

CITIGROUP INC  
Form 424B2  
December 10, 2018

The information in this preliminary pricing supplement is not complete and may be changed. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. This preliminary pricing supplement and the accompanying product supplement, prospectus supplement and prospectus are not an offer to sell these securities, nor are they soliciting an offer to buy these securities, in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED DECEMBER 10, 2018

**December----, 2018**

**Medium-Term Senior Notes, Series N**

Citigroup Global Markets Holdings Inc. **Pricing Supplement No. 2018-USNCH1770**

**Filed Pursuant to Rule 424(b)(2)**

**Registration Statement Nos. 333-216372 and 333-216372-01**

Autocallable Contingent Coupon Equity Linked Securities Linked to the Worst Performing of Walmart Inc. and Costco Wholesale Corporation Due December 24, 2019

The securities offered by this pricing supplement are unsecured debt securities issued by Citigroup Global Markets Holdings Inc. and guaranteed by Citigroup Inc. The securities offer the potential for periodic contingent coupon payments at an annualized rate that, if all are paid, would produce a yield that is generally higher than the yield on our conventional debt securities of the same maturity. In exchange for this higher potential yield, you must be willing to accept the risks that (i) your actual yield may be lower than the yield on our conventional debt securities of the same maturity because you may not receive one or more, or any, contingent coupon payments, (ii) your actual yield may be negative because the value of what you receive at maturity may be significantly less than the stated principal amount of your securities, and may be zero, and (iii) the securities may be automatically called for redemption prior to maturity beginning on the first potential autocall date specified below. Each of these risks will depend solely on the performance of the **worst performing** of the underlyings specified below.

You will be subject to risks associated with each of the underlyings and will be negatively affected by adverse movements in any one of the underlyings. Although you will have downside exposure to the worst performing underlying, you will not receive dividends with respect to any underlying or participate in any appreciation of any underlying.

Investors in the securities must be willing to accept (i) an investment that may have limited or no liquidity and (ii) the risk of not receiving any payments due under the securities if we and Citigroup Inc. default on our obligations. **All payments on the securities are subject to the credit risk of Citigroup Global Markets Holdings Inc. and Citigroup Inc.**

#### **KEY TERMS**

**Issuer:** Citigroup Global Markets Holdings Inc., a wholly owned subsidiary of Citigroup Inc.

**Guarantee:** All payments due on the securities are fully and unconditionally guaranteed by Citigroup Inc.

<b>Underlyings: Underlying</b>	<b>Initial underlying value*</b>	<b>Coupon barrier value**</b>	<b>Final barrier value**</b>	<b>Equity ratio***</b>
Walmart Inc.	\$	\$	\$	

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Costco Wholesale Corporation                      \$                                      \$                                      \$

\* For each underlying, its closing value on the pricing date

\*\* For each underlying, 77% of its initial underlying value

\*\*\* For each underlying, the stated principal amount divided by its initial underlying value

**Stated**

**principal amount:** \$1,000 per security

**Pricing date:** December 19, 2018

**Issue date:** December 24, 2018

**Valuation dates:** March 19, 2019, June 19, 2019, September 19, 2019 and December 19, 2019 (the “final valuation date”), each subject to postponement if such date is not a scheduled trading day or certain market disruption events occur

**Maturity date:** Unless earlier redeemed, December 24, 2019

**Contingent coupon payment dates:** The fifth business day after each valuation date, except that the contingent coupon payment date following the final valuation date will be the maturity date

On each contingent coupon payment date, unless previously redeemed, the securities will pay a contingent coupon equal to 2% to 2.25% of the stated principal amount of the securities (equivalent to a contingent coupon rate of 8% to 9% per annum) (to be determined on the pricing date) **if and only if** the closing value of the worst performing underlying on the immediately preceding valuation date is greater than or equal to its coupon barrier value. **If the closing value of the worst performing underlying on any valuation date is less than its coupon barrier value, you will not receive any contingent coupon payment on the immediately following contingent coupon payment date. If the closing value of the worst performing underlying on one or more valuation dates is less than its coupon barrier value and, on a subsequent valuation date, the closing value of the worst performing underlying on that subsequent valuation date is greater than or equal to its coupon barrier value, your contingent coupon payment for that subsequent valuation date will include all previously unpaid contingent coupon payments (without interest on amounts previously unpaid). However, if the closing value of the worst performing underlying on a valuation date is less than its coupon barrier value and the closing value of the worst performing underlying on each subsequent valuation date up to and including the final valuation date is less than its coupon barrier value, you will not receive the unpaid contingent coupon payments in respect of those valuation dates**

**Contingent coupon:**

**Payment at maturity:** If the securities are not automatically redeemed prior to maturity, you will receive at maturity for each security you then hold:

If the final underlying value of the worst performing underlying on the final valuation date is **greater than or equal to** its final barrier value:

\$1,000 *plus* the contingent coupon payment due at maturity (including any previously unpaid contingent coupon payments)

If the final underlying value of the worst performing underlying on the final valuation date is **less than** its final barrier value:

a fixed number of underlying shares of the worst performing underlying on the final valuation date equal to its equity ratio (or, if we elect, the cash value of those shares based on its final underlying value)

**If the securities are not automatically redeemed prior to maturity and the final underlying value of the worst performing underlying on the final valuation date is less than its final barrier value, you will receive underlying shares (or, in our sole discretion, cash) expected to be worth significantly less than the stated principal amount of your securities, and possibly nothing, at maturity, and you will not receive any contingent coupon payment at maturity (including any previously unpaid contingent coupon payments).**

**Listing:** The securities will not be listed on any securities exchange

**CUSIP / ISIN:** 17324XGX2 / US17324XGX21

**Underwriter:** Citigroup Global Markets Inc. (“CGMI”), an affiliate of the issuer, acting as principal

**Underwriting fee and issue price:** Issue price<sup>(1)</sup> Underwriting fee<sup>(2)</sup> Proceeds to issuer<sup>(3)</sup>

**Per security:** \$1,000 \$10 \$990

**Total:** \$ \$ \$

*(Key Terms continued on next page)*

(1) Citigroup Global Markets Holdings Inc. currently expects that the estimated value of the securities on the pricing date will be at least \$926.50 per security, which will be less than the issue price. The estimated value of the securities is based on CGMI’s proprietary pricing models and our internal funding rate. It is not an indication of actual profit to CGMI or other of our affiliates, nor is it an indication of the price, if any, at which CGMI or any other person may be willing to buy the securities from you at any time after issuance. See “Valuation of the Securities” in this pricing supplement.

(2) The issue price for investors purchasing the securities in fee-based advisory accounts will be \$990 per security, assuming no custodial fee is charged by a selected dealer, and up to \$995 per security, assuming the maximum custodial fee is charged by a selected dealer. See “Supplemental Plan of Distribution” in this pricing supplement.

(3) CGMI will receive an underwriting fee of \$10 for each security sold in this offering. From this underwriting fee, CGMI will pay selected dealers a fixed selling concession of \$10 for each security they sell. In addition, CGMI will pay selected dealers not affiliated with CGMI a structuring fee of up to \$7.50 for each security they sell. We may also engage other firms to provide marketing or promotional services in connection with the distribution of the securities. CGMI will pay these service providers a fee of up to \$5 per security in consideration for providing marketing, education, structuring or referral services with respect to financial advisors or selected dealers. For more information on the distribution of the securities, see “Supplemental Plan of Distribution” in this pricing supplement. In addition to the underwriting fee, CGMI and its affiliates may profit from expected hedging activity related to this offering, even if the value of the securities declines. See “Use of Proceeds and Hedging” in the accompanying prospectus.

**Investing in the securities involves risks not associated with an investment in conventional debt securities. See “Summary Risk Factors” beginning on page PS-5.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities or determined that this pricing supplement and the accompanying product supplement, prospectus supplement and prospectus are truthful or complete. Any representation to the contrary is a criminal offense. You should read this pricing supplement together with the accompanying product supplement, prospectus supplement and prospectus, which can be accessed via the hyperlinks below:**

**Product Supplement No. EA-04-07 dated June 15, 2018**, **Prospectus Supplement and Prospectus each dated April 7, 2017**

The securities are not bank deposits and are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other governmental agency, nor are they obligations of, or guaranteed by, a bank.

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**KEY TERMS (continued)**

**Automatic early redemption:** If, on any potential autocall date, the closing value of the worst performing underlying on that potential autocall date is greater than or equal to its initial underlying value, each security you then hold will be automatically called on that potential autocall date for redemption on the immediately following contingent coupon payment date for an amount in cash equal to \$1,000 *plus* the related contingent coupon payment. **The automatic early redemption feature may significantly limit your potential return on the securities. If the worst performing underlying performs in a way that would otherwise be favorable, the securities are likely to be automatically called for redemption prior to maturity, cutting short your opportunity to receive contingent coupon payments. The securities may be automatically called for redemption as early as the first potential autocall date specified below.**

**Potential autocall dates:** Each valuation date beginning in March 2019 and ending in September 2019

**Final underlying value:** For each underlying, its closing value on the final valuation date

**Underlying return:** For each underlying on any valuation date, (i) its closing value on that valuation date *minus* its initial underlying value, *divided by* (ii) its initial underlying value

**Worst performing underlying:** For any valuation date, the underlying with the lowest underlying return determined as of that valuation date

Additional Information

**General.** The terms of the securities are set forth in the accompanying product supplement, prospectus supplement and prospectus, as supplemented by this pricing supplement. The accompanying product supplement, prospectus supplement and prospectus contain important disclosures that are not repeated in this pricing supplement. For example, the accompanying product supplement contains important information about how the closing value of each underlying will be determined and about adjustments that may be made to the terms of the securities upon the occurrence of market disruption events and other specified events with respect to each underlying. It is important that you read the accompanying product supplement, prospectus supplement and prospectus together with this pricing supplement in deciding whether to invest in the securities. Certain terms used but not defined in this pricing supplement are defined in the accompanying product supplement.

**Closing Value.** The “closing value” of each underlying on any date is the closing price of its underlying shares on such date, as provided in the accompanying product supplement. The “underlying shares” of the underlyings are their respective shares of common stock. Please see the accompanying product supplement for more information.

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## Hypothetical Examples

The examples in the first section below illustrate how to determine whether a contingent coupon will be paid (and whether any previously unpaid contingent coupon payments will be paid) and whether the securities will be automatically called for redemption following a valuation date that is also a potential autocall date. The examples in the second section below illustrate how to determine the payment at maturity on the securities, assuming the securities are not automatically redeemed prior to maturity. The examples are solely for illustrative purposes, do not show all possible outcomes and are not a prediction of any payment that may be made on the securities.

The examples below are based on the following hypothetical values and do not reflect the actual initial underlying values, coupon barrier values, final barrier values or equity ratios of the underlyings. For the actual initial underlying value, coupon barrier value, final barrier value and equity ratio of each underlying, see the cover page of this pricing supplement. We have used these hypothetical values, rather than the actual values, to simplify the calculations and aid understanding of how the securities work. However, you should understand that the actual payments on the securities will be calculated based on the actual initial underlying value, coupon barrier value, final barrier value and equity ratio of each underlying, and not the hypothetical values indicated below.

<b>Underlying</b>	<b>Hypothetical initial underlying value</b>	<b>Hypothetical coupon barrier value</b>	<b>Hypothetical final barrier value</b>	<b>Hypothetical equity ratio</b>
Walmart Inc.	\$100	\$77 (77% of its hypothetical initial underlying value)	\$77 (77% of its hypothetical initial underlying value)	10.00000
Costco Wholesale Corporation	\$100	\$77 (77% of its hypothetical initial underlying value)	\$77 (77% of its hypothetical initial underlying value)	10.00000

***Hypothetical Examples of Contingent Coupon Payments and any Payment upon Automatic Early Redemption Following a Valuation Date that is also a Potential Autocall Date***

The hypothetical examples below illustrate how to determine whether a contingent coupon will be paid and whether the securities will be automatically redeemed following a hypothetical valuation date that is also a potential autocall date, assuming that the closing values of the underlyings on the hypothetical valuation date are as indicated below. The examples below assume that the contingent coupon rate is set at the lowest value indicated on the cover page of this pricing supplement. The actual contingent coupon rate will be determined on the pricing date.

<b>Hypothetical closing value of Walmart Inc. on hypothetical valuation date</b>	<b>Hypothetical closing value of Costco Wholesale Corporation on hypothetical valuation date</b>	<b>Hypothetical payment per \$1,000 security on related contingent coupon payment date</b>
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<b>Example 1 Hypothetical Valuation Date #1</b>	\$120 (underlying return = $(\$120 - \$100) / \$100 = 20\%$ )	\$85 (underlying return = $(\$85 - \$100) / \$100 = -15\%$ )	<b>\$20</b> (contingent coupon is paid; securities not redeemed)
<b>Example 2 Hypothetical Valuation Date #2</b>	\$45 (underlying return = $(\$45 - \$100) / \$100 = -55\%$ )	\$130 (underlying return = $(\$130 - \$100) / \$100 = 30\%$ )	<b>\$0</b> (no contingent coupon; securities not redeemed)
<b>Example 3 Hypothetical Valuation Date #3</b>	\$105 (underlying return = $(\$105 - \$100) / \$100 = 5\%$ )	\$120 (underlying return = $(\$120 - \$100) / \$100 = 20\%$ )	<b>\$1,040</b> (contingent coupon <i>plus</i> the previously unpaid contingent coupon is paid; securities redeemed)

**Example 1:** On hypothetical valuation date #1, Costco Wholesale Corporation has the lowest underlying return and, therefore, is the worst performing underlying on hypothetical valuation date #1. In this scenario, the closing value of the worst performing underlying on hypothetical valuation date #1 is **greater than** its coupon barrier value but **less than** its initial underlying value. As a result, investors in the securities would receive the contingent coupon payment on the related contingent coupon payment date and the securities would not be automatically redeemed.

**Example 2:** On hypothetical valuation date #2, Walmart Inc. has the lowest underlying return and, therefore, is the worst performing underlying on hypothetical valuation date #2. In this scenario, the closing value of the worst performing underlying on hypothetical valuation date #2 is **less than** its coupon barrier value. As a result, investors would not receive any payment on the related contingent coupon payment date and the securities would not be automatically redeemed.

**Investors in the securities will not receive a contingent coupon on the contingent coupon payment date following a valuation date if the closing value of the worst performing underlying on that valuation date is less than its coupon barrier value. Whether a contingent coupon is paid following a valuation date depends solely on the closing value of the worst performing underlying on that valuation date.**

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**Example 3:** On hypothetical valuation date #3, Walmart Inc. has the lowest underlying return and, therefore, is the worst performing underlying on hypothetical valuation date #3. In this scenario, the closing value of the worst performing underlying on hypothetical valuation date #3 is **greater than** both its coupon barrier value and its initial underlying value. As a result, the securities would be automatically redeemed on the related contingent coupon payment date for an amount in cash equal to \$1,000 *plus* the related contingent coupon payment *plus* any previously unpaid contingent coupon payments. Because no contingent coupon payment was received in connection with hypothetical valuation date #2, investors in the securities would also receive the previously unpaid contingent coupon payment on the related contingent coupon payment date.

If the valuation date were not also a potential autocall date, the securities would not be automatically redeemed on the related contingent coupon payment date.

***Hypothetical Examples of the Payment at Maturity on the Securities***

The next hypothetical examples illustrate the calculation of the payment at maturity on the securities, assuming that the securities have not been earlier automatically redeemed and that the final underlying values of the underlyings are as indicated below.

	<b>Hypothetical final underlying value of Walmart Inc.</b>	<b>Hypothetical final underlying value of Costco Wholesale Corporation</b>	<b>Hypothetical payment at maturity per \$1,000 security</b>
	\$130	\$110	
<b>Example 4</b>	(underlying return = (\$130 – \$100) / \$100 = 30%)	(underlying return = (\$110 – \$100) / \$100 = 10%)	<b>\$1,020 <i>plus</i> any previously unpaid contingent coupon payments</b>
	\$30	\$130	
<b>Example 5</b>	(underlying return = (\$30 – \$100) / \$100 = -70%)	(underlying return = (\$130 – \$100) / \$100 = 30%)	<b>A number of underlying shares of the worst performing underlying on the final valuation date (or, in our sole discretion, cash) worth \$300 based on its final underlying value</b>
	\$70	\$0	
<b>Example 6</b>	(underlying return = (\$70 – \$100) / \$100 = -30%)	(underlying return = (\$0 – \$100) / \$100 = -100%)	<b>A number of underlying shares of the worst performing underlying on the final valuation date (or, in our sole discretion, cash) worth \$0 based on its final underlying value</b>

**Example 4:** On the final valuation date, Costco Wholesale Corporation has the lowest underlying return and, therefore, is the worst performing underlying on the final valuation date. In this scenario, the final underlying value of the worst performing underlying on the final valuation date is **greater than** its final barrier value. Accordingly, at maturity, you would receive the stated principal amount of the securities *plus* the contingent coupon payment due at

maturity (assuming no previously unpaid contingent coupon payments), but you would not participate in the appreciation of any of the underlyings.

**Example 5:** On the final valuation date, Walmart Inc. has the lowest underlying return and, therefore, is the worst performing underlying on the final valuation date. In this scenario, the final underlying value of the worst performing underlying on the final valuation date is **less than** its final barrier value. Accordingly, at maturity, you would receive for each security you then hold a fixed number of underlying shares of the worst performing underlying on the final valuation date equal to its equity ratio (or, at our option, the cash value thereof).

In this scenario, the value of a number of underlying shares of the worst performing underlying on the final valuation date equal to its equity ratio, based on its final underlying value, would be \$300. Therefore, the value of the underlying shares of the worst performing underlying on the final valuation date (or, in our discretion, cash) you receive at maturity would be significantly less than the stated principal amount of your securities. You would incur a loss based on the performance of the worst performing underlying on the final valuation date. In addition, because the final underlying value of the worst performing underlying on the final valuation date is below its coupon barrier value, you would not receive any contingent coupon payment (including any previously unpaid contingent coupon payments) at maturity.

If the final underlying value of the worst performing underlying on the final valuation date is less than its final barrier value, we will have the option to deliver to you on the maturity date either a number of underlying shares of the worst performing underlying on the final valuation date equal to its equity ratio or the cash value of those underlying shares based on their final underlying value. The value of those underlying shares on the maturity date may be different than their final underlying value.

**Example 6:** On the final valuation date, Costco Wholesale Corporation has the lowest underlying return and, therefore, is the worst performing underlying on the final valuation date. In this scenario, the underlying shares of the worst performing underlying on the final valuation date are worthless and you would lose your entire investment in the securities at maturity. In addition, because the final underlying value of the worst performing underlying on the final valuation date is below its coupon barrier value, you would not receive any contingent coupon payment at maturity.

**It is possible that the closing value of the worst performing underlying will be less than its coupon barrier value on each valuation date and less than its final barrier value on the final valuation date, such that you will not receive any contingent**

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**coupon payments over the term of the securities (including any previously unpaid contingent coupon payments) and will receive significantly less than the stated principal amount of your securities, and possibly nothing, at maturity.**

#### Summary Risk Factors

An investment in the securities is significantly riskier than an investment in conventional debt securities. The securities are subject to all of the risks associated with an investment in our conventional debt securities (guaranteed by Citigroup Inc.), including the risk that we and Citigroup Inc. may default on our obligations under the securities, and are also subject to risks associated with each underlying. Accordingly, the securities are suitable only for investors who are capable of understanding the complexities and risks of the securities. You should consult your own financial, tax and legal advisors as to the risks of an investment in the securities and the suitability of the securities in light of your particular circumstances.

The following is a summary of certain key risk factors for investors in the securities. You should read this summary together with the more detailed description of risks relating to an investment in the securities contained in the section “Risk Factors Relating to the Securities” beginning on page EA-7 in the accompanying product supplement. You should also carefully read the risk factors included in the accompanying prospectus supplement and in the documents incorporated by reference in the accompanying prospectus, including Citigroup Inc.’s most recent Annual Report on Form 10-K and any subsequent Quarterly Reports on Form 10-Q, which describe risks relating to the business of Citigroup Inc. more generally.

**You may lose a significant portion or all of your investment.** Unlike conventional debt securities, the securities do not provide for the repayment of the stated principal amount at maturity in all circumstances. If the securities are not automatically redeemed prior to maturity, your payment at maturity will depend on the final underlying value of the worst performing underlying on the final valuation date. If the final underlying value of the worst performing underlying on the final valuation date is less than its final barrier value, you will not receive the stated principal amount of your securities at maturity and, instead, will receive underlying shares of the worst performing underlying on the final valuation date (or, in our sole discretion, cash based on its final underlying value) expected to be worth significantly less than the stated principal amount, and possibly nothing. There is no minimum payment at maturity on the securities, and you may lose up to all of your investment.

We may elect, in our sole discretion, to pay you cash at maturity in lieu of delivering any underlying shares. If we elect to pay you cash at maturity in lieu of delivering any underlying shares, the amount of that cash may be less than the market value of the underlying shares on the maturity date because the market value will likely fluctuate between the final valuation date and the maturity date. Conversely, if we do not exercise our cash election right and instead deliver underlying shares to you on the maturity date, the market value of such underlying shares may be less than the cash amount you would have received if we had exercised our cash election right. We will have no obligation to take your interests into account when deciding whether to exercise our cash election right.

**You will not receive any contingent coupon on the contingent coupon payment date following any valuation date on which the closing value of the worst performing underlying on that valuation date is less than its coupon barrier value.** A contingent coupon payment will be made on a contingent coupon payment date if and only if the closing value of the worst performing underlying on the immediately preceding valuation date is greater than or equal to its coupon barrier value. If the closing value of the worst performing underlying on any valuation date is less than its coupon barrier value, you will not receive any contingent coupon payment on the immediately following contingent coupon payment date. You will only receive a contingent coupon payment that has not been paid on a subsequent contingent coupon payment date if and only if the closing value of the worst performing underlying on the related valuation date is greater than or equal to its coupon barrier value. If the closing value of the worst performing underlying on each valuation date is below its coupon barrier value, you will not receive any contingent coupon payments over the term of the securities.

**Higher contingent coupon rates are associated with greater risk.** The securities offer contingent coupon payments at an annualized rate that, if all are paid, would produce a yield that is generally higher than the yield on our conventional debt securities of the same maturity. This higher potential yield is associated with greater levels of expected risk as of the pricing date for the securities, including the risk that you may not receive a contingent coupon payment on one or more, or any, contingent coupon payment dates and the risk that the value of what you receive at maturity may be significantly less than the stated principal amount of your securities and may be zero. The volatility of and the correlation between the underlyings are important factors affecting these risks. Greater expected volatility of and lower expected correlation between the underlyings as of the pricing date may result in a higher contingent coupon rate, but would also represent a greater expected likelihood as of the pricing date that the closing value of the worst performing underlying on one or more valuation dates will be less than its coupon barrier value, such that you will not receive one or more, or any, contingent coupon payments during the term of the securities, and that the final underlying value of the worst performing underlying on the final valuation date will be less than its final barrier value, such that you will not be repaid the stated principal amount of your securities at maturity.

**The securities are subject to heightened risk because they have multiple underlyings.** The securities are more risky than similar investments that may be available with only one underlying. With multiple underlyings, there is a greater chance that any one underlying will perform poorly, adversely affecting your return on the securities.

**The securities are subject to the risks of each of the underlyings and will be negatively affected if any one underlying performs poorly.** You are subject to risks associated with each of the underlyings. If any one underlying performs poorly, you will be negatively affected. The securities are not linked to a basket composed of the underlyings, where the blended performance of

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the underlyings would be better than the performance of the worst performing underlying alone. Instead, you are subject to the full risks of whichever of the underlyings is the worst performing underlying.

**You will not benefit in any way from the performance of any better performing underlying.** The return on the securities depends solely on the performance of the worst performing underlying, and you will not benefit in any way from the performance of any better performing underlying.

**You will be subject to risks relating to the relationship between the underlyings.** It is preferable from your perspective for the underlyings to be correlated with each other, in the sense that their closing values tend to increase or decrease at similar times and by similar magnitudes. By investing in the securities, you assume the risk that the underlyings will not exhibit this relationship. The less correlated the underlyings, the more likely it is that any one of the underlyings will perform poorly over the term of the securities. All that is necessary for the securities to perform poorly is for one of the underlyings to perform poorly. It is impossible to predict what the relationship between the underlyings will be over the term of the securities. The underlyings differ in significant ways and, therefore, may not be correlated with each other.

**You may not be adequately compensated for assuming the downside risk of the worst performing underlying.** The potential contingent coupon payments on the securities are the compensation you receive for assuming the downside risk of the worst performing underlying, as well as all the other risks of the securities. That compensation is effectively “at risk” and may, therefore, be less than you currently anticipate. First, the actual yield you realize on the securities could be lower than you anticipate because the coupon is “contingent” and you may not receive a contingent coupon payment on one or more, or any, of the contingent coupon payment dates. Second, the contingent coupon payments are the compensation you receive not only for the downside risk of the worst performing underlying, but also for all of the other risks of the securities, including the risk that the securities may be automatically redeemed prior to maturity, interest rate risk and our and Citigroup Inc.’s credit risk. If those other risks increase or are otherwise greater than you currently anticipate, the contingent coupon payments may turn out to be inadequate to compensate you for all the risks of the securities, including the downside risk of the worst performing underlying.

**The securities may be automatically redeemed prior to maturity, limiting your opportunity to receive contingent coupon payments.** On any potential autocall date, the securities will be automatically called for redemption if the closing value of the worst performing underlying on that potential autocall date is greater than or equal to its initial underlying value. As a result, if the worst performing underlying performs in a way that would otherwise be favorable, the securities are likely to be automatically redeemed, cutting short your opportunity to receive contingent coupon payments. If the securities are automatically redeemed prior to maturity, you may not be able to reinvest your funds in another investment that provides a similar yield with a similar level of risk.

**The securities offer downside exposure to the worst performing underlying, but no upside exposure to any underlying.** You will not participate in any appreciation in the value of any underlying over the term of the securities. Consequently, your return on the securities will be limited to the contingent coupon payments you receive, if any, and may be significantly less than the return on any underlying over the term of the securities. In addition, as an investor in the securities, you will not receive any dividends or other distributions or have any other rights with respect to any

of the underlyings.

**The performance of the securities will depend on the closing values of the underlyings solely on the valuation dates, which makes the securities particularly sensitive to volatility in the closing values of the underlyings.** Whether the contingent coupon will be paid on any given contingent coupon payment date (and whether any previously unpaid contingent coupon payments will be paid) and whether the securities will be automatically redeemed prior to maturity will depend on the closing values of the underlyings solely on the applicable valuation dates, regardless of the closing values of the underlyings on other days during the term of the securities. If the securities are not automatically redeemed prior to maturity, what you receive at maturity will depend solely on the final underlying value of the worst performing underlying on the final valuation date, and not on any other day during the term of the securities. Because the performance of the securities depends on the closing values of the underlyings on a limited number of dates, the securities will be particularly sensitive to volatility in the closing values of the underlyings. You should understand that the closing value of each underlying has historically been highly volatile.

**The securities are subject to the credit risk of Citigroup Global Markets Holdings Inc. and Citigroup Inc.** If we default on our obligations under the securities and Citigroup Inc. defaults on its guarantee obligations, you may not receive anything owed to you under the securities.

**The securities will not be listed on any securities exchange and you may not be able to sell them prior to maturity.** The securities will not be listed on any securities exchange. Therefore, there may be little or no secondary market for the securities. CGMI currently intends to make a secondary market in relation to the securities and to provide an indicative bid price for the securities on a daily basis. Any indicative bid price for the securities provided by CGMI will be determined in CGMI's sole discretion, taking into account prevailing market conditions and other relevant factors, and will not be a representation by CGMI that the securities can be sold at that price, or at all. CGMI may suspend or terminate making a market and providing indicative bid prices without notice, at any time and for any reason. If CGMI suspends or terminates making a market, there may be no secondary market at all for the securities because it is likely that CGMI will be the only broker-dealer that is willing to buy your securities prior to maturity. Accordingly, an investor must be prepared to hold the securities until maturity.

**The estimated value of the securities on the pricing date, based on CGMI's proprietary pricing models and our internal funding rate, is less than the issue price.** The difference is attributable to certain costs associated with selling, structuring and hedging the securities that are included in the issue price. These costs include (i) any selling concessions or other fees paid in

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connection with the offering of the securities, (ii) hedging and other costs incurred by us and our affiliates in connection with the offering of the securities and (iii) the expected profit (which may be more or less than actual profit) to CGMI or other of our affiliates in connection with hedging our obligations under the securities. These costs adversely affect the economic terms of the securities because, if they were lower, the economic terms of the securities would be more favorable to you. The economic terms of the securities are also likely to be adversely affected by the use of our internal funding rate, rather than our secondary market rate, to price the securities. See “The estimated value of the securities would be lower if it were calculated based on our secondary market rate” below.

**The estimated value of the securities was determined for us by our affiliate using proprietary pricing models.** CGMI derived the estimated value disclosed on the cover page of this pricing supplement from its proprietary pricing models. In doing so, it may have made discretionary judgments about the inputs to its models, such as the volatility of and correlation between the underlyings, dividend yields on the underlyings and interest rates. CGMI’s views on these inputs may differ from your or others’ views, and as an underwriter in this offering, CGMI’s interests may conflict with yours. Both the models and the inputs to the models may prove to be wrong and therefore not an accurate reflection of the value of the securities. Moreover, the estimated value of the securities set forth on the cover page of this pricing supplement may differ from the value that we or our affiliates may determine for the securities for other purposes, including for accounting purposes. You should not invest in the securities because of the estimated value of the securities. Instead, you should be willing to hold the securities to maturity irrespective of the initial estimated value.

**The estimated value of the securities would be lower if it were calculated based on our secondary market rate.** The estimated value of the securities included in this pricing supplement is calculated based on our internal funding rate, which is the rate at which we are willing to borrow funds through the issuance of the securities. Our internal funding rate is generally lower than our secondary market rate, which is the rate that CGMI will use in determining the value of the securities for purposes of any purchases of the securities from you in the secondary market. If the estimated value included in this pricing supplement were based on our secondary market rate, rather than our internal funding rate, it would likely be lower. We determine our internal funding rate based on factors such as the costs associated with the securities, which are generally higher than the costs associated with conventional debt securities, and our liquidity needs and preferences. Our internal funding rate is not an interest rate that is payable on the securities.

Because there is not an active market for traded instruments referencing our outstanding debt obligations, CGMI determines our secondary market rate based on the market price of traded instruments referencing the debt obligations of Citigroup Inc., our parent company and the guarantor of all payments due on the securities, but subject to adjustments that CGMI makes in its sole discretion. As a result, our secondary market rate is not a market-determined measure of our creditworthiness, but rather reflects the market’s perception of our parent company’s creditworthiness as adjusted for discretionary factors such as CGMI’s preferences with respect to purchasing the securities prior to maturity.

**The estimated value of the securities is not an indication of the price, if any, at which CGMI or any other person may be willing to buy the securities from you in the secondary market.** Any such secondary market price will fluctuate over the term of the securities based on the market and other factors described in the next risk

factor. Moreover, unlike the estimated value included in this pricing supplement, any value of the securities determined for purposes of a secondary market transaction will be based on our secondary market rate, which will likely result in a lower value for the securities than if our internal funding rate were used. In addition, any secondary market price for the securities will be reduced by a bid-ask spread, which may vary depending on the aggregate stated principal amount of the securities to be purchased in the secondary market transaction, and the expected cost of unwinding related hedging transactions. As a result, it is likely that any secondary market price for the securities will be less than the issue price.

**The value of the securities prior to maturity will fluctuate based on many unpredictable factors.** The value of your securities prior to maturity will fluctuate based on the closing values of the underlyings, the volatility of the closing values of the underlyings, the correlation between the underlyings, dividend yields on the underlyings, interest rates generally, the time remaining to maturity and our and Citigroup Inc.'s creditworthiness, as reflected in our secondary market rate, among other factors described under "Risk Factors Relating to the Securities—Risk Factors Relating to All Securities—The value of your securities prior to maturity will fluctuate based on many unpredictable factors" in the accompanying product supplement. Changes in the closing values of the underlyings may not result in a comparable change in the value of your securities. You should understand that the value of your securities at any time prior to maturity may be significantly less than the issue price.

**Immediately following issuance, any secondary market bid price provided by CGMI, and the value that will be indicated on any brokerage account statements prepared by CGMI or its affiliates, will reflect a temporary upward adjustment.** The amount of this temporary upward adjustment will steadily decline to zero over the temporary adjustment period. See "Valuation of the Securities" in this pricing supplement.

**Our offering of the securities is not a recommendation of any underlying.** The fact that we are offering the securities does not mean that we believe that investing in an instrument linked to the underlyings is likely to achieve favorable returns. In fact, as we are part of a global financial institution, our affiliates may have positions (including short positions) in the underlyings or in instruments related to the underlyings, and may publish research or express opinions, that in each case are inconsistent with an investment linked to the underlyings. These and other activities of our affiliates may affect the closing values of the underlyings in a way that negatively affects the value of and your return on the securities.

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**The closing value of an underlying may be adversely affected by our or our affiliates' hedging and other trading activities.** We expect to hedge our obligations under the securities through CGMI or other of our affiliates, who may take positions in the underlyings or in financial instruments related to the underlyings and may adjust such positions during the term of the securities. Our affiliates also take positions in the underlyings or in financial instruments related to the underlyings on a regular basis (taking long or short positions or both), for their accounts, for other accounts under their management or to facilitate transactions on behalf of customers. These activities could affect the closing value of the underlyings in a way that negatively affects the value of and your return on the securities. They could also result in substantial returns for us or our affiliates while the value of the securities declines.

**We and our affiliates may have economic interests that are adverse to yours as a result of our affiliates' business activities.** Our affiliates engage in business activities with a wide range of companies. These activities include extending loans, making and facilitating investments, underwriting securities offerings and providing advisory services. These activities could involve or affect the underlyings in a way that negatively affects the value of and your return on the securities. They could also result in substantial returns for us or our affiliates while the value of the securities declines. In addition, in the course of this business, we or our affiliates may acquire non-public information, which will not be disclosed to you.

**The calculation agent, which is an affiliate of ours, will make important determinations with respect to the securities.** If certain events occur during the term of the securities, such as market disruption events and other events with respect to an underlying, CGMI, as calculation agent, will be required to make discretionary judgments that could significantly affect your return on the securities. In making these judgments, the calculation agent's interests as an affiliate of ours could be adverse to your interests as a holder of the securities. See "Risks Relating to the Securities—Risks Relating to All Securities—The calculation agent, which is an affiliate of ours, will make important determinations with respect to the securities" in the accompanying product supplement.

**Even if an underlying pays a dividend that it identifies as special or extraordinary, no adjustment will be required under the securities for that dividend unless it meets the criteria specified in the accompanying product supplement.** In general, an adjustment will not be made under the terms of the securities for any cash dividend paid by an underlying unless the amount of the dividend per share, together with any other dividends paid in the same quarter, exceeds the dividend paid per share in the most recent quarter by an amount equal to at least 10% of the closing value of that underlying on the date of declaration of the dividend. Any dividend will reduce that closing value of the underlying by the amount of the dividend per share. If an underlying pays any dividend for which an adjustment is not made under the terms of the securities, holders of the securities will be adversely affected. See "Description of the Securities—Certain Additional Terms for Securities Linked to an Underlying Company or an Underlying ETF—Dilution and Reorganization Adjustments—Certain Extraordinary Cash Dividends" in the accompanying product supplement.

**The securities will not be adjusted for all events that may have a dilutive effect on or otherwise adversely affect the closing value of an underlying.** For example, we will not make any adjustment for ordinary dividends or extraordinary dividends that do not meet the criteria described above, partial tender offers or additional underlying share issuances. Moreover, the adjustments we do make may not fully offset the dilutive or adverse effect of the particular event. Investors in the securities may be adversely affected by such an event in a circumstance in which a direct holder of the underlying shares of an underlying would not.

**The securities may become linked to an underlying other than an original underlying upon the occurrence of a reorganization event or upon the delisting of the underlying shares of that original underlying.** For example, if an underlying enters into a merger agreement that provides for holders of its underlying shares to receive shares of another entity and such shares are marketable securities, the closing value of that underlying following consummation of the merger will be based on the value of such other shares. Additionally, if the underlying shares of an underlying are delisted, the calculation agent may select a successor underlying. See “Description of the Securities—Certain Additional Terms for Securities Linked to an Underlying Company or an Underlying ETF” in the accompanying product supplement.

**If the underlying shares of an underlying are delisted, we may call the securities prior to maturity for an amount that may be less than the stated principal amount.** If we exercise this call right, you will receive the amount described under “Description of the Securities—Certain Additional Terms for Securities Linked to an Underlying Company or an Underlying ETF—Delisting of an Underlying Company” in the accompanying product supplement. This amount may be less, and possibly significantly less, than the stated principal amount of the securities.

**You will have no rights with respect to an underlying unless and until you receive underlying shares of that underlying at maturity.** If any change to the underlying shares of an underlying is proposed, such as an amendment to an underlying’s organizational documents, you will not have the right to vote on such change, but you will be subject to such change in the event you receive its underlying shares at maturity. Any such change may adversely affect the market value of the underlying shares of that underlying.

**The U.S. federal tax consequences of an investment in the securities are unclear.** There is no direct legal authority regarding the proper U.S. federal tax treatment of the securities, and we do not plan to request a ruling from the Internal Revenue Service (the “IRS”). Consequently, significant aspects of the tax treatment of the securities are uncertain, and the IRS or a court might not agree with the treatment of the securities as described in “United States Federal Tax Considerations” below. If the IRS were successful in asserting an alternative treatment, the tax consequences of ownership and disposition of the securities might be materially and adversely affected. Moreover, as described in the accompanying product supplement under “United States Federal Tax Considerations,” in 2007 the U.S. Treasury Department and the IRS released a notice requesting comments on various issues

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regarding the U.S. federal income tax treatment of “prepaid forward contracts” and similar instruments. While it is not clear whether the securities would be viewed as similar to the typical prepaid forward contract described in the notice, it is possible that any Treasury regulations or other guidance promulgated after consideration of these issues could materially and adversely affect the tax consequences of an investment in the securities, including the character and timing of income or loss recognized by U.S. investors, possibly with retroactive effect. You should read carefully the discussion under “United States Federal Tax Considerations” and “Risk Factors Relating to the Securities” in the accompanying product supplement and “United States Federal Tax Considerations” in this pricing supplement. You should also consult your tax adviser regarding the U.S. federal tax consequences of an investment in the securities, as well as tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.

Non-U.S. investors should note that persons having withholding responsibility in respect of the securities may withhold on any coupon payment paid to a non-U.S. investor, generally at a rate of 30%. To the extent that we have withholding responsibility in respect of the securities, we intend to so withhold.

In addition, Section 871(m) of the Internal Revenue Code of 1986, as amended (the “Code”), imposes a withholding tax of up to 30% on “dividend equivalents” paid or deemed paid to non-U.S. investors in respect of certain financial instruments linked to U.S. equities. In light of Treasury regulations, as modified by an IRS notice, that provide a general exemption for financial instruments issued prior to January 1, 2021 that do not have a “delta” of one, as of the date of this preliminary pricing supplement the securities should not be subject to withholding under Section 871(m). However, information about the application of Section 871(m) to the securities will be updated in the final pricing supplement. Moreover, the IRS could challenge a conclusion that the securities should not be subject to withholding under Section 871(m).

We will not be required to pay any additional amounts with respect to amounts withheld.

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#### Information About Walmart Inc.

Walmart Inc. operates retail, wholesale and other units, as well as e-commerce websites, located around the world. The underlying shares of Walmart Inc. are registered under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Information provided to or filed with the SEC by Walmart Inc. pursuant to the Exchange Act can be located by reference to the SEC file number 001-06991 through the SEC’s website at <http://www.sec.gov>. In addition, information regarding Walmart Inc. may be obtained from other sources including, but not limited to, press releases, newspaper articles and other publicly disseminated documents. The underlying shares of Walmart Inc. trade on the New York Stock Exchange under the ticker symbol “WMT.”

We have derived all information regarding Walmart Inc. from publicly available information and have not independently verified any information regarding Walmart Inc. This pricing supplement relates only to the securities and not to Walmart Inc. We make no representation as to the performance of Walmart Inc. over the term of the securities.

The securities represent obligations of Citigroup Global Markets Holdings Inc. (guaranteed by Citigroup Inc.) only. Walmart Inc. is not involved in any way in this offering and has no obligation relating to the securities or to holders of the securities.

#### Historical Information

The closing value of Walmart Inc. on December 4, 2018 was \$95.81.

The graph below shows the closing value of Walmart Inc. for each day such value was available from January 2, 2013 to December 4, 2018. We obtained the closing values from Bloomberg L.P., without independent verification. If certain corporate transactions occurred during the historical period shown below, including, but not limited to, spin-offs or mergers, then the closing values shown below for the period prior to the occurrence of any such transaction have been adjusted by Bloomberg L.P. as if any such transaction had occurred prior to the first day in the period shown below. You should not take historical closing values as an indication of future performance.

#### **Walmart Inc. – Historical Closing Values**

**January 2, 2013 to December 4, 2018**

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#### Information About Costco Wholesale Corporation

Costco Wholesale Corporation operates membership warehouses selling nationally branded and private-label products. The underlying shares of Costco Wholesale Corporation are registered under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Information provided to or filed with the SEC by Costco Wholesale Corporation pursuant to the Exchange Act can be located by reference to the SEC file number 000-20355 through the SEC’s website at <http://www.sec.gov>. In addition, information regarding Costco Wholesale Corporation may be obtained from other sources including, but not limited to, press releases, newspaper articles and other publicly disseminated documents. The underlying shares of Costco Wholesale Corporation trade on the Nasdaq Global Select Market under the ticker symbol “COST.”

We have derived all information regarding Costco Wholesale Corporation from publicly available information and have not independently verified any information regarding Costco Wholesale Corporation. This pricing supplement relates only to the securities and not to Costco Wholesale Corporation. We make no representation as to the performance of Costco Wholesale Corporation over the term of the securities.

The securities represent obligations of Citigroup Global Markets Holdings Inc. (guaranteed by Citigroup Inc.) only. Costco Wholesale Corporation is not involved in any way in this offering and has no obligation relating to the securities or to holders of the securities.

#### Historical Information

The closing value of Costco Wholesale Corporation on December 4, 2018 was \$226.35.

The graph below shows the closing value of Costco Wholesale Corporation for each day such value was available from January 2, 2013 to December 4, 2018. We obtained the closing values from Bloomberg L.P., without independent verification. If certain corporate transactions occurred during the historical period shown below, including, but not limited to, spin-offs or mergers, then the closing values shown below for the period prior to the occurrence of any such transaction have been adjusted by Bloomberg L.P. as if any such transaction had occurred prior to the first day in the period shown below. You should not take historical closing values as an indication of future performance.

#### **Costco Wholesale Corporation – Historical Closing Values**

**January 2, 2013 to December 4, 2018**

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## United States Federal Tax Considerations

You should read carefully the discussion under “United States Federal Tax Considerations” and “Risk Factors Relating to the Securities” in the accompanying product supplement and “Summary Risk Factors” in this pricing supplement.

Due to the lack of any controlling legal authority, there is substantial uncertainty regarding the U.S. federal tax consequences of an investment in the securities. In connection with any information reporting requirements we may have in respect of the securities under applicable law, we intend (in the absence of an administrative determination or judicial ruling to ONT>

customer engagement results;

associate engagement and motivation measures; and

related individual, business division, and unit performance factors.

Committee policy requires all of the Company’s compensation plans and practices to comply with all applicable laws, rules, and regulations.

Each year the Committee directs the Company, through the internal committee consisting of the Chief Learning Officer, Chief Financial Officer, and Executive Director, Organizational Development and People Services, to prepare a compensation philosophy and strategy statement for the compensation of the executives, and a proposed executive compensation framework for the year. When establishing the proposed compensation framework, in keeping with the Company’s goal of attracting, motivating, and retaining executives who will contribute to the Company’s long-term success and the creation of shareholder value, the internal committee undertakes the review of comparative compensation offered

within the industries in which the Company competes for executive talent. Management of the Company believes the Company competes for executive talent within the general industry, financial services industry, and technology industry. The internal committee periodically reviews salary information from various databases (general industry, financial services, and technology related) and makes changes to compensation as appropriate to reflect changes in the market and the Company's industry. These industries may not represent the same industry as the peer group used by the Company for purposes of the Performance Index Graph furnished in the Company's annual report on Form 10-K.

The Company also considers the compensation levels of executives relative to total compensation within the Company in order to provide appropriate context for making compensation decisions at the executive level. As part of this process, the Company seeks to maintain internal pay equity by maintaining equitable relationships between each management level with respect to all components of compensation, both individually and in the aggregate, paid to individuals within such levels.

The Company's compensation philosophy and strategy described above is proposed by management and then reviewed and approved by the Compensation Committee, with any modifications that the Committee deems to be appropriate, after discussions by the Committee over multiple meetings. To ensure independence and candid discussions, the Committee meets in executive sessions without management to review and approve the compensation framework. As part of this process, the Committee reviews the Company's goals and financial objectives related to base salaries and incentive compensation. The Committee also discusses the CEO's individual performance in reviewing and approving his or her total compensation potential for the year, and coordinates with the Board to monitor the performance of the CEO throughout the year to ensure that compensation being provided meets the performance incentive intent of the compensation framework.

#### *Industry Comparison of Compensation*

To assist in establishing a competitive overall compensation program, in 2007 the internal compensation committee engaged Towers Perrin, a nationally recognized consulting firm and objective third party, to review executive compensation at the Company. Studies like this one cover in detail those individuals for whom compensation information is disclosed publicly as well as other executives. As a result, these studies typically include the most highly compensated officers at each company. Generally, this correlates to the Company's CEO, President, and certain other executives.

Towers Perrin was engaged to conduct an executive total cash compensation analysis to assess the competitiveness of the compensation levels of base salary and target bonus provided to the Company's CEO and executives. The consulting firm formulated competitive market rates for all executive positions included in the study. Based upon their market analysis findings, the consultants presented their findings and observations as to the competitiveness of the Company's base salaries and target bonus compared to the financial services industry, technology industry, and the general industry market. Although the Company does not

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currently offer such awards to its associates, the Company also requested that the study include an analysis of competitive deferred compensation practices.

This study is used by the Company to identify potential gaps or inequities in total compensation and to identify appropriate compensation levels and compensation design features. The study was conducted out of the Company's duty to its shareholders and executives in an effort to motivate, retain, and attract top performers that drive the Company's performance results.

When comparing the executive base salaries, total compensation, annual incentive plan, and benefit plans to data of the peer group, the consultants made suggestions to ensure that the Company provides a complete compensation package that is competitive in the marketplace.

The internal compensation committee and the Compensation Committee reviewed the analysis and implemented recommendations during the following year. Overall, the Company was found to offer competitive employee benefits; however, the Company is considering being proactive in regard to various executive benefits in an effort to protect, reward, and retain its key executives.

As part of the Company's ongoing review of the effectiveness and competitiveness of its compensation structure, a consistent market review will be completed by an independent compensation consulting firm every three years. The results of these reviews will be utilized by the internal committee to determine whether to recommend to the Committee any changes to the Company's overall compensation strategy, including executive compensation.

### *Components of Executive Compensation*

The Company's CEO and executives can be compensated with a combination of annual base salary, performance-based incentive payments, and, with respect to the executives, issuance of shares of the Company's Class A common stock, which are typically restricted from sale over a period of three years from the date of the award. The CEO does not receive equity compensation because the CEO controls the majority of voting rights of the Company, is exposed to downswings in stock price, and has interests already aligned with the other shareholders of the Company. In determining levels of compensation, management and the Committee work together to establish targeted total compensation for each executive and then to allocate that compensation among base salary and incentive compensation. The Company's executives may be awarded restricted shares of company stock as part of their incentive, and they may also elect to receive any portion or all of their cash incentive compensation in restricted shares of company stock. Awards of restricted shares of company stock are based on the Company's and the individual's performance, and are designed both to align the executives' own interests with the long-term strategic goals of the Company and to contribute to the retention of those individuals.

Each element of compensation is designed to be competitive with comparable companies and to align management's incentives with the long-term interests of the Company's shareholders. The Committee, upon management's recommendation, determines the amount of each element of compensation by reviewing the current compensation mix for each of the executives in comparison to the Company's company-wide performance, the Company's long-term objectives, and the scope of that executive's responsibility. The Committee attempts to achieve an appropriate balance between base salary, cash bonuses, and longer-term equity incentives for all of the Company's executives. The Committee did not assign relative weights to the performance measures described above in Compensation Objectives in setting these salaries, cash bonuses, and longer-term equity incentives.

### *Base Salaries*

The Company wants to provide senior management with a level of assured cash compensation in the form of base salary that is appropriate given their professional status and accomplishments. Base salary for the Company's CEO and executives are based upon an evaluation of individual responsibilities of each person, market comparisons from compensation surveys, and an assessment of each individual's performance. Base salaries are generally set to be within a median range of the compensation survey results, which helps the Company attract and retain talented executives. Changes in base salaries of executives depend on projected changes in the external market as well as individual contributions to the Company's performance. All base salaries are paid in cash.

### *Performance-Based Incentive Payments*

The Company generally awards incentives based upon the achievement of both company-wide and personal performance objectives. Company-wide performance objectives include, as stated above, results of the Company's consolidated GAAP net income and base net income, financial and operational performance measures, diversification and growth of fee-based income, development of strategic relationships, customer and associate engagement and related individual, business division, and unit

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performance factors. Achieving the targeted base net income is the overall company-wide objective, as the growth in base net income has a direct correlation with the interests of the Company's shareholders.

The executives have specific performance goals. Where an executive has responsibility for a particular business segment, the performance goals are heavily weighted toward the performance of that business segment. Where an executive has broader corporate responsibility, such as the Company's President and Chief Financial Officer, their particular objectives for the year are tied more closely to the overall company-wide performance.

The executives are eligible for performance-based incentive payments under an incentive plan arrangement which is generally based upon a formula that increases the potential payment amount as the Company's base net income increases. In addition to financial results, each executive's individual performance is considered in order to determine the final amount of the incentive payment earned. Under this program, a significant portion of executives' compensation is tied to both individual and Company performance. Performance incentive payments are made in cash and/or Company stock of an equivalent value. The executives may elect to have up to 100% of their incentive paid in Company stock. For those who choose to receive stock, the Company awards an additional 25% of the elected amount in additional shares of Company stock. The elected amount is paid in fully vested shares of Class A common stock issued pursuant to the Company's Restricted Stock Plan, and the additional 25% bonus is paid in restricted shares which vest over a three-year period.

The executives' potential incentive amounts are outlined below. The exact incentive amount awarded is based on the individual and the Company's performance such that lower performing executives are paid below market and higher performing executives are paid above market.

<b>Position</b>	<b>Target incentive opportunity as a percentage of base salary</b>
President, Chief Financial Officer, and Divisional Presidents	0 - 50%
Other executives	0 - 40%

*Executive Officers Bonus Plan*

The Company maintains an Executive Officers Bonus Plan under which the CEO (and previously the Co-CEO's) has an opportunity to earn an annual incentive payment. Under this plan for 2007, the CEO was eligible for bonus compensation in the amount of \$500,000 for every \$1.00 of base net income per share earned by the Company during the year, as calculated and reported in the Company's earnings releases and filings, divided by the weighted average basic number of common shares outstanding as of the end of the plan year.

The CEO will not be entitled to any award under the Executive Officers Bonus Plan in any year in which the Company fails to maintain a credit rating of at least BBB by Standard & Poor's and Moody's Investor Services. Bonus payments under the plan for a particular year are made subsequent to year-end after the Company's earnings for the year have been finalized and announced to the public.

On March 22, 2007, in connection with the previously reported retirement of Mr. Butterfield from his position as a Co-CEO effective May 24, 2007, the Compensation Committee determined that Mr. Butterfield, will continue to receive a reduced base salary of \$50,000. In addition, under the terms of the Executive Officers Bonus Plan, Mr. Butterfield did not receive a bonus under such plan for 2007 since Mr. Butterfield was not serving as a Co-CEO of the Company as of December 31, 2007.

In 2008, the Company's CEO voluntarily elected to forego \$215,000 of his \$390,000 in bonus compensation for 2007 to which he would otherwise have been entitled pursuant to this plan. The funds were reallocated as additional 2007 performance bonuses to associates of the Company for purposes of recognition and retention, and paid in the form of cash.

### *Restricted Stock Plan*

The Company maintains a Restricted Stock Plan administered by the Committee, to reward performance by associates, including executives. This plan permits the Committee to reward a recipient with company shares and can, at the Committee's sole

discretion, attach vesting requirements to the award. These additional awards are designed to recognize and reward the executives, and to connect the executives' wealth accumulation directly to the Company's performance, therefore encouraging the executives to behave as owners of the Company. In 2007, one of our executives received an award of additional shares of company stock in this manner, which excludes five executives that elected to receive their performance-based incentive payments in shares of company stock. None of these executives were Named Executive Officers.

#### *Other Equity Awards*

The Company also supports a number of other savings and investment vehicles that assist all associates, including executives, in increasing their long-term financial savings and in becoming owners in the Company. The Company provides an Employee Share Purchase Plan, pursuant to which Company shares may be acquired through payroll deduction, at a discount of 15% to the lower of the average market price of the Company stock on the first and last trading days of each calendar quarter. Also, beginning in 2007, the Company provided all eligible associates the opportunity to receive the Company's matching contribution to the 401(k) plan in Company stock. The Company does not offer stock options; it is management's opinion that awards of restricted stock are a better method of encouraging executives to focus on the long term value of the Company.

#### *Share Ownership Guidelines*

The Compensation Committee believes that executives should have a significant equity interest in the Company. In order to promote equity ownership and further align the interests of management with the Company's shareholders, in 2005 the Committee recommended and the Board adopted Share Ownership Guidelines for management associates at certain levels. Under these guidelines, each executive is encouraged to own at least 15,000 shares of Company stock, and is thereby exposed to downside risk in the Company's equity performance. A substantial number of the executives currently meet these guidelines.

#### *Other Compensation*

In addition to base salaries and performance-based incentive compensation, the Company provides executives with certain other benefits to assist the Company in remaining competitive in the marketplace and to encourage executives to remain with the Company.

The Company owns a controlling interest in an aircraft due to the frequent business travel needs of its executives and the limited availability of commercial flights in Lincoln, Nebraska, where the Company's headquarters are located. Union Financial Services, Inc., which is owned by Messrs. Dunlap and Butterfield, also owns an interest in the same aircraft. In prior years, the Company has allowed Messrs. Dunlap and Butterfield to utilize its interest in the aircraft for personal travel when it is not required for business travel. The value of the personal use of the aircraft is computed based on the Company's aggregate incremental costs, which include variable operating costs such as fuel costs, mileage costs, trip-related maintenance and hangar costs, on-board catering, landing/ramp fees, and other miscellaneous variable costs. In 2007, Messrs. Dunlap and Butterfield did not receive any personal travel benefits with respect to the Company's interest in the aircraft, since all personal travel by Messrs. Dunlap and Butterfield on such aircraft occurred with respect to the interest in the aircraft owned by Union Financial Services, Inc.

Benefits, including health, dental, vision, and time off, are designed to be equal to and competitive with the national marketplace. A critical aspect of the Company's health benefits program is our increasing focus on associate health and wellness. The Company wants to encourage every executive to take a more proactive approach to their personal health and wellbeing. The Company has implemented wellness programs which encourage and reward associates for healthy habits by the opportunity to lower their premium costs.

Except for the Company's separation agreement with David Bottegal, the Company does not have any contracts, agreements, plans, or arrangements with its named executive officers, whether written or unwritten, that provide for payment in connection with any termination or change-in-control. The Company entered into a separation agreement with Mr. Bottegal in connection with his resignation. See Executive Compensation - Payments Upon Termination or Change in Control.

The Company does not currently have a formal written policy for the adjustment or recovery of awards or payments if the relevant performance measures upon which they are based are restated or otherwise adjusted in a manner that would reduce the size of an award or payment. However, since under the Executive Officers Bonus Plan the payment of an annual award which is computed based on the Company's base net income per share for a plan year is not made until after the Company's earnings for the plan year have been finalized and announced to the public, in the event of a subsequent restatement of earnings the Company would pursue appropriate and equitable remedies to recover the amount of any awards paid under that plan in excess of the amount that would have been paid based on the restated earnings.

*Policy on Deductibility of Compensation*

Section 162(m) of the Internal Revenue Code imposes a \$1 million limitation, subject to certain exceptions, on a public company's income tax deductibility in any tax year with respect to compensation paid to any employee who is a chief executive officer, chief financial officer, or one of the other three highest paid executive officers of the company on the last day of that tax year. This limitation does not apply to certain performance-based compensation paid under a shareholder approved plan that meets the requirements of Section 162(m) and the regulations thereunder. The Company's Executive Officers Bonus Plan was approved by the shareholders in 2007 and is designed to comply with the requirements of Section 162(m). The Committee believes that the Company will not be subject to Section 162(m) limitations on the deductibility of compensation paid to the executives for 2007. The Committee may consider other steps which might be in the Company's best interests to comply with Section 162(m), while reserving the right to award future compensation which may not comply with the Section 162(m) requirements for deductibility if the Committee concludes that such compensation is in the Company's best interests in providing incentives to attract, motivate, and retain key executives.

*Matching Gift Program*

The Company offers a matching gift program in which all employees with at least six months of service and all members of the Board of Directors are eligible to participate. Under this program, for every dollar that an employee or Board member contributes to an eligible charitable organization or educational institution, the Company will make matching donations of additional funds, subject to terms and conditions applicable in an equal manner to all employees and Board members. During 2007, the Company matched the following amounts in contributions under the provisions of this program to employees that served as executive officers during 2007.

David A. Bottegal	\$ 17,800
Stephen F. Butterfield	300
Michael S. Dunlap	100
Terry J. Heimes	20,650
William J. Munn	850
Jeffrey R. Noordhoek	100
Cheryl E. Watson	11,100

*Conclusion*

By ensuring market competitive compensation that is aligned with a performance-based organization philosophy, the Company expects to attract, motivate, and retain the executive talent required to achieve long-term goals. This is critical, as management knows the Company's success hinges on having engaged executives who are committed to the Company.

**Compensation Committee Report**

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management. Based upon such review, the related discussions and such other matters deemed relevant and appropriate by the Compensation Committee, the Compensation Committee has recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement to be delivered to shareholders.

Respectfully submitted,

James P. Abel, Chairman  
 Kimberly K. Rath  
 Michael D. Reardon  
 James H. Van Horn

**Compensation Committee Interlocks and Insider Participation**

The Compensation Committee consists of Ms. Rath and Messrs. Abel (Chairman), Reardon, and Van Horn, all of whom are independent Non-Employee Directors. Except for Mr. Van Horn, who was an employee of the Company until May 2003, none of the Compensation Committee members has served as an officer or employee of the Company, and, except for Mr. Dunlap and Mr.



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Butterfield who are officers and directors of Union Financial Services, Inc., none of the Company's executive officers has served as a member of a compensation committee or board of directors of any other entity, which has an executive officer serving as a member of the Company's Board of Directors.

### Summary Compensation Table for Fiscal Years 2007, 2006, and 2005.

The following table sets forth summary information relating to the fiscal years ended December 31, 2007, 2006, and 2005, with respect to the compensation paid and bonuses granted for services rendered by the Company's Chief Executive Officer, Vice Chairman (who served as a Co-Chief Executive Officer until May 24, 2007), and Chief Financial Officer, as well as each of the Company's other three most highly compensated executive officers during the year ended December 31, 2007 (collectively, the Named Executive Officers). Salaries and bonuses are paid at the discretion of the Board of Directors.

Name and principal position	Year	Annual compensation (a)				Total (\$)
		Salary (\$)	Bonus (\$) (b)	Stock awards (\$)	All other compensation (\$) (c)	
Michael S. Dunlap Chief Executive Officer	2007	500,000	175,000 (d)		9,540	684,540
	2006	500,000	612,500 (e)		9,340	1,121,840
	2005	500,559	1,142,300		8,940	1,651,799
Stephen F. Butterfield (f) Former Co-Chief Executive Officer	2007	216,923			9,540	226,463
	2006	500,000	612,500 (e)		9,340	1,121,840
	2005	500,559	1,142,300		8,940	1,651,799
Terry J. Heimes Chief Financial Officer	2007	325,000	100,000		9,540	434,540
	2006	325,000	200,000		9,340	534,340
	2005	300,552	192,000		8,940	501,492
Jeffery R. Noordhoek President	2007	275,000	100,000		9,540	384,540
	2006	275,000	225,000		9,331	509,331
	2005	230,619	192,000		8,931	431,550
Matthew D. Hall Chief Operating Officer, Nelnet Education Services, a division of Nelnet, Inc.	2007	278,311	65,000		8,692	352,003
	2006	280,439	130,000	84,690 (g)	9,331	504,460
	2005	229,929	192,000		8,931	430,860
David A. Bottegal (h) Former Chief Executive Officer, Nelnet Education Services, a division of Nelnet, Inc.	2007	305,769	100,000		309,540 (c)	715,309
	2006	306,069	130,000		9,340	445,409
	2005	255,192	192,000		8,940	456,132

- (a) Executive officers may receive perquisites and personal benefits, the dollar amounts of which are below current Securities and Exchange Commission thresholds for reporting requirements.
- (b) Amounts represent bonuses paid in 2008, 2007, and 2006 for services rendered during the 2007, 2006, and 2005 calendar years, respectively.
- (c) Amounts represent matching contributions under the Company's 401(k) plan, premiums on life insurance, and severance. During 2007, 2006, and 2005, all Named Executive Officers received \$9,000, \$8,800, and \$8,400, respectively, in matching 401(k) contributions with the exception of Mr. Hall, who received \$8,162 in matching 401(k) contributions in 2007. Mr. Bottegal received \$300,000 in connection with his separation of employment with the Company on December 31, 2007.
- (d) Mr. Dunlap's potential 2007 bonus, as calculated pursuant to the provisions of the Executive Officers Bonus Plan, was \$390,000. Mr. Dunlap requested that \$215,000 of his 2007 bonus be distributed to certain associates for purposes of



recognition and retention.

- (e) Mr. Dunlap and Mr. Butterfield each requested that \$375,000 of their 2006 bonus be distributed to certain associates for purposes of recognition and retention. The amounts distributed to these individuals were in the form of unrestricted fully vested shares of Class A common stock issued pursuant to the Company's Restricted Stock Plan.
- (f) Effective May 24, 2007, Mr. Butterfield retired from his position as a Co-Chief Executive Officer of the Company. As a result, Mr. Butterfield's annual base salary was reduced to \$50,000. Mr. Butterfield did not receive a bonus for 2007 under the Executive Officers Bonus Plan since he did not serve as a Co-CEO on December 31, 2007.
- (g) Amount represents 3,000 shares of restricted Class A common stock issued on December 14, 2006 pursuant to the Company's Restricted Stock Plan. One-third (1,000 shares) of these shares vested on December 14, 2007. The remaining 2,000 shares vest in 1,000 share increments on each of December 14, 2008 and December 14, 2009. The closing market price on the date of issuance of these shares was \$28.23 per share. Dividends are paid on shares of restricted Class A common stock at the same rate as dividends are paid on all shares of the Company's Class A common stock.
- (h) Mr. Bottegal terminated his employment with the Company effective December 31, 2007.

**Outstanding Equity Awards at Fiscal Year-End Table (As of December 31, 2007)**

The following table sets forth summary information relating to the outstanding equity awards for the Company's Named Executive Officers as of December 31, 2007.

Stock awards		
Name	Number of shares of stock that have not vested	Market value of shares of stock that have not vested (\$) (a)
Michael S. Dunlap		
Stephen F. Butterfield		
Terry J. Heimes		
Jeffery R. Noordhoek		
Matthew D. Hall	2,000 (b)	25,420
David A. Bottegal		

- (a) The closing market price of the Company's common stock as of December 31, 2007 was \$12.71.
- (b) Amount represents shares of restricted Class A common stock issued on December 14, 2006 pursuant to the Company's Restricted Stock Plan. 1,000 of these shares vest on each of December 14, 2008 and December 14, 2009. The closing market price on the date of issuance of these shares was \$28.23 per share.

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### Stock Vested Table for Fiscal Year 2007

The following table sets forth summary information relating to the stock vested for the Company's Named Executive Officers during the fiscal year ended December 31, 2007.

Stock awards		
Name	Number of shares of stock acquired on vesting	Market value of shares of stock realized on vesting (\$ (a))
Michael S. Dunlap		
Stephen F. Butterfield		
Terry J. Heimes		
Jeffery R. Noordhoek		
Matthew D. Hall	1,000 (b)	12,490
David A. Bottegal		

- (a) The closing market price of the Company's common stock as of December 14, 2007 (the vesting date) was \$12.49.
- (b) Amount represents shares of restricted Class A common stock issued on December 14, 2006 pursuant to the Company's Restricted Stock Plan. These shares vested on December 14, 2007. The closing market price on the date of issuance of these shares was \$28.23 per share.

### Stock Option, SAR, Long-Term Incentive, and Defined Benefit Plans

The Company does not have any stock option, SAR, long-term incentive, or defined benefit plans covering its Named Executive Officers.

### Payments Upon Termination or Change in Control

In connection with Mr. Bottegal's separation of employment with the Company, and in recognition of his years of service to the Company, the Company and Mr. Bottegal entered into a separation agreement dated December 13, 2007. Under the terms of the agreement, Mr. Bottegal received a payment of \$300,000, payable in five installments of \$11,538 from January 1, 2008 to March 7, 2008, with a final payment of \$242,310 paid on March 7, 2008. The payments include all unused and accrued earned time off. In addition, Mr. Bottegal received his annual incentive bonus of \$100,000 on March 14, 2008. Mr. Bottegal's participation on benefit plans ceased in accordance with the terms of those plans; however, the Company agreed to pay four monthly payments of \$121 towards Mr. Bottegal's COBRA premiums payable after December 31, 2007. Mr. Bottegal was also allowed to retain his laptop computer and to participate in Nelnet's Matching Gift Program until December 31, 2008. In connection with the separation agreement, Mr. Bottegal agreed not to compete against the Company for a period of one-year in the Federal Family Education Loan Program, including non-solicitation of employees, agents, and contractors of the Company. Mr. Bottegal also agreed to keep the Company's trade secrets confidential at all times. In the event Mr. Bottegal breaches the agreement, the Company may demand the return of payments made to Mr. Bottegal under the agreement.

### SECURITY OWNERSHIP OF DIRECTORS, EXECUTIVE OFFICERS, AND PRINCIPAL SHAREHOLDERS

#### Stock Ownership

The authorized common stock of the Company consists of 660,000,000 shares, \$0.01 par value. The common stock is divided into two classes, consisting of 600,000,000 shares of Class A common stock and 60,000,000 shares of Class B common stock. The Company also has authorized 50,000,000 shares of preferred stock, \$0.01 par value.

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The table on the following page sets forth information as of February 29, 2008, regarding the beneficial ownership of each class of the Company's common stock by:

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each person, entity, or group known by the Company to beneficially own more than five percent of the outstanding shares of any class of common stock;

each of the Named Executive Officers;

each incumbent director and each nominee for director; and

all executive officers and directors as a group.

Beneficial ownership is determined in accordance with the rules and regulations of the Securities and Exchange Commission. Under these rules, a person is deemed to beneficially own a share of the Company's common stock if that person has or shares voting power or investment power with respect to that share, or has the right to acquire beneficial ownership of that share within 60 days, including through the exercise of any option, warrant, or other right or the conversion of any other security.

The number of shares of Class B common stock for each person in the table below assumes such person does not convert any Class B common stock into Class A common stock. Unless otherwise indicated in a footnote, the address of each five percent beneficial owner is c/o Nelnet, Inc., 121 South 13th Street, Suite 201, Lincoln, Nebraska 68508. Unless otherwise indicated in a footnote, the persons named in the tables below have sole voting and investment power with respect to all shares of common stock shown as being beneficially owned by them.

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Beneficial Ownership as of February 29, 2008

Name	Number of shares beneficially owned			Percentage of shares beneficially owned (1)			Percentage of combined voting power of all classes of stock (2)
	Class A	Class B	Total	Class A	Class B	Total	
Michael S. Dunlap	8,926,200 (3)	9,591,062 (4)	18,517,262	23.5%	83.4%	37.5%	68.6%
Stephen F. Butterfield	355	3,952,364 (5)	3,952,719	*	34.4%	8.0%	25.9%
Angela L. Muhleisen	9,293,060 (6)	1,668,493 (7)	10,961,553	24.5%	14.5%	22.2%	17.0%
Union Bank and Trust Company	6,028,130 (8)	1,668,493 (9)	7,696,623	15.9%	14.5%	15.6%	14.9%
David A. Bottegal	286,914 (10)		286,914	*		*	0.2%
Raymond J. Ciarvella	178,462 (11)		178,462	*		*	0.1%
Todd M. Eicher	462,592 (12)		462,592	1.2%		*	0.3%
Matthew D. Hall	50,859 (13)		50,859	*		*	0.0%
Terry J. Heimes	206,558 (14)		206,558	*		*	0.1%
John R. Kline	3,750 (15)		3,750	*		*	0.0%
William J. Munn	19,935 (16)		19,935	*		*	0.0%
Jeffery R. Noordhoek	1,002,935 (17)		1,002,935	2.6%		2.0%	0.7%
Tim A. Tewes	25,522 (18)		25,522	*		*	0.0%
James P. Abel	13,984 (19)		13,984	*		*	0.0%
Kathleen A. Farrell						*	0.0%
Thomas E. Henning	21,015 (20)		21,015	*		*	0.0%
Brian J. O Connor	25,443		25,443	*		*	0.0%
Kimberly K. Rath	1,200 (21)		1,200	*		*	0.0%
Michael D. Reardon	15,672 (22)		15,672	*		*	0.0%
James H. Van Horn	68,209 (23)		68,209	*		*	0.0%
Cedar Hill Capital Partners, LLC	1,903,000 (24)		1,903,000	5.0%		3.9%	1.2%
Charles Cascarilla	1,903,000 (24)		1,903,000	5.0%		3.9%	1.2%
Emil Woods	1,903,000 (24)		1,903,000	5.0%		3.9%	1.2%
Executive officers and directors as a group	11,115,410	11,495,377	22,610,787	29.3%	100.0%	45.8%	82.5%

\* Less than 1%.

- (1) Based on 37,911,373 shares of Class A common stock (which excludes 11,058,604 shares of Class A common stock held by the Company's subsidiary, which is not entitled to vote at the Annual Meeting) and 11,495,377 shares of Class B common stock outstanding as of February 29, 2008.
- (2) These percentages reflect the different voting rights of the Company's Class A common stock and Class B common stock. Each share of Class A common stock has one vote and each share of Class B common stock has ten votes on all matters to be voted upon by the Company's shareholders.
- (3) Includes shares owned by entities which Mr. Dunlap may be deemed to control, consisting of: 404,500 shares owned by Farmers & Merchants Investment Inc. ( F&M ), of which Mr. Dunlap is a director and president and owns or controls 39.8% of the outstanding voting stock, and 6,028,130 shares held by Union Bank and Trust Company ( Union Bank ) for the accounts of miscellaneous trusts, IRAs, and investment accounts at Union Bank with respect to which Union Bank may be deemed to have or share voting or investment power. Mr. Dunlap is non-executive chairman of and controls Union Bank through F&M. Mr. Dunlap disclaims beneficial ownership of the shares held for the accounts of miscellaneous trusts, IRAs, and investment accounts at Union Bank, except for his beneficial interest in 714 shares of Class A common stock issued through the Company's 401(k) match. He also disclaims beneficial ownership of the shares held by F&M, except to the extent of his pecuniary interest therein.
- (4) Includes 1,701,000 shares owned by Mr. Dunlap's spouse, 1,586,691 shares owned by Union Financial Services, Inc., of which Mr. Dunlap is Chairman and owns 50.0% of the outstanding capital stock, 1,207,135 shares held by Union



Bank as Trustee for a GRAT established by Mr. Dunlap, and 461,358 shares held by Union Bank as Trustee under a GRAT. Mr. Dunlap disclaims beneficial ownership of the shares held by Union Financial Services, Inc., except to the extent of his pecuniary interest therein. Mr. Dunlap also disclaims beneficial ownership of the 461,358 shares held by Union Bank as Trustee under the Class B GRAT. A total of 700,000 shares are pledged as collateral for a line of credit which had not been drawn upon as of February 29, 2008.

- (5) Includes 1,586,691 shares owned by Union Financial Services, Inc., of which Mr. Butterfield is a director and president and owns 50.0% of the outstanding capital stock and 461,358 shares held by Union Bank as Trustee for a GRAT established by Mr. Butterfield. Mr. Butterfield disclaims beneficial ownership of the shares held by Union Financial Services, Inc., except to the extent of his pecuniary interest therein. Includes 1,904,315 shares held by the Stephen F. Butterfield Revocable Living Trust, of which Mr. Butterfield is a trustee. A total of 1,904,315 shares are pledged as collateral.
- (6) Includes 88,864 shares jointly owned by Ms. Muhleisen and her spouse, 1,048,501 shares owned by her spouse, 1,304,998 shares held by Union Bank as Trustee for Class A GRATs established by Ms. Muhleisen and her spouse, 646,245 shares held by Ms. Muhleisen's son, 646,245 shares held by Ms. Muhleisen's daughter, and shares that are owned by entities that Ms. Muhleisen may be deemed to control, consisting of: 404,500 shares owned by F&M, of which Ms. Muhleisen is a director and executive vice president and owns or controls 37.3% of the outstanding capital stock, and 2,640,276 shares held by Union Bank for the accounts of miscellaneous trusts, IRAs, and investment accounts at Union Bank with respect to which Union Bank may be deemed to have or share voting or investment power. Ms. Muhleisen, the sister of Michael S. Dunlap, is a director, president, and chief executive officer of and controls Union Bank through F&M. Ms. Muhleisen disclaims beneficial ownership of the shares held for the accounts of miscellaneous trusts, IRAs, and investment accounts at Union Bank, except for her retained beneficial interest in 1,304,998 shares of Class A common stock held in trust on her behalf and on behalf of her spouse under two of the Class A GRATs. She also disclaims beneficial ownership of the shares held by F&M, except to the extent of her pecuniary interest therein. The address for Ms. Muhleisen is c/o Union Bank and Trust Company, P.O. Box 82529, Lincoln, Nebraska 68501.
- (7) Includes 1,688,493 shares held by Union Bank as Trustee under two Class B GRATs. Ms. Muhleisen disclaims beneficial ownership of the shares held by Union Bank as Trustee under the Class B GRATs.
- (8) Includes 235,000 shares held as trustee for the University of Nebraska Foundation, 45,000 shares held by the Union Bank profit sharing plan, 945,492 shares held for the account of Angela L. Muhleisen, 261,053 shares held as trustee for a Class A GRAT established by Jeffrey R. Noordhoek, 27,596 shares held as trustee for a CRUT established by Jeffrey R. Noordhoek, 652,499 shares held as trustee for a Class A GRAT established by Angela L. Muhleisen, 652,499 shares held as trustee for a Class A GRAT established by Ms. Muhleisen's spouse, 1,048,501 shares held for the account of Ms. Muhleisen's spouse, 88,864 shares held for the account of Ms. Muhleisen or her spouse, and a total of 2,071,564 shares held for the accounts of miscellaneous trusts, IRAs, and investment accounts at Union Bank with respect to which Union Bank may be deemed to have or share voting or investment power. Union Bank disclaims beneficial ownership of such shares except to the extent that Union Bank actually has or shares voting power or investment power with respect to such shares. The address for Union Bank is P.O. Box 82529, Lincoln, Nebraska 68501; Attention: Angela L. Muhleisen, President.
- (9) Includes 1,668,493 shares held by Union Bank as Trustee under two Class B GRATs. Union Bank disclaims beneficial ownership of such shares except to the extent that Union Bank actually has or shares voting power or investment power with respect to such shares.
- (10) Includes 284,610 shares owned jointly by Mr. Bottegall and his spouse.
- (11) A total of 174,552 Class A shares are held in a brokerage firm account, which may under certain circumstances involve a pledge of such shares as collateral.
- (12) Includes 121,835 shares owned by Mr. Eicher's spouse. A total of 251,612 Class A shares are pledged as collateral.
- (13) Includes 2,000 shares issued under the Company's Restricted Stock Plan, of which 1,000 shares will fully vest in December 2008 and 1,000 shares will fully vest in December 2009. A total of 44,901 Class A shares are held in a brokerage firm account, which may under certain circumstances involve a pledge of such shares as collateral.

- (14) Includes 50,000 shares owned by Mr. Heimes' spouse. A total of 103,109 Class A shares are held in a brokerage firm account, which may under certain circumstances involve a pledge of such shares as collateral.
- (15) Includes 3,750 shares issued under the Company's Restricted Stock Plan, which vest in equal annual installments of 375 shares from March 2008 through March 2017.
- (16) Includes 2,000 shares issued under the Company's Restricted Stock Plan, of which 1,000 shares will fully vest in December 2008 and 1,000 shares will fully vest in December 2009. Amount also includes 500 shares owned jointly by Mr. Munn and his spouse.
- (17) Includes 686,756 shares held by the Jeffrey R. Noordhoek Trust, 261,053 shares held by Union Bank as Trustee under a Class A GRAT established by Mr. Noordhoek, and 27,596 shares held by Union Bank as Trustee under a Class A CRUT established by Mr. Noordhoek. A total of 690,500 Class A shares are pledged as collateral for a line of credit which had not been drawn upon as of February 29, 2008.
- (18) Includes (i) 3,750 shares issued under the Company's Restricted Stock Plan, which vest in equal annual installments of 375 shares from March 2008 through March 2017, (ii) 808 shares issued under the Company's Restricted Stock Plan which vest in equal installments of 404 shares on each of November 22, 2008 and November 22, 2009, and (iii) 3,000 shares issued under the Company's Restricted Stock Plan which vest in equal installments of 1,000 shares each on April 30, 2008, April 30, 2009 and April 30, 2010.
- (19) Includes 5,880 shares that Mr. Abel has elected to defer delivery of pursuant to the deferral election provisions of the Company's Directors Stock Compensation Plan. Also includes 500 shares owned by Mr. Abel's spouse.
- (20) Includes 8,926 shares that Mr. Henning has elected to defer delivery of pursuant to the deferral election provisions of the Company's Directors Stock Compensation Plan. Also includes 3,090 shares owned by Mr. Henning's spouse.
- (21) Includes 1,200 shares owned by Ms. Rath's husband in an individual retirement account.
- (22) Includes 15,672 shares owned jointly by Mr. Reardon and his spouse in a brokerage firm account, which may under certain circumstances involve a pledge of such shares as collateral.
- (23) Includes 3,961 shares that Mr. Van Horn has elected to defer delivery of pursuant to the deferral election provisions of the Company's Directors Stock Compensation Plan.
- (24) On January 7, 2008, Cedar Hill Capital Partners, LLC ( Cedar Hill ), Charles Cascarilla and Emil Woods filed a Schedule 13G with the Securities and Exchange Commission indicating that they beneficially owned 5.0% of the Company's Class A common stock. The amounts set forth in the table reflect the number of shares reported in the Schedule 13G filed by Cedar Hill and Messrs. Cascarilla and Woods and includes 923,909 shares owned by Cedar Hill Capital Partners Onshore, LP ( Onshore Fund ) and 979,091 shares owned by Cedar Hill Capital Partners Offshore, Ltd. ( Offshore Fund ). Cedar Hill Fund Management, LLC ( General Partner ) is the general partner of the Onshore Fund. Cedar Hill is the investment manager of Onshore Fund and the Offshore Fund. Messrs. Cascarilla and Woods are controlling persons of Cedar Hill. The principal business address for each of the Onshore Fund, the General Partner, Cedar Hill, Mr. Cascarilla and Mr. Woods is 445 Park Avenue, 5<sup>th</sup> Floor, New York, New York 10022. The principal business address of the Offshore Fund is c/o Goldman Sachs (Cayman) Trust, Limited, P.O. Box 896 GT, Harbour Centre, 2nd Floor, George Town, Grand Cayman Cayman Islands, B.W.I.

**Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's executive officers and directors, and persons who own more than ten percent of a registered class of the Company's equity securities, to file with the Securities and Exchange Commission and the New York Stock Exchange reports of ownership of Company securities and changes in reported ownership. Executive officers, directors, and greater than ten percent shareholders are required by SEC rules to furnish the Company with copies of all Section 16(a) reports that they file.

Based solely on a review of the reports furnished to the Company, or written representations from reporting persons that all reportable transactions were reported, the Company believes that during the year ended December 31, 2007 the Company's executive officers, directors, and greater than ten percent beneficial owners timely filed all reports they were required to file under

Section 16(a), except as noted below.

David Byrnes, Todd Eicher, William Munn, Evan Roth and Cheryl Watson, each failed timely to file a required Form 4 with respect to shares received on March 15, 2007 as a result of their electing to receive all or a portion of their annual bonus in shares of stock. The Company's staff failed to make the filings on a timely basis and all of the Form 4 filings with respect to these transactions were made on March 29, 2007.

Kimberly Rath inadvertently filed a Form 3 on November 9, 2007 which omitted 1,200 shares of the Company's Class A Common Stock held by Ms. Rath's husband's individual retirement account. Ms. Rath filed an amended Form 3 on November 14, 2007.

William Munn and Evan Roth each failed to timely file a required Form 4 with respect to shares of stock which were repurchased by the Company on December 14, 2007, to satisfy tax withholding obligations relating to the vesting of shares pursuant to restricted stock awards. The Company's staff failed to make the filings on a timely basis and the Form 4 filings with respect to these transactions were made on January 4, 2008.

Thomas Henning inadvertently failed timely to file two required Form 4s with respect to shares of Class A Common Stock Mr. Henning received on March 15, 2007 and June 15, 2007, in connection with the reinvestment of dividends received on shares of Class A Common Stock held in a brokerage account. A Form 5 was filed on February 14, 2008 to report these transactions.

None of the transactions listed above gave rise to liability for any short-swing profit.

#### **CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

Section 6 of the Company's Code of Conduct requires the disclosure of conflicts of interest (such as related party transactions) by officers and directors of the Company and provides that a relationship which involves or benefits one of the Company's officers or directors is not considered a conflict of interest if the Board of Directors is aware of the relationship and deems it to be immaterial. Accordingly, related party transactions are presented to the Board of Directors for their review and approval or ratification. See Corporate Governance Code of Business Conduct and Ethics for Directors, Officers, and Employees.

Additionally, Section 6 of the Company's Code of Conduct provides that officers and directors shall not have a material financial interest in any company that is selling supplies, furnishing services or otherwise doing business with the Company, unless approved by the Company's executive management.

Some of the Company's directors and members of management beneficially own shares of stock or other ownership interests in other entities with which the Company does business and, in some cases, they serve on the Board of Directors and/or as executive officers of one or more such entities. These related parties include:

*Union Bank and Trust Company and Farmers & Merchants Investment Inc.* Union Bank is controlled by F&M, which owns 81.002% of Union Bank's common stock and 15.4% of Union Bank's non-voting preferred stock. Michael S. Dunlap, the Chief Executive Officer and member of the Board of Directors of the Company, owns or controls 39.8% of the stock of F&M, while Mr. Dunlap's sister, Angela L. Muhleisen, owns or controls 37.3% of such stock. Mr. Dunlap serves as a director and president of F&M and as non-executive chairman of Union Bank. In 2003, Mr. Dunlap resigned as chief executive officer of Union Bank. Ms. Muhleisen serves as director and executive vice president of F&M and as a director, president, and chief executive officer of Union Bank. At February 29, 2008, Union Bank beneficially owned 15.6% of the Company's common stock. F&M does not own 5% or more of the Company's stock; however, the stock holdings of both Union Bank and F&M are deemed to be beneficially owned by both Mr. Dunlap and Ms. Muhleisen, respectively. At February 29, 2008, Mr. Dunlap beneficially owned 37.5% of the Company's outstanding common stock and Ms. Muhleisen beneficially owned 22.2% of the Company's outstanding common stock.

*Union Financial Services, Inc.* Union Financial Services Inc. ( UFS ), is a corporation which is owned 50% by Michael S. Dunlap, a significant shareholder, Chief Executive Officer, Chairman and a member of the Board of Directors of the Company, and 50% by Stephen F. Butterfield, Vice Chairman and a member of the Board of Directors of the Company.

## Transactions with Union Bank

Union Bank is a major source of student loan origination and sales volume for the Company. Pursuant to agreements effective January 1999 and amended February 2005, the Company agreed to purchase certain guaranteed student loans as well as origination rights in guaranteed student loans to be originated in the future, except for loans committed for sale to others. Union Bank will continue to originate student loans, and such guaranteed student loans not previously committed for sale to others are to be sold by Union Bank to the Company in the future. Union Bank also granted to the Company exclusive rights as marketing agent for student loans on behalf of Union Bank, and thus the Company is responsible for marketing expenses with respect to such student loans.

The Company pays Union Bank a purchase price equal to 100% of the outstanding principal balance and accrued and unpaid interest on the loans purchased pursuant to the agreement described in the preceding paragraph, and also reimburses Union Bank for origination fees required to be paid to the Department of Education, for origination costs, and any borrower incentive program costs offered. During 2007, the Company paid \$8.5 million plus the outstanding principal and accrued and unpaid interest of \$0.2 billion to Union Bank for the purchase of student loans. This agreement renews automatically for successive one-year terms unless both parties mutually agree to terminate it.

In 1999, the Company entered into a 360-day commitment with Union Bank to purchase its federally guaranteed student loans, in which Union Bank retained rights pursuant to the agreement discussed previously, at par. This purchase commitment has been renewed annually for successive terms after its inception and was amended in February 2005. The commitment has grown into an obligation to purchase an aggregate amount of up to \$1.25 billion of student loans from Union Bank. This purchase commitment agreement is terminable by either party by the giving of notice of termination at least 90 days prior to the end of the then current 360-day term.

Pursuant to a June 2001 agreement, Union Bank, in its capacity as trustee for various grantor trusts, agreed to purchase from the Company up to \$750 million of participation interests in student loans. In 2007, the Company retained a portion of the interest earned from the participated loans at a rate equal to the difference between the borrower's interest rate on the loans and the 90-day commercial paper rate plus 22.5 basis points. However, the Company also must continue to pay the servicing costs with respect to such participated loans. The Company sold to Union Bank, as trustee, participation interests with balances of \$367.9 million as of December 31, 2007. The Company has the option to purchase the participation interests from these grantor trusts at the end of a 364-day term upon termination of the participation certificate. The agreement automatically renews for additional 364-day terms unless either party gives notice to terminate. The agreement is also terminable by either party upon five business days' notice. This agreement provides beneficiaries of Union Bank's grantor trusts with access to investments in interests in student loans, while providing liquidity to the Company on a short-term basis.

The Company services loans for Union Bank, and, pursuant to a servicing agreement dated January 1, 1998, as amended, the Company charges a standard origination and servicing fee at a level substantially commensurate to those charged to the majority (in terms of volume of loans serviced) of the Company's non-affiliated servicing clients. Union Bank paid the Company fees pursuant to this servicing agreement aggregating \$0.3 million in 2007. The servicing agreement is for a month-to-month term, subject to a removal fee based on the number of loans serviced. The Company may terminate the agreement in the event of a material uncured breach. Pursuant to the February 2005 amendment of agreements with Union Bank discussed previously, the Company began waiving fees charged under the servicing agreement on all loans originated as part of the February 2005 agreement as these loans are funded by and sold to the Company.

On October 13, 2006, the Company purchased its corporate headquarters building and assumed certain existing lease agreements pursuant to which Union Bank leases office and storage space. Union Bank paid the Company approximately \$173,000 for commercial rent and storage income during 2007. The leases assumed by the Company provide for the lease to Union Bank of a total of approximately 15,000 square feet of office and storage space. The lease agreement expires on June 30, 2008, but is subject to options to extend the term of the lease for two periods of an additional five years each. Rental rates are subject to specified annual rental increases and additional rental increases based on increases in the cost of living measured by the National Consumer Price Index.

In December 2007, the Company sold a building to Union Bank for \$600,000. Prior to the sale, the Company leased office space in that building to Union Bank for a total rental amount of approximately \$34,000 during 2007. The Company recognized a gain of approximately \$431,000 upon sale of the building.

The Company has obtained the right to acquire from Union Bank 100% of the participation interests in an unspecified volume of private loans which comply with the Company's internal underwriting criteria (as modified from time to time). On these

participations, the Company earns 100% of the borrower interest rate, less servicing costs thereon in an amount equal to 1% per annum of the aggregate average outstanding principal balances of such participations. The parties mutually agree upon the volume of such participations from time to time. In 2007, the Company did not purchase any participation interests in private loans pursuant to this agreement. The agreement is subject to termination upon 30 days' notice by either party.

The Company has entered into an agreement to assist Union Bank in marketing and providing program operations related to certain college savings plans (the "College Savings Plans") under Section 529 of the Internal Revenue Code. Union Bank has agreed to pay the Company fees in an amount equal to 50% of the net profits, if any, associated with Union Bank's program management agreement with the College Savings Plans. Union Bank is entitled to a fee as program manager pursuant to its program management agreement with the College Savings Plans and is not entitled to other payments pursuant to that agreement. The Company has agreed to share 50% of the expenses relating to the program, up to a capped amount of \$1.25 million over the life of the agreement, as well as 50% of mutually agreeable costs related to the program operations, if any, which exceed the aggregate of \$1.25 million. In 2007, the Company received a net fee of \$3.1 million arising from this agreement. This consulting and services agreement terminates when Union Bank's program manager agreement with the College Savings Plans terminate, in approximately five years.

Nelnet Capital, LLC, a subsidiary of Nelnet, Inc. ("Nelnet Capital"), serves as distributor on behalf of Union Bank for all advisor-sold accounts with the College Savings Plans. Nelnet Capital is entitled to approximately 10 basis points of plan assets pursuant to this agreement. Either party upon 30 days' notice may terminate this agreement. Nelnet Capital also serves as distributor on behalf of Union Bank for the TD Waterhouse accounts within the College Savings Plans. This agreement terminates upon termination of the TD Waterhouse distribution agreement for the College Savings Plans. Nelnet Capital received payments aggregating approximately \$295,000 from these agreements in 2007.

In March 2001, Nelnet Capital hired Adminisystems, Inc., a subsidiary of F&M, to perform certain administrative services in connection with the investment portfolios maintained by the College Savings Plans. The fees to be paid under this agreement equal 40% of the distribution fees that Nelnet Capital receives with respect to certain accounts placed with the College Savings Plans. Nelnet Capital paid Adminisystems, Inc. approximately \$227,000 in 2007. Any party upon 60 days' notice may terminate this agreement. In addition, the Company paid Adminisystems approximately \$13,000 for other services provided in 2007.

The Company invests in student loan-backed investment securities from time to time by establishing several grantor trusts with Union Bank as trustee for Union Bank's Short Term Federal Investment Trust. As a grantor, the Company places cash into the trust account, and Union Bank uses such cash to acquire interests in student loan-backed investment securities on the Company's behalf. The Company earns the yield on the securities purchased by the trust and pays to Union Bank a trustee fee based on amounts invested and upon the type of investment asset being acquired in the trust account. As of December 31, 2007, the Company had approximately \$72.7 million invested in these trusts or deposited at Union Bank in operating accounts. Union Bank has created similar Short Term Federal Investment Trusts with non-affiliated trust beneficiaries, and the fees and terms applicable to the trust agreements it has entered into with the Company are the same as the fees charged by Union Bank to the majority (in terms of assets) of non-affiliated persons. As trustee, Union Bank has agreed to return the Company's funds invested in these trusts or assets held on the Company's behalf in these trusts upon 30 days' notice from the Company at any time and thus terminate the trusts. The Company utilizes these trust arrangements as a short-term investment facility. Interest income earned by the Company on the amounts invested in these trusts was \$7.0 million in 2007.

The Company and Union Bank have an employee sharing arrangement with respect to a small group of employees. The arrangement requires each counter party receiving services from any such employee to pay for the share of the employee's salary and payroll equal to the approximate percentage of such employee's time devoted to such recipient. This agreement renews automatically for one-year terms unless the parties mutually agree not to renew. During 2007, Union Bank paid the Company a net amount of approximately \$28,000 under this agreement.

Union Bank has issued a letter of credit for the benefit of the Company, dated February 25, 2005 and amended on May 24, 2006, in the amount of \$239,000. This letter of credit was increased to \$300,000 by an amendment dated January 10, 2008. Union Bank charged no fee for providing this letter of credit.

The Company has retained Union Bank to administer certain 401(k) profit sharing plans pursuant to a series of agreements. The fees charged by Union Bank are commensurate with those Union Bank charges to other employee benefit customers. Beginning in 2007, the fees paid to Union Bank to administer the plan are paid by the plans' participants. Total fees paid in 2007 to Union Bank by the plans' participants was approximately \$312,000. These agreements may be terminated upon 60 days' notice from either party.

Union Bank permits Nelnet Capital to gain certain access to Union Bank customers by permitting marketing efforts in Union Bank facilities. Nelnet Capital paid Union Bank 90% of its gross commissions, after deducting trading and closing expenses, which was approximately \$129,000 in 2007.

Nelnet Capital has an agreement with Union Bank to provide mortgage loan consulting services. Nelnet Capital received fees for these services of approximately \$139,000 in 2007.

In October 2002, Nelnet Capital agreed to act as the principal underwriter for the Stratus Funds, Inc., or Stratus Funds, a group of mutual funds associated with Union Bank. Nelnet Capital did not receive any fees in 2007 pursuant to this agreement. This agreement has a one-year term that renews automatically, with the Stratus Funds' prior approval, for successive one-year terms unless terminated by a vote of the majority of the Board of Directors, including a majority of disinterested directors, of the Stratus Funds or a majority of its shareholders. Nelnet Capital may also terminate this agreement on 60 days' notice. Two mutual funds affiliated with the Stratus Funds are investment options under the Company's 401(k) plan.

As of December 31, 2007, the Company was indebted to Union Bank and Trust for \$57.3 million in notes the Company used to invest in student loan assets via a participation agreement. The largest aggregate amount of principal outstanding on these notes during 2007 was \$115.7 million, which was outstanding as of January 17, 2007. The Company paid \$3.8 million in interest payments and \$99.1 million in principal payments related to these notes during 2007. The Company pays interest on these notes based on the three-month commercial paper rate plus 40 basis points, which was 4.65% as of December 31, 2007. As of February 28, 2008, the Company was indebted to Union Bank and Trust for \$69.1 million.

#### **Transactions with Farmers & Merchants and Its Related Parties**

The Company has provided to The First Marblehead Corporation, or First Marblehead, and each special purpose entity, or SPE, named in the agreement a guarantee of liabilities of First National Bank Northeast, or First National, pursuant to indemnity covenants given by First National to First Marblehead with respect to a sale of loans from First National to First Marblehead. Mr. Dunlap is a director of First National, and F&M owns, indirectly, approximately 25% of the outstanding capital stock of that financial institution. The Company's liability under such guarantee is limited to an aggregate amount of \$10 million, plus costs incurred by First Marblehead with respect to recovery efforts. In consideration for such guarantee, First Marblehead agreed to pay or cause a SPE to pay the Company the sum of 1% of the outstanding balance of private loans sold by First National to First Marblehead. This guarantee remains in effect until First Marblehead and the SPEs receive written notice from the Company to discontinue the guarantee or until all obligations of First National pursuant to its indemnity of First Marblehead are paid in full. The Company earned approximately \$28,000 in 2007 from this agreement and has not paid out any sums pursuant to the indemnity covenants thereunder.

#### **Transactions with Union Financial Services**

In December 2007, the Company approved an assignment of a lease to UFS. The lease is for approximately 3,100 square feet at a current base rent of \$23.50 per square foot per year. The lease provides that base rent shall be subject to specified increases through the termination date of the lease on August 31, 2010.

The Company owns a 74.753% interest in an aircraft due to the frequent business travel needs of the Company's executives and the limited availability of commercial flights in Lincoln, Nebraska, where the Company's headquarters are located. UFS owns the remaining 25.247% interest in the same aircraft. The aircraft joint ownership agreement between the Company and UFS for this aircraft has a fixed term ending September 30, 2009, at which time UFS will have the right to require the Company to purchase UFS's interest in the aircraft for an amount equal to UFS's pro rata portion (determined on the basis of its ownership percentage) of the aircraft's fair market value at that time. If the term of the joint ownership agreement is not extended by agreement of the Company and UFS, the aircraft must be sold and the net proceeds from the sale distributed to the Company and UFS in proportion to their ownership percentages. Under an aircraft maintenance agreement among the Company, UFS, and an unrelated aviation service company, a total of approximately \$225,000 in management fees was paid to the service company in 2007, which amount was allocated to the Company and UFS based on their respective ownership percentages. The maintenance agreement also provides that the Company must pay for all flight operating expenses for each flight conducted on its behalf, with a corresponding obligation by UFS, and that both the Company and UFS must pay their pro-rata portion, based on actual use percentages, of the cost of maintaining the aircraft.

## Other Related Party Transactions

The Company provided a \$1.0 million operating line of credit to Premiere Credit of North America, LLC ( Premiere ), an entity with 50% interest owned by the Company through September 28, 2007. As of December 31, 2006, Premiere owed the Company approximately \$379,000 under this line of credit. This line of credit is automatically renewable for 1 year terms. In addition, Premiere provided the Company with certain collection services. During the period from January 1, 2007 through September 28, 2007 (the date the Company sold Premiere), the Company incurred collection fee expenses of approximately \$194,000 for these services. Cheryl E. Watson, the former Executive Director and Chief Communications Officer of the Company, and Matthew D. Hall, Executive Director and Chief Operating Officer of the Company's Education Services Division, were managers of Premiere.

The Company has entered into an agreement with a package delivery company pursuant to which the Company and other entities under common control with the Company, including Union Bank, Union Mortgage, Union Title Company (collectively the Union Entities ), receive discounted delivery rates. Michael Dunlap and Angela Muhleisen are officers, directors, or principal shareholders of the Union Entities. The Company and the Union Entities are invoiced separately for services under the agreement. The Company and the Union Entities spent an aggregate of \$17,000 for shipments during 2007 under the terms of the agreement and received aggregate discounts equal to \$17,000. The Union Entities were removed from this contract effective July 1, 2007.

On May 31, 2007, the Company entered into an agreement with Packers Service Group, Inc. ( Packers ), under which the Company agreed to acquire Packers in exchange for the issuance of 10,594,178 shares of the Company's Class A common stock to the shareholders of Packers. Packers was owned by 30 individual shareholders, the most significant of whom included Michael S. Dunlap, an executive officer, member of the Board of Directors, and a substantial shareholder of the Company, and Angela L. Muhleisen, a substantial shareholder of the Company and a sister of Mr. Dunlap. Packers was primarily a holding company, whose principal asset was an investment in 11,068,604 shares of the Company's Class A common stock. Upon acquisition, these shares remained legally outstanding, non-voting shares; however, for accounting purposes, these shares are not included in total shares outstanding. Packers also owned all of the outstanding capital stock of First National Life Insurance Company of the USA ( First National Life ), which writes credit life and credit accident and health insurance policies. First National Life's net assets as of May 31, 2007 were \$1.6 million. In addition, Packers had outstanding debt of \$14.1 million, which the Company assumed. The Company accounted for this transaction as exchanges of assets or equity instruments between enterprises under common control and, accordingly, recorded the assets acquired and liabilities assumed from this transaction at Packer's historical carrying values. This transaction resulted in a \$12.5 million decrease to the Company's consolidated shareholders' equity and a decrease of 474,426 shares of the Company's Class A common stock outstanding.

On July 19, 2007, the Company paid \$15.9 million to David J. Byrnes to redeem 238,237 shares of the Company's Class A common stock that were subject to put option agreements exercisable in February 2010 at \$83.95 per share. These shares were issued by the Company in February 2006 in consideration for the purchase of the remaining 20% interest of FACTS Management Co. Mr. Byrnes was Chief Executive Officer of Nelnet Enrollment Solutions (a division of the Company) until his retirement from this position effective June 30, 2007.

As of December 31, 2007, John R. Kline was indebted to the Company for \$505,000 pursuant to the Company's Employee Stock Purchase Loan Plan. The largest aggregate amount of principal outstanding on this note during 2007 was \$500,000, which was outstanding from October 31, 2007 (the effective date of the loan agreement) through February 13, 2008 (the date of the loan payoff). Interest in the amount of approximately \$5,000 was accrued during 2007 at a rate of 3-month LIBOR plus 50 basis points. Effective February 15, 2008, Mr. Kline was designated as an executive officer of the Company and obligated under Section 16(a) of the 1934 Act to report his beneficial ownership of the Company's stock to the SEC. As a result of this change in status and pursuant to the Company's Employee Stock Purchase Loan Agreement, the maturity date of the note was automatically accelerated to February 13, 2008. The shares of the Company's stock purchased with the loan proceeds were surrendered effective February 13, 2008; the fair market value of the stock sold to the Company of \$270,000 was applied to the principal balance of the note. The remaining \$230,000 of principal and \$8,500 of accrued interest was forgiven by the Company and reported as income for Mr. Kline.

## AUDIT COMMITTEE REPORT

### Report of the Board Audit Committee

The Audit Committee of the Board of Directors (the Committee ) is responsible for monitoring the integrity of the Company's consolidated financial statements, the Company's system of internal controls, the Company's risk management, the qualifications and independence of the Company's independent auditor, the performance of the Company's internal and independent auditors, and the Company's compliance with legal and regulatory requirements. The Committee has the sole authority and responsibility to

select, determine the compensation of, evaluate, and, when appropriate, replace the Company's independent auditors. The Committee is comprised of three independent directors and operates under a written charter adopted by the Board, a copy of which is available at [www.nelnetinvestors.com](http://www.nelnetinvestors.com). The Board has determined that each Committee member is independent under the standards of director independence established under the Company's Corporate Governance Guidelines and the NYSE listing requirements and is also independent for purposes of Section 10A(m)(3) of the Securities Exchange Act of 1934.

Management is responsible for the financial reporting process, including the system of internal controls, for the preparation of consolidated financial statements in accordance with generally accepted accounting principles and for the report on the Company's internal control over financial reporting. The Company's independent auditors are responsible for auditing those financial statements and expressing an opinion as to their conformity with generally accepted accounting principles and for attesting to management's report on the Company's internal control over financial reporting. The Committee's responsibility is to oversee the financial reporting process and to review and discuss management's report on the Company's internal control over financial reporting. The Committee is not, however, professionally engaged in the practice of accounting or auditing and does not provide any expert or other special assurance as to such financial statements concerning compliance with laws, regulations, or generally accepted accounting principles or as to auditor independence. The Committee relies, without independent verification, on the information provided to it and on the representations made by management and the independent auditors.

The Committee held ten meetings during 2007. The meetings were designed, among other things, to facilitate and encourage communication among the Committee, management, the internal auditors, and the Company's independent auditors, KPMG LLP. The Committee discussed with the Company's internal auditors and KPMG LLP the overall scope and plans for their respective audits. The Committee met with the internal auditors and KPMG LLP, with and without management present, to discuss the results of their examinations and their evaluations of the Company's internal controls. The Committee also met with senior management personnel.

The Committee reviewed and discussed the Company's guidelines, policies, and procedures for risk assessment and risk management and the major risk exposures of the Company and its business units, as appropriate. The Committee reviewed and discussed with management its reports on risk management. The Committee reviewed the scope of the internal audit plan and reviewed the results of completed internal audits. The Committee approved the 2007 budget for internal audit and the Committee reviewed and discussed the Committee's charter, policies, and practices.

The Committee reviewed and discussed the audited consolidated financial statements for the year ended December 31, 2007 with management, the internal auditors, and KPMG LLP. The Committee reviewed and discussed the critical accounting policies as set forth in the Company's Annual Report on Form 10-K. The Committee reviewed and discussed with management, the internal auditors, and KPMG LLP management's annual report on the Company's internal control over financial reporting and KPMG's audit report over the effectiveness of internal control over financial reporting. The Committee also discussed with management, internal auditors, and KPMG LLP the process used to support certifications by the Company's Chief Executive Officer and Chief Financial Officer that are required by the Securities and Exchange Commission (the SEC) and the Sarbanes-Oxley Act of 2002 to accompany the Company's periodic filings with the SEC and the processes used to support management's annual report on the Company's internal control over financial reporting.

The Committee also discussed with KPMG LLP matters that independent accounting firms must discuss with audit committees under generally accepted auditing standards and standards of the Public Company Accounting Oversight Board, including, among other things, matters related to the conduct of the audit of the Company's consolidated financial statements and the matters required to be discussed by Statement on Auditing Standards No. 61, *Communication with Audit Committees*. This review included a discussion with management and KPMG LLP as to the quality (not merely the acceptability) of the Company's accounting principles, the reasonableness of significant estimates and judgments, and the disclosures within the Company's consolidated financial statements, including the disclosures relating to critical accounting policies.

KPMG LLP also provided to the Committee the written disclosures and the letter required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) and represented that it is independent from the Company. The Committee discussed with KPMG LLP their independence from the Company. When considering KPMG's independence, the Committee considered if services they provided to the Company beyond those rendered in connection with their audit of the Company's consolidated financial statements, reviews of the Company's interim condensed consolidated financial statements included in its Quarterly Reports on Form 10-Q, and KPMG's audit over the effectiveness of internal control over financial reporting were compatible with maintaining their independence. The Committee also reviewed, among other things, the audit, audit-related, and tax services performed by, and the amount of fees paid for such services to KPMG LLP. The Committee received regular updates on the amount of fees and scope of audit, audit-related, and tax services provided.

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Based on the Committee's review and these meetings, discussions, and reports, and subject to the limitations on the Committee's role and responsibilities referred to previously and in the Audit Committee Charter, the Committee recommended to the Board that the Company's audited consolidated financial statements for the year ended December 31, 2007 be included in the Company's 2007 Annual Report on Form 10-K for filing with the SEC.

The Committee has also selected KPMG LLP as the Company's independent auditors for the year ending December 31, 2008 and is presenting the selection to the shareholders for ratification.

Respectfully submitted,

Brian J. O'Connor, Chairman  
Thomas E. Henning  
James H. Van Horn

### PROPOSAL 2 APPOINTMENT OF INDEPENDENT AUDITOR

The Audit Committee selects the Company's independent auditor. This proposal is put before the shareholders because the Board believes that it is good corporate practice to seek shareholder ratification of the selection of the independent auditor. If the appointment of KPMG LLP is not ratified, the Audit Committee will evaluate the basis for the shareholders' vote when determining whether to continue the firm's engagement.

The Board of Directors of the Company recommends a vote FOR the ratification of the appointment of KPMG LLP as independent auditors for 2008.

The affirmative vote of the holders of a majority of the shares of common stock present or represented and entitled to be voted at the Annual Meeting is required to ratify the appointment of KPMG LLP. Unless marked to the contrary, proxies will be voted FOR the ratification of the appointment of KPMG LLP as independent auditors for 2008.

Representatives of KPMG LLP are expected to attend the Annual Meeting and to respond to appropriate questions from shareholders present at the meeting and will have an opportunity to make a statement if they desire to do so.

#### Independent Accountant Fees and Services

Aggregate fees for professional services rendered by KPMG LLP for the years ended December 31, 2007 and 2006 are set forth below.

	2007	2006
Audit fees	\$ 909,200	750,398
Audit-related fees	827,369	884,049
Tax fees	354,965	341,099
All other fees	1,500	1,500
Total	\$ 2,093,034	1,977,046

Audit fees were for professional services rendered for the audits of the consolidated financial statements of the Company and subsidiary audits, the audit on the effectiveness of the Company's internal control over financial reporting, issuance of comfort letters, consents, income tax provision procedures, and assistance with review of documents filed with the Securities and Exchange Commission.

Audit-Related fees were for assurance and other services related to service provider compliance reports, employee benefit plan audits, agreed-upon procedures, and consultations concerning financial accounting and reporting standards.

Tax fees were for services related to tax compliance and planning.



All other fees represent the amount paid by the Company for access to an on-line accounting and tax reference tool.

The Audit Committee's pre-approval policy and procedures are outlined in its charter. The Audit Committee has the sole authority to appoint, retain, and terminate the Company's independent auditor, which reports directly to the Audit Committee. The Audit Committee is directly responsible for the evaluation, compensation (including as to fees and terms), and oversight of the work of the Company's independent auditor (including resolution of disagreements between management and the independent auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review, or attestation services for the Company. All related fees and costs of the independent auditor, as determined by the Audit Committee, are paid promptly by the Company in accordance with its normal business practices. All auditing services and permitted non-audit services performed for the Company by the independent auditor, including the services described above, are pre-approved by the Audit Committee, subject to applicable laws, rules, and regulations. The Audit Committee may form and delegate to a subcommittee the authority to grant pre-approvals with respect to auditing services and permitted non-auditing services, provided that any such grant of pre-approval shall be reported to the full Audit Committee at its next meeting.

**PROPOSAL 3 - APPROVAL OF AMENDMENT TO THE DIRECTORS STOCK COMPENSATION PLAN TO INCREASE THE AUTHORIZED NUMBER OF SHARES OF CLASS A COMMON STOCK THAT MAY BE ISSUED UNDER THE PLAN FROM A TOTAL OF 100,000 SHARES TO A TOTAL OF 400,000 SHARES**

**Background**

The Board of Directors has approved an amendment to the Nelnet, Inc. Directors Stock Compensation Plan (the Directors Stock Plan) to increase the number of shares of the Company's Class A common stock that may be issued under the Directors Stock Plan from a total of 100,000 shares to a total of 400,000 shares.

The Directors Stock Plan was originally adopted by the Board of Directors in October 2003.

The Directors Stock Plan provides for the issuance of shares of Class A common stock to non-employee members of the Board of Directors electing to receive annual retainer fees in shares of stock instead of cash and currently allows for the issuance of a total of 100,000 shares of Class A Common Stock pursuant to share elections by non-employee members of the Board of Directors.

As of March 31, 2008, there were 28,647 remaining shares of Class A Common Stock available for issuance in connection with future awards under the Directors Stock Plan. The Company currently anticipates granting awards during 2008 with respect to a total of approximately 48,048 shares of Class A Common Stock to non-employee members of the Board of Directors who have elected to receive their annual retainer in shares of Common Stock (based on total annual retainer fees of \$480,000 and using a closing price for the Company's Class A common stock on March 31, 2008 of \$11.75; provided, however, that the actual number of shares will be based on the closing price of the Company's Class A common stock on the date of issuance). This includes 320,000 shares issuable as share units under the Directors Stock Plan for directors which have made elections to defer the receipt of shares until termination of the director's service on the board.

The Board of Directors has approved the amendment to the Directors Stock Plan to increase the number of shares authorized to be issued under the Directors Stock Plan in order to ensure that the Company will have a sufficient number of shares available under the Directors Stock Plan for anticipated awards to directors during 2008, 2009, and 2010.

The Directors Stock Plan is intended to advance the interests of the Company and its shareholders by providing a means to attract, retain and motivate members of the Board of Directors upon whose judgment, initiative, and efforts the continued success, growth and development of the Company is dependent.

The Company is seeking shareholder approval of the amendment to the Directors Stock Plan in order to comply with applicable New York Stock Exchange rules.

**Summary of the Plan**

The following is a summary of the principal features of the Directors Stock Plan, a copy of which is attached to this proxy statement as Appendix A. In addition, the Company will furnish a copy of the Directors Stock Plan to any shareholder upon written request to the Company's Corporate Secretary at Nelnet, Inc., 121 South 13<sup>th</sup> Street, Suite 201, Lincoln, Nebraska 68508.

*Total Shares Reserved for Issuance*

Subject to equitable adjustment in the event of any stock split, stock divided, merger, reorganization consolidation, spin-off, repurchase, share exchange or other similar transaction, the total number of shares of Class A common stock reserved for issuance in connection with awards under the Directors Stock Plan is currently 100,000, and after giving effect to the amendment will be 400,000. Any shares of Class A common stock issued pursuant to an award may be either authorized and unissued shares or treasury shares, including shares acquired by purchase in the open market or in private transactions.

*Administration*

The Directors Stock Plan is administered by the Board of Directors. The Board of Directors manages the plan by interpreting the plan, prescribing rules and regulations relating to the plan, and making all other determinations necessary or advisable for the implementation and administration of the plan. The Directors Stock Plan provides that the Board of Directors' interpretation and construction of the plan are conclusive and binding on all persons. In its capacity as plan administrator, the Board of Directors acts as manager of the plan and not as trustee.

Members of the Board of Directors are elected on an annual basis by the shareholders. The Company's articles of incorporation and bylaws provide that a board member may be removed at any time, with or without cause, by the affirmative vote of the holders of a majority of the voting power of all shares of capital stock of the Company then entitled to vote generally in the election of directors, voting together as a single class.

*Eligibility and Participation*

All Non-Employee members of the Company's Board of Directors are eligible to participate in the plan. As of April 21, 2008, there were seven Non-Employee directors. During the year ended December 31, 2007, five directors received shares under the Directors Stock Plan. For the year ending December 31, 2008, seven Non-Employee directors have elected to receive their annual retainers in shares of stock under the Directors Stock Plan, including five Non-Employee directors who have elected to defer receipt of their shares until termination of their service on the Board of Directors.

*Share Election*

Each eligible director may make an election in writing on or before each December 31 to receive the director's annual retainer fees payable in the following plan year in the form of shares of stock instead of cash. Unless the director makes a deferral election as discussed below, any shares elected will be payable at the time cash retainer fees are otherwise payable. The number of shares distributed will be equal to the amount of the annual retainer fee otherwise payable on such payment date divided by 85% of the fair market value of a share for such payment date. For purposes of the plan, a plan year means the calendar year.

The fair market value of a share on a particular date is computed under the Directors Stock Plan as the closing selling price of a share on the day preceding the date in question, as reported on the primary stock exchange or other market in which the shares are traded. If there is no reported sale of shares on such exchange or market on such date, then the fair market value is computed as the closing selling price on the exchange or market on the last preceding date for which such price is reported.

A director who is first elected or appointed to the Board of Directors may make an election under the plan within 30 days of such election or appointment to the board with respect to annual retainer fees payable after the date of the election.

Any share election made under the Directors Stock Plan will remain in effect unless and until a new election is made in accordance with the provisions of the plan.

*Deferral Election*

A director who has elected to receive shares of stock as discussed above may also make an irrevocable election on or before the December 31 immediately preceding the beginning of a plan year, by written notice to the Company, to defer delivery of all or a designated percentage of the shares otherwise payable as his or her annual retainer for service as a director for the plan year. A director who is first elected or appointed to the board may make an election under the plan within 30 days of such election or appointment to the board with respect to annual retainer fees payable after the date of the election.

Deferrals of shares under the Directors Stock Plan must be reaffirmed by each director on an annual basis and will continue until



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the director notifies the Company in writing, on or before the December 31 immediately preceding the commencement of any plan year, that he or she wishes to change his or her election under the plan.

All shares which a director elects to defer under the Directors Stock Plan will be credited in the form of share units to a bookkeeping account maintained by the Company in the name of the director. Each such unit will represent the right to receive one share at the time determined under the terms of the plan. The Company does not intend to send reports on a regular basis to participants in the plan as to the amount and status of their accounts.

As of each date on which a cash dividend is paid on shares, there will be credited to each account that number of units determined by:

multiplying the amount of such dividend per share by the number of units in such account; and

dividing the total so determined by the fair market value of a share on the date of payment of such cash dividend.  
The additions to a director's account under this provision will continue until the director's account is fully paid.

The account of a director will be distributed (in the form of one share for each share unit) either:

in a lump sum at the time of termination of the director's service on the board; or

in up to five annual installments commencing at the time of termination of the director's service on the board, as elected by the director.

Each director's distribution election must be made in writing within 30 days after the director first becomes eligible to participate in the plan. However, a director may make a new distribution election with respect to the entire portion of his or her account subject to this provision so long as such election is made at least one year in advance of the director's termination of service on the board and, provided further, that following such new election, no distribution may occur under this provision until the fifth anniversary following the date such payment would otherwise have been made. In the case of an account distributed in installments, the amount of shares distributed in each installment will be equal to the number of share units in the director's account subject to such installment distribution at the time of the distribution divided by the number of installments remaining to be paid.

In the event that any stock dividend, recapitalization, stock split, reorganization or similar transaction affects the shares such that they are increased or decreased or changed into or exchanged for a different number or kind of shares, other securities of the Company or of another corporation or other consideration, then in order to maintain the proportionate interest of the directors and preserve the value of the directors share units, (i) there will automatically be substituted for each share unit a new unit representing the number and kind of shares, other securities or other consideration into which each outstanding share will be changed, and (ii) the number and kind of shares available for issuance under the Directors Stock Plan will be equitably adjusted in order to take into account such transaction or other change. The substituted units will be subject to the same terms and conditions as the original share units.

### *Unfunded Status of Awards*

The Directors Stock Plan is intended to constitute an unfunded plan for incentive and deferred compensation. With respect to any payments not yet made to a participant under a deferral election, nothing contained in the Directors Stock Plan will give any such participant any rights that are greater than those of a general unsecured creditor of the Company. However, the Company may authorize the creation of trusts or make other arrangements to meet its obligations under the plan to deliver cash, shares or other property pursuant to any award, which trusts or other arrangements are to be consistent with the unfunded status of the plan unless the Company otherwise determines with the consent of each affected participant.

### *Assignments*

The right of a director to amounts subject to a deferral election are not subject to assignment or other disposition by him or her other than by will or the laws of descent and distribution. In the event that a director makes a prohibited disposition, the Company may disregard the same and discharge its obligation under the Directors Stock Plan by making payment or delivery as though no such disposition had been made.

*Amendment*

The Board of Directors may amend, suspend or terminate the Directors Stock Plan without the consent of the Company's shareholders or participants in the plan, except that any such amendment, suspension or termination will be subject to the approval of the Company's shareholders if such shareholder approval is required by any U.S. federal law or regulation or the rules of any stock exchange or automated quotation system on which the Company's stock may then be listed or quoted. However, no amendment, suspension or termination of the Directors Stock Plan may impair or adversely affect the rights of a participant under any award previously granted to him or her or compensation previously deferred by him or her under the plan without the consent of the affected participant.

*Duration*

The Directors Stock Plan will terminate as to future awards when no shares remain available for issuance under the plan, and the Company has no further obligations with respect to any compensation deferred under the plan.

**Principal Federal Income Tax Consequences**

The principal United States federal income tax consequences to participants and the Company with respect to awards of restricted shares or restricted stock units made to selected employees under the Directors Stock Plan are summarized below. This summary is based on the Internal Revenue Code of 1986 and IRS regulations in effect as of the date of this proxy statement.

*Receipt of Shares under Share Election*

If a director makes a share election but not a deferral election, he or she must include in gross taxable income as compensation an amount equal to the fair market value of the shares distributed to him or her when the shares are distributed on the annual retainer fee payment date. This amount will be taxable at ordinary income rates. The Company will be entitled to a corresponding income tax deduction for compensation expense.

*Receipt of Shares under Deferral Election*

If a director makes a share election and a deferral election, he or she will not be subject to income tax when share units are established and credited under the deferral election, but he or she must include in gross taxable income as compensation an amount equal to the fair market value of the shares distributed to him or her when the shares are distributed in payment of the share units in accordance with the distribution provisions he or she elected. The Company will be entitled to a corresponding income tax deduction for compensation expense.

*Disposition of Shares*

If a director disposes of shares for more than the tax basis for such shares, the difference between the amount received and such tax basis will be treated as long-term or short-term capital gain, depending on whether he or she held the shares for more than one year. The tax basis for shares distributed to him or her under the plan will be equal to the amount includable in his or her gross taxable income as compensation with respect to his or her receipt of the shares. The holding period for shares distributed to him or her under the plan will normally begin on the day that the shares are distributed to him or her.

If a director disposes of the shares for less than the tax basis for such shares, the difference between the amount received and such tax basis will be treated as long-term or short-term capital loss, depending on whether he or she held the shares for more than one year.

*Other Tax Considerations*

The Directors Stock Plan is intended to comply with the requirements related to the timing of elections, distributions and funding of deferred compensation under Section 409A of the Internal Revenue Code of 1986. If the Directors Stock Plan does not comply with these requirements, amounts deferred under the Directors Stock Plan would be includable in income in the year vested and also would be subject to an additional tax equal to 20% of the compensation required to be included in gross income, plus interest.

The Directors Stock Plan is not intended to be a tax-qualified retirement plan under Section 401(a) of the Internal Revenue Code of 1986.

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The discussion set forth above is intended only as a summary and does not purport to be a complete discussion or analysis of all potential tax consequences relevant to recipients of awards under the Directors Stock Plan. The discussion does not include the tax treatment of awards under the Directors Stock Plan in connection with a merger, consolidation, or similar transaction. Such treatment will depend on the terms of the transaction and the method of dealing with the awards in connection therewith.

### Securities Registration

The Company plans to register under the Securities Act of 1933 the issuance of the additional shares of stock to be authorized under the Directors Stock Plan. Accordingly, participants will be able to sell shares issued under the Directors Stock Plan, subject to other requirements of the Securities Act of 1933.

### New Plan Benefits

Although the number of shares to be issued under the Directors Stock Plan are not currently determinable since such grants will be based upon the price of the Company's Class A Common Stock at the time of issuance, the following table provides information with respect to members of the Company's Board of Directors who have elected to receive their 2008 annual retainers in shares of stock (based upon the closing price of the Company's Class A Common Stock on March 31, 2008) and members of the Company's Board of Directors who have deferred receipt of their shares until the termination of their service on the board:

Name and Position	Directors Stock Compensation Plan	Dollar value (\$)	Number of shares/units <sup>(1)</sup>
Michael S. Dunlap Chief Executive Officer			
Stephen F. Butterfield Vice Chairman			
Terry J. Heimes Chief Financial Officer			
Jeffrey R. Noordhoek President			
David A. Bottegai <sup>(2)</sup> Former Chief Executive Officer, Nelnet Education Services, a division of Nelnet, Inc.			
Matthew D. Hall Chief Operating Officer, Nelnet Education Services, a division of Nelnet, Inc.			
Executive Officer Group			
Non-Executive Director Group		480,000	48,048
Non-Executive Officer Employee Group			

(1) Based upon the closing price of the Company's Class A Common Stock on March 31, 2008 which was \$11.75. The issue price is equal to 85% of the fair market value of the shares on the date of issuance.

(2)

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Mr. Bottegal terminated his employment with the Company as Chief Executive Officer of Nelnet Education Services effective December 31, 2007.

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See also Corporate Governance Director Compensation Table for Fiscal Year 2007.

### Equity Compensation Plan Information

The following table summarizes, as of December 31, 2007, information about compensation plans under which equity securities are authorized for issuance. The table does not reflect the amendment to the Directors Stock Plan adopted by the Board of Directors in 2008 to increase the number of authorized shares of Class A Common Stock from a total of 100,000 shares to a total of 400,000 shares, which amendment is being submitted for approval of the shareholders as discussed in this proxy statement.

Plan category	Number of shares to be issued upon exercise of outstanding options, warrants, and rights (a)	Weighted-average exercise price of outstanding options, warrants, and rights (b)	Number of shares remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by shareholders	0	\$ 0	3,065,206
Equity compensation plans not approved by shareholders	0	\$ 0	0
<b>Total</b>	<b>0</b>	<b>\$ 0</b>	<b>3,065,206<sup>(1)</sup></b>

(1) Includes 1,374,339, 28,778, 801,185, and 860,904 shares of Class A Common Stock remaining available for future issuance under the Nelnet, Inc. Restricted Stock Plan, Nelnet, Inc. Directors Stock Compensation Plan, Nelnet, Inc. Employee Share Purchase Plan, and Nelnet, Inc. Employee Stock Purchase Loan Plan, respectively.

### Recommendation of the Board of Directors

The Board of Directors has unanimously approved the amendment, and unanimously recommends that the Company's shareholders vote FOR approval of the amendment to the Directors Stock Compensation Plan to increase the number of shares of the Company's Class A Common Stock that may be issued under the Directors Stock Plan from a total of 100,000 shares to a total of 400,000 shares.

### PROPOSAL 4 - A SHAREHOLDER PROPOSAL TO PURSUE THE MERGER OF THE COMPANY'S EXISTING DUAL SHARE CLASS STRUCTURE INTO A SINGLE CLASS OF COMMON STOCK

The following proposal was submitted for inclusion in this proxy statement by KIP Presidium Fund L.P., located at 3201 Enterprise Parkway, The Lakepoint Building, Suite 460, Cleveland, Ohio 44122, which advised the Company that it was the beneficial owner of 276,157 shares of the Company's Class A common stock as of October 31, 2007:

Whereas, the Company currently has outstanding two classes of common stock; and

Whereas, the market value of the Company's Class A common stock has declined precipitously from its high of \$43.47 in January of 2006; and

Whereas, research indicates that the trading performance of publicly-traded companies with multiple share class structures does not equal the performance of peer companies with single share class structures; and

Whereas, the proponent believes that a single share class structure would provide the opportunity for improved governance, increased transparency, and greater flexibility in the capital markets, allowing the Company to remove a potential barrier in terms of unlocking the significant value currently not being reflected in the Company's share price;

Therefore, the stockholders recommend that the Board of Directors pursue the merger of the Company's existing dual share class structure into a single class of common stock that will hold all existing Class A and Class B common shares.



## Recommendation of the Board of Directors

The Board of Directors recommends that the Company's shareholders vote **AGAINST** this proposal.

## OTHER SHAREHOLDER MATTERS

### Householding

The Securities and Exchange Commission has approved a rule concerning the delivery of annual reports and proxy statements that permits a single set of these reports to be sent to any household at which two or more shareholders reside if they appear to be members of the same family. Each shareholder continues to receive a separate proxy card. This procedure, referred to as householding, reduces the volume of duplicate information shareholders receive and reduces mailing and printing expenses. A number of brokerage firms have instituted householding. Only a single copy of the annual report and proxy statement are being delivered to multiple shareholders sharing an address unless the Company has received contrary instructions from a shareholder. Upon written or oral request, the Company shall promptly deliver a separate copy of the annual report and proxy statement to any shareholder at a shared address to which only a single copy was delivered. Shareholders that received a single copy of the annual report or proxy statement and wish to receive separate copies now or in the future may submit a written or oral request to: Nelnet, Inc., 121 South 13<sup>th</sup> St., Suite 201, Lincoln, Nebraska 68508, Attention: Corporate Secretary or by phone to 402-458-3038. Shareholders who received separate copies of the annual report or proxy statement that wish to receive a single copy in the future may also contact the Company at the same address and phone number listed above to request delivery of a single copy.

### Other Business

On the date of mailing this Proxy Statement, the Board of Directors has no knowledge of any other matter which will come before the Annual Meeting other than the matters described herein. However, if any such matter is properly presented at the Annual Meeting, the proxy solicited hereby confers discretionary authority to the proxies to vote in their sole discretion with respect to such matters, as well as other matters incident to the conduct of the Annual Meeting.

### Shareholder Proposals for 2009 Annual Meeting

Shareholder proposals intended to be presented at the 2009 Annual Meeting of Shareholders, currently scheduled for May 21, 2009, must be received at the Company's offices at 121 South 13<sup>th</sup> Street, Suite 201, Lincoln, Nebraska 68508, Attention: Corporate Secretary, on or before December 22, 2008, to be eligible for inclusion in the Company's 2009 proxy materials. The inclusion of any such proposal in such proxy material shall be subject to the requirements of the proxy rules adopted under the Securities Exchange Act of 1934, as amended (the "Proxy Rules"). The submission of a shareholder proposal does not guarantee that it will be included in the Company's Proxy Statement.

A shareholder may otherwise propose business for consideration or nominate persons for election to the Board of Directors, in compliance with federal proxy rules, applicable state law, and other legal requirements and without seeking to have the proposal included in the Company's Proxy Statement pursuant to the Proxy Rules. The Company's By-Laws provide that the Secretary of the Company must receive any such proposal or nominations for the Company's 2009 Annual Meeting by February 20, 2009 (90 days before the 2009 Annual Meeting date). The notice must contain the information required by the Company's By-Laws. A proxy may confer discretionary authority to vote on any matter at a meeting if the Company does not receive notice of the matter within the time frame described above. A copy of the Company's By-Laws is available at the Company's Web site at [www.nelnetinvestors.com](http://www.nelnetinvestors.com) under Corporate Governance Corporate Documents or is available upon request to: Nelnet, Inc., 121 South 13<sup>th</sup> Street, Suite 201, Lincoln, Nebraska 68508, Attention: Corporate Secretary. The Chairman of the meeting may exclude matters that are not properly presented in accordance with these requirements.

## MISCELLANEOUS

The information referred to under the captions Compensation Committee Report, and Audit Committee Report (to the extent permitted under the Securities Act of 1933 (the "1933 Act")) (i) shall not be deemed to be soliciting material or to be filed with the Securities and Exchange Commission or subject to Regulation 14A or the liabilities of Section 18 of the Securities Exchange Act of 1934 (the "1934 Act"), and (ii) notwithstanding anything to the contrary that may be contained in any filing by the Company under the 1934 Act or the 1933 Act, shall not be deemed to be incorporated by reference in any such filing.

NELNET, INC.  
DIRECTORS STOCK COMPENSATION PLAN  
(as amended through April 18, 2008)

1. PURPOSES.

The purposes of this Nelnet, Inc. Directors Stock Compensation Plan are to advance the interests of Nelnet, Inc. and its shareholders by providing a means to attract, retain and motivate members of the Board of Directors of Nelnet, Inc. upon whose judgment, initiative and efforts the continued success, growth and development of Nelnet, Inc. is dependent.

2. DEFINITIONS.

For purposes of the Plan, the following terms shall be defined as set forth below:

- (a) Board means the Board of Directors of the Company.
- (b) Code means the Internal Revenue Code of 1986, as amended from time to time. References to any provision of the Code shall be deemed to include successor provisions thereto and regulations thereunder.
- (c) Company means Nelnet, Inc., a corporation organized under the laws of Nebraska, or any successor corporation.
- (d) Director means a non-employee member of the Board.
- (e) Fair Market Value means, with respect to Shares on any day, the following:
  - (i) If the Shares are at the time listed or admitted to trading on any stock exchange, then the Fair Market Value shall be the closing selling price per share of Shares on the day preceding the date in question on the stock exchange which is the primary market for the Shares, as such price is officially quoted on such exchange. If there is no reported sale of Shares on such exchange on such date, then the Fair Market Value shall be the closing selling price on the exchange on the last preceding date for which such quotation exists; and
  - (ii) If the Shares are not at the time listed or admitted to trading on any stock exchange but are traded in the over-the-counter market, the Fair Market Value shall be the closing selling price per share of Shares on the day preceding the date in question, as such price is reported by the National Association of Securities Dealers through the NASDAQ National Market System or any successor system. If there is no reported closing selling price for Shares on such date, then the closing selling price on the last preceding date for which such quotation exists shall be determinative of Fair Market Value.
- (f) Participant means a Director who has elected to receive Shares or defer compensation under the Plan.
- (g) Plan means this Nelnet, Inc. Directors Stock Compensation Plan, as amended from time to time.
- (h) Plan Year means the calendar year.
- (i) Shares means Class A Common Stock, \$.01 par value per share, of the Company.

3. ADMINISTRATION.

The Plan shall be administered by the Board. Subject to the express provisions of the Plan, the Board shall have full and exclusive authority to interpret the Plan, to make all determinations with respect to the Plan, to prescribe, amend and rescind rules and regulations relating to the Plan, and to make all other determinations necessary or advisable in the implementation and administration of the Plan. The Board's interpretation and construction of the Plan shall be conclusive and binding on all persons.

4. SHARES SUBJECT TO THE PLAN.

- (a) Subject to adjustment as provided in Section 6(g), the total number of Shares reserved for issuance under the Plan shall be 400,000.
- (b) Any Shares issued hereunder may consist, in whole or in part, of authorized and unissued Shares or treasury Shares, including Shares acquired by purchase in the open market or in private transactions.

5. SHARE ELECTION.

- (a) Each Director may make an election in writing on or prior to each December 31 to receive the Director's annual retainer fees payable in the following Plan Year in the form of Shares instead of cash. Unless the Director makes a deferral election pursuant to Section 6 below, any Shares elected shall be payable at the time cash retainer fees are otherwise payable. The number of Shares distributed shall be equal to the amount of the annual retainer fee otherwise payable on such payment date divided by 85% the Fair Market Value of a Share on such payment date. Notwithstanding the foregoing, a Director who is first elected or appointed to the Board may make an election under this Section 5 within thirty (30) days of such election or appointment to the Board in respect of annual retainer fees payable after the date of the election. Any election made under this Section 5 shall remain in effect unless and until a new election is made in accordance with the provisions of this Plan.
- (b) Notwithstanding any provision of this Plan to the contrary, no elections will be available to any Director under Sections 5(a) or 6 with respect to the Director's annual retainer fee payable for calendar year 2004. The annual retainer fee for each Director for calendar year 2004 shall be paid as soon as practicable following the consummation of the Company's initial public offering and registration of the Shares issuable hereunder, and such annual retainer fee shall be paid in the form of Shares, the number of which shall be determined by dividing the amount of the annual retainer fee by 85% of the price paid per Share by the initial purchasers in the Company's initial public offering.

6. DEFERRAL ELECTION.

- (a) A Director who has elected to receive Shares pursuant to Section 5 above may make an irrevocable election on or before the December 31 immediately preceding the beginning of a Plan Year of the Company, by written notice to the Company, to defer delivery of all or a designated percentage of the Shares otherwise payable as his or her annual retainer for service as a Director for the Plan Year. Notwithstanding the foregoing, a Director who is first elected or appointed to the Board may make an election under this Section 6(a) within thirty (30) days of such election or appointment to the Board in respect of annual retainer fees payable after the date of the election.
- (b) Deferrals of Shares hereunder shall be reaffirmed by each director on an annual basis and shall continue until the Director notifies the Company in writing, on or prior to the December 31 immediately preceding the commencement of any Plan Year, which he or she wishes to change his or her election hereunder.
- (c) All shares which a Director elects to defer pursuant to this Section 6 shall be credited in the form of share units to a bookkeeping account maintained by the Company in the name of the Director. Each such unit shall represent the right to receive one Share at the time determined pursuant to the terms of the Plan.

- (d) As of each date on which a cash dividend is paid on Shares, there shall be credited to each account that number of units determined by:
  - (i) multiplying the amount of such dividend per Share by the number of units in such account; and
  - (ii) dividing the total so determined by the Fair Market Value of a Share on the date of payment of such cash dividend. The additions to a Director's account pursuant to this Section 6(d) shall continue until the Director's account is fully paid.
- (e) The account of a Director shall be distributed (in the form of one Share for each Share unit) either (x) in a lump sum at the time of termination of the Director's service on the Board or (y) in up to five annual installments commencing at the time of termination of the director's service on the Board, as elected by the Director. Each Director's distribution election must be made in writing within the later of (A) 60 days after the Effective Date of this Plan, or (B) thirty (30) days after the Director first becomes eligible to participate in the Plan; provided, however, that a Director may make a new distribution election with respect to the entire portion of his or her account subject to this Section 6(e) so long as such election is made at least one year in advance of the Director's termination of service on the Board and provided further, that following such new election, no distribution may occur hereunder until the fifth anniversary following the date such payment would otherwise have been made. In the case of an account distributed in installments, the amount of Shares distributed in each installment shall be equal to the number of Share units in the Director's account subject to such installment distribution at the time of the distribution divided by the number of installments remaining to be paid.
- (f) The right of a Director to amounts described under this Section 6 shall not be subject to assignment or other disposition by him or her other than by will or the laws of descent and distribution. In the event that, notwithstanding this provision, a Director makes a prohibited disposition, the Company may disregard the same and discharge its obligation hereunder by making payment or delivery as though no such disposition had been made.
- (g) Adjustments. In the event that any dividend in Shares, recapitalization, Share split, reverse split, reorganization, merger, consolidation, spin-off, combination, repurchase, or Share exchange, or other such change, affects the Shares such that they are increased or decreased or changed into or exchanged for a different number or kind of Shares, other securities of the Company or of another corporation or other consideration, then in order to maintain the proportionate interest of the Directors and preserve the value of the Directors' Share units, (i) there shall automatically be substituted for each Share unit a new unit representing the number and kind of Shares, other securities or other consideration into which each outstanding Share shall be changed, and (ii) the number and kind of shares available for issuance under the Plan shall be equitably adjusted in order to take into account such transaction or other change. The substituted units shall be subject to the same terms and conditions as the original Share units.

7. GENERAL PROVISIONS.

- (a) Compliance with Legal and Trading Requirements. The Plan shall be subject to all applicable laws, rules and regulations, including, but not limited to, U.S. federal and state laws, rules and regulations, and to such approvals by any regulatory or governmental agency as may be required. The Company, in its discretion, may postpone the issuance or delivery of Shares under the Plan until completion of such stock exchange or market system listing or registration or qualification of such Shares or other required action under any U.S. federal or state law, rule or regulation or under laws, rules or regulations of other jurisdictions as the Company may consider appropriate, and may require any Participant to make such representations and furnish such information as it may consider appropriate in connection with the issuance or delivery of Shares in compliance with applicable laws, rules and regulations. No provisions of the Plan shall be interpreted or construed to obligate the Company to register any Shares under U.S. federal or state law or under the laws of other jurisdictions.
- (b) No Right to Continued Service. Neither the Plan nor any action taken thereunder shall be construed as giving any Director the right to be retained in the service of the Company or any of its subsidiaries or affiliates, nor shall it interfere in any way with the right of the Company or any of its subsidiaries or affiliates to terminate any Director's service at any time.

- (c) Taxes. The Company is authorized to withhold from any Shares delivered under this Plan any amounts of withholding and other taxes due in connection therewith, and to take such other action as the Company may deem advisable to enable the Company and a Participant to satisfy obligations for the payment of any withholding taxes and other tax obligations relating thereto. This authority shall include authority to withhold or receive Shares or other property and to make cash payments in respect thereof in satisfaction of a Participant's tax obligations.
- (d) Amendment. The Board may amend, alter, suspend, discontinue, or terminate the Plan without the consent of shareholders of the Company or Participants, except that any such amendment, alteration, suspension, discontinuation, or termination shall be subject to the approval of the Company's shareholders if such shareholder approval is required by any U.S. federal law or regulation or the rules of any stock exchange or automated quotation system on which the Shares may then be listed or quoted; provided, however, that, without the consent of an affected Participant, no amendment, alteration, suspension, discontinuation or termination of the Plan may impair the rights or, in any other manner, adversely affect the rights of such Participant under any award theretofore granted to him or her or compensation previously deferred by him or her hereunder.
- (e) Unfunded Status of Awards. The Plan is intended to constitute an unfunded plan for incentive and deferred compensation. With respect to any payments not yet made to a Participant pursuant to a deferral election, nothing contained in the Plan shall give any such Participant any rights that are greater than those of a general unsecured creditor of the Company; provided, however, that the Company may authorize the creation of trusts or make other arrangements to meet the Company's obligations under the Plan to deliver cash, Shares, or other property pursuant to any award, which trusts or other arrangements shall be consistent with the unfunded status of the Plan unless the Company otherwise determines with the consent of each affected Participant.
- (f) Nonexclusivity of the Plan. Neither the adoption of the Plan by the Board nor its submission to the shareholders of the Company for approval shall be construed as creating any limitations on the power of the Board to adopt such other compensation arrangements as it may deem desirable, and such arrangements may be either applicable generally or only in specific cases.
- (g) No Fractional Shares. No fractional Shares shall be issued or delivered pursuant to the Plan. The number of Shares to be issued or delivered shall be rounded to the nearest whole Share in lieu of such fractional Shares.
- (h) Governing Law. The validity, construction, and effect of the Plan shall be determined in accordance with the laws of the State of New York, without giving effect to principles of conflict of laws thereof.
- (i) Effective Date; Plan Termination. The Plan as amended and restated shall become effective as of October 21, 2003 (the Effective Date). The Plan shall terminate as to future awards, at such time as no Shares remain available for issuance pursuant to Section 4, and the Company has no further obligations with respect to any compensation deferred under the Plan.
- (j) Titles and Headings. The titles and headings of the Sections in the Plan are for convenience of reference only. In the event of any conflict, the text of the Plan, rather than such titles or headings, shall control.

A-4

**THIS PROXY WILL BE VOTED AS DIRECTED, OR IF NO DIRECTION IS INDICATED, WILL BE VOTED FOR THE ELECTION OF ALL NOMINEES FOR DIRECTOR LISTED IN THIS PROXY, FOR PROPOSALS 2 AND 3, AND AGAINST PROPOSAL 4.**

Please Mark Here for Address Change or Comments  
**SEE REVERSE SIDE**

**Proposals :** Proposals 2 and 3 and the nominees set forth in Proposal 1 have been proposed by the Company. Proposal 4 has been proposed by a shareholder of the Company.

1. Election of Directors

Nominees:	FOR	AGAINST	ABSTAIN	FOR	AGAINST	ABSTAIN	FOR	AGAINST	ABSTAIN		
01 James P. Abel	○	○	○	05 Thomas E.	○	○	○	09 James H. Van Horn	○	○	○

Henning

FORAGAINST ABSTAIN

FORAGAINSTABSTAIN

If you wish to cumulate votes for Directors, do NOT mark For , Against or Abstain above, but check this box  and write your voting instructions on the line below.

02 Stephen F. Butterfield

06 Brian J. O Connor

FORAGAINST ABSTAIN

FORAGAINSTABSTAIN

FORAGAINSTABSTAIN

03 Michael S. Dunlap

07 Kimberly K. Rath

2 RATIFICATION OF APPOINTMENT OF KPMG LLP AS INDEPENDENT AUDITORS

FORAGAINST ABSTAIN

FORAGAINSTABSTAIN

FORAGAINSTABSTAIN

04 Kathleen A. Farrell

08 Michael D. Reardon

3 APPROVAL OF AN AMENDMENT TO THE DIRECTORS STOCK COMPENSATION PLAN TO INCREASE THE AUTHORIZED NUMBER OF SHARES OF CLASS A COMMON STOCK THAT MAY BE ISSUED UNDER THE PLAN FROM A TOTAL OF 100,000 SHARES TO A TOTAL OF 400,000 SHARES

4 A SHAREHOLDER PROPOSAL TO PURSUE THE MERGER OF THE COMPANYS DUAL SHARE CLASS STRUCTURE INTO A SINGLE CLASS OF COMMON STOCK

Signature

Signature

Date

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NOTE: Please sign as name appears hereon. Joint owners should each sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such.

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**PROXY**

**THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS OF  
NELNET, INC.**

The undersigned hereby appoints Michael S. Dunlap and Stephen F. Butterfield, and each of them, with power to act without the other and with power of substitution, as proxies and attorneys-in-fact and hereby authorizes them to represent and vote, as provided on the other side, all the shares of Nelnet, Inc. common stock which the undersigned is entitled to vote, and, in their discretion, to vote upon such other business as may properly come before the Annual Meeting of Shareholders of Nelnet, Inc., to be held May 22, 2008 at 8:30 a.m. Central Time or at any adjournment or postponement thereof, with all powers which the undersigned would possess if present at the Meeting.

**THIS PROXY CONFERS DISCRETIONARY AUTHORITY TO THE PROXIES TO VOTE ON ANY OTHER MATTERS THAT MAY PROPERLY BE PRESENTED AT THE MEETING. AS OF THE DATE OF THE ACCOMPANYING PROXY STATEMENT, NELNET MANAGEMENT DID NOT KNOW OF ANY OTHER MATTERS TO BE PRESENTED AT THE MEETING. IF ANY OTHER MATTERS ARE PROPERLY PRESENTED AT THE MEETING, THIS PROXY WILL BE VOTED IN ACCORDANCE WITH THE RECOMMENDATIONS OF NELNET MANAGEMENT.**

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON MAY 22, 2008. The Nelnet, Inc. Proxy Statement and 2007 Annual Report to Shareholders are available at [www.nelnetinvestors.com/annuals.cfm](http://www.nelnetinvestors.com/annuals.cfm).**

(Continued and to be marked, dated and signed, on the other side)

**Address Change/Comments (Mark the corresponding box on the reverse side)**

5 FOLD AND DETACH HERE 5

***You can now access your Nelnet, Inc. account online.***

Access your Nelnet, Inc. stockholder account online via Investor ServiceDirect® (ISD).

The transfer agent for Nelnet, Inc., now makes it easy and convenient to get current information on your shareholder account.

View account status  
View certificate history  
View book-entry information

View payment history for dividends  
Make address changes  
Obtain a duplicate 1099 tax form  
Establish/change your PIN

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