

NELNET INC  
Form 10-Q  
August 11, 2008

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

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended June 30, 2008**

**or**

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

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

*COMMISSION FILE NUMBER 001-31924*

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**NELNET, INC.**

(Exact name of registrant as specified in its charter)

**NEBRASKA**

(State or other jurisdiction of incorporation or  
organization)

**84-0748903**

(I.R.S. Employer Identification No.)

**121 SOUTH 13TH STREET, SUITE 201  
LINCOLN, NEBRASKA**

(Address of principal executive offices)

**68508**

(Zip Code)

**(402) 458-2370**

(Registrant's telephone number, including area code)

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

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of July 31, 2008, there were 37,969,493 and 11,495,377 shares of Class A Common Stock and Class B Common Stock, par value \$0.01 per share, outstanding, respectively (excluding 11,058,604 shares of Class A Common Stock held by a wholly owned subsidiary).

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FORM 10-Q  
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June 30, 2008**

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**NELNET, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(Dollars in thousands, except share data)

	As of June 30, 2008 (unaudited)	As of December 31, 2007
<b>Assets:</b>		
Student loans receivable (net of allowance for loan losses of \$47,909 and \$45,592, respectively)	\$ 25,993,307	26,736,122
Cash and cash equivalents:		
Cash and cash equivalents - not held at a related party	15,629	38,305
Cash and cash equivalents - held at a related party	122,825	73,441
Total cash and cash equivalents	138,454	111,746
Restricted cash	912,252	842,020
Restricted investments	95,061	85,227
Restricted cash - due to customers	29,543	81,845
Accrued interest receivable	501,544	593,322
Accounts receivable, net	45,986	49,084
Goodwill	175,178	164,695
Intangible assets, net	90,163	112,830
Property and equipment, net	46,429	55,797
Other assets	108,662	107,624
Fair value of derivative instruments	295,346	222,471
Total assets	\$ 28,431,925	29,162,783
<b>Liabilities:</b>		
Bonds and notes payable	\$ 27,530,237	28,115,829
Accrued interest payable	86,496	129,446
Other liabilities	162,761	220,899
Due to customers	29,543	81,845
Fair value of derivative instruments	38,846	5,885
Total liabilities	27,847,883	28,553,904
<b>Shareholders' equity:</b>		
Preferred stock, \$0.01 par value. Authorized 50,000,000 shares; no shares issued or outstanding	—	—
Common stock:		
Class A, \$0.01 par value. Authorized 600,000,000 shares; issued and outstanding 37,952,246 shares as of June 30, 2008 and 37,980,617 shares as of December 31, 2007	380	380
Class B, convertible, \$0.01 par value. Authorized 60,000,000 shares; issued and outstanding 11,495,377 shares as of June 30, 2008 and December 31, 2007	115	115

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Additional paid-in capital	99,854	96,185
Retained earnings	485,739	515,317
Employee notes receivable	(2,046)	(3,118)
Total shareholders' equity	584,042	608,879
<b>Commitments and contingencies</b>		
Total liabilities and shareholders' equity	\$ 28,431,925	29,162,783

See accompanying notes to consolidated financial statements.

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**NELNET, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Dollars in thousands, except share data)  
(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
<b>Interest income:</b>				
Loan interest	\$ 296,686	417,086	626,672	814,140
Investment interest	9,116	18,783	20,796	40,208
Total interest income	305,802	435,869	647,468	854,348
<b>Interest expense:</b>				
Interest on bonds and notes payable	232,464	367,893	557,605	718,388
Net interest income	73,338	67,976	89,863	135,960
Less provision for loan losses	6,000	2,535	11,000	5,288
Net interest income after provision for loan losses	67,338	65,441	78,863	130,672
<b>Other income (expense):</b>				
Loan and guaranty servicing income	24,904	31,610	51,017	62,076
Other fee-based income	40,817	38,262	86,730	78,291
Software services income	4,896	5,848	11,648	11,596
Other income	1,646	1,927	3,056	7,020
Gain (loss) on sale of loans	48	1,010	(47,426)	2,796
Derivative market value, foreign currency, and put option adjustments and derivative settlements, net	20,192	10,743	3,594	2,853
Total other income	92,503	89,400	108,619	164,632
<b>Operating expenses:</b>				
Salaries and benefits	43,549	59,761	97,392	121,465
Other operating expenses:				
Impairment expense	—	—	18,834	—
Advertising and marketing	16,143	15,456	32,346	29,449
Depreciation and amortization	10,603	10,647	21,437	21,657
Professional and other services	8,478	10,514	16,585	18,883
Occupancy and communications	4,914	5,032	10,755	10,251
Postage and distribution	2,743	5,624	6,560	10,143
Trustee and other debt related fees	2,464	2,785	4,854	5,628
Other	9,028	10,827	17,996	24,399
Total other operating expenses	54,373	60,885	129,367	120,410
Total operating expenses	97,922	120,646	226,759	241,875
Income (loss) before income taxes	61,919	34,195	(39,277)	53,429
Income tax expense (benefit)	19,195	13,306	(12,176)	20,570
	42,724	20,889	(27,101)	32,859

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Income (loss) from continuing operations

Income (loss) from discontinued operations, net of tax	981	(6,135)	981	(3,325)
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Net income (loss)	\$ 43,705	14,754	(26,120)	29,534
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Earnings (loss) per share, basic and diluted:

Income (loss) from continuing operations	0.87	0.42	(0.55)	0.66
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Income (loss) from discontinued operations	0.02	(0.12)	0.02	(0.07)
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Net income (loss)	\$ 0.89	0.30	(0.53)	0.59
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See accompanying notes to consolidated financial statements.

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**NELNET, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME**  
**(LOSS)**

**(Dollars in thousands, except share data)**  
**(unaudited)**

	Preferred stock shares	Common Class A	Common Class B	Preferred stock	Class		Additional paid-in capital	Retained earnings	Accumulated		Total shareholders' equity
					A	B			Employee notes receivable	Other comprehensive income	
Balance as of March 31, 2007	—	38,097,623	11,495,377	\$ —	381	115	105,345	507,596	(2,701)	382	611,118
Comprehensive income:											
Net income	—	—	—	—	—	—	—	14,754	—	—	14,754
Other comprehensive income:											
Foreign currency translation	—	—	—	—	—	—	—	—	—	(574)	(574)
Non-pension postretirement benefit plan	—	—	—	—	—	—	—	—	—	192	192
Total comprehensive income	—	—	—	—	—	—	—	—	—	—	14,372
Cash dividend on Class A and Class B common stock - \$0.07 per share	—	—	—	—	—	—	—	(3,440)	—	—	(3,440)
Issuance of common stock, net of forfeitures	—	39,182	—	—	1	—	880	—	—	—	881
Compensation expense for stock based awards	—	—	—	—	—	—	772	—	—	—	772
Repurchase of common stock	—	(998)	—	—	—	—	(22)	—	—	—	(22)
Acquisition of enterprise under common control	—	(474,426)	—	—	(5)	—	(12,502)	—	—	—	(12,507)
Reduction of employee stock notes receivable	—	—	—	—	—	—	—	—	4	—	4
Balance as of June 30, 2007	—	37,661,381	11,495,377	\$ —	377	115	94,473	518,910	(2,697)	—	611,178



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Balance as of March 31, 2008	—37,912,773	11,495,377	\$ —379	115	97,875	442,034	(2,296)	—	538,107
Comprehensive income:									
Net income	—	—	—	—	—	—	43,705	—	43,705
Total comprehensive income									43,705
Issuance of common stock, net of forfeitures	—	53,467	—	—	1	—	310	—	—
Compensation expense for stock based awards	—	—	—	—	—	—	1,848	—	—
Repurchase of common stock	—	(13,994)	—	—	—	—	(179)	—	—
Reduction of employee stock notes receivable	—	—	—	—	—	—	—	250	—
Balance as of June 30, 2008	—37,952,246	11,495,377	\$ —380	115	99,854	485,739	(2,046)	—	584,042
Balance as of December 31, 2006	—39,035,169	13,505,812	\$ —390	135	177,678	496,341	(2,825)	131	671,850
Comprehensive income:									
Net income	—	—	—	—	—	—	29,534	—	29,534
Other comprehensive income:									
Foreign currency translation	—	—	—	—	—	—	—	—	(322)
Non-pension postretirement benefit plan	—	—	—	—	—	—	—	—	191
Total comprehensive income									29,403
Cash dividend on Class A and Class B common stock - \$0.14 per share	—	—	—	—	—	—	(6,904)	—	(6,904)
Adjustment to adopt provisions of FASB Interpretation No. 48	—	—	—	—	—	—	(61)	—	(61)

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Issuance of common stock, net of forfeitures	—	152,273	—	—	2	—	3,219	—	—	—	3,221
Compensation expense for stock based awards	—	—	—	—	—	—	1,530	—	—	—	1,530
Repurchase of common stock	—	(3,062,070)	—	—	(30)	—	(75,452)	—	—	—	(75,482)
Conversion of common stock	—	2,010,435	(2,010,435)	—	20	(20)	—	—	—	—	—
Acquisition of enterprise under common control	—	(474,426)	—	—	(5)	—	(12,502)	—	—	—	(12,507)
Reduction of employee stock notes receivable	—	—	—	—	—	—	—	—	128	—	128
Balance as of June 30, 2007	—	37,661,381	11,495,377	\$	—377	115	94,473	518,910	(2,697)	—	611,178
Balance as of December 31, 2007	—	37,980,617	11,495,377	\$	—380	115	96,185	515,317	(3,118)	—	608,879
Comprehensive income:											
Net loss	—	—	—	—	—	—	—	(26,120)	—	—	(26,120)
Total comprehensive income (loss)											(26,120)
Cash dividend on Class A and Class B common stock - \$0.07 per share	—	—	—	—	—	—	—	(3,458)	—	—	(3,458)
Issuance of common stock, net of forfeitures	—	33,687	—	—	—	—	1,073	—	—	—	1,073
Compensation expense for stock based awards	—	—	—	—	—	—	3,263	—	—	—	3,263
Repurchase of common stock	—	(62,058)	—	—	—	—	(667)	—	—	—	(667)
Reduction of employee stock notes receivable	—	—	—	—	—	—	—	—	1,072	—	1,072
Balance as of June 30, 2008	—	37,952,246	11,495,377	\$	—380	115	99,854	485,739	(2,046)	—	584,042

See accompanying notes to consolidated financial statements.

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**NELNET, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Dollars in thousands)  
(unaudited)

	<b>Six months ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
Net income (loss)	\$ (26,120)	29,534
Income (loss) from discontinued operations	981	(3,325)
Income (loss) from continuing operations	(27,101)	32,859
Adjustments to reconcile income from continuing operations to net cash provided by operating activities, net of business acquisitions:		
Depreciation and amortization, including loan premiums and deferred origination costs	74,312	150,465
Derivative market value adjustment	(47,462)	(20,374)
Foreign currency transaction adjustment	88,530	24,974
Change in value of put options issued in business acquisitions	538	1,983
Proceeds from termination of derivative instruments	7,547	—
Payments to terminate floor contracts	—	(8,100)
Impairment expense	18,834	—
Loss on sale of business	—	9,041
Loss (gain) on sale of student loans	47,426	(2,796)
Non-cash compensation expense	4,372	2,591
Deferred income tax benefit	(24,237)	(921)
Provision for loan losses	11,000	5,288
Other non-cash items	344	(2,906)
Decrease (increase) in accrued interest receivable	91,778	(81,421)
Decrease (increase) in accounts receivable	3,098	(6,698)
Decrease in other assets	9,419	6,491
Decrease in accrued interest payable	(42,950)	(1,545)
(Decrease) increase in other liabilities	(28,351)	5,667
Net cash flows from operating activities - continuing operations	187,097	114,598
Net cash flows from operating activities - discontinued operations	—	(4,467)
Net cash provided by operating activities	187,097	110,131
Cash flows from investing activities, net of business acquisitions:		
Originations, purchases, and consolidations of student loans, including loan premiums and deferred origination costs	(1,480,305)	(3,390,016)
Purchases of student loans, including loan premiums, from a related party	(212,888)	(191,003)
Net proceeds from student loan repayments, claims, capitalized interest, participations, and other	1,061,510	1,060,117
Proceeds from sale of student loans	1,267,826	89,311
Purchases of property and equipment, net	(3,721)	(13,830)
(Increase) decrease in restricted cash	(70,232)	279,349
Purchases of restricted investments	(170,512)	(239,691)
Proceeds from maturities of restricted investments	160,678	261,597
Purchases of equity method investments	(2,988)	—

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Distributions from equity method investments	—	434
Business acquisitions, net of cash acquired	(18,000)	2,211
Proceeds from sale of business, net of cash sold	—	7,551
Net cash flows from investing activities - continuing operations	531,368	(2,133,970)
Net cash flows from investing activities - discontinued operations	—	(294)
Net cash provided by (used in) investing activities	531,368	(2,134,264)
Cash flows from financing activities:		
Payments on bonds and notes payable	(5,444,408)	(1,435,054)
Proceeds from issuance of bonds and notes payable	4,761,143	3,601,480
Proceeds (payments) from issuance of notes payable due to a related party, net	9,269	(55,715)
Payments of debt issuance costs	(14,634)	(5,899)
Dividends paid	(3,458)	(6,904)
Proceeds from issuance of common stock	423	951
Repurchases of common stock	(667)	(75,482)
Payments received on employee stock notes receivable	575	128
Net cash flows from financing activities - continuing operations	(691,757)	2,023,505
Net cash flows from financing activities - discontinued operations	—	—
Net cash (used in) provided by financing activities	(691,757)	2,023,505
Effect of exchange rate fluctuations on cash	—	548
Net increase (decrease) in cash and cash equivalents	26,708	(80)
Cash and cash equivalents, beginning of period	111,746	106,086
Cash and cash equivalents, end of period	\$ 138,454	106,006
Supplemental disclosures of cash flow information:		
Interest paid	\$ 589,578	630,175
Income taxes paid, net of refunds	\$ 14,126	12,130

See accompanying notes to consolidated financial statements.

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**NELNET, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Information as of June 30, 2008 and for the three months and six months ended**  
**June 30, 2008 and 2007 is unaudited)**  
**(Dollars in thousands, except per share amounts, unless otherwise noted)**

**1. Basis of Financial Reporting**

The accompanying unaudited consolidated financial statements of Nelnet, Inc. and subsidiaries (the "Company") as of June 30, 2008 and for the three and six months ended June 30, 2008 and 2007 have been prepared on the same basis as the audited consolidated financial statements for the year ended December 31, 2007 and, in the opinion of the Company's management, the unaudited consolidated financial statements reflect all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of results of operations for the interim periods presented. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Operating results for the three and six months ended June 30, 2008 are not necessarily indicative of the results for the year ending December 31, 2008. The unaudited consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2007. Certain amounts from 2007 have been reclassified to conform to the current period presentation.

**2. Discontinued Operations**

On May 25, 2007, the Company sold EDULINX Canada Corporation ("EDULINX"), a Canadian student loan service provider and a subsidiary of the Company, for initial proceeds of \$19.0 million. The Company recognized an initial net loss of \$9.0 million related to this transaction. During the three months ended June 30, 2008, the Company earned \$2.0 million (\$1.0 million net of tax) in additional consideration as a result of the sale of EDULINX. This payment represented contingent consideration earned by the Company based on EDULINX meeting certain performance measures. As a result of the sale of EDULINX, the results of operations for EDULINX, including the contingent payment earned during the current period, are reported as discontinued operations in the accompanying consolidated statements of operations.

The components of income (loss) from discontinued operations are presented below.

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Operating income of discontinued operations	\$ —	4,864	—	9,278
Income tax on operations	—	(1,958)	—	(3,562)
Gain (loss) on disposal	1,966	(8,151)	1,966	(8,151)
Income tax on disposal	(985)	(890)	(985)	(890)
Income (loss) from discontinued operations, net of tax	\$ 981	(6,135)	981	(3,325)

The following operations of EDULINX have been segregated from continuing operations and reported as discontinued operations through the date of disposition. Interest expense was not allocated to EDULINX and, therefore, all of the Company's interest expense is included within continuing operations.

	<b>Three months ended</b>	<b>Six months ended</b>
	<b>June 30, 2007</b>	<b>June 30, 2007</b>
Net interest income	\$ 53	124
Other income	12,480	31,511
Operating expenses	(7,669)	(22,357)
Income before income taxes	4,864	9,278
Income tax expense	1,958	3,562
Operating income of discontinued operations, net of tax	\$ 2,906	5,716

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As a result of the contingent consideration received during the second quarter 2008, the Company earned \$0.8 million of foreign tax credits available to offset future U.S. federal income taxes. Under current tax law, these tax credits expire in 2018. The Company established a valuation allowance for these tax credits due to the Company's assessment that this deferred tax asset did not meet the more-likely-than-not recognition criteria of Statement of Financial Accounting Standards ("SFAS") No. 109, *Accounting for Income Taxes*.

**3. Restructuring Charges*****Legislative Impact***

On September 6, 2007, the Company announced a strategic initiative to create efficiencies and lower costs in advance of the enactment of the College Cost Reduction Act, which impacted the Federal Family Education Loan Program (the "FFEL Program" or "FFELP") in which the Company participates. In anticipation of the federally driven cuts to the student loan programs, management initiated a variety of strategies to modify the Company's student loan business model, including lowering the cost of student loan acquisition, creating efficiencies in the Company's asset generation business, and decreasing operating expenses through a reduction in workforce and realignment of operating facilities. Implementation of the plan began immediately and was completed as of December 31, 2007. As a result of these strategic decisions, the Company recorded restructuring charges of \$15.0 million and \$5.3 million in the third and fourth quarters of 2007, respectively.

Information related to the remaining restructuring accrual, which is included in "other liabilities" on the consolidated balance sheet, follows:

	<b>Employee termination benefits</b>	<b>Lease terminations</b>	<b>Total</b>
Restructuring accrual as of December 31, 2007	\$ 1,193	3,682	4,875
Adjustment from initial estimated charges	(191)	—	(191)
Cash payments	(868)	(358)	(1,226)
Restructuring accrual as of March 31, 2008	134	3,324	3,458
Cash payments	(134)	(45)	(179)
Restructuring accrual as of June 30, 2008	\$ —	3,279	3,279

***Capital Markets Impact***

On January 23, 2008, the Company announced a plan to further reduce operating expenses related to its student loan origination and related businesses as a result of disruptions in the credit markets. Management developed a

restructuring plan related to its asset generation and supporting businesses which reduced marketing, sales, service, and related support costs through a reduction in workforce of approximately 300 positions and realignment of certain operating facilities. Implementation of the plan began immediately and was completed as of June 30, 2008. As a result of these strategic decisions, the Company recorded restructuring charges of \$26.5 million during the three months ended March 31, 2008 and income of \$0.4 million during the three months ended June 30, 2008 to recognize adjustments from initial estimates.

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Selected information relating to the restructuring charge follows:

	<b>Employee termination benefits</b>	<b>Lease terminations</b>	<b>Write-down of assets</b>	<b>Total</b>
Restructuring costs recognized during the three month period ended March 31, 2008	\$ 6,095(a)	1,573(b)	18,834(c)	26,502
Write-down of assets to net realizable value	—	—	(18,834)	(18,834)
Cash payments	(4,952)	—	—	(4,952)
Restructuring accrual as of March 31, 2008	1,143	1,573	—	2,716
Adjustment from initial estimated charges	(190)(a)	(175)(b)	—	(365)
Cash payments	(792)	(369)	—	(1,161)
Restructuring accrual as of June 30, 2008	\$ 161	1,029	—	1,190

(a) Employee termination benefits are included in "salaries and benefits" in the consolidated statements of operations.

(b) Lease termination costs are included in "occupancy and communications" in the consolidated statements of operations.

(c) Costs related to the write-down of assets are included in "impairment expense" in the consolidated statements of operations.

Selected information relating to the restructuring charge by operating segment and Corporate Activity and Overhead follows:

Operating segment	Restructuring costs recognized during the three month period ended March 31, 2008			Adjustment from initial estimated charges			Restructuring Cash accrual as of March 31, 2008
	Write-down of assets to net realizable value	Cash payments	Restructuring accrual as of March 31, 2008	Estimated charges	Cash payments	Restructuring Cash accrual as of March 31, 2008	
Student Loan and Guaranty Servicing	\$ 6,010	(5,074)	(430)	506	(104)	(352)	50
Tuition Payment Processing and Campus Commerce	—	—	—	—	—	—	—

Enrollment Services and List Management	312	—	(291)	21	(15)	(19)	(13)
Software and Technical Services	518	—	(472)	46	(8)	—	38
Asset Generation and Management	11,287	(9,351)	(1,806)	130	(52)	(72)	6
Corporate Activity and Overhead	8,375	(4,409)	(1,953)	2,013	(186)	(718)	1,109
	\$ 26,502	(18,834)	(4,952)	2,716	(365)	(1,161)	1,190

#### 4. Legal, Industry, and Legislative Developments

##### *Legal Proceedings*

###### General

The Company is subject to various claims, lawsuits, and proceedings that arise in the normal course of business. These matters principally consist of claims by student loan borrowers disputing the manner in which their student loans have been processed and disputes with other business entities. On the basis of present information, anticipated insurance coverage, and advice received from counsel, it is the opinion of the Company's management that the disposition or ultimate determination of these claims, lawsuits, and proceedings will not have a material adverse effect on the Company's business, financial position, or results of operations.

###### Municipal Derivative Bid Practices Investigation

On February 8, 2008, Shockley Financial Corp. ("SFC"), an indirect wholly owned subsidiary of the Company with two associates that provides investment advisory services for the investment of proceeds from the issuance of municipal and corporate bonds, received a grand jury subpoena issued by the U.S. District Court for the Southern District of New York upon application of the Antitrust Division of the U.S. Department of Justice. The subpoena seeks certain information and documents from SFC in connection with the Department of Justice's ongoing criminal investigation of the bond industry with respect to possible anti-competitive practices related to awards of guaranteed investment contracts ("GICs") and other products for the investment of proceeds from bond issuances. The Company and SFC are cooperating with the investigation.

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In addition, on March 5, 2008, SFC received a subpoena from the Securities and Exchange Commission (the “SEC”) related to an ongoing industry-wide investigation concerning the bidding of municipal GICs. The subpoena seeks certain information and documents from SFC relating to its GIC business. The Company and SFC are cooperating with the investigation.

On or about June 6, 2008, SFC received a subpoena from the New York Attorney General (the “NYAG”) relating to the NYAG’s investigation concerning the bidding of municipal GICs and possible violations of various state and federal laws. The subpoena seeks certain information and documents from SFC relating to its GIC business. The Company and SFC are cooperating with the investigation.

On or about June 12, 2008, SFC received a subpoena from the Florida Attorney General (the “FLAG”) relating to the FLAG’s investigation concerning the bidding of municipal GICs and possible violations of various state and federal laws. The subpoena seeks certain information and documents from SFC relating to its GIC business. The Company and SFC are cooperating with the investigation.

SFC has also been named as a defendant in a total of eight substantially identical purported class action lawsuits. In each of the lawsuits, a large number of financial institutions and financial service providers, including SFC, are named as defendants. The complaints allege that the defendants engaged in a conspiracy not to compete and to fix prices and rig bids for municipal derivatives (including GICs) sold to issuers of municipal bonds. All the complaints assert claims for violations of Section 1 of the Sherman Act and fraudulent concealment, and three complaints also assert claims for unfair competition and violation of the California Cartwright Act. On June 16, 2008, the United States Judicial Panel on Multidistrict Litigation issued an order transferring the cases then before it to the U.S. District Court for the Southern District of New York which consolidated several cases under the caption *Hinds County, Mississippi v. Wachovia Bank, N.A. et al.* SFC intends to vigorously contest these purported class action lawsuits.

SFC, the Company, or other subsidiaries of the Company may receive subpoenas from other regulatory agencies. Due to the preliminary nature of these matters as to SFC, the Company is unable to predict the ultimate outcome of the investigations or the class action lawsuits.

***Industry Inquiries and Investigations***

On January 11, 2007, the Company received a letter from the NYAG requesting certain information and documents from the Company in connection with the NYAG’s investigation into preferred lender list activities. Since January 2007, a number of state attorneys general, including the NYAG, and the U.S. Senate Committee on Health, Education, Labor, and Pensions also announced or are reportedly conducting broad inquiries or investigations of the activities of various participants in the student loan industry, including activities which may involve perceived conflicts of interest. A focus of the inquiries or investigations has been on any financial arrangements among student loan lenders and other industry participants which may facilitate increased volumes of student loans for particular lenders. Like many other student loan lenders, the Company received requests for information from certain state attorneys general and the Chairman of the U.S. Senate Committee on Health, Education, Labor, and Pensions in connection with their inquiries or investigations. In addition, the Company received subpoenas for information from the NYAG, the New Jersey Attorney General, and the Ohio Attorney General. In each case the Company is cooperating with the requests and subpoenas for information that it has received.

On July 31, 2007, the Company announced that it had agreed with the NYAG to adopt the NYAG’s Code of Conduct, which is substantially similar to the Company’s previously adopted Nelnet Student Loan Code of Conduct. As part of the agreement, the Company agreed to contribute \$2.0 million to a national fund for educating high school seniors and their parents regarding the financial aid process.

On October 10, 2007, the Company received a subpoena from the NYAG requesting certain information and documents from the Company in connection with the NYAG's investigation into direct-to-consumer marketing practices of student lenders. The Company is cooperating with the subpoena.

While the Company cannot predict the ultimate outcome of any inquiry or investigation, the Company believes its activities have materially complied with applicable law, including the Higher Education Act, the rules and regulations adopted by the Department of Education thereunder, and the Department's guidance regarding those rules and regulations.

*Department of Education Review*

The Department of Education periodically reviews participants in the FFEL Program for compliance with program provisions. On June 28, 2007, the Department of Education notified the Company that it would be conducting a review of the Company's administration of the FFEL Program under the Higher Education Act. The Company understands that the Department of Education has selected several schools and lenders for review. Specifically, the Department is reviewing the Company's practices in connection with the prohibited inducement provisions of the Higher Education Act and the provisions of the Higher Education Act and the associated regulations which allow borrowers to have a choice of lenders. The Company has responded to the Department of Education's requests for information and documentation and is cooperating with their review.

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While the Company cannot predict the ultimate outcome of the review, the Company believes its activities have materially complied with the Higher Education Act, the rules and regulations adopted by the Department of Education thereunder, and the Department's guidance regarding those rules and regulations.

***Department of Justice***

In connection with the Company's settlement with the Department of Education in January 2007 to resolve the Office of Inspector General of the Department of Education (the "OIG") audit report with respect to the Company's student loan portfolio receiving special allowance payments at a minimum 9.5% interest rate, the Company was informed by the Department of Education that a civil attorney with the Department of Justice had opened a file regarding the issues set forth in the OIG report, which the Company understands is common procedure following an OIG audit report. The Company has engaged in discussions with and provided information to the Department of Justice in connection with the review.

While the Company is unable to predict the ultimate outcome of the review, the Company believes its practices complied with applicable law, including the provisions of the Higher Education Act, the rules and regulations adopted by the Department of Education thereunder, and the Department's guidance regarding those rules and regulations.

***Internal Revenue Service***

In October 2007, the Company received a letter from the Internal Revenue Service ("IRS") revoking a previously issued Private Letter Ruling retroactive to September 30, 2003 concerning the Company's arbitrage and excess interest calculations on certain of its tax-exempt bonds. The IRS letter provided procedures for the Company to follow to appeal the retroactive application of the revocation. The Company responded to the IRS in November 2007 requesting relief from retroactivity. In March 2008, the IRS responded with a final determination that the revocation of the Private Letter Ruling will apply prospectively beginning on July 1, 2008. Management believes that a July 1, 2008 prospective application of the Private Letter Ruling will not have a significant impact on the Company's operating results.

***Legislative Developments***

On May 7, 2008, the President signed into law H.R. 5715, the Ensuring Continued Access to Student Loans Act of 2008 ("HR 5715"). This legislation contains provisions that expand the federal government's support of financing the cost of higher education. Among other things, HR 5715:

- Increases statutory limits on annual and aggregate borrowing for FFELP loans; and
- Allows the Department to act as a secondary market and enter into forward purchasing agreements with lenders.

As a result of this legislation, the Departments of Education and Treasury developed a plan. Among other things, this plan:

- Offers to purchase loans from lenders for the 2008-2009 academic year and offers lenders access to short-term liquidity; and
- Commits to continue working with the FFELP community to explore programs to reengage the capital markets in the long-run.

On May 22, 2008, the Company announced that, as a result of the above plan, it will continue originating new federal student loans for the 2008-2009 academic year to all students regardless of the school they attend.

On July 1, 2008, pursuant to HR 5715, the Department of Education announced terms under which it will offer to purchase FFELP student loans and loan participations from lenders. See note 7 for information related to the Department's programs.

On August 6, 2008, having passed in identical form in both the House of Representatives and the Senate, the Higher Education Opportunity Act was sent to the President. Upon the President's approval, this legislation will become law. The Higher Education Opportunity Act amends the Higher Education Act of 1965 ("HEA") to revise and reauthorize HEA programs. In addition, among other items, this legislation:

- Contains lender and school code of conduct requirements applicable to FFELP and private education lenders;
- Contains additional provisions and reporting requirements for lenders and schools participating in preferred lender arrangements; and
- Contains additional disclosures that FFELP lenders must make to borrowers as well as added FFELP loan servicing requirements for lenders.

Table of Contents**5. Student Loans Receivable and Allowance for Loan Losses**

Student loans receivable consisted of the following:

	As of June 30, 2008	As of December 31, 2007
Federally insured loans	\$ 25,332,173	26,054,398
Non-federally insured loans	279,953	274,815
	25,612,126	26,329,213
Unamortized loan premiums and deferred origination costs	429,090	452,501
Allowance for loan losses - federally insured loans	(24,084)	(24,534)
Allowance for loan losses - non-federally insured loans	(23,825)	(21,058)
	\$ 25,993,307	26,736,122
Federally insured allowance as a percentage of ending balance of federally insured loans	0.10%	0.09%
Non-federally insured allowance as a percentage of ending balance of non-federally insured loans	8.51%	7.66%
Total allowance as a percentage of ending balance of total loans	0.19%	0.17%

**Loan Sales**

On March 31, 2008, the Company sold \$857.8 million (par value) of federally insured student loans resulting in the recognition of a loss of \$30.4 million. In addition, on April 8, 2008, the Company sold \$428.6 million (par value) of federally insured student loans. The portfolio of student loans sold on April 8, 2008 was presented as "held for sale" on the March 31, 2008 consolidated balance sheet and was valued at the lower of cost or fair value. The Company recognized a loss of \$17.1 million during the three month period ended March 31, 2008 as a result of marking these loans to fair value. Combined, the portfolios sold on March 31, 2008 and April 8, 2008 were sold for a purchase price of approximately 98% of the par value of such loans. As a result of the disruptions in the debt and secondary markets, the Company sold these loan portfolios in order to reduce the amount of student loans remaining under the Company's multi-year committed financing facility for FFELP loans, which reduced the Company's exposure related to certain equity support provisions included in this facility (see note 7 for additional information related to these equity support provisions).

As part of the Company's asset management strategy, the Company periodically sells student loan portfolios to third parties. During the three and six months ended June 30, 2007, the Company sold \$34.4 million (par value) and \$86.0 million (par value), respectively, of federally insured student loans resulting in the recognition of gains of \$1.0 million and \$2.8 million, respectively.

Table of Contents**6. Intangible Assets and Goodwill**

Intangible assets consist of the following:

	<b>Weighted average remaining useful life as of June 30, 2008</b>	<b>As of June 30, 2008</b>	<b>As of December 31, 2007</b>
<b>Amortizable intangible assets:</b>			
Customer relationships (net of accumulated amortization of \$25,048 and \$20,299, respectively)	112	\$ 55,312	60,061
Trade names (net of accumulated amortization of \$3,372 and \$1,258, respectively)	47	13,687	1,609
Covenants not to compete (net of accumulated amortization of \$11,939 and \$11,815, respectively)	25	11,683	15,425
Database and content (net of accumulated amortization of \$4,320 and \$3,193, respectively)	28	5,160	6,287
Computer software (net of accumulated amortization of \$6,238 and \$4,898, respectively)	15	2,764	4,189
Student lists (net of accumulated amortization of \$6,831 and \$5,806, respectively)	8	1,366	2,391
Other (net of accumulated amortization of \$83 and \$71, respectively)	92	191	203
Loan origination rights (net of accumulated amortization of \$8,180)	—	—	8,473
<b>Total - amortizable intangible assets</b>	<b>81 months</b>	<b>90,163</b>	<b>98,638</b>
<b>Unamortizable intangible assets - trade names</b>		<b>—</b>	<b>14,192</b>
		<b>\$ 90,163</b>	<b>112,830</b>

As disclosed in note 3, as a result of the disruption in the debt and secondary markets and the student loan business model modifications the Company implemented due to the disruption, the Company recorded an impairment charge of \$18.8 million during the first quarter of 2008. This charge is included in "impairment expense" in the Company's consolidated statements of operations. Information related to the impairment charge follows:

<b>Asset</b>	<b>Operating segment</b>	<b>Impairment charge</b>
<b>Amortizable intangible assets:</b>		
Covenants not to compete	Student Loan and Guaranty Servicing	\$ 4,689
Covenants not to compete	Asset Generation and Management	336
Loan origination rights		8,336



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	Asset Generation and Management	
Computer software	Asset Generation and Management	12
Goodwill	Asset Generation and Management	667
Property and equipment	Student Loan and Guaranty Servicing	385
Property and equipment	Corporate activities	4,409
Total impairment charge	\$	18,834

The fair value of the intangible assets and reporting unit within the Asset Generation and Management operating segment were estimated using the expected present value of future cash flows.

During the first quarter of 2008, management determined that the trade names not subject to amortization have a finite useful life. As such, these assets will be amortized prospectively over their estimated remaining useful lives.

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The Company recorded amortization expense on its intangible assets of \$6.6 million and \$6.5 million for the three months ended June 30, 2008 and 2007, respectively, and \$13.1 million for the six months ended June 30, 2008 and 2007, respectively. The Company will continue to amortize intangible assets over their remaining useful lives. As of June 30, 2008, the Company estimates it will record amortization expense as follows:

2008	\$ 13,109
2009	22,319
2010	15,985
2011	10,031
2012	9,029
2013 and thereafter	19,690
	\$ 90,163

The change in the carrying amount of goodwill by operating segment was as follows:

		<b>Tuition Payment Student Loan Processing and Guaranty and Campus Servicing Commerce</b>	<b>Enrollment Services and List Management</b>	<b>Software and Technical Services</b>	<b>Asset Generation and Management</b>	<b>Total</b>	
Balance as of December 31, 2007	\$	—	58,086	55,463	8,596	42,550	164,695
Additional contingent consideration paid (a)		—	—	11,150	—	—	11,150
Impairment charge		—	—	—	—	(667)	(667)
Balance as of March 31, 2008 (b)	\$	—	58,086	66,613	8,596	41,883	175,178

(a) In January 2008, the Company paid \$18.0 million (of which \$6.8 million was accrued as of December 31, 2007) of additional consideration related to its 2005 acquisitions of Student Marketing Group, Inc. and National Honor Roll, L.L.C. This payment satisfies all of the Company's obligations related to the contingencies per the terms of the purchase agreement.

(b) During the quarter ended June 30, 2008, there was no change in goodwill.

Table of Contents**7. Bonds and Notes Payable**

The following tables summarize outstanding bonds and notes payable by type of instrument:

	<b>Carrying amount</b>	<b>As of June 30, 2008 Interest rate range</b>	<b>Final maturity</b>
Variable-rate bonds and notes (a):			
Bonds and notes based on indices	\$ 21,339,035	2.65% - 4.97%	09/25/13 - 06/25/41
Bonds and notes based on auction or remarketing	2,841,245	0.67% - 7.00%	11/01/09 - 07/01/43
<b>Total variable-rate bonds and notes</b>	<b>24,180,280</b>		
Commercial paper - FFELP facility (b)	1,986,212	2.08% - 2.91%	05/09/10
Commercial paper - private loan facility (b)	159,800	3.08%	03/14/09
Fixed-rate bonds and notes (a)	207,376	5.30% - 6.68%	11/01/09 - 05/01/29
Unsecured fixed rate debt	475,000	5.13% and 7.40%	06/01/10 and 09/15/61
Unsecured line of credit	450,000	2.90%	05/08/12
Other borrowings	71,569	3.19% - 5.10%	05/22/09 - 11/01/15
	<b>\$ 27,530,237</b>		

	<b>Carrying amount</b>	<b>As of December 31, 2007 Interest rate range</b>	<b>Final maturity</b>
Variable-rate bonds and notes (a):			
Bonds and notes based on indices	\$ 17,508,810	4.73% - 5.78%	09/25/12 - 06/25/41
Bonds and notes based on auction or remarketing	2,905,295	2.96% - 7.25%	11/01/09 - 07/01/43
<b>Total variable-rate bonds and notes</b>	<b>20,414,105</b>		
Commercial paper - FFELP facility (b)	6,629,109	5.22% - 5.98%	05/09/10
Commercial paper - private loan facility (b)	226,250	5.58%	03/14/09
Fixed-rate bonds and notes (a)	214,476	5.20% - 6.68%	11/01/09 - 05/01/29
Unsecured fixed rate debt	475,000	%	

		5.13% and 7.40	06/01/10 and 09/15/61
		5.40% -	
Unsecured line of credit	80,000	5.53%	05/08/12
		4.65% -	09/28/08 -
Other borrowings	76,889	5.20%	11/01/15
	\$ 28,115,829		

(a) Issued in asset-backed securitizations

(b) Loan warehouse facilities

### ***Secured Financing Transactions***

The Company relies upon secured financing vehicles as its most significant source of funding for student loans. The net cash flow the Company receives from the securitized student loans generally represents the excess amounts, if any, generated by the underlying student loans over the amounts required to be paid to the bondholders, after deducting servicing fees and any other expenses relating to the securitizations. The Company's rights to cash flow from securitized student loans are subordinate to bondholder interests and may fail to generate any cash flow beyond what is due to bondholders. The Company's secured financing vehicles are loan warehouse facilities and asset-backed securitizations.

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*Loan warehouse facilities*

Student loan warehousing allows the Company to buy and manage student loans prior to transferring them into more permanent financing arrangements. The Company has historically relied upon three conduit warehouse loan financing vehicles to support its funding needs on a short-term basis: a multi-year committed facility for FFELP loans, a private loan warehouse for non-federally insured student loans, and a single-seller extendible commercial paper conduit for FFELP loans.

The multi-year committed facility for FFELP loans, which terminates in May 2010, was supported by 364-day liquidity which was up for renewal on May 9, 2008. The Company obtained an extension on this renewal until July 31, 2008. On July 31, 2008, the Company did not renew the liquidity provisions of this facility. Accordingly, as of July 31, 2008, the facility became a term facility with an outstanding balance of approximately \$2.8 billion and a final maturity date of May 9, 2010. The FFELP warehouse facility has a provision requiring the Company to refinance or remove 75% of the pledged collateral on an annual basis. The Company must refinance or remove approximately \$900 million of loans by May 2009 to satisfy this provision. Pursuant to the terms of the agreement, since liquidity was not renewed, the Company's cost of financing under this facility increased 10 basis points. The agreement also includes provisions which allow the banks to charge a rate equal to LIBOR plus 128.5 basis points if they choose to finance their portion of the facility with sources of funds other than their commercial paper conduit.

The terms and conditions of the Company's warehouse facility for FFELP loans provide for advance rates related to financed loans subject to a valuation formula based on current market conditions. Dislocation in the credit markets including disruptions in the current capital markets can and will cause short-term volatility in the loan valuation formulas. Severe volatility and dislocation in the credit markets, even if temporary, could cause the valuation assigned to the Company's student loan portfolio financed by the applicable line to be significantly less than par. Should a significant change in the valuation of subject loans result in a reduction in advance rate and require equity support greater than what the Company can or is willing to provide, the facility could be subject to termination. While the Company does not believe the loan valuation formula is reflective of the fair market value of its loans, it is subject to compliance with provisions of the warehouse documents. As of August 8, 2008, the Company has \$135.3 million utilized as equity funding support based on provisions of this agreement.

The private loan warehouse facility is an uncommitted facility that is offered to the Company by a banking partner, which terminates on March 14, 2009. As of June 30, 2008, \$159.8 million was outstanding under this facility and \$90.2 million was available for future use. As of August 8, 2008, \$132.0 million was outstanding under this facility and \$118.0 million was available for future use. New advances are also subject to approval by the sponsor bank and the Company believes it is unlikely such approval would be granted in the future. The Company guarantees the performance of the assets in the private loan warehouse facility. This facility provides for advance rates on subject collateral which require certain levels of equity enhancement support. As of August 8, 2008, the Company has \$54.5 million utilized as equity funding support based on provisions of this agreement. There can be no assurance that the Company will be able to maintain this conduit facility, find alternative funding, or make adequate equity contributions, if necessary. While the Company's bank supported facilities have historically been renewed for successive terms, there can be no assurance that this will continue in the future. In January 2008, the Company suspended originating private loans.

In August 2006, the Company established a \$5.0 billion extendible commercial paper warehouse program for FFELP loans, under which it can issue one or more short-term extendible secured liquidity notes. As of June 30, 2008, no notes were outstanding under this warehouse program. As a result of the disruption of the credit markets, there is no market for the issuance of notes under this facility. Management believes it is currently unlikely a market will exist in the future.

The Company expects to access alternative sources of funding to originate new FFELP student loans, including the Department of Education's Loan Participation Program ("Participation Program"), an existing facility with Union Bank and Trust Company ("Union Bank"), an entity under common control with the Company, and its \$750 million unsecured operating line of credit.

On July 1, 2008, pursuant to HR 5715, the Department of Education announced terms under which it will offer to purchase FFELP student loans and loan participations from FFELP lenders. Under the Department's Loan Purchase Commitment Program ("Purchase Program"), the Department will purchase loans at a price equal to the sum of (i) par value, (ii) accrued interest, (iii) the one percent origination fee paid to the Department, and (iv) a fixed amount of \$75 per loan. Lenders will have until September 30, 2009, to sell loans to the Department. Under the Participation Program, the Department will provide interim short-term liquidity to FFELP lenders by purchasing participation interests in pools of FFELP loans. FFELP lenders will be charged a rate of commercial paper plus 50 basis points on the principal amount of participation interests outstanding. Loans funded under the Participation Program must be either refinanced by the lender or sold to the Department pursuant to the Purchase Program prior to its expiration on September 30, 2009. To be eligible for purchase or participation under the Department's programs, loans must be FFELP Stafford or PLUS loans made for the academic year 2008-2009, first disbursed between May 1, 2008 and July 1, 2009, with eligible borrower benefits. The Company is in the process of completing and filing all relevant documents to participate in the Department of Education's Participation Program and expects to utilize the Participation Program to fund a significant portion of its loan originations for the 2008-2009 academic year.

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The Company maintains an agreement with Union Bank, as trustee for various grantor trusts, under which Union Bank has agreed to purchase from the Company participation interests in student loans (the "FFELP Participation Agreement"). The Company has the option to purchase the participation interests from the grantor trusts at the end of a 364-day term upon termination of the participation certificate. As of June 30, 2008 and August 8, 2008, approximately \$228.7 million and \$56.4 million, respectively, of loans were subject to outstanding participation interests held by Union Bank, as trustee, under this agreement. The agreement automatically renews annually and is 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 can participate loans to Union Bank to the extent of availability under the grantor trusts, up to \$750 million. Loans participated under this agreement qualify as a sale pursuant to the provisions of SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* ("SFAS No. 140"). Accordingly, the participation interests sold are not included on the Company's consolidated balance sheet.

***Asset-backed Securitizations***

On March 7, 2008, April 2, 2008, April 22, 2008, and May 19, 2008, the Company completed asset-backed securities transactions of \$1.2 billion, \$0.5 billion, \$1.5 billion, and \$1.3 billion, respectively. Notes issued in these transactions carry interest rates based on a spread to LIBOR. As part of the Company's issuance of asset-backed securitizations in March 2008 and May 2008, due to credit market conditions when these notes were issued, the Company purchased the Class B subordinated notes of \$36 million (par value) and \$41 million (par value), respectively. These notes are not included on the Company's consolidated balance sheet. If the credit market conditions improve, the Company anticipates selling these notes to third parties. Upon a sale to third parties, the Company would obtain cash proceeds equal to the market value of the notes on the date of such sale. Upon sale, these notes would be shown as "bonds and notes payable" on the Company's consolidated balance sheet. Unless there is a significant market improvement, the Company believes the market value of such notes will be less than par value. The difference between the par value and market value would be recognized by the Company as interest expense over the life of the bonds.

Notes issued during 2006 included €773.2 million (950 million in U.S. dollars) with variable interest rates initially based on a spread to EURIBOR (the "Euro Notes"). As of June 30, 2008 and December 31, 2007, the Euro Notes were recorded on the Company's balance sheet at \$1.2 billion and \$1.1 billion, respectively. The change in the principal amount of Euro Notes as a result of the fluctuation of the foreign currency exchange rate was a decrease of \$4.4 million and an increase of \$88.5 million for the three and six months ended June 30, 2008, respectively, and increases of \$11.3 million and \$25.0 million for the three and six months ended June 30, 2007, respectively, and is included in the "derivative market value, foreign currency, and put option adjustments and derivative settlements, net" in the consolidated statements of operations. Concurrently with the issuance of the Euro Notes, the Company entered into cross-currency interest rate swaps which are further discussed in note 8.

The interest rates on certain of the Company's asset-backed securities are set and periodically reset via a "dutch auction" ("Auction Rate Securities") or through a remarketing utilizing broker-dealers and remarketing agents ("Variable Rate Demand Notes"). The Company is currently sponsor on approximately \$2.0 billion of Auction Rate Securities and \$0.9 billion of Variable Rate Demand Notes.

For Auction Rate Securities, investors and potential investors submit orders through a broker-dealer as to the principal amount of notes they wish to buy, hold, or sell at various interest rates. The broker-dealers submit their clients' orders to the auction agent, who then determines the clearing interest rate for the upcoming period. Interest rates on these Auction Rate Securities are reset periodically, generally every 7 to 35 days, by the auction agent or agents. During the first quarter of 2008, as part of the credit market crisis, several auction rate securities from various issuers failed to receive sufficient order interest from potential investors to clear successfully, resulting in failed auction status. Since February 8, 2008, the Company's Auction Rate Securities have failed in this manner. Under normal conditions, banks

have historically stepped in when investor demand is weak. However, recently banks have been allowing these auctions to fail.

As a result of a failed auction, the Auction Rate Securities will generally pay interest to the holder at a maximum rate as defined by the commercial paper, governing documents, or indenture. While these rates will vary by the trust structure the notes were issued from as well as the class and rating of the security, they will generally be based on a spread to LIBOR, commercial paper, or Treasury Securities. Based on the relative levels of these indices as of June 30, 2008, the rates expected to be paid by the Company range from 91-day T-Bill plus 125 basis points, on the low end, to LIBOR plus 250 basis points on the high end.

During the three month period ended June 30, 2008, the Company paid favorable interest rates on the majority of its Auction Rate Securities as a result of the application of certain of these maximum rate auction provisions in the underlying documents for such financings. The Company does not expect this funding benefit on its Auction Rate Securities in future periods.

The Company cannot predict whether future auctions related to its Auction Rate Securities will be successful, but management believes it is likely auctions will continue to fail indefinitely. The Company is currently seeking alternatives for reducing its exposure to the auction rate market, but may not be able to achieve alternate financing for some or all of its Auction Rate Securities.

For Variable Rate Demand Notes, the remarketing agents set the price, which is then offered to investors. If there are insufficient potential bid orders to purchase all of the notes offered for sale, the Company could be subject to interest costs substantially above the anticipated and historical rates paid on these types of securities. The maximum rate for Variable Rate Demand Notes is based on a spread to certain indexes as defined in the underlying documents, with the highest to the Company being Prime plus 200 basis points. Certain of the Variable Rate Demand Notes are secured by financial guaranty insurance policies issued by MBIA Insurance Corporation. These Variable Rate Demand Notes are currently experiencing reduced investor demand and certain of these securities have been put to the liquidity provider, Lloyds TSB Bank, at a cost ranging from Federal Funds plus 150 basis points to LIBOR plus 175 basis points.



Table of Contents***Unsecured Lines of Credit***

The Company has a \$750 million unsecured line of credit that terminates in May 2012. As of June 30, 2008, there was \$450.0 million outstanding on this line and \$300.0 million available for future use. The weighted average interest rate on this line of credit was 2.90% as of June 30, 2008. Upon termination in 2012, there can be no assurance that the Company will be able to maintain this line of credit, find alternative funding, or increase the amount outstanding under the line, if necessary. As discussed previously, the Company may need to fund certain loans or provide equity funding support related to advance rates on its warehouse facilities. As of August 8, 2008, the Company has contributed \$189.8 million in equity funding support to these facilities. The Company has funded these contributions primarily by advances on its operating line of credit. As of August 8, 2008, the Company has \$450.0 million outstanding under this line of credit and \$300.0 million available for future uses.

The Company has a \$725.0 million unsecured commercial paper program in which the Company may issue commercial paper for general corporate purposes. The maturities of the notes issued under this program will vary, but may not exceed 397 days from the date of issue. Notes issued under this program will bear interest at rates that will vary based on market conditions at the time of issuance. As of June 30, 2008, there were no borrowings outstanding on this line and \$725.0 million of remaining authorization. The Company does not expect to be able to issue unsecured commercial paper in the near or intermediate future at a cost effective level relative to the Company's unsecured line of credit.

***Other Borrowings***

As of June 30, 2008 and December 31, 2007, bonds and notes payable includes \$66.6 million and \$57.3 million, respectively, of notes due to Union Bank. The Company has used the proceeds from these notes to invest in student loan assets via a participation agreement. This participation agreement is in addition to the \$750 million FFELP Participation Agreement, and participations under this participation agreement do not qualify as sales pursuant to SFAS No. 140.

**8. Derivative Financial Instruments**

The Company maintains an overall risk management strategy that incorporates the use of derivative instruments to reduce the economic effect of interest rate volatility and fluctuations in foreign currency exchange rates. Derivative instruments used as part of the Company's risk management strategy include interest rate swaps, basis swaps, and cross-currency interest rate swaps.

***Interest Rate Swaps***

FFELP student loans generally earn interest at the higher of a floating rate based on the Special Allowance Payment or SAP formula set by the Department and the borrower rate, which is fixed over a period of time. The Company generally finances its student loan portfolio with variable-rate debt. In low and/or declining interest rate environments, when the fixed borrower rate is higher than the rate produced by the SAP formula, the Company's student loans earn at a fixed rate while the interest on the variable-rate debt continues to decline. In these interest rate environments, the Company earns additional spread income that it refers to as floor income.

Depending on the type of the student loan and when it was originated, the borrower rate is either fixed to term or is reset to market rate each July 1. As a result, for loans where the borrower rate is fixed to term, the Company earns floor income for an extended period of time, which the Company refers to as fixed rate floor income, and for those loans where the borrower rate is reset annually on July 1, the Company earns floor income to the next reset date, which the Company refers to as variable-rate floor income. In accordance with new legislation enacted in 2006,

lenders are required to rebate floor income and variable-rate floor income to the Department for all net FFELP loans originated on or after April 1, 2006.

Absent the use of derivative instruments, a rise in interest rates will have an adverse effect on earnings due to interest margin compression caused by increasing financing costs, until such time as the federally insured loans earn interest at a variable rate in accordance with the SAP formula. In higher interest rate environments, where the interest rate rises above the borrower rate and fixed-rate loans effectively become variable rate loans, the impact of the rate fluctuations is reduced.

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As of June 30, 2008, the Company held the following interest rate derivatives to hedge fixed-rate student loan assets earning fixed rate floor income or variable-rate floor income.

<b>Maturity</b>	<b>Notional Amount</b>	<b>Weighted average fixed rate paid by the Company (a)</b>
2008 (b)	\$ 2,000,000	4.18%
2009	500,000	4.08
2010	700,000	3.44
2011	500,000	3.57
2012	250,000	3.86
	\$ 3,950,000	3.94%

(a) For all interest rate derivatives for which the Company pays a fixed rate, the Company receives discrete three-month LIBOR.

(b) The maturity date on these derivatives is June 30, 2008. The Company has hedged a portion of its student loan portfolio in which the borrower interest rate resets annually on July 1. These loans can generate excess spread income compared with the rate based on the special allowance formula in declining interest rate environments. As discussed above, the Company refers to this additional income as variable-rate floor income.

In April 2008 and May 2008, the Company entered into interest rate swaps with notional amounts of \$200.0 million and \$250.0 million which had forward-start dates of July 25, 2008 and June 25, 2008, respectively. The Company receives a fixed rate of 2.9805% and 3.693%, respectively, and pays discrete three-month LIBOR. These trades offset \$450.0 million of fixed rate swaps previously entered into by the Company (included in the above table) and were executed in order to maintain the Company's desired hedge ratio.

**Basis Swaps**

The Company has entered into basis swaps in which the Company receives three-month LIBOR set discretely in advance and pays a daily weighted average three-month LIBOR less a spread as defined in the individual agreements. The Company entered into these derivative instruments to better match the interest rate characteristics on its student loan assets and the debt funding such assets.

The following table summarizes these derivatives as of June 30, 2008:

<b>Maturity</b>	<b>Notional Amount (a)</b>				<b>Total</b>
	<b>Effective date in second quarter 2007</b>	<b>Effective date in third quarter 2007</b>	<b>Effective date in second quarter 2008</b>	<b>Effective date in third quarter 2008</b>	
2008	\$ 1,000,000	2,000,000	—	—	3,000,000
2009	2,000,000	4,000,000	—	3,000,000(b)(f)	9,000,000
2010	500,000	2,000,000(c)	2,000,000	1,000,000	5,500,000
2011	—(d)	2,700,000	—	—	2,700,000
2012	—(e)	1,000,000(f)	800,000	1,600,000	3,400,000
	\$ 3,500,000	11,700,000	2,800,000	5,600,000	23,600,000

(a) All basis swaps were executed by the Company during the second quarter 2007, unless otherwise noted.

(b) Executed by the Company during the second quarter 2008.

(c) In March 2008, the Company terminated a basis swap with a notional amount of \$1.0 billion, which is not included in the table above.

(d) In March 2008, the Company terminated a basis swap with a notional amount of \$1.35 billion, which is not included in the table above.

(e) In March 2008, the Company terminated a basis swap with a notional amount of \$0.5 billion, which is not included in the table above.

(f) In July 2008, the Company terminated these basis swaps.

During the first quarter of 2008, the Company unwound three, 10 year basis swaps with notional amounts of \$500 million each in which the Company received three-month LIBOR and paid one-month LIBOR less a spread as defined in the individual agreements.

Table of Contents**Cross-Currency Interest Rate Swaps**

The Company entered into derivative instruments in 2006 as a result of the issuance of the Euro Notes as discussed in note 7. Under the terms of these derivative instrument agreements, the Company receives from a counterparty a spread to the EURIBOR index based on a notional amount of €420.5 million and €352.7 million, respectively, and pays a spread to the LIBOR index based on a notional amount of \$500.0 million and \$450.0 million, respectively. In addition, under the terms of these agreements, all principal payments on the Euro Notes will effectively be paid at the exchange rate in effect as of the issuance of these notes.

**Accounting for Derivative Financial Instruments**

The Company accounts for derivative instruments under SFAS No. 133, which requires that every derivative instrument be recorded on the balance sheet as either an asset or liability measured at its fair value. Management has structured all of the Company's derivative transactions with the intent that each is economically effective; however, the Company's derivative instruments do not qualify for hedge accounting under SFAS No. 133. As a result, the change in fair value of derivative instruments is recorded in the consolidated statements of operations at each reporting date.

The following table summarizes the net fair value of the Company's derivative portfolio:

	<b>As of June 30, 2008</b>	<b>As of December 31, 2007</b>
Interest rate swaps	\$ 1,403	(2,695)
Basis swaps	(28,326)	27,525
Cross-currency interest rate swaps	283,423	191,756
Net fair value	\$ 256,500	216,586

The change in the fair value of the Company's derivative portfolio included in "derivative market value, foreign currency, and put option adjustments and derivative settlements, net" on the Company's consolidated statements of operations resulted in a gain of \$11.5 million and \$47.5 million for the three and six months ended June 30, 2008, respectively, and \$16.7 million and \$20.4 million for the three and six months ended June 30, 2007, respectively.

The following table summarizes the net derivative settlements which are included in the "derivative market value, foreign currency, and put option adjustments and derivative settlements, net" in the consolidated statements of operations:

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Interest rate swaps	\$ (7,842)	7,576	(11,019)	15,074
Basis swaps	5,148	58	45,605	119
Cross-currency interest rate swaps	7,131	(2,438)	10,614	(5,757)
Derivative settlements received, net	\$ 4,437	5,196	45,200	9,436

By using derivative instruments, the Company is exposed to credit and market risk. When the fair value of a derivative contract is positive, this generally indicates that the counterparty owes the Company. If the counterparty fails to perform, credit risk is equal to the extent of the fair value gain in a derivative. When the fair value of a derivative contract is negative, the Company owes the counterparty and, therefore, it has no credit risk. The Company minimizes the credit (or repayment) risk in derivative instruments by entering into transactions with high-quality counterparties that are reviewed periodically by the Company's risk committee. The Company also maintains a policy of requiring that all derivative contracts be governed by an International Swaps and Derivatives Association, Inc. Master Agreement.

Market risk is the adverse effect that a change in interest rates, or implied volatility rates, has on the value of a financial instrument. The Company manages market risk associated with interest rates by establishing and monitoring limits as to the types and degree of risk that may be undertaken.

Table of Contents**9. Fair Value**

On January 1, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements* (“SFAS No. 157”). SFAS No. 157 defines fair value, establishes a consistent framework for measuring fair value, and expands disclosure requirements about fair value measurements. The Company elected to delay the application of SFAS No. 157 to nonfinancial assets and nonfinancial liabilities, as allowed by FASB Staff Position SFAS No. 157-2. SFAS No. 157 applies when other accounting pronouncements require or permit fair value measurements; it does not require new fair value measurements.

Fair value under SFAS No. 157 is defined as the price to sell an asset or transfer a liability in an orderly transaction between willing and able market participants. The Company determines fair value using valuation techniques which are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company’s market assumptions. Transaction costs are not included in the determination of fair value. When possible, the Company seeks to validate the model’s output to market transactions. Depending on the availability of observable inputs and prices, different valuation models could produce materially different fair value estimates. The values presented may not represent future fair values and may not be realizable. Additionally, there may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the results of current or future values.

Under SFAS No. 157, the Company categorizes its fair value estimates based on a hierarchal framework associated with three levels of price transparency utilized in measuring financial instruments at fair value. Classification is based on the lowest level of input that is significant to the fair value of the instrument. The three levels include:

- Level 1: Quoted prices for *identical* instruments in active markets. The types of financial instruments included in Level 1 are highly liquid instruments with quoted prices.
- Level 2: Quoted prices for *similar* instruments in active markets, quoted prices for identical or similar instruments in markets that are not active; and model derived valuations whose inputs are observable or whose primary value drivers are observable.
- Level 3: Instruments whose primary value drivers are *unobservable*. Inputs are developed based on the best information available; however, significant judgment is required by management in developing the inputs.

The following table presents the Company’s financial assets and liabilities that are measured at fair value on a recurring basis. All financial assets and liabilities that are measured at fair value are categorized as Level 1 or 2 based on the above hierarchy.

	<b>As of June 30, 2008</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
<b>Assets:</b>			
Other assets (a)	\$ 4,185	5,540	9,725
Fair value of derivative instruments (b)	—	295,346	295,346
<b>Total assets</b>	<b>\$ 4,185</b>	<b>300,886</b>	<b>305,071</b>
<b>Liabilities:</b>			
Fair value of derivative instruments (b)	\$ —	38,846	38,846

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Other liabilities (c)		—	6,655	6,655
<b>Total liabilities</b>	<b>\$</b>	<b>—</b>	<b>45,501</b>	<b>45,501</b>

	As of December 31, 2007			
	Level 1	Level 2		Total
<b>Assets:</b>				
Fair value of derivative instruments (b)	\$	—	222,471	222,471
<b>Total assets</b>	<b>\$</b>	<b>—</b>	<b>222,471</b>	<b>222,471</b>
<b>Liabilities:</b>				
Fair value of derivative instruments (b)	\$	—	5,885	5,885
Other liabilities (c)		—	6,117	6,117
<b>Total liabilities</b>	<b>\$</b>	<b>—</b>	<b>12,002</b>	<b>12,002</b>



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- (a) Other assets includes investments recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices. Level 1 investments include investments traded on an active exchange, such as the New York Stock Exchange, and U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets. Level 2 investments include corporate debt securities.
- (b) All derivatives are accounted for at fair value in the financial statements. The fair values of derivative financial instruments are determined by derivative pricing models using the stated terms of the contracts and observable yield curves, forward foreign currency exchange rates, and volatilities from active markets. It is the Company's policy to compare its derivative fair values to those received by its counterparties in order to validate the model's outputs. Fair value of derivative instruments is comprised of market value less accrued interest and excludes collateral.
- (c) Other liabilities includes put options valued using a Black-Scholes pricing model using the stated terms of the contracts and observable inputs including the Company's common stock volatility and dividend yield and a risk-free interest rate over the expected term of the option.

**10. Earnings per Common Share**

Basic earnings per common share ("basic EPS") is computed by dividing net income by the weighted average number of shares of common stock outstanding during each period. SFAS No. 128, *Earnings Per Share* ("SFAS No. 128"), requires that nonvested restricted stock that vests solely upon continued service be excluded from basic EPS but reflected in diluted earnings per common share ("diluted EPS") by application of the treasury stock method.

A reconciliation of weighted average shares outstanding follows:

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Weighted average shares outstanding	49,442,435	49,452,960	49,443,425	50,213,349
Less: Nonvested restricted stock - vesting solely upon continued service	347,282	—	369,845	—
Weighted average shares outstanding used to compute basic EPS	49,095,153	49,452,960	49,073,580	50,213,349
Dilutive effect of nonvested restricted stock	9,488	—	—	—
Weighted average shares used to compute diluted EPS	49,104,641	49,452,960	49,073,580	50,213,349

The Company had no common stock equivalents and no potentially dilutive common shares outstanding during the three and six months ended June 30, 2007.

No dilutive effect of nonvested restricted stock is presented for the six months ended June 30, 2008 as the Company reported a net loss and including these shares would have been antidilutive for the period. The dilutive effect of these shares if the Company had net income for the period was not significant.



Table of Contents**11. Segment Reporting**

The Company has five operating segments as defined in SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, as follows: Student Loan and Guaranty Servicing, Tuition Payment Processing and Campus Commerce, Enrollment Services and List Management, Software and Technical Services, and Asset Generation and Management. The Company's operating segments are defined by the products and services they offer or the types of customers they serve, and they reflect the manner in which financial information is currently evaluated by management. The accounting policies of the Company's operating segments are the same as those described in the summary of significant accounting policies. Intersegment revenues are charged by a segment to another segment that provides the product or service. Intersegment revenues and expenses are included within each segment consistent with the income statement presentation provided to management. Changes in management structure or allocation methodologies and procedures may result in changes in reported segment financial information.

The management reporting process measures the performance of the Company's operating segments based on the management structure of the Company as well as the methodology used by management to evaluate performance and allocate resources. Management, including the Company's chief operating decision maker, evaluates the performance of the Company's operating segments based on their profitability. As discussed further below, management measures the profitability of the Company's operating segments based on "base net income." Accordingly, information regarding the Company's operating segments is provided based on "base net income." The Company's "base net income" is not a defined term within GAAP and may not be comparable to similarly titled measures reported by other companies. Unlike financial accounting, there is no comprehensive, authoritative guidance for management reporting.

In May 2007, the Company sold EDULINX, a Canadian student loan service provider and subsidiary of the Company. As a result of this transaction, the results of operations for EDULINX are reported as discontinued operations for all periods presented. The operating results of EDULINX were included in the Student Loan and Guaranty Servicing operating segment. The Company presents "base net income" excluding discontinued operations since the operations and cash flows of EDULINX have been eliminated from the ongoing operations of the Company. Therefore, the results of operations for the Student Loan and Guaranty Servicing segment exclude the operating results of EDULINX for all periods presented. See note 2 for additional information concerning EDULINX's detailed operating results that have been segregated from continuing operations and reported as discontinued operations.

Historically, the Company generated the majority of its revenue from net interest income earned in its Asset Generation and Management operating segment. In recent years, the Company has made several acquisitions that have expanded the Company's products and services and has diversified its revenue - primarily from fee-based businesses. The Company currently offers a broad range of pre-college, in-college, and post-college products and services to students, families, schools, and financial institutions. These products and services help students and families plan and pay for their education and students plan their careers. The Company's products and services are designed to simplify the education planning and financing process and are focused on providing value to students, families, and schools throughout the education life cycle. The Company continues to diversify its sources of revenue, including those generated from businesses that are not dependent upon government programs, reducing legislative and political risk.

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***Fee-Based Operating Segments***

Student Loan and Guaranty Servicing

The Student Loan and Guaranty Servicing segment provides for the servicing of the Company's student loan portfolios and the portfolios of third parties and servicing provided to guaranty agencies. The servicing and business process outsourcing activities include loan origination activities, application processing, borrower updates, payment processing, due diligence procedures, and claim processing. These activities are performed internally for the Company's portfolio in addition to generating fee revenue when performed for third-party clients. The guaranty servicing, servicing support, and business process outsourcing activities include providing software and data center services, borrower and loan updates, default aversion tracking services, claim processing services, and post-default collection services to guaranty agencies. The following are the primary product and service offerings the Company offers as part of its Student Loan and Guaranty Servicing segment:

- Origination and servicing of FFELP loans;
- Servicing of non-federally insured student loans; and
- Servicing and support outsourcing for guaranty agencies.

Tuition Payment Processing and Campus Commerce

The Tuition Payment Processing and Campus Commerce segment provides products and services to help institutions and education seeking families manage the payment of education costs during the pre-college and college stages of the education life cycle. The Company provides actively managed tuition payment solutions, online payment processing, detailed information reporting, financial needs analysis, and data integration services to K-12 and higher educational institutions, families, and students. In addition, the Company provides customer-focused electronic transactions, information sharing, and account and bill presentment to colleges and universities.

Enrollment Services and List Management

The Enrollment Services and List Management segment provides a wide range of direct marketing products and services to help schools and businesses reach the middle school, high school, college bound high school, college, and young adult market places. In addition, this segment offers products and services that are focused on helping (i) students plan and prepare for life after high school and (ii) colleges recruit and retain students.

Software and Technical Services

The Software and Technical Services segment provides information technology products and full-service technical consulting, with core areas of business in educational loan software solutions, business intelligence, technical consulting services, and Enterprise Content Management (ECM) solutions.

***Asset Generation and Management Operating Segment***

The Asset Generation and Management segment includes the acquisition, management, and ownership of the Company's student loan assets. Revenues are primarily generated from the Company's earnings from the spread, referred to as the Company's student loan spread, between the yield received on the student loan portfolio and the costs associated with originating, acquiring, financing, servicing, and managing the student loan portfolio. The Company generates student loan assets through direct origination or through acquisitions. The student loan assets are held in a series of education lending subsidiaries designed specifically for this purpose. In addition to the student loan portfolio, all costs and activity associated with the generation of assets, funding of those assets, and maintenance of the debt

transactions are included in this segment. This includes derivative activity and the related derivative market value and foreign currency adjustments. The Company is also able to leverage its capital market expertise by providing investment advisory services and other related services to third parties through a licensed broker dealer subsidiary. Revenues and expenses for those functions are also included in the Asset Generation and Management segment.

***Segment Operating Results - “Base Net Income”***

The tables below include the operating results of each of the Company’s operating segments. Management, including the chief operating decision maker, evaluates the Company on certain non-GAAP performance measures that the Company refers to as “base net income” for each operating segment. While “base net income” is not a substitute for reported results under GAAP, the Company relies on “base net income” to manage each operating segment because it believes this measure provides additional information regarding the operational and performance indicators that are most closely assessed by management.

“Base net income” is the primary financial performance measure used by management to develop the Company’s financial plans, track results, and establish corporate performance targets and incentive compensation. Management believes this information provides additional insight into the financial performance of the core business activities of the Company’s operating segments. Accordingly, the tables presented below reflect “base net income,” which is the operating measure reviewed and utilized by management to manage the business. Reconciliation of the segment totals to the Company’s operating results in accordance with GAAP are also included in the tables below.

Table of Contents**Segment Results and Reconciliations to GAAP**

Three months ended June 30, 2008

	Student Loan and Guaranty Servicing	Fee-Based Tuition Payment and Campus Commerce	Enrollment Services and List Management	Software and Technical Services	Total Fee- Based	Asset Generation and Management	Corporate Activity and Overhead	Eliminations and Reclassifications	"Base net income" Adjustments to GAAP Results	GAAP Results of Operations
Total interest income	\$ 243	310	1	—	554	282,293	1,574	(546)	21,927	305,802
Interest expense	—	—	1	—	1	222,402	10,607	(546)	—	232,464
Net interest income (loss)	243	310	—	—	553	59,891	(9,033)	—	21,927	73,338
Less provision for loan losses	—	—	—	—	—	6,000	—	—	—	6,000
Net interest income (loss) after provision for loan losses	243	310	—	—	553	53,891	(9,033)	—	21,927	67,338
Other income (expense):										
Loan and guaranty servicing income	24,747	—	—	—	24,747	157	—	—	—	24,904
Other fee-based income	—	10,292	26,067	—	36,359	4,458	—	—	—	40,817
Software services income	—	—	—	4,896	4,896	—	—	—	—	4,896
Other income	6	(21)	—	—	(15)	393	1,268	—	—	1,646
Gain on sale of loans	—	—	—	—	—	48	—	—	—	48
Intersegment revenue	18,382	(76)	—	1,517	19,823	—	13,960	(33,783)	—	—
Derivative market value, foreign currency, and put option adjustments	—	—	—	—	—	—	—	—	15,755	15,755
Derivative settlements, net	—	—	—	—	—	11,638	—	—	(7,201)	4,437
Total other income (expense)	43,135	10,195	26,067	6,413	85,810	16,694	15,228	(33,783)	8,554	92,503

Operating expenses:										
Salaries and benefits	12,491	5,784	6,373	4,702	29,350	1,954	12,828	(1,333)	750	43,549
Restructure expense - severance and contract termination costs	(104)	—	(15)	(8)	(127)	(52)	(186)	365	—	—
Other expenses	8,011	2,551	17,284	714	28,560	5,095	14,921	(764)	6,561	54,373
Intersegment expenses	9,822	461	1,580	342	12,205	18,952	894	(32,051)	—	—
Total operating expenses	30,220	8,796	25,222	5,750	69,988	25,949	28,457	(33,783)	7,311	97,922
Income (loss) before income taxes										
	13,158	1,709	845	663	16,375	44,636	(22,262)	—	23,170	61,919
Income tax expense (benefit) (a)	4,079	530	262	206	5,077	13,837	(6,902)	—	7,183	19,195
Net income (loss) from continuing operations	9,079	1,179	583	457	11,298	30,799	(15,360)	—	15,987	42,724
Income from discontinued operations, net of tax	—	—	—	—	—	—	—	—	981	981
Net income (loss)	\$ 9,079	1,179	583	457	11,298	30,799	(15,360)	—	16,968	43,705

(a) Beginning in 2008, the consolidated effective tax rate is used to calculate income taxes for each operating segment.

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## Three months ended June 30, 2007

	Fee-Based Student Tuition Loan Payment and Processing Guaranty Servicing	Enrollment and Campus Management	Services List	Software and Technical Services	Total Fee- Based	Asset Generation and Management	Corporate Activity and Overhead	Elimination and Reclassification	"Base net income" Adjustments to GAAP Results	GAAP Results of Operations
Total interest income	\$ 1,181	670	93	—	1,944	433,404	554	(33)	—	435,869
Interest expense	—	2	2	—	4	358,341	9,581	(33)	—	367,893
Net interest income (loss)	1,181	668	91	—	1,940	75,063	(9,027)	—	—	67,976
Less provision for loan losses	—	—	—	—	—	2,535	—	—	—	2,535
Net interest income (loss) after provision for loan losses	1,181	668	91	—	1,940	72,528	(9,027)	—	—	65,441
Other income (expense):										
Loan and guaranty servicing income	31,492	—	—	—	31,492	118	—	—	—	31,610
Other fee-based income	—	9,405	24,923	—	34,328	3,674	260	—	—	38,262
Software services income	—	—	157	5,691	5,848	—	—	—	—	5,848
Other income	5	25	—	—	30	105	1,792	—	—	1,927
Gain on sale of loans	—	—	—	—	—	1,010	—	—	—	1,010
Intersegment revenue	20,120	188	178	4,389	24,875	—	4,100	(28,975)	—	—
Derivative market value, foreign currency, and put option adjustments	—	—	—	—	—	—	—	—	5,547	5,547
Derivative settlements, net	—	—	—	—	—	(461)	5,657	—	—	5,196
Total other income (expense)	51,617	9,618	25,258	10,080	96,573	4,446	11,809	(28,975)	5,547	89,400



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Operating expenses:										
Salaries and benefits	22,023	5,082	9,022	5,857	41,984	7,167	12,272	(2,138)	476	59,761
Other expenses	8,404	2,333	14,589	751	26,077	7,246	21,071	—	6,491	60,885
Intersegment expenses	3,750	25	29	403	4,207	22,034	596	(26,837)	—	—
Total operating expenses	34,177	7,440	23,640	7,011	72,268	36,447	33,939	(28,975)	6,967	120,646
Income (loss) before income taxes										
	18,621	2,846	1,709	3,069	26,245	40,527	(31,157)	—	(1,420)	34,195
Income tax expense (benefit) (a)										
	7,076	1,082	649	1,167	9,974	15,400	(11,500)	—	(568)	13,306
Net income (loss) from continuing operations										
	11,545	1,764	1,060	1,902	16,271	25,127	(19,657)	—	(852)	20,889
Loss from discontinued operations, net of tax										
	—	—	—	—	—	—	—	—	(6,135)	(6,135)
Net income (loss)										
	\$ 11,545	1,764	1,060	1,902	16,271	25,127	(19,657)	—	(6,987)	14,754

(a) Income taxes are based on 38% of net income (loss) before tax for the individual operating segment.

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## Six months ended June 30, 2008

	Fee-Based Student Tuition Loan Payment and Processing Guaranty and Servicing	Enrollment and Campus List Management	Software and Technical Services	Total Fee- Based	Asset Generation and Management	Corporate Activity and Overhead	Eliminations and Reclassifications	"Base net income" Adjustments to GAAP Results	GAAP Results of Operations	
Total interest income	\$ 856	1,075	10	—	1,941	602,651	2,771	(640)	40,745	647,468
Interest expense	—	—	2	—	2	538,417	19,826	(640)	—	557,605
Net interest income (loss)	856	1,075	8	—	1,939	64,234	(17,055)	—	40,745	89,863
Less provision for loan losses	—	—	—	—	—	11,000	—	—	—	11,000
Net interest income (loss) after provision for loan losses	856	1,075	8	—	1,939	53,234	(17,055)	—	40,745	78,863
Other income (expense):										
Loan and guaranty servicing income	50,855	—	—	—	50,855	162	—	—	—	51,017
Other fee-based income	—	24,114	53,289	—	77,403	9,327	—	—	—	86,730
Software services income	—	—	37	11,611	11,648	—	—	—	—	11,648
Other income	38	4	—	—	42	381	2,633	—	—	3,056
Loss on sale of loans	—	—	—	—	—	(47,426)	—	—	—	(47,426)
Intersegment revenue	38,606	184	—	3,333	42,123	—	31,173	(73,296)	—	—
Derivative market value, foreign currency, and put option adjustments	—	—	—	—	—	466	—	—	(42,072)	(41,606)
Derivative settlements, net	—	—	—	—	—	55,165	—	—	(9,965)	45,200
Total other income	89,499	24,302	53,326	14,944	182,071	18,075	33,806	(73,296)	(52,037)	108,619

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(expense)										
Operating expenses:										
Salaries and benefits	26,489	11,214	12,896	9,870	60,469	4,178	27,419	3,280	2,046	97,392
Restructure expense - severance and contract termination costs	747	—	282	510	1,539	1,844	3,729	(7,112)	—	—
Impairment expense	5,074	—	—	—	5,074	9,351	4,409	—	—	18,834
Other expenses	16,498	4,611	35,447	1,333	57,889	10,439	28,786	298	13,121	110,533
Intersegment expenses	23,100	757	3,427	736	28,020	39,554	2,188	(69,762)	—	—
Total operating expenses	71,908	16,582	52,052	12,449	152,991	65,366	66,531	(73,296)	15,167	226,759
Income (loss) before income taxes										
	18,447	8,795	1,282	2,495	31,019	5,943	(49,780)	—	(26,459)	(39,277)
Income tax expense (benefit) (a)										
	5,719	2,727	397	774	9,617	1,842	(15,433)	—	(8,202)	(12,176)
Net income (loss) from continuing operations										
	12,728	6,068	885	1,721	21,402	4,101	(34,347)	—	(18,257)	(27,101)
Income from discontinued operations, net of tax										
	—	—	—	—	—	—	—	—	981	981
Net income (loss)										
	\$ 12,728	6,068	885	1,721	21,402	4,101	(34,347)	—	(17,276)	(26,120)

(a) Beginning in 2008, the consolidated effective tax rate is used to calculate income taxes for each operating segment.

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## Six months ended June 30, 2007

	Fee-Based Student Tuition Loan Payment and Processing Guaranty and Servicing	Enrollment and Campus Management	Services List	Software and Technical Services	Total Fee- Based	Asset Generation and Management	Corporate Activity and Overhead	Eliminations and Reclassifications	"Base net income" Adjustments to GAAP Results	GAAP Results of Operations
Total interest income	\$ 3,425	1,680	180	18	5,303	847,894	4,355	(3,204)	—	854,348
Interest expense	—	7	4	—	11	699,999	21,582	(3,204)	—	718,388
Net interest income (loss)	3,425	1,673	176	18	5,292	147,895	(17,227)	—	—	135,960
Less provision for loan losses	—	—	—	—	—	5,288	—	—	—	5,288
Net interest income (loss) after provision for loan losses	3,425	1,673	176	18	5,292	142,607	(17,227)	—	—	130,672
Other income (expense):										
Loan and guaranty servicing income	61,958	—	—	—	61,958	118	—	—	—	62,076
Other fee-based income	—	21,176	49,870	—	71,046	6,985	260	—	—	78,291
Software services income	—	—	287	11,309	11,596	—	—	—	—	11,596
Other income	11	28	—	—	39	3,148	3,833	—	—	7,020
Gain on sale of loans	—	—	—	—	—	2,796	—	—	—	2,796
Intersegment revenue	36,584	340	928	8,221	46,073	—	6,116	(52,189)	—	—
Derivative market value, foreign currency, and put option adjustments	—	—	—	—	—	—	—	—	(6,583)	(6,583)
Derivative settlements, net	—	—	—	—	—	(885)	10,321	—	—	9,436
Total other income	98,553	21,544	51,085	19,530	190,712	12,162	20,530	(52,189)	(6,583)	164,632

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(expense)

Operating expenses:

Salaries and benefits	45,027	10,000	18,391	12,332	85,750	14,446	24,978	(4,662)	953	121,465
Other expenses	17,654	4,493	29,148	1,535	52,830	15,511	38,940	—	13,129	120,410
Intersegment expenses	7,068	399	185	403	8,055	38,670	802	(47,527)	—	—
Total operating expenses	69,749	14,892	47,724	14,270	146,635	68,627	64,720	(52,189)	14,082	241,875

Income (loss) before income taxes

Income tax expense (benefit) (a)	12,247	3,164	1,344	2,006	18,761	32,734	(23,826)	—	(7,099)	20,570
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Net income (loss) from continuing operations

Loss from discontinued operations, net of tax	—	—	—	—	—	—	—	—	—	—
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