

**UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK**

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IN RE SMITH BARNEY TRANSFER AGENT  
LITIGATION

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)  
) Civ. Action No. 05-7583 (WHP)  
) ECF Case

**APPENDIX TO THE FOURTH  
CONSOLIDATED AND AMENDED CLASS ACTION COMPLAINT**

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**APPENDIX**

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**DEFENDANTS' MATERIALLY MISLEADING CLASS PERIOD OMISSIONS**

Lead Plaintiff brings this action on behalf of 24 of the 105 Smith Barney Funds that sold mutual fund shares pursuant to prospectuses and other public documents issued during the Class Period (the "24 Funds"). Each of the Funds issued prospectuses throughout the Class Period that were materially false and misleading because, *inter alia*, they omitted material information concerning the transfer agent and sub-transfer agent arrangement between the CAM affiliated transfer agent and First Data/PFPC, as well as the true nature of the transfer agent fees being paid by the Funds. The materially misleading statements made by Defendants which, for many Funds during many years are virtually identical, are set out below.

**SMITH BARNEY AGGRESSIVE GROWTH FUND, INC.**

1. On December 20, 1999, the Smith Barney Aggressive Growth Fund, Inc. ("Aggressive Growth Fund") caused to be filed with the SEC a Form 485BPOS. The December 2000 Form 485BPOS contains a prospectus and statement of additional information ("SAI") that provides shareholders with information pertinent to their investment in Aggressive Growth Fund. Shares of the Aggressive Growth Fund were purchased and/or sold during the Class period by Plaintiffs Robert and Ann Yiambellis, DVL 401(k) Plan, Bharat U. Shah, Steven W. Hall and Richard W. Rees. The December 1999 Form 485 BPOS<sup>1</sup> signed by Heath B. McLendon ("McLendon") as Chairman of the Board and CEO of the Aggressive Growth Fund and Daidone as Senior Vice President and Chief Financial and Accounting Officer of the Aggressive Growth Fund, contained the following statements in the prospectus:

Transfer agent and shareholder servicing agent Smith Barney Private Trust Company serves as the fund's transfer agent and shareholder servicing agent (the "transfer agent"). Pursuant to a sub-transfer agency and services agreement with the transfer agent, PFPC Global Fund Services serves as the fund's sub-transfer

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<sup>1</sup> A Form 485BPOS1 is a Post- Effective Amendment to the previously-filed Registration Statement for investment companies.

agent (the "sub-transfer agent") to render certain shareholder record keeping and accounting services and functions.

The December 1999 Form 485BPOS contained an Aggressive Growth Fund SAI, which included the following statements:

Smith Barney Private Trust Company, located at 388 Greenwich Street, New York, NY 10013 serves as the Transfer Agent and shareholder services agent of the fund. PFPC Global Fund Services, located at P.O Box 9699 Providence, RI 02940-9699 serves as the fund's sub-transfer agent to render certain shareholder record keeping and accounting services functions.

2. The statements included in the December 1999 Aggressive Growth Fund Form 485BPOS prospectus and SAI and described in paragraph 1 herein were materially misleading when made because they omitted and otherwise failed to disclose:

- (i) that the sub-transfer agent structure was nothing more than an elaborate scheme to inflate Citigroup profits at the expense of Funds' shareholders;
- (ii) the scheme complained of herein whereby PFPC was doing the bulk of the work, while CFT, the middleman transfer agent, a Citibank-related entity, received tens of millions of dollars that rightfully belonged to Funds' shareholders for doing next to nothing;
- (iii) the materially misleading process which led to the appointment of the sub-transfer agent and;
- (iv) the Revenue Guarantee, a material part of the scheme, which provided Citigroup entities with millions of dollars of investment banking profits.

3. On December 27, 2000, the Aggressive Growth Fund caused to be filed with the SEC a Form 485BPOS. The December 2000 Form 485BPOS contains a prospectus and SAI that provides shareholders with information pertinent to their investment in Aggressive Growth Fund. The December 2000 Form 485BPOS was signed by McLendon as Chairman of the Board

and CEO of the Aggressive Growth Fund and Daidone as Senior Vice President and Chief Financial and Accounting Officer of the Aggressive Growth Fund and contains statements virtually identical to those made in the December 199 Aggressive Growth Form 485BPOS and described in paragraph 1. As such, these statements were materially misleading when made because they omitted material information for the same reasons as set forth in paragraph 1.

4. On December 13, 2001, the Aggressive Growth Fund caused to be filed a Form 485BPOS with the SEC. The December 2001 Aggressive Growth Fund Form 485BPOS contains a prospectus and SAI that provides shareholders with information pertinent to their investment in the Aggressive Growth Fund. The December 2001 Form 485 BPOS was signed by McLendon as Chairman of the Board and CEO of the Aggressive Growth Fund and Daidone as Senior Vice President and Chief Financial and Accounting Officer of the Aggressive Growth Fund, and contained statements virtually identical to those made in the December 1999 and December 2000 Aggressive Growth Fund Form 485BPOS prospectus and SAI. As such, the statements were materially misleading when made because they omit material information for the same reasons set forth in paragraph 2.

5. On December 27, 2002, the Aggressive Growth Fund caused to be filed a Form 485BPOS with the SEC, which contains a prospectus and SAI that provides shareholders with information pertinent to their investment in the Aggressive Growth Fund. The Form 485BPOS was signed by R. Jay Gerken ("Gerken") as Chairman of the Board and CEO of the Aggressive Growth Fund, and Richard L. Peteka ("Peteka") as Treasurer and Chief Financial Officer of the Aggressive Growth Fund and contained substantially similar disclosures concerning the sub-transfer agent arrangement, as follows:

Transfer agent and shareholder servicing agent Citicorp Trust Bank, fsb serves as the fund's transfer agent and shareholder servicing agent (the "transfer agent").

The transfer agent has entered into sub-transfer agency and services agreements with PFPC Global Fund Services and Primerica Shareholder Services to serve as the fund's sub-transfer agents (the "sub-transfer agents"). The sub-transfer agents will perform certain shareholder record keeping and accounting services.

The December 2002 Form 485BPOS contained an Aggressive Growth Fund SAI, which included the following statements:

Citicorp Trust Bank, fsb, located at 125 Broad Street, New York, NY 10004, serves as the transfer agent and shareholder services agent of the fund.

PFPC Global Fund Services, located at P.O. Box 9699 Providence, RI 02940-9699, serves as a sub-transfer agent to the fund to render certain shareholder record keeping and accounting services.

The fund also has engaged the services of Primerica Shareholder Services as a sub-transfer agent for PFSI accounts. This sub-transfer agent is located at 3100 Breckinridge Blvd., Bldg. 200, Duluth, GA 30099

6. The statements described in paragraph 5 and were materially misleading when made because they omit material information for the same reasons set forth in paragraph 2.

7. On January 27, 2003, the Aggressive Growth Fund caused to be filed a Form 485BPOS with the SEC consisting of a revised SAI (which revised the SAI originally filed on December 27, 2002 and dated December 30, 2002, described in paragraph 5] that contained substantially similar disclosures concerning the sub-transfer agent arrangement:

Custodian and Transfer Agent

Citicorp Trust Bank, fsb, located at 125 Broad Street, New York, NY 10004, serves as the transfer agent and shareholder services agent of the fund.

PFPC Global Fund Services, located at P.O. Box 9699 Providence, RI 02940-9699, serves as a sub-transfer agent to the fund to render certain shareholder record keeping and accounting services.

The fund also has engaged the services of Primerica Shareholder Services as a sub-transfer agent for PFSI accounts. This sub-transfer agent is located at 3100 Breckinridge Blvd., Bldg. 200, Duluth, GA 30099

The January 2003 Form 485BPOS contained no signatures, but the original SAI was signed by



Gerken as Chairman of the Board and CEO of the Aggressive Growth Fund, and Peteka as Treasurer and Chief Financial Officer of the Aggressive Growth Fund. The statements described in paragraph 7 were materially misleading when made because they omitted material information for the same reasons set forth in paragraph 2.

8. After a whistleblower came forward to the SEC in September of 2003, the truth was subsequently partially disclosed. On December 1, 2003 supplements were issued to certain of the Funds' prospectuses, which are described in more detail herein.

9. On December 1, 2003, the Aggressive Growth Fund caused to be filed with the SEC a Form 497, which supplemented the "Management" section of the December 27, 2002 Aggressive Growth Fund prospectus which was part of the then-effective December 2002 Aggressive Growth Form 485BPOS ("December 2003 Supplement").<sup>2</sup> Although the December 2003 Supplement did not contain signatures, Gerken and Peteka had signed the December 2002 Form 485POS that was still in effect. The December 2003 Supplement contained the following statements:

Recent Developments:

The Fund has received the following information from Citigroup Asset Management ("CAM"), the Citigroup business unit which includes the Fund's Investment Manager and other investment advisory companies, all of which are indirect, wholly-owned subsidiaries of Citigroup. CAM is reviewing its entry, through an affiliate, into the transfer agent business in the period 1997-1999. As CAM currently understands the facts, at the time CAM decided to enter the transfer agent business, CAM sub-contracted for a period of five years certain of the transfer agency services to a third party and also concluded a revenue guarantee agreement with this sub-contractor providing that the sub-contractor would guarantee certain benefits to CAM or its affiliates (the "Revenue Guarantee Agreement"). In connection with the subsequent purchase of the sub-

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<sup>2</sup> Identical Form 497 December 2003 Supplements were issued on behalf of all of the 24 Funds, and each operated as a supplement to the language contained in the "Management" section of each Funds' then-effective prospectus as described herein. Funds in the Smith Barney Income Funds series, as well as the Smith Barney Managed Government Funds Inc. (defined below) issued their December 2003 Supplement on November 28, 2003, but the language and effect was identical. As such, each of the 24 Funds' December 2003 Supplement was materially misleading because each continued to omit material information for the reasons set forth in paragraph 10 below.

contractor's business by an affiliate of the current sub-transfer agent (PFPC Inc.) used by CAM on many of the funds it manages, this Revenue Guarantee Agreement was amended eliminating those benefits in exchange for arrangements that included a one-time payment from the subcontractor.

The Boards of CAM-managed funds (the "Boards") were not informed of the Revenue Guarantee Agreement with the sub-contractor at the time the Boards considered and approved the transfer agent arrangements. Nor were the Boards informed of the subsequent amendment to the Revenue Guarantee Agreement when that occurred.

CAM has begun to take corrective actions. CAM will pay to the applicable funds \$16 million (plus interest) that CAM and its affiliates received from the Revenue Guarantee Agreement and its amendment. CAM also plans an independent review to verify that the transfer agency fees charged by CAM were fairly priced as compared to competitive alternatives. CAM is instituting new procedures and making changes designed to ensure no similar arrangements are entered into in the future.

CAM has briefed the SEC, the New York State Attorney General and other regulators with respect to this matter, as well as the U.S. Attorney who is investigating the matter. CAM is cooperating with governmental authorities on this matter.

10. The statements made in the December 2003 Supplement issued by the Aggressive Growth Fund and described in paragraph 9 were materially misleading when made because, although this statement disclosed some of the facts surrounding the Revenue Guarantee, it continued to omit material information about, and failed to fully disclose, the scheme behind the sub-transfer agent kickback scheme, *e.g.*, that CTB was paid tens of millions of dollars (that rightfully belonged to shareholders) for doing little work while, moreover, PFPC did the bulk of the work at radically reduced rates. That information was not made public until the SEC instituted proceedings against the Adviser and Global Markets on May 31, 2005. Moreover, the December 2003 Supplement did not cure the material omissions contained in the December 2002 Form 485BPOS or in the earlier Aggressive Growth Fund Class Period statements for the same reasons.

11. On December 29, 2003, the Aggressive Growth Fund caused to be filed a Form 485BPOS with the SEC, which contains a prospectus and SAI that provides shareholders with

information pertinent to their investment in the Aggressive Growth Fund. The Form 485BPOS was signed by Gerken as Chairman of the Board and CEO of the Aggressive Growth Fund, and Peteka as Treasurer and Chief Financial Officer of the Aggressive Growth Fund, and contained the following disclosures in the Aggressive Growth Fund prospectus, which reflect and incorporate the materially incomplete December 2003 Supplement:

Transfer agent and shareholder servicing agent Citicorp Trust Bank, fsb serves as the fund's transfer agent and shareholder servicing agent (the "transfer agent"). The transfer agent has entered into sub-transfer agency and services agreements with PFPC Global Fund Services and Primerica Shareholder Services to serve as the fund's sub-transfer agents (the "sub-transfer agents"). The sub-transfer agents will perform certain shareholder record keeping and accounting services.

#### Recent Developments

The Fund has received the following information from Citigroup Asset Management ("CAM"), the Citigroup business unit which includes the fund's manager and other investment advisory companies, all of which are indirect, wholly-owned subsidiaries of Citigroup. CAM is reviewing its entry, through an affiliate, into the transfer agent business in the period 1997-1999. As CAM currently understands the facts, at the time CAM decided to enter the transfer agent business, CAM sub-contracted for a period of five years certain of the transfer agency services to a third party and also concluded a revenue guarantee agreement with this sub-contractor providing that the subcontractor would guarantee certain benefits to CAM or its affiliates (the "Revenue Guarantee Agreement"). In connection with the subsequent purchase of the sub-contractor's business by an affiliate of the current sub-transfer agent (PFPC Inc.) used by CAM on many of the funds it manages, this Revenue Guarantee Agreement was amended, eliminating those benefits in exchange for arrangements that included a one-time payment from the subcontractor.

The Boards of CAM-managed funds (the "Boards") were not informed of the Revenue Guarantee Agreement with the sub-contractor at the time the Boards considered and approved the transfer agent arrangements. Nor were the Boards informed of the subsequent amendment to the Revenue Guarantee Agreement when that occurred.

CAM has begun to take corrective actions. CAM will pay to the applicable funds \$16 million (plus interest) that CAM and its affiliates received from the Revenue Guarantee Agreement and its amendment. CAM also plans an independent review to verify that the transfer agency fees charged by CAM were fairly priced as compared to competitive alternatives. CAM is instituting new procedures and

making changes designed to ensure no similar arrangements are entered into in the future.

CAM has briefed the SEC, the New York State Attorney General and other regulators with respect to this matter, as well as the U.S. Attorney who is investigating the matter. CAM is cooperating with governmental authorities on this matter.

12. The statements in the December 2003 Aggressive Growth Fund Form 485BPOS prospectus and described in paragraph 11 were materially misleading when made because, although this statement disclosed some of the facts surrounding the Revenue Guarantee, it continued to omit material information about, and failed to fully disclose, the sub-transfer agent kickback scheme, *e.g.*, that CTB was paid tens of millions of dollars (that rightfully belonged to shareholders) for doing little work while, moreover, PFPC did the bulk of the work at radically reduced rates. That information was not made public until the SEC instituted proceedings against the Adviser and Global Markets on May 31, 2005.

Later in the December 2003 Form 485BPOS, the SAI included the following statement:

Custodian and Transfer Agent

Citicorp Trust Bank, fsb, located at 125 Broad Street, New York, New York 10004, serves as the transfer agent and shareholder services agent of the fund.

PFPC Global Fund Services, whose address is P.O. Box 9699, Providence, Rhode Island 02940-9699, serves as a sub-transfer agent to the fund to render certain shareholder record keeping and accounting services.

The fund also has engaged the services of Primerica Shareholder Services as a sub-transfer agent for PFSI accounts. This sub-transfer agent is located at 3120 Breckinridge Boulevard, Duluth, Georgia 30099-0001.

13. The statements included in the December 2003 Aggressive Growth Fund Form 485BPOS SAI described in paragraph 12 and were materially misleading when made because they omitted material information for the same reasons set forth in paragraph 2.

14. On July 23, 2004, the Aggressive Growth Fund caused to be filed with the SEC a

Form 497, which deleted and replaced the “Management” section of the then-effective December 2003 Aggressive Growth Fund prospectus (as supplemented by the December 2003 Supplement) which was part of the then-effective Aggressive Growth Fund December 2003 Form 485BPOS (“July 2004 Amendment”).<sup>3</sup> Although the July 2004 Amendment did not contain signatures, Gerken and Peteka had signed the December 2003 Form 4385POS that was still in effect. The July 2004 Amendment contained the following statements:

Citigroup has 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 Citigroup Asset Management (CAM), including its applicable investment advisory companies and Citicorp Trust Bank (CTB), an internal transfer agent, relating to the creation and operation of the internal transfer agent unit to serve certain CAM-managed funds, including the Fund. This notification arises out of a previously disclosed SEC investigation by the SEC and the U.S. Attorney and relates to CTB’s entry in 1999 into the transfer agency business, CAM’s retention of, and agreements with an unaffiliated sub transfer agent, the adequacy of the disclosures made to the fund boards that approved the transfer agency arrangements, (including CAM’s failure to disclose a related revenue guarantee agreement benefiting CAM and its affiliates), and CAM’s operation of and compensation for the transfer agency business. The revenue guarantee described above was terminated in 1999 and CAM will be paying the applicable funds, primarily through fee waivers, a total of approximately \$17 million (plus interest) that is the amount of the revenue received by Citigroup relating to the revenue guarantee. Citigroup is cooperating fully in the investigation and will seek to resolve the matter in discussions with the SEC Staff. Although there can be no assurance, Citigroup does not believe that this matter will have a material adverse effect on the Fund.

15. The statement made in the July 2004 Amendment issued by the Aggressive Growth and described in paragraph 14 was materially misleading when made for the reasons stated in paragraph 10. Moreover, the July 2004 Amendment did not cure the material omissions contained in the Aggressive Growth Fund Form 485BPOS or in the earlier Aggressive Growth Fund Class Period statements for the same reasons.

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<sup>3</sup> Identical Form 497 July Amendments were issued on behalf of all of the 24Funds, and each operated to delete and replace the language contained in the “Management” section of each of the 24 Funds’ then-effective prospectus as described herein. As such, each of the 24 Funds July 2004 Amendment was materially misleading because each continued to omit material information for the reasons set forth in paragraph 10.

16. On October 25, 2004, the Aggressive Growth Fund caused to be filed with the SEC a Form 497, which deleted and replaced the then-effective December 2003 Aggressive Growth Fund prospectus (as supplemented by the December 2003 Supplement and amended by July 2004 Amendment) which was part of the then-effective Aggressive Growth Fund December 2003 Form 485BPOS (“October 2004 Amendment”).<sup>4</sup> Although the October 2004 Amendment did not contain signatures, Gerken and Peteka had signed the December 2003 Form 485POS that was still in effect. The July 2004 Amendment contained the following statements which deleted and replaced the “Management” section of the then-effective December 2, 2003 Aggressive Growth Fund Form 485BPOS prospectus (as amended by the July 2004 Amendment discussed herein) which was part of the then-effective Aggressive Growth Fund December 2003 Form 485BPOS (“October 2004 Amendment”). Although the October 2004 Amendment did not contain signatures, Gerken and Shoup had signed the December 2003 Form 485POS that was still in effect. The October 2004 Amendment contained the following statements:

In connection with an investigation previously disclosed by Citigroup, the Staff of the Securities and Exchange Commission (SEC) has notified Citigroup Asset Management (CAM), the Citigroup business unit that includes the funds’ investment manager and other investment advisory companies; Citicorp Trust Bank (CTB), an affiliate of CAM; Thomas W. Jones, the former CEO of CAM; and two other individuals, one of whom is an employee and the other of whom is a former employee of CAM, that the SEC Staff is considering recommending a civil injunctive action and/or an administrative proceeding against each of them relating to the creation and operation of an internal transfer agent unit to serve various CAM-managed funds.

In 1999, CTB entered the transfer agent business. CTB hired an unaffiliated subcontractor to perform some of the transfer agent services. The subcontractor, in exchange, had signed a separate agreement with CAM in 1998 that guaranteed investment management revenue to CAM and investment banking revenue to a CAM affiliate. The subcontractor’s business was later taken over by PFPC Inc., and at that time the revenue guarantee was eliminated and a one-time payment was made by the

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<sup>4</sup> Identical Form 497 October Amendments were issued on behalf of all of the 24 Funds, and each operated to delete and replace the language contained in the “Management” section of each Funds’ then-effective prospectus as described herein. As such, each of the 24 Funds’ October 2004 Amendment was materially misleading because each continued to omit material information for the reasons set forth in paragraph 10.

subcontractor to a CAM affiliate.

CAM did not disclose the revenue guarantee when the boards of various CAM-managed funds hired CTB as transfer agent. Nor did CAM disclose to the boards of the various CAM-managed funds the one-time payment received by the CAM affiliate when it was made

In addition, the SEC Staff has indicated that it is considering recommending action based on the adequacy of the disclosures made to the fund boards that approved the transfer agency arrangement, CAM's initiation and operation of, and compensation for, the transfer agent business and CAM's retention of, and agreements with, the subcontractor.

Citigroup is cooperating fully in the investigation and will seek to resolve the matter in discussions with the SEC Staff. Although there can be no assurance, Citigroup does not believe that this matter will have a material adverse effect on the funds. As previously disclosed, CAM has already agreed to pay the applicable funds, primarily through fee waivers, a total of approximately \$17 million (plus interest) that is the amount of the revenue received by Citigroup relating to the revenue guarantee.

17. The statements made in the October 2004 Amendment issued by the Aggressive Growth Fund and described in paragraph 16 was materially misleading for the reasons described in paragraph 10. Moreover, the October 2004 Amendment did not cure the material omissions contained in the December 2003 Aggressive Growth Fund Form 485BPOS, the July 2004 Amendment, or in the earlier Aggressive Growth Fund Class Period statements for the same reasons.

**SMITH BARNEY ALLOCATION SERIES, INC. - ALLOCATION GROWTH PORTFOLIO**

18. On May 26, 2000, the Smith Barney Allocation Series, Inc. ("Allocation Series"), a sub-family of Smith Barney Funds, issued a Form 485BPOS with the SEC on behalf of, *inter alia*, the Growth Portfolio ("Allocation Growth Portfolio"), one of the 24 Funds. The May 2000 Form 485BPOS contains a prospectus and an SAI that provides shareholders with information pertinent to their investment in the Allocation Growth Portfolio. Shares of the Allocation Growth Portfolio were purchased and/or sold during the Class period by Lead Plaintiff David F.

Zagunis. The May 2000 Form 485BPOS was signed by McLendon as Chairman of the Board and CEO of the Allocation Series, and Daidone as Senior Vice President, Treasurer and Principal Accounting Officer of the Allocation Series, and contained the following statements in the prospectus section:

Transfer agent and shareholder servicing agent

Citi Fiduciary Trust Company serves as the portfolios' transfer agent and shareholder servicing agent (the "transfer agent"). The transfer agent has entered into sub-transfer agency and services agreements with PFPC Global Fund Services and PFS Shareholder Services to serve as the portfolios' sub-transfer agents (the "sub-transfer agents"). The sub-transfer agents will perform certain shareholder record keeping and accounting services.

The May 2000 Form 485BPOS contained an Allocation Growth Portfolio SAI, which included the following statements:

Transfer Agent. Citi Fiduciary Trust Company, located at 125 Broad Street, New York, New York 10004, serves as the fund's transfer and dividend-paying agent. Under the transfer agency agreement, the Transfer Agent maintains the shareholder account records for the fund, handles certain communications between shareholders and the fund, distributes dividends and distributions payable by the fund and produces statements with respect to account activity for the fund and its shareholders. For these services, the Transfer Agent receives fees from the fund computed on the basis of the number of shareholder accounts that the Transfer Agent maintains for the fund during the month and is reimbursed for out-of-pocket expenses.

Sub-Transfer Agent. PFPC Global Fund Services, located at P.O. Box 9699, Providence, RI 02940-9699, serves as one of the fund's sub-transfer agents. Under the transfer agency agreement, the sub-transfer agent maintains the shareholder account records for the fund, handles certain communications between shareholders and the fund and distributes dividends and distributions payable by the fund. For these services, the sub-transfer agent receives a monthly fee computed on the basis of the number of shareholder accounts it maintains for the fund during the month, and is reimbursed for out-of-pocket expenses.

The fund has also engaged the services of PFS Shareholder Services as a sub-transfer agent for PFS Investment Accounts. This sub-transfer agent is located at 3100 Breckinridge Blvd., Bldg. 200, Duluth, GA 30099.

Portions of these statements appear verbatim in three other sections of the May 2000 Form



485BPOS.

19. The statements contained in the May 2000 Form 485BPOS Allocation Growth Portfolio prospectus and SAI, which are described in paragraph [18] were materially misleading when made because they omitted and failed to disclose material information for the same reasons set forth in paragraph 2.

20. On May 30, 2001, the Allocation Series caused to be filed a Form 485BPOS with the SEC on behalf of, *inter alia*, the Allocation Growth Portfolio. The May 2001 Form 485BPOS contains a prospectus and SAI that provides shareholders with information pertinent to their investment in Allocation Growth Portfolio. The May 2001 Form 485BPOS was signed by Daidone as Senior Vice President, Treasurer and Principal Accounting of the Allocation Series, and included statements identical to those made in the May 2000 Form 485BPOS Allocation Growth Fund prospectus and SAI, described in paragraph 18 herein. As such, these statements were materially misleading because they omitted material information for the same reasons set forth in paragraph 2.

21. On May 30, 2002, the Allocation Series caused to be filed a Form 485BPOS on behalf of, *inter alia*, the Allocation Growth Portfolio, which contains a prospectus and SAI that provides shareholders with information pertinent to their investment in Allocation Growth Portfolio. The May 2002 Form 485BPOS was signed by Daidone as Senior Vice president, Treasurer and Principal Accounting of the Allocation Series, and contained statements in the Allocation Growth Portfolio prospectus and SAI virtually identical to those made in the May 2000 and 2001 Form 485BPOS described in paragraph 18. As such, these statements were materially misleading because they omitted material information for the same reasons set forth in paragraph 2.

22. On May 29, 2003, the Allocation Series caused to be filed a Form 485BPOS on behalf of, *inter alia*, the Allocation Growth Portfolio, which contains a prospectus and SAI that provides shareholders with information pertinent to their investment in Allocation Growth Portfolio. The May 2003 Form 485BPOS was signed by Gerken as Chairman of the Board and CEO of the Allocation Series, and Peteka as Treasurer and Principal Accounting Officer of the Allocation Series, and contained the following statements in the Allocation Growth Portfolio prospectus:

Citicorp Trust Bank, fsb serves as the portfolios' transfer agent and shareholder servicing agent (the "transfer agent"). The transfer agent has entered into sub-transfer agency and services agreements with PFPC Global Fund Services and Primerica Shareholder Services to serve as the portfolios' sub-transfer agents (the "sub-transfer agents"). The sub-transfer agents will perform certain shareholder record keeping and accounting services.

The May 2003 Form 485BPOS contained an Allocation Growth Portfolio SAI, which included the following statements:

Transfer Agent. Citicorp Trust Bank, fsb ("CTB"), located at 125 Broad Street, New York, New York 10004, serves as the fund's transfer and dividend-paying agent. Under the transfer agency agreement, the Transfer Agent maintains the shareholder account records for the fund, handles certain communications between shareholders and the fund, distributes dividends and distributions payable by the fund and produces statements with respect to account activity for the fund and its shareholders. For these services, the Transfer Agent receives fees from the fund computed on the basis of the number of shareholder accounts that the Transfer Agent maintains for the fund during the month and is reimbursed for out-of-pocket expenses. During the fiscal year ended January 31, 2003, the Global, High Growth, Growth, Balanced, Conservative and Income Portfolios paid transfer agent fees of \$9,629, \$214,377, \$235,500, \$94,891, \$21,155 and \$13,847, respectively, to CTB.

Sub-Transfer Agent. PFPC Global Fund Services, located at P.O. Box 9699, Providence, RI 02940-9699, serves as one of the fund's sub-transfer agents. Under the transfer agency agreement, the sub-transfer agent maintains the shareholder account records for the fund, handles certain communications between shareholders and the fund and distributes dividends and distributions payable by the fund. For these services, the sub-transfer agent receives a monthly fee computed on the basis of the number of shareholder accounts it maintains for the

fund during the month, and is reimbursed for out-of-pocket expenses.

The fund has also engaged the services of Primerica Shareholder Services as a sub-transfer agent for PFS Investment Accounts. This sub-transfer agent is located at P.O. Box 9662, Providence, RI 02940-9662.

23. The statements described in paragraph 22 herein were materially misleading when made because they omit material information for the same reasons set forth in paragraph 2. Although the May 2003 Form 485BPOS Allocation Growth Portfolio SAI includes some detail concerning the amount of fees paid by the Allocation Growth Portfolio shareholders, these additional disclosures do nothing to remedy the material omissions concerning, *inter alia*, the kickback scheme or the true nature of the sub-transfer agent arrangement.

24. As discussed above, the Allocation Series' May 2003 Form 485BPOS was supplemented by the December 2003 Supplement. The December 2003 Supplement was materially misleading for the reasons set forth in paragraph 10, and did not cure the material omissions contained therein or in the earlier Allocation Series Class Period statements for the same reasons.

25. On May 27, 2004, the Allocation Series caused to be filed a Form 485BPOS on behalf of the Allocation Growth Portfolio, which contains a prospectus and SAI that provides shareholders with information pertinent to their investment in Allocation Growth Portfolio. The May 2004 Form 485BPOS was signed by Gerken as President, Chairman of the Board and CEO of the Allocation Series and contained the following statements in the Allocation Growth Portfolio prospectus that reflect and incorporate the incomplete disclosures included in the December 2003 Supplement:

Transfer agent and shareholder servicing agent

Citicorp Trust Bank, fsb ("Citicorp Trust") serves as the portfolios' transfer agent and shareholder servicing agent (the "transfer agent"). The transfer agent has

entered into sub-transfer agency and services agreements with PFPC Inc. and Primerica Shareholder Services to serve as the portfolios' sub-transfer agents (the "sub-transfer agents"). The sub-transfer agents will perform certain shareholder record keeping and accounting services.

#### Recent Developments

During the period from 1997-1999, Citicorp Trust, an affiliate of Citigroup Asset Management ("CAM"), entered the transfer agent business. CAM is the Citigroup business unit that includes the portfolios' manager and other investment advisory companies. Citicorp Trust hired a sub-contractor to perform some of the transfer agent services. The sub-contractor, in exchange, signed a separate agreement with CAM in 1998 that guaranteed investment management revenue to CAM and investment banking revenue to a CAM affiliate. The sub-contractor's business was later taken over by PFPC Inc. (the portfolio's current sub-transfer agent), and at that time the revenue guarantee was eliminated and a one-time payment was made by the sub-contractor to a CAM affiliate.

CAM did not disclose the revenue guarantee agreement when the Board of the portfolios and various other CAM-managed funds hired Citicorp Trust as transfer agent. Nor did CAM disclose the one-time payment to the boards of the CAM-managed funds when it was made.

CAM is taking corrective actions. CAM will pay to the applicable funds approximately \$17 million (plus interest) that CAM and its affiliates received from the revenue guarantee agreement and the one-time payment. CAM is also conducting an independent review to verify that the transfer agency fees charged by Citicorp Trust were fair compared to competitive alternatives. CAM is strengthening its procedures in order to avoid similar situations in the future.

CAM has given this information to regulators and other government authorities, and understands that the Securities and Exchange Commission and the U.S. Attorney are investigating this situation.

The May 2004 Form 485BPOS contained an Allocation Growth Portfolio SAI, which included the following statements:

Transfer Agent. Citicorp Trust Bank, fsb, located at 125 Broad Street, New York, New York 10004, serves as the fund's transfer and dividend-paying agent. Under the transfer agency agreement, the Transfer Agent maintains the shareholder account records for the fund, handles certain communications between shareholders and the fund, distributes dividends and distributions payable by the fund and produces statements with respect to account activity for the fund and its shareholders. For these services, the Transfer Agent receives fees from the fund computed on the basis of the number of shareholder accounts that the Transfer

Agent maintains for the fund during the month and is reimbursed for out-of-pocket expenses.

During the fiscal year ended January 31, 2004, the Global, High Growth, Growth, Balanced, Conservative and Income Portfolios paid transfer agent fees of \$194,249, \$2,797,069, \$1,962,877, \$744,787, \$179,567 and \$72,531, respectively.

Sub-Transfer Agent. PFPC Inc., located at P.O. Box 9699, Providence, RI 02940-9699, serves as one of the fund's sub-transfer agents. Under the transfer agency agreement, the sub-transfer agent maintains the shareholder account records for the fund, handles certain communications between shareholders and the fund and distributes dividends and distributions payable by the fund. For these services, the sub-transfer agent receives a monthly fee computed on the basis of the number of shareholder accounts it maintains for the fund during the month, and is reimbursed for out-of-pocket expenses.

The fund has also engaged the services of Primerica Shareholder Services as a sub-transfer agent for PFS Investment Accounts. This sub-transfer agent is located at P.O. Box 9662, Providence, RI 02940-9662.

26. The disclosure in the May 2004 Form 485BPOS Allocation Growth Portfolio prospectus described in paragraph 25 was materially false and misleading for the reasons set forth in paragraph 12. The statements included in the May 2004 Form 485BPOS Allocation Growth Portfolio SAI and described in paragraph 25 herein and are also materially false and misleading because they omitted material information for the same reasons as set forth in paragraph 2. Although the May 2004 Form 485BPOS Allocation Growth Portfolio SAI includes some detail concerning the amount of fees paid by the Allocation Growth Portfolio shareholders, these additional disclosures do nothing to remedy the material omissions concerning, *inter alia*, the kickback scheme or the true nature of the transfer agent fees paid by the 24 Funds.

27. As discussed above, the Allocation Series' May 2004 Form 485BPOS was amended by the July 2004 and October 2004 Amendments, which were materially misleading for the reasons set forth in paragraph 10, and did not cure the material omissions contained therein

or in the earlier Allocation Growth Portfolio Class Period statements.

**SMITH BARNEY APPRECIATION, FUND INC.**

28. On April 26, 2000, the Smith Barney Appreciation Fund, Inc. ("Appreciation Fund") caused to be filed a Form 485BPOS with the SEC. The April 2000 Form 485BPOS contains a prospectus and SAI that provides shareholders with information pertinent to their investment in Appreciation Fund. Shares of the Appreciation Fund were purchased and/or sold during the Class period by Plaintiffs Robert and Ann Yiambellis, DVL 401(k) Plan, Bharat U. Shah, Steven W. Hall, and Richard Rees. The April 2000 Form 485 BPOS was signed by Daidone as Senior Vice President, Treasurer and Chief Financial and Accounting Officer of the Appreciation Fund, and contains the following statement:

Transfer agent and shareholder servicing agent Citi Fiduciary Trust Company serves as the fund's transfer agent and shareholder servicing agent (the "transfer agent"). Pursuant to a sub-transfer agency and services agreement with the transfer agent, PFPC Global Fund Services serves as the fund's sub-transfer agent (the "sub-transfer agent") to render certain shareholder record keeping and accounting services and functions.

Later in the same document, the SAI portion of the April 2000 Form 485BPOS includes the following statements:

**Custodian, Transfer Agent and Sub-Transfer Agent**

Citi Fiduciary Trust Company ("transfer agent"), located at 388 Greenwich Street, New York, New York 10013 serves as the transfer agent and shareholder services agent for the fund.

PFPC Global Fund Services, ("PFPC" or "sub-transfer agent"), located at P.O. Box 9699, Providence, R.I. 02940-9699 serves as the fund's transfer agent to render certain shareholder record keeping and accounting services functions. Under the transfer agency agreement, the sub transfer agent maintains the shareholder account records for the fund, handles certain communications between shareholders and the fund and distributes dividends and distributions payable by the fund. For these services, the sub-transfer agent receives a monthly fee computed on the basis of the number of shareholder accounts it maintains for the fund during the month, and is reimbursed for out-of-pocket expenses.

The fund has also engaged the services of PFS Shareholder Services as a sub-transfer agent for PFS Accounts ("PFS" or "sub-transfer agent"). PFS is located at 3100 Breckinridge Blvd, Bldg 200, Duluth, Georgia 30099-0062.

29. The statements contained in the April 2000 Form 485BPOS and described in paragraph 28 were materially misleading when made because they omitted and failed to disclose material information for the reasons set forth in paragraph 2.

30. On April 20, 2001, the Appreciation Fund caused to be filed a Form 485BPOS with the SEC. The April 2001 Form 485BPOS contains a prospectus and SAI that provides shareholders with information pertinent to their investment in the Appreciation Fund. The April 2001 Form 485BPOS was signed by Daidone as Senior Vice President, Treasurer and Chief Financial and Accounting Officer of the Appreciation Fund, and included statements that are virtually identical to those made in the April 2000 Form 485BPOS described in paragraph 28. As such, these statements were materially misleading because they omitted material information for the same reasons set forth in paragraph 2.

31. On April 26, 2002, the Appreciation Fund caused to be filed a Form 485BPOS with the SEC. The April 2002 Form 485BPOS contains a prospectus and SAI that provides shareholders with information pertinent to their investment in the Appreciation Fund. The April 2002 Form 485BPOS was signed by Peteka as Treasurer and Chief Financial and Accounting Officer of the Appreciation Fund, and included statements that are virtually identical to those made in the April 2000 and 2001 Form 485BPOS Appreciation Fund prospectus and SAI described in paragraph 28. As such, the statements in the April 2002 Form 485BPOS Appreciation Fund prospectus and SAI were materially misleading when made because they omit material information for the same reasons as set forth in paragraph 2.

32. On April 30, 2003, the Appreciation Fund caused to be filed a Form 485BPOS

with the SEC. The April 2003 Form 485BPOS contains a prospectus and SAI that provides shareholders with information pertinent to their investment in the Appreciation Fund. The April 2003 Form 485BPOS was signed by Gerken as Chairman of the Board and CEO of the Appreciation Fund and Peteka as Treasurer and Chief Financial and Accounting Officer of the Appreciation Fund, and included statements that are virtually identical to those made in the April 2000, 2001 and 2002 Form 485BPOS Appreciation Fund prospectuses and SAIs described in paragraph 28. As such, the statements in the April 2003 Form 485BPOS Appreciation Fund prospectus and SAI were materially misleading when made because they omit material information for the same reasons as set forth in paragraph 2.

33. As discussed above, the Appreciation Fund's April 2003 Form 485BPOS was supplemented by the December 2003 Supplement. The December 2003 Supplement was materially misleading for the reasons set forth in paragraph 10, and did not cure the material omissions contained in the April 2003 Form 485BPOS or in the earlier Appreciation Fund Class Period statements for the same reasons.

34. On April 29, 2004, the Appreciation Fund caused to be filed a Form 485BPOS with the SEC. The April 2004 Form 485BPOS contains a prospectus and SAI that provides shareholders with information pertinent to their investment in Appreciation Fund. The April 2004 Form 485BPOS was signed by Gerken as Chairman of the Board and CEO of the Appreciation Fund and Peteka as Treasurer and Chief Financial and Accounting Officer of the Appreciation Fund, and included statements that are virtually identical to those made in the May 2004 Allocation Series Form 485BPOS Allocation Growth Fund prospectus and described in paragraph 25, and appear to reflect and incorporate the incomplete disclosures included in the December 2003 Supplement. As such, these statements were materially misleading when made



for reasons set forth in paragraph 12.

35. In addition to these statements, the April 2004 Form 485BPOS Appreciation Fund SAI contained disclosures virtually identical to those described in paragraph 28 herein.

36. The statements made in the April 2004 Appreciation Fund Form 485BPOS prospectus described in 37 were materially false and misleading when made for the reasons set forth in paragraph 12. The statements included in the April 2004 Form 485BPOS SAI and described in paragraph 28 herein are also false and materially misleading because they omitted material information for the same reasons set forth in paragraph 2.

37. As discussed above, the Appreciation Fund's April 2004 Form 485BPOS was amended by the July 2004 and October 2004 Amendments, which were materially misleading for the reasons set forth in paragraph 10, and did not cure the material omissions contained therein or in the earlier Appreciation Fund's Class Period statements.

#### **SMITH BARNEY INCOME FUNDS**

- Smith Barney Convertible Fund**
- Smith Barney Diversified Strategic Income Fund**
- Smith Barney High Income Fund**
- Smith Barney Capital and Income Fund**
- Smith Barney Premium Total Return Fund**

38. On November 26, 1999, the Smith Barney Income Funds ("Income Funds") caused to be filed with the SEC a Form 485BPOS. The Income Funds are a sub-family of Smith Barney funds that include five of the 24 Funds: Smith Barney Convertible Fund ("Convertible Fund"), Smith Barney Diversified Strategic Income Fund ("Diversified Strategic Income Fund"), Smith Barney High Income Fund ("High Income Fund"), Smith Barney Capital and Income Fund ("Capital and Income Fund")<sup>5</sup> and Smith Barney Premium Total Return Fund ("Premium Total Return Fund"). Shares of the Convertible Fund were purchased and/or sold during the

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<sup>5</sup> The Capital and Income Fund did not come into existence until 2003.

Class period by Plaintiff DVL 401(k) Plan. Shares of the Diversified Strategic Income Fund were purchased and/or sold during the Class Period by Plaintiff DVL 401(k) Plan. Shares of the High Income Fund were purchased and/or sold during the Class Period by Plaintiff DVL 401(k) Plan. Shares of the Capital and Income Fund were purchased and/or sold during the Class Period by Plaintiffs Robert and Ann Yiambellis. Shares of the Premium Total Return Fund were purchased and/or sold during the Class Period by Plaintiffs DVL 401(k) Plan and Renee Miller. The Income Funds November 1999 Form 485BPOS issued on behalf of, *inter alia*, Convertible, Diversified Strategic Income, and High Income Funds, contain prospectuses and SAIs that provide shareholders with information pertinent to their Income Funds investments. The November 1999 Form 485 BPOS was signed by Daidone as Senior Vice President and Chief Financial and Accounting Officer of the Income Funds.

39. The November 1999 Form 485BPOS fails to disclose even cursory information concerning the sub-transfer agency arrangement between Smith Barney and First Data/PFPC, and includes only passing informational reference to First Data in the context of certain shareholder services. Thus, the November 1999 Form 485BPOS is materially misleading for the reasons stated in paragraph 2.

40. On April 27, 2000, the Income Funds caused to be filed with the SEC a Form 485BPOS on behalf of the Premium Total Return Fund. The April 2000 Premium Total Return Fund Form 485BPOS contains a prospectus and SAI that provides shareholders with information pertinent to their investment in Premium Total Return Fund. Shares of the Premium Total Return Fund were purchased and/or sold during the Class period by Plaintiffs DVL 401(k) Plan and Renee Miller. The April 2000 Form 485BPOS, signed by Daidone as Senior Vice President, Treasurer and Chief Financial and Accounting Officer of the Income Funds, contained the

following statements in the prospectus:

Transfer agent and shareholder servicing agent Citi Fiduciary Trust Company serves as the fund's transfer agent and shareholder servicing agent (the "transfer agent"). Pursuant to a sub-transfer agency and services agreement with the transfer agent, PFPC Global Fund Services serves as the fund's sub-transfer agent (the "sub-transfer agent") to render certain shareholder record keeping and accounting services and functions.

The April 2000 Premium Total Return Fund Form 485BPOS contained an SAI which included

the following statements:

Citi Fiduciary Trust Company, located at 388 Greenwich Street, New York, New York 10013, serves as the transfer agent and shareholder services agent of the fund.

PFPC Global Fund Services, located at P.O. Box 9699, Providence, Rhode Island 02940-9699, serves as the fund's sub-transfer agent to render certain shareholder record-keeping and accounting services functions.

41. The statements included in the April 2000 Premium Total Return Fund Form 485BPOS and described in paragraph 40 herein were materially misleading because they omitted material information for the same reasons set forth in paragraph 2.

42. On November 28, 2000, the Income Funds caused to be filed a Form 485BPOS with the SEC on behalf of Convertible, Diversified Strategic Income and High Income Funds. The November 2000 Form 485BPOS was signed by Daidone as Senior Vice President, Treasurer and Chief Financial and Accounting Officer of the Income Funds, and included the following statements in the Convertible, Diversified Strategic Income and High Income Funds prospectuses:

**TRANSFER AGENT AND SHAREHOLDER SERVICING AGENT** Citi Fiduciary Trust Company serves as the fund's transfer agent and shareholder servicing agent (the "transfer agent"). The transfer agent has entered into a sub-transfer agency and services agreement with PFPC Global Fund Services to serve as the fund's sub-transfer agent (the "sub-transfer agent"). The sub-transfer agent performs certain shareholder recordkeeping and accounting services and functions.

The November 2000 Form 485BPOS contained an SAI effective for the all funds in the Income Funds series, which included the following statements:

Citi Fiduciary Trust Company, located at 125 Broad Street, New York, New York 10004, serves as the trust's transfer agent. Under the transfer agency agreement, the transfer agent maintains the shareholder account records for each fund, handles certain communications between shareholders and each fund, and distributes dividends and distributions payable by each fund. For these services, the transfer agent receives a monthly fee computed on the basis of the number of shareholder accounts it maintains for each fund during the month, and is reimbursed for out-of-pocket expenses.

PFPC Global Fund Services, located at P.O. Box 9699 Providence, R.I. 02940-9699 serves as certain fund's sub-transfer agent to render certain shareholder record keeping and accounting services functions. Under the transfer agency agreement, PFPC Global maintains the shareholder account records for a fund, handles certain communications between shareholders and a fund, and distributes dividends and distributions payable by a fund. For these services, PFPC Global receives a monthly fee computed on the basis of the number of shareholder accounts it maintains for the fund during the month, and is reimbursed for out-of-pocket expenses.

PFS Shareholder Services, located at 3100 Breckinridge Blvd., Bldg 200, Duluth, Georgia 30099-0062, serves as the sub-transfer agent for PFS Accounts of Smith Barney Exchange Reserve Fund and Smith Barney Diversified Strategic Income Fund.

43. The statements included in the November 2000 Income Funds Form 485BPOS Convertible, Diversified Strategic Income and High Income Funds prospectuses and SAIs and described in paragraph 42 herein were materially false and misleading when made because they omitted material information for the same reasons set forth in paragraph 2.

44. On April 30, 2001, the Income Funds caused to be filed with the SEC a Form 485BPOS on behalf of the Premium Total Return Fund. The April 2001 Premium Total Return Fund Form 485BPOS contains a prospectus and SAI that provides shareholders with information pertinent to their investment in Premium Total Return Fund. The April 2001 Form 485BPOS, signed by Daidone as Senior Vice President, Treasurer and Chief Financial and Accounting

Officer of the Income Funds, contain statements that are virtually identical to statements made in the April 2000 Form 485BPOS Premium Total Return Fund prospectus and SAI described in paragraph 42. As such, these statements were materially misleading when made because they omitted material information for the same reasons set forth in paragraph 2.

45. On November 27, 2001, the Income Funds caused to be filed a Form 485BPOS with the SEC on behalf of Convertible, Diversified Strategic Income and High Income Funds. The November 2001 Form 485BPOS was signed by Daidone as Senior Vice President, Treasurer and Chief Financial and Accounting Officer of the Income Funds, and included statements in the Convertible, Diversified Strategic Income and High Income Fund prospectuses and Income Funds series SAI that are virtually identical to those made in the November 2001 Form 485BPOS Convertible, Diversified Strategic Income and High Income Fund prospectuses and Income Funds series SAI described in paragraph 42. As such, these statements were materially misleading when made because they omitted material information for the same reasons set forth in paragraph 2.

46. On April 26, 2002, the Income Funds caused to be filed with the SEC a Form 485BPOS on behalf of the Premium Total Return Fund. The April 2002 Premium Total Return Fund Form 485BPOS contains a prospectus and SAI that provides shareholders with information pertinent to their investment in Premium Total Return Fund. The April 2002 Form 485BPOS, signed by Daidone as Senior Vice President, Treasurer and Chief Financial and Accounting Officer of the Income Funds, contain statements that are virtually identical to statements made in the April 2000 and 2001 Form 485BPOS Premium Total Return Fund prospectus and SAI described in paragraph 42. As such, these statements were materially misleading when made because they omitted material information for the same reasons set forth in paragraph 2.

47. On November 26, 2002, the Income Funds caused to be filed a Form 485BPOS with the SEC on behalf of Convertible, Diversified Strategic Income and High Income Funds. The November 2002 Form 485BPOS was signed by Gerken as Chairman of the Board and CEO of the Income Funds and Peteka as Treasurer and Chief Financial and Accounting Officer of the Income Funds and included statements in the Convertible, Diversified Strategic Income and High Income Fund prospectuses and Income Fund series SAI that are virtually identical to those made in the November 2000 and 2001 Form 485BPOS Convertible, Diversified Strategic Income and High Income Fund prospectuses and Income Fund Series SAI described in paragraph 42. As such, the statements in the November 2002 Form 485BPOS were materially misleading when made because they omitted material information for the same reasons set forth in paragraph 2.

48. On April 29, 2003, the Income Funds caused to be filed a Form 485BPOS with the SEC on behalf of the Capital and Income Fund. The April 2003 Form 485BPOS was signed by Gerken as Chairman of the Board and CEO of the Income Funds and Peteka as Treasurer and Chief Financial and Officer of the Income Funds, and contained the following statements in the Capital and Income Fund prospectus:

Transfer agent and shareholder servicing agent Citicorp Trust Bank, fsb (formerly known as Travelers Bank & Trust, fsb) serves as the fund's transfer agent and shareholder servicing agent (the "transfer agent"). The transfer agent has entered into a sub-transfer agency and services agreement with PFPC Global Fund Services and Primerica Shareholder Services to serve as the fund's sub-transfer agents (the "sub-transfer agents"). The sub-transfer agents will perform certain shareholder record keeping and accounting services

The April 2003 Form 485BPOS contained an SAI pertaining to the Capital and Income Fund that included the following statements:

Citicorp Trust Bank, fsb, located at 125 Broad Street, New York, New York 10004, serves as the transfer agent and shareholder services agent of the fund.

PFPC Global Fund Services, located at P.O. Box 9699, Providence, Rhode Island 02940-9699, serves as the fund's sub-transfer agent to render certain shareholder record-keeping and accounting services functions.

Primerica Shareholder Services, located at 3100 Breckinridge Blvd, Bldg. 200, Duluth, Georgia 30099-0062, also serves as a sub-transfer agent to render certain shareholder record-keeping and accounting services function.

49. The statements included in the April 2003 Form 485BPOS Capital and Income Fund prospectus and SAI and described in paragraph 48 herein are false and materially misleading because they omitted material information for the same reasons set forth in paragraph 2.

50. On May 19, 2003, the Income Funds caused to be filed a Form 485BPOS with the SEC on behalf of the Capital and Income Fund and Convertible Fund. The May 2003 Form 485BPOS was signed by Gerken as Chairman of the Board and CEO of the Income Funds and Peteka as Treasurer and Chief Financial and Officer of the Income Funds, and the SAI included therein contained the following statements:

PFPC Global Fund Services, located at P.O. Box 9699, Providence, Rhode Island 02940-9699, serves as the transfer agent and shareholder services agent of the fund's Salomon Brothers classes of shares.

51. The statements included in the May 2003 Form 485BPOS Capital and Income Fund, and Convertible Fund SAI and described in paragraph 50 herein are false and materially misleading because they omitted material information for the same reasons set forth in paragraph 2.

52. On November 28, 2003, the Income Funds caused to be filed a Form 485BPOS with the SEC on behalf of the Convertible, Diversified Strategic Income and High Income Funds. The November 2003 Form 485BPOS was signed by Gerken as Chairman of the Board and CEO of the Income Funds and Peteka as Treasurer and Chief Financial and Accounting

Officer of the Income Funds, and included statements in the Convertible, Diversified Strategic Income and High Income Fund prospectuses and Income Funds series SAI that are virtually identical to those made in the November 2000, 2001 and 2002 Form 485BPOS Convertible, Diversified Strategic Income and High Income Fund prospectuses and Income Fund series SAIs described in paragraph 42. As such, these statements were materially misleading when made because they omitted material information for the same reasons set forth in paragraph 2.

53. As discussed above, the Income Funds November 2003 Form 485BPOS was supplemented by the December 2003 Supplement. The December 2003 Supplement was materially misleading for the reasons set forth in paragraph 10, and did not cure the material omissions contained in the November 2003 Form 485BPOS or in the earlier Income Funds Class Period statements for the same reasons.

54. On April 29, 2004, the Income Funds caused to be filed a Form 485BPOS with the SEC on behalf of the Capital and Income Fund which contains a prospectus and SAI that provides shareholders with information pertinent to their investment in the Capital and Income Fund. The April 2004 Form 485BPOS was signed by Gerken as Chairman of the Board and CEO of the Income Funds and Peteka as Treasurer and Chief Financial and Officer of the Income Funds, and the prospectus contained the following statements that are virtually identical to those made in the May 2004 Allocation Series Form 485BPOS Allocation Growth Fund prospectus and described in paragraph 25, and appear to reflect and incorporate the incomplete disclosures included in the December 2003 Supplement. As such, these statements were materially misleading when made for reasons set forth in paragraph 12.

55. The April 2004 Form 485BPOS contained an SAI pertaining to the Capital and Income Fund that included the following statements:



Citicorp Trust Bank, fsb, located at 125 Broad Street, New York, New York 10004, serves as the transfer agent and shareholder services agent of the fund. PFPC Inc., located at P.O. Box 9699, Providence, Rhode Island 02940-9699, serves as the fund's sub-transfer agent to render certain shareholder record-keeping and accounting services functions.

Primerica Shareholder Services, located at 3100 Breckinridge Blvd, Bldg. 200, Duluth, Georgia 30099-0062, also serves as a sub-transfer agent to render certain shareholder record-keeping and accounting services function.

PFPC, located at P.O. Box 9699, Providence, Rhode Island 02940-9699, serves as the transfer agent and shareholder services agent of the fund's Salomon Brothers classes of shares.

56. The statements contained in the April 2004 Form 485BPOS Capital and Income Fund SAI and described in 55 were false and materially misleading when made because they omitted material information for the same reasons set forth in paragraph 2.

57. As discussed above, the Income Funds' April 2004 Form 485BPOS was amended by the July 2004 and October 2004 Amendments, which were materially misleading for the reasons set forth in paragraph 10, and did not cure the material omissions contained therein or in the earlier Income Funds Class Period statements

#### **SMITH BARNEY INVESTMENT SERIES - DIVIDEND STRATEGY FUND**

58. On October 29, 2004, the Smith Barney Investment Series sub-family of funds ("Investment Series") caused to be filed with the SEC a Form 485BPOS on behalf of the Dividend Strategy Fund ("Dividend Strategy Fund"). The October 2004 Form 485BPOS contains a Dividend Strategy Fund prospectus and SAI that provides shareholders with information pertinent to their investment in the Dividend Strategy Fund. Shares of the Dividend Strategy Fund were purchased and/or sold during the Class Period by Plaintiffs Colette Luff, and Bharat U. Shah. The October 2004 Form 485 BPOS was signed by Gerken as Chairman of the Board, President and CEO of the Investment Series and included the following statements in the

Dividend Strategy Fund prospectus:

**Transfer agent and shareholder servicing agent** Citicorp Trust Bank, fsb, an affiliate of the manager, serves as the fund's transfer agent and shareholder servicing agent. The transfer agent *has entered into sub-transfer agency and services agreements with PFPC Inc. and Primerica Shareholder Services*, also an affiliate of the manager, to serve as the fund's sub-transfer agents. The sub-transfer agents will perform certain functions including shareholder recordkeeping and accounting services.

**Recent Developments** In connection with an investigation previously disclosed by Citigroup, the Staff of the Securities and Exchange Commission (SEC) has notified Citigroup Asset Management (CAM), the Citigroup business unit that includes the funds' investment manager and other investment advisory companies; Citicorp Trust Bank (CTB), an affiliate of CAM; Thomas W. Jones, the former CEO of CAM; and two other individuals, one of whom is an employee and the other of whom is a former employee of CAM, that the SEC Staff is considering recommending a civil injunctive action and/or an administrative proceeding against each of them relating to the creation and operation of an internal transfer agent unit to serve various CAM-managed funds.

In 1999, CTB entered the transfer agent business. CTB hired an unaffiliated subcontractor to perform some of the transfer agent services. The subcontractor, in exchange, had signed a separate agreement with CAM in 1998 that guaranteed investment management revenue to CAM and investment banking revenue to a CAM affiliate. The subcontractor's business was later taken over by PFPC Inc., and at that time the revenue guarantee was eliminated and a one-time payment was made by the subcontractor to a CAM affiliate.

CAM did not disclose the revenue guarantee when the boards of various CAM-managed funds hired CTB as transfer agent. Nor did CAM disclose to the boards of the various CAM-managed funds the one-time payment received by the CAM affiliate when it was made.

In addition, the SEC Staff has indicated that it is considering recommending action based on the adequacy of the disclosures made to the fund boards that approved the transfer agency arrangement, CAM's initiation and operation of, and compensation for, the transfer agent business and CAM's retention of, and agreements with, the subcontractor.

Citigroup is cooperating fully in the investigation and will seek to resolve the matter in discussions with the SEC Staff. Although there can be no assurance, Citigroup does not believe that this matter will have a material adverse effect on the funds. As previously disclosed, CAM has already agreed to pay the applicable funds, primarily through fee waivers, a total of approximately \$17 million (plus interest) that is the amount of the revenue received by Citigroup relating to the

revenue guarantee.

59. The statements included in the October 2004 Form 485BPOS Dividend Strategy fund prospectus and described in paragraph [] herein are also materially false and misleading because they omitted material information for the same reasons as set forth in paragraph 12.

60. The October 2004 Investment Series Form 485BPOS also contained a Dividend Strategy Fund SAI which included the following statements:

Citicorp Trust Bank, fsb (the “transfer agent”), located at 125 Broad Street, New York, New York 10004, serves as the Fund’s transfer and dividend-paying agent (except with respect to certain share classes not offered through this SAI). Under the transfer agency agreement, the transfer agent, either directly or through a sub transfer agent, maintains the shareholder account records for the Fund, handles certain communications between shareholders and the Fund, distributes dividends and distributions payable by the Fund and produces statements with respect to account activity for the Fund and its shareholders. For these services, the transfer agent receives fees from the Fund computed on the basis of the number of shareholder accounts that the transfer agent maintains for the Fund during the month and is reimbursed for out-of-pocket expenses.

#### Sub-Transfer Agents

PFPC Inc., P.O. Box 9699, Providence, RI 02940-9699, serves as a sub-transfer agent to render certain shareholder recordkeeping and accounting services functions. Primerica Shareholder Services, located at P.O. Box 9662, Providence, Rhode Island 02940-9662, also serves as a sub-transfer agent to render certain shareholder recordkeeping and accounting services functions.

61. The statements included in the October 2004 Form 485BPOS Dividend Strategy Fund SAI and described in paragraph 60 herein are also materially false and misleading because they omitted material information for the same reasons as set forth in paragraph 2.

#### **SMITH BARNEY SECTOR SERIES - SMITH BARNEY FINANCIAL SERVICES FUND**

62. On February 11, 2000, the Smith Barney Sector Series, Inc. a sub-family of the Smith Barney funds (“Sector Series”) caused to be filed with the SEC a Form 485BPOS on behalf of the Smith Barney Financial Services Fund (“Financial Services Fund”). The February

2000 Form 485BPOS contains a Financial Services Fund prospectus and SAI that provides shareholders with information pertinent to their investment in the Financial Services Fund.

Shares of the Financial Services Fund were purchased and/or sold during the Class Period by

Plaintiff Bharat U. Shah. The February 2000 Form 485 BPOS was signed by Daidone as Senior

Vice President, Treasurer and Chief Financial Officer of the Sector Series, and contained the

following statements which were included in the Financial Services Fund prospectus:

Transfer Agent and shareholder servicing agent Smith Barney Private Trust Company serves as each fund's transfer agent and shareholder servicing agent (the "transfer agent"). Pursuant to a sub-transfer agency and services agreement with the transfer agent, PFPC Global Fund Services serves each fund's sub-transfer agent (the "sub-transfer agent") to render certain shareholder record keeping and accounting services functions.

The February 2000 Sector Series Form 485BPOS contained a Financial Services Fund SAI

which included the following statements:

Smith Barney Private Trust Company ("SBPT" or the "transfer agent") located at 388 Greenwich Street, New York, New York 10003, serves as each Fund's transfer agent. Under the transfer agency agreement, SBPT maintains the shareholder account records for the Fund, handles certain communications between shareholders and the Fund and distributes dividends and distributions payable by the Fund. For these services, the transfer agent receives a monthly fee computed on the basis of the number of shareholder accounts it maintains for the Fund during the month and is reimbursed for out-of-pocket expenses.

PFPC Global Fund Services (formerly known as First Data Investor Services Group, Inc.) ("sub-transfer agent") located at Exchange Place, Boston, Massachusetts 02109, a subsidiary of PNC Bank, serves as each Fund's sub-transfer agent. Under the sub-transfer agency agreement, the sub-transfer agent maintains the shareholder account records for the Fund, handles certain communications between shareholders and the Fund and distributes dividends and distributions payable by the Fund. For these services, the sub-transfer agent receives a monthly fee from the SBPT computed on the basis of the number of shareholder accounts it maintains for the Fund during the month and is reimbursed for out-of-pocket expenses.

63. The statements included in the February 2000 Sector Series Form 485BPOS

Financial Services Fund prospectus and SAI and described in paragraph 63 herein were

materially misleading when made because they omitted material information for the same reasons set forth in paragraph 2.

64. On February 28, 2001, the Sector Series caused to be filed with the SEC a Form 485BPOS on behalf of the Financial Services Fund. The February 2001 Form 485BPOS contains a Financial Services Fund prospectus and SAI that provides shareholders with information pertinent to their investment in the Financial Services Fund. The February 2001 Form 485 BPOS was signed by Daidone as Senior Vice President, Treasurer and Chief Financial Officer of the Sector Series, and the following statements were included in the Financial Services Fund prospectus:

Transfer agent and shareholder servicing agent Citi Fiduciary Trust Company serves as each fund's transfer agent and shareholder servicing agent (the "transfer agent"). The transfer agent has entered into sub-transfer agency and services agreements with PFPC Global Fund Services to serve as each fund's sub-transfer agent (the "sub-transfer agent"). The sub-transfer agent will perform certain functions, including shareholder record keeping and accounting services.

The February 2001 Sector Series Form 485BPOS contained a Financial Services Fund SAI which included the following statements:

Citi Fiduciary Trust Company (the "transfer agent") located at 125 Broad Street, New York, New York 10004, serves as each Fund's transfer agent. Under the transfer agency agreement, the transfer agent maintains the shareholder account records for the Fund, handles certain communications between shareholders and the Fund and distributes dividends and distributions payable by the Fund. For these services, the transfer agent receives a monthly fee computed on the basis of the number of shareholder accounts it maintains for the Fund during the month and is reimbursed for out- of-pocket expenses.

PFPC Global Fund Services ("PFPC") located at P.O. Box 9699, Providence, Rhode Island 02940, serves as a sub-transfer agent of each Fund. Under the sub-transfer agency agreement, the PFPC maintains the shareholder account records for the Fund, handles certain communications between shareholders and the Fund and distributes dividends and distributions payable by the Fund. For these services, PFPC receives a monthly fee from the transfer agent computed on the basis of the number of shareholder accounts it maintains for the Fund during the month and is reimbursed for out-of-pocket expenses.

Each Fund has also engaged the services of PFS Shareholder Services ("PFS Shareholder Services") as a sub-transfer agent for PFS Accounts. PFS Shareholder Services is located at 3100 Breckinridge Blvd, Bldg 200, Duluth, Georgia 30099-0062.

65. The statements included in the February 2001 Sector Series Form 485BPOS and described in paragraph 64 herein were materially misleading when made because they omitted material information for the same reasons set forth in paragraph 2.

66. On February 27, 2002, the Sector Series caused to be filed with the SEC a Form 485BPOS on behalf of the Financial Services Fund. The February 2002 Form 485BPOS contains a Financial Services Fund prospectus and SAI that provides shareholders with information pertinent to their investment in the Financial Services Fund. The February 2002 Form 485 BPOS was signed by Daidone as Senior Vice President, Treasurer and Chief Financial and Accounting Officer of the Sector Series, and includes statements in the Financial Services Fund prospectus and SAI that are virtually identical to those made in the February 2001 Sector Series Form 485BPOS Financial Services Fund prospectus and SAI described in paragraph 64. As such, these statements were materially misleading when made because they omit information for the same reasons set forth in paragraph 2.

67. On February 28, 2003, the Sector Series caused to be filed with the SEC a Form 485BPOS on behalf of the Financial Services Fund. The February 2003 Form 485BPOS contains a Financial Services Fund prospectus and SAI that provide shareholders with information pertinent to their investment in the Financial Services Fund. The February 2003 Form 485 BPOS was signed by Gerken as Chairman of the Board, President and CEO of the Sector Series, and Peteka as Treasurer and Chief Financial and Accounting Officer of the Sector Series, and includes statements in the Financial Services Fund prospectus and SAI that are

virtually identical to those made in the February 2001 and 2002 Sector Series Form 485BPOS prospectuses and SAIs and described in paragraphs 64 and 66. As such, these statements were materially misleading when made because they omit information for the same reasons set forth in paragraph 2.

68. As discussed above, the Sector Series February 2003 Form 485BPOS was supplemented by the December 2003 Supplement. The December 2003 Supplement was materially misleading for the reasons set forth in paragraph 10, and did not cure the material omissions contained in the February 2003 Form 485BPOS or in the earlier Sector Series Class Period statements for the same reasons.

69. On February 27, 2004, the Sector Series caused to be filed with the SEC a Form 485BPOS on behalf of the Financial Services Fund. The February 2004 Form 485BPOS contains a Financial Services Fund prospectus and SAI that provides shareholders with information pertinent to their investment in the Financial Services Fund. The February 2004 Form 485 BPOS was signed by Gerken as Chairman of the Board and CEO of the Sector Series, and Peteka as Treasurer and Chief Financial and Accounting Officer of the Sector Series, and includes statements in the Financial Services Fund prospectus that are virtually identical to those made in the May 2004 Allocation Series Form 485BPOS Allocation Growth Fund prospectus and described in paragraph 25, and appear to reflect and incorporate the incomplete disclosures included in the December 2003 Supplement. As such, these statements were materially misleading when made for reasons set forth in paragraph 12.

70. The February 2004 Sector Series Form 485BPOS contained a Financial Services Fund SAI which included the following statements:

Transfer Agent and Sub-Transfer Agent

Citicorp Trust Bank, fsb (the "transfer agent"), located at 125 Broad Street, New York, New York 10004, serves as each fund's transfer agent. Under the transfer agency agreement, the transfer agent maintains shareholder account records for the funds, handles certain communications between shareholders and the funds and distributes dividends and distributions payable by the funds. For these services, the transfer agent receives a monthly fee computed on the basis of the number of shareholder accounts it maintains for the funds during the month and is reimbursed for out-of-pocket expenses.

PFPC Inc. ("PFPC") located at P.O. Box 9699, Providence, Rhode Island 02940, serves as a sub-transfer agent of each fund. Under the sub-transfer agency agreement, PFPC maintains the shareholder account records for the funds, handles certain communications between shareholders and the funds and distributes dividends and distributions payable by the funds. For these services, PFPC receives a monthly fee from the transfer agent computed on the basis of the number of shareholder accounts it maintains for the funds during the month and is reimbursed for out-of-pocket expenses.

Each fund has also engaged the services of Primerica Shareholder Services ("PSS") as a sub-transfer agent for PFS Accounts. PSS is located at P.O. Box 9662, Providence, RI 02940.

71. The statements included in the February 2004 Form 485BPOS Financial Services Fund SAI and described in paragraph 70 herein were also materially misleading because they omitted material information for the same reasons as set forth in paragraph 2.

72. As discussed above, the Sector Series February 2004 Form 485BPOS was amended by the July 2004 and October 2004 Amendments, which were materially misleading for the reasons set forth in paragraph 10, and did not cure the material omissions contained therein or in the earlier Sector Series Class Period statements.

73. The statements included in the February 2004 Form 485BPOS Financial Services Fund SAI and described in paragraph 70 herein were also materially misleading because they omitted material information for the same reasons as set forth in paragraph 2.

**SMITH BARNEY FUNDAMENTAL VALUE FUND, INC.**

74. On January 28, 2000, the Smith Barney Fundamental Value Fund, Inc.



("Fundamental Value Fund") caused to be filed with the SEC a Form 485BPOS. The January 2000 Form 485BPOS contains a prospectus and SAI that provides shareholders with information pertinent to their investment in the Fundamental Value Fund. Shares of the Fundamental Value Fund were purchased and/or sold during the Class period by Plaintiffs Robert and Ann Yiambellis, DVL 401(k) Plan, Bharat U. Shah, Steven W. Hall and Richard W. Rees. The January 2000 Form 485 BPOS was signed by Daidone as Senior Vice President, Treasurer and Chief Financial and Accounting Officer of the Fundamental Value Fund, and contained the following statements in the prospectus:

Transfer agent and shareholder servicing agent Smith Barney Private Trust Company serves as the fund's transfer agent and shareholder servicing agent (the "transfer agent"). Pursuant to a sub-transfer agency and services agreement with the transfer agent, PFPC Global Fund Services serves as the fund's sub-transfer agent (the "sub-transfer agent") to render certain shareholder record keeping and accounting services and functions.

The January 2000 Fundamental Value Fund Form 485BPOS contained an SAI which included the following statements:

Smith Barney Private Trust Company, located at 388 Greenwich Street, New PFPC Global Fund Services, located at P.O. Box 9699, Providence, RI 02940-9699, serves as the fund's sub-transfer agent to render certain shareholder record keeping and accounting services functions.

75. The statements included in the January 2000 Fundamental Value Fund Form 485BPOS and described in paragraph 74 herein were materially misleading when made because they omitted material information for the same reasons as set forth in paragraph 2.

76. On January 25, 2001, the Fundamental Value Fund caused to be filed with the SEC a Form 485BPOS. The January 2001 Form 485BPOS contains a prospectus and SAI that provides shareholders with information pertinent to their investment in the Fundamental Value Fund. The January 2001 Form 485 BPOS was signed by Daidone as Senior Vice President, Treasurer and Chief Financial and Accounting Officer of the Fundamental Value Fund, and

includes the following statements in the prospectus:

Transfer agent and shareholder servicing agent Citi Fiduciary Trust Company serves as the fund's transfer agent and shareholder servicing agent (the "transfer agent"). The transfer agent has entered into sub-transfer agency and services agreements with PFPC Global Fund Services and PFS Shareholder Services to serve as the fund's sub-transfer agents (the "sub-transfer agents"). The subtransfer agents will perform certain shareholder record keeping and accounting services.

The January 2001 Fundamental Value Fund Form 485BPOS contained an SAI which included the following statements:

Citicorp Trust Bank, fsb, located at 125 Broad Street, New York, NY 10004 serves as the Transfer Agent and shareholder services agent of the fund. PFPC Global Fund Services, located at P.O. Box 9699, Providence, RI 02940-9699, serves as a sub-transfer agent to render certain shareholder record keeping and accounting services functions. In addition, Primerica Shareholder Services, located at 3100 Breckinridge Blvd, Bldg. 200, Duluth, Georgia 30099-0062, also serves as a sub-transfer agent to render certain shareholder record keeping and accounting services functions.

77. The statements included in January 2001 Fundamental Value Form 485BPOS and described in paragraph 76 herein were materially misleading when made because they omitted material information for the same reasons as set forth in paragraph 2.

78. On January 28, 2002, the Fundamental Value Fund caused to be filed with the SEC a Form 485BPOS. The January 2002 Form 485BPOS contains a prospectus and SAI that provides shareholders with information pertinent to their investment in the Fundamental Value Fund. The January 2002 Form 485 BPOS was signed by Daidone as Senior Vice President, Treasurer and Chief Financial and Accounting Officer of the Fundamental Value Fund, and includes statements in the prospectus and SAI that are virtually identical to those made in the January 2001 Fundamental Value Fund Form 485BPOS prospectus and SAI and described in paragraph 76. As such, these statements were false and materially misleading when made because they omit information for the same reasons set forth in paragraph 2.

79. On January 24, 2003, the Fundamental Value Fund caused to be filed with the SEC a Form 485BPOS. The January 2003 Form 485BPOS contains a prospectus and SAI that provides shareholders with information pertinent to their investment in the Fundamental Value Fund. The January 2003 Form 485 BPOS was signed by Gerken as Chairman of the Board and CEO of the Fundamental Value Fund and Peteka as Treasurer and Chief Financial and Accounting Officer of the Fundamental Value Fund, and includes statements in the prospectus and SAI that are virtually identical to those made in the January 2001 and 2002 Fundamental Value Form 485BPOS prospectus and SAI and described in paragraphs 74 and 76. As such, these statements were materially misleading when made because they omitted material information for the same reasons as set forth in paragraph 2.

80. As discussed above, the Fundamental Value Fund Form 485BPOS was supplemented by the December 2003 Supplement. The December 2003 Supplement was materially misleading for the reasons set forth in paragraph 10, and did not cure the material omissions contained therein or in the earlier Fundamental Value Fund Class Period statements for the same reasons.

81. On January 28, 2004, the Fundamental Value Fund caused to be filed with the SEC a Form 485BPOS. The January 2004 Form 485BPOS contains a prospectus and SAI that provides shareholders with information pertinent to their investment in the Fundamental Value Fund. The January 2004 Form 485 BPOS was signed by Gerken as Chairman of the Board and CEO of the Fundamental Value Fund and Peteka as Treasurer and Chief Financial and Accounting Officer of the Fundamental Value Fund, and includes statements in the prospectus that appear to reflect and incorporate the incomplete disclosures that are included in the December 2003 Supplement:

Transfer agent and shareholder servicing agent Citicorp Trust Bank, fsb serves as the fund's transfer agent and shareholder servicing agent (the "transfer agent"). The transfer agent has entered into sub-transfer agency and services agreements with PFPC Inc. and Primerica Shareholder Services to serve as the fund's sub-transfer agents (the "sub-transfer agents"). The sub-transfer agents will perform certain shareholder record keeping and accounting services.

**Recent Developments** The fund has received the following information from Citigroup Asset Management ("CAM"), the Citigroup business unit which includes the fund's manager and other investment advisory companies, all of which are indirect, wholly-owned subsidiaries of Citigroup. CAM is reviewing its entry, through an affiliate, into the transfer agent business in the period 1997-1999. As CAM currently understands the facts, at the time CAM decided to enter the transfer agent business, CAM sub-contracted for a period of five years certain of the transfer agency services to a third party and also concluded a revenue guarantee agreement with this sub-contractor providing that the sub-contractor would guarantee certain benefits to CAM or its affiliates (the "Revenue Guarantee Agreement"). In connection with the subsequent purchase of the sub-contractor's business by an affiliate of the current sub-transfer agent (PFPC Inc.) used by CAM on many of the funds it manages, this Revenue Guarantee Agreement was amended, eliminating those benefits in exchange for arrangements that included a one-time payment from the subcontractor.

The Boards of CAM-managed funds (the "Boards") were not informed of the Revenue Guarantee Agreement with the sub-contractor at the time the Boards considered and approved the transfer agent arrangements. Nor were the Boards informed of the subsequent amendment to the Revenue Guarantee Agreement when that occurred.

CAM has begun to take corrective actions. CAM will pay to the applicable funds \$16 million (plus interest) that CAM and its affiliates received from the Revenue Guarantee Agreement and its amendment. CAM also plans an independent review to verify that the transfer agency fees charged by CAM were fairly priced as compared to competitive alternatives. CAM is instituting new procedures and making changes designed to ensure no similar arrangements are entered into in the future.

CAM has briefed the SEC, the New York State Attorney General and other regulators with respect to this matter, as well as the U.S. Attorney who is investigating the matter. CAM is cooperating with governmental authorities on this matter.

The January 2004 Fundamental Value Fund Form 485BPOS contained an SAI which included the following statements:

Citicorp Trust Bank, fsb, located at 125 Broad Street, New York, NY 10004 serves as the Transfer Agent and shareholder services agent of the fund. PFPC Global Fund Services, located at P.O. Box 9699, Providence, RI 02940-9699, serves as a sub-transfer agent to render certain shareholder record keeping and accounting services functions. In addition, Primerica Shareholder Services, located at 3100 Breckinridge Blvd, Bldg. 200, Duluth, Georgia 30099-0062, also serves as a sub-transfer agent to render certain shareholder record keeping and accounting services functions.

82. The statements made in the in January 2004 Fundamental Value Fund Form 485BPOS and described in paragraph 81 were materially misleading when made, because although the statements contained in the Fundamental Value Fund prospectus disclosed some of the facts surrounding the Revenue Guarantee, it still failed to disclose the scheme behind the sub-transfer agent arrangement, *e.g.*, that CTB was paid tens of millions of dollars (that rightfully belonged to shareholders) for doing little work while, moreover, PFPC did the bulk of the work at radically reduced rates. That information was not made public until the SEC instituted proceedings against the Adviser and Global Markets on May 31, 2005. The statements included in the January 2004 Form 485BPOS Fundamental Value Fund SAI and described in paragraph 81 herein are also false and materially misleading because they omitted material information for the same reasons as set forth in paragraph 2.

83. As discussed above, the Fundamental Value Fund's May 2003 Form 485BPOS was amended by the July 2004 and October 2004 Amendments, which were materially misleading for the reasons set forth in paragraph 10, and did not cure the material omissions contained therein or in the earlier Fundamental Value Fund Class Period statements.

**SMITH BARNEY WORLD FUNDS, INC.**

84. On February 28, 2001, the Smith Barney World Funds, Inc. ("World Funds") caused to be filed with the SEC a Form 485BPOS. The World Funds are a sub-family of Smith Barney funds that include the International All Cap Growth Portfolio, ("International All Cap

Growth Portfolio”), one of the 24 Funds currently at issue. Shares of the International All Cap Growth Portfolio were purchased and/or sold during the Class period by Plaintiff DVL 401(k) Plan. The February 2001 World Funds Form 485BPOS was issued on behalf of the International All Cap Growth Portfolio and contained a prospectus and SAI that provides shareholders with information pertinent to their International All Cap Growth Portfolio investments. The February 2001 World Fund Form 485 BPOS, signed by Daidone as Treasurer, Principal Financial Officer and Principal Accounting Officer of the World Funds, contained the following statements in the International All Cap Growth Portfolio prospectus:

Transfer agent and shareholder servicing agent Citi Fiduciary Trust Company serves as the fund's transfer agent and shareholder servicing agent (the "transfer agent"). The transfer agent has entered into a sub-transfer agency and services agreement with PFPC Global Fund Services to serve as the fund's sub-transfer agent (the "sub-transfer agent"). The sub-transfer agent will perform certain functions including shareholder recordkeeping and accounting services.

The February 2001 World Funds Form 485BPOS contained an International All Cap Growth Portfolio SAI which included the following statements

Transfer Agent and Sub-Transfer Agent: Citi Fiduciary Trust Company, located at 125 Broad Street, New York, New York 10004 serves as the Transfer Agent and shareholder services agent for the fund. PFPC Global Fund Services, located at P.O. Box 9699 Providence, R.I. 02940-9699 serves as the fund's sub-transfer agent to render certain shareholder record keeping and accounting services functions.

85. The statements included in the February 2001 World Funds Form 485BPOS International All Cap Growth Portfolio prospectus and SAI and described in paragraph 84 herein were materially misleading when made because they omitted material information for the same reasons as set forth in paragraph 2.

86. On February 28, 2002, the World Funds caused to be filed with the SEC a Form 485BPOS. The February 2002 World Funds Form 485BPOS contained a prospectus and SAI

issued on behalf of, *inter alia*, the International All Cap Growth Portfolio that provides shareholders with information pertinent to their investment in International All Cap Growth Portfolio. The February 2002 World Funds Form 485 BPOS, signed by Daidone as Treasurer, Principal Financial Officer and Principal Accounting Officer of the World Funds, contained statements in the International All Cap Growth Portfolio prospectus and SAI that are virtually identical to those made in the February 2001 World Funds Form 485BPOS International All Cap Growth Portfolio prospectus and SAI and described in paragraph 84. As such, these statements were materially misleading when made because they omitted material information for the same reasons as set forth in paragraph 2.

87. On February 28, 2003, the World Funds caused to be filed with the SEC a Form 485BPOS on behalf of the International All Cap Growth Portfolio. The February 2003 World Funds Form 485BPOS contained a prospectus and SAI issued on behalf of the International All Cap Growth Portfolio that provides shareholders with information pertinent to their investment in International All Cap Growth Portfolio. The February 2003 World Funds Form 485 BPOS, signed by Daidone as Senior Vice President and Chief Administrative Officer of the World Funds, contained statements in the International All Cap Growth Portfolio prospectus and SAI that are virtually identical to those made in the February 2001 and February 2002 World Funds Form 485BPOS International All Cap Growth Portfolio prospectus and SAI described in paragraph 87. As such, these statements were materially misleading when made because they omitted material information for the same reasons as set forth in paragraph 2.

88. On December 1, 2003, the World Funds' April 2003 Form 485BPOS was supplemented by the December 2003 Supplement. The December 2003 Supplement was materially misleading when made for the reasons set forth in paragraph 10, and did not cure the

material omissions contained in the World Funds' April 2003 Form 485BPOS or in the earlier World Funds Class Period statements for the same reasons.

89. On February 27, 2004, the World Funds caused to be filed with the SEC a Form 485BPOS on behalf of the International All Cap Growth Portfolio. The February 2004 World Funds Form 485BPOS contained a prospectus and SAI that provides shareholders with information pertinent to their investment in International All Cap Growth Portfolio. The February 2004 World Funds Form 485 BPOS, was signed by Gerken as Chairman of the Board and CEO of the World Funds and Peteka as Treasurer and Chief Administrative Officer of the World Funds, and contained the following statements in the International All Cap Growth Portfolio prospectus that are virtually identical to those made in the May 2004 Allocation Series Form 485BPOS Allocation Growth Fund prospectus and described in paragraph 25, and appear to reflect and incorporate the incomplete disclosures included in the December 2003 Supplement. As such, these statements were materially misleading when made for reasons set forth in paragraph 12.

90. Later in the February 2004 Form 485BPOS, the SAI included the following statements:

Transfer Agent and Sub-Transfer Agent: Citicorp Trust Bank, fsb. located at 125 Broad Street, New York, New York 10004 serves as the Transfer Agent and shareholder services agent for the fund. PFPC Global Fund Services, located at P.O. Box 9699 Providence, R.I. 02940-9699 serves as the fund's sub-transfer agent to render certain shareholder record keeping and accounting services functions.

91. The statements included in the February 2004 World Funds Form 485BPOS SAI and described in paragraph 90 herein and are also materially false and misleading because they omitted material information for the same reasons as set forth in paragraph 2.

92. As discussed above, the World Funds' February 2004 Form 485BPOS was



amended by the July 2004 and October 2004 Amendments, which were materially misleading for the reasons set forth in paragraph 10, and did not cure the material omissions contained therein or in the earlier World Funds Class Period statements.

**SMITH BARNEY MANAGED GOVERNMENTS FUND, INC.**

93. On November 24, 1999, Smith Barney Managed Governments Fund Inc. (“Managed Governments Fund”) caused to be filed with the SEC a Form 485BPOS. The November 1999 Form 485BPOS contains a prospectus and SAI that provides shareholders with information pertinent to their investment in the Managed Governments Fund. Shares of the Managed Governments Fund were purchased and/or sold during the Class period by Plaintiffs DVL 401(k) Plan. The November 1999 Form 485 BPOS, signed by Daidone as Treasurer and Chief Financial and Accounting Officer of the Managed Governments Fund, contained the following statements in the SAI:

First Data Investors Services Group, Inc. ("First Data" or "transfer agent"), located at Exchange Place, Boston, Massachusetts 02109, serves as the fund's transfer agent. Under the transfer agency agreement, the transfer agent maintains the shareholder account records for the fund, handles certain communications between shareholders and the fund and distributes dividends and distributions payable by the fund. For these services, the transfer agent receives a monthly fee computed on the basis of the number of shareholder accounts it maintains for the fund during the month, and is reimbursed for out-of-pocket expenses.

94. The statements included in November 1999 Managed Government Fund Form 485BPOS and described in paragraph 93 herein were materially misleading when made because they omitted material information for the same reasons as set forth in paragraph 2.

95. On November 22, 2000, the Managed Governments Fund caused to be filed with the SEC a Form 485BPOS. The November 2000 Managed Governments Fund Form 485BPOS contains a prospectus and SAI that provides shareholders with information pertinent to their investment in the Managed Governments Fund. The November 2000 Form 485 BPOS was

signed by Daidone as Treasurer and Chief Financial and Accounting Officer of the Managed Governments Fund, and contained the following statements in the prospectus:

Transfer agent and shareholder servicing agent Citi Fiduciary Trust Company serves as the fund's transfer agent and shareholder servicing agent (the "transfer agent"). The transfer agent has entered into sub-transfer agency and services agreements with PFPC Global Fund Services to serve as the fund's sub-transfer agent (the "sub-transfer agent"). The sub-transfer agent will perform certain functions including shareholder record keeping and accounting services.

The November 2000 Managed Governments Fund Form 485BPOS contained an SAI which included the following statements:

Citi Fiduciary Trust Company (the "transfer agent"), located at 125 Broad Street, New York, New York 10004, serves as the fund's transfer and dividend-paying agent. Under the transfer agency agreement, the transfer agent maintains the shareholder account records for the fund, handles certain communications between shareholders and the fund, distributes dividends and distributions payable by the fund and produces statements with respect to account activity for the fund and its shareholders. For these services, the transfer agent receives fees from the fund computed on the basis of the number of shareholder accounts that the transfer agent maintains for the fund during the month and is reimbursed for out-of-pocket expenses.

PFPC Global Fund Services ("PFPC" or "sub-transfer agent"), located at Exchange Place, Boston, Massachusetts 02109, serves as the sub-transfer agent. Under the transfer agency agreement, the sub-transfer agent maintains the shareholder account records for the trust, handles certain communications between shareholders and the trust and distributes dividends and distributions payable by the trust. For these services, the sub-transfer agent receives a monthly fee computed on the basis of the number of shareholder accounts it maintains for the trust during the month, and is reimbursed for out-of-pocket expenses.

96. The statements included in the November 2000 Managed Governments Fund Form 485BPOS prospectus and SAI and described in paragraph 95 herein were materially misleading when made because they omitted material information for the same reasons as set forth in paragraph 2.

97. On November 27, 2001, the Managed Governments Fund caused to be filed with the SEC a Form 485BPOS. The November 2001 Managed Governments Fund Form 485BPOS

contains a prospectus and SAI that provides shareholders with information pertinent to their investment in the Managed Governments Fund. The November 2001 Form 485 BPOS was signed by Daidone as Treasurer and Chief Financial and Accounting Officer of the Managed Governments Fund, and contained statements the prospectus and SAI that are virtually identical to those made in the November 2000 Managed Governments Fund Form 485BPOS prospectus and SAI and described in paragraph 95. As such, these statements were materially misleading when made because they omitted material information for the same reasons as set forth in paragraph 2.

98. On November 22, 2002, the Managed Governments Fund caused to be filed with the SEC a Form 485BPOS. The November 2002 Managed Governments Fund Form 485BPOS contains a prospectus and SAI that provides shareholders with information pertinent to their investment in the Managed Governments Fund. The November 2002 Form 485 BPOS was signed by Gerken as Chairman of the Board and CEO of the Managed Governments Fund, and Peteka as Treasurer and Chief Financial Officer of the Managed Governments Fund, and contained statements in the prospectus and SAI that are virtually identical to those made in the November 2000 and 2001 Managed Governments Fund Form 485BPOS prospectus and SAI and described in paragraph 95. As such, these statements were materially misleading when made because they omitted material information for the same reasons as set forth in paragraph 2.

99. On November 25, 2003, the Managed Governments Fund caused to be filed with the SEC a Form 485BPOS. The November 2003 Managed Governments Fund Form 485BPOS contains a prospectus and SAI that provides shareholders with information pertinent to their investment in the Managed Governments Fund. The November 2003 Form 485 BPOS was signed by Gerken as Chairman of the Board and CEO of the Managed Governments Fund, and

Peteka as Treasurer and Chief Financial and Accounting Officer of the Managed Governments Fund, and contained statements in the prospectus and SAI that are virtually identical to those made in the November 2000, 2001 and 2002 Managed Governments Fund Form 485BPOS prospectus and SAI described in paragraph 95. As such, these statements were materially misleading when made because they omitted material information for the same reasons as set forth in paragraph 2.

100. As discussed above, the Managed Governments Fund November 2003 Form 485BPOS was supplemented by the December 2003 Supplement and amended by the July 2004 and October 2004 Amendments. The December 2003 Supplement and July 2004 and October 2004 Amendments were all materially misleading for the reasons set forth in paragraph 10, and did not cure the material omissions contained in November 2003 Form 485BPOS the earlier Managed Governments Fund Class Period statements for the same reasons.

**SMITH BARNEY INVESTMENT FUNDS INC.**

- Small Cap Value Fund**
- Peachtree Growth Fund**
- Investment Grade Bond Fund**
- Small Cap Growth Fund**
- Large Cap Fund**
- Multiple Discipline Funds-Large Cap Growth and Value Fund**

101. On January 28, 2000, the Smith Barney Investment Funds Inc. (“Investment Funds”) caused to be filed with the SEC a Form 485BPOS. The Investment Funds are a sub-family of Smith Barney funds that include six of the Funds currently at issue: the Smith Barney Small Cap Value Fund (“Small Cap Value Fund”); Peachtree Growth Fund (“Peachtree Growth Fund”); Smith Barney Investment Grade Bond Fund (“Investment Grade Bond Fund”); Smith Barney Small Cap Growth Fund (“Small Cap Growth Fund”); Smith Barney Large Cap Fund (“Large Cap Fund”); and the Multiple Discipline Funds-Large Cap Growth and Value Fund

("Large Cap Growth and Value Fund"). Shares of the Small Cap Value Fund were purchased and/or sold during the Class period by Plaintiffs Robert and Ann Yiambellis. Shares of the Peachtree Growth Fund were purchased and/or sold during the Class Period by Plaintiff David F. Zagunis. Shares of the Smith Barney Investment Grade Bond Fund were purchased and/or sold during the Class Period by Plaintiff DVL 401(k) Plan. Shares of the Smith Barney Small Cap Growth Fund were purchased and/or sold during the Class Period by Plaintiffs Robert and Ann Yiambellis and DVL 401(k) Plan. Shares of the Large Cap Fund were purchased and/or sold during the Class Period by Plaintiff David F. Zagunis. Shares of the Large Cap Growth and Value Fund were purchased and/or sold during the Class Period by Plaintiff Jeffrey Weber. The Investment Funds January 2000 Form 485BPOS was issued on behalf of the Small Cap Value Fund and contains a prospectus and SAI that provides shareholders with information pertinent to their investment in the Small Cap Value Fund. The January 2000 Form 485 BPOS, signed by Daidone as Treasurer and Chief Financial and Accounting Officer of the Investment Funds, contained the following statements in the Small Cap Value Fund prospectus:

Transfer agent and shareholder servicing agent Smith Barney Private Trust Company serves as the fund's transfer agent and shareholder servicing agent (the "transfer agent"). Pursuant to a sub-transfer agency and services agreement with the transfer agent, PFPC Global Fund Services serves as the fund's sub-transfer agent (the "sub-transfer agent") to render certain shareholder record keeping and accounting services and functions.

The January 2000 Form 485 BPOS contained a Small Cap Value Fund SAI, which included the following statements:

Smith Barney Private Trust Company, located at 388 Greenwich Street, New York, NY 10013 serves as the Transfer Agent and shareholder services agent of the fund. PFPC Global Fund Services, located at P.O Box 9699 Providence, RI 02940-9699 serves as the fund's sub-transfer agent to render certain shareholder record keeping and accounting services functions.

102. The statements included in the January 2000 Investment Funds Form 485BPOS

Small Cap Value Fund prospectus and SAI , described in paragraph 101 herein, were materially misleading when made because they omitted material information for the same reasons as set forth in paragraph 2.

103. On March 13, 2000, the Investment Funds caused to be filed with the SEC a Form 485BPOS on behalf of the Peachtree Growth Fund. The Investment Funds March 2000 Form 485BPOS contains a prospectus and SAI that provides shareholders with information pertinent to their investment in the Peachtree Growth Fund. The March 2000 Form 485 BPOS, signed by Daidone as Vice President, Treasurer and Chief Financial and Accounting Officer of the Investment Funds, contained the following statements in the Peachtree Growth Fund prospectus:

Transfer agent and shareholder servicing agent Smith Barney Private Trust Company serves as the fund's transfer agent and shareholder servicing agent (the "transfer agent"). Pursuant to a sub-transfer agency and services agreement with the transfer agent, PFPC Global Fund Services serves as the fund's sub-transfer agent (the "sub-transfer agent") to render certain shareholder record keeping and accounting services and functions.

The March 2000 Form 485BPOS contained an SAI for the Peachtree Growth Fund which included the following statements:

Smith Barney Private Trust Company, located at 388 Greenwich Street, New York, NY 10013 serves as the Transfer Agent and shareholder services agent of the Fund. PFPC Global Fund Services, located at P.O Box 9699 Providence, RI 02940-9699 serves as the Fund's sub-transfer agent to render certain shareholder record keeping and accounting services functions.

The Fund has engaged the services of PFS Shareholder Services as the sub-transfer agent for PFS Accounts ("sub-transfer agent"). The sub-transfer agent is located at 3100 Breckinridge Blvd, Bldg 200, Duluth, Georgia 30099-0062

104. The statements included in the March 2000 Investment Funds Form 485BPOS Peachtree Growth Fund prospectus and SAI , described in paragraph 103 herein, were materially misleading when made because they omitted material information for the same reasons as set forth in paragraph 2.

105. On April 26, 2000, the Investment Funds caused to be filed with the SEC a Form 485BPOS on behalf of, *inter alia*, the Investment Grade Bond Fund. The Investment Funds April 2000 Form 485BPOS contains a prospectus and SAI that provides shareholders with information pertinent to their investment in the Investment Grade Bond Fund. The April 2000 Form 485 BPOS, signed by Daidone as Senior Vice President, Treasurer and Chief Financial and Accounting Officer of the Investment Funds, contained the following statements in the Investment Grade Bond Fund prospectus:

TRANSFER AGENT AND SHAREHOLDER SERVICING AGENT Citi Fiduciary Trust Company serves as the fund's transfer agent and shareholder servicing agent (the "transfer agent"). Pursuant to a sub-transfer agency and services agreement with the transfer agent, PFPC Global Fund Services serves as the fund's sub-transfer agent (the "sub-transfer agent") to render certain shareholder record keeping and accounting services and functions.

The April 2000 Form 485 BPOS contained an SAI for the Investment Grade Bond Fund which included the following statements:

Citi Fiduciary Trust Company, located at 388 Greenwich Street, New York, NY 10013 serves as the Transfer Agent and shareholder services agent of the Fund. PFPC Global Fund Services, located at P.O Box 9699 Providence, RI 02940-9699 serves as the Fund's sub-transfer agent to render certain shareholder record keeping and accounting services functions.

The Fund has engaged the services of PFS Shareholder Services as the sub-transfer agent for PFS Accounts ("sub-transfer agent"). The sub-transfer agent is located at 3100 Breckinridge Blvd, Bldg 200, Duluth, Georgia 30099-0062.

106. The statements included in the April 2000 Investment Funds Form 485BPOS Investment Growth Bond Fund prospectus and SAI, described in paragraph 105 herein, were materially misleading when made because they omitted material information for the same reasons as set forth in paragraph 2.

107. On August 17, 2000, the Investment Funds caused to be filed with the SEC a Form 485BPOS on behalf of, *inter alia*, the Small Cap Growth Fund. The Investment Funds

August 2000 Form 485BPOS contains a prospectus and SAI that provides shareholders with information pertinent to their investment in the Small Cap Growth Fund. The August 2000 Form 485 BPOS, signed by Daidone as Vice President, Treasurer and Chief Financial and Accounting Officer of the Investment Funds, contained the following statements in the Small Cap Growth Fund prospectus:

Transfer agent and shareholder servicing agent Citi Fiduciary Trust Company serves as the fund's transfer agent and shareholder servicing agent (the "transfer agent"). The transfer agent has entered into sub-transfer agency and services agreements with PFPC Global Fund Services and PFS Shareholder Services to serve as the fund's sub-transfer agents (the "sub-transfer agents"). The sub-transfer agents will perform certain functions including shareholder record keeping and accounting services.

The August 2000 Form 485 BPOS contained an SAI for the Small Cap Growth Fund which included the following statements:

CFBDS, Inc. ("CFBDS" or the "Distributor") Distributor SSB Citi Fund Management LLC. (formerly SSBC Fund Management Inc.) ("SSB Citi" or the "Manager") Investment Manager  
PNC Bank, National Association ("PNC" or the "Custodian") Custodian First Data Investor Services Group, Inc., ("First Data" or the "Transfer Agent")  
Transfer Agent

108. The statements included in the August 2000 Investment Funds Form 485BPOS Small Cap Growth Fund prospectus and SAI, described in paragraph 107 herein, were materially misleading when made because they omitted material information for the same reasons as set forth in paragraph 2 and did not even include a cursory statement of the sub-transfer agent scheme.

109. On January 29, 2001, the Investment Funds caused to be filed with the SEC a Form 485BPOS on behalf of the Small Cap Value Fund and Small Cap Growth Fund. The Investment Funds January 2001 Form 485BPOS contains prospectuses and an SAI that provides shareholders with information pertinent to their investment in the Small Cap Value Fund and the



Small Cap Growth Fund. The January 2001 Form 485BPOS, signed by Daidone as Vice President, Treasurer and Chief Financial and Accounting Officer of the Investment Funds, contained the following statements in the Small Cap Value Fund and Small Cap Growth Fund prospectuses:

Transfer agent and shareholder servicing agent Citi Fiduciary Trust Company serves as the fund's transfer agent and shareholder servicing agent (the "transfer agent"). The transfer agent has entered into sub-transfer agency and services agreements with PFPC Global Fund Services and PFS Shareholder Services to serve as the fund's sub-transfer agents (the "sub-transfer agents"). The sub-transfer agents will perform certain functions including shareholder record keeping and accounting services.

The January 2001 Form 485 BPOS contained an SAI for the Small Cap Value Fund and Small Cap Growth Fund which included the following statements:

Citi Fiduciary Trust Company, located at 125 Broad Street, New York, NY 10004 serves as the Transfer Agent and shareholder services agent of the Fund. PFPC Global Fund Services, located at P.O. Box 9699, Providence, RI 02940-9699 serves as the Fund's sub-transfer agent to render certain shareholder record keeping and accounting services functions.

110. The statements included in the January 2001 Investment Funds Form 485BPOS Small Cap Value Fund and Small Cap Growth Fund prospectuses and SAI, described in paragraph 109 herein, were materially misleading when made because they omitted material information for the same reasons as set forth in paragraph 2.

111. On April 26, 2001, the Investment Funds caused to be filed with the SEC a Form 485BPOS on behalf of, *inter alia*, the Peach Tree Growth Fund and the Investment Grade Bond Fund. The Investment Funds April 2001 Form 485BPOS contains prospectuses and an SAI that provides shareholders with information pertinent to their investment in the Peach Tree Growth Fund and Investment Grade Bond Fund. The April 2001 Form 485 BPOS, signed by Daidone as Senior Vice President, Treasurer and Chief Financial and Accounting Officer of the Investment

Funds, contained the following statements in the Peach Tree Growth Fund and the Investment Grade Bond Fund prospectuses:

Transfer agent and shareholder servicing agent Citi Fiduciary Trust Company serves as the fund's transfer agent and shareholder servicing agent (the "transfer agent"). The transfer agent has entered into sub-transfer agency and services agreements with PFPC Global Fund Services and PFS Shareholder Services to serve as the fund's sub-transfer agents (the "sub-transfer agents"). The sub-transfer agents will perform certain functions including shareholder record keeping and accounting service.

Later in the April 2001 Form 485 BPOS, the Peach Tree Growth Fund and the Investment Grade Bond Fund SAI included the following statements:

Citi Fiduciary Trust Company, located at 125 Broad Street, New York, NY 10004 serves as the Transfer Agent and shareholder services agent of each Fund. PFPC Global Fund Services, located at P.O Box 9699 Providence, RI 02940-9699 serves as each Fund's sub-transfer agent to render certain shareholder record keeping and accounting services functions.

Each Fund has engaged the services of PFS Shareholder Services as the sub-transfer agent for PFS Accounts ("sub-transfer agent"). The sub-transfer agent is located at 3100 Breckinridge Blvd, Bldg 200, Duluth, Georgia 30099-0062.

112. The statements included in the April 2001 Investment Funds Form 485BPOS Peachtree Growth Fund and Investment Grade Bond Fund prospectuses and SAI, described in paragraph 111 herein, were materially misleading when made because they omitted material information for the same reasons as set forth in paragraph 2.

113. On August 28, 2001, Investment Funds caused to be filed with the SEC a Form 485BPOS on behalf of Large Cap Fund. The August 2001 Investment Funds Form 485BPOS contained a prospectus and SAI issued on behalf of the Large Cap Fund that provides shareholders with information pertinent to their investment in Large Cap Fund. The August 2001 Investment Funds Form 485 BPOS, signed by Daidone as Senior Vice President, Treasurer, and Chief Financial Officer and Accounting Officer of the Investment Funds, contained virtually

identical statements in the Large Cap Fund prospectus to those made in the August 2000 Investment Funds Form 485BPOS Small Cap Growth Fund prospectus and described in paragraph 107.

The August 2001 Investment Funds Form 485BPOS contained a Large Cap Fund SAI which included the following statements:

Citi Fiduciary Trust Company (the "transfer agent") located at 125 Broad Street, New York, New York 10004, serves as the transfer agent and shareholder services agent of the Fund.

PFPC Global Fund Services ("sub-transfer agent"), located at P.O. Box 9699, Providence Rhode Island 02940-9699, serves as a sub-transfer agent to the Fund to render certain shareholder record-keeping and accounting services functions.

The Fund has also engaged the services of Primerica Shareholder Services ("sub-transfer agent") as a sub-transfer agent for PFS Accounts. This sub-transfer agent is located at 3100 Breckinridge Blvd., Bldg 200, Duluth, GA 30099

114. The statements included in the August 2001 Investment Funds Form 485BPOS were materially misleading when made because they omitted material information for the same reasons as set forth in paragraph 2.

115. On January 25, 2002, the Investment Funds caused to be filed with the SEC a Form 485BPOS on behalf of, *inter alia*, the Small Cap Value Fund and Small Cap Growth Fund. The Investment Funds January 2002 Form 485BPOS contains prospectuses and SAIs that provides shareholders with information pertinent to their investments in the Small Cap Value Fund and the Small Cap Growth Fund. The January 2002 Form 485 BPOS, signed by Daidone as Senior Vice President, Treasurer and Chief Financial and Accounting Officer of the Investment Funds, contained statements in the Small Cap Value Fund and Small Cap Growth Fund prospectuses and SAIs virtually identical to those made in the January 2001 Investment Funds Form 485BPOS Small Cap Value Fund and Small Cap Growth Fund prospectuses and

SAI, described in paragraph 109. As such, these statements were materially misleading when made because they omitted material information for the same reasons as set forth in paragraph 2.

116. On April 26, 2002, the Investment Funds caused to be filed with the SEC a Form 485BPOS on behalf of, *inter alia*, the Peach Tree Growth Fund and Investment Grade Bond Fund. The Investment Funds April 2002 Form 485BPOS contains prospectuses and an SAI that provides shareholders with information pertinent to their investments in the Peach Tree Growth Fund and Investment Grade Bond Fund. The April 2002 Form 485 BPOS, signed by Gerken as Executive Vice President and Director of the Investment Funds and Peteka as Treasurer and Chief Financial Officer of the Investment Funds, contained statements in the Peach Tree Growth Fund and Investment Grade Bond Fund prospectuses and SAI that are virtually identical to those made in the April 2001 Investment Funds Form 485BPOS Peach Tree Growth Fund and Investment Grade Bond Fund and SAI, described in paragraph 111. As such, these statements were materially misleading when made because they omitted material information for the same reasons as set forth in paragraph 2.

117. On August 27, 2002, the Investment Funds caused to be filed with the SEC a Form 485BPOS on behalf of the Large Cap Fund. The August 2002 Investment Funds Form 485BPOS contained a prospectus and SAI issued on behalf of the Large Cap Fund that provides shareholders with information pertinent to their investment in Large Cap Fund. The August 2002 Investment Funds Form 485 BPOS, signed by Director of the Investment Funds and Peteka as Treasurer and Chief Financial Officer of the Investment Funds, contained statements in the Large Cap Fund prospectus and SAI that are virtually identical to those made in the August 2001 Investment Funds Form 485BPOS prospectus and SAI and described in paragraph 113. As such, these statements were materially misleading when made because they omitted material

information for the same reasons as set forth in paragraph 2.

118. On January 28, 2003, the Investment Funds caused to be filed with the SEC a Form 485BPOS on behalf of, *inter alia*, the Small Cap Value Fund and Small Cap Growth Fund. The Investment Funds January 2003 Form 485BPOS contains prospectuses and SAIs that provide shareholders with information pertinent to their investments in the Small Cap Value Fund and the Small Cap Growth Fund. The January 2003 Form 485 BPOS, signed by Peteka as Treasurer and Chief Financial Officer of the Investment Funds, contained statements in the Small Cap Value Fund and Small Cap Growth Fund prospectuses and SAIs virtually identical to those made in the January 2001 and January 2002 Investment Funds Form 485BPOS Small Cap Value Fund and Small Cap Growth Fund prospectuses and SAIs, which are described in paragraph 109. As such, these statements were materially misleading when made because they omitted material information for the same reasons as set forth in paragraph 2.

119. On April 30, 2003, the Investment Funds caused to be filed with the SEC a Form 485BPOS on behalf of, *inter alia*, the Peach Tree Growth Fund and Investment Grade Bond Fund. The Investment Funds April 2003 Form 485BPOS contains prospectuses and an SAI that provides shareholders with information pertinent to their investments in the Peach Tree Growth Fund and Investment Grade Bond Fund. The April 2003 Form 485 BPOS, signed by Gerken as Chairman of the Board and CEO of the Investment Funds and Peteka as Treasurer and Chief Financial Officer of the Investment Funds, contained statements in the Peach Tree Growth Fund and Investment Grade Bond Fund prospectuses and SAI that are virtually identical to those made in the April 2001 and 2002 Investment Funds Form 485BPOS Peach Tree Growth Fund and Investment Grade Bond Fund prospectuses and SAIs, described in paragraphs 111 and 116. As such, these statements were materially misleading when made because they omitted material

information for the same reasons as set forth in paragraph 2.

120. On August 28, 2003, the Investment Funds caused to be filed with the SEC a Form 485BPOS on behalf of the Large Cap Fund. The August 2003 Investment Funds Form 485BPOS contained a prospectus and SAI issued on behalf of the Large Cap Fund that provides shareholders with information pertinent to their investment in Large Cap Fund. The August 2003 Investment Funds Form 485 BPOS, signed by Gerken as Chairman of the Board and CEO of the Investment Funds, and Peteka as Treasurer and Chief Financial Officer of the Investment Funds, contained statements in the Large Cap Fund prospectus and SAI that are virtually identical to those made in the August 2001 and August 2002 Investment Funds Form 485BPOS Large Cap Fund prospectuses and SAIs and described in paragraph 113. As such, these statements were materially misleading when made because they omitted material information for the same reasons as set forth in paragraph 2.

121. On December 1, 2003, the Investment Funds January 2003 Form 485BPOS was supplemented by the December 2003 Supplement. The December 2003 Supplement was materially misleading when made for the reasons set forth in paragraph 10, and did not cure the material omissions contained in the Investment Funds 2003 Form 485BPOS or in the earlier Investment Funds Class Period statements for the same reasons.

122. On January 28, 2004, the Investment Funds caused to be filed with the SEC a Form 485BPOS on behalf of, *inter alia*, the Small Cap Value Fund and Small Cap Growth Fund. The Investment Funds January 2004 Form 485BPOS contains prospectuses and SAIs that provide shareholders with information pertinent to their investments in the Small Cap Value Fund and the Small Cap Growth Fund. The January 2004 Form 485 BPOS, signed by Gerken as Chairman of the Board and CEO of the Investment Funds and Peteka as Treasurer and Chief

Financial Officer of the Investment Funds, contained statements in the Small Cap Value Fund and Small Cap Growth Fund prospectuses that are virtually identical to those made in the January 2004 Fundamental Value Fund Form 485BPOS prospectus as described in paragraph 81, and appear to reflect and incorporate the incomplete disclosures included in the December 2003 Supplement. As such, these statements were materially misleading when made for reasons set forth in paragraph 12.

123. Later in the January 2004 Form 485 BPOS, the Small Cap Value Fund and Small Cap Growth Fund SAIs included the following statements:

Citicorp Trust Bank, fsb, located at 125 Broad Street, New York, New York 10004, serves as the Transfer Agent and shareholder services agent of the Fund. PFPC Inc., whose address is P.O. Box 9699 Providence, Rhode Island 02940-9699, serves as the Fund's sub-transfer agent to render certain shareholder record keeping and accounting services functions.

124. The statements included in the January 2004 Small Cap Value Fund and Small Cap Growth Fund Form 485BPOS SAIs and described in paragraph 123 herein are also materially false and misleading because they omitted material information for the same reasons as set forth paragraph 2.

125. On April 29, 2004, the Investment Funds caused to be filed with the SEC a Form 485BPOS on behalf of, *inter alia*, the Investment Grade Bond Fund. The Investment Funds April 2004 Form 485BPOS contains prospectuses and an SAI that provides shareholders with information pertinent to their investment in the Investment Grade Bond Fund. The April 2004 Form 485 BPOS, which was signed by Gerken as Chairman of the Board and CEO of the Investment Funds and Peteka as Treasurer and Chief Financial Officer of the Investment Funds, contained statements in the Investment Grade Bond Fund prospectus that are virtually identical to those made in the May 2004 Allocation Series Form 485BPOS Allocation Growth Fund

prospectus and described in paragraph 25, and appear to reflect and incorporate the incomplete disclosures included in the December 2003 Supplement. As such, these statements were materially misleading when made for reasons set forth in paragraph 2.

126. Later in the April 2004 Form 485 BPOS, the Investment Grade Bond Fund SAI included the following statements:

Citicorp Trust Bank, fsb, located at 125 Broad Street, New York, NY 10004, serves as the Transfer Agent and shareholder services agent of each Fund. PFPC Global Fund Services, whose address is P.O. Box 9699, Providence, RI 02940-9699, serves as each Fund's sub-transfer agent to render certain shareholder record keeping and accounting services.

Each Fund has engaged the services of Primerica Shareholder Services as the sub-transfer agent for PFS Accounts ("sub-transfer agent"). The sub-transfer agent is located at 3120 Breckinridge Boulevard, Duluth, Georgia 30099-0001.

127. The statements included in the April 2004 Investment Grade Bond Fund 485BPOS prospectus and SAI and described in paragraph 126 herein were also materially false and misleading when made because they omitted material information for the same reasons as set forth in paragraph 12.

128. As discussed above, the Investment Funds April 2004 Form 485BPOS was amended by the July 2004 Amendment. The July 2004 was materially misleading for the reasons set forth in paragraph 10, and did not cure the material omissions contained in the April 2004 Form 485BPOS or the earlier Investment Funds Class Period statements for the same reasons.

129. On August 27, 2004, the Investment Funds caused to be filed with the SEC a Form 485BPOS on behalf of the Large Cap Growth and Value Fund. The August 2004 Investment Funds Form 485BPOS contains a prospectus and SAI that provides shareholders with information pertinent to their investment in the Large Cap Growth and Value Fund. The August



2004 Form 485 BPOS, was signed by Gerken as Chairman of the Board and CEO of the Investment Funds and contains the following statements in the prospectus, which appear to reflect and incorporate the incomplete disclosures included in the December 2003 and July 2004

Supplements:

Transfer agent and shareholder servicing agent Citicorp Trust Bank, fsb ("Citicorp Trust") serves as each fund's transfer agent and shareholder servicing agent (the "transfer agent"). The transfer agent has entered into sub-transfer agency and services agreements with PFPC Inc. and Primerica Shareholder Services to serve as each fund's sub-transfer agents (the "sub-transfer agents"). The sub-transfer agents will perform certain functions including shareholder record keeping and accounting services.

Citigroup has been notified by the Staff of the SEC that the Staff is considering recommending a civil injunctive action and/or an administrative proceeding against Citigroup Asset Management (CAM), including its applicable investment advisory companies and Citicorp Trust, relating to the creation and operation of the internal transfer agent unit to serve certain CAM-managed funds, including the funds. This notification arises out of a previously disclosed investigation by the SEC and the U.S. Attorney and relates to Citicorp Trust's entry in 1999 into the transfer agency business, CAM's retention of, and agreements with an unaffiliated sub-transfer agent, the adequacy of the disclosures made to the fund boards that approved the transfer agency arrangements (including CAM's failure to disclose a related revenue guarantee agreement benefiting CAM and its affiliates), and CAM's operation of and compensation for the transfer agency business. The revenue guarantee described above was terminated in 1999 and CAM will be paying the applicable funds, primarily through fee waivers, a total of approximately \$17 million (plus interest) that is the amount of the revenue received by Citigroup relating to the revenue guarantee. Citigroup is cooperating fully in the investigation and will seek to resolve the matter in discussions with the SEC Staff. Although there can be no assurance, Citigroup does not believe that this matter will have a material adverse effect on the funds.

Later in the August 2004 Investment Funds Form 485BPOS, the SAI included the following statements:

Citicorp Trust Bank, fsb (the "transfer agent"), located at 125 Broad Street, New York, New York 10004, serves as the transfer agent and shareholder services agent of the Fund. For the year ended April 30, 2004, the Fund paid transfer agent fees of \$272,264.

PFPC Inc. (the "sub-transfer agent"), whose address is P.O. Box 9699, Providence,

Rhode Island 02940-9699, serves as a sub-transfer agent to the Fund to render certain shareholder record-keeping and accounting services.

The Fund has also engaged the services of Primerica Shareholder Services, whose address is P.O. Box 9662, Providence, Rhode Island 02940-9662, as a sub-transfer agent for PFSI Accounts.

130. The August 2004 Investment Funds Form 485BPOS was false and materially misleading because although, as described in paragraph 129, the Large Cap Growth and Value Fund prospectus disclosed some of the facts surrounding the Revenue Guarantee, it still failed to disclose the scheme behind the sub-transfer agent arrangement, *e.g.*, that CTB was paid tens of millions of dollars (that rightfully belonged to shareholders) for doing little work while, moreover, PFPC did the bulk of the work at radically reduced rates. That information was not made public until the SEC instituted proceedings against the Adviser and Global Markets on May 31, 2005. The statements included in the August 2004 Investment Funds Form 485BPOS SAI and described in paragraph 129 herein are also materially false and misleading because they omitted material information for the same reasons as set forth in paragraph 2.

131. As discussed above, the Investment Funds August 2004 Form 485BPOS was amended by the October 2004 Amendment. The October 2004 Amendment was materially misleading for the reasons set forth in paragraph 10, and did not cure the material omissions contained in the August 2004 Form 485BPOS or in the earlier Investment Funds Class Period statements for the same reasons.

**SMITH BARNEY INVESTMENT TRUST**

- Mid Cap Core Fund**
- Large Capitalization Growth Fund**

132. On March 30, 2000, the Smith Barney Investment Trust (“Investment Trust”) caused to be filed with the SEC a Form 485BPOS. The Investment Trust is a sub-family of

Smith Barney funds that include two of the Funds currently at issue: the Large Capitalization Growth Fund ("Large Capitalization Growth Fund"), and the Mid Cap Core Fund ("Mid Cap Core Fund")<sup>6</sup>. Shares of the Large Capitalization Growth Fund were purchased and/or sold during the Class period by Plaintiffs David F. Zagunis, and Robert and Ann Yiambellis. Shares of the Mid Cap Core Fund were purchased and/or sold during the Class Period by Plaintiffs Robert and Ann Yiambellis. The Investment Trust March 2000 Form 485BPOS was issued on behalf of, *inter alia*, the Large Capitalization Growth Fund and contains a prospectus and SAI that provide shareholders with information pertinent to their Large Capitalization Growth Fund investment. The March 2000 Form 485 BPOS was signed by Daidone as Treasurer and Chief Financial and Accounting Officer of the Investment Trust and contained the following statements:

Transfer agent and shareholder servicing agent Smith Barney Private Trust Company serves as the fund's transfer agent and shareholder servicing agent (the "transfer agent"). Pursuant to a sub-transfer agency and services agreement with the transfer agent, PFPC Global Fund Services serves as the fund's sub-transfer agent (the "sub-transfer agent") to render certain shareholder record keeping and accounting services and functions.

The March 2000 Investment Trust Form 485 BPOS contained an SAI for the Large Capitalization Growth Fund, which included the following statements:

Smith Barney Private Trust Company (the "transfer agent"), located at 388 Greenwich Street, New York, New York 10013 serves as the transfer agent and shareholder services agent for the fund.

PFPC Global Fund Services ("PFPC" or "sub-transfer agent"), located at Exchange Place, Boston, Massachusetts 02109, serves as the trust's sub-transfer agent. Under the transfer agency agreement, the sub-transfer agent maintains the shareholder account records for the trust, handles certain communications between shareholders and the trust and distributes dividends and distributions payable by the trust. For these services, the sub-transfer agent receives a monthly fee computed on the basis of the number of shareholder accounts it maintains for

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<sup>6</sup> The Mid Cap Core Fund did not come into existence until March 26, 2001.

the trust during the month, and is reimbursed for out-of-pocket expenses.

133. The statements included in the March 2000 Investment Trust Form 485BPOS Large Capitalization Growth Fund prospectus and SAI, described in paragraph 132 herein, were materially misleading when made because they omitted material information for the same reasons as set forth in paragraph 2.

134. On March 26, 2001, the Investment Trust caused to be filed with the SEC a Form 485BPOS on behalf of the Large Capitalization Growth Fund and Mid Cap Core Fund. The March 2001 Form 485BPOS contains a prospectus and SAI that provides shareholders with information pertinent to their investment in the Large Capitalization Growth Fund and Mid Cap Core Fund. The March 2001 Form 485 BPOS was signed by Daidone as Senior Vice President, Treasurer and Chief Financial and Accounting Officer of the Investment Trust, and includes the following statement in the Mid Cap Core Fund and Large Capitalization Growth Fund prospectuses:

Transfer agent and shareholder servicing agent Citi Fiduciary Trust Company serves as the fund's transfer agent and shareholder servicing agent (the "transfer agent"). The transfer agent has entered into sub-transfer agency and services agreements with PFPC Global Fund Services and PFS Shareholder Services to serve as the fund's sub-transfer agents (the "sub-transfer agents"). The sub-transfer agents perform certain shareholder record keeping and accounting services and functions.

The March 2001 Investment Trust Form 485BPOS contained an SAI for the Mid Cap Core Fund which included the following statements:

Citi Fiduciary Trust Company (the "transfer agent"), located at 125 Broad Street, New York, New York 10004, serves as the fund's transfer and dividend-paying agent. Under the transfer agency agreement, the transfer agent maintains the shareholder account records for the fund, handles certain communications between shareholders and the fund, distributes dividends and distributions payable by the fund and produces statements with respect to account activity for the fund and its shareholders. For these services, the transfer agent receives fees from the fund computed on the basis of the number of shareholder accounts that the

transfer agent maintains for the fund during the month and is reimbursed for out-of-pocket expenses.

PFPC Global Fund Services ("PFPC" or "sub-transfer agent"), located at Exchange Place, Boston, Massachusetts 02109, serves as the trust's sub-transfer agent. Under the transfer agency agreement, the sub-transfer agent maintains the shareholder account records for the trust, handles certain communications between shareholders and the trust and distributes dividends and distributions payable by the trust. For these services, the sub-transfer agent receives a monthly fee computed on the basis of the number of shareholder accounts it maintains for the trust during the month, and is reimbursed for out-of-pocket expenses. The trust on behalf of the fund has also engaged the services of PFS Shareholder Services as a sub-transfer agent for PFS Accounts ( "PFS" or "sub-transfer agent"). PFS is located at 3100 Breckinridge Blvd, Bldg 200, Duluth, Georgia 30099-0062.

135. The March 2001 Investment Trust 485 BPOS contained an SAI for the Large Capitalization Growth Fund which included statements that were virtually identical to the statements contained in paragraph 139.

136. The statements included in the March 2001 Investment Trust Form 485BPOS Large Capitalization Growth Fund and Mid Cap Core Fund prospectuses and SAIs and described in paragraphs 132 and 134 herein were materially misleading when made because they omitted material information for the same reasons as set forth in paragraph 2.

137. On March 26, 2002, the Investment Trust caused to be filed with the SEC a Form 485BPOS on behalf of Large Capitalization Growth Fund and Mid Cap Core Fund. The March 2002 Form 485BPOS contains prospectuses and SAIs issued on behalf of the Mid Cap Core Fund and the Large Capitalization Growth Fund that provide shareholders with information pertinent to their investment in Mid Cap Core Fund and Large Capitalization Growth Fund. The March 2002 Form 485 BPOS was signed by Daidone as Treasurer and Chief Financial and Accounting Officer of the Investment Trust, and includes statements in the Large Capitalization Growth Fund and Mid Cap Core Fund prospectuses that are virtually identical to those made in

the March 2001 Investment Trust Form 485 BPOS Large Capitalization Growth Fund and Mid Cap Core Fund prospectus and SAI and described in paragraphs 132 and 134. As such, these statements were materially misleading when made because they omit information for the same reasons set forth in paragraph 2.

138. On March 28, 2003, the Investment Trust caused to be filed with the SEC a Form 485BPOS on behalf of Large Capitalization Growth Fund and Mid Cap Core Fund. The March 2003 Form 485BPOS contains prospectuses and SAIs issued on behalf of the Mid Cap Core Fund and the Large Capitalization Growth Fund that provide shareholders with information pertinent to their investment in Mid Cap Core Fund and Large Capitalization Growth Fund. The March 2003 Form 485 BPOS was signed by Gerken as Chairman of the Board, President and CEO of the Investment Trust and Peteka as Treasurer and Chief Financial Accounting Officer of the Investment Trust, and includes statements in the prospectus and SAIs that are virtually identical to those made in the March 2001 and 2002 Investment Trust Form 485 BPOS Large Capitalization Growth Fund and Mid Cap Core Fund prospectus and SAIs and described in paragraphs 132 and 134. As such, these statements were materially misleading when made because they omit information for the same reasons set forth in paragraph 2.

139. As discussed above, the Investment Trust March 2003 Form 485BPOS was supplemented by the December 2003 Supplement. The December 2003 Supplement was materially misleading for the reasons set forth in paragraph 10, and did not cure the material omissions contained in the March 2003 Form 485BPOS or in the earlier Investment Trust Class Period statements for the same reasons.

140. On March 29, 2004, the Investment Trust caused to be filed with the SEC a Form 485BPOS on behalf of Large Capitalization Growth Fund and Mid Cap Core Fund. The March

2004 Form 485BPOS contains prospectuses and SAIs issued on behalf of the Mid Cap Core Fund and the Large Capitalization Growth Fund that provide shareholders with information pertinent to their investment in Mid Cap Core Fund and Large Capitalization Growth Fund. The March 2004 Form 485 BPOS was signed by Gerken as Chairman of the Board, President and CEO of the Investment Trust and Peteka as Treasurer and Chief Financial and Accounting Officer of the Investment Trust, and includes the following statements in the Large Capitalization Growth Fund and Mid Cap Core Fund prospectus that are virtually identical to those made in the May 2004 Allocation Series Form 485BPOS Allocation Growth Fund prospectus and described in paragraph 25, and appear to reflect and incorporate the incomplete disclosures included in the December 2003 Supplement. As such, these statements were materially misleading when made for reasons set forth in paragraph 12.

141. The March 2004 Investment Trust Form 485BPOS contained an SAI for the Mid Cap Core Fund which included the following statements:

Citicorp Trust Bank, fsb (the "transfer agent"), located at 125 Broad Street, New York, New York 10004, serves as the fund's transfer and dividend-paying agent. Under the transfer agency agreement, the transfer agent maintains the shareholder account records for the fund, handles certain communications between shareholders and the fund, distributes dividends and distributions payable by the fund and produces statements with respect to account activity for the fund and its shareholders. For these services, the transfer agent receives fees from the fund computed on the basis of the number of shareholder accounts that the transfer agent maintains for the fund during the month and is reimbursed for out-of-pocket expenses.

PFPC Inc. ("PFPC" or "sub-transfer agent"), located at P.O. Box 9699, Providence, RI 02940-9699, serves as a sub-transfer agent. Under the transfer agency agreement, the sub-transfer agent maintains the shareholder account records for the trust, handles certain communications between shareholders and the trust and distributes dividends and distributions payable by the trust. For these services, the sub-transfer agent receives a monthly fee computed on the basis of the number of shareholder accounts it maintains for the trust during the month, and is reimbursed for out-of-pocket expenses.

The fund has also engaged the services of Primerica Shareholder Services ("PSS") as a sub-transfer agent in PFS Accounts. PSS is located at P.O. Box 9662, Providence, RI 02940.

142. The March 2004 Investment Trust 485BPOS contained an SAI for the Large Capitalization Growth Fund which included the identical statements to those found in paragraphs 140-141.

143. The statements included in the March 2004 Investment Trust Form 485BPOS Large Capitalization Growth Fund and Mid Cap Core Fund SAIs and described in paragraphs 140-141 herein are also false and materially misleading because they omitted material information for the same reasons as set forth in paragraph 2.

144. As discussed above, the Investment Trust March 2004 Form 485BPOS was amended by the July 2004 and October 2004 Amendments, which were materially misleading for the reasons set forth in paragraph 10, and did not cure the material omissions contained therein or in the earlier Investment Trusts Class Period statements.

**SMITH BARNEY MANAGED MUNICIPALS FUND, INC.**

145. On June 27, 2000, the Smith Barney Managed Municipals Fund, Inc. ("Managed Municipals Fund") caused to be filed with the SEC a Form 485BPOS. The June 2000 Form 485BPOS contains a prospectus and SAI that provides shareholders with information pertinent to their investment in the Managed Municipals Fund. Shares of the Managed Municipals Fund were purchased and/or sold during the Class Period by Plaintiff Richard W. Rees. The June 2000 Form 485 BPOS was signed by Daidone as Treasurer and Chief Financial and Accounting Officer of the Managed Municipals Fund, and contained the following statements in the prospectus:

Transfer agent and shareholder servicing agent Smith Barney Private Trust Company serves as the fund's transfer agent and shareholder servicing agent (the



"transfer agent"). Pursuant to a sub-transfer agency and services agreement with the transfer agent, PFPC Global Fund Services serves as the fund's sub-transfer agent (the "sub-transfer agent") to render certain shareholder record keeping and accounting services and functions.

The June 2000 Managed Municipals Fund Form 485BPOS contained an SAI which included the following statements:

Citi Fiduciary Trust Company, located at 388 Greenwich Street, New York, New York 10013, serves as the fund's transfer and dividend-paying agent. Under the transfer agency agreement, the transfer agent maintains the shareholder account records for the fund, handles certain communications between shareholders and the fund, distributes dividends and distributions payable by the fund and produces statements with respect to account activity for the fund and its shareholders. For these services, the transfer agent receives fees from the fund computed on the basis of the number of shareholder accounts that the transfer agent maintains for the fund during the month and is reimbursed for out-of-pocket expenses.

PFPC Global Fund Services, located at P.O. Box 9699, Providence, RI 02940-9699, serves as the fund's sub-transfer agent. Under the transfer agency agreement, PFPC maintains the shareholder account records for the fund, handles certain communications between shareholders and the fund, and distributes dividends and distributions payable by the fund. For these services, PFPC receives a monthly fee computed on the basis of the number of shareholder accounts it maintains for the fund during the month, and is reimbursed for out-of-pocket expenses.

146. The statements included in June 2000 Managed Municipals Fund Form 485BPOS prospectus and SAI and described in paragraph 145 herein were materially misleading when made because they omitted material information for the same reasons as set forth in paragraph 2.

147. On June 28, 2001, the Managed Municipals Fund caused to be filed with the SEC a Form 485BPOS. The June 2001 Form 485BPOS contains a prospectus and SAI that provides shareholders with information pertinent to their investment in the Managed Municipals Fund. The June 2001 Form 485 BPOS was signed by McLendon as Chairman of the Board and CEO of the Managed Municipals Fund and Daidone as Treasurer and Chief Financial and Accounting Officer of the Managed Municipals Fund, and includes statements that are virtually identical to those made in the June 2000 Managed Municipals Fund Form 485BPOS prospectus and SAI and

described in paragraph [MMF 157]. As such, these statements were materially misleading when made because they omit information for the same reasons set forth in PARAGRAPH A.

148. On June 26, 2002, the Managed Municipals Fund caused to be filed with the SEC a Form 485BPOS. The June 2002 Form 485BPOS contains a prospectus and SAI that provides shareholders with information pertinent to their investment in the Managed Municipals Fund. The June 2002 Form 485 BPOS was signed by Daidone as Treasurer and Chief Financial and Accounting Officer of the Managed Municipals Fund, and includes statements that are virtually identical to those made in the June 2000 and 2001 Managed Municipals Fund Form 485BPOS prospectuses and SAI's and described in paragraph 145. As such, these statements were materially misleading when made because they omit information for the same reasons set forth in paragraph 2.

149. On June 25, 2003, the Managed Municipals Fund caused to be filed with the SEC a Form 485BPOS. The June 2003 Form 485BPOS contains a prospectus and SAI that provides shareholders with information pertinent to their investment in the Managed Municipals Fund. The June 2003 Form 485 BPOS was signed by Gerken as Chairman of the Board, President and CEO of the Managed Municipals Fund and Peteka as Treasurer and Chief Financial and Accounting Officer of the Managed Municipals Fund, and includes statements that are virtually identical to those made in the June 2000, 2001 and 2002 Managed Municipals Fund Form 485BPOS prospectuses and SAIs and described in paragraph 145. As such, these statements were materially misleading when made because they omit information for the same reasons set forth in paragraph 2.

150. As discussed above, the Managed Municipals Fund 2003 Form 485BPOS was supplemented by the December 2003 Supplement. The December 2003 Supplement was

materially misleading for the reasons set forth in paragraph 10, and did not cure the material omissions contained in the 2003 Form 485BPOS or in the earlier Managed Municipals Fund Class Period statements for the same reasons.

151. On June 25, 2004, the Managed Municipals Fund caused to be filed with the SEC a Form 485BPOS. The June 2004 Form 485BPOS contains a prospectus and SAI that provides shareholders with information pertinent to their investment in the Managed Municipals Fund. The June 2004 Form 485 BPOS was signed by Gerken as Chairman of the Board, President and CEO of the Managed Municipals Fund, and includes statements in the prospectus that are virtually identical to those made in the May 2004 Allocation Series Form 485BPOS Allocation Growth Fund prospectus and described in paragraph 25, and appear to reflect and incorporate the incomplete disclosures included in the December 2003 Supplement. As such, these statements were materially misleading when made for reasons set forth in paragraph 12.

152. The June 2004 Managed Municipals Fund Form 485BPOS contained an SAI which included statements that were virtually identical to those made in the June 2000, 2001, 2002 and 2003 Managed Municipals Fund Form 485BPOS SAI described in paragraph 145. As such, these statements were materially misleading when made because they omitted material information for the same reasons as set forth in paragraph 2.

153. As discussed above, the June 2004 Managed Municipals Fund Form 485BPOS was amended by the July 2004 and October 2004 Amendments, which were materially misleading for the reasons set forth in paragraph 10, and did not cure the material omissions contained therein or in the earlier Managed Municipals Fund Class Period statements.

**SMITH BARNEY MONEY FUNDS, INC. - CASH PORTFOLIO**

154. On April 26, 2000, the Smith Barney Money Funds, Inc. (“Money Funds”) caused

to be filed with the SEC a Form 485BPOS. The Money Funds are a sub-family of Smith Barney funds that include the Cash Portfolio, ("Cash Portfolio"), one of the Funds currently at issue. Shares of the Cash Portfolio were purchased and/or sold during the Class period by Plaintiffs Jeffrey Weber, DVL 401(k) Plan, and Richard W. Rees. The April 2000 Money Funds Form 485BPOS was issued on behalf of the Cash Portfolio, and contained a prospectus and SAI that provides shareholders with information pertinent to their Cash Portfolio investment. The April 2000 Money Funds Form 485 BPOS, signed by Daidone as Treasurer, and Principal Financial and Accounting Officer of the Money Funds, contained the following statements in the Cash Portfolio prospectus:

Transfer agent and shareholder servicing agent Citi Fiduciary Trust Company serves as the fund's transfer agent and shareholder servicing agent (the "transfer agent"). Pursuant to a sub-transfer agency and services agreement with the transfer agent, PFPC Global Fund Services serves as the fund's sub-transfer agent (the "sub-transfer agent") to render certain shareholder record keeping and accounting services and functions.

The April 2000 Money Funds Form 485BPOS contained a Cash Portfolio SAI which included the following statements:

Transfer and Dividend Disbursing Agent and Sub-Transfer Agents. Smith Barney Private Trust Company, located at 388 Greenwich Street, New York, New York 10013 serves as the Company's transfer, dividend disbursing and shareholder services agent. PFPC Global Fund Services (formerly First Data Investor Services Group, Inc.), 101 Federal Street, Boston, Massachusetts 02110 serves as the Company's sub-transfer agent to render certain shareholder record keeping and accounting services functions. PFS Shareholder Services serves as the sub-transfer agent for PFS Accounts. PFS Shareholder Services is located at 3100 Breckinridge Boulevard, Building 200, Duluth, Georgia 30099-0062.

155. The statements included in April 2000 Money Funds Form 485BPOS Cash Portfolio prospectus and SAI and described in 154] herein were materially misleading when made because they omitted material information for the same reasons as set forth in paragraph 2.

156. On April 26, 2001, the Money Funds caused to be filed with the SEC a Form

485BPOS on behalf of the Cash Portfolio. The April 2001 Money Funds Form 485BPOS contained a prospectus and SAI that provides shareholders with information pertinent to their investment in Cash Portfolio. The April 2001 Money Funds Form 485 BPOS, signed by Daidone as Treasurer and Principal Financial and Accounting Officer of the Money Funds, contained statements in the Cash Portfolio prospectus and SAI that are virtually identical to those made in the April 2000 Money Funds Form 485BPOS Cash Portfolio prospectus and SAI and described in paragraph 159. As such, these statements were materially misleading when made because they omit information for the same reasons set forth in paragraph 2.

157. On April 26, 2002, the Money Funds caused to be filed with the SEC a Form 485BPOS on behalf of the Cash Portfolio. The April 2002 Money Funds Form 485BPOS contained a prospectus and SAI that provides shareholders with information pertinent to their investment in Cash Portfolio. The April 2002 Money Funds Form 485 BPOS, signed by Daidone as Treasurer and Principal Financial and Accounting Officer of the Money Funds, contained statements in the Cash Portfolio prospectus and SAI that are virtually identical to those made in the April 2000 and April 2001 Money Funds Form 485BPOS Cash Portfolio prospectuses and SAIs and described in paragraph 154. As such, these statements were materially misleading when made because they omitted material information for the same reasons as set forth in paragraph 2.

158. On April 24, 2003, the Money Funds caused to be filed with the SEC a Form 485BPOS on behalf of the Cash Portfolio. The April 2003 Money Funds Form 485BPOS contained a prospectus and SAI that provides shareholders with information pertinent to their investment in Cash Portfolio. The April 2003 Money Funds Form 485 BPOS, signed by Gerken as Chairman of the Board, President and CEO of the Money Funds and Daidone as Senior Vice

President and Chief Financial Officer of the Money Funds, contained statements in the Cash Portfolio prospectus and SAI that are virtually identical to those made in the April 2000, April 2001 and April 2002 Money Funds Form 485BPOS Cash Portfolio prospectuses and SAIs and described in paragraph 159. As such, these statements were materially misleading when made because they omitted material information for the same reasons as set forth in paragraph 2.

159. On December 1, 2003, the Money Funds April 2003 Form 485BPOS was supplemented by the December 2003 Supplement. The December 2003 Supplement was materially misleading when made for the reasons set forth in paragraph 10, and did not cure the material omissions contained in the Money Funds April 2003 Form 485BPOS or in the earlier Cash Portfolio Class Period statements for the same reasons.

160. On April 28, 2004, the Money Funds caused to be filed with the SEC a Form 485BPOS on behalf of the Cash Portfolio. The April 2004 Money Funds Form 485BPOS contained a prospectus and SAI that provides shareholders with information pertinent to their investment in Cash Portfolio. The April 2004 Money Funds Form 485 BPOS, signed by Gerken as Chairman of the Board, President and CEO of the Money Funds contained statements in the Cash Portfolio prospectus that are virtually identical to those made in the May 2004 Allocation Series Form 485BPOS Allocation Growth Fund prospectus and described in paragraph 25, and appear to reflect and incorporate the incomplete disclosures included in the December 2003 Supplement. As such, these statements were materially misleading when made for reasons set forth in paragraph 12.

161. Later in the April 2004 Form 485BPOS, the Cash Portfolio SAI included the following statements:

Transfer and Dividend Disbursing Agent and Sub-Transfer Agents. Citicorp Trust Bank, fsb, located at 125 Broad Street, New York, New York 10004, serves as the

Company's transfer, dividend disbursing and shareholder services agent. PFPC Inc., P.O. Box 9699, Providence, Rhode Island 02940-9699, serves as the Company's sub-transfer agent to render certain shareholder record keeping and accounting services functions. Primerica Shareholder Services serves as the sub-transfer agent for PFS accounts. Primerica Shareholder Services is located at 3100 Breckinridge Boulevard, Building 200, Duluth, Georgia 30099.

162. The statements included in the April 2004 Money Funds Form 485BPOS Cash Portfolio SAI and described in 161 herein were materially misleading when made because they omitted material information for the same reasons as set forth in paragraph 2.

163. As discussed above, the Money Funds April 2004 Form 485BPOS was amended by the July 2004 and October 2004 Amendments, which were materially misleading for the reasons set forth in paragraph 10, and did not cure the material omissions contained therein or in the earlier Money Funds Class Period statements.

**SMITH BARNEY EQUITY FUNDS, INC. - SOCIAL AWARENESS FUND**

164. On May 26, 2000, the Smith Barney Equity Funds ("Equity Funds") caused to be filed with the SEC a Form 485BPOS. The Equity Funds are a sub-family of Smith Barney funds that include the Social Awareness Fund, ("Social Awareness Fund"), one of the Funds currently at issue. Shares of the Social Awareness Fund were purchased and/or sold during the Class period by Plaintiffs DVL 401(k) Plan and Steven W. Hall. The May 2000 Equity Funds Form 485BPOS was issued on behalf of the Social Awareness Fund and contained a prospectus and SAI issued on behalf of the Social Awareness Fund that provides shareholders with information pertinent to their investment in Social Awareness Fund. The May 2000 Equity Funds Form 485BPOS, signed by Daidone as Senior Vice President, Treasurer, and Principal Financial and Accounting Officer of the Equity Funds, contained the following statements in the Social Awareness Fund prospectus:

Transfer agent and shareholder servicing agent Citi Fiduciary Trust Company

serves as the fund's transfer agent and shareholder servicing agent (the "transfer agent"). Pursuant to a sub-transfer agency and services agreement with the transfer agent, PFPC Global Fund Services serves as the fund's sub-transfer agent (the "sub-transfer agent") to render certain shareholder record keeping and accounting services and functions.

The May 2000 Equity Funds Form 485BPOS contained a Social Awareness Fund SAI which included the following statements:

Citi Fiduciary Trust Company  
("Transfer Agent")  
Transfer Agent

PFPC Global Fund Services  
("Sub-Transfer Agent")  
Sub-Transfer Agent

165. The statements included in the May 2000 Equity Funds Form 485BPOS prospectus and SAI and described in paragraph 164 herein were materially misleading when made because they omitted material information for the same reasons as set forth in paragraph 2.

166. On May 30, 2001, the Equity Funds caused to be filed with the SEC a Form 485BPOS on behalf of the Social Awareness Fund. The May 2001 Equity Funds Form 485BPOS contained a prospectus and SAI that provides shareholders with information pertinent to their investment in the Social Awareness Fund. The May 2001 Equity Funds Form 485BPOS, signed by Daidone as Senior Vice President, Treasurer and Principal Financial and Accounting Officer of the Equity Funds, contained statements in the Social Awareness Fund prospectus that are virtually identical to those made in the May 2000 Equity Funds Form 485BPOS Social Awareness Fund prospectus and SAI and described in paragraph 167.

167. The statements included in the May 2001 Equity Funds prospectus and SAI and described in paragraph 167 herein were materially misleading when made because they omitted material information for the same reasons as set forth in paragraph 2.



168. On May 30, 2002, Equity Funds caused to be filed with the SEC a Form 485BPOS on behalf of the Social Awareness Fund. The May 2002 Equity Funds Form 485BPOS contained a prospectus and SAI that provides shareholders with information pertinent to their investment in the Social Awareness Fund. The May 2002 Equity Funds Form 485BPOS, signed by Gerken as President of the Equity Funds and Peteka as Treasurer and Principal Financial and Accounting Officer of the Equity Funds, contained statements in the Social Awareness Fund prospectus and SAI that are virtually identical to those made in the May 2000 and May 2001 Equity Funds Form 485BPOS Social Awareness Fund prospectuses and SAIs and described in paragraph 167. As such, these statements were materially misleading when made because they omitted material information for the same reasons as set forth in paragraph 2.

169. On May 29, 2003, the Equity Funds caused to be filed with the SEC a Form 485BPOS on behalf of the Social Awareness Fund. The May 2003 Equity Funds Form 485BPOS contained a prospectus and SAI issued that provides shareholders with information pertinent to their investment in Social Awareness Fund. The May 2003 Equity Funds Form 485BPOS, signed by Gerken as Chairman of the Board, President and CEO of the Equity Funds and Peteka as Treasurer and Chief Financial Officer of the Equity Funds, contained statements in the Social Awareness Fund prospectus and SAI that are virtually identical to those made in the May 2000, May 2001 and May 2002 Equity Funds Form 485BPOS Social Awareness Fund prospectuses and SAIs and described in paragraph 164. As such, these statements were materially misleading when made because they omitted material information for the same reasons as set forth in paragraph 2.

170. On December 1, 2003, the Equity Funds May 2003 Form 485BPOS was supplemented by the December 2003 Supplement. The December 2003 Supplement was

materially misleading when made for the reasons set forth in paragraph 10, and did not cure the material omissions contained in the Equity Funds May 2003 Form 485BPOS or in the earlier Social Awareness Fund Class Period statements for the same reasons.

171. On May 28, 2004, the Equity Funds caused to be filed with the SEC a Form 485BPOS on behalf of the Social Awareness Fund. The May 2004 Equity funds Form 485BPOS contained a prospectus and SAI issued that provides shareholders with information pertinent to their investment in Social Awareness Fund. The May 2004 Equity Funds Form 485BPOS, was signed by Gerken as Chairman of the Board, President and CEO of the Equity Funds and Peteka as Treasurer and Chief Financial Officer of the Equity Funds, and contained statements in the Social Awareness Fund prospectus that are virtually identical to those made in the May 2004 Allocation Series Form 485BPOS Allocation Growth Fund prospectus and described in paragraph 25, and appear to reflect and incorporate the incomplete disclosures included in the December 2003 Supplement. As such, these statements were materially misleading when made for reasons set forth in paragraph 12.

172. Later in the May 2004 Form 485BPOS, the Social Awareness Fund SAI included the following statements:

The Transfer Agent is located at 125 Broad Street, New York, New York, 10004. For its services as transfer agent, Citicorp Trust Bank, fsb receives fees charged to the fund at an annual rate based upon the number of shareholder accounts maintained during the year.

173. The statements included in the May 2004 Equity Funds Form 485BPOS SAI and described in paragraph 172 herein are also materially false and misleading because they omitted material information for the same reasons as set forth in paragraph 2.

174. As discussed above, the Equity Funds May 2004 Form 485BPOS was amended by the July 2004 and October 2004 Amendments, which were materially misleading for the

reasons set forth in paragraph 10, and did not cure the material omissions contained therein or in the earlier Equity Funds Class Period statements.

**THE TRUTH IS REVEALED**

175. On May 31, 2005, the last day of the Class Period, the SEC published an Order announcing that in anticipation of proceedings against the Adviser and Global Markets, these entities submitted an offer to the SEC which the SEC had “determined to accept.” This order, for the first time, revealed the sub-transfer agent kickback scheme by which Defendants diverted hundreds of millions of dollars from the Funds to another Citigroup entity.