

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended June 30, 2004**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

Commission file number 1-15286

**CITIGROUP GLOBAL MARKETS HOLDINGS INC.**

(Exact name of registrant as specified in its charter)

New York  
(State or other jurisdiction of  
incorporation or organization)

11-2418067  
(I.R.S. Employer  
Identification No.)

388 Greenwich Street  
New York, New York  
(Address of principal  
executive offices)

10013  
(Zip Code)

Registrant's telephone number, including area code: (212) 816-6000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  X  No \_\_\_\_\_

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes \_\_\_\_\_ No  X

The registrant is a wholly owned subsidiary of Citigroup Inc. As of the date hereof, 1,000 shares of the registrant's Common Stock, par value \$.01 per share, were issued and outstanding.

**REDUCED DISCLOSURE FORMAT**

The registrant meets the conditions set forth in General Instruction H (1) (a) and (b) of Form 10-Q and therefore is filing this form with the reduced disclosure format contemplated thereby.

Available on the Web @ [www.citigroup.com](http://www.citigroup.com).

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**For the Quarter Ended June 30, 2004**

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**CITIGROUP GLOBAL MARKETS HOLDINGS INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(UNAUDITED)

Dollars in millions	Three Months		Six Months	
Period Ended June 30,	2004	2003	2004	2003
<b>Revenues:</b>				
Commissions	\$ 986	\$ 936	\$ 2,183	\$ 1,759
Asset management and administration fees	1,031	795	2,036	1,593
Investment banking	884	1,065	1,766	1,892
Principal transactions	255	620	565	1,241
Other	178	68	222	95
<b>Total non-interest revenues</b>	<b>3,334</b>	<b>3,484</b>	<b>6,772</b>	<b>6,580</b>
Interest and dividends	2,220	2,113	4,414	4,145
Interest expense	1,308	1,377	2,538	2,749
<b>Net interest and dividends</b>	<b>912</b>	<b>736</b>	<b>1,876</b>	<b>1,396</b>
<b>Revenues, net of interest expense</b>	<b>4,246</b>	<b>4,220</b>	<b>8,648</b>	<b>7,976</b>
<b>Non-interest expenses:</b>				
Compensation and benefits	2,200	2,269	4,555	4,304
Floor brokerage and other production	191	180	382	338
Communications	226	168	367	335
Occupancy and equipment	134	135	271	271
Professional services	123	97	251	177
Advertising and market development	93	69	169	129
Other operating and administrative expenses	6,656	96	6,737	178
<b>Total non-interest expenses</b>	<b>9,623</b>	<b>3,014</b>	<b>12,732</b>	<b>5,732</b>
<b>Income (loss) before income taxes</b>	<b>(5,377)</b>	<b>1,206</b>	<b>(4,084)</b>	<b>2,244</b>
<b>Provision (benefit) for income taxes</b>	<b>(2,049)</b>	<b>467</b>	<b>(1,577)</b>	<b>855</b>
<b>Net income (loss)</b>	<b>(\$ 3,328)</b>	<b>\$ 739</b>	<b>(\$ 2,507)</b>	<b>\$ 1,389</b>

*The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.*

**CITIGROUP GLOBAL MARKETS HOLDINGS INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

Dollars in millions	June 30, 2004	December 31, 2003
	(Unaudited)	
Assets:		
Cash and cash equivalents	\$ 4,861	\$ 6,312
Cash segregated and on deposit for Federal and other regulations or deposited with clearing organizations	5,568	2,806
Collateralized short-term financing agreements:		
Securities purchased under agreements to resell	\$129,693	\$108,984
Deposits paid for securities borrowed	53,263	50,192
	182,956	159,176
Financial instruments owned and contractual commitments: (Approximately \$70 billion and \$63 billion were pledged to various parties at June 30, 2004 and December 31, 2003, respectively)		
U.S. government and government agency securities	40,812	51,205
Corporate debt securities	34,890	33,221
Equity securities	26,982	19,610
Non-U.S. government and government agency securities	20,140	11,929
Contractual commitments	14,329	15,554
Mortgage loans and collateralized mortgage obligations	10,385	8,275
Money market instruments	4,164	
Other financial instruments	9,168	5,369
	160,870	8,682
Receivables:		
Customers	23,445	18,831
Brokers, dealers and clearing organizations	18,243	7,560
Other	6,137	2,865
	47,825	29,256
Property, equipment and leasehold improvements, net of accumulated depreciation and amortization of \$1,128 and \$1,081, respectively	1,584	1,384
Goodwill	1,531	1,531
Intangibles	807	800
Other assets	9,124	6,151
<b>Total assets</b>	<b>\$415,126</b>	<b>\$361,261</b>

*The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.*

**CITIGROUP GLOBAL MARKETS HOLDINGS INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

Dollars in millions, except share data	June 30, 2004	December 31, 2003
	(Unaudited)	
Liabilities and Stockholder's Equity:		
Commercial paper and other short-term borrowings	\$ 26,675	\$ 22,644
Collateralized short-term financing agreements:		
Securities sold under agreements to repurchase	\$ 143,379	\$135,301
Deposits received for securities loaned	<u>21,596</u>	<u>19,503</u>
	164,975	154,804
Financial instruments sold, not yet purchased, and contractual commitments:		
U.S. government and government agency securities	28,496	16,524
Non-U.S. government and government agency securities	26,421	24,373
Contractual commitments	18,791	18,698
Corporate debt securities and other	13,769	10,593
Equity securities	<u>6,312</u>	<u>4,436</u>
	93,789	74,624
Payables and accrued liabilities:		
Customers	29,300	23,848
Brokers, dealers and clearing organizations	10,499	11,317
Other	<u>23,721</u>	<u>14,660</u>
	63,520	49,825
Term debt	49,624	43,742
Stockholder's equity:		
Common stock (par value \$.01 per share 1,000 shares authorized; 1,000 shares issued and outstanding)	-	-
Additional paid-in capital	8,404	4,241
Retained earnings	8,130	11,375
Accumulated changes in equity from nonowner sources	<u>9</u>	<u>6</u>
Total stockholder's equity	16,543	15,622
<b>Total liabilities and stockholder's equity</b>	<b>\$415,126</b>	<b>\$361,261</b>

*The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.*

**CITIGROUP GLOBAL MARKETS HOLDINGS INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(UNAUDITED)

Dollars in millions		
Six Months Ended June 30,	2004	2003
Cash flows from operating activities:		
Net income (loss)	(\$ 2,507)	\$ 1,389
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	171	221
Net change in:		
Cash segregated and on deposit for Federal and other regulations or deposited with clearing organizations	(2,762)	(365)
Securities borrowed or purchased under agreements to resell	(23,780)	(19,149)
Financial instruments owned and contractual commitments	(7,025)	(15,586)
Receivables	(18,569)	(19,660)
Goodwill, intangibles and other assets, net	(3,811)	469
Securities loaned or sold under agreements to repurchase	10,171	11,522
Financial instruments sold, not yet purchased, and contractual commitments	19,165	12,437
Payables and accrued liabilities	13,695	28,230
<b>Net cash used in operating activities</b>	<b>(15,252)</b>	<b>(492)</b>
Cash flows from financing activities:		
Increase in commercial paper and other short-term borrowings	4,031	1,171
Proceeds from issuance of term debt	18,110	8,086
Term debt maturities and repurchases	(11,343)	(7,856)
Repayment of mandatorily redeemable securities of subsidiary trust	-	(400)
Capital contribution from Parent	4,100	500
Dividends paid	(738)	(347)
<b>Net cash provided by financing activities</b>	<b>14,160</b>	<b>1,154</b>
Cash flows from investing activities:		
Property, equipment and leasehold improvements, net	(359)	(690)
<b>Net cash used in investing activities</b>	<b>(359)</b>	<b>(690)</b>
Net decrease in cash and cash equivalents	(1,451)	(28)
Cash and cash equivalents at January 1,	6,312	3,722
<b>Cash and cash equivalents at June 30,</b>	<b>\$4,861</b>	<b>\$ 3,694</b>

*Cash payments for interest were \$1.6 billion and \$2.3 billion for the six months ended June 30, 2004 and 2003, respectively.*

*Cash paid for income taxes, net of refunds, amounted to \$514 million during the six months ended June 30, 2004 and cash paid for income taxes, net of refunds, amounted to \$471 million during the six months ended June 30, 2003.*

*The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.*

**CITIGROUP GLOBAL MARKETS HOLDINGS INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**Note 1. Summary of Significant Accounting Policies**

***Basis of Presentation***

The unaudited condensed consolidated financial statements reflect the accounts of Citigroup Global Markets Holdings Inc. (formerly, Salomon Smith Barney Holdings Inc.) (“CGMHI”), a New York corporation, and its subsidiaries (collectively, the “Company”). The Company is a wholly owned subsidiary of Citigroup Inc. (“Citigroup”). Material intercompany transactions have been eliminated.

The unaudited condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, which require the use of management’s best judgment and estimates. Estimates, including the fair value of financial instruments and contractual commitments, the outcome of litigation, realization of deferred tax assets and other matters that affect the reported amounts and disclosures of contingencies in the unaudited condensed consolidated financial statements, may vary from actual results. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation have been reflected. Certain prior period amounts have been reclassified to conform to the current period presentation.

These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in CGMHI’s Annual Report on Form 10-K for the year ended December 31, 2003.

Certain financial information that is normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, but that is not required for interim reporting purposes, has been condensed or omitted.

***Accounting Changes***

***Consolidation of Variable Interest Entities***

On January 1, 2004, the Company adopted Financial Accounting Standards Board (“FASB”) Interpretation No. 46, “*Consolidation of Variable Interest Entities (revised December 2003)*” (“FIN 46-R”), which includes substantial changes from the original FIN 46. Included in these changes, the calculation of expected losses and expected residual returns has been altered to reduce the impact of decision maker and guarantor fees in the calculation of expected residual returns and expected losses. In addition, the definition of a variable interest has been changed in the revised guidance. The cumulative effect of adopting FIN 46-R was an increase to assets and liabilities of approximately \$510 million, primarily due to certain structured finance transactions.

FIN 46 and FIN 46-R change the method of determining whether certain entities, including securitization entities, should be included in the Company’s Consolidated Financial Statements. An entity is subject to FIN 46 and FIN 46-R and is called a variable interest entity (“VIE”) if it has (1) equity that is insufficient to permit the entity to finance its activities without additional subordinated financial support from other parties, or (2) equity investors that cannot make significant decisions about the entity’s operations or that do not absorb the expected losses or receive the expected returns of the entity. All other entities are evaluated for consolidation under Statement of Financial Account Standards (“SFAS”) No. 94, “*Consolidation of All Majority-Owned Subsidiaries*” (“SFAS

**CITIGROUP GLOBAL MARKETS HOLDINGS INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
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94”). A VIE is consolidated by its primary beneficiary, which is the party involved with the VIE that has a majority of the expected losses or a majority of the expected residual returns or both.

For any VIEs that must be consolidated under FIN 46 that were created before February 1, 2003, the assets, liabilities, and noncontrolling interests of the VIE are initially measured at their carrying amounts with any difference between the net amount added to the balance sheet and any previously recognized interest being recognized as the cumulative effect of an accounting change. If determining the carrying amounts is not practicable, fair value at the date FIN 46 first applies may be used to measure the assets, liabilities, and noncontrolling interests of the VIE. In October 2003, FASB announced that the effective date of FIN 46 was deferred from July 1, 2003 to periods ending after December 15, 2003 for VIEs created prior to February 1, 2003. The Company elected to implement the provisions of FIN 46 in the third quarter of 2003, resulting in the consolidation of VIEs increasing both total assets and total liabilities by approximately \$712 million. The implementation of FIN 46 encompassed a review of thousands of entities to determine the impact of adoption and considerable judgment was used in evaluating whether or not a VIE should be consolidated. See Note 8 to the condensed consolidated financial statements.

***Profit Recognition on Bifurcated Hybrid Instruments***

On January 1, 2004, the Company revised the application of Derivatives Implementation Group (“DIG”) Issue B6, “*Embedded Derivatives: Allocating the Basis of a Hybrid Instrument to the Host Contract and the Embedded Derivative.*” In December 2003, the Securities and Exchanges Commission (“SEC”) staff gave a speech which revised the accounting for derivatives embedded in financial instruments (“hybrid instruments”) to preclude the recognition of any profit on the trade date for hybrid instruments that must be bifurcated for accounting purposes. The trade-date profit must instead be amortized over the life of the hybrid instrument. The impact of this change in application was a \$114 million pre-tax reduction in revenue for the six months ended June 30, 2004. This revenue will be recognized over the life of the transactions.

***Costs Associated with Exit or Disposal Activities***

On January 1, 2003, the Company adopted SFAS No. 146, “*Accounting for Costs Associated with Exit or Disposal Activities*” (“SFAS 146”). SFAS 146 requires that a liability for costs associated with exit or disposal activities, other than in a business combination, be recognized when the liability is incurred. Previous generally accepted accounting principles provided for the recognition of such costs at the date of management’s commitment to an exit plan. In addition, SFAS 146 requires that the liability be measured at fair value and be adjusted for changes in estimated cash flows. The provisions of the new standard were effective for exit or disposal activities initiated after December 31, 2002. The impact of adopting SFAS 146 was not material.

***Guarantees and Indemnifications***

On January 1, 2003, the Company adopted the recognition and measurement provisions of FASB Interpretation No. 45, “*Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*” (“FIN 45”), which requires that, for guarantees within the scope of FIN 45 issued or amended after December 31, 2002, a liability for the fair value of the obligation undertaken in issuing the guarantee be recognized. The impact of adopting FIN 45 was not material. FIN 45 also requires additional disclosures in financial statements for periods ending after December 15, 2002. Accordingly, these disclosures are included in Note 7 to the condensed consolidated financial statements.

**CITIGROUP GLOBAL MARKETS HOLDINGS INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

***Stock-Based Compensation***

On January 1, 2003, the Company adopted the fair value recognition provisions of SFAS No. 123, “*Accounting for Stock-Based Compensation*” (“SFAS 123”), prospectively to all awards granted, modified, or settled after December 31, 2002. The prospective method is one of the adoption methods provided for under SFAS No. 148, “*Accounting for Stock-Based Compensation - Transition and Disclosure*,” issued in December 2002. SFAS 123 requires that compensation cost for all stock awards be calculated and recognized over the service period (generally equal to the vesting period). This compensation cost is determined using option pricing models intended to estimate the fair value of the awards at the grant date. Similar to Accounting Principles Board Opinion No. 25, “*Accounting for Stock Issued to Employees*,” the alternative method of accounting, an offsetting increase to stockholder’s equity under SFAS 123, is recorded equal to the amount of compensation expense charged. During the first quarter of 2004, the Company changed its option valuation method from the Black-Scholes model to the binomial method. The impact of this change was not material.

***Derivative Instruments and Hedging Activities***

On July 1, 2003, the Company adopted SFAS No. 149, “*Amendment of Statement 133 on Derivative Instruments and Hedging Activities*” (“SFAS 149”). SFAS 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS 133. In particular, SFAS 149 clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative and when a derivative contains a financing component that warrants special reporting in the statement of cash flows. SFAS 149 is generally effective for contracts entered into or modified after June 30, 2003, and did not have a material impact on the Company’s condensed consolidated financial statements.

***Liabilities and Equity***

On July 1, 2003, the Company adopted SFAS No. 150 “*Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*” (“SFAS 150”). SFAS 150 establishes standards for how an issuer measures certain financial instruments with characteristics of both liabilities and equity and classifies them in its statement of financial condition. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances) when that financial instrument embodies an obligation of the issuer. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective July 1, 2003, and did not have a material impact on the Company’s condensed consolidated financial statements.

**CITIGROUP GLOBAL MARKETS HOLDINGS INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**Note 2. Comprehensive Income**

Comprehensive income represents the sum of net income and other changes in stockholder's equity from nonowner sources, which, for the Company, are comprised of cumulative translation adjustments and unrealized gains and losses on certain investments held by equity method investees, net of tax:

Dollars in millions Period ended June 30,	Three Months		Six Months	
	2004	2003	2004	2003
Net income	(\$3,328)	\$739	(\$2,507)	\$1,389
Other changes in equity from nonowner sources	4	(1)	3	(4)
<b>Total comprehensive income</b>	<b>(\$3,324)</b>	<b>\$738</b>	<b>(\$2,504)</b>	<b>\$1,385</b>

**Note 3. Capital Requirements**

Certain U.S. and non-U.S. subsidiaries are subject to securities and commodities regulations and capital adequacy requirements promulgated by the regulatory and exchange authorities of the countries in which they operate. Capital requirements related to CGMHI's principal regulated subsidiaries at June 30, 2004, are as follows:

(Dollars in millions) Subsidiary	Jurisdiction	Net Capital (U.S.) or Financial Resources (U.K.)	Excess over Minimum Requirements
Citigroup Global Markets Inc.	U.S. Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1)	\$3,833	\$3,264
Citigroup Global Markets Limited	United Kingdom's Financial Services Authority	\$6,375	\$2,064

In addition, in order to maintain its triple-A rating, Salomon Swapco Inc. ("Swapco"), an indirect wholly owned subsidiary of CGMHI, must maintain minimum levels of capital in accordance with agreements with its rating agencies. At June 30, 2004, Swapco was in compliance with all such agreements. Swapco's capital requirements are dynamic, varying with the size and concentration of its counterparty receivables.

**Note 4. Contractual Commitments**

Contractual commitments used for trading purposes include derivative instruments such as interest rate, equity, currency and commodity swap agreements, swap options, caps and floors, options, warrants and financial commodity futures and forward contracts. The fair values (unrealized gains and losses) associated with contractual commitments are reported net by counterparty, in accordance with FASB Interpretation No. 39, "Offsetting of Amounts Relating to Certain Contracts", provided a legally enforceable master netting agreement

**CITIGROUP GLOBAL MARKETS HOLDINGS INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
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exists, and are netted across products and against cash collateral when such provisions are stated in the master netting agreement. Contractual commitments in a net receivable position, as well as options owned and warrants held, are reported as assets in "Contractual commitments." Similarly, contractual commitments in a net payable position, as well as options written and warrants issued are reported as liabilities in "Contractual commitments." Revenues generated from these contractual commitments are reported primarily as "Principal transactions" and include realized gains and losses as well as unrealized gains and losses resulting from changes in the market or fair value of such instruments.

A summary of the Company's contractual commitments as of June 30, 2004 and December 31, 2003 are as follows:

Dollars in billions	June 30, 2004			December 31, 2003		
	Notional or Contractual	Current Market or Fair Value		Notional or Contractual	Current Market or Fair Value	
	Amounts	Assets	Liabilities	Amounts	Assets	Liabilities
Exchange-traded products:						
Futures contracts <sup>(a)</sup>	\$ 360.3	\$ -	\$ -	\$ 314.1	\$ -	\$ -
Other exchange-traded products:						
Equity options	112.4	.9	.8	50.5	1.7	1.8
Fixed income options	49.6	-	-	11.6	-	-
Foreign exchange options and commodity contracts	4.1	-	-	3.4	-	-
<b>Total exchange-traded products</b>	<b>526.4</b>	<b>.9</b>	<b>.8</b>	<b>379.6</b>	<b>1.7</b>	<b>1.8</b>
Over-the-counter ("OTC") swaps, swap options, caps, floors and forward rate agreements:						
Swaps	2,925.1			2,136.5		
Swap options written	94.1			81.2		
Swap options purchased	55.0			62.2		
Caps, floors and forward rate agreements	163.3			151.5		
<b>Total OTC swaps, swap options, caps, floors and forward rate agreements <sup>(b)</sup></b>	<b>3,237.5</b>	<b>8.1</b>	<b>9.9</b>	<b>2,431.4</b>	<b>9.1</b>	<b>8.7</b>
Other options and contractual commitments:						
Options and warrants on equities and equity indices	106.6	1.8	4.9	85.4	1.9	4.9
Options and forward contracts on fixed income securities	486.4	3.0	2.6	469.3	1.7	2.0
Foreign exchange contracts and options <sup>(b)</sup>	132.4	.3	.4	131.0	1.1	1.2
Commodity contracts	10.7	.2	.2	9.0	.1	.1
<b>Total contractual commitments</b>	<b>\$4,500.0</b>	<b>\$14.3</b>	<b>\$18.8</b>	<b>\$3,505.7</b>	<b>\$15.6</b>	<b>\$18.7</b>

(a) Margin on futures contracts is included in receivables/payables to brokers, dealers and clearing organizations on the condensed consolidated statements of financial condition.

(b) Includes notional values of swap agreements and forward currency contracts for non-trading activities (primarily related to the Company's fixed-rate long-term debt) of \$17.0 billion and \$3.5 billion at June 30, 2004, respectively, and \$14.4 billion and \$5.0 billion at December 31, 2003, respectively.

**CITIGROUP GLOBAL MARKETS HOLDINGS INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**Note 5. Segment Information**

The following table summarizes the results of operations for the Company's three operating segments, Investment Services, Private Client Services and Asset Management.

Dollars in millions Period ended June 30,	Three Months		Six Months	
	2004	2003	2004	2003
Revenues, net of interest expense:				
Investment Services	\$ 2,386	\$ 2,549	\$ 4,803	\$ 4,769
Private Client Services	1,533	1,419	3,220	2,718
Asset Management	327	252	625	489
<b>Total</b>	<b>\$ 4,246</b>	<b>\$ 4,220</b>	<b>\$ 8,648</b>	<b>\$ 7,976</b>
Total non-interest expenses:				
Investment Services	\$ 8,199	\$ 1,712	\$ 9,806	\$ 3,223
Private Client Services	1,226	1,154	2,538	2,221
Asset Management	198	148	388	288
<b>Total</b>	<b>\$ 9,623</b>	<b>\$ 3,014</b>	<b>\$ 12,732</b>	<b>\$ 5,732</b>
Net income (loss):				
Investment Services	\$ (3,592)	\$ 512	\$ (3,066)	\$ 960
Private Client Services	185	162	414	305
Asset Management	79	65	145	124
<b>Total</b>	<b>\$ (3,328)</b>	<b>\$ 739</b>	<b>\$ (2,507)</b>	<b>\$ 1,389</b>

Total assets of the Investment Services, Private Client Services and Asset Management segments were \$397.0 billion, \$16.2 billion and \$1.9 billion, respectively, at June 30, 2004 and \$346.0 billion, \$13.6 billion and \$1.7 billion, respectively, at December 31, 2003. For further discussion of the Company's operating segments, please refer to the Results of Operations section of Management's Discussion and Analysis.

**Note 6. Legal Proceedings**

For a discussion of certain legal proceedings, see Part II, Item 1 of this Form 10-Q. The Company is a defendant in numerous lawsuits and other legal proceedings arising out of the transactions and activities that were the subjects of: (i) the April 2003 settlement of the research and IPO spinning-related inquiries conducted by the Securities and Exchange Commission, the National Association of Securities Dealers, the New York Stock Exchange and the New York Attorney General; (ii) the July 2003 settlement of the Enron-related inquiries conducted by the Securities and Exchange Commission, the Federal Reserve Bank of New York, the Office of the Comptroller of the Currency, and the Manhattan District Attorney; (iii) underwritings for, and research coverage of, WorldCom; and (iv) the allocation of, and aftermarket trading in, securities sold in initial public offerings. In connection with the settlement of the WorldCom class action lawsuit, the Company reevaluated its reserves for these matters. As a result of the reevaluation, the Company increased its reserve for these matters by approximately \$3.8 billion pre-tax (in addition to the amount of the WorldCom class action settlement). The Company's litigation reserve for these matters following payment of the WorldCom settlement will be \$4.7 billion on a pre-tax basis.

The Company believes that this reserve is adequate to meet all of its remaining exposure for these matters. However, in view of the large number of these matters, the uncertainties of the timing and outcome of this type of litigation, and the significant amounts involved, it is possible that the ultimate costs of these matters may

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exceed or be below the reserve. The Company will continue to defend itself vigorously in these cases, and seek to resolve them in the manner management believes is in the best interest of the Company.

In addition, in the ordinary course of business, the Company and its subsidiaries are defendants or co-defendants or parties in various litigation and regulatory matters incidental to and typical of the businesses in which they are engaged. In connection with its discontinued commodities processing operations, the Company and certain of its subsidiaries are subject to claims asserted by the U.S. Environmental Protection Agency, certain state agencies and private parties in connection with environmental matters. In the opinion of the Company's management, the ultimate resolution of these legal and regulatory proceedings would not be likely to have a material adverse effect on the consolidated financial condition of the Company but, if involving monetary liability, may be material to the Company's operating results for any particular period.

**Note 7. Obligations Under Guarantees**

The Company provides a variety of guarantees and indemnifications to customers to enhance their credit standing and enable them to complete a wide variety of business transactions. The Company believes the guarantees which are provided relate to an asset, liability, or equity security of the guaranteed parties.

In the normal course of business, the Company provides standard representations and warranties to counterparties in contracts in connection with numerous transactions and also provides indemnifications that protect the counterparties to contracts in the event that additional taxes are owed due either to a change in the tax law or an adverse interpretation of the tax law. Counterparties to these transactions provide the Company with comparable indemnifications. While such representations, warranties and tax indemnifications are essential components of many contractual relationships, they do not represent the underlying business purpose for the transactions. The indemnification clauses are often standard contractual terms related to the Company's own performance under the terms of a contract and are entered into in the normal course of business based on an assessment that the risk of loss is remote. Often these clauses are intended to ensure that terms of a contract are met at inception. No compensation is received for these standard representations and warranties and it is not possible to determine their fair value because they rarely, if ever, result in payment. In many cases, there are no stated or notional amounts included in the indemnification clauses and the contingencies potentially triggering the obligation to indemnify have not occurred and are not expected to occur. There are no amounts reflected on the accompanying condensed consolidated statement of financial condition as of June 30, 2004 and December 31, 2003 related to these indemnifications.

In addition, the Company is a member of or shareholder in numerous value transfer networks ("VTNs") (payment, clearing and settlement systems as well as securities exchanges) around the world. As a condition of membership, many of these VTNs require that members stand ready to backstop the net effect on the VTNs of a member's default on its obligations. The Company's potential obligation as a shareholder or member of VTN associations are excluded from the scope of FIN 45, since the shareholders and members represent subordinated classes of investors in the VTNs. Accordingly, there are no amounts reflected on the accompanying condensed consolidated statement of financial condition as of June 30, 2004 and December 31, 2003 for potential obligations that could arise from the Company's involvement with VTN associations.

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Derivative instruments which include guarantees are credit default swaps, total return swaps, written foreign exchange options, written put options, written equity warrants, and written caps and floors. At June 30, 2004 and December 31, 2003, the carrying amount of the liabilities related to these derivatives was \$2.3 billion and \$2.4 billion, respectively.

The maximum potential loss represents the amounts that could be lost under the guarantees if there were a total default by the guaranteed parties, without consideration of possible recoveries under recourse provisions or from collateral held or pledged. Such amounts bear no relationship to the anticipated losses on these guarantees and greatly exceed anticipated losses. At June 30, 2004, the maximum potential loss at notional value related to credit default swaps and total rate of return swaps amounted to \$112.2 billion, of which \$16.3 billion expire within one year and \$95.9 billion expire after one year. At December 31, 2003, the maximum potential loss at notional value related to credit default swaps and total rate of return swaps amounted to \$62.7 billion. At June 30, 2004 and December 31, 2003, the maximum potential loss at fair value related to derivative guarantees other than credit default swaps and total rate of return swaps amounted to \$1.5 billion and \$2.1 billion, respectively.

Guarantees to joint ventures and other third parties primarily include guarantees of their debt obligations. At June 30, 2004, the carrying amount and the maximum potential loss related to these joint ventures and other third party guarantees were \$151 million, of which \$50 million expires within one year and \$101 million expires after one year. At December 31, 2003, the carrying amount and the maximum potential loss related to these joint venture and other third party guarantees were \$589 million. Securities and other marketable assets held as collateral to reimburse losses under other third party guarantees amounted to \$47 million and \$48 million at June 30, 2004 and December 31, 2003, respectively.

Guarantees of collection of contractual cash flows protect investors in securitization trusts from loss of principal and interest relating to insufficient collections on the underlying receivables in the trust. At June 30, 2004 and December 31, 2003 the carrying amount and the maximum potential loss related to guarantees of collection of contractual cash flows were \$24 million.

**Note 8. Variable Interest Entities**

The following table represents the carrying amounts and classification of consolidated assets that are collateral for VIE obligations, including VIEs that were consolidated prior to the implementation of FIN 46 under existing guidance and VIEs that the Company became involved with after July 1, 2003:

<i>In millions of dollars</i>	<b>June 30, 2004</b>	<b>December 31, 2003</b>
Cash	\$ 895	\$ 25
Financial Instruments Owned & Contractual		
Commitments	2,602	3,127
Receivables – Other	327	124
Other Assets	926	753
Total Assets of Consolidated VIEs	<u>\$4,750</u>	<u>\$4,029</u>

The consolidated VIEs included in the table above represent hundreds of separate entities with which the Company is involved and includes approximately \$510 million related to VIEs newly consolidated as a result of adopting FIN 46-R. As of June 30, 2004 and December 31, 2003, approximately \$1.5 billion and \$1.8 billion,

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respectively, of the total assets of consolidated VIEs represent structured transactions where the Company packages and securitizes assets purchased in the financial markets or from clients in order to create new security offerings and financing opportunities for its clients. As of June 30, 2004 and December 31, 2003, approximately \$3.2 billion and \$2.2 billion, respectively, of the total assets of consolidated VIEs represents investment vehicles that were established to provide a return to the investors in the vehicles.

The Company may provide liquidity facilities to the VIEs, may be a party to derivative contracts with VIEs, may provide loss enhancement in the form of guarantees to the VIEs, and may also have an ownership interest or other investment in certain VIEs. In general, the investors in the obligations of consolidated VIEs have recourse only to the assets of those VIEs and do not have recourse to the Company, except where the Company has provided a liquidity facility to the VIE, a guarantee to the investors, or is the counterparty to a derivative transaction involving the VIE.

In addition to the VIEs that are consolidated in accordance with FIN 46-R, the Company has significant variable interests in certain other VIEs that are not consolidated because the Company is not the primary beneficiary. These include collateralized debt obligations (“CDOs”), structured finance transactions, and various investment funds and are explained in the paragraphs which follow.

The Company packages and securitizes assets purchased in the financial markets in order to create new security offerings, including arbitrage CDOs and synthetic CDOs for institutional clients and retail customers, that match the clients’ investment needs and preferences. Typically these instruments diversify investors’ risk to a pool of assets as compared with investments in an individual asset. The VIEs, which are issuers of CDO securities, are generally organized as limited liability corporations. The Company typically receives fees for structuring and/or distributing the securities sold to investors. In some cases, the Company may repackage the investment with higher-rated debt CDO securities or U. S. Treasury securities to provide a greater or a very high degree of certainty, respectively, of the return of invested principal. A third-party manager is typically retained by the VIE to select collateral for inclusion in the pool and then actively manage it, or, in other cases, only to manage work-out credits. At June 30, 2004 and December 31, 2003, such transactions involved VIEs with approximately \$8.7 billion and \$8.0 billion in assets, respectively.

The Company packages and securitizes assets purchased in the financial markets or from clients in order to create new security offerings and financing opportunities for institutional and private bank clients as well as retail customers, including hedge funds, mutual funds, unit investment trusts, and other investment funds that match the clients’ investment needs and preferences. These transactions include trust preferred entities, investment vehicles and other structured transactions. At June 30, 2004 and December 31, 2003, such transactions involved VIEs with approximately \$60.0 billion and \$50.4 billion in assets, respectively.

As previously mentioned, the Company may provide liquidity facilities to the VIEs, may be a party to derivative contracts with VIEs, may provide loss enhancement in the form of guarantees to the VIEs and may also have an ownership interest in certain VIEs. Although actual losses are not expected to be material, the Company’s maximum exposure to loss as a result of its involvement with VIEs that are not consolidated was \$11.2 billion and \$8.6 billion at June 30, 2004 and December 31, 2003, respectively. For this purpose, maximum exposure is considered to be the notional amounts of guarantees and liquidity facilities, the notional amounts of credit default swaps and certain total return swaps, and the amount invested where the Company has an ownership interest in the VIEs.

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**Note 9. Related Party Balances**

The Company has related party balances with Citigroup and certain of its subsidiaries and affiliates. These balances, which are short-term in nature, include cash accounts, collateralized financing transactions, margin accounts, receivables and payables, securities and underwriting transactions, derivative trading, charges for operational support and the borrowing and lending of funds. These balances result from related party transactions that are generally conducted at prices equivalent to prices for transactions conducted at arm's length with unrelated third parties. Amounts charged for operational support represent an allocation of costs.

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**Item 2.**

**RECENT EVENTS**

**Settlement on WorldCom Class Action Litigation and Charge for Regulatory and Legal Matters**

During the 2004 second quarter, the Company recorded a charge of \$6.5 billion (\$4.1 billion after-tax) related to a settlement on class action litigation brought on behalf of purchasers of WorldCom securities and an increase in litigation reserves (the "WorldCom and Litigation Reserve Charge").

Under the terms of the settlement, the Company will make a payment of \$2.65 billion, or \$1.64 billion after-tax, to the settlement class, which consists of all persons who purchased or otherwise acquired publicly traded securities of WorldCom during the period from April 29, 1999 through and including June 25, 2002. The payment will be allocated between purchasers of WorldCom stock and purchasers of WorldCom bonds. Plaintiffs' attorneys' fees (the amount has not yet been determined) will come out of the settlement amount.

In connection with the settlement of the WorldCom class action lawsuit, the Company has reevaluated its reserves for the numerous lawsuits and other legal proceedings arising out of the transactions and activities that were the subjects of:

- (i) the April 2003 settlement of the research and IPO spinning-related inquiries conducted by the Securities and Exchange Commission, the National Association of Securities Dealers, the New York Stock Exchange and the New York Attorney General;
- (ii) the July 2003 settlement of the Enron-related inquiries conducted by the Securities and Exchange Commission, the Federal Reserve Bank of New York, the Office of the Comptroller of the Currency, and the Manhattan District Attorney;
- (iii) underwritings for, and research coverage of, WorldCom; and
- (iv) the allocation of, and aftermarket trading in, securities sold in initial public offerings.

Accordingly, the Company increased its reserve for these matters. The Company believes that this reserve is adequate to meet all of its remaining exposure for these matters. However, in view of the large number of these matters, the uncertainties of the timing and outcome of this type of litigation, and the significant amounts involved, it is possible that the ultimate costs of these matters may exceed or be below the reserve. The Company will continue to defend itself vigorously in these cases, and seek to resolve them in the manner management believes is in the best interest of the Company.

The Company's litigation reserve for these matters following payment of the WorldCom settlement will be \$4.7 billion on a pre-tax basis.

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For the three months ended June 30, 2004 (the "2004 Quarter"), the Company recorded a net loss of \$3,328 million compared to net income of \$739 million for the three months ended June 30, 2003 (the "2003 Quarter"). The decline is the result of the WorldCom and Litigation Reserve Charge, which was recorded in the 2004 Quarter. Revenues, net of interest expense, were \$4,246 million in the 2004 Quarter, up slightly from the 2003 Quarter. Commission revenues increased slightly in the 2004 Quarter to \$986 million as a result of an increase in OTC commissions. Asset management and administration fees increased significantly to \$1,031 million in the 2004 Quarter, primarily as a result of positive market action and cumulative net flows, increased customer trading volumes and higher asset-based revenue, reflecting increased client asset levels. Investment banking revenues declined to \$884 million in the 2004 Quarter as the result of decreases in equity, high yield and high grade debt underwritings, partially offset by an increase in merger and acquisition fees. Principal transactions revenues decreased to \$255 million in the 2004 Quarter primarily as the result of decreases in fixed income and global equity trading. Net interest and dividend income increased to \$912 million in the 2004 Quarter, primarily driven by increased dividend income in the European Equity Finance and European Equity Derivative businesses and increased interest income due to higher U.S. mortgage inventory levels. Total non-interest expenses increased to \$9,623 million in the 2004 Quarter as a result of the WorldCom and Litigation Reserve Charge.

For the six months ended June 30, 2004 (the "2004 Period"), the Company recorded a net loss of \$2,507 million compared to net income of \$1,389 million for the six months ended June 30, 2003 (the "2003 Period"). The decline is the result of the WorldCom and Litigation Reserve Charge, which was recorded in the 2004 Quarter. Revenues, net of interest expense, were \$8,648 million in the 2004 Period compared to \$7,976 million in the 2003 Period. Commission revenues increased in the 2004 Period to \$2,183 million as a result of increases in listed, OTC and mutual fund commissions. Asset management and administration fees increased significantly to \$2,036 million in the 2004 Period, primarily as a result of positive market action and cumulative net flows, increased customer trading volumes and higher asset-based revenue, reflecting increased client asset levels. Investment banking revenues declined to \$1,766 million in the 2004 Period as a result of decreases in high grade debt underwriting and bank loan arrangement fees, partially offset by increases in equity underwriting and merger and acquisition fees. Principal transactions revenues decreased to \$565 million in the 2004 Period primarily as the result of decreases in fixed income and global equity trading. Net interest and dividend income increased to \$1,876 million in the 2004 Period, primarily driven by increased dividend income in the European Equity Finance and European Equity Derivative businesses and increased interest income due to higher U.S. mortgage inventory levels.

Total non-interest expenses increased to \$12,732 million in the 2004 Period as a result of the WorldCom and Litigation Reserve Charge, increased compensation and benefits and floor brokerage and other production expense.

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Following is a discussion of the results of operations of the Company's three operating segments, Investment Services, Private Client Services and Asset Management.

**Investment Services**

Dollars in millions Period Ended June 30,	Three Months		Six Months	
	2004	2003	2004	2003
Revenues, net of interest expense	\$2,386	\$2,549	\$4,803	\$4,769
Total non-interest expense	8,199	1,712	9,806	3,223
Income before income taxes	(5,813)	837	(5,003)	1,546
Provision for income taxes	(2,221)	325	(1,937)	586
Net income	(\$3,592)	\$ 512	(\$3,066)	\$ 960

The Company's Investment Services segment recorded a net loss of \$3,592 million in the 2004 Quarter and \$3,066 in the 2004 Period, compared to net income of \$512 million in the 2003 Quarter and \$960 million in the 2003 Period.

Revenues, net of interest expense, decreased 6% to \$2.4 billion in the 2004 Quarter. Revenues in the 2004 Period increased slightly compared to the 2003 Period. Principal transactions revenue decreased in the 2004 Quarter and 2004 Period as a result of lower fixed income and global equity trading. Investment banking revenues declined in the 2004 Quarter as a result of lower equity, high yield and high grade debt underwriting offset partially by an increase in merger and acquisition fees. Investment banking revenues decreased in the 2004 Period due to decreases in high grade debt and public finance underwritings, offset partially by an increase in equity underwriting. Commission revenue increased in the 2004 Quarter, as OTC, mutual funds and futures commissions increased. Commission revenues increased in the 2004 Period as a result of increases in listed and OTC commissions. Net interest and dividend income increased in the 2004 Quarter and 2004 Period primarily driven by increased dividend income in the European Equity Finance and European Equity Derivative businesses and increased interest income due to higher U.S. mortgage inventory levels.

Total non-interest expenses increased to \$8.2 billion in the 2004 Quarter and \$9.8 billion in the 2004 Period, primarily due to the WorldCom and Litigation Reserve Charge.

**Private Client Services**

Dollars in millions Period Ended June 30,	Three Months		Six Months	
	2004	2003	2004	2003
Revenues, net of interest expense	\$1,533	\$1,419	\$3,220	\$2,718
Total non-interest expense	1,226	1,154	2,538	2,221
Income before income taxes	307	265	682	497
Provision for income taxes	122	103	268	192
Net income	\$ 185	\$ 162	\$ 414	\$ 305

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Private Client Services net income of \$185 million in the 2004 Quarter increased \$23 million or 14% from the 2003 Quarter, primarily due to higher asset-based fee revenue, partially offset by increases in production-related compensation, higher legal expense, and lower transactional revenue. Net income of \$414 million in the 2004 Period increased \$109 or 36% from the 2003 Period, primarily due to increases in both asset-based revenue and transactional revenue, partially offset by higher production-related compensation and legal costs.

Revenues, net of interest expense, of \$1,533 million in the 2004 Quarter increased \$114 million or 8% from the 2003 Quarter, primarily due to increases in asset-based fee revenue reflecting higher assets under fee-based management, partially offset by decreases in transactional revenue reflecting lower customer trading volumes. Fee-based revenue increased \$184 million or 28%, resulting from growth in assets under fee-based management. Transactional revenue decreased \$70 million or 11%, primarily due to decreased customer trading volumes resulting in lower total commissions. Revenues, net of interest expense, in the 2004 Period of \$3,220 million increased \$502 million or 19% from the 2003 Period, reflecting increases in both and asset-based fee revenue and transactional revenue. Fee-based revenue increased \$356 million or 27%, resulting from growth in assets under fee-based management. Transactional revenue increased \$146 million or 11%, primarily due to increased customer trading volumes resulting in higher total commissions.

Total assets under fee-based management were \$222 billion as of June 30, 2004, up \$40 billion or 22% from the prior-year period. Total client assets, including assets under fee-based management, of \$1,087 billion in the 2004 Quarter increased \$128 billion or 13% compared to the 2003 Quarter, principally due to market appreciation and positive net inflows. Net inflows were \$5 billion in the 2004 Quarter compared to \$9 billion in the 2003 Quarter and \$11 billion in the 2004 Period compared to \$14 billion in the 2003 Period.

Operating expenses of \$1,226 million in the 2004 Quarter and \$2,538 million in the 2004 Period, increased \$72 million or 6% and \$317 million or 14%, respectively, from the comparable 2003 Quarter and Period. The increases were mainly due to higher production-related compensation reflecting increased revenue and higher legal costs.

Assets under fee-based management were as follows:

Dollars in billions At June 30,	2004	2003
Financial Consultant managed accounts	\$ 76.1	\$ 60.9
Consulting Group and internally managed assets	146.3	121.5
Total assets under fee-based management (1)	\$222.4	\$182.4

(1) Includes certain assets managed jointly with Citigroup Asset Management.

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**Asset Management**

Dollars in millions	Three Months		Six Months	
Period Ended June 30,	2004	2003	2004	2003
Revenues, net of interest expense	\$327	\$252	\$625	\$489
Total non-interest expense	198	148	388	288
Income before income taxes	129	104	237	201
Provision for income taxes	50	39	92	77
Net income	\$ 79	\$ 65	\$145	\$124

The Company's Asset Management segment revenues, net of interest expense, increased to \$327 million and \$625 million in the 2004 Quarter and 2004 Period, respectively, compared to \$252 million and \$489 million in the 2003 Quarter and 2003 Period, respectively. The primary revenue for the Asset Management segment is asset management and administration fees, which increased to \$319 million and \$612 million in the 2004 Quarter and 2004 Period, respectively, compared to \$244 million in the 2003 Quarter and \$478 million in the 2003 Period. The increase in revenues in the 2004 Quarter and 2004 Period is primarily due to the positive market action and cumulative net flows. The increased fee revenues primarily resulted from changes in product mix, partially offset by a change in the presentation of certain fee sharing arrangements which decreased both revenues and expenses by \$5 million and \$9 million in the 2004 Quarter and 2004 Period, respectively.

Assets under management for the segment were \$305.9 billion at June 30, 2004, compared to \$264.6 billion at June 30, 2003. This increase is primarily due to positive market action and the impact of positive net flows.

Total non-interest expenses were \$198 million and \$388 million in the 2004 Quarter and 2004 Period, respectively, compared to \$148 million and \$288 million in the 2003 Quarter and 2003 Period, respectively. The increase in expenses is due to higher compensation and legal expense and was partially offset by a change in the presentation of certain fee sharing arrangements, which decreased both revenue and expenses by \$5 million and \$9 million in the 2004 Quarter and 2004 Period, respectively.

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Assets under fee-based management were as follows:

Dollars in billions		
At June 30,	2004	2003
Money market funds	\$ 92.7	\$ 87.0
Mutual funds	90.3	77.5
Managed accounts	117.6	94.8
Unit investment trusts held in client accounts	5.3	5.3
<b>Total</b>	<b>\$ 305.9</b>	<b>\$ 264.6</b>

## LIQUIDITY AND CAPITAL RESOURCES

The Company's total assets were \$415 billion at June 30, 2004, an increase from \$361 billion at year-end 2003. Due to the nature of the Company's trading activities, it is not uncommon for the Company's asset levels to fluctuate from period to period.

The Company's condensed consolidated statement of financial condition is highly liquid, with the vast majority of its assets consisting of marketable securities and collateralized short-term financing agreements arising from securities transactions. The highly liquid nature of these assets provides the Company with flexibility in financing and managing its business. The Company monitors and evaluates the adequacy of its capital and borrowing base on a daily basis in order to allow for flexibility in its funding, to maintain liquidity, and to ensure that its capital base supports the regulatory capital requirements of its subsidiaries.

The Company funds its operations through the use of collateralized and uncollateralized short-term borrowings, long-term borrowings, and its equity. Collateralized short-term financing, including repurchase agreements, and secured loans are the Company's principal funding source. Such borrowings are reported net by counterparty, when applicable, pursuant to the provisions of FASB Interpretation No. 41, "*Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements*" ("FIN 41"). Excluding the impact of FIN 41, short-term collateralized borrowings totaled \$256.6 billion at June 30, 2004. Uncollateralized short-term borrowings provide the Company with a source of short-term liquidity and are also utilized as an alternative to secured financing when they represent a less expensive funding source. Sources of short-term uncollateralized borrowings include commercial paper, unsecured bank borrowings, promissory notes and corporate loans. Short-term uncollateralized borrowings totaled \$25.7 billion at June 30, 2004.

The Company has a \$2.5 billion 364-day committed uncollateralized revolving line of credit with unaffiliated banks. This facility has a two-year term-out provision with any borrowings maturing in May 2007. The Company has a \$1.0 billion three-year facility with unaffiliated banks with any borrowings maturing in May, 2007. The Company also has \$2.13 billion in committed uncollateralized 364-day facilities with unaffiliated banks that extend through various dates in 2004 and 2005. The Company may borrow under these revolving credit facilities at various interest rate options (LIBOR or base rate) and compensates the banks for these facilities through facility fees. At June 30, 2004, there were no outstanding borrowings under these facilities. The Company also has committed long-term financing facilities with unaffiliated banks. At June 30, 2004, the Company had drawn down the full \$1.7 billion then available under these facilities. A bank can terminate these

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facilities by giving the Company prior notice (generally one year). The Company compensates the banks for these facilities through facility fees. Under all of these facilities, the Company is required to maintain a certain level of consolidated adjusted net worth (as defined in the agreements). At June 30, 2004, this requirement was exceeded by approximately \$6.6 billion. The Company also has substantial borrowing arrangements consisting of facilities that the Company has been advised are available, but where no contractual lending obligation exists. These arrangements are reviewed on an ongoing basis to ensure flexibility in meeting the Company's short-term requirements.

The Company's borrowing relationships are with a broad range of banks, financial institutions and other firms, including affiliates, from which it draws funds. The volume of the Company's borrowings generally fluctuates in response to changes in the level of the Company's financial instruments, commodities and contractual commitments, customer balances, the amount of securities purchased under agreements to resell and securities borrowed transactions. As the Company's activities increase, borrowings generally increase to fund the additional activities. Availability of financing to the Company can vary depending upon market conditions, credit ratings and the overall availability of credit to the securities industry. The Company seeks to expand and diversify its funding mix as well as its creditor sources. Concentration levels for these sources, particularly for short-term lenders, are closely monitored both in terms of single investor limits and daily maturities.

The Company monitors liquidity by tracking asset levels, collateral and funding availability to maintain flexibility to meet its financial commitments. As a policy, the Company attempts to maintain sufficient capital and funding sources in order to have the capacity to finance itself on a fully collateralized basis in the event that the Company's access to uncollateralized financing is temporarily impaired. The Company's liquidity management process includes a contingency funding plan designed to ensure adequate liquidity even if access to unsecured funding sources is severely restricted or unavailable. This plan is reviewed periodically to keep the funding options current and in line with market conditions. The management of this plan includes an analysis used to determine the Company's ability to withstand varying levels of stress, including ratings downgrades, which could impact its liquidation horizons and required margins. The Company maintains a loan value of unencumbered securities in excess of its outstanding short-term unsecured liabilities. The Company monitors its leverage and capital ratios on a daily basis.

## **RISK MANAGEMENT**

### **Market Risk**

Measuring market risk using statistical risk management models has recently become the main focus of risk management efforts by many companies whose earnings are exposed to changes in the fair value of financial instruments. Management believes that statistical models alone do not provide a reliable method of monitoring and controlling risk. While Value at Risk ("VAR") models are relatively sophisticated, they are of limited use for internal risk management because they do not give any indication of the direction or magnitude of individual risk exposures or which market scenarios represent the largest risk exposures. These models are used by the Company only as a supplement to other risk management tools.

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The following table shows the results of the Company's VAR analysis, which includes all of the Company's financial assets and liabilities which are marked to market at June 30, 2004 and December 31, 2003. The VAR relating to accrual portfolios has been excluded from this analysis.

<b>Risk Exposures (\$ in Millions)</b>	<b>June 30, 2004</b>	<b>Second Quarter 2004 Average</b>	<b>Second Quarter 2004 High</b>	<b>Second Quarter 2004 Low</b>	<b>December 31, 2003</b>
Interest rate	\$84	\$89	\$ 122	\$64	\$73
Equities	28	27	48	17	21
Commodities	25	20	25	16	7
Currency	11	9	12	8	9
Diversification Benefit	(53)	(49)	N/A	N/A	(34)
<b>Total*</b>	<b>\$95</b>	<b>\$96</b>	<b>\$ 125</b>	<b>\$73</b>	<b>\$76</b>

\* Includes diversification benefit.

The quantification of market risk using VAR analysis requires a number of key assumptions. In calculating VAR at June 30, 2004, the Company simulates changes in market factors by using historical volatilities and correlations and assuming lognormal distributions for changes in each market factor. VAR is calculated at the 99% confidence level, assuming a static portfolio subject to a one-day change in market factors. The historical volatilities and correlations used in the simulation are calculated using a look back period of three years. The Company has nearly completed a large-scale, long-term process of calculating its VAR by a more robust methodology. Approximately 90% of the total portfolio is calculated under the new methodology, which simulates tens of thousands of market factors to measure VAR. The previous methodology simulated fewer market factors to measure VAR. VAR reflects the risk profile of the Company at June 30, 2004, and is not a predictor of future results.

### **Forward-Looking Statements**

Certain of the statements contained herein that are not historical facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act. The Company's actual results may differ materially from those included in the forward-looking statements. Forward-looking statements are typically identified by the words "believe," "expect," "anticipate," "intend," "estimate," and similar expressions. These forward-looking statements involve risks and uncertainties including, but not limited to, the following: changes in economic conditions, including the performance of global financial markets, and risks associated with fluctuating currency values and interest rates; competitive, regulatory or tax changes that affect the cost of or the demand for the Company's products; the impact of the implementation of new accounting rules; and the resolution of legal proceedings and environmental matters.

### **Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

See Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

### **Item 4. CONTROLS AND PROCEDURES**

Disclosure Controls and Procedures. The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act.

Internal Control Over Financial Reporting. There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. LEGAL PROCEEDINGS**

The following information supplements and amends our discussion set forth under Part I, Item 3 "Legal Proceedings" in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, as updated by the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004 and the Company's Current Report on Form 8-K dated July 21, 2004.

#### **Enron Corp.**

In *NEWBY, ET AL. V. ENRON CORP., ET AL.*, Citigroup has answered the complaint and discovery is ongoing.

Additional actions have been filed against Citigroup and certain of its affiliates, including Citigroup Global Markets Inc. ("CGMI"), along with other parties, including (i) actions brought by the Attorney General of Connecticut in connection with various commercial and investment banking services provided to Enron; in one such case, the Attorney General of Connecticut voluntarily dismissed all claims against Citigroup; and (ii) a third-party action brought by Arthur Andersen as a defendant in an Enron-related litigation pending in Texas state court, alleging a right to contribution from Citigroup.

#### **WorldCom, Inc.**

On May 10, 2004, the Company, through its parent, Citigroup, announced that it had agreed to settle all claims against it in *IN RE WORLDCOM, INC. SECURITIES LITIGATION*, a class action brought on behalf of certain investors in WorldCom securities. Under the terms of the settlement, Citigroup will make a payment of \$2.65 billion (\$1.64 billion after-tax) to the settlement class. Citigroup reached this settlement agreement without admitting any wrongdoing or liability, and the agreement reflects that Citigroup denies that it or its subsidiaries committed any act or omission giving rise to any liability and/or violation of the law. On July 20, 2004, the

District Court entered an order preliminarily approving the settlement, setting a schedule for various notices and the filing of claims, and setting November 5 as the date of a hearing for the determination of whether or not the settlement should be finally approved.

### **Mutual Funds**

In connection with the investigation by the Securities and Exchange Commission of transfer agent entities, the Staff of the SEC notified the Company that it is considering recommending a civil injunctive action and/or an administrative proceeding against certain of the advisory and transfer agent entities affiliated with Citigroup relating to the creation and operation of an internal transfer agent unit to serve primarily the Smith Barney family of funds. The Staff of the SEC has not made a formal enforcement recommendation to the SEC. Citigroup is cooperating fully in the investigation and will seek to resolve the matter in discussions with the Staff of the SEC.

The Company and certain of its subsidiaries have been named in a series of class actions in various federal and state courts concerning practices in connection with the sale of mutual funds, including alleged incentive payments for the sale of proprietary funds and breakpoint discounts for the sale of certain classes of funds.

### **Research**

On June 9, 2004, CGMI's motion to dismiss the putative class action in the United States District Court for the Southern District of New York was denied. This putative class action asserted violations of the Investment Advisers Act of 1940 and various common law claims in connection with certain investors who maintained guided portfolio management accounts at Smith Barney.

On July 28, 2004, a putative class action by purchasers of Focal Communications Corporation common stock was filed in the United States District Court for the Southern District of New York, asserting claims under Section 10 and Section 20 of the Securities Exchange Act of 1934 against Citigroup, CGMI and Jack Grubman.

### **Other**

On May 27, 2004, Citigroup reached agreement with the Official Committee of Unsecured Creditors of Metromedia Fiber Network, Inc. on terms for a settlement of the committee's claims against Citigroup and CGMI, which had been pending in the Bankruptcy Court of the United States District Court for the Southern District of New York.

## **Item 6. EXHIBITS AND REPORTS ON FORM 8-K**

(a) Exhibits: See Exhibit Index.

(b) Reports on Form 8-K:

On April 1, 2004, the Company filed a Current Report on Form 8-K, dated March 25, 2004, filing certain exhibits under Item 7 thereof relating to the offer and sale of the Company's Equity Linked Securities (ELKS) based upon the common stock of Newmont Mining Corporation due March 31, 2005.

On April 15, 2004, the Company filed a Current Report on Form 8-K, dated April 15, 2004, reporting under Item 5 thereof the results of its operations for the three-month periods ended March 31, 2004 and 2003.

On April 30, 2004, the Company filed a Current Report on Form 8-K, dated April 26, 2004, filing certain exhibits under Item 7 thereof relating to the offer and sale of the Company's 7% Select EQUity Indexed Notes (SEQUINS) based upon the common stock of Hewlett-Packard Company due May 2, 2005.

On April 30, 2004, the Company filed a Current Report on Form 8-K, dated April 26, 2004, filing certain exhibits under Item 7 thereof relating to the offer and sale of the Company's Principal-Protected Equity Linked Notes based upon the S&P 500 due October 29, 2009.

On April 30, 2004, the Company filed a Current Report on Form 8-K, dated April 26, 2004, filing certain exhibits under Item 7 thereof relating to the offer and sale of the Company's 1.5% Principal-Protected Equity Linked Notes based upon the Dow Jones Global Titans 50 Index due October 29, 2009.

On June 3, 2004, the Company filed a Current Report on Form 8-K, dated May 25, 2004, filing certain exhibits under Item 7 thereof relating to the offer and sale of the Company's Enhanced Income Strategy Principal-Protected Notes with Income and Appreciation Potential Linked to the 2004-2 Dynamic Portfolio Index due May 26, 2010.

On June 22, 2004, the Company filed a Current Report on Form 8-K, dated June 16, 2004, filing certain exhibits under Item 7 thereof relating to the offer and sale of the Company's Index LeAding StockmarkEt Return Securities (Index LASERS) based upon the Nikkei 225 Stock Average due June 19, 2008.

On June 29, 2004, the Company filed a Current Report on Form 8-K, dated June 23, 2004, filing certain exhibits under Item 7 thereof relating to the offer and sale of the Company's Principal-Protected Equity Linked Notes based upon the Nasdaq-100 Index due September 28, 2009.

On June 30, 2004, the Company filed a Current Report on Form 8-K, dated June 24, 2004, filing certain exhibits under Item 7 thereof relating to the offer and sale of the Company's 10% Equity Linked Securities (ELKS) based upon the common stock of Yahoo! Inc. due June 30, 2005.

No other reports on Form 8-K were filed during the second quarter of 2004, however:

On July 15, 2004, the Company filed a Current Report on Form 8-K, dated July 15, 2004, reporting under Item 5 thereof the results of its operations for the three- and six-month periods ended June 30, 2004 and 2003.

On July 21, 2004, the Company filed a Current Report on Form 8-K, dated July 21, 2004, reporting under Item 5 thereof that Citigroup Inc. (Citigroup), the Company's parent, had been notified by the Staff of the Securities and

Exchange Commission (SEC) that the Staff is considering recommending a civil injunctive action and/or an administrative proceeding against certain advisory and transfer agent entities affiliated with Citigroup relating to the creation and operation of an internal transfer agent unit to serve primarily the Smith Barney family of funds.

On July 29, 2004, the Company filed a Current Report on Form 8-K, dated July 23, 2004, filing certain exhibits under Item 7 thereof relating to the offer and sale of the Company's Enhanced Income Strategy Principal-Protected Notes with Income and Appreciation Potential Linked to the 2004-3 Dynamic Portfolio Index due February 26, 2010.

On July 29, 2004, the Company filed a Current Report on Form 8-K, dated July 26, 2004, filing certain exhibits under Item 7 thereof relating to the offer and sale of the Company's 8% Select EQUity Indexed Notes (SEQUINS) based upon the common stock of Motorola, Inc. due August 1, 2005.

## EXHIBIT INDEX

<b><u>Exhibit Number</u></b>	<b><u>Description of Exhibit</u></b>
3.01	Restated Certificate of Incorporation of Citigroup Global Markets Holdings Inc. (the "Company"), effective April 7, 2003, incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed on April 7, 2003 (File No. 1-4346).
3.02	By-Laws of the Company, incorporated by reference to Exhibit 4(b) to the Company's Registration Statement on Form S-3 (No. 333-106272).
12.01†	Computation of ratio of losses to fixed charges.
31.01†	Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.02†	Certification of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.01†	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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† Filed herewith.

The total amount of securities authorized pursuant to any instrument defining rights of holders of long-term debt of the Company does not exceed 10% of the total assets of the Company and its consolidated subsidiaries. The Company will furnish copies of any such instrument to the SEC upon request.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**CITIGROUP GLOBAL MARKETS HOLDINGS INC.**  
(Registrant)

Date: August 13, 2004

By: /s/ Robert Druskin  
Robert Druskin  
President and Chief Executive Officer

By: /s/ John C. Morris  
John C. Morris  
Chief Financial Officer

**EXHIBIT 12.01****CITIGROUP GLOBAL MARKETS HOLDINGS INC. AND SUBSIDIARIES**  
**CALCULATION OF RATIO OF LOSSES TO FIXED CHARGES**

(Unaudited)

<i>Dollars in millions</i>	Six Months Ended June 30, 2004
Losses from operations:	
Loss before income taxes	\$ (4,084)
Add fixed charges (see below)	<u>2,610</u>
Losses as defined	<u>\$ (1,474)</u>
Fixed charges from operations:	
Interest expense	\$ 2,538
Other adjustments	<u>72</u>
Fixed charges from operations as defined	<u>\$ 2,610</u>
Ratio of losses to fixed charges	<u>(0.56)</u>

**NOTE:**

The ratio of losses to fixed charges was calculated by dividing the sum of fixed charges into the sum of loss before income taxes and fixed charges.

Fixed charges consist of interest expense, including capitalized interest and a portion of rental expense representative of the interest factor.

**CERTIFICATION**

I, Robert Druskin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Citigroup Global Markets Holdings Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 13, 2004

By: /s/ Robert Druskin, Chief Executive Officer

**CERTIFICATION**

I, John C. Morris, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Citigroup Global Markets Holdings Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 13, 2004

By: /s/John C. Morris, Chief Financial Officer

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Citigroup Global Markets Holdings Inc. (the “Company”) for the quarterly period ended June 30, 2004, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Robert Druskin, as Chief Executive Officer of the Company, and John C. Morris, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Robert Druskin

Robert Druskin  
Chief Executive Officer  
August 13, 2004

/s/ John C. Morris

John C. Morris  
Chief Financial Officer  
August 13, 2004

This certification accompanies each Report pursuant to §906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of §18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.