citis

Citigroup CEO Sandy Weill is still trying to make the pieces of his financial superpower work together

STRATEGIES

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Is Citi's Math Fuzzy?

By Loren Steffy

Bill Parish says there's less to Citigroup's income statement and market value than investors realize. The company reported net income of $14.1 billion last year, up 25 percent from 1999. Its shares have more than tripled since the 1998 merger of Citicorp and Travelers.

Parish, a self-employed financial adviser in Portland, Oregon, contends that Citi's numbers are misleading. He says Citigroup is a "watered stock" because it issued billions of shares during the past three years to fund the acquisitions that created it. The stock-based purchases let Citigroup escape goodwill costs for the buying spree, he contends. Without those costs, Citi's earnings look better than they are, spurring investors to bid up the shares.

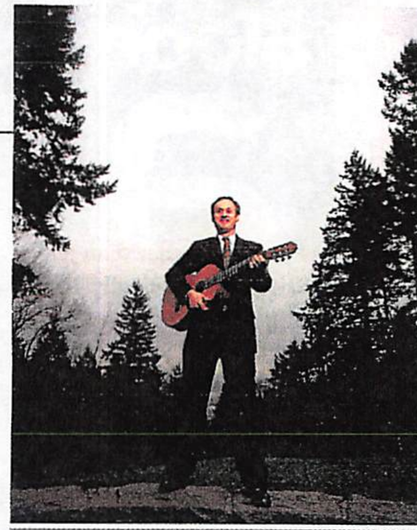
Parish, who's carried out a two-and-a-half-year crusade to change the way some big U.S. companies account for acquisitions and employee stock options, has another beef—with Microsoft Corp. The No. 1 software maker is a "financial pyramid scheme," he says. That's because Microsoft issues options to employees so it doesn't have to pay salaries, and it then gets those same employees to pay taxes so the company escapes the expense, he maintains.

Parish was one of the first analysts to alert small investors to the impact that options accounting was having on corporate earnings, says Larry Woods, who publishes a technology investment newsletter in Stoney Creek, Ontario, Canada. "He was way ahead of the curve," Woods says. "His early work on Microsoft was just damned good detective work."

Parish has taken on Cisco Systems Inc., the biggest maker of Internet equipment. Cisco has devised "a merger scheme designed to leverage growth in its own share price," Parish says. Cisco piles on acquisitions, and the increase in sales drives its stock price, yet the company bears little actual expense, he says.

Parish, 42, a former Peace Corps volunteer and classical guitar aficionado, seems an unlikely author of such firebrand analysis. Nor is his www.billparish.com Web site the first place most people look for financial guidance.

He was a certified public accountant



ROBBIE McCLARAN/SABA

BILL PARISH, A ONE-MAN RESEARCH FIRM, CLAIMS CITIGROUP IS A 'WATERED STOCK.'

and financial analyst and was chief financial officer of a Salem, Oregon, credit union before becoming a registered investment adviser. He started his own firm in 1994 and now advises about 40 clients—mainly small investors—on how to get the most from their 401(k) retirement plans. His tidy one-room office is lined with reproductions of Renaissance art such as *Angelo Musicante* by Rosso Fiorentino.

Parish's supporters find his accounting arguments compelling because most of his data comes directly from companies' financial statements. His assertions, in many cases, are based on simple math. "Bill has documented his stuff very thoroughly," says Woods.

Hartford Financial Services Group Inc.

Citigroup plans to begin pitching more products this year to its biggest group of customers: its U.S. credit card holders. Ray Quinlan, vice president of development for the consumer group, says he hopes to originate $400 million in home equity loans through card customers and to sell these people 100,000 property and casualty insurance policies in 2001. If Citigroup adds one new product for every four card customers, it gets an additional $1 billion in annual revenue, Quinlan says. Currently, he says, each card customer averages 1.2 relationships with Citigroup—or one extra product for every five card holders.

Fahour says the company has had better luck cross selling to corporations than it has to consumers. Citi commercial bankers and Salomon investment bankers work tag team on corporate clients. When Salomon advised France Télécom SA on its $46-billion acquisition of Orange Plc last year, a Citibank unit extended a 25-billion-euro ($23-billion) loan for the transaction. Salomon then organized two related bond offerings.

In some instances, the key has been moving people from the two former companies into shared offices, says Chad Leat, Citigroup's global head of loans, who helped run Salomon's corporate bond business before the merger. Just six months after Citigroup was formed, he shifted Citibank's 150-person syndicated lending team from offices on Park Avenue in midtown Manhattan to Salomon headquarters downtown on Greenwich Street. The lending and corporate bond units—which both raise money for business clients—became one, sharing the first floor of a building on the Hudson River.

"Geography is destiny," Leat says in a conference room hung with "Proof of the Pairing" posters that advertise transactions for which Citibank loaned money and Salomon underwrote bonds or provided merger advice, such as Cincinnati Bell Inc.'s 1999 acquisition of IXC Communications Inc. and Sovereign Bancorp Inc.'s purchase of 285 branches from FleetBoston Financial Corp. last year.

Still, the corporate business has had its share of snafus. Initially, as many as five different sales forces vied for the same clients, and there was confusion over who was in charge—