



IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

In re THE STUDENT LOAN
CORPORATION LITIGATION

) Consolidated
) C.A. No. 5832-VCL
)
)

**VERIFIED CONSOLIDATED AMENDED
CLASS ACTION AND DERIVATIVE COMPLAINT**

Plaintiffs Alan R. Kahn and Electrical Workers Pension Fund, Local 103, I.B.E.W., by and through their undersigned counsel, allege upon personal knowledge as to themselves, and upon information and belief (including the investigation of counsel and review of publicly available information) as to all other allegations, as follows:

NATURE OF THE ACTION

1. This shareholder class and derivative action is brought on behalf of the minority public shareholders (the “Class”) of The Student Loan Corporation (“Student Loan” or the “Company”), and challenges the fairness of a series of highly conflicted proposed transactions (collectively, the “Proposed Transaction”), announced September 17, 2010, through which Citibank, N.A. (“CBNA”) – Student Loan’s 80% controlling shareholder – has engineered asset sales (the “Asset Sales”) and a merger (the “Merger”) of the Company for the explicit purpose of divesting itself of “non-core” assets “as quickly as practicable.”

2. The proposed Merger price of \$30 in cash per share (the “Proposed Merger Price”) is less than half the Company’s net book value per share, and is far below the \$46.57 price at which the Company’s stock traded at the beginning of 2010 – leading one analyst to characterize the Proposed Transaction as occurring at a “*fire-sale price*.” While Defendants have justified the Merger as providing a premium to the Company’s pre-announcement trading price, Student Loan’s loss of 53% of its market value in 2010 prior to the Merger announcement

contrasts sharply with the market performance of its peers, which gained an average of 20% over the same period. Review of the companies' respective financial statements and other public disclosures readily demonstrates the cause of the sharp divergence: changes in the terms of the Company's extensive related-party arrangements with CBNA destroyed Student Loan's profitability over the course of 2010.

3. The Merger thus reflects classic controller overreaching: a squeeze-out timed to serve the parent's purposes after it has exploited its control to expropriate value and depress the value of its subsidiary through related-party transactions.

4. The fiduciary breaches by CBNA and its parent, Citigroup Inc. (together, "Citi") were aided by the failure of Student Loan directors – a majority of whom are current officers of Citi and its subsidiaries – and the special committee formed to review the Proposed Transaction (the "Special Committee") to fulfill their duties of loyalty and care to the Company and the Class. *First*, according to the Company's Preliminary Proxy Statement on Schedule 14A (the "Proxy"), filed October 7, 2010, the Student Loan board of directors (the "Board") and Special Committee wrongfully acceded to Citi's decision to sell Student Loan without exercising any independent business judgment as to whether the sale should be pursued, and without imposing any conditions on the terms of the sale. *Second*, as the Proxy illustrates at length, the Special Committee granted Citi plenary authority to plan and conduct an auction process, despite its stated goal of accomplishing a sale "as quickly as practicable," in direct conflict with the Class's interest in maximizing the value of Student Loan's assets and ongoing operations. *Third*, the Special Committee retained legal and financial advisors who have substantial ties to Citi. In addition, certain members of the Special Committee themselves have ties to Citi that deprive them of independence and undermine the effectiveness of the Special Committee.

5. The failures of the Board and Special Committee to act effectively in the Class's interests are exacerbated by their failure to empower the Class by providing a majority-of-the-minority vote on the Proposed Transaction. As the Proxy explicitly recognizes (at 3-4): "CBNA's shares represent more than the number of votes necessary to approve the [Proposed Transaction], even if you and every other stockholder of the company vote against both of the proposals at the special meeting."

6. In addition, Defendants have failed to provide the Class *any* vote on the sale of nearly 20% of Student Loan's assets to its parent, CBNA, as part of the Proposed Transaction. Such sale is an integral component of the Asset Sales, through which approximately 80% of Student Loan's assets will be sold immediately prior to the Merger, and is therefore subject to a statutorily-required shareholder vote under 8 *Del. C.* § 271.

7. A post-closing judicial valuation of the Company provides no substitute for a fully-empowered, truly independent Special Committee bargaining at arm's length as an effective advocate for the Class. Accordingly, the Proposed Transaction should be enjoined.

THE PARTIES

8. Plaintiffs Alan R. Kahn and Electrical Workers Pension Fund, Local 103, I.B.E.W. are and have been at all times relevant hereto, Student Loan shareholders.

9. Student Loan is a Delaware corporation with its headquarters in Stamford, Connecticut. Student Loan originates, holds and services federally insured student loans through a trust agreement with CBNA. Student Loan common stock is traded on the New York Stock Exchange under the symbol "STU." CBNA owns 80% of Student Loan's common stock, controls Student Loan's Board, and operates Student Loan as a CBNA subsidiary.

10. Defendant Citigroup Inc. ("Citigroup") is a Delaware corporation with its principal executive offices in New York, New York. Citigroup is a financial services holding

company whose subsidiaries provide financial products and services, including consumer banking and credit, corporate and investment banking, securities brokerage, transaction services, and wealth management. Citigroup's common stock is traded on the New York Stock Exchange (the "NYSE") under the symbol "C."

11. Defendant CBNA is a wholly-owned subsidiary of Citigroup, with its principal executive offices in New York, New York. CBNA offers banking, lending, financial, and investment products and services. CBNA is Citigroup's primary depository institution.

12. Defendant Vikram A. Atal ("Atal") has served as a director of the Company since March 2008, and also serves as an Executive Vice President of Citigroup. Atal has worked for various Citigroup entities since 1986. Atal does not own any shares of Student Loan common stock.

13. Defendant James L. Bailey ("Bailey") has served as a director of the Company since November 2007, and, in 2009, served on Student Loan's Audit and Compensation Committees. Prior to joining Student Loan, Bailey held various management positions at CBNA from 1972 to 2000, when he retired as Executive Vice President and Group Executive. Bailey does not own any shares of Student Loan common stock.

14. Defendant Gina Doynow ("Doynow") has served as a director of the Company since August 2005, and also serves as Citigroup's North American Community Relations Director. Doynow has worked for Citigroup since 1988 and was previously a member of the Citicorp Credit Services, Inc. board of directors. Doynow does not own any shares of Student Loan common stock.

15. Defendant Rodman L. Drake ("Drake") has served as a director of the Company since April 2005, and, in 2009, served on Student Loan's Audit Committee and as Chairman of

Student Loan's Compensation Committee. As of October 1, 2010, Drake owned 128 shares of Student Loan common stock.

16. Defendant Richard Garside ("Garside") has served as a director of the Company since May 2007. Garside, who has worked at Citigroup since 1981, also currently serves as Executive Vice President and Co-Head of Operations and Technology for Citigroup and as a member of Citigroup's Management Committee. Garside previously served as Chief Operating Officer for Citigroup's North America Consumer businesses and as Chief Operating Officer of Citi Cards Business. Garside does not own any shares of Student Loan common stock.

17. Defendant Glenda B. Glover ("Glover") has served as director of the Company since May 1998, and, in 2009, served as Chairman of Student Loan's Audit Committee and as a member of Student Loan's Compensation Committee. Glover does not own any shares of Student Loan common stock.

18. Defendant Evelyn E. Handler ("Handler") has served as a director of the Company since April 1993, and, in 2009, served on Student Loan's Audit and Compensation Committees. Handler is a Fellow of the American Association for the Advancement of Science, an organization for which Citigroup is a donor and with which the Citigroup Foundation has partnered on charitable projects. Handler does not own any shares of Student Loan common stock.

19. Defendant Laurie A. Hesslein ("Hesslein") has served as a director of the Company since March 2010, and also serves as a Managing Director of Citigroup Global Markets, Inc. Hesslein does not own any shares of Student Loan common stock.

20. Defendant Michael J. Reardon ("Reardon") serves as Student Loan's CEO, President, and Chairman of the Board. Reardon has been Student Loan's CEO since July 2004

and was appointed Chairman of the Board in January 2006. Reardon has served as Student Loan's President since February 2005 and has served as a director of the Company since July 2004. Prior to his appointment to these posts, Reardon held numerous executive positions at Citigroup. Reardon does not own any shares of Student Loan common stock.

21. Defendants Atal, Bailey, Doynow, Drake, Garside, Glover, Handler, Hesslein and Reardon are collectively referred to herein as the "Director Defendants." By virtue of their positions as officers and/or directors of Student Loan, the Director Defendants owe the Class fiduciary duties of due care, candor, and loyalty.

CLASS ACTION ALLEGATIONS

22. Plaintiffs bring this action as a class action, pursuant to Rule 23 of the Rules of the Court of Chancery, on behalf of all of the Company's Class public shareholders, excepting persons affiliated with any of the Defendants, and their successors in interest, all of whom collectively constitute the "Class."

23. This action is properly maintainable as a class action.

24. The Class is so numerous that joinder of all members is impracticable. There are approximately four million shares of Student Loan common stock outstanding that are not owned by CBNA or its affiliates.

25. There are questions of law and fact that are common to the Class including, *inter alia*, the following: (a) whether Defendants have breached their fiduciary and other common law duties owed by them to Plaintiffs and other members of the Class; and (b) whether the Class is entitled to injunctive relief or damages as a result of Defendants' wrongful conduct.

26. Plaintiffs are committed to prosecuting this action and have retained competent counsel experienced in litigation of this nature. Plaintiffs' claims are typical of the claims of the other members of the Class and Plaintiffs have the same interests as the other members of the

Class. Accordingly, Plaintiffs are adequate representatives of the Class and will fairly and adequately protect the interests of the Class.

27. Defendants have acted in a manner that affects Plaintiffs and all members of the Class equally, thereby making appropriate injunctive relief and/or corresponding declaratory relief with respect to the Class as a whole.

28. The prosecution of separate actions by individual members of the Class would create a risk of inconsistent or varying adjudications with respect to individual members of the Class, which would establish incompatible standards of conduct for Defendants, or adjudications with respect to individual members of the Class that would, as a practical matter, be dispositive of the interests of other members or substantially impair or impede their ability to protect their interests.

SUBSTANTIVE ALLEGATIONS

A. Background and Business of the Company

29. The Company is one of the nation's leading originators and holders of student loans, with net income of \$125.7 million in 2009. Student Loan's business was originally conducted as a division of Citi. The Company was spun off in 1992, and conducted its initial public offering the same year.

30. Student Loan's common stock is traded on the NYSE under the symbol "STU." The Company is 80% owned by CBNA; substantially all of its remaining shares are publicly held by the Class. The total market capitalization of Student Loan at the Proposed Merger Price is \$600 million; the public float is therefore worth \$120 million at the Proposed Merger Price.

31. The student loan industry in which Student Loan operates has been the subject of significant dislocations over the past year, culminating in the passage of federal legislation in

March 2010 that largely eliminated the origination of federally-guaranteed student loans by private companies such as Student Loan.

B. Description of the Proposed Transaction

32. The Proposed Transaction is comprised of the following:

(a) The sale to Citi of certain federal and private student loans and other assets totaling \$8.7 billion (representing 18.8% of Student Loan’s total assets) pursuant to an Asset Purchase Agreement dated September 17, 2010 among Student Loan, CBNA, and affiliated parties (the “Citi Sale”);

(b) The sale of \$28 billion of securitized federal student loans and related assets to SLM Corporation (“Sallie Mae”) pursuant to an Asset Purchase Agreement (the “Sallie Mae APA”) dated September 17, 2010 among Student Loan, CBNA, Sallie Mae, and affiliated parties (the “Sallie Mae Sale”); and

(c) The Merger, pursuant to which Discover Bank and an acquisition subsidiary (together, “Discover”) would acquire the Company’s remaining assets – its private student loan business and \$4 billion in private student loans – for the Proposed Merger Price of \$30 per share.

33. Each of the constituent transactions is cross-conditioned on the closing of the others, and the Proposed Transaction is expected to close by the end of 2010.

C. The Proposed Transaction Effectuates Citi’s Stated Intention to Sell Student Loan “as Quickly as Practicable” on any “Rational” Terms

34. Citi’s stated objective in pursuing the Proposed Transaction conflicts with the best interests of the Class. According to Student Loan’s Form 10-K for the fiscal year ended December 31, 2009 (the “2009 10-K”), Citi intended to sell off Student Loan’s assets “as quickly as practicable,” constrained only by the commitment to do so “in an economically rational

manner” – far from the Class’s interest in maximizing the value of Student Loan’s assets and ongoing operations.

35. Consistent with its stated goal, Citigroup’s September 17, 2010 Form 8-K, which announced the Proposed Transaction, made no attempt to characterize it as occurring on financially advantageous terms. Rather, it emphasized the Proposed Transaction’s contribution to its deleveraging strategy, announcing “Transactions to Reduce Citi Holdings Assets by \$32 Billion,” and quoting its CEO as stating that “[w]e expect that once this divestiture is completed in the fourth quarter, total assets in Citi Holdings will be less than 20 percent of our balance sheet as of year-end We are very pleased with the progress we’ve made and the momentum we have in executing our strategy.’”

36. The connection between Citigroup’s private objectives and the bargain sale of the Company was further noted by Morningstar analyst Jim Sinegal, who observed “Citigroup really wanted to get out of the business” Maria Woehr, *Analyst: Citi, Discover Deal’s Hidden Surprises*, TheStreet.com, Sept. 20, 2010.

37. Consistent with the Proposed Transaction serving Citi’s interests rather than the Company’s, the Special Committee’s principal financial advisor, Moelis & Company LLC (“Moelis”), pointedly limited its fairness opinion “**solely to the fairness of the consideration to be received by the stockholders of the company**” and specifically disclaimed any evaluation of “**the company’s underlying business decision to effect the [Proposed Transaction] or the relative merits of the [Proposed Transaction] as compared to any alternative business strategies or transactions that might be available to the company.**” Proxy at 47 (boldface in original).

D. The Proposed Transaction Deeply Undervalues Student Loan

38. While the Company is thinly covered by equity analysts, the limited commentary on the Proposed Transaction reflects the market’s view that the Proposed Merger Price is severely inadequate. A September 20, 2010 article published on TheStreet.com characterized the Merger as occurring at a “*fire-sale price . . .*” Maria Woehr, *Analyst: Citi, Discover Deal’s Hidden Surprises*, TheStreet, Sept. 20, 2010 (citing comments by Morningstar analyst Jim Sinegal) (emphasis added). Sinegal further commented that ““financially Discover made out the best in the deal. It got the most valuable assets *at a discount price.*”” *Id.* (emphasis added).

39. Discover’s CEO echoed these comments in an earnings call on September 20, 2010, commenting that the Merger “represents a financially attractive opportunity for Discover, which enhances our ability to pursue the growth potential of our Direct Banking business.” Thomson StreetEvents, *Discover 3Q2010 Earnings Call Transcript*, at 3.

40. Analyzing the Company on a balance sheet basis – without assigning any value to the relationships with schools and universities and other attributes that it has cited as “core strengths,” 2009 10-K, at 12 – further reveals the inadequacy of the Proposed Merger Price. As reflected in the following table, the Proposed Merger Price represents a *more than 50% discount* to the Company’s net book value per share:

Consolidated Balance Sheet
As of June 30, 2010
(\$ in 000's except values per share)

Assets

Federally Insured Student Loans	\$28,574,666
Private Education Loans	\$9,877,200
Deferred origination and premium costs	\$714,830
Allowance for loan losses	(\$173,565)
Loans Held for Sale	\$4,713,030
Cash	\$876
Other assets	\$2,492,167
<i>Total Assets</i>	<u>\$46,199,204</u>

Liabilities

Short-term borrowings, payable to principal stockholder	\$4,566,600
Short-term secured borrowings, payable to the Dept of Education	\$4,594,795
Long-term borrowings, payable to principal stockholder	\$3,541,000
Long-term secured borrowings	\$31,675,596
Deferred Income Taxes	\$165,569
Other Liabilities	\$340,784
<i>Total Liabilities</i>	<u>\$44,884,344</u>

Book Value of Equity	\$1,314,860
Shares Outstanding	20,000,000
Net Book Value per Share	\$65.74
Proposed Merger Price	\$30.00
Discount to Net Book Value	54%

41. The inadequacy of the Proposed Merger Price is further supported by the analysis Moelis performed for the Special Committee. Moelis identified two publicly traded comparable companies for comparative analysis – Sallie Mae and Nelnet, Inc. (“Nelnet”). On a price to book value basis, the Proposed Merger Price is *more than 60% below these firms*:

	<u>Price /BV</u>
Selected Companies (September 14, 2010)	1.22x
The Company (September 14, 2010)	0.30
The Company (\$30.00 per share)	0.46

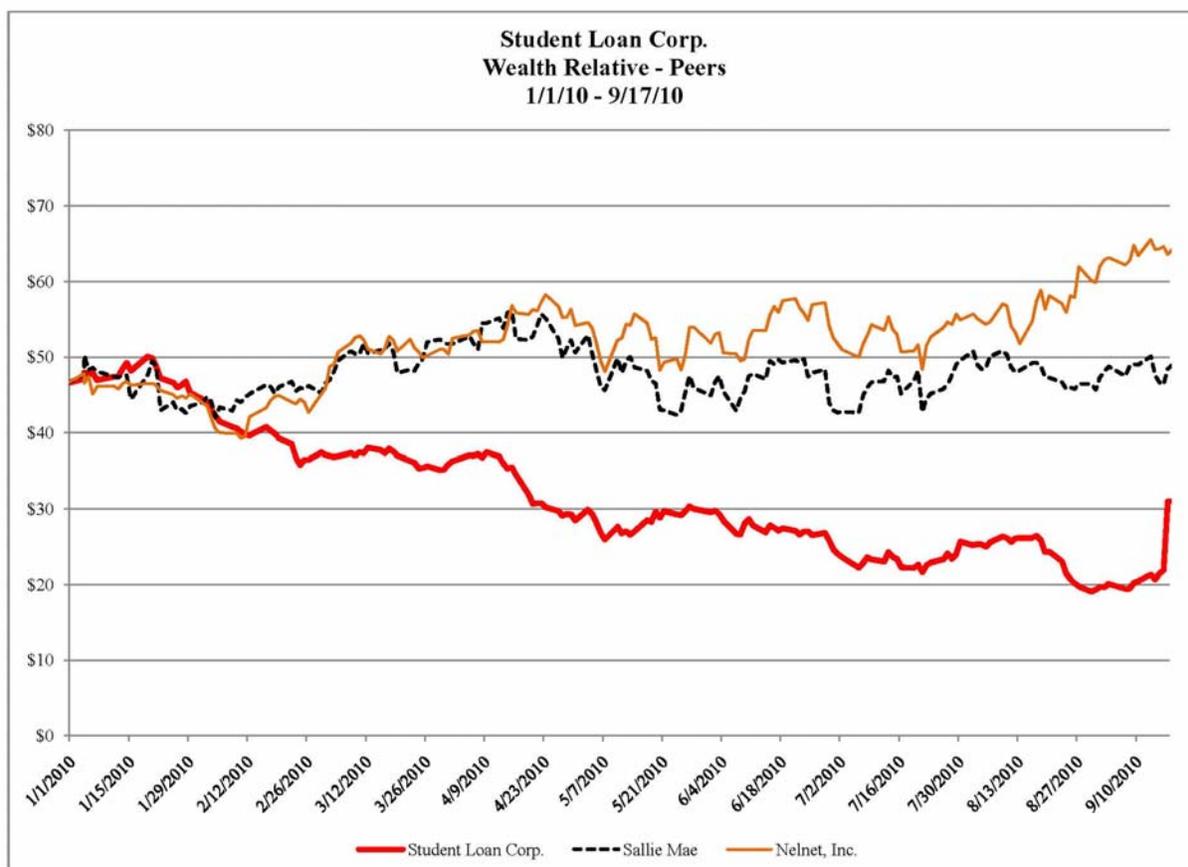
42. In addition, disruptions in the federally-guaranteed student loan market notwithstanding, the private loan business sold to Discover, and Student Loan's associated student loan origination and servicing infrastructure and relationships with schools and universities continue to have substantial value. As equity analyst Sinegal explained, "[p]rivate loans are a pretty good business to get into. The interest rates make it a profitable business right now.'" Woehr, *supra*.

E. The Company's Pre-Announcement Trading Price Reflected Abusive Related-Party Transactions with CBNA

43. In the Proxy, Defendants cite the 42% premium to the Company's pre-announcement trading price to justify the Proposed Merger Price, and the Proxy cites the Company's trading price as the benchmark for the negotiations over the Proposed Merger Price between the Special Committee and Citi. Proxy at 42.

44. In fact, the Company's trading price prior to the Merger reflected a severe run-down during 2010 that contrasts sharply with its peers' 2010 price performance and is directly attributable to specific, abusive related-party transactions between Student Loan and CBNA.

45. From January 1, 2010 through September 16, 2010, Student Loan lost 53% of its market value (net of dividends), while Sallie Mae remained even and Nelnet gained 39%, as reflected in the following chart:



46. The divergence between the market performance of Student Loan and its peers can be traced to sharp changes in their respective profitability. As set forth in the following table, the Company's profit margin sharply declined in 2010 while its peers' profit margins increased:

<i>(revenue and net income in millions)</i>		<u>1H2010</u>	<u>2009</u>	<u>2008</u>
Student Loan Corp.	Revenue	\$549.54	\$981.77	\$1,320.40
	Net Income	\$21.28	\$125.68	\$76.24
	Margin %	3.9%	12.8%	5.8%
SLM Corp.	Revenue	\$3,490.29	\$6,606.32	\$8,134.84
	Net Income	\$577.96	\$422.70	-\$212.63
	Margin %	16.6%	6.4%	-2.6%
Nelnet Inc.	Revenue	\$490.12	\$1,026.71	\$1,513.86
	Net Income	\$104.32	\$138.78	\$26.84
	Margin %	21.3%	13.5%	1.8%

47. Analysis of the companies' respective financial statements readily reveals the source of the divergence in their profitability: the unfair terms that CBNA imposed on the Company when its principal loan facility – the Amended and Restated Omnibus Credit Agreement – was renewed on January 29, 2010.

48. As the Company itself explained in its 2009 10-K (at 57, emphasis added), “[t]he Company’s Amended and Restated Omnibus Credit Agreement provides funding through December 30, 2010, however the cost of funding under this agreement is *significantly higher* than the borrowings that are expected to mature over the next twelve months. This will *further compress the Company’s net interest margin.*”

49. As set forth in the Company’s 2009 10-K (at 72, 97), related-party borrowings from CBNA represent the bulk of its total interest expense:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Total interest expense	\$502,645	\$884,113	\$1,175,159
Related-party interest expense	337,062	825,886	1,175,159
Related-party %	67%	93%	100%

50. Comparison of Student Loan’s borrowing costs as a percentage of interest income with those of its peers illustrates the problem it has faced:

	<u>2Q2010</u>	<u>1Q2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Student Loan					
Interest income	\$283,323	\$256,821	\$780,292	\$1,215,412	\$1,563,811
Interest expense	188,864	171,848	502,645	884,113	1,175,164
Interest expense as % of income	67%	67%	64%	73%	75%
Sallie Mae					
Interest income	\$1,464,855	\$1,385,861	\$4,758,365	\$7,269,638	\$8,674,022
Interest expense	568,933	531,384	3,035,639	5,905,418	7,085,772
Interest expense as % of income	39%	38%	64%	81%	82%
Nelnet					
Interest income	\$156,657	\$135,968	\$620,207	\$1,214,381	\$1,747,276
Interest expense	59,243	50,859	384,862	1,026,489	1,502,662
Interest expense as % of income	38%	37%	62%	85%	86%

51. While Student Loan thus had comparable borrowing costs to the peers in 2009, interest rate declines sharply reduced the peers' borrowing costs in 2010 while the Amended and Restated Omnibus Credit Agreement with CBNA imposing far higher borrowing costs on Student Loan.

52. Student Loan's profitability was further impaired by its other extensive related-party transactions with CBNA. As indicated by the following table, the percentage of the Company's expenses attributable to transactions with CBNA grew substantially between 2008 and 2010:

	<u>1H2010</u>	<u>2009</u>	<u>2008</u>
Total Expenses	\$75,682	\$137,851	\$179,875
Related Party Transactions	\$48,185	\$85,089	\$90,000
Related Party Transactions as % of Total Expenses	63.7%	61.7%	50.0%

F. The Proposed Transaction Resulted from a Process Dominated by Citi, and the Special Committee Played a Passive, Tag-along Role

53. As described in the Proxy, the Proposed Transaction resulted from a process that was timed, initiated, and led by Citi, effectuated through a deal structure formulated by Citi, and used transaction documents drafted by its counsel. Throughout the process, the Special Committee served only to rubber-stamp Citi's actions, until the final few days of negotiations, when the Proposed Merger Price was fixed through direct, zero-sum bargaining between Citi and Special Committee.

54. The Proxy's "Background of the Transactions" narrative begins by explaining that "[i]n early 2009, . . . Citi decided to focus on its core businesses and realigned into two distinct businesses" through which Student Loan was grouped "in the Citi Holdings business segment, together with other non-core businesses intended for business divestitures, portfolio run-off and asset sales."

55. The Proxy further reports that “[i]n the summer of 2009, representatives of Citi management contacted members of [Student Loan] management to discuss the process for opening a dialogue between Citi and the company regarding strategic alternatives” and arranged a meeting that included representatives of Citi’s counsel, Skadden, Arps, Slate, Meagher & Flom LLP (“Skadden”) and its financial advisor, Citigroup Global Markets Inc. (“Citi Global Markets”). No Student Loan advisors are reported to have been present. The Proxy states that, at the meeting, Citi Global Markets representatives “outlined the steps that would be involved in a sale process,” and explains that after further discussions with Company management, “[o]n October 2, 2009, representatives of Citi contacted [Student Loan’s CEO] to notify the Company that Citi was prepared to initiate steps for a strategic alternatives process and to suggest that such process be coordinated with the board of directors of the company and a special committee thereof.”

56. In response, the Board resolved to establish the Special Committee, which then retained Proskauer Rose LLP (“Proskauer”) and Moelis in December 2009. *Id.* at 32.

57. According to the Proxy, the Special Committee’s first substantive meeting occurred in January 2010, when it and its advisors met with Citi and its advisors “to discuss a potential process to solicit indications of interest from parties that may be interested in acquiring the company.” According to the Proxy, the parties “agreed that an auction process would be the most effective means of identifying such parties, and *Citi* indicated that *Citi* and [*Citi Global Markets*] would take the lead in contacting potential buyers and would coordinate with and report on these efforts to” the Special Committee. *Id.* at 33 (emphasis added).

58. The Proxy thus gives no indication that the Special Committee ever considered *whether* a sale was in the Company's best interest before embarking on the auction process, and indicates that the Special Committee explicitly *delegated management of the auction to Citi*.

59. Consistent with the Special Committee's delegation, Citi Global Markets began in late February to contact eight potential buyers identified by the parties' advisors. According to the Proxy, Citi and Citi Global Markets also "had a number of conversations with certain other parties regarding potential interest in the company" – apparently without prior approval from the Special Committee. After receiving initial responses from certain of the potential buyers, Citi Global Markets contacted certain of the bidders "with instructions to provide written indications of interest" and "Citi hosted presentations by company management" to the bidders.

60. In response to proposals from the bidders to acquire certain of Student Loan's assets rather than the entire Company, Citi and Citi Global Markets "then presented, in concept, a possible structure for a 'combined transaction'" which would result in Citi buying assets not selected by the bidders, followed by acquisition of the Company by one of the bidders. The Proxy states that "Citi did not propose a purchase price for its acquisition of the excluded assets, but indicated that Citi would be prepared to deliver a value to the company that would, in the aggregate, facilitate a sale of the entire company at a price per share for the company's stockholders that would approach or result in a premium to the company's then current stock price." *Id.* at 35. As further detailed below, Citi was thus proposing that the Merger price be fixed through negotiation over the purchase price to be paid by Citi in the Citi Sale.

61. After further discussions regarding the "combined transaction" approach, "*Citi and its advisors* began to deliver drafts of the applicable transaction agreements to the special

committee and its advisors for comment,” *id.* at 35 (emphasis added), and Citi’s advisors circulated draft merger and asset purchase agreements to the bidders. *Id.* at 36.

62. On August 26, 2010, Citi delivered a bid letter that priced the assets to be purchased pursuant to the Citi Sale at a level that would result in the Company’s shareholders receiving “approximately \$24.00 per share of company common stock [which] represented a per share premium of 20.1% over the closing trading price of the company common stock as of August 25, 2010.” *Id.* at 38.

63. On August 27, 2010, the Special Committee retained a second financial advisor, Gleacher & Company Securities, Inc. (“Gleacher”) to opine as to the fairness of the Citi Sale. *Id.* at 32.

64. As a result of subsequent negotiations between Moelis and Citi, Citi raised its bid on September 9 “to a price that implied an increase in the aggregate consideration deliverable to the company’s stockholders from \$480 million to \$540 million, or approximately \$27.00 per share of company common stock,” *id.* at 39. Subsequently, on September 13, Citi again raised its bid to a price “that would imply a price per share of company common stock of \$29.00.” Finally, on September 14, Citi agreed to increase the purchase price “to a level that would result in each stockholder receiving \$30.00 per share of company common stock and also indicated that Citi was unwilling to further increase its purchase price.” *Id.* at 40.

65. As reflected in the foregoing narrative, the Proxy reveals actions that constitute at least two distinct breaches of duty by the Special Committee. *First*, it wrongfully acceded to Citi’s decision to sell Student Loan without exercising any independent business judgment regarding whether a sale should then be pursued, and without imposing any conditions on the terms thereof. *Second*, the Special Committee allowed Citi to plan and conduct the auction

process, despite its manifest conflict with the Class’s goal of obtaining maximum value for Student Loan.

G. The Special Committee Lacked Independence and Its Advisors Faced Conflicts of Interest

66. The process leading to the Proposed Transaction was further impaired by the lack of independence of certain members of the Special Committee and by the conflicts of interest faced by its advisors.

67. First, not all of the four members of the Special Committee were independent. According to the Company’s Schedule DEF14A, filed April 2, 2010 (the “Annual Proxy”), at 20, Special Committee member Bailey spent the majority of his career at Citi, retiring as Executive Vice President and Group Executive at CBNA in 2000, after 28 years with the firm.

68. In addition, Special Committee member Handler is a Fellow of the American Association for the Advancement of Science, an organization for which Citi is a donor and with which the Citi Foundation has partnered on charitable projects.

69. The financial and legal advisors chosen by the Special Committee also face disabling conflicts. Citi is a major client of Proskauer, the law firm that acted as legal counsel to the Special Committee. Proskauer’s own Web site mentions Citi as a client of numerous attorneys, offices, and practice areas, as follows:

- <http://www.proskauer.com/offices/newark/> (“We represent many Fortune 500 employers based in New Jersey—Bristol-Myers Squibb, Prudential Financial, Honeywell International, Bed Bath & Beyond, JVC Americas, A&P—and those with a significant presence in the state such as Hess, T-Mobile, NBC-Universal, MetLife, Bank of America, and Citigroup.”)
- <http://www.proskauer.com/real-estate-mainly-dirt-new-york-chambers-usa-2010/> (“Proskauer Rose receives accolades for its full-service dirt and finance real estate offering . . . American Real Estate Partners, CBNA and Vornado Realty Trust are some of its other key clients.”)

- <http://www.proskauer.com/sports-law-chambers-usa/> (“recently acted for JPMorgan Chase, CBNA and Bank of America as co-lead arrangers for a \$450 million secured credit facility”)
- http://www.proskauer.com/files/News/cb07debb-2b5e-4f30-aa4e-7a30363624af/Presentation/NewsAttachment/c660a284-c477-4f2f-8f2c-166bf6f5d994/ProskauerChambers_2005.pdf (Chambers guide, citing Citi as a client of Proskauer’s employment, employee benefits/executive compensation, and real estate practices)
- <http://www.proskauer.com/experience/non-compete-and-trade-secrets/CBNA-restrictive-covenant/> (“Restrictive Covenant Enforcement” – Representation of CBNA in “enforcement of restrictive covenant concerning the use of trade secrets and copyrighted materials against a former independent contractor”)
- <http://www.proskauer.com/experience/finance/helping-citigroup-play-ball/> (“Helping Citigroup Play Ball” – representation of Citigroup on “numerous other stadium financings for NBA, NFL and Major League Soccer teams”)
- <http://www.proskauer.com/professionals/elana-butler/> (“Lani has substantial experience representing tenants in leasing transactions, both in existing buildings and in buildings under construction, including CBNA N.A.’s New York area leasing activities.”)
- <http://www.proskauer.com/professionals/neil-cummings/> (representation of “lead arrangers, such as Bank of America, CIT, CBNA, Credit Suisse, Deutsche Bank and JPMorgan Chase, in first/second lien transactions, asset-based loans, high-yield and bank/bond transactions”)
- <http://www.proskauer.com/professionals/daniel-ganitsky/> (representation of “Greenhill & Co., LLC and Citigroup Global Markets Inc. as financial advisors to Roche Holding Ltd, a Swiss company, with respect to its unsolicited \$3 billion offer to acquire Ventana Medical Systems, Inc.”)
- <http://www.proskauer.com/professionals/russell-hirschhorn/> (employment related litigation, including *In re Citigroup Pension Plan ERISA Litig.* (2d Cir.))
- <http://www.proskauer.com/professionals/steven-kayman/> (“Steve has done substantial work in all these related areas [involving employment issues] for clients such as CitiGroup [sic], MetLife, AIG, The Daily News, MBIA, Chicago Title/Ticor, and Euro RSCG, among many others.”)
- <http://www.proskauer.com/professionals/christopher-j-kerezsi/> (involvement in “[m]erger and acquisition and private equity transactions representing: . . . Citigroup Global Markets, Inc. and Lehman Brothers Inc. as financial advisors to the board of directors of Sprint Corporation in its merger with Nextel Communications, Inc.”)

- <http://www.proskauer.com/professionals/steven-lichtenfeld/> (“Steve has acted as underwriter’s counsel in connection with REIT offerings for major investment banking firms, including Bank of America Merrill Lynch, Citigroup and Legg Mason.”)
- <http://www.proskauer.com/professionals/bruce-lieb/> (“He also has represented Citigroup, Credit Suisse, Ranieri & Co., Hyperion Partners and other financial services companies in connection with private equity funds and transactions.”)
- <http://www.proskauer.com/professionals/frank-lopez/> (“He has represented various underwriters, initial purchasers, dealer managers and placement agents, including Banc of America Merrill Lynch, Citigroup, Credit Suisse, Jefferies & Company, JMP, Keefe Bruyette and UBS.”)
- <http://www.proskauer.com/professionals/charley-lozada/> (“Her recent capital markets representations include: . . . Citigroup as underwriter of the [\$612 million] municipal bond offering by the New York Industrial Development Agency in connection with the construction of the new stadium for the New York Mets”)
- <http://www.proskauer.com/professionals/craig-masheb/> (representation of “Vornado Realty Trust, Hines Interests Limited Partnership and CBNA, N.A. and other institutions in leasing office and retail space in the New York City area”)
- <http://www.proskauer.com/professionals/jon-oram/> (“Jon also represents both borrowers and financial institutions, such as JPMorgan Chase Bank, Goldman Sachs, CBNA, Bank of America and Société Générale”)
- <http://www.proskauer.com/professionals/marc-persily/> (“Clients of Marc’s range from major financial institutions such as J.P. Morgan, Citigroup and Credit Suisse to privately held private equity sponsors”)
- <http://www.proskauer.com/professionals/ronald-rauchberg/> (“Ron has successfully litigated complex commercial cases for a long list of notable clients, including Alcatel U.S.A., the Association of American Publishers, Autodesk, Biovail, CBNA, Ernst & Young, MBIA, MetLife, the National Basketball Association, The Rockefeller Group, Sony Pictures, Viacom, and Wells Fargo.”)
- <http://www.proskauer.com/professionals/james-tanaka/> (“Examples of transactions James has been involved in include: . . . Citigroup Global Markets Inc., as initial purchaser of U.S.\$120 million aggregate principal amount of 6.95% Subordinated Notes due 2021 (Certificados de Depósito Negociables Subordinados) offered by the Panamanian branch of Banco de Crédito del Perú (BCP))

70. The Special Committee’s choice of Proskauer as its legal advisor thus casts substantial doubt on its independence.

71. The Special Committee’s principal financial advisor also faces substantial conflicts of interest.

72. Moelis disclosed in the Proxy that it “has provided to CBNA and SLM Corporation in the past, *is providing to CBNA currently* and may provide to [CBNA, Sallie Mae and Discover] in the future, investment banking and other services unrelated to” the Proposed Transaction. Proxy at 52 (emphasis added).

73. In addition, “a significant portion” of Moelis’s fees are contingent on consummation of the Proposed Transaction. *Id.*

74. Finally, at least a dozen members of Moelis’s Senior Team are former Citi employees.

H. Student Loan’s Board Is Controlled by Current Citi Employees

75. The composition of the Student Loan Board provides further reason to doubt the fairness of the Proposed Transaction. More than half of the Director Defendants – five of nine – are current employees of Citi or its subsidiaries. Specifically, Defendants Atal, Doynow, Garside, Hesslein and Reardon are all current officers of Citigroup, CBNA or Student Loan. Annual Proxy at 17-21. In addition, Reardon worked at other affiliates of Citigroup from 1996 until joining Student Loan, and was promoted to his first position at Student Loan – Acting CFO – from his prior position as CFO of Citigroup’s Consumer Assets Division. In addition, as noted above, although Student Loan characterizes Defendant Bailey as an “independent director,” *id.* at 15, he spent the majority of his career at CBNA, retiring as Executive Vice President and Group Executive in 2000, after 28 years with the firm. *See id.* at 20.

76. The Board’s lack of alignment with the interests of the Class is further exacerbated by the striking lack of stock ownership on the part of the Company’s directors. As reflected in the following table, only *one* director holds shares, and all directors and named

executive officers, as a group, collectively owned only 128 shares as of October 1, 2010 (Proxy at 100):

Name / Position	Student Loan Holdings
Vikram A. Atal, Director	0
James L. Bailey, Director	0
Gina Doynow, Director	0
Rodman L. Drake, Director	128
Richard Garside, Director	0
Glenda B. Glover, Director	0
Joseph P. Guage, Vice President and Chief Financial Officer	0
Evelyn E. Handler, Director	0
Laurie A. Hesslein, Director	0
Christine Y. Homer, Vice President, Secretary and General Counsel	0
Patricia A. Morris, Vice President and Chief Risk Officer	0
Loretta Moseman, Director	0
Scot H. Parnell, Vice President and Chief Financial Officer	0
Michael J. Reardon, Chief Executive Officer, President and Director	0
Kevin L. Thurm, Director	0
John Vidovich, Vice President and Executive Sales Director	0
Noelle Whitehead, Controller and Chief Accounting Officer	0
All current directors and executive officers as a group (17 persons)	128

I. The Transaction Agreements Provide No Majority-of-the-Minority Vote, and Deprive Shareholders of their Statutorily-Required Vote on the Citi Sale

77. The absence of protection for the Class in the shareholder votes on the Proposed Transaction provides further reason to doubt its fairness.

78. First, the agreements governing the Proposed Transaction provide no majority-of-the-minority vote for any transaction. *See* Merger Agreement §§ 1.1, 7.1; Sallie Mae APA § 9.1 and Appendix A.

79. Given the manifest conflict of interest inherent in the Citi Sale and the broader conflict of interest between Citi’s goal of disposing of Student Loan “as quickly as practicable” and the Class’s goal of maximizing the value of its investment, the failure to require minority

approval as a condition to the Proposed Transaction further demonstrates the Special Committee's inadequacy.

80. In addition, while the Citi Sale is, together with the Sallie Mae Sale, clearly part of a disposition of "substantially all" of the assets of the Company, Defendants have failed to provide for any shareholder vote with respect thereto, in violation of 8 *Del. C.* § 271.

J. The Disclosures Regarding the Proposed Transaction Have Been Incomplete and Misleading

81. The information provided to Student Loan shareholders through the Proxy fails to inform them whether the Proposed Merger Price is fair, and is also incomplete and misleading with respect to other matters. The Proxy therefore prevents shareholders from making an informed decision whether to vote in favor of the Sallie Mae Sale and Merger, and whether to exercise their appraisal rights.

82. First, while the Proxy references management's financial forecasts, it does not disclose them. In addition to their general importance for valuation purposes, projections warrant particular scrutiny in the present case because the Special Committee appears to have rejected them in whole or part in making its determination of fairness. Specifically, the Proxy discloses that while the Special Committee "noted the financial forecasts prepared by the company's management," it "considered the fact, however, that the financial forecasts are dependent upon (i) the company having continued access to funding on similar terms as currently in effect, (ii) the company's ability to successfully implement its growth strategy and (iii) the risk that if the company does not successfully implement such growth strategy, the results contemplated by the financial forecasts might not materialize." Proxy at 43.

83. Second, while Moelis prominently relied on a comparable companies analysis to support its conclusion that the Proposed Merger Price was fair, the metric upon which it relies –

“Price/Fair Book Value (FBV)” – is neither explained nor plausible. As noted in paragraph 41 above and in the table below, Moelis’s Price-to-Book Value analysis values the Company, at the Proposed Merger Price, at a *more than 60% discount* to its peers. Moelis’s Price-to-“Tangible Book Value” analysis shows the Proposed Merger Price to be even more unfair – a discount of more than 70% to its peers. The only comparable companies analysis Moelis presents that supports the fairness of the Proposed Merger Price is what it calls “Price/Fair Book Value (FBV).” “Fair Book Value,” however, is not a known concept in the valuation literature, and its usage here is highly curious. As set forth in the following table, Student Loan’s “Fair Book Value” discounts the stated book value of its assets by *more than half*. By contrast, the peers’ “Fair Book Value” is *more than double* their stated book value:

	Price /BV	Price /TBV	Price /FBV	FBV/BV
Selected Companies (September 14, 2010)	1.22x	1.57x	0.55x	2.22x
The Company (September 14, 2010)	0.30	0.30	0.69	0.43
The Company (\$30.00 per share)	0.46	0.46	1.04	0.44
Premium (Discount) to Selected Companies at \$30.00 per share	(62%)	(71%)	89%	

84. Moelis provides no explanation for its sharply divergent treatment of Student Loan’s assets, as compared to those of selected companies in substantially the same business.

85. The Proxy also misstates Citi’s interests in the Proposed Transaction. The Proxy (at 42) asserts that the Special Committee “did not believe that Citi had any material interests in the [Merger] that are different from the interests of the company’s other stockholders generally, as Citi (1) is receiving the same per share consideration as the company’s other stockholders, (2) is not participating in the [Merger] in any manner different from the company’s other stockholders and (3) will not have any interest in the surviving corporation.” This claim, however, erroneously treats the Merger as divorced from the other components of the Proposed

Transaction. As discussed at length above, Citi's interests in the Proposed Transaction, viewed as a whole, diverged sharply from those of the Class.

86. The Proxy also fails to disclose material information related to the independence of the Special Committee and the conflicts of interest faced by its advisors, as follows:

(a) The Proxy fails to disclose that Bailey spent the majority of his career at Citi, retiring as Executive Vice President and Group Executive at CBNA in 2000, after 28 years with the firm. Instead, it states only that he "was previously an employee of Citi." Proxy at 32. The Proxy also fails to disclose Handler's ties to Citi and further fails to disclose whether the Special Committee members are shareholders of Citi.

(b) With respect to the Special Committee's legal advisor, Proskauer, the Proxy does not disclose the firm's extensive representation of Citi.

(c) With respect to the Special Committee's financial advisors, the Proxy does not disclose either the total amount of fees paid to them, or the portion of Moelis's fee that was contingent on the closing of the Proposed Transaction. The Proxy also fails to disclose whether Gleacher performs work for Citi, and does not quantify the amount of past or current work performed for Citi by Moelis.

(d) With respect to the Special Committee members, the Proxy does not disclose whether they earned any fees for their work on the Special Committee, and whether such fees, if any, are contingent on the closing of the Proposed Transaction.

DEMAND IS EXCUSED

87. Plaintiffs have not made demand on the Student Loan Board in connection with the matters set forth herein, if any is required, as demand would be futile. As acknowledged by

Defendants in the Proxy and discussed above in paragraph 75, a majority of the Board lacks independence from Citi.

COUNT I
Class Claim for Breach of Fiduciary Duty
(Against the Director Defendants)

88. Plaintiffs incorporate each and every allegation set forth above as if fully set forth herein.

89. The Director Defendants owed and owe the Class the fiduciary obligations of care, loyalty, and candor.

90. By approving or acquiescing in the Proposed Transaction, each of the Director Defendants breached these fiduciary duties. The Proposed Transaction approved by the Director Defendants is not entirely fair to the Company's public shareholders.

91. Unless enjoined by this Court, the Director Defendants will continue to breach the fiduciary duties owed to the Class and may consummate the Proposed Transaction, causing irreparable harm to the Class.

92. Plaintiffs and the other members of the Class have no adequate remedy at law. Only through the exercise of this Court's equitable powers can Plaintiffs and the Class be fully protected from the immediate and irreparable injury which Defendants' actions threaten to inflict.

COUNT II
Class Claim for Breach of Fiduciary Duty
(Against Citigroup Inc. and Citibank, N.A.)

93. Plaintiffs incorporate each and every allegation set forth above as if fully set forth herein.

94. As direct and indirect controlling shareholders of Student Loan, Citigroup and CBNA owed the Company's shareholders, at all relevant times, a duty not to misuse their control

of the Company for their own ends. By virtue of the acts set forth above, Citigroup and CBNA has breached such duty and injured the Class directly.

95. By proposing and entering into the Proposed Transaction, and by causing their employees to approve the Proposed Transaction as directors of Student Loan, Citigroup and CBNA breached these fiduciary duties.

96. Unless enjoined by this Court, Citigroup and CBNA will continue to breach the fiduciary duties owed to the Class and may consummate the Proposed Transaction, causing irreparable harm to the Class.

97. Plaintiffs and the other members of the Class have no adequate remedy at law. Only through the exercise of this Court's equitable powers can Plaintiffs and the Class be fully protected from the immediate and irreparable injury which Defendants' actions threaten to inflict.

COUNT III
Derivative Claim for Breach of Fiduciary Duty
(Against the Director Defendants)

98. Plaintiffs incorporate each and every allegation set forth above as if fully set forth herein.

99. The Director Defendants owed and owe Student Loan the fiduciary obligations of care, loyalty, and candor.

100. By approving or acquiescing in the Asset Sales, each of the Director Defendants breached these fiduciary duties.

101. Unless enjoined by this Court, the Director Defendants will continue to breach the fiduciary duties owed to Student Loan and may consummate the Asset Sales, causing irreparable harm to the Company.

102. Plaintiffs have no adequate remedy at law.

COUNT IV
Derivative Claim for Breach of Fiduciary Duty
(Against Citigroup Inc. and Citibank, N.A.)

103. Plaintiffs incorporate each and every allegation set forth above as if fully set forth herein.

104. As direct and indirect controlling shareholders of Student Loan, Citigroup and CBNA owed and owe the Company a duty not to misuse their control of the Company for their own ends. By virtue of the acts set forth above, Citigroup and CBNA has breached such duty.

105. By proposing and entering into the Asset Sales, and by causing their employees to approve the Asset Sales as directors of Student Loan, Citigroup and CBNA breached these fiduciary duties.

106. Unless enjoined by this Court, Citigroup and CBNA will continue to breach the fiduciary duties owed to Student Loan and may consummate the Asset Sales, causing irreparable harm to the Company.

107. Plaintiffs have no adequate remedy at law.

PRAYER FOR RELIEF

WHEREFORE, Plaintiffs and the members of the Class demand judgment against Defendants, jointly and severally, as follows:

A. Declaring that this action is properly maintainable as a class action and certifying Plaintiffs as the representatives of the Class;

B. Preliminarily and permanently enjoining Defendants and their counsel, agents, employees and all persons acting under, in concert with, or for them, from proceeding with, consummating, or closing the Proposed Transaction;

C. Awarding compensatory damages against Defendants, individually and severally, in an amount to be determined at trial, together with pre-judgment and post-judgment interest at the maximum rate allowable by law, arising from the Proposed Transaction;

D. Awarding Plaintiffs costs and disbursements in this action and reasonable attorneys' fees and reimbursement of its attorneys' costs and expenses; and

E. Granting such other and further relief as the Court may deem just and proper.

Dated: October 18, 2010

Respectfully submitted,

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