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## Reaction to Citi's severance clawback

**Citigroup reportedly halted millions in severance pay to top execs, but an expert says the hardball move might have centered on stock options rather than cash.**

By Hilary Potkewitz

News this week that Citigroup Inc. is halting severance pay to several top executives has had Wall Street buzzing, but according to experts in the executive-compensation field, there's a good chance the dramatic cuts did not save the bank \$50 million, as some news accounts have estimated.

"The form of compensation that these types of executives usually receive in investment banking can involve up to 60% in the form of stock options," explained Bob Benowitz, a partner with law firm Rick Steiner Fell & Benowitz who specializes in corporate employment and senior executive compensation. "And usually, the larger the company, the more stock-option plans."

There's no doubt that Citigroup was once one of the largest. But the flailing bank's stock is trading in the \$3.30 per share range, so any stock options issued last year would be "out of the money," meaning the option's strike price is far higher than the stock's actual trading price, making the option worthless. Last year at this time, Citi stock was trading at nearly \$22 per share.

The bank apparently had contracts with at least five senior executives totaling about \$100 million in severance pay upon their departure last year. According to recent reports, the bank decided to abrogate the remainder of the severance contracts after paying out just half that amount.

Taxpayer groups, aware that the U.S. government owns about a third of the crippled bank through the Troubled Asset Relief Program, praised the move. Citigroup has not responded to requests for comment.

Citigroup's apparent abandoning of longstanding employment-contract traditions could have a chilling effect on the rest of the financial world, casting a shadow over all employment contracts and exit packages.

Mr. Benowitz, who is currently representing several top executives at investment banks other than Citigroup in their severance negotiations, said that it is unlikely that executives in that type of situation would sue the bank. Witness what was experienced a few months ago by American International Group Inc. executives when their retention bonuses came to light.

A more likely course of action, Mr. Benowitz said, would be for the former Citi executives to try to negotiate longer expiration periods for any stock options they have already received.

“When these guys have spent 20-plus years with an investment bank, they feel more upset that they lost their position that they worked so hard to achieve,” he said. “They’re not usually looking for additional severance — they’re looking to be able to execute all those options they’ve accumulated over the years.”