NELNET INC
Form 10-Q
August 10, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2009

or

o **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

NELNET, INC.
(Exact name of registrant as specified in its charter)

NEBRASKA	**84-0748903**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
121 SOUTH 13TH STREET, SUITE 201 LINCOLN, NEBRASKA	**68508**
(Address of principal executive offices)	(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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated filer þ Non-accelerated filer o Smaller reporting company o

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

As of July 31, 2009, there were 38,325,862 and 11,495,377 shares of Class A Common Stock and Class B Common Stock, par value $0.01 per share, outstanding, respectively (excluding 11,317,364 shares of Class A Common Stock held by a wholly owned subsidiary).

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	As of June 30, 2009 (unaudited)	As of December 31, 2008
Assets:		
Student loans receivable (net of allowance for loan losses of $50,000 and $50,922, respectively)	$ 23,889,571	25,413,008
Student loans receivable held for sale	1,749,290	
Cash and cash equivalents:		
Cash and cash equivalents not held at a related party	14,171	13,129
Cash and cash equivalents held at a related party	352,656	176,718
Total cash and cash equivalents	366,827	189,847
Restricted cash and investments	1,082,480	997,272
Restricted cash due to customers	41,127	160,985
Accrued interest receivable	385,158	471,878
Accounts receivable (net of allowance for doubtful accounts of $1,273 and $1,005, respectively)	52,106	42,088
Goodwill	175,178	175,178
Intangible assets, net	65,115	77,054
Property and equipment, net	31,541	38,747
Other assets	103,429	113,666
Fair value of derivative instruments	168,720	175,174
Total assets	$ 28,110,542	27,854,897
Liabilities:		
Bonds and notes payable	$ 27,169,573	26,787,959
Accrued interest payable	34,911	81,576
Other liabilities	176,390	179,336
Due to customers	41,127	160,985
Fair value of derivative instruments	7,354	1,815
Total liabilities	27,429,355	27,211,671
Shareholders equity:		
Preferred stock, $0.01 par value. Authorized 50,000,000 shares; no shares issued or outstanding		
Common stock:		
	383	378

Class A, $0.01 par value. Authorized 600,000,000 shares; issued and outstanding 38,325,492 shares as of June 30, 2009 and 37,794,067 shares as of December 31, 2008		
Class B, convertible, $0.01 par value. Authorized 60,000,000 shares; issued and outstanding 11,495,377 shares as of June 30, 2009 and December 31, 2008	115	115
Additional paid-in capital	107,959	103,762
Retained earnings	574,179	540,521
Employee notes receivable	(1,449)	(1,550)
Total shareholders equity	681,187	643,226
Commitments and contingencies		
Total liabilities and shareholders equity	$ 28,110,542	27,854,897

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,	
	2009	**2008**	**2009**	**2008**
Interest income:				
Loan interest	$ 160,413	296,686	331,332	626,672
Investment interest	2,776	9,116	6,867	20,796
Total interest income	163,189	305,802	338,199	647,468
Interest expense:				
Interest on bonds and notes payable	106,082	232,464	252,584	557,605
Net interest income	57,107	73,338	85,615	89,863
Less provision for loan losses	8,000	6,000	15,500	11,000
Net interest income after provision for loan losses	49,107	67,338	70,115	78,863
Other income (expense):				
Loan and guaranty servicing revenue	28,803	23,821	55,274	48,482
Tuition payment processing and campus commerce revenue	11,848	10,270	27,386	24,117
Enrollment services revenue	28,747	26,068	57,518	53,290
Software services revenue	6,119	5,979	11,824	14,183
Other income	11,527	6,125	28,389	12,379
Gain (loss) on sale of loans	(196)	48	(402)	(47,426)
Derivative market value, foreign currency, and put option adjustments and derivative settlements, net	(24,478)	20,192	(5,000)	3,594
Total other income	62,370	92,503	174,989	108,619
Operating expenses:				
Salaries and benefits	40,180	43,549	78,406	97,392
Other operating expenses:				
Cost to provide enrollment services	18,092	14,755	35,885	30,158
Depreciation and amortization	9,527	10,603	19,610	21,437
Professional and other services	7,721	8,029	13,798	15,224
Occupancy and communications	5,588	4,914	10,942	10,755
Trustee and other debt related fees	2,444	2,464	5,100	4,854
Postage and distribution	2,274	2,534	5,142	6,115
Advertising and marketing	1,986	2,046	3,696	3,994
Impairment expense				18,834
Other	9,544	9,028	17,348	17,996

Total other operating expenses	57,176	54,373	111,521	129,367
Total operating expenses	97,356	97,922	189,927	226,759
Income (loss) before income taxes	14,121	61,919	55,177	(39,277)
Income tax (expense) benefit	(5,918)	(19,195)	(21,519)	12,176
Income (loss) from continuing operations	8,203	42,724	33,658	(27,101)
Income from discontinued operations, net of tax		981		981
Net income (loss)	$ 8,203	43,705	33,658	(26,120)
Earnings (loss) per share, basic and diluted:				
Income (loss) from continuing operations	$ 0.16	0.86	0.68	(0.55)
Income from discontinued operations		0.02		0.02
Net income (loss)	$ 0.16	0.88	0.68	(0.53)

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 stock shares Class A	Common stock shares Class B	Preferred stock	Class A common stock	Class B common stock	Additional paid-in capital	Retained earnings	Employee notes receivable	Total shareholders equity
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			311
Compensation expense for stock based awards							1,848			1,848
Repurchase of common stock		(13,994)					(179)			(179)
Reduction of employee stock notes receivable									250	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 March 31, 2009		38,276,870	11,495,377	$	383	115	106,678	565,976	(1,550)	671,602
Comprehensive income:										
Net income								8,203		8,203
Total comprehensive income										8,203
Issuance of common stock,		51,951					953			953

net of forfeitures									
Compensation expense for stock based awards						353			353
Repurchase of common stock	(3,329)					(25)			(25)
Reduction of employee stock notes receivable								101	101
Balance as of June 30, 2009	38,325,492	11,495,377	$	383	115	107,959	574,179	(1,449)	681,187
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
Balance as of December 31,	37,794,067	11,495,377	$	378	115	103,762	540,521	(1,550)	643,226

2008 Comprehensive income:									
Net income							33,658		33,658
Total comprehensive income									33,658
Issuance of common stock, net of forfeitures	538,534			5		3,298			3,303
Compensation expense for stock based awards						961			961
Repurchase of common stock	(7,109)					(62)			(62)
Reduction of employee stock notes receivable								101	101
Balance as of June 30, 2009	38,325,492	11,495,377	$	383	115	107,959	574,179	(1,449)	681,187

See accompanying notes to consolidated financial statements.

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

	Six months ended June 30, 2009	2008
Net income (loss)	$ 33,658	(26,120)
Income from discontinued operations		981
Income (loss) from continuing operations	33,658	(27,101)
Adjustments to reconcile income (loss) from continuing operations to net cash provided by operating activities:		
Depreciation and amortization, including loan premiums and deferred origination costs	57,890	74,312
Provision for loan losses	15,500	11,000
Impairment expense		18,834
Derivative market value adjustment	22,270	(47,462)
Foreign currency transaction adjustment	16,623	88,530
Change in value of put options issued in business combinations		538
Proceeds to terminate and/or amend derivative instruments	1,432	7,547
Payments to terminate and/or amend derivative instruments	(11,710)	
Gain from purchase of debt	(13,937)	
Loss on sale of loans	402	47,426
Non-cash compensation expense	1,371	4,372
Deferred income tax benefit	(26,864)	(24,237)
Other non-cash items	8,692	344
Decrease in accrued interest receivable	86,720	91,778
(Increase) decrease in accounts receivable	(10,018)	3,098
Decrease in other assets	10,036	9,419
Decrease in accrued interest payable	(46,665)	(42,950)
Increase (decrease) in other liabilities	10,616	(28,351)
Net cash flows from operating activities continuing operations	156,016	187,097
Net cash flows from operating activities discontinued operations		
Net cash provided by operating activities	156,016	187,097
Cash flows from investing activities:		
Originations, purchases, and consolidations of student loans, including loan premiums and deferred origination costs	(1,467,312)	(1,480,305)
Purchases of student loans, including loan premiums, from a related party	(20,392)	(212,888)
Net proceeds from student loan repayments, claims, capitalized interest, participations, and other	1,177,455	1,061,510
Proceeds from sale of student loans	341	1,267,826
Proceeds from sale of student loans to a related party	40,033	

Purchases of property and equipment, net	(444)	(3,721)
Increase in restricted cash and investments, net	(85,208)	(80,066)
Purchases of equity method investments		(2,988)
Business acquisition contingent consideration		(18,000)
Net cash flows from investing activities continuing operations	(355,527)	531,368
Net cash flows from investing activities discontinued operations		
Net cash (used in) provided by investing activities	(355,527)	531,368
Cash flows from financing activities:		
Payments on bonds and notes payable	(2,184,109)	(5,444,408)
Proceeds from issuance of bonds and notes payable	2,584,680	4,761,143
(Payments) proceeds from issuance of notes payable due to a related party, net	(21,520)	9,269
Payments of debt issuance costs	(2,830)	(14,634)
Dividends paid		(3,458)
Proceeds from issuance of common stock	231	423
Repurchases of common stock	(62)	(667)
Payments received on employee stock notes receivable	101	575
Net cash flows from financing activities continuing operations	376,491	(691,757)
Net cash flows from financing activities discontinued operations		
Net cash provided by (used in) financing activities	376,491	(691,757)
Net increase in cash and cash equivalents	176,980	26,708
Cash and cash equivalents, beginning of period	189,847	111,746
Cash and cash equivalents, end of period	$ 366,827	138,454
Supplemental disclosures of cash flow information:		
Interest paid	$ 294,041	589,578
Income taxes paid, net of refunds	$ 30,299	14,126

See accompanying notes to consolidated financial statements.

NELNET, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Information as of June 30, 2009 and for the three and six months ended June 30, 2009 and 2008 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, 2009 and for the three and six months ended June 30, 2009 and 2008 have been prepared on the same basis as the audited consolidated financial statements for the year ended December 31, 2008 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, 2009 are not necessarily indicative of the results for the year ending December 31, 2009. 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, 2008. Certain amounts from 2008 have been reclassified to conform to the current period presentation. Management has evaluated subsequent events, and the impact on the reported results and disclosures, through August 10, 2009, which is the date these financial statements were filed with the Securities and Exchange Commission.

2. Restructuring Charge

During the second quarter of 2009, the Company adopted a plan to further streamline its operations by continuing to reduce its geographic footprint and consolidate servicing operations and related support services.

Management has developed a restructuring plan that will result in lower costs and provide enhanced synergies through cross training, career development, and simplified communications. The Company will simplify its operating structure to leverage its larger facilities and technology by closing certain offices and downsizing its presence in certain geographic locations. Approximately 300 associates will be impacted by this restructuring plan. However, the majority of these functions will be relocated to the Company s Lincoln headquarters and Denver offices. Implementation of the plan began immediately and is expected to be substantially complete during the second quarter of 2010.

The Company estimates that the charge to earnings associated with this restructuring plan will be fully recognized by December 31, 2010 and will total approximately $9.2 million, consisting of approximately $5.7 million in severance costs and approximately $3.5 million in contract terminations, of which approximately $5.4 million are expected to be recognized in 2009. During the three month period ended June 30, 2009, the Company recorded charges of $2.8 million. Selected information relating to the restructuring charge follows:

	Employee termination benefits	Lease terminations	Total
Restructuring costs recognized during the three month period ended June 30, 2009	$ 1,482(a)	1,291(b)	2,773
Cash payments	672		672
Restructuring accrual as of June 30, 2009	$ 810	1,291	2,101

(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.

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 June 30, 2009	Cash payments	Restructuring accrual as of June 30, 2009
Student Loan and Guaranty Servicing	$ 1,998	186	1,812
Tuition Payment Processing and Campus Commerce			
Enrollment Services			
Software and Technical Services	422	273	149
Asset Generation and Management			
Corporate Activity and Overhead	353	213	140
	$ 2,773	672	2,101

Operating segment	Estimated total restructuring costs	Restructuring costs recognized during the three month period ended June 30, 2009	Remaining restructuring costs expected to be recognized
Student Loan and Guaranty Servicing	$ 6,752	1,998	4,754
Tuition Payment Processing and Campus Commerce			
Enrollment Services			
Software and Technical Services	1,066	422	644
Asset Generation and Management			
Corporate Activity and Overhead	1,418	353	1,065

$	9,236	2,773	6,463

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In 2007 and 2008, the Company recorded restructuring charges related to certain legislative events and disruptions in the capital markets. As a result of the restructurings, the Company incurred expenses related to severance, contract terminations, and impairment of long-lived assets. These restructuring plans were completed by management in December 2007 and January 2008. However, an accrual related to certain lease terminations remains. Information relating to such accrual follows:

Restructuring accrual as of December 31, 2008	$ 3,480
Cash payments	(228)
Restructuring accrual as of March 31, 2009	3,252
Cash payments	(228)
Adjustment from initial estimate of charges (a)	515
Restructuring accrual as of June 30, 2009	$ 3,539

(a) Additional expense related to this adjustment is included in occupancy and communications in the consolidated statements of operations.

3. Student Loans Receivable and Allowance for Loan Losses

Student loans consist of federally insured student loans, non-federally insured student loans, and student loan participations. If the Company has the ability and intent to hold loans for the foreseeable future, such loans are held for investment and, carried at amortized cost. Amortized cost includes the unamortized premiums and capitalized origination costs and fees, all of which are amortized to interest income. Loans which are held-for-investment also have an allowance for loan loss as needed. Any loans the Company has the ability and intent to sell are classified as held for sale and are carried at the lower of cost or fair value. Loans which are held-for-sale do not have the associated premium and origination costs and fees amortized into interest income and there is also no related allowance for loan losses.

As of June 30, 2009, the Company had $1.7 billion of Federal Family Education Loan Program (FFELP) loans classified as held for sale. These loans are funded using the Department of Education s Loan Participation Program (the Participation Program) and are expected to be sold to the Department of Education (the Department) under the Department s Loan Purchase Commitment Program (the Purchase Program) during 2009. Under the 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. Upon selling the $1.7 billion in loans held for sale, the Company expects to recognize a gain of approximately $31 million to $34 million. The Company plans to continue to use the Participation and Purchase Programs to fund loans originated through the 2009-2010 academic year (see note 4 for additional information related to the Department s Participation and Purchase Programs).

Student loans receivable consisted of the following:

	As of June 30, 2009	As of December 31, 2008
Federally insured loans held-for-investment	$ 23,367,777	24,787,941

Federally insured loans held-for-sale	1,731,040	
Non-federally insured loans	200,722	273,108
	25,299,539	25,061,049
Unamortized loan premiums and deferred origination costs held-for-investment	371,072	402,881
Unamortized loan premiums and deferred origination costs held-for-sale	18,250	
Allowance for loan losses federally insured loans (held-for-investment)	(28,093)	(25,577)
Allowance for loan losses non-federally insured loans	(21,907)	(25,345)
	$ 25,638,861	25,413,008
Allowance for federally insured loans held-for-investment as a percentage of such loans	0.12%	0.10%
Allowance for non-federally insured loans as a percentage of such loans	10.91%	9.28%
Total allowance as a percentage of the ending balance of total loans (excluding loans held-for-sale)	0.21%	0.20%

The Company has provided for an allowance for loan losses related to its student loan portfolio. Activity in the allowance for loan losses is shown below:

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Beginning balance	$ 48,497	46,137	50,922	45,592
Provision for loan losses	8,000	6,000	15,500	11,000
Loans charged off, net of recoveries	(5,197)	(4,228)	(9,102)	(7,933)
Sale of loans	(1,300)		(7,320)	(750)
Ending balance	$ 50,000	47,909	50,000	47,909

Loan Sales

During 2008 and the six months ended June 30, 2009, the Company sold federally insured student loans to third parties in order to reduce the amount of student loans remaining under the Company s multi-year committed financing facility for FFELP loans, which contains certain equity support provisions and has an expiration date in May 2010 (see note 4 for additional information related to the FFELP warehouse facility).

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.

During the three and six months ended June 30, 2009, the Company sold $20.0 million (par value) and $40.0 million (par value), respectively, of federally insured student loans to Union Bank & Trust Company (Union Bank), an entity under common control with the Company, resulting in the recognition of losses of $0.2 million and $0.4 million, respectively.

In addition, during the three and six months ended June 30, 2009, the Company participated $14.5 million and $65.0 million, respectively, of non-federally insured loans to third parties. Loans participated under these agreements qualify as sales pursuant to the provisions of Statement of Financial Accounting Standards (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. The loss on the sale of these loans was not material. Per the terms of the servicing agreements, the Company s servicing operations are obligated to repurchase loans subject to the participation interests when such loans become 60 or 90 days delinquent. The activity in the accrual account related to this repurchase obligation, which is included in other liabilities in the accompanying consolidated balance sheet, is detailed below.

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Beginning balance	$ 5,500			
Transfer from allowance for loan losses	1,300		6,800	
Reserve for repurchase of delinquent loans (a)	800		800	
Ending balance	$ 7,600		7,600	

(a)

The reserve for repurchase of loans is included in other under other operating expenses in the accompanying consolidated statements of operations.

4. Bonds and Notes Payable

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

	As of June 30, 2009				
	Carrying amount	Interest rate range		Final maturity	
Variable-rate bonds and notes (a):					
Bonds and notes based on indices	$ 20,063,227	0.61%	6.90%	09/25/13	06/25/41
Bonds and notes based on auction or remarketing	2,606,740	0.46%	2.96%	11/01/09	07/01/43
Total variable-rate bonds and notes	22,669,967				
Commercial paper FFELP facility (b)	420,936	0.32%	1.13%	05/09/10	
Fixed-rate bonds and notes (a)	188,797	5.40%	6.50%	11/01/09	05/01/29
Unsecured fixed rate debt	402,864	5.125% and 7.40%		06/01/10 and 09/15/61	
Unsecured line of credit	691,500	0.79%	0.85%	05/08/12	
Department of Education Participation	1,741,481	1.24%		09/30/09	
Department of Education Conduit	1,023,600	0.52%		05/08/14	
Other borrowings	30,428	0.32%	5.10%	01/01/10	11/01/15
	$ 27,169,573				

	As of December 31, 2008				
	Carrying amount	Interest rate range		Final maturity	
Variable-rate bonds and notes (a):					
Bonds and notes based on indices	$ 20,509,073	0.75%	5.02%	09/25/13	06/25/41
Bonds and notes based on auction or remarketing	2,713,285	0.00%	6.00%	11/01/09	07/01/43
Total variable-rate bonds and notes	23,222,358				
Commercial paper FFELP facility (b)	1,445,327	1.32%	2.94%	05/09/10	
Commercial paper private loan facility (b)	95,020	2.49%		03/14/09	
Fixed-rate bonds and notes (a)	202,096	5.30%	6.68%	11/01/09	05/01/29
Unsecured fixed rate debt	475,000	5.125% and 7.40%		06/01/10 and 09/15/61	
Unsecured line of credit	691,500	0.98%	2.41%	05/08/12	
Department of Education Participation	622,170	3.37%		09/30/09	
Other borrowings	34,488	1.25%	5.47%	05/22/09	11/01/15
	$ 26,787,959				

(a)

Issued in asset-backed securitizations

(b) Loan warehouse facilities

Secured Financing Transactions

The Company has historically relied 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, asset-backed securitizations, and the government s Participation and Conduit Programs (as described below).

Most of the bonds and notes payable are primarily secured by the student loans receivable, related accrued interest, and by the amounts on deposit in the accounts established under the respective bond resolutions or financing agreements. The student loan interest margin notes, included in fixed rate bonds and notes in the above tables, are secured by the rights to residual cash flows from certain variable rate bonds and notes and fixed rate notes. Certain variable rate bonds and notes and fixed rate bonds are secured by financial guaranty insurance policies or a letter of credit and reimbursement agreement issued by Municipal Bond Investors Assurance Corporation, Ambac Assurance Corporation, and State Street.

On July 31, 2008, the Company did not renew its liquidity provisions on its FFELP loan warehouse facility. Accordingly, the facility became a term facility and no new loan originations could be funded with this facility. In August 2008, the Company began to fund FFELP student loan originations for the 2008-2009 academic year pursuant to the Department s Participation Program and an existing participation agreement with Union Bank. In May 2009, the Company began to fund FFELP loans pursuant to the Department s program under which it finances eligible FFELP Stafford and PLUS loans in a conduit vehicle established to provide funding for student lenders (the Conduit Program).

Loan warehouse facilities

Student loan warehousing has historically allowed the Company to buy and manage student loans prior to transferring them into more permanent financing arrangements. To support its funding needs on a short-term basis, the Company historically relied upon a multi-year committed facility for FFELP loans.

FFELP Warehouse Facility

The Company s multi-year committed facility for FFELP loans terminates in May 2010 and 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 a final maturity date of May 9, 2010. 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 provides for formula based advance rates based on market conditions. While the Company does not believe that the loan valuation formula is reflective of the actual fair value of its loans, it is subject to compliance with such mark-to-formula provisions of the warehouse facility agreement. As of December 31, 2008, the Company had $1.6 billion of student loans in the facility, $1.4 billion borrowed under the facility, and $280.6 million posted as equity funding support for this facility.

On March 26, 2009, the Company completed a privately placed asset-backed securitization of $294.6 million. Subsequent to March 31, 2009, the Company used the proceeds from the sale of these notes and additional funds of approximately $10 million to purchase approximately $305 million of principal and interest on student loans, which were previously financed under the Company s FFELP warehouse facility.

In June 2009, the Company accessed the Department s Conduit Program (as further discussed below) to fund approximately $790 million of principal and interest on student loans, which were previously financed under the Company s FFELP warehouse facility. The Company is permitted to fund 97% of the principal and interest expected to be capitalized. Accordingly, the Company borrowed approximately $763 million under the Conduit Program for purposes of refinancing loans in the FFELP warehouse facility. Excess amounts needed to fund the remaining 3% of the student loan balances were contributed by the Company.

Removing student loans from the FFELP warehouse facility as a result of the privately placed asset-backed securitization and Conduit Program allowed the Company to withdraw cash posted as equity funding support for the FFELP facility. As of June 30, 2009, the Company had $403.7 million of student loans in the facility, $420.9 million borrowed under the facility, and $62.8 million posted as equity funding support.

On August 3, 2009, the Company entered into a new FFELP warehouse facility (the 2009 FFELP Warehouse Facility). The 2009 FFELP Warehouse Facility has a maximum financing amount of $500.0 million, with a revolving financing structure supported by 364-day liquidity provisions, which expire on August 2, 2010. The final maturity date of the facility is August 3, 2012. In the event the Company is unable to renew the liquidity provisions by August 2, 2010, the facility would become a term facility at a stepped-up cost, with no additional student loans being eligible for financing, and the Company would be required to refinance the existing loans in the facility by August 3, 2012. The Company plans to utilize the new facility to refinance the remaining student loans in the Company s prior FFELP warehouse facility that expires in May 2010. Refinancing these loans will allow the Company to withdraw all remaining equity funding support from the prior FFELP warehouse facility.

The 2009 FFELP Warehouse Facility provides for formula based advance rates depending on FFELP loan type. The advance rates for collateral may increase or decrease based on market conditions. The all-in pricing for the facility during the first year (including up-front fees and other costs to structure the facility) is expected to be just below the conduit s commercial paper rate plus 1%. The facility contains financial covenants relating to levels of the Company s consolidated net worth, ratio of adjusted EBITDA to corporate debt interest, and unencumbered cash. Any violation of these covenants could result in a requirement for the immediate repayment of any outstanding borrowings under the facility. Unlike the Company s prior FFELP warehouse facility, the new facility does not require the Company to refinance or remove a percentage of the pledged student loan collateral on an annual basis.

Private Loan Warehouse Facility

On February 25, 2009, the Company paid $91.5 million on the outstanding debt of its private loan warehouse facility with operating cash and terminated the facility. Beginning in January 2008, the Company suspended private student loan originations.

Asset-backed securitizations

As part of the Company s issuance of asset-backed securities 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.

Department of Education s Loan Participation and Purchase Commitment Programs

In August 2008, the Department implemented the Purchase Program and the Participation Program pursuant to the Ensuring Continued Access to Student Loans Act of 2008 (ECASLA). Under the Department s 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. Under the Participation Program, the Department provides interim short term liquidity to FFELP lenders by purchasing participation interests in pools of FFELP loans. FFELP lenders are charged a rate of commercial paper plus 50 basis points on the principal amount of participation interests outstanding. Loans funded under the Participation Program for the 2008-2009 academic year must be either refinanced by the lender or sold to the Department pursuant to the Purchase Program prior to September 30, 2009. To be eligible for purchase or participation under the Department s programs, loans were originally limited to 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.

On October 7, 2008, legislation was enacted to extend the Department s authority to address FFELP student loans made for the 2009-2010 academic year and allowing for the extension of the Participation Program and Purchase Program from September 30, 2009 to September 30, 2010. The Department indicated that loans for the 2008-2009 academic year which are funded under the Department s Participation Program will need to be refinanced or sold to the Department prior to September 30, 2009. On November 8, 2008, the Department announced the replication of the terms of the Participation and Purchase Programs, in accordance with the October 7, 2008 legislation, which will include FFELP student loans made for the 2009-2010 academic year.

As of June 30, 2009, the Company had $1.7 billion of FFELP loans funded using the Participation Program, which are classified as held for sale on the Company s consolidated balance sheet. These loans are expected to be sold to the Department under its Purchase Program in 2009. The Company plans to continue to use the Participation and Purchase Programs to fund loans through the 2009-2010 academic year.

Department of Education s Conduit Program

In January 2009, the Department published summary terms under which it will finance eligible FFELP Stafford and PLUS loans in a conduit vehicle established to provide funding for student lenders. Loans eligible for the Conduit Program must be first disbursed on or after October 1, 2003, but not later than June 30, 2009, and fully disbursed before September 30, 2009, and meet certain other requirements. The Conduit Program was launched on May 11, 2009. Funding for the Conduit Program is provided by the capital markets at a cost based on market rates, with the Company being advanced 97 percent of the student loan face amount. The Conduit Program has a term of five years and expires on May 8, 2014. The Student Loan Short-Term Notes (Student Loan Notes) issued by the Conduit Program are supported by a combination of (i) notes backed by FFELP loans, (ii) the Liquidity Agreement with the Federal Financing Bank, and (iii) the Put Agreement provided by the Department. If the conduit does not have sufficient funds to pay all Student Loan Notes, then those Student Loan Notes will be repaid with funds from the Federal Financing Bank. The Federal Financing Bank will hold the notes for a short period of time and, if at the end of

that time, the Student Loan Notes still cannot be paid off, the underlying FFELP loans that serve as collateral to the Conduit Program will be sold to the Department through the Put Agreement at a price of 97% of the face amount of the loans. As of June 30, 2009, the Company had $1.1 billion of student loans funded through the Conduit Program and $1.0 billion borrowed under the facility.

Union Bank Participation Agreement

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, 2009 and December 31, 2008, $786.3 million and $548.4 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 or an amount in excess of $750 million if mutually agreed to by both parties. Loans participated under this agreement qualify as a sale pursuant to the provisions of SFAS No. 140. Accordingly, the participation interests sold are not included on the Company s consolidated balance sheet.

Unsecured Line of Credit

The Company has a $750.0 million unsecured line of credit that terminates in May 2012. As of June 30, 2009, there was $691.5 million outstanding on this line. The weighted average interest rate on this line of credit was 0.80% as of June 30, 2009. 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. The lending commitment under the Company s unsecured line of credit is provided by a total of thirteen banks, with no individual bank representing more than 11% of the total lending commitment. The bank lending group includes Lehman Brothers Bank (Lehman), a subsidiary of Lehman Brothers Holdings Inc., which represents approximately 7% of the lending commitment under the line of credit. On September 15, 2008, Lehman Brothers Holdings Inc. filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code. Since the bankruptcy filing, the Company has experienced funding delays from Lehman for its portion of the lending commitment under the line of credit and the Company does not expect that Lehman will fund future borrowing requests. As of June 30, 2009, excluding Lehman s lending commitment, the Company has $51.2 million available for future use under its unsecured line of credit.

The line of credit agreement contains certain financial covenants that, if not met, lead to an event of default under the agreement. The covenants include maintaining:

- A minimum consolidated net worth
- A minimum adjusted EBITDA to corporate debt interest (over the last four rolling quarters)
- A limitation on subsidiary indebtedness
- A limitation on the percentage of non-guaranteed loans in the Company s portfolio

As of June 30, 2009, the Company was in compliance with all of these requirements. Many of these covenants are duplicated in the Company s other lending facilities, including its FFELP warehouse facilities.

The Company s operating line of credit does not have any covenants related to unsecured debt ratings. However, changes in the Company s ratings (as well as the amounts the Company borrows) have modest implications on the pricing level at which the Company obtains funding.

A default on the 2009 FFELP Warehouse Facility would result in an event of default on the Company s unsecured line of credit that would result in the outstanding balance on the line of credit becoming immediately due and payable.

Debt Purchases

During the first and second quarters of 2009, the Company purchased $34.9 million and $35.5 million, respectively, of its 5.125% Senior Notes due 2010 (the 2010 Notes) for a purchase price of $26.8 million and $31.1 million, respectively. These transactions resulted in gains of $8.1 million and $4.4 million, respectively. On July 28, 2009, the Company purchased $102.6 million of the 2010 Notes at par. Subsequent to this transaction, the Company has $102.0 million of 2010 Notes outstanding.

During the second quarter of 2009, the Company purchased $1.75 million of its Junior Subordinated Hybrid Securities for a purchase price of $0.35 million, which resulted in a gain of $1.4 million.

Subsequent to June 30, 2009, the Company repurchased $21.6 million of certain asset-backed securities for a purchase price of $19.3 million, which resulted in the Company recording a gain of $2.3 million in the third quarter of 2009.

Any gains recorded by the Company from the purchase of debt are included in other income on the Company s consolidated statement of operations.

5. Derivative Financial Instruments

The Company is exposed to certain risks relating to its ongoing business operations. The primary risks managed by using derivative instruments are interest rate risk and foreign currency exchange risk.

Interest Rate Risk

The Company s primary market risk exposure arises from fluctuations in its borrowing and lending rates, the spread between which could impact the Company due to shifts in market interest rates. Because the Company generates a significant portion of its earnings from its student loan spread, the interest rate sensitivity of the balance sheet is a key

profitability driver. The Company has adopted a policy of periodically reviewing the mismatch related to the interest rate characteristics of its assets and liabilities together with the Company s outlook as to current and future market conditions. Based on those factors, the Company uses derivative instruments as part of its overall risk management strategy.

The Company issues asset-backed securities, the vast majority being variable rate, to fund its student loan assets. The variable rate debt is generally indexed to 3-month LIBOR, set by auction, or through a remarketing process. The income generated by the Company s student loan assets is generally driven by short term indices (treasury bills, commercial paper, and certain fixed rates) that are different from those which affect the Company s liabilities (generally LIBOR), which creates basis risk. Moreover, the Company also faces repricing risk due to the timing of the interest rate resets on its liabilities, which may occur as infrequently as every quarter, and the timing of the interest rate resets on its assets, which generally occurs daily. In a declining interest rate environment, this may cause the Company s student loan spread to compress, while in a rising rate environment, it may cause the spread to increase.

In using different index types and different index reset frequencies to fund assets, the Company is exposed to interest rate risk in the form of basis risk and repricing risk, which, as noted above, is the risk that the different indices may reset at different frequencies, or will not move in the same direction or with the same magnitude. While these indices are short term with rate movements that are highly correlated over a longer period of time, they have recently become less correlated. Due to capital market dislocations or other factors not within the Company s control, there can be no assurance the indices will regain their high level of correlation in the future.

The Company has used derivative instruments to hedge the repricing risk due to the timing of the interest rate resets on its assets and liabilities. The Company has entered into basis swaps in which the Company (i) receives three-month LIBOR set discretely in advance and pays a daily weighted average three-month LIBOR less a spread as defined in the agreements (the Average/Discrete Basis Swaps); and (ii) receives three-month LIBOR and pays one-month LIBOR plus or minus a spread as defined in the agreements (the 1/3 Basis Swaps).

However, the Company does not generally hedge the basis risk due to the different interest rate indices associated with its assets and liabilities, since the derivatives needed to hedge this risk are generally illiquid or non-existent and the relationship between the indices for most of the Company s assets and liabilities has been highly correlated over a long period of time.

As of June 30, 2009, the Company had approximately $24.0 billion of FFELP loans indexed to three-month financial commercial paper rate and $20.1 billion of debt indexed to LIBOR. Due to the unintended consequences of government intervention in the commercial paper markets and limited issuances of qualifying financial commercial paper, the relationship between the three-month financial CP and LIBOR rates has been distorted and volatile. To address this issue, the Department announced that for purposes of calculating the FFELP loan index from October 27, 2008 to December 31, 2008, the Federal Reserve s Commercial Paper Funding Facility rate was used for those days in which no three-month financial commercial paper rate was available. This action partially mitigated the volatility between CP and LIBOR during the fourth quarter of 2008. However, the Department did not implement a similar methodology for the first and second quarters of 2009, which negatively impacted the Company s interest income earned on its student loan portfolio.

The following table summarizes the Company s basis swaps outstanding as of June 30, 2009 and December 31, 2008 used by the Company to hedge the repricing risk due to the timing of the interest rate resets on its assets and liabilities.

	As of June 30, 2009	
	Notional amount	
Maturity	Average/Discrete Basis Swaps	1/3 Basis Swaps (c)
2009 (a)	$ 7,000,000	
2011 (b)	6,000,000	
2018		1,300,000
2019		500,000
2021		250,000
2023		1,250,000
2024		250,000

2028		100,000
	$ 13,000,000	3,650,000

(a) Subsequent to June 30, 2009, the Company terminated all the Average/Discrete Basis Swaps with a maturity in 2009 for total proceeds of $2.4 million.

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(b) Certain of these derivatives have forward effective start dates of January 2010 ($1.5 billion), February 2010 ($1.5 billion), and March 2010 ($1.5 billion).

(c) Subsequent to June 30, 2009, the Company entered into additional 1/3 Basis Swaps with notional amounts of $500.0 million and $150.0 million with maturity dates in 2014 and 2039, respectively.

	As of December 31, 2008	
	Notional amount	
Maturity	**Average/Discrete Basis Swaps**	**1/3 Basis Swaps**
2010	$ 4,500,000	
2011	2,700,000	
2012	2,400,000	
2018		1,300,000
2023		1,250,000
2028		100,000
	$ 9,600,000	2,650,000

During the three months ended March 31, 2009, the Company terminated and/or amended certain Average/Discrete Basis Swap agreements for net payments of $11.7 million.

FFELP loans originated prior to April 1, 2006 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 SAP formula is based on an applicable index plus a fixed spread that is dependent upon when the loan was originated, the loan s repayment status, and funding sources for the loan. 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 typically continues to decline. In these interest rate environments, the Company may earn additional spread income that it refers to as floor income.

Depending on the type of loan and when it was originated, the borrower rate is either fixed to term or is reset to an annual rate each July 1. As a result, for loans where the borrower rate is fixed to term, the Company may earn 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 may earn floor income to the next reset date, which the Company refers to as variable rate floor income. In accordance with legislation enacted in 2006, lenders are required to rebate fixed rate floor income and variable rate floor income to the Department for all FFELP loans first originated on or after April 1, 2006.

Absent the use of derivative instruments, a rise in interest rates may reduce the amount of floor income received and this may have an impact 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 their special allowance payment formulas. 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.

As of June 30, 2009, the Company held the following interest rate derivatives to hedge fixed-rate student loan assets earning fixed rate floor income.

Maturity	**Notional Amount**	**Weighted average fixed rate paid by the Company (a)**
2010 (b)	$ 750,000	0.80%

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

(b) Certain of these derivatives have forward effective start dates of July 2009 ($250 million) and August 2009 ($250 million).

Foreign Currency Exchange Risk

During 2006, the Company completed separate debt offerings of student loan asset-backed securities that included 420.5 million and 352.7 million Euro-denominated notes (the Euro Notes) with interest rates based on a spread to the EURIBOR index. As a result of this transaction, the Company is exposed to market risk related to fluctuations in foreign currency exchange rates between the U.S. dollar and Euro. The principal and accrued interest on these notes is re-measured at each reporting period and recorded on the Company s balance sheet in U.S. dollars based on the foreign currency exchange rate on that date. Changes in the principal and accrued interest amounts as a result of foreign currency exchange rate fluctuations are included in the derivative market value, foreign currency, and put option adjustments and derivative settlements, net in the Company s consolidated statements of operations.

The Company entered into cross-currency interest rate swaps in connection with the issuance of the Euro Notes. Under the terms of these derivative instrument agreements, the Company receives from a counterparty a spread to the EURIBOR index based on notional amounts of 420.5 million and 352.7 million and pays a spread to the LIBOR index based on notional amounts 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 the notes.

For the three and six months ended June 30, 2009, the Company recorded an expense of $63.9 million and $16.6 million, respectively, as a result of re-measurement of the Euro Notes, and income of $41.2 million and an expense of $15.9 million, respectively, for the change in the fair value of the related derivative instruments. For the three and six months ended June 30, 2008, the Company recorded income of $4.4 million and an expense of $88.5 million, respectively, as a result of re-measurement of the Euro Notes, and an expense of $2.4 million and income of $91.7 million, respectively, for the change in the fair value of the related derivative instruments.

The re-measurement of the Euro-denominated bonds generally correlates with the change in fair value of the cross-currency interest rate swaps. However, the Company will experience unrealized gains or losses related to the cross-currency interest rate swaps if the two underlying indices (and related forward curve) do not move in parallel. Management intends to hold the cross-currency interest rate swaps through the maturity of the Euro-denominated bonds.

Accounting for Derivative Financial Instruments

The Company accounts for derivative instruments under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (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 the Company s derivatives at each reporting date are included in derivative market value, foreign currency, and put option adjustments and derivative settlements, net in the Company s consolidated statements of operations. Changes or shifts in the forward yield curve and fluctuations in currency rates can significantly impact the valuation of the Company s derivatives. Accordingly, changes or shifts to the forward yield curve and fluctuations in currency rates will impact the financial position and results of operations of the Company.

Any proceeds received or payments made by the Company to terminate a derivative in advance of its expiration date or to amend the terms of an existing derivative, are included in derivative market value, foreign currency, and put option adjustments and derivative settlements, net on the consolidated statements of operations and are accounted for as a change in fair value on such derivative.

The following table summarizes the fair value of the Company s derivatives not designated as hedging instruments under SFAS No. 133:

	Asset derivatives		Liability derivatives	
	Fair value as of	Fair value as of	Fair value as of	Fair value as of

	June 30, 2009	December 31, 2008	June 30, 2009	December 31, 2008
Interest rate swaps	$ 1,042		(32)	
Average/Discrete Basis Swaps	1,170	2,817	(7,322)	(1,800)
1/3 Basis Swaps	15,089	5,037		(15)
Cross-currency interest rate swaps	151,419	167,320		
Total	$ 168,720	175,174	(7,354)	(1,815)

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The following table summarizes the effect of derivative instruments in the consolidated statements of operations. All gains and losses recognized in income related to the Company s derivative activity are included in Derivative market value, foreign currency, and put option adjustments and derivative settlements, net , on the consolidated statements of operations.

Derivatives not designated as hedging under SFAS No. 133	Amount of gain (or loss) recognized in income on derivatives Three months ended June 30		Amount of gain (or loss) recognized in income on derivatives Six months ended June 30	
	2009	2008	2009	2008
Settlements:				
Interest rate swaps	$ (11)	(7,842)	(11)	(11,019)
Average/Discrete Basis Swaps	1,040	5,148	11,062	44,711
1/3 Basis Swaps	6,657		17,401	894
Cross-currency interest rate swaps	1,849	7,131	5,441	10,614
Total settlements	9,535	4,437	33,893	45,200
Change in fair value:				
Interest rate swaps	1,011	38,969	1,011	4,098
Average/Discrete Basis Swaps	(6,682)	(25,049)	(18,678)	(51,337)
1/3 Basis Swaps	(7,118)		9,867	2,568
Cross-currency interest rate swaps	41,209	(2,461)	(15,902)	91,668
Other	1,432		1,432	465
Total change in fair value	29,852	11,459	(22,270)	47,462
Total impact to statements of operations	$ 39,387	15,896	11,623	92,662

Derivative Instruments Credit and Market Risk

By using derivative instruments, the Company is exposed to credit and market risk.

When the fair value of a derivative instrument is negative, the Company would owe the counterparty if the derivative was settled and, therefore, has no immediate credit risk. Additionally, if the negative fair value of derivatives with a counterparty exceeds a specified threshold, the Company may have to make a collateral deposit with the counterparty. The threshold at which the Company posts collateral may depend on the Company s unsecured credit rating. If interest and foreign currency exchange rates move materially, the Company could be required to deposit a significant amount of collateral with its derivative instrument counterparties. The collateral deposits, if significant, could negatively impact the Company s liquidity and capital resources.

When the fair value of a derivative contract is positive, this generally indicates that the counterparty would owe the Company if the derivative was settled. If the counterparty fails to perform, credit risk with such counterparty is equal to the extent of the fair value gain in the derivative less any collateral held by the Company.

The Company attempts to manage market and credit risks associated with interest and foreign currency exchange rates by establishing and monitoring limits as to the types and degree of risk that may be undertaken, and by entering into transactions with high-quality counterparties that are reviewed periodically by the Company s risk committee. The Company also has a policy of requiring that all derivative contracts be governed by an International Swaps and Derivatives Association, Inc. Master Agreement.

6. Segment Reporting

The Company has five operating segments as defined in SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, (SFAS No. 131), as follows: Student Loan and Guaranty Servicing, Tuition Payment Processing and Campus Commerce, Enrollment Services, 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 generally accepted accounting principles (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.

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, thereby reducing legislative and political risk.

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
- Origination and servicing of non-federally insured student loans
- 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

The Enrollment Services segment offers products and services that are focused on helping (i) students plan and prepare for life after high school (content management and publishing and editing services) and (ii) colleges recruit and retain students (lead generation and recruitment services). Lead generation products and services include vendor lead management services and admissions lead generation. Publishing and editing services include test preparation study guides and essay and resume editing services. Content management products and services include online courses and related services. Recruitment services include pay per click marketing management, email marketing, list marketing services, and admissions consulting.

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 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, and financing its 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.

Segment Results and Reconciliations to GAAP

	Three months ended June 30, 2009									
	Fee-Based									
	Student Loan and Guaranty Servicing	Tuition Payment Processing and Campus Commerce	Enrollment Services	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	$ 13	11			24	156,233	1,312	(422)	6,042	163,189
Interest expense						98,338	8,166	(422)		106,082
Net interest income (loss)	13	11			24	57,895	(6,854)		6,042	57,107
Less provision for loan losses						8,000				8,000
Net interest income (loss) after provision for loan losses	13	11			24	49,895	(6,854)		6,042	49,107
Other income (expense):										
Loan and guaranty servicing revenue	29,184				29,184		(381)			28,803
Tuition payment processing and		11,848			11,848					11,848

campus commerce revenue										
Enrollment services revenue			28,747		28,747					28,747
Software services revenue	925			5,194	6,119					6,119
Other income	249				249	4,241	7,037			11,527
Loss on sale of loans						(196)				(196)
Intersegment revenue	20,888	53	277	3,896	25,114		8,463	(33,577)		
Derivative market value, foreign currency, and put option adjustments									(34,013)	(34,013)
Derivative settlements, net						9,535				9,535
Total other income (expense)	51,246	11,901	29,024	9,090	101,261	13,580	15,119	(33,577)	(34,013)	62,370
Operating expenses:										
Salaries and benefits	13,355	6,402	5,863	5,715	31,335	1,735	6,234	876		40,180
Restructure expense- severance and contract terminination costs	2,513			422	2,935		353	(3,288)		
Cost to provide enrollment services			18,092		18,092					18,092
Other expenses	11,140	2,339	3,041	838	17,358	5,875	8,259	1,807	5,785	39,084
Intersegment expenses	9,484	669	508	764	11,425	20,732	815	(32,972)		
Total operating expenses	36,492	9,410	27,504	7,739	81,145	28,342	15,661	(33,577)	5,785	97,356
Income (loss) before income taxes	14,767	2,502	1,520	1,351	20,140	35,133	(7,396)		(33,756)	14,121
Income tax (expense) benefit (a)	(5,612)	(951)	(577)	(514)	(7,654)	(13,351)	940		14,147	(5,918)

Net income (loss)	$ 9,155	1,551	943	837	12,486	21,782	(6,456)		(19,609)	8,203

(a) Income taxes are applied based on 38% of income (loss) before income taxes for the individual operating segments.

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	Three months ended June 30, 2008									
	Fee-Based									
	Student Loan and Guaranty Servicing	Tuition Payment Processing and Campus Commerce	Enrollment Services	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 revenue	23,664				23,664	157				23,821
Tuition payment processing and campus commerce revenue		10,270			10,270					10,270
Enrollment services revenue			26,068		26,068					26,068
Software services revenue	1,083			4,896	5,979					5,979
Other income	6				6	4,851	1,268			6,125
Gain on sale of loans						48				48
Intercompany revenue	18,382	(76)		1,517	19,823		13,960	(33,783)		
Derivative market value, foreign									15,755	15,755

currency, and put option adjustments										
Derivative settlements, net						11,638			(7,201)	4,437
Total other income (expense)	43,135	10,194	26,068	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 termінination costs	(104)		(15)	(8)	(127)	(52)	(186)	365		
Cost to provide enrollment services			14,755		14,755					14,755
Other expenses	8,011	2,551	2,529	714	13,805	5,095	14,921	(764)	6,561	39,618
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	1,708	846	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	1,178	584	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	1,178	584	457	11,298	30,799	(15,360)		16,968	43,705

(a)

Income taxes are applied based on the consolidated effective tax rate to income (loss) before income taxes.

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	Six months ended June 30, 2009									
	Fee-Based									
	Student Loan and Guaranty Servicing	Tuition Payment Processing and Campus Commerce	Enrollment Services	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	$ 79	41			120	328,820	2,739	(982)	7,502	338,199
Interest expense						236,932	16,634	(982)		252,584
Net interest income (loss)	79	41			120	91,888	(13,895)		7,502	85,615
Less provision for loan losses						15,500				15,500
Net interest income (loss) after provision for loan losses	79	41			120	76,388	(13,895)		7,502	70,115
Other income (expense):										
Loan and guaranty servicing revenue	56,037				56,037		(763)			55,274
Tuition payment processing and campus commerce revenue		27,386			27,386					27,386
Enrollment services revenue			57,518		57,518					57,518
Software services revenue	1,800			10,024	11,824					11,824
Other income	361				361	8,892	19,136			28,389
Loss on sale of loans						(402)				(402)
Intersegment revenue	40,766	110	277	7,020	48,173		17,384	(65,557)		
Derivative market value, foreign									(38,893)	(38,893)

currency, and put option adjustments										
Derivative settlements, net						33,893				33,893
Total other income (expense)	98,964	27,496	57,795	17,044	201,299	42,383	35,757	(65,557)	(38,893)	174,989
Operating expenses:										
Salaries and benefits	28,059	12,947	11,958	10,900	63,864	3,510	12,501	(1,628)	159	78,406
Restructure expense- severance and contract termination costs	2,513			422	2,935		353	(3,288)		
Cost to provide enrollment services			35,885		35,885					35,885
Other expenses	19,737	4,747	6,336	1,516	32,336	10,834	18,720	1,807	11,939	75,636
Intersegment expenses	18,954	1,292	1,054	1,409	22,709	38,608	1,131	(62,448)		
Total operating expenses	69,263	18,986	55,233	14,247	157,729	52,952	32,705	(65,557)	12,098	189,927
Income (loss) before income taxes	29,780	8,551	2,562	2,797	43,690	65,819	(10,843)		(43,489)	55,177
Income tax (expense) benefit (a)	(11,317)	(3,249)	(973)	(1,064)	(16,603)	(25,012)	3,135		16,961	(21,519)
Net income (loss)	$ 18,463	5,302	1,589	1,733	27,087	40,807	(7,708)		(26,528)	33,658

(a) Income taxes are applied based on 38% of income (loss) before income taxes for the individual operating segments.

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	Six months ended June 30, 2008									
	Fee-Based									
	Student Loan and Guaranty Servicing	Tuition Payment Processing and Campus Commerce	Enrollment Services	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				