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UPDATE: Citi When-Issued Shares Trading OTC

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(Adds information on reverse split status and rewrites throughout.)

By Matthias Rieker

Of DOW JONES NEWSWIRES

NEW YORK -(Dow Jones)- "When issued" shares tied to Citigroup Inc.'s (C) offer to exchange preferred for common stock started trading over the counter Monday, adding more volatility to an already battered stock.

Plans for a reverse stock split, meanwhile, have moved to the back burner, a Citi executive said.

Arbitrageurs have been waiting for the "when issued" shares to start trading, hoping to benefit from holding a long position in the preferred stock and shorting the "when issued" common stock. Some traders attribute the steep decline in Citi's stock Monday at least partly to "when issued" trading. In Monday afternoon trading, Citi's common stock was down 8.3%, to \$2.77.

But other issues continue to weigh on the stock, making it difficult for investors to gauge whether to buy, sell or short the stock. The common stock has fallen precipitously in recent weeks, but second quarter earnings were difficult to analyze and consumer loan losses continued to rise. The bank's goal of sustainable profitability remained elusive.

Citi is "not a stock for the faint of heart," Sandler O'Neill & Partners & Co. analyst Jeff Hare in a research report.

UBS Securities analyst Glenn Schorr, meanwhile, removed his "short-term buy rating" on Citi's stock because the earnings as a "catalyst that we thought could give the stock some near-term lift ... has passed." The rating change contributed further to Monday's decline in Citi's stock.

The New York Stock Exchange said it hasn't permitted "when issued" trading in Citi stock yet, but is monitoring the situation. In June, the NYSE said it may admit such trading after Citi's S-4 filing, the key regulatory document for the exchange offer, was declared effective by the Securities and Exchange Commission. The SEC declared it effective late Friday.

Investors had been running out of common stock to short, boosting the cost of borrowing stock for the arbitrage. "When issued" trading Monday eased that pressure somewhat, but the spread between composite trading and when issued trading narrowed quickly, leaving less room for the roughly ten days investors can take advantage of the arbitrage. Citi's exchange offer will expire Friday, and the new stock will be issued by July 30.

A Citi spokesman would not comment on the "when issued" trading, but pointed to a statement by Chief Executive Vikram Pandit that "following completion of the exchange offers, Citi will be among the best capitalized banks in the world."

In March, Citi said it was considering a reverse stock split. At the time, the common stock had recovered somewhat from its low of just below \$1.



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Now, the reverse split is "not top of mind," a Citi executive said, though the board will consider it "in due course." Asked whether he fears that Citi might suffer the same fate as American International Group Inc. (AIG), whose stock fell 42% after a one-for-twenty reverse split on June 30, the executive said he believes AIG is "a different dynamic."

To be sure, Citi's CEO Pandit has reiterated that the company is healing itself. Businesses and assets have been shed, expenses cut and staff reduced, and Citi split its operations in a "core" Citicorp and a non-core Citi Holdings division.

But long-term shareholders, who held Citi at its all-time high of \$56 in December 2006, or even its 52-week high of \$23.50, may face years before they have a chance to make their money back. Stiff losses and massive dilution from converting preferred stakes to common shares make the recovery difficult. Citi, with 5.5 billion shares outstanding, plans to issue another 17.4 billion common shares.

Analysts and investors said anyone buying now needs time to ride out the volatility.

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