NELNET INC
Form 10-Q
November 10, 2008

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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 September 30, 2008

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 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 þ	Accelerated filer o	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 October 31, 2008, there were 37,998,182 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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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	As of September 30, 2008 (unaudited)	As of December 31, 2007
Assets:		
Student loans receivable (net of allowance for loan losses of $49,070 and $45,592, respectively)	$ 26,376,269	26,736,122
Cash and cash equivalents:		
Cash and cash equivalents not held at a related party	16,062	38,305
Cash and cash equivalents held at a related party	308,945	73,441
Total cash and cash equivalents	325,007	111,746
Restricted cash and investments	1,082,015	927,247
Restricted cash due to customers	47,859	81,845
Accrued interest receivable	530,102	593,322
Accounts receivable, net	49,204	49,084
Goodwill	175,178	164,695
Intangible assets, net	83,565	112,830
Property and equipment, net	43,629	55,797
Other assets	102,446	107,624
Fair value of derivative instruments	154,741	222,471
Total assets	$ 28,970,015	29,162,783
Liabilities:		
Bonds and notes payable	$ 28,004,835	28,115,829
Accrued interest payable	92,112	129,446
Other liabilities	192,550	220,899
Due to customers	47,859	81,845
Fair value of derivative instruments	22,929	5,885
Total liabilities	28,360,285	28,553,904
Shareholders equity:		
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 37,994,332 shares as of September 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 September 30, 2008 and December 31, 2007		115	115
Additional paid-in capital		101,757	96,185
Retained earnings		509,524	515,317
Employee notes receivable		(2,046)	(3,118)
Total shareholders equity		609,730	608,879
Commitments and contingencies			
Total liabilities and shareholders equity	$	28,970,015	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 September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Interest income:				
Loan interest	$ 284,468	437,251	911,140	1,251,391
Investment interest	9,118	21,023	29,914	61,231
Total interest income	293,586	458,274	941,054	1,312,622
Interest expense:				
Interest on bonds and notes payable	234,016	393,875	791,621	1,112,263
Net interest income	59,570	64,399	149,433	200,359
Less provision for loan losses	7,000	18,340	18,000	23,628
Net interest income after provision for loan losses	52,570	46,059	131,433	176,731
Other income (expense):				
Loan and guaranty servicing income	30,633	33,040	81,650	95,116
Other fee-based income	45,887	38,025	132,617	116,316
Software services income	4,217	5,426	15,865	17,022
Other income	1,242	7,028	4,298	14,048
Gain (loss) on sale of loans		492	(47,426)	3,288
Derivative market value, foreign currency, and put option adjustments and derivative settlements, net	6,874	16,113	10,468	18,966
Total other income	88,853	100,124	197,472	264,756
Operating expenses:				
Salaries and benefits	44,739	60,545	142,131	182,010
Other operating expenses:				
Impairment expense		49,504	18,834	49,504
Advertising and marketing	18,388	14,141	50,734	43,590
Depreciation and amortization	10,781	15,084	32,218	36,741
Professional and other services	10,963	9,336	27,548	28,219
Occupancy and communications	4,194	5,931	14,949	16,182
Postage and distribution	3,026	4,123	9,586	14,266
Trustee and other debt related fees	2,423	3,337	7,277	8,965
Other	9,155	11,444	27,151	35,843
Total other operating expenses	58,930	112,900	188,297	233,310

Total operating expenses		103,669	173,445	330,428	415,320
Income (loss) before income taxes		37,754	(27,262)	(1,523)	26,167
Income tax expense (benefit)		13,969	(10,664)	1,793	9,906
Income (loss) from continuing operations		23,785	(16,598)	(3,316)	16,261
Income (loss) from discontinued operations, net of tax			909	981	(2,416)
Net income (loss)	$	23,785	(15,689)	(2,335)	13,845
Earnings (loss) per share, basic and diluted:					
Income (loss) from continuing operations		0.48	(0.34)	(0.07)	0.32
Income (loss) from discontinued operations			0.02	0.02	(0.04)
Net income (loss)	$	0.48	(0.32)	(0.05)	0.28

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	Accumulated Employee other notes receivable	comprehensive income	Total shareholders equity
Balance as of June 30, 2007		37,661,381	11,495,377	$	377	115	94,473	518,910	(2,697)		611,178
Comprehensive income:											
Net loss								(15,689)			(15,689)
Total comprehensive income (loss)											(15,689)
Cash dividend on Class A and Class B common stock $0.07 per share								(3,453)			(3,453)
Reserve for uncertain income tax provisions							2,519				2,519
Issuance of common stock, net of forfeitures		514,782			5		1,408		(225)		1,188
Compensation expense for stock-based awards							1,575				1,575
Repurchase of common stock		(239,124)			(3)		(5,422)				(5,425)
Balance as of September 30, 2007		37,937,039	11,495,377	$	379	115	94,553	499,768	(2,922)		591,893
		37,952,246	11,495,377	$	380	115	99,854	485,739	(2,046)		584,042

Balance as of June 30, 2008									
Comprehensive income:									
Net income						23,785			23,785
Total comprehensive income									23,785
Issuance of common stock, net of forfeitures	49,650			1	960				961
Compensation expense for stock based awards					1,045				1,045
Repurchase of common stock	(7,564)			(1)	(102)				(103)
Balance as of September 30, 2008	37,994,332	11,495,377	$	380	115	101,757	509,524	(2,046)	609,730
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							13,845			13,845
Other comprehensive income:									
Foreign currency translation									(322)	(322)
Non-pension postretirement benefit plan									191	191
Total comprehensive income										13,714
Cash dividend on Class A and Class B common stock $0.21 per share							(10,357)			(10,357)

Adjustment to adopt provisions of FASB Interpretation No. 48						(61)		(61)
Reserve for uncertain income tax provisions					2,519			2,519
Issuance of common stock, net of forfeitures	667,055		7		4,627		(225)	4,409
Compensation expense for stock based awards					3,105			3,105
Repurchase of common stock	(3,301,194)		(33)		(80,874)			(80,907)
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 September 30, 2007	37,937,039	11,495,377	$ 379	115	94,553	499,768	(2,922)	591,893
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						(2,335)		(2,335)
Total comprehensive income (loss)								(2,335)
Cash dividend on Class A and Class B common stock						(3,458)		(3,458)

$0.07 per share								
Issuance of common stock, net of forfeitures	83,337		1		2,033			2,034
Compensation expense for stock based awards					4,308			4,308
Repurchase of common stock	(69,622)		(1)		(769)			(770)
Reduction of employee stock notes receivable							1,072	1,072
Balance as of September 30, 2008	37,994,332	11,495,377	$ 380	115	101,757	509,524	(2,046)	609,730

See accompanying notes to consolidated financial statements.

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

	Nine months ended September 30, 2008	2007
Net income (loss)	$ (2,335)	13,845
Income (loss) from discontinued operations	981	(2,416)
Income (loss) from continuing operations	(3,316)	16,261
Adjustments to reconcile income (loss) from continuing operations to net cash provided by operating activities, net of business acquisitions:		
Depreciation and amortization, including loan premiums and deferred origination costs	107,944	223,552
Derivative market value adjustment	72,399	(93,031)
Foreign currency transaction adjustment	(40,360)	79,020
Change in value of put options issued in business acquisitions	3,483	2,145
Proceeds from termination of derivative instruments	15,403	50,843
Payments to terminate derivative instruments	(3,679)	(8,100)
Impairment expense	18,834	49,504
Loss on sale of business		8,132
Gain on sale of equity method investment		(3,942)
Loss (gain) on sale of student loans	47,426	(3,288)
Non-cash compensation expense	5,670	4,595
Deferred income tax benefit	(23,979)	(30,374)
Provision for loan losses	18,000	23,628
Other non-cash items	1,258	(2,900)
Decrease (increase) in accrued interest receivable	63,220	(125,929)
Decrease (increase) in accounts receivable	445	(7,045)
Decrease in other assets	13,928	7,450
(Decrease) increase in accrued interest payable	(37,334)	64,812
(Decrease) increase in other liabilities	(1,765)	19,785
Net cash flows from operating activities continuing operations	257,577	275,118
Net cash flows from operating activities discontinued operations		(3,558)
Net cash provided by operating activities	257,577	271,560
Cash flows from investing activities, net of business acquisitions:		
Originations, purchases, and consolidations of student loans, including loan premiums and deferred origination costs	(2,368,229)	(4,509,308)
Purchases of student loans, including loan premiums, from a related party	(212,888)	(232,769)
Net proceeds from student loan repayments, claims, capitalized interest, participations, and other	1,538,134	1,740,351
Proceeds from sale of student loans	1,267,826	107,673

Purchases of property and equipment, net	(5,094)	(18,375)
(Increase) decrease in restricted cash and investments, net	(154,768)	316,415
Purchases of equity method investments	(2,988)	
Distributions from equity method investments		747
Sale of business, net of cash sold		7,551
Business acquisitions, net of cash acquired	(18,000)	2,211
Proceeds from sale of equity method investment		10,000
Net cash flows from investing activities continuing operations	43,993	(2,575,504)
Net cash flows from investing activities discontinued operations		(294)
Net cash provided by (used in) investing activities	43,993	(2,575,798)
Cash flows from financing activities:		
Payments on bonds and notes payable	(5,328,782)	(4,496,077)
Proceeds from issuance of bonds and notes payable	5,225,548	7,022,018
Proceeds (payments) from issuance of notes payable due to a related party, net	32,790	(56,917)
Payments of debt issuance costs	(14,778)	(13,951)
Dividends paid	(3,458)	(10,357)
Payment on settlement of put option		(15,875)
Proceeds from issuance of common stock	566	1,231
Repurchases of common stock	(770)	(75,504)
Payments received on employee stock notes receivable	575	128
Net cash flows (used in) provided by financing activities continuing operations	(88,309)	2,354,696
Net cash flows from financing activities discontinued operations		
Net cash (used in) provided by financing activities	(88,309)	2,354,696
Effect of exchange rate fluctuations on cash		548
Net increase in cash and cash equivalents	213,261	51,006
Cash and cash equivalents, beginning of period	111,746	106,086
Cash and cash equivalents, end of period	$ 325,007	157,092
Supplemental disclosures of cash flow information:		
Interest paid	$ 814,469	920,966
Income taxes paid, net of refunds	$ 24,302	20,908

See accompanying notes to consolidated financial statements.

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NELNET, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Information as of September 30, 2008 and for the three months and nine months ended September 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 September 30, 2008 and for the three and nine months ended September 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 nine months ended September 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 in 2008, are reported as discontinued operations in the accompanying consolidated statements of operations.

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

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Operating income of discontinued operations	$			9,278
Income tax on operations				(3,562)
Gain (loss) on disposal		(6)	1,966	(8,157)
Income tax on disposal		915	(985)	25
Income (loss) from discontinued operations, net of tax	$	909	981	(2,416)

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.

	Nine months ended September 30, 2007

Net interest income	$	124
Other income		31,511
Operating expenses		(22,357)
Income before income taxes		9,278
Income tax expense		3,562
Operating income of discontinued operations, net of tax	$	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 and Access Act of 2007, 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, and income of $0.2 million in the first quarter of 2008 to recognize adjustments from initial estimates.

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

	Employee termination benefits	Lease terminations	Total
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
Cash payments		(259)	(259)
Restructuring accrual as of September 30, 2008	$	3,020	3,020

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 ongoing 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 and realignment of 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 in the first quarter of 2008 and income of $0.4 million in the second quarter of 2008 to recognize adjustments from initial estimates.

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Selected information relating to the restructuring charge follows:

	Employee termination benefits	Lease terminations	Write-down of assets	Total
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
Cash payments	(121)	(265)		(386)
Restructuring accrual as of September 30, 2008	$ 40	764		804

(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	Write-down of assets to net realizable value	Cash payments	Restructuring accrual as of March 31, 2008	Adjustment from initial estimated charges	Cash payments	Restructuring accrual as of June 30, 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.

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Municipal Derivative Bid Practices Investigation

As previously disclosed, on February 8, 2008, Shockley Financial Corp. (SFC), an indirect, wholly-owned subsidiary of the Company 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. SFC currently has one employee. The Company and SFC are cooperating with the investigation.

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. In addition, on or about June 6, 2008 and June 12, 2008, SFC received a subpoena from both the New York Attorney General (the NYAG) and the Florida Attorney General, respectively, relating to their investigations concerning the bidding of municipal GICs and possible violations of various state and federal laws. The subpoenas seek certain information and documents from SFC relating to its GIC business. The Company and SFC are cooperating with these investigations.

SFC has also been named as a defendant in a number of 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 students and their parents regarding the financial aid process (the NYAG Fund).

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. On September 9, 2008, the Company announced that it agreed to adopt the NYAG s Student Loan Direct Marketing Code of Conduct. As part of the agreement, the Company agreed to contribute $200,000 to the NYAG Fund.

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 of 1965 (the Higher Education Act), the rules and regulations adopted by the Department of Education (the Department) 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 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 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 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 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 would apply prospectively beginning on July 1, 2008. Management believes that the July 1, 2008 prospective application of the Private Letter Ruling revocation will not have a significant impact on the Company s operating results.

Legislative Developments

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

- Increases statutory limits on annual and aggregate borrowing for FFELP loans; and
- Allows the Department to act as a secondary market and enter into agreements with lenders to purchase certain FFELP loans or participation interests in those loans.

As a result of this legislation, the Departments of Education and Treasury developed a plan to implement the Ensuring Continued Access to Student Loans Act. Among other things, this plan:

- Allows the Department to purchase certain 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 would 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 the Ensuring Continued Access to Student Loans Act, 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 14, 2008, the President signed into law the Higher Education Opportunity Act, which amends the Higher Education Act to revise and reauthorize the Higher Education Act programs. Among other items, this legislation:

- Contains 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.

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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. See note 7 for additional information related to this extension.

5. Student Loans Receivable and Allowance for Loan Losses

Student loans receivable consisted of the following:

	As of September 30, 2008	As of December 31, 2007
Federally insured loans	$ 25,725,893	26,054,398
Non-federally insured loans	275,520	274,815
	26,001,413	26,329,213
Unamortized loan premiums and deferred origination costs	423,926	452,501
Allowance for loan losses federally insured loans	(24,366)	(24,534)
Allowance for loan losses non-federally insured loans	(24,704)	(21,058)
	$ 26,376,269	26,736,122
Federally insured allowance as a percentage of ending balance of federally insured loans	0.09%	0.09%
Non-federally insured allowance as a percentage of ending balance of non-federally insured loans	8.97%	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 nine months ended September 30, 2007, the Company sold $17.7 million (par value) and $103.7 million (par value), respectively, of federally insured student loans resulting in the recognition of gains of $0.5 million and $3.3 million, respectively.

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6. Intangible Assets and Goodwill

Intangible assets consist of the following:

	Weighted average remaining useful life as of September 30, 2008	As of September 30, 2008	As of December 31, 2007
Amortizable intangible assets:			
Customer relationships (net of accumulated amortization of $27,393 and $20,299, respectively)	109	$ 52,967	60,061
Trade names (net of accumulated amortization of $4,431 and $1,258, respectively)	45	12,628	1,609
Covenants not to compete (net of accumulated amortization of $13,451 and $11,815, respectively)	22	10,171	15,425
Database and content (net of accumulated amortization of $4,883 and $3,193, respectively)	25	4,597	6,287
Computer software (net of accumulated amortization of $6,839 and $4,898, respectively)	12	2,163	4,189
Student lists (net of accumulated amortization of $7,343 and $5,806, respectively)	5	854	2,391
Other (net of accumulated amortization of $89 and $71, respectively)	89	185	203
Loan origination rights (net of accumulated amortization of $8,180)			8,473
Total amortizable intangible assets	81 months	83,565	98,638
Unamortizable intangible assets trade names			14,192
		$ 83,565	112,830

As disclosed in note 3, as a result of the disruptions in the debt and secondary markets and the student loan business model modifications the Company implemented due to the disruptions, 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:

Asset	Operating segment	Impairment charge
Amortizable intangible assets:		
Covenants not to compete	Student Loan and Guaranty Servicing	$ 4,689
Covenants not to compete	Asset Generation and Management	336
Loan origination rights	Asset Generation and Management	8,336
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 $10.9 million for the three months ended September 30, 2008 and 2007, respectively, and $19.7 million and $24.0 million for the nine months ended September 30, 2008 and 2007, respectively. The Company will continue to amortize intangible assets over their remaining useful lives. As of September 30, 2008, the Company estimates it will record amortization expense as follows:

2008	$ 6,511
2009	22,319
2010	15,985
2011	10,031
2012	9,029
2013 and thereafter	19,690
	$ 83,565

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

	Student Loan and Guaranty Servicing	Tuition Payment Processing and Campus Commerce	Enrollment Services and List Management	Software and Technical Services	Asset Generation and Management	Total
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 quarters ended June 30, 2008 and September 30, 2008, there was no change in goodwill.

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7. Bonds and Notes Payable

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

	As of September 30, 2008		
	Carrying amount	Interest rate range	Final maturity
Variable-rate bonds and notes (a):			
Bonds and notes based on indices	$ 20,891,535	2.79% - 5.07%	09/25/13 - 06/25/41
Bonds and notes based on auction or remarketing (b)	2,771,445	0.00% - 9.01%	11/01/09 - 07/01/43
Total variable-rate bonds and notes	23,662,980		
Commercial paper FFELP facility (c)	2,525,410	2.54% - 3.94%	05/09/10
Commercial paper private loan facility (c)	132,020	3.14%	03/14/09
Fixed-rate bonds and notes (a)	205,435	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	645,000	2.90% - 3.65%	05/08/12
Department of Education Participation	263,920	3.25%	09/30/09
Other borrowings	95,070	4.09% - 5.10%	05/22/09 - 11/01/15
	$ 28,004,835		

	As of December 31, 2007		
	Carrying amount	Interest rate range	Final maturity
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
Total variable-rate bonds and notes	20,414,105		
Commercial paper FFELP facility (c)	6,629,109	5.22% - 5.98%	05/09/10
Commercial paper private loan facility (c)	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
Unsecured line of credit	80,000	5.40% - 5.53%	05/08/12
Other borrowings	76,889	4.65% - 5.20%	09/28/08 - 11/01/15
	$ 28,115,829		

(a) Issued in asset-backed

securitizations.

(b) As of September 30, 2008, the Company had $165 million of bonds based on an auction rate of 0%, due to the Maximum Rate auction provisions in the underlying documents for such financings. The Maximum Rate provisions include multiple components, one of which is based on T-bill rates. The T-bill component calculation for these bonds produced negative rates, which resulted in auction rates of zero percent for the applicable period.

(c) 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 and asset-backed securitizations.

In August 2008, the Company began to fund FFELP student loan originations for the 2008-2009 academic year pursuant to the Department of Education s Loan Participation Program (Participation Program) and an existing participation agreement with Union Bank and Trust Company (Union Bank), an entity under common control with the Company.

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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. 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 $250.0 million private loan warehouse for non-federally insured student loans, and a single-seller extendible commercial paper conduit 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. In addition, 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 believes it has met this requirement for the annual period ending in May 2009. Under the current terms of the facility, the remaining collateral will need to be refinanced or removed by May 9, 2010. As of September 30, 2008 and November 7, 2008, $2.5 billion and $2.1 billion, respectively, was outstanding under this facility.

The terms and conditions of the Company s warehouse facility for FFELP loans provide for mark-to-market advance rates. On October 22, 2008, the Company posted $165.5 million in additional funds to the facility based on this mark-to-market provision. 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-market provisions of the warehouse facility agreement. As of September 30, 2008 and November 7, 2008, the Company had a cumulative amount of $209.1 million and $374.6 million, respectively, posted as equity funding support for this facility.

The Company has utilized its $750.0 million unsecured line of credit to fund equity advances on its warehouse facility. As of November 7, 2008, the Company has $691.5 million outstanding under this line of credit. The line of credit terminates in May 2012.

Continued dislocations in the credit markets may cause additional volatility in the loan valuation formula. Should a significant change in the valuation of loans result in additional required equity funding support for the warehouse facility greater than what the Company can provide and the Company has not amended the facility as discussed below, the warehouse facility could be subject to an event of default resulting in a termination of the facility and an acceleration of the repayment provisions. A default on the 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.

To reduce the Company s exposure from the mark-to-market advance rate provision included in the FFELP warehouse facility, the Company has signed a letter agreement engaging Banc of America Securities LLC to arrange an amendment of certain of the Company s credit facilities, including but not limited to an amendment to place a floor on the valuation of collateral in the Company s FFELP loan warehouse line of credit for which Bank of America, N.A. acts as administrative agent. Banc of America Securities LLC has commenced the amendment process and together with the Company is seeking the approval of the Company s lenders of a proposed amendment of such credit facilities on mutually agreeable terms. In addition, the Company continues to look at various alternatives to remove loans from the warehouse facility including other financing arrangements and/or selling loans to third parties.

In addition, on November 8, 2008, the Department announced they intend to provide liquidity support to one or more conforming asset backed commercial paper conduits to purchase and provide longer-term financing for FFELP loans. While details of this conduit are forthcoming, it is intended that all fully-disbursed non-consolidation FFELP loans awarded between October 1, 2003 and July 1, 2009 will be eligible for inclusion. As of November 7, 2008, the Company had approximately $900 million of loans included in its warehouse facility that would be eligible for this proposed conduit program.

Private Loan Warehouse Facility

The private loan warehouse facility, which terminates on March 14, 2009, is an uncommitted facility that is offered to the Company by a banking partner. As of September 30, 2008 and November 7, 2008, $132.0 million was outstanding under this facility. 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 September 30, 2008 and November 7, 2008, the Company had $50.5 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.

Commercial Paper Warehouse Program

In August 2006, the Company established a $5.0 billion extendable commercial paper warehouse program for FFELP loans, under which it can issue one or more short-term extendable secured liquidity notes. As of September 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 foreseeable future.

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Department of Education s Loan Participation and Purchase Commitment Programs

On July 1, 2008, pursuant to the Ensuring Continued Access to Student Loans Act, the Department of Education announced terms under which it will offer to purchase certain FFELP student loans and participation interests in certain FFELP student loans 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. 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 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.

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 has provided preliminary guidance relating to the extension and has indicated that programs similar to the Participation Program and Purchase Program will be implemented for the 2009-2010 academic year along with providing liquidity support for one or more asset backed commercial paper conduits for FFELP Stafford and PLUS loans awarded between October 1, 2003 and July 1, 2009. The Department has 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. Management understands that such loans will not be eligible for participation under the Department s 2009-2010 Participation Program, but should be eligible for refinancing through the Department s commercial paper conduit program. Management of the Company is encouraged by these developments; however, until the Department provides additional details regarding the programs, the Company is unable to determine the full impact these programs will have on the Company.

The Company has completed and filed all relevant documents to participate in the Department of Education s Participation Program and began to utilize the Participation Program in the third quarter of 2008 to fund a significant portion of its loan originations for the 2008-2009 academic year. As of September 30, 2008 and November 7, 2008, $263.9 million and $504.4 million of loans, respectively, were funded using the Participation Program.

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 September 30, 2008 and November 7, 2008, $221.6 million and $335.3 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 September 30, 2008 and December 31, 2007, the Euro Notes were recorded on the Company s balance sheet at $1.1 billion. The changes in the principal amount of Euro Notes as a result of the fluctuation of the foreign currency exchange rate were decreases of $128.9 million and $40.4 million for the three and nine months ended September 30, 2008, respectively, and increases of $54.0 million and $79.0 million for the three and nine months ended September 30, 2007, respectively, and are 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.

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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 $1.9 billion of Auction Rate Securities and $0.8 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, 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 September 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 September 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 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.

Unsecured Lines of Credit

The Company has a $750.0 million unsecured line of credit that terminates in May 2012. As of September 30, 2008, there was $645.0 million outstanding on this line and $105.0 million available for future use. The weighted average interest rate on this line of credit was 3.44% as of September 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 additional equity funding support related to advance rates on its warehouse facilities. As of November 7, 2008, the Company has contributed $425.1 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 November 7, 2008, the Company has $691.5 million outstanding under this line of credit and $58.5 million available for future uses. The lending commitment on the Company s unsecured line of credit is provided by multiple banks. Lehman Brothers Bank, FSB (Lehman Bank) represents seven percent 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 Bank for its portion of the lending commitment under the line of credit. As of November 7, 2008, excluding Lehman Bank 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:

(i) A minimum consolidated net worth;

(ii) A minimum adjusted EBITDA to corporate debt interest (over the last four rolling quarters);

(iii) A limitation on subsidiary indebtedness; and

(iv) A limitation on the percentage of non-guaranteed loans in the Company s portfolio.

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As of September 30, 2008, 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 and private loan warehouses.

As previously discussed, continued dislocations in the credit markets may cause additional volatility in the loan valuation formula included in the Company s FFELP warehouse facility. Should a significant change in the valuation of loans result in additional required equity funding support for the warehouse facility greater than what the Company can provide, the warehouse facility could be subject to an event of default resulting in a termination of the facility and an acceleration of the repayment provisions. A default on the 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.

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.

Other Borrowings

As of September 30, 2008 and December 31, 2007, bonds and notes payable includes $90.1 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. On October 23, 2008, the Company paid Union Bank $89.5 million to pay off the remaining balance on these notes.

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 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 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 September 30, 2008, the Company held the following interest rate swaps to hedge student loan assets earning fixed rate floor income.

Maturity	Notional Amount	Weighted average fixed rate paid by the Company (a)
2009	$ 500,000	4.08%
2010	500,000	3.84
	$ 1,000,000	3.96%

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

During the third quarter of 2008, the Company terminated certain interest rate swaps with a total notional amount of $1.4 billion and original maturity dates ranging from 2010 to 2012 for total net proceeds of $5.6 million.

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 September 30, 2008:

Maturity	Notional Amounts
2008	$ 1,000,000
2009	1,000,000
2010	5,500,000
2011	2,700,000
2012	2,400,000
	$ 12,600,000

During the first and third quarters of 2008, the Company terminated certain basis swaps with total notional amounts of $2.9 billion and $9.8 billion, respectively, with original maturity dates ranging from 2009 to 2012 for total net proceeds of $7.1 million and total net payments of $1.5 million, respectively. In October 2008, the Company terminated a basis swap with a notional amount of $1.0 billion and an original maturity date in 2010 for proceeds of $0.6 million. This derivative is included in the above table.

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. Upon termination of a derivative instrument, any proceeds received or payments made by the Company are included in derivative market value, foreign currency, and put option adjustments and derivative settlements, net on the consolidated statements of operations and is accounted for as a change in fair value on such derivative.

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

	As of September 30, 2008	As of December 31, 2007
Interest rate swaps	$ (5,579)	(2,695)
Basis swaps	(17,082)	27,525
Cross-currency interest rate swaps	154,473	191,756
Net fair value	$ 131,812	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 loss of $119.9 million and income of $72.7 million for the three months ended September 30, 2008 and 2007, respectively, and a loss of $72.4 million and income of $93.0 million for the nine months ended September 30, 2008 and 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:

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Interest rate swaps	$ (3,176)	1,729	(14,194)	16,803
Basis swaps	(3,999)	(2,608)	41,605	(2,489)
Cross-currency interest rate swaps	7,963	(1,457)	18,577	(7,214)
Derivative settlements received (paid), net	$ 788	(2,336)	45,988	7,100

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.

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.

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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.

	As of September 30, 2008		
	Level 1	**Level 2**	**Total**
Assets:			
Other assets (a)	$ 5,477	5,129	10,606
Fair value of derivative instruments (b)		154,741	154,741
Total assets	$ 5,477	159,870	165,347
Liabilities:			
Fair value of derivative instruments (b)	$	22,929	22,929
Other liabilities (c)		9,600	9,600
Total liabilities	$	32,529	32,529

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

(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.

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A reconciliation of weighted average shares outstanding follows:

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Weighted average shares outstanding	49,525,674	49,320,629	49,472,020	49,912,506
Less: Nonvested restricted stock vesting solely upon continued service	349,238	302,538	362,680	101,954
Weighted average shares outstanding used to compute basic EPS	49,176,436	49,018,091	49,109,340	49,810,552
Dilutive effect of nonvested restricted stock	21,366			500
Weighted average shares used to compute diluted EPS	49,197,802	49,018,091	49,109,340	49,811,052

No dilutive effect of nonvested restricted stock is presented for the three months ended September 30, 2007 and the nine months ended September 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.

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.

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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 September 30, 2008									
		Fee-Based								
	Student Loan and Guaranty Servicing	Tuition Payment Processing 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	$ 304	396	6		706	290,039	2,010	(749)	1,580	293,586
Interest expense			1		1	224,272	10,492	(749)		234,016
Net interest income (loss)	304	396	5		705	65,767	(8,482)		1,580	59,570
Less provision for loan losses						7,000				7,000
Net interest income (loss) after provision for loan losses	304	396	5		705	58,767	(8,482)		1,580	52,570
Other income (expense):										
Loan and guaranty servicing income	30,769				30,769	(136)				30,633
Other fee-based income		11,861	29,859		41,720	4,167				45,887
Software services income				4,217	4,217					4,217

Other income	6	1			7	(88)	1,323			1,242
Intersegment revenue	18,402	58	2	1,660	20,122		15,671	(35,793)		
Derivative market value, foreign currency, and put option adjustments									6,085	6,085
Derivative settlements, net						789				789
Total other income (expense)	49,177	11,920	29,861	5,877	96,835	4,732	16,994	(35,793)	6,085	88,853
Operating expenses:										
Salaries and benefits	13,876	6,236	5,805	4,138	30,055	1,980	14,179	(1,952)	477	44,739
Other expenses	10,632	2,132	20,416	568	33,748	5,354	13,477	(247)	6,598	58,930
Intersegment expenses	11,940	288	1,509	826	14,563	18,200	831	(33,594)		
Total operating expenses	36,448	8,656	27,730	5,532	78,366	25,534	28,487	(35,793)	7,075	103,669
Income (loss) before income taxes	13,033	3,660	2,136	345	19,174	37,965	(19,975)		590	37,754
Income tax expense (benefit) (a)	4,823	1,354	790	128	7,095	14,047	(7,391)		218	13,969
Net income (loss) from continuing operations	8,210	2,306	1,346	217	12,079	23,918	(12,584)		372	23,785
Income from discontinued operations, net of tax										
Net income (loss)	$ 8,210	2,306	1,346	217	12,079	23,918	(12,584)		372	23,785

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

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	Three months ended September 30, 2007									
	Fee-Based									
	Student Loan and Guaranty Servicing	Tuition Payment Processing 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	$ 1,182	990	110		2,282	454,053	1,875	(533)	597	458,274
Interest expense			1		1	384,793	9,614	(533)		393,875
Net interest income (loss)	1,182	990	109		2,281	69,260	(7,739)		597	64,399
Less provision for loan losses						18,340				18,340
Net interest income (loss) after provision for loan losses	1,182	990	109		2,281	50,920	(7,739)		597	46,059
Other income (expense):										
Loan and guaranty servicing income	32,870				32,870	170				33,040
Other fee-based income		10,316	23,471		33,787	3,526	712			38,025
Software services income			169	5,257	5,426					5,426
Other income		31			31	1,181	5,816			7,028
Gain on sale of loans						492				492
Intersegment revenue	22,237	168	(37)	4,805	27,173		1,492	(28,665)		
Derivative market value,									18,449	18,449

foreign currency, and put option adjustments										
Derivative settlements, net						(4,065)	1,729			(2,336)
Total other income (expense)	55,107	10,515	23,603	10,062	99,287	1,304	9,749	(28,665)	18,449	100,124
Operating expenses:										
Salaries and benefits	21,961	5,312	8,095	6,537	41,905	6,154	9,691	2,292	503	60,545
Restructure expense-severance and contract termination costs	1,231		737	58	2,026	1,921	1,009	(4,956)		
Impairment expense			11,401		11,401	28,291	9,812			49,504
Other expenses	8,565	2,029	13,809	689	25,092	7,429	19,822	168	10,885	63,396
Intersegment expenses	1,613	(15)	67	147	1,812	20,924	3,433	(26,169)		
Total operating expenses	33,370	7,326	34,109	7,431	82,236	64,719	43,767	(28,665)	11,388	173,445
Income (loss) before income taxes	22,919	4,179	(10,397)	2,631	19,332	(12,495)	(41,757)		7,658	(27,262)
Income tax expense (benefit) (a)	8,709	1,588	(3,951)	1,000	7,346	(4,748)	(16,233)		2,971	(10,664)
Net income (loss) from continuing operations	14,210	2,591	(6,446)	1,631	11,986	(7,747)	(25,524)		4,687	(16,598)
Loss from discontinued operations, net of tax									909	909

Net income (loss)	$ 14,210	2,591	(6,446)	1,631	11,986	(7,747)	(25,524)	5,596	(15,689)

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

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	Nine months ended September 30, 2008									
	Fee-Based									
	Student Loan and Guaranty Servicing	Tuition Payment Processing 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	$ 1,160	1,471	16		2,647	892,690	4,781	(1,389)	42,325	941,054
Interest expense			3		3	762,689	30,318	(1,389)		791,621
Net interest income (loss)	1,160	1,471	13		2,644	130,001	(25,537)		42,325	149,433
Less provision for loan losses						18,000				18,000
Net interest income (loss) after provision for loan losses	1,160	1,471	13		2,644	112,001	(25,537)		42,325	131,433
Other income (expense):										
Loan and guaranty servicing income	81,624				81,624	26				81,650
Other fee-based income		35,975	83,148		119,123	13,494				132,617
Software services income			37	15,828	15,865					15,865
Other income	44	5			49	293	3,956			4,298
Loss on sale of loans						(47,426)				(47,426)
Intersegment revenue	57,008	242	2	4,993	62,245		46,844	(109,089)		

Derivative market value, foreign currency, and put option adjustments						466			(35,987)	(35,521)
Derivative settlements, net						55,954			(9,965)	45,989
Total other income (expense)	138,676	36,222	83,187	20,821	278,906	22,807	50,800	(109,089)	(45,952)	197,472
Operating expenses:										
Salaries and benefits	40,365	17,450	18,701	14,031	90,547	6,157	41,581	1,323	2,523	142,131
Restructure expense severance and contract termination costs	747		282	487	1,516	1,845	3,746	(7,107)		
Impairment expense	5,074				5,074	9,351	4,409			18,834
Other expenses	27,130	6,743	55,863	1,901	91,637	15,793	42,263	51	19,719	169,463
Intersegment expenses	35,040	1,045	4,936	1,562	42,583	57,754	3,019	(103,356)		
Total operating expenses	108,356	25,238	79,782	17,981	231,357	90,900	95,018	(109,089)	22,242	330,428
Income (loss) before income taxes	31,480	12,455	3,418	2,840	50,193	43,908	(69,755)		(25,869)	(1,523)
Income tax expense (benefit) (a)	10,542	4,081	1,187	902	16,712	15,889	(22,824)		(7,984)	1,793
Net income (loss) from continuing operations	20,938	8,374	2,231	1,938	33,481	28,019	(46,931)		(17,885)	(3,316)
Income from discontinued operations,									981	981

net of tax									
Net income (loss)	$ 20,938	8,374	2,231	1,938	33,481	28,019	(46,931)	(16,904)	(2,335)

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

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	Nine months ended September 30, 2007									
		Fee-Based								
	Student Loan and Guaranty Servicing	Tuition Payment Processing 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	$ 4,607	2,670	290	18	7,585	1,301,947	6,230	(3,737)	597	1,312,622
Interest expense		7	5		12	1,084,792	31,196	(3,737)		1,112,263
Net interest income (loss)	4,607	2,663	285	18	7,573	217,155	(24,966)		597	200,359
Less provision for loan losses						23,628				23,628
Net interest income (loss) after provision for loan losses	4,607	2,663	285	18	7,573	193,527	(24,966)		597	176,731
Other income (expense):										
Loan and guaranty servicing income	94,828				94,828	288				95,116
Other fee-based income		31,492	73,341		104,833	10,511	972			116,316
Software services income			456	16,566	17,022					17,022
Other income	11	59			70	4,329	9,649			14,048
Gain on sale of loans						3,288				3,288
Intersegment revenue	58,821	508	891	13,026	73,246		7,608	(80,854)		

Derivative market value, foreign currency, and put option adjustments									11,866	11,866
Derivative settlements, net						(4,950)	12,050			7,100
Total other income (expense)	153,660	32,059	74,688	29,592	289,999	13,466	30,279	(80,854)	11,866	264,756
Operating expenses:										
Salaries and benefits	66,988	15,312	26,486	18,869	127,655	20,600	34,669	(2,370)	1,456	182,010
Restructure expense-severance and contract termination costs	1,231		737	58	2,026	1,921	1,009	(4,956)		
Impairment expense			11,401		11,401	28,291	9,812			49,504
Other expenses	26,219	6,522	42,957	2,224	77,922	22,940	58,762	168	24,014	183,806
Intersegment expenses	8,681	384	252	550	9,867	59,594	4,235	(73,696)		
Total operating expenses	103,119	22,218	81,833	21,701	228,871	133,346	108,487	(80,854)	25,470	415,320
Income (loss) before income taxes	55,148	12,504	(6,860)	7,909	68,701	73,647	(103,174)		(13,007)	26,167
Income tax expense (benefit) (a)	20,956	4,752	(2,607)	3,006	26,107	27,986	(40,059)		(4,128)	9,906
Net income (loss) from continuing operations	34,192	7,752	(4,253)	4,903	42,594	45,661	(63,115)		(8,879)	16,261
Loss from discontinued operations,									(2,416)	(2,416)

net of tax

Net income (loss)	$ 34,192	7,752	(4,253)	4,903	42,594	45,661	(63,115)	(11,295)	13,845

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

Corporate Activity and Overhead in the previous tables primarily includes the following items:

- Income earned on certain investment activities;
- Interest expense incurred on unsecured debt transactions;
- Other products and service offerings that are not considered operating segments; and
- Corporate activities and overhead functions such as executive management, human resources, accounting and finance, legal, marketing, and corporate technology support.

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The adjustments required to reconcile from the Company s base net income measure to its GAAP results of operations relate to differing treatments for derivatives, foreign currency transaction adjustments, discontinued operations, and certain other items that management does not consider in evaluating the Company s operating results. The following tables reflect adjustments associated with these areas by operating segment and Corporate Activity and Overhead:

	Student Loan and Guaranty Servicing	Tuition Payment Processing and Campus Commerce	Enrollment Services and List Management	Software and Technical Services	Asset Generation and Management	Corporate Activity and Overhead	Total
	Three months ended September 30, 2008						
Derivative market value, foreign currency, and put option adjustments (1)	$				(9,030)	2,945	(6,085)
Amortization of intangible assets (2)	1,165	1,889	3,258	286			6,598
Compensation related to business combinations (3)						477	477
Variable-rate floor income, net of settlements on derivatives (4)					(1,580)		(1,580)
Income (loss) from discontinued operations, net of tax (5)							
Net tax effect (6)	(432)	(699)	(1,205)	(106)	3,926	(1,266)	218
Total adjustments to GAAP	$ 733	1,190	2,053	180	(6,684)	2,156	(372)
	Three months ended September 30, 2007						
Derivative market value, foreign currency, and put option adjustments (1)	$				(20,017)	1,568	(18,449)
Amortization of intangible assets (2)	1,350	1,434	6,442	287	1,372		10,885
Compensation related to business						503	503

combinations (3)							
Variable-rate floor income, net of settlements on derivatives (4)					(597)		(597)
Income (loss) from discontinued operations, net of tax (5)	(909)						(909)
Net tax effect (6)	(513)	(545)	(2,448)	(109)	7,312	(726)	2,971
Total adjustments to GAAP	$ (72)	889	3,994	178	(11,930)	1,345	(5,596)

Nine months ended September 30, 2008

Derivative market value, foreign currency, and put option adjustments (1)	$				32,504	3,483	35,987
Amortization of intangible assets (2)	3,586	5,937	9,193	858	145		19,719
Compensation related to business combinations (3)						2,523	2,523
Variable-rate floor income, net of settlements on derivatives (4)					(32,360)		(32,360)
Income (loss) from discontinued operations, net of tax (5)	(981)						(981)
Net tax effect (6)	(1,182)	(1,954)	(3,045)	(284)	548	(2,067)	(7,984)
Total adjustments to GAAP	$ 1,423	3,983	6,148	574	837	3,939	16,904

Nine months ended September 30, 2007

Derivative market value, foreign currency, and put option adjustments	$				(7,801)	(4,065)	(11,866)

(1) Amortization of intangible assets (2)	3,744	4,372	9,797	904	5,197		24,014
Compensation related to business combinations (3)						1,456	1,456
Variable-rate floor income, net of settlements on derivatives (4)					(597)		(597)
Income (loss) from discontinued operations, net of tax (5)	2,416						2,416
Net tax effect (6)	(1,423)	(1,661)	(3,723)	(343)	1,216	1,806	(4,128)
Total adjustments to GAAP	$ 4,737	2,711	6,074	561	(1,985)	(803)	11,295

(1) Derivative market value, foreign currency, and put option adjustments: Base net income excludes the periodic unrealized gains and losses that are caused by the change in fair value on derivatives used in the Company s risk management strategy in which the Company does not qualify for hedge treatment under GAAP. Included in base net income are the economic effects of the Company s derivative instruments, which includes any cash paid or received being recognized as an expense or

revenue upon actual derivative settlements. Base net income also excludes the foreign currency transaction gains or losses caused by the re-measurement of the Company s Euro-denominated bonds to U.S. dollars and the change in fair value of put options issued by the Company for certain business acquisitions.

(2) Amortization of intangible assets: Base net income excludes the amortization of acquired intangibles.

(3) Compensation related to business combinations: The Company has structured certain business combinations in which the consideration paid has been dependent on the sellers continued employment with the Company. As such, the value of the consideration paid is recognized as compensation expense by the Company over the term of the applicable

employment agreement. Base net income excludes this expense.

(4) Variable-rate floor income: Loans that reset annually on July 1 can generate excess spread income compared with the rate based on the special allowance payment formula in declining interest rate environments. The Company refers to this additional income as variable-rate floor income. The Company excludes variable-rate floor income, net of settlements paid on derivatives used to hedge student loan assets earning variable-rate floor income, from its base net income since the timing and amount of variable-rate floor income (if any) is uncertain, it has been eliminated by legislation for all loans originated on and after April 1, 2006, and it is in excess of expected spreads. In addition, because variable-rate floor income is subject to the underlying rate for the subject loans being reset

annually on July 1, it is a factor beyond the Company s control which can affect the period-to-period comparability of results of operations.

(5) Discontinued operations: In May 2007, the Company sold EDULINX. As a result of this transaction, the results of operations for EDULINX are reported as discontinued operations for all periods presented. 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.

(6) Beginning in 2008, tax effect is computed using the Company s consolidated effective tax rate for each applicable quarterly period. In prior periods, tax effect was computed at 38%. The change in the value of the put

options for prior periods (included in Corporate Activities and Overhead) was not tax effected as this is not deductible for income tax purposes.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Management s Discussion and Analysis of Financial Condition and Results of Operations is for the three and nine months ended September 30, 2008 and 2007. All dollars are in thousands, except per share amounts, unless otherwise noted).

The following discussion and analysis provides information that the Company s management believes is relevant to an assessment and understanding of the consolidated results of operations and financial condition of the Company. The discussion should be read in conjunction with the Company s consolidated financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2007.

Forward-looking and cautionary statements

This report contains forward-looking statements and information based on management s current expectations as of the date of this document. When used in this report, the words anticipate, believe, estimate, expect, and intend and s expressions are intended to identify forward-looking statements. These forward-looking statements are subject to risks, uncertainties, assumptions, and other factors that may cause the actual results to be materially different from those reflected in such forward-looking statements. These factors include, among others, the risks and uncertainties set forth in Risk Factors and elsewhere in this Quarterly Report on Form 10-Q, prior quarterly reports filed by the Company, and the Company s Annual Report on Form 10-K for the year ended December 31, 2007, and changes in the terms of student loans and the educational credit marketplace arising from the implementation of, or changes in, applicable laws and regulations, which may reduce the volume, average term, special allowance payments, and costs of yields on student loans under the FFEL Program or result in loans being originated or refinanced under non-FFEL programs or may affect the terms upon which banks and others agree to sell FFELP loans to the Company. In addition, a larger than expected increase in third party consolidations of the Company s FFELP loans could materially adversely affect the Company s results of operations. The Company could also be affected by changes in the demand for educational financing or in financing preferences of lenders, educational institutions, students, and their families; the Company s ability to maintain its credit facilities or obtain new facilities; the ability of lenders under the Company s credit facilities to fulfill their lending commitments under those facilities; changes to the terms and conditions of the liquidity programs offered by the Department of Education; changes in the general interest rate environment and in the securitization markets for education loans, which may increase the costs or limit the availability of financings necessary to initiate, purchase, or carry education loans; losses from loan defaults; changes in prepayment rates, guaranty rates, loan floor rates, and credit spreads; the financial strength of contract counterparties; the uncertain nature of the expected benefits from acquisitions and the ability to successfully integrate operations; and the uncertain nature of estimated expenses that may be incurred and cost savings that may result from the Company s strategic restructuring initiatives. The reader should not place undue reliance on forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. Additionally, financial projections may not prove to be accurate and may vary materially. The Company is not obligated to publicly release any revisions to forward-looking statements to reflect events after the date of this Quarterly Report on Form 10-Q or unforeseen events. Although the Company may from time to time voluntarily update its prior forward-looking statements, it disclaims any commitment to do so except as required by securities laws.

Overview

The Company is an education planning and financing company focused on providing quality products and services to students, families, and schools nationwide. The Company is a vertically-integrated organization that offers a broad range of products and services to its customers throughout the education life cycle.

Built through a focus on long-term organic growth and further enhanced by strategic acquisitions, the Company earns its revenues from fee-based revenues related to its diversified education finance and service operations and from net interest income on its portfolio of student loans.

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The following provides certain events and operating activities that have impacted the financial condition and operating results of the Company. These items include:

- Liquidity developments related to the Company s FFELP warehouse and unsecured line of credit facilities and legislative developments regarding funding new loan originations;
- Strong student loan spread earned on the Company s loan portfolio;
- Increased revenue and operating margins from the Company s fee-based businesses; and
- Continued decreases in operating expenses.

Liquidity and Legislative Developments

FFELP Warehouse Facility and Unsecured Line of Credit

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 can be funded with this facility. As of November 7, 2008, $2.1 billion was outstanding under this facility. The terms and conditions of this facility provides for mark-to-market advance rates. On October 22, 2008, the Company posted $165.5 million in additional funds to the facility based on this mark-to-market formula. As of November 7, 2008, the Company has a cumulative amount of $374.6 million posted as equity funding support for the facility.

The Company has utilized its $750.0 million unsecured line of credit to fund equity advances on its warehouse facility. As of November 7, 2008, the Company has $691.5 million outstanding under this line of credit. The line of credit terminates in May 2012.

Continued dislocations in the credit markets may cause additional volatility in the loan valuation formula. Should a significant change in the valuation of loans result in additional required equity funding support for the warehouse facility greater than what the Company can provide and the Company has not amended the facility as discussed below, the warehouse facility could be subject to an event of default resulting in a termination of the facility and an acceleration of the repayment provisions. A default on the 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.

To reduce the Company s exposure from the mark-to-market advance rate provision included in the FFELP warehouse facility, the Company has signed a letter agreement engaging Banc of America Securities LLC to arrange an amendment of certain of the Company s credit facilities, including but not limited to an amendment to place a floor on the valuation of collateral in the Company s FFELP loan warehouse line of credit for which Bank of America, N.A. acts as administrative agent. Banc of America Securities LLC has commenced the amendment process and together with the Company is seeking the approval of the Company s lenders of a proposed amendment of such credit facilities on mutually agreeable terms. In addition, the Company continues to look at various alternatives to remove loans from the warehouse facility including other financing arrangements and/or selling loans to third parties.

In addition, on November 8, 2008, the Department announced they intend to provide liquidity support to one or more conforming asset backed commercial paper conduits to purchase and provide longer-term financing for FFELP loans. While details of this conduit are forthcoming, it is intended that all fully-disbursed non-consolidation FFELP loans awarded between October 1, 2003 and July 1, 2009 will be eligible for inclusion. As of November 7, 2008, the Company had approximately $900 million of loans included in its warehouse facility that would be eligible for this proposed conduit program.

Funding New Loan Originations

In July 2008, pursuant to the Ensuring Continued Access to Student Loans Act, the Department of Education announced terms under which it would offer to purchase FFELP student loans and loan participations from lenders. Upon not renewing the liquidity provisions on the Company s FFELP warehouse 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. As of September 30, 2008, the Company has funded $263.9 million of FFELP loans using the Department s Participation Program. The Company plans to continue to use the Participation Program to fund the majority of loans originated for the 2008-2009 academic year.

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 has provided preliminary guidance relating to the extension and has indicated that programs similar to the Participation Program and the Purchase Program for the 2009-2010 academic year along with providing liquidity support for one or more asset backed commercial paper conduits for FFELP Stafford and PLUS loans awarded between October 1, 2003 and July 1, 2009. The Department has 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. Management understands that such loans will not be eligible for participation under the Department s 2009-2010 Participation Program, but should be eligible for refinancing through the Department s commercial paper conduit program. Management of the Company is encouraged by these developments; however, until the Department provides additional details regarding the programs, the Company is unable to determine the full impact these programs will have on the Company.

Student Loan Spread

The Company s core student loan spread for the three months ended September 30, 2008 was 102 basis points. Excluding fixed-rate floor income, core student loan spread for both the three months ended September 30, 2008 and June 30, 2008 was 92 basis points.

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Fee-based businesses

Revenue from the Company s fee-based businesses increased $4.6 million, or 6.4%, to $76.7 million for the three months ended September 30, 2008 compared to $72.1 million for the three months ended September 30, 2007. Excluding list marketing services, revenue from the Company s Tuition Payment Processing and Campus Commerce and Enrollment Services and List Management operating segments increased $8.3 million, or 26.5%, to $39.4 million for the three months ended September 30, 2008 compared to $31.1 million for the three months ended September 30, 2007. These operating segments are less impacted by legislation and the student loan industry.

Operating margins for the Company s fee based businesses, excluding the expenses associated with the variation in allocation methodologies and restructuring and impairment charges, were 27.7% and 27.8% for the three and nine months ended September 30, 2008, respectively, compared to 32.3% and 27.6% for the same periods in 2007.

Operating Expenses

As a result of the restructuring plans implemented in September 2007 and January 2008, as well as the Company s continued focus on capitalizing on the operating leverage of the Company s business structure and strategies, operating expenses continued to decrease during the quarter. Excluding restructuring and impairment charges, operating expenses decreased $15.3 million, or 12.9%, and $56.4 million, or 15.6%, for the three and nine months ended September 30, 2008 compared to the same periods in 2007, respectively.

RESULTS OF OPERATIONS

The Company s operating results are primarily driven by the performance of its existing portfolio, the cost necessary to generate new assets, the revenues generated by its fee based businesses, and the cost to provide those services. The performance of the Company s portfolio is driven by net interest income and losses related to credit quality of the assets along with the cost to administer and service the assets and related debt.

Net Interest Income

The Company generates a significant portion of its earnings from the spread, referred to as its student loan spread, between the yield the Company receives on its student loan portfolio and the cost of funding these loans. This spread income is reported on the Company s consolidated statements of operations as net interest income. The amortization of loan premiums, including capitalized costs of origination, the 1.05% per year consolidation loan rebate fee paid to the Department, and yield adjustments from borrower benefit programs, are netted against loan interest income on the Company s statements of operations. The amortization of debt issuance costs is included in interest expense on the Company s statements of operations.

The Company s portfolio of FFELP loans originated prior to April 1, 2006 earns interest at the higher of a variable rate based on the special allowance payment (SAP) formula set by the Department of Education and the borrower rate. 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. As a result of one of the provisions of the Higher Education Reconciliation Act of 2005 (HERA), the Company s portfolio of FFELP loans originated on or after April 1, 2006 earns interest at a variable rate based on the SAP formula. For the portfolio of loans originated on or after April 1, 2006, when the borrower rate exceeds the variable rate based on the SAP formula, the Company must return the excess to the Department.

On September 27, 2007, the President signed into law the College Cost Reduction and Access Act of 2007. This legislation has and will continue to have a significant impact on the Company s net interest income and should be considered when reviewing the Company s results of operations. Among other things, this legislation:

- Reduced special allowance payments to for-profit lenders and not-for-profit lenders by 0.55 percentage points and 0.40 percentage points, respectively, for both Stafford and Consolidation loans disbursed on or after October 1, 2007;
- Reduced special allowance payments to for-profit lenders and not-for-profit lenders by 0.85 percentage points and 0.70 percentage points, respectively, for PLUS loans disbursed on or after October 1, 2007;
- Increased origination fees paid by lenders on all FFELP loan types, from 0.5 percent to 1.0 percent, for all loans first disbursed on or after October 1, 2007;
- Eliminated all provisions relating to Exceptional Performer status, and the monetary benefit associated with it, effective October 1, 2007; and

Reduces default insurance to 95 percent of the unpaid principal of such loans, for loans first disbursed on or after October 1, 2012.

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Management estimates the impact of this legislation will reduce the annual yield on FFELP loans originated after October 1, 2007 by 70 to 80 basis points. The Company believes it can mitigate some of the reduction in annual yield by creating efficiencies and lowering costs, modifying borrower benefits, and reducing loan acquisition costs.

Because the Company generates a significant portion of its earnings from its student loan spread, the interest rate sensitivity of the Company s balance sheet is very important to its operations. The current and future interest rate environment can and will affect the Company s interest earnings, net interest income, and net income. The effects of changing interest rate environments are further outlined in Item 3, Quantitative and Qualitative Disclosures about Market Risk Interest Rate Risk.

Investment interest income, which is a component of net interest income, includes income from unrestricted interest-earning deposits and funds in the Company s special purpose entities which are utilized for its asset-backed securitizations.

Net interest income also includes interest expense on unsecured debt offerings. The proceeds from these unsecured debt offerings were and have been used by the Company to fund general business operations, certain asset and business acquisitions, and the repurchase of stock under the Company s stock repurchase plan.

Provision for Loan Losses

Management estimates and establishes an allowance for loan losses through a provision charged to expense. Losses are charged against the allowance when management believes the collectibility of the loan principal is unlikely. Recovery of amounts previously charged off is credited to the allowance for loan losses. Management maintains the allowance for federally insured and non-federally insured loans at a level believed to be adequate to provide for estimated probable credit losses inherent in the loan portfolio. This evaluation is inherently subjective because it requires estimates that may be susceptible to significant changes. The Company analyzes the allowance separately for its federally insured loans and its non-federally insured loans.

Management bases the allowance for the federally insured loan portfolio on periodic evaluations of the Company s loan portfolios, considering past experience, trends in student loan claims rejected for payment by guarantors, changes to federal student loan programs, current economic conditions, and other relevant factors. One of the changes to the Higher Education Act as a result of HERA s enactment in February 2006, was to lower the guaranty rates on FFELP loans, including a decrease in insurance and reinsurance on portfolios receiving the benefit of the Exceptional Performance designation by 1%, from 100% to 99% of principal and accrued interest (effective July 1, 2006), and a decrease in insurance and reinsurance on portfolios not subject to the Exceptional Performance designation by 1%, from 98% to 97% of principal and accrued interest (effective for all loans first disbursed on and after July 1, 2006).

In September 2005, the Company was re-designated as an Exceptional Performer by the Department in recognition of its exceptional level of performance in servicing FFELP loans. As a result of this designation, the Company received 99% reimbursement (100% reimbursement prior to July 1, 2006) on all eligible FFELP default claims submitted for reimbursement during the applicable period. Only FFELP loans that were serviced by the Company, as well as loans owned by the Company and serviced by other service providers designated as Exceptional Performers by the Department, were eligible for the 99% reimbursement.

On September 27, 2007, the President signed into law the College Cost Reduction and Access Act of 2007. Among other things, this legislation eliminated all provisions relating to Exceptional Performer status, and the monetary benefit associated with it, effective October 1, 2007. Accordingly, the majority of claims submitted on or after October 1, 2007 are subject to reimbursement at 97% or 98% of principal and accrued interest depending on the disbursement date of the loan. During the three month period ended September 30, 2007, the Company recorded an expense of $15.7 million to increase the Company s allowance for loan losses related to the increase in risk share as a result of the elimination of the Exceptional Performer program.

In determining the adequacy of the allowance for loan losses on the non-federally insured loans, the Company considers several factors including: loans in repayment versus those in a nonpaying status, months in repayment, delinquency status, type of program, and trends in defaults in the portfolio based on Company and industry data. The Company places a non-federally insured loan on nonaccrual status and charges off the loan when the collection of principal and interest is 120 days past due.

Other Income

The Company also earns fees and generates income from other sources, including principally loan and guaranty servicing income; fee-based income on borrower late fees, payment management activities, and certain marketing and enrollment services; and fees from providing software services.

Loan and Guaranty Servicing Income Loan servicing fees are determined according to individual agreements with customers and are calculated based on the dollar value of loans, number of loans, or number of borrowers serviced for each customer. Guaranty servicing fees, generally, are calculated based on the number of loans serviced or amounts collected. Revenue is recognized when earned pursuant to applicable agreements, and when ultimate collection is assured.

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Other Fee-Based Income Other fee-based income includes borrower late fee income, payment management fees, the sale of lists and print products, and subscription-based products and services. Borrower late fee income earned by the Company s education lending subsidiaries is recognized when payments are collected from the borrower. Fees for payment management services are recognized over the period in which services are provided to customers. Revenue from the sale of lists and printed products is generally earned and recognized, net of estimated returns, upon shipment or delivery. Revenues from the sales of subscription-based products and services are recognized ratably over the term of the subscription. Subscription revenue received or receivable in advance of the delivery of services is included in deferred revenue.

Software Services Software services income is determined from individual agreements with customers and includes license and maintenance fees associated with student loan software products. Computer and software consulting services are recognized over the period in which services are provided to customers.

Operating Expenses

Operating expenses includes indirect costs incurred to generate and acquire student loans, costs incurred to manage and administer the Company s student loan portfolio and its financing transactions, costs incurred to service the Company s student loan portfolio and the portfolios of third parties, costs incurred to provide tuition payment processing, campus commerce, enrollment, list management, software, and technical services to third parties, the depreciation and amortization of capital assets and intangible assets, and other general and administrative expenses. Operating expenses also includes employee termination benefits, lease termination costs, and the write-down of certain assets related to the Company s September 2007 and January 2008 restructuring initiatives.

Three and nine months ended September 30, 2008 compared to the three and nine months ended September 30, 2007

Net Interest Income

	Three months ended September 30,			Nine months ended September 30,		
	2008	2007	$ Change	2008	2007	$ Change
Interest income:						
Loan interest	$ 284,468	437,251	(152,783)	911,140	1,251,391	(340,251)
Investment interest	9,118	21,023	(11,905)	29,914	61,231	(31,317)
Total interest income	293,586	458,274	(164,688)	941,054	1,312,622	(371,568)
Interest expense:						
Interest on bonds and notes payable	234,016	393,875	(159,859)	791,621	1,112,263	(320,642)
Net interest income	59,570	64,399	(4,829)	149,433	200,359	(50,926)
Provision for loan losses	7,000	18,340	(11,340)	18,000	23,628	(5,628)
Net interest income after provision for loan losses	$ 52,570	46,059	6,511	131,433	176,731	(45,298)

Net interest income decreased for the three and nine months ended September 30, 2008 compared to 2007 as a result of the compression in the core student loan spread as discussed in this Item 2 under Asset Generation and Management Operating Segment Results of Operations. Core student loan spread was 0.93% and 1.20% for the nine months ended September 30, 2008 and 2007, respectively, and 1.02% and 1.05% for the three months ended September 30, 2008 and 2007, respectively. The decrease was also due to an overall decrease in cash held in 2008 compared to 2007 and lower interest rates in 2008. The decreases to net interest income were offset by the amount of variable-rate floor income the Company earned during these periods. During the three and nine months ended September 30, 2008, the Company earned $1.6 million and $41.7 million, respectively, of variable-rate floor income, as compared to $0.6 million of variable-rate floor income earned

during both the three and nine months ended September 30, 2007.

Excluding an expense of $15.7 million in September 2007 to increase the Company s allowance for loan losses related to the increase in risk share as a result of the elimination of the Exceptional Performer program in the third quarter of 2007, the provision for loan losses increased for the three and nine months ended September 30, 2008 compared to 2007. The provision for loan losses for federally insured loans increased as a result of the increase in risk share as a result of the loss of Exceptional Performer in September 2007. The provision for loan losses for non-federally insured loans increased primarily due to increases in delinquencies as a result of the continued weakening of the U.S. economy.

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Other Income

	Three months ended September 30,			Nine months ended September 30,		
	2008	2007	$ Change	2008	2007	$ Change
Loan and guaranty servicing income	$ 30,633	33,040	(2,407)	81,650	95,116	(13,466)
Other fee-based income	45,887	38,025	7,862	132,617	116,316	16,301
Software services income	4,217	5,426	(1,209)	15,865	17,022	(1,157)
Other income	1,242	7,028	(5,786)	4,298	14,048	(9,750)
Gain (loss) on sale of loans		492	(492)	(47,426)	3,288	(50,714)
Derivative market value, foreign currency, and put option adjustments	6,085	18,449	(12,364)	(35,521)	11,866	(47,387)
Derivative settlements, net	789	(2,336)	3,125	45,989	7,100	38,889
Total other income	$ 88,853	100,124	(11,271)	197,472	264,756	(67,284)

Loan and guaranty servicing income decreased due to decreases in FFELP loan servicing income, non-federally insured loan servicing income, and guaranty servicing income as further discussed in this Item 2 under Student Loan and Guaranty Servicing Operating Segment Results of Operations.

Other fee-based income increased due to an increase in the number of managed tuition payment plans and an increase in campus commerce and related clients in the Tuition Payment Processing and Campus Commerce Operating Segment, as well as an increase in lead generation sales volume in the Enrollment Services and List Management Operating Segment.

Software services income decreased as the result of a reduction in the number of projects for existing customers and the loss of customers due to the legislative developments in the student loan industry throughout 2008 in the Software and Technical Services Operating Segment.

Other income decreased for the three and nine months ended September 30, 2008 compared to 2007 due to a gain of $3.9 million from the sale of an entity accounted for under the equity method in September 2007. In addition, an agreement with a third party ended during the third quarter of 2007 under which the Company provided administrative services to the third party for a fee. The remaining change is a result of a decrease in income earned on certain investment activities.

The Company recognized a loss of $47.5 million during the first quarter of 2008 as a result of the sale of $1.3 billion of student loans as further discussed in this Item 2 under Asset Generation and Management Operating Segment Results of Operations.

The change in derivative market value, foreign currency, and put option adjustments was caused by the change in the fair value of the Company s derivative portfolio and foreign currency rate fluctuations which are further discussed in Item 3, Quantitative and Qualitative Disclosures about Market Risk.

Further detail of the components of derivative settlements is included in Item 3, Quantitative and Qualitative Disclosures about Market Risk. The Company maintains an overall risk management strategy that incorporates the use of derivative instruments to reduce the economic effect of interest rate volatility. 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. Derivative settlements for each applicable period should be evaluated with the Company s net interest income.

Operating Expenses

	Three months ended September 30,			Nine months ended September 30,		
	2008	2007	$ Change	2008	2007	$ Change

Salaries and benefits	$ 44,739	55,757	(11,018)	136,422	177,222	(40,800)
Other expenses	58,930	63,228	(4,298)	168,065	183,638	(15,573)
Operating expenses, excluding impairment and restructure charges	103,669	118,985	$ (15,316)	304,487	360,860	$ (56,373)
Impairment expense		39,444		18,834	39,444	
Restructure expense		15,016		7,107	15,016	
Total operating expenses	$ 103,669	173,445		330,428	415,320	

Excluding restructuring and impairment charges, operating expenses decreased $15.3 million and $56.4 million for the three and nine months ended September 30, 2008 compared to the same periods in 2007, respectively. The decreases are the result of cost savings from the September 2007 and January 2008 restructuring plans implemented by the Company. These plans resulted in the net reduction of approximately 700 positions in the Company s overall workforce, leading to decreases in salaries and benefits and other expenses. The decrease is also a result of the Company capitalizing on the operating leverage of its business structure and strategies.

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Operating expenses for the three and nine months ended September 30, 2008 includes $2.8 million of certain severance and retention costs associated with additional strategic decisions made in the third quarter of 2008. These costs are not included in restructure expense in the above table.

Income Taxes

The Company s effective tax rate was 37.0% and 117.7% for the three and nine months ended September 30, 2008, compared to 39.1% and 37.9% for the same periods in 2007. The 2008 year-to-date tax expense and effective tax rate is the result of the year-to-date pre-tax loss and the various state gross receipts taxes and other items which are not deductible for tax purposes.

Additional information on the Company s results of operations is included with the discussion of the Company s operating segments in this Item 2 under Operating Segments .

Financial Condition as of September 30, 2008 compared to December 31, 2007

	As of September 30, 2008	As of December 31, 2007	Change Dollars	Change Percent
Assets:				
Student loans receivable, net	$ 26,376,269	26,736,122	(359,853)	(1.3)%
Cash, cash equivalents, and investments	1,454,881	1,120,838	334,043	29.8
Goodwill	175,178	164,695	10,483	6.4
Intangible assets, net	83,565	112,830	(29,265)	(25.9)
Fair value of derivative instruments	154,741	222,471	(67,730)	(30.4)
Other assets	725,381	805,827	(80,446)	(10.0)
Total assets	$ 28,970,015	29,162,783	(192,768)	(0.7)%
Liabilities:				
Bonds and notes payable	$ 28,004,835	28,115,829	(110,994)	(0.4)%
Fair value of derivative instruments	22,929	5,885	17,044	289.6
Other liabilities	332,521	432,190	(99,669)	(23.1)
Total liabilities	28,360,285	28,553,904	(193,619)	(0.7)
Shareholders equity	609,730	608,879	851	0.1
Total liabilities and shareholders equity	$ 28,970,015	29,162,783	(192,768)	(0.7)%

The Company s total assets decreased during 2008 primarily due to a decrease in student loans receivable as a result of a sale of $1.3 billion of student loans in 2008 as further discussed in this Item 2 under Asset Generation and Management Operating Segment Results of Operations offset by loan originations and acquisitions, net of repayments and participations. Total liabilities decreased primarily due to a decrease in bonds and notes payable. This decrease is a result of the decrease in student loan funding obligations due to a decrease in the Company s student loan portfolio offset by increased borrowings on the unsecured line of credit to provide equity funding support related to advances on the Company s warehouse facilities.

OPERATING SEGMENTS

The Company has five operating segments as defined in SFAS No. 131 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 included in the Company s consolidated financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2007. 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.

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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 on the basis of 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 in the notes to the consolidated financial statements included in this Report 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 look for ways to diversify its sources of revenue, including those generated from businesses that are not dependent upon government programs, reducing legislative and political risk.

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. While base net income is not a substitute for reported results under GAAP, the Company relies on base net income in operating its business because base net income permits management to make meaningful period-to-period comparisons of the operational and performance indicators that are most closely assessed by management. 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 reviewed and utilized by management to manage the business for each of the Company s operating segments. Reconciliation of the segment totals to the Company s consolidated operating results in accordance with GAAP are also included in the tables below. Included below under Non-GAAP Performance Measures is further discussion regarding base net income and its limitations, including a table that details the differences between base net income and GAAP net income by operating segment.

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Segment Results and Reconciliations to GAAP

	Three months ended September 30, 2008									
	Fee-Based									
	Student Loan and Guaranty Servicing	Tuition Payment Processing 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	$ 304	396	6		706	290,039	2,010	(749)	1,580	293,586
Interest expense			1		1	224,272	10,492	(749)		234,016
Net interest income (loss)	304	396	5		705	65,767	(8,482)		1,580	59,570
Less provision for loan losses						7,000				7,000
Net interest income (loss) after provision for loan losses	304	396	5		705	58,767	(8,482)		1,580	52,570
Other income (expense):										
Loan and guaranty servicing income	30,769				30,769	(136)				30,633
Other fee-based income		11,861	29,859		41,720	4,167				45,887
Software services income				4,217	4,217					4,217
Other income	6	1			7	(88)	1,323			1,242
Intersegment revenue	18,402	58	2	1,660	20,122		15,671	(35,793)		
Derivative market value, foreign currency, and									6,085	6,085

put option adjustments										
Derivative settlements, net						789				789
Total other income (expense)	49,177	11,920	29,861	5,877	96,835	4,732	16,994	(35,793)	6,085	88,853
Operating expenses:										
Salaries and benefits	13,876	6,236	5,805	4,138	30,055	1,980	14,179	(1,952)	477	44,739
Other expenses	10,632	2,132	20,416	568	33,748	5,354	13,477	(247)	6,598	58,930
Intersegment expenses	11,940	288	1,509	826	14,563	18,200	831	(33,594)		
Total operating expenses	36,448	8,656	27,730	5,532	78,366	25,534	28,487	(35,793)	7,075	103,669
Income (loss) before income taxes	13,033	3,660	2,136	345	19,174	37,965	(19,975)		590	37,754
Income tax expense (benefit) (a)	4,823	1,354	790	128	7,095	14,047	(7,391)		218	13,969
Net income (loss) from continuing operations	8,210	2,306	1,346	217	12,079	23,918	(12,584)		372	23,785
Income from discontinued operations, net of tax										
Net income (loss)	$ 8,210	2,306	1,346	217	12,079	23,918	(12,584)		372	23,785

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

Three months ended

September 30, 2008: Before Tax Operating Margin	26.3%	29.7%	7.2%	5.9%	19.7%	59.8%
Three months ended September 30, 2007: Before Tax Operating Margin excluding restructure expense, impairment expense, and provision for loan losses related to the loss of Exceptional Performer	42.9%	36.3%	7.3%	26.7%	32.3%	49.2%

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	Three months ended September 30, 2007									
	Fee-Based									
	Student Loan and Guaranty Servicing	Tuition Payment Processing 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	$ 1,182	990	110		2,282	454,053	1,875	(533)	597	458,274
Interest expense			1		1	384,793	9,614	(533)		393,875
Net interest income (loss)	1,182	990	109		2,281	69,260	(7,739)		597	64,399
Less provision for loan losses						18,340				18,340
Net interest income (loss) after provision for loan losses	1,182	990	109		2,281	50,920	(7,739)		597	46,059
Other income (expense):										
Loan and guaranty servicing income	32,870				32,870	170				33,040
Other fee-based income		10,316	23,471		33,787	3,526	712			38,025
Software services income			169	5,257	5,426					5,426
Other income		31			31	1,181	5,816			7,028
Gain on sale of loans						492				492
Intersegment revenue	22,237	168	(37)	4,805	27,173		1,492	(28,665)		
Derivative market value,									18,449	18,449

foreign currency, and put option adjustments										
Derivative settlements, net						(4,065)	1,729			(2,336)
Total other income (expense)	55,107	10,515	23,603	10,062	99,287	1,304	9,749	(28,665)	18,449	100,124
Operating expenses:										
Salaries and benefits	21,961	5,312	8,095	6,537	41,905	6,154	9,691	2,292	503	60,545
Restructure expense-severance and contract termination costs	1,231		737	58	2,026	1,921	1,009	(4,956)		
Impairment expense			11,401		11,401	28,291	9,812			49,504
Other expenses	8,565	2,029	13,809	689	25,092	7,429	19,822	168	10,885	63,396
Intersegment expenses	1,613	(15)	67	147	1,812	20,924	3,433	(26,169)		
Total operating expenses	33,370	7,326	34,109	7,431	82,236	64,719	43,767	(28,665)	11,388	173,445
Income (loss) before income taxes	22,919	4,179	(10,397)	2,631	19,332	(12,495)	(41,757)		7,658	(27,262)
Income tax expense (benefit) (a)	8,709	1,588	(3,951)	1,000	7,346	(4,748)	(16,233)		2,971	(10,664)
Net income (loss) from continuing operations	14,210	2,591	(6,446)	1,631	11,986	(7,747)	(25,524)		4,687	(16,598)
Income (loss) from discontinued operations, net of tax									909	909

Net income (loss)	$ 14,210	2,591	(6,446)	1,631	11,986	(7,747)	(25,524)	5,596	(15,689)

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

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	Nine months ended September 30, 2008									
	Fee-Based									
	Student Loan and Guaranty Servicing	Tuition Payment Processing 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	$ 1,160	1,471	16		2,647	892,690	4,781	(1,389)	42,325	941,054
Interest expense			3		3	762,689	30,318	(1,389)		791,621
Net interest income (loss)	1,160	1,471	13		2,644	130,001	(25,537)		42,325	149,433
Less provision for loan losses						18,000				18,000
Net interest income (loss) after provision for loan losses	1,160	1,471	13		2,644	112,001	(25,537)		42,325	131,433
Other income (expense):										
Loan and guaranty servicing income	81,624				81,624	26				81,650
Other fee-based income		35,975	83,148		119,123	13,494				132,617
Software services income			37	15,828	15,865					15,865
Other income	44	5			49	293	3,956			4,298
Loss on sale of loans						(47,426)				(47,426)
Intersegment revenue	57,008	242	2	4,993	62,245		46,844	(109,089)		
Derivative market value, foreign currency, and						466			(35,987)	(35,521)

put option adjustments										
Derivative settlements, net						55,954			(9,965)	45,989
Total other income (expense)	138,676	36,222	83,187	20,821	278,906	22,807	50,800	(109,089)	(45,952)	197,472
Operating expenses:										
Salaries and benefits	40,365	17,450	18,701	14,031	90,547	6,157	41,581	1,323	2,523	142,131
Restructure expense severance and contract termination costs	747		282	487	1,516	1,845	3,746	(7,107)		
Impairment expense	5,074				5,074	9,351	4,409			18,834
Other expenses	27,130	6,743	55,863	1,901	91,637	15,793	42,263	51	19,719	169,463
Intersegment expenses	35,040	1,045	4,936	1,562	42,583	57,754	3,019	(103,356)		
Total operating expenses	108,356	25,238	79,782	17,981	231,357	90,900	95,018	(109,089)	22,242	330,428
Income (loss) before income taxes	31,480	12,455	3,418	2,840	50,193	43,908	(69,755)		(25,869)	(1,523)
Income tax expense (benefit) (a)	10,542	4,081	1,187	902	16,712	15,889	(22,824)		(7,984)	1,793
Net income (loss) from continuing operations	20,938	8,374	2,231	1,938	33,481	28,019	(46,931)		(17,885)	(3,316)
Income from discontinued operations, net of tax									981	981
Net income (loss)	$ 20,938	8,374	2,231	1,938	33,481	28,019	(46,931)		(16,904)	(2,335)

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

Nine months ended September 30, 2008: Before Tax Operating Margin excluding restructure expense, impairment expense, and the loss on sale of loans during the first quarter of 2008	26.7%	33.0%	4.4%	16.0%	20.2%	56.3%
Nine months ended September, 2007: Before Tax Operating Margin excluding restructure expense, impairment expense, and provision for loan losses related to the loss of Exceptional Performer	35.6%	36.0%	7.0%	26.9%	27.6%	53.7%

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	Nine months ended September 30, 2007									
		Fee-Based								
	Student Loan and Guaranty Servicing	Tuition Payment Processing 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	$ 4,607	2,670	290	18	7,585	1,301,947	6,230	(3,737)	597	1,312,622
Interest expense		7	5		12	1,084,792	31,196	(3,737)		1,112,263
Net interest income (loss)	4,607	2,663	285	18	7,573	217,155	(24,966)		597	200,359
Less provision for loan losses						23,628				23,628
Net interest income (loss) after provision for loan losses	4,607	2,663	285	18	7,573	193,527	(24,966)		597	176,731
Other income (expense):										
Loan and guaranty servicing income	94,828				94,828	288				95,116
Other fee-based income		31,492	73,341		104,833	10,511	972			116,316
Software services income			456	16,566	17,022					17,022
Other income	11	59			70	4,329	9,649			14,048
Gain on sale of loans						3,288				3,288
Intersegment revenue	58,821	508	891	13,026	73,246		7,608	(80,854)		
									11,866	11,866

Derivative market value, foreign currency, and put option adjustments										
Derivative settlements, net						(4,950)	12,050			7,100
Total other income (expense)	153,660	32,059	74,688	29,592	289,999	13,466	30,279	(80,854)	11,866	264,756
Operating expenses:										
Salaries and benefits	66,988	15,312	26,486	18,869	127,655	20,600	34,669	(2,370)	1,456	182,010
Restructure expense-severance an dcontract termination costs	1,231		737	58	2,026	1,921	1,009	(4,956)		
Impairment expense			11,401		11,401	28,291	9,812			49,504
Other expenses	26,219	6,522	42,957	2,224	77,922	22,940	58,762	168	24,014	183,806
Intersegment expenses	8,681	384	252	550	9,867	59,594	4,235	(73,696)		
Total operating expenses	103,119	22,218	81,833	21,701	228,871	133,346	108,487	(80,854)	25,470	415,320
Income (loss) before income taxes	55,148	12,504	(6,860)	7,909	68,701	73,647	(103,174)		(13,007)	26,167
Income tax expense (benefit) (a)	20,956	4,752	(2,607)	3,006	26,107	27,986	(40,059)		(4,128)	9,906
Net income (loss) from continuing operations	34,192	7,752	(4,253)	4,903	42,594	45,661	(63,115)		(8,879)	16,261
Income (loss) from discontinued									(2,416)	(2,416)

operations, net of tax									
Net income (loss)	$ 34,192	7,752	(4,253)	4,903	42,594	45,661	(63,115)	(11,295)	13,845

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

Non-GAAP Performance Measures

In accordance with the rules and regulations of the Securities and Exchange Commission (SEC), the Company prepares financial statements in accordance with generally accepted accounting principles (GAAP). In addition to evaluating the Company s GAAP-based financial information, management also evaluates the Company s operating segments on a non-GAAP performance measure referred 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 management believes these measures provide additional information regarding the operational and performance indicators that are most closely assessed by management.

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Base net income is the primary financial performance measure used by management to develop financial plans, allocate resources, track results, evaluate performance, establish corporate performance targets, and determine incentive compensation. Accordingly, financial information is reported to management on a base net income basis by operating segment, as these are the measures used regularly by the Company s chief operating decision maker. The Company s board of directors utilizes base net income to set performance targets and evaluate management s performance. The Company also believes analysts, rating agencies, and creditors use base net income in their evaluation of the Company s results of operations. While base net income is not a substitute for reported results under GAAP, the Company utilizes base net income in operating its business because base net income permits management to make meaningful period-to-period comparisons by eliminating the temporary volatility in the Company s performance that arises from certain items that are primarily affected by factors beyond the control of management. Management believes base net income provides additional insight into the financial performance of the core business activities of the Company s operations.

Limitations of Base Net Income

While GAAP provides a uniform, comprehensive basis of accounting, for the reasons discussed above, management believes that base net income is an important additional tool for providing a more complete understanding of the Company s results of operations. Nevertheless, base net income is subject to certain general and specific limitations that investors should carefully consider. For example, as stated above, unlike financial accounting, there is no comprehensive, authoritative guidance for management reporting. 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. Investors, therefore, may not be able to compare the Company s performance with that of other companies based upon base net income . Base net income results are only meant to supplement GAAP results by providing additional information regarding the operational and performance indicators that are most closely monitored and used by the Company s management and board of directors to assess performance and information which the Company believes is important to analysts, rating agencies, and creditors.

Other limitations of base net income arise from the specific adjustments that management makes to GAAP results to derive base net income results. These differences are described below.

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The adjustments required to reconcile from the Company s base net income measure to its GAAP results of operations relate to differing treatments for derivatives, foreign currency transaction adjustments, discontinued operations, and certain other items that management does not consider in evaluating the Company s operating results. The following table reflects adjustments associated with these areas by operating segment and Corporate Activity and Overhead:

	Student Loan and Guaranty Servicing	Tuition Payment Processing and Campus Commerce	Enrollment Services and List Management	Software and Technical Services	Asset Generation and Management	Corporate Activity and Overhead	Total
				Three months ended September 30, 2008			
Derivative market value, foreign currency, and put option adjustments	$				(9,030)	2,945	(6,085)
Amortization of intangible assets	1,165	1,889	3,258	286			6,598
Compensation related to business combinations						477	477
Variable-rate floor income, net of settlements on derivatives					(1,580)		(1,580)
Income (loss) from discontinued operations, net of tax							
Net tax effect (a)	(432)	(699)	(1,205)	(106)	3,926	(1,266)	218
Total adjustments to GAAP	$ 733	1,190	2,053	180	(6,684)	2,156	(372)
				Three months ended September 30, 2007			
Derivative market value, foreign currency, and put option adjustments	$				(20,017)	1,568	(18,449)
Amortization of intangible assets	1,350	1,434	6,442	287	1,372		10,885
Compensation related to business combinations						503	503
					(597)		(597)

Variable-rate floor income, net of settlements on derivatives							
Income (loss) from discontinued operations, net of tax	(909)						(909)
Net tax effect (a)	(513)	(545)	(2,448)	(109)	7,312	(726)	2,971
Total adjustments to GAAP	$ (72)	889	3,994	178	(11,930)	1,345	(5,596)

Nine months ended September 30, 2008

Derivative market value, foreign currency, and put option adjustments	$				32,504	3,483	35,987
Amortization of intangible assets	3,586	5,937	9,193	858	145		19,719
Compensation related to business combinations						2,523	2,523
Variable-rate floor income, net of settlements on derivatives					(32,360)		(32,360)
Income (loss) from discontinued operations, net of tax	(981)						(981)
Net tax effect (a)	(1,182)	(1,954)	(3,045)	(284)	548	(2,067)	(7,984)
Total adjustments to GAAP	$ 1,423	3,983	6,148	574	837	3,939	16,904

Nine months ended September 30, 2007

Derivative market value, foreign currency, and put option adjustments	$				(7,801)	(4,065)	(11,866)
Amortization of intangible assets	3,744	4,372	9,797	904	5,197		24,014
Compensation related to business						1,456	1,456

combinations							
Variable-rate floor income, net of settlements on derivatives					(597)		(597)
Income (loss) from discontinued operations, net of tax	2,416						2,416
Net tax effect (a)	(1,423)	(1,661)	(3,723)	(343)	1,216	1,806	(4,128)
Total adjustments to GAAP	$ 4,737	2,711	6,074	561	(1,985)	(803)	11,295

(a) Beginning in 2008, tax effect is computed using the Company s consolidated effective tax rate for each applicable quarterly period. In prior periods, tax effect was computed at 38%. The change in the value of the put options for prior periods (included in Corporate Activity and Overhead) was not tax effected as this is not deductible for income tax purposes.

Differences between GAAP and Base Net Income

Management s financial planning and evaluation of operating results does not take into account the following items because their volatility and/or inherent uncertainty affect the period-to-period comparability of the Company s results of operations. A more detailed discussion of the differences between GAAP and base net income follows.

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Derivative market value, foreign currency, and put option adjustments: Base net income excludes the periodic unrealized gains and losses that are caused by the change in fair value on derivatives used in the Company s risk management strategy in which the Company does not qualify for hedge treatment under GAAP. Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133), requires that changes in fair value of derivative instruments be recognized currently in earnings unless specific hedge accounting criteria, as specified by SFAS No. 133, are met. The Company maintains an overall interest rate risk management strategy that incorporates the use of derivative instruments to reduce the economic effect of interest rate volatility. Derivative instruments primarily used by the Company include interest rate swaps, basis swaps, and cross-currency interest rate swaps. Management has structured all of the Company s derivative transactions with the intent that each is economically effective. However, the Company does not qualify its derivatives for hedge treatment as defined by SFAS No. 133, and the stand-alone derivative must be marked-to-market in the income statement with no consideration for the corresponding change in fair value of the hedged item. The Company believes these point-in-time estimates of asset and liability values that are subject to interest rate fluctuations make it difficult to evaluate the ongoing results of operations against its business plan and affect the period-to-period comparability of the results of operations. Included in base net income are the economic effects of the Company s derivative instruments, which includes any cash paid or received being recognized as an expense or revenue upon actual derivative settlements. These settlements are included in Derivative market value, foreign currency, and put option adjustments and derivative settlements, net on the Company s consolidated statements of operations.

Base net income excludes the foreign currency transaction gains or losses caused by the re-measurement of the Company s Euro-denominated bonds to U.S. dollars. In connection with the issuance of the Euro-denominated bonds, the Company has entered into cross-currency interest rate swaps. Under the terms of these agreements, the principal payments on the Euro-denominated notes will effectively be paid at the exchange rate in effect at the issuance date of the bonds. The cross-currency interest rate swaps also convert the floating rate paid on the Euro-denominated bonds (EURIBOR index) to an index based on LIBOR. Included in base net income are the economic effects of any cash paid or received being recognized as an expense or revenue upon actual settlements of the cross-currency interest rate swaps. These settlements are included in Derivative market value, foreign currency, and put option adjustments and derivative settlements, net on the Company s consolidated statements of operations. However, the gains or losses caused by the re-measurement of the Euro-denominated bonds to U.S. dollars and the change in market value of the cross-currency interest rate swaps are excluded from base net income as the Company believes the point-in-time estimates of value that are subject to currency rate fluctuations related to these financial instruments make it difficult to evaluate the ongoing results of operations against the Company s business plan and affect the period-to-period comparability of the results of operations. The re-measurement of the Euro-denominated bonds 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.

Base net income also excludes the change in fair value of put options issued by the Company for certain business acquisitions. The put options are valued by the Company each reporting period using a Black-Scholes pricing model. Therefore, the fair value of these options is primarily affected by the strike price and term of the underlying option, the Company s current stock price, and the dividend yield and volatility of the Company s stock. The Company believes these point-in-time estimates of value that are subject to fluctuations make it difficult to evaluate the ongoing results of operations against the Company s business plans and affects the period-to-period comparability of the results of operations.

The gains and/or losses included in Derivative market value, foreign currency, and put option adjustments and derivative settlements, net on the Company s consolidated statements of operations are primarily caused by interest rate and currency volatility, changes in the value of put options based on the inputs used in the Black-Scholes pricing model, as well as the volume and terms of put options and of derivatives not receiving hedge treatment. Base net income excludes these unrealized gains and losses and isolates the effect of interest rate, currency, and put option volatility on the fair value of such instruments during the period. Under GAAP, the effects of these factors on the fair value of the put options and the derivative instruments (but not the underlying hedged item) tend to show more

volatility in the short term.

Amortization of intangible assets: Base net income excludes the amortization of acquired intangibles, which arises primarily from the acquisition of definite life intangible assets in connection with the Company s acquisitions, since the Company feels that such charges do not drive the Company s operating performance on a long-term basis and can affect the period-to-period comparability of the results of operations.

Compensation related to business combinations: The Company has structured certain business combinations in which the consideration paid has been dependent on the sellers continued employment with the Company. As such, the value of the consideration paid is recognized as compensation expense by the Company over the term of the applicable employment agreement. Base net income excludes this expense because the Company believes such charges do not drive its operating performance on a long-term basis and can affect the period-to-period comparability of the results of operations. If the Company did not enter into the employment agreements in connection with the acquisition, the amount paid to these former shareholders of the acquired entity would have been recorded by the Company as additional consideration of the acquired entity, thus, not having an effect on the Company s results of operations.

***Variable-rate floor income, net of settlements on derivatives*:** Loans that reset annually on July 1 can generate excess spread income compared with the rate based on the special allowance payment formula in declining interest rate environments. The Company refers to this additional income as variable-rate floor income. The Company excludes variable-rate floor income, net of settlements paid on derivatives used to hedge student loan assets earning variable-rate floor income, from its base net income since the timing and amount of variable-rate floor income (if any) is uncertain, it has been eliminated by legislation for all loans originated on and after April 1, 2006, and it is in excess of expected spreads. In addition, because variable-rate floor income is subject to the underlying rate for the subject loans being reset annually on July 1, it is a factor beyond the Company s control which can affect the period-to-period comparability of results of operations.

Discontinued operations: In May 2007, the Company sold EDULINX. As a result of this transaction, the results of operations for EDULINX are reported as discontinued operations for all periods presented. 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.

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STUDENT LOAN AND GUARANTY SERVICING OPERATING SEGMENT RESULTS OF OPERATIONS

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.

Student Loan Servicing Volumes

	As of September 30, 2008		As of September 30, 2007	
	Dollar	Percent	Dollar	Percent
	(dollars in millions)			
Company	$ 25,248(a)	70.3%	$ 25,491	76.1%
Third Party	10,661(b)	29.7	8,026	23.9
	$ 35,909	100.0%	$ 33,517	100.0%

(a) Approximately $410 million of these loans were disbursed on or after May 1, 2008 and are eligible to be sold to the Department of Education pursuant to its Purchase Commitment Program. The Department obtains all rights to service loans which it purchases as part of this program.

(b) Approximately $671 million of these loans were disbursed on or

after May 1, 2008 and may be eligible to be sold to the Department of Education pursuant to its Purchase Commitment Program. The Department obtains all rights to service loans which it purchases as part of this program.

Three and nine months ended September 30, 2008 compared to the three and nine months ended September 30, 2007

	Three months ended September 30,			Nine months ended September 30,		
	2008	**2007**	**$ Change**	**2008**	**2007**	**$ Change**
Net interest income after the provision for loan losses	$ 304	1,182	(878)	1,160	4,607	(3,447)
Loan and guaranty servicing income	30,769	32,870	(2,101)	81,624	94,828	(13,204)
Other income	6		6	44	11	33
Intersegment revenue	18,402	22,237	(3,835)	57,008	58,821	(1,813)
Total other income	49,177	55,107	(5,930)	138,676	153,660	(14,984)
Salaries and benefits	13,876	21,961	(8,085)	40,365	66,988	(26,623)
Restructure expense severance and contract termination costs		1,231	(1,231)	747	1,231	(484)
Impairment expense				5,074		5,074
Other expenses	10,632	8,565	2,067	27,130	26,219	911
Intersegment expenses	11,940	1,613	10,327	35,040	8,681	26,359
Total operating expenses	36,448	33,370	3,078	108,356	103,119	5,237
Base net income before income taxes	13,033	22,919	(9,886)	31,480	55,148	(23,668)
Income tax expense	4,823	8,709	(3,886)	10,542	20,956	(10,414)
Base net income	$ 8,210	14,210	(6,000)	20,938	34,192	(13,254)

Before Tax Operating Margin	26.3%	40.7%	22.5%	34.8%
Before Tax Operating Margin excluding restructure expense and impairment expense	26.3%	42.9%	26.7%	35.6%

Net interest income after the provision for loan losses. Investment income decreased as a result of an overall decrease in cash held in 2008 compared to 2007, as well as lower interest rates.

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Loan and guaranty servicing income. Loan and guaranty servicing income for the three and nine months ended September 30, 2008 decreased from the same periods in 2007 as follows:

	Three months ended September 30,				Nine months ended September 30,			
	2008	2007	$ Change	% Change	2008	2007	$ Change	% Change
Origination and servicing of FFEL Program loans	$ 14,041	14,785	(744)	(5.0)%	$ 38,854	42,689	(3,835)	(9.0)%
Origination and servicing of non-federally insured student loans	2,016	3,173	(1,157)	(36.5)	6,159	7,830	(1,671)	(21.3)
Servicing and support outsourcing for guaranty agencies	14,712	14,912	(200)	(1.3)	36,611	44,309	(7,698)	(17.4)
Loan and guaranty servicing income to external parties	$ 30,769	32,870	(2,101)	(6.4)%	$ 81,624	94,828	(13,204)	(13.9)%

FFELP loan servicing income decreased due to new servicing contracts being priced at lower rates and the loss of clients following the legislative developments in September 2007. This decrease is partially offset by an increase in loan servicing volume due to entering into new servicing contracts.

Non-federally insured loan servicing income decreased due to a significant customer ceasing to originate non-federally insured loans.

Servicing and support outsourcing for guaranty agencies decreased due to the termination of the Voluntary Flexible Agreement between the Department of Education and College Assist offset by an increase in the volume of guaranteed loans serviced and an increase in collections revenue. For the three months ended September 30, 2008, the change remained relatively flat due to an increase in collections revenue from rehabilitated loans.

Intersegment revenue. The decrease in intersegment revenue for the three and nine months ended September 30, 2008 compared to the same periods in 2007 was the result of a decrease in internal call center revenue due to the Company s reduction in direct-to-consumer marketing offset by an increase in servicing volume and rates for internal customers.

Operating expenses. Operating expenses increased $3.1 million and $5.2 million for the three and nine months ended September 30, 2008 compared to the same period in 2007 as a result of the allocation of additional corporate overhead expenses, which were included in Corporate Activity and Overhead for the three and nine months ended September 30, 2007. Excluding restructuring and impairment charges and the increase in expenses associated with the variation in allocation methodologies, operating expenses decreased $1.7 million and $15.4 million for the three and nine months ended September 30, 2008 compared to the same period in 2007 as a result of cost savings from the Company s September 2007 and January 2008 restructuring plans. Operating margins, excluding restructuring and

impairment charges and the expenses associated with the variation in allocation methodologies, were 38.4% and 38.5% for the three and nine months ended September 30, 2008.

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TUITION PAYMENT PROCESSING AND CAMPUS COMMERCE OPERATING SEGMENT RESULTS OF OPERATIONS

The Company s Tuition Payment Processing and Campus Commerce operating 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.

Three and nine months ended September 30, 2008 compared to the three and nine months ended September 30, 2007

	Three months ended September 30,			Nine months ended September 30,		
	2008	2007	$ Change	2008	2007	$ Change
Net interest income after the provision for loan losses	$ 396	990	(594)	1,471	2,663	(1,192)
Other fee-based income	11,861	10,316	1,545	35,975	31,492	4,483
Other income	1	31	(30)	5	59	(54)
Intersegment revenue	58	168	(110)	242	508	(266)
Total other income	11,920	10,515	1,405	36,222	32,059	4,163
Salaries and benefits	6,236	5,312	924	17,450	15,312	2,138
Other expenses	2,132	2,029	103	6,743	6,522	221
Intersegment expenses	288	(15)	303	1,045	384	661
Total operating expenses	8,656	7,326	1,330	25,238	22,218	3,020
Base net income before income taxes	3,660	4,179	(519)	12,455	12,504	(49)
Income tax expense	1,354	1,588	(234)	4,081	4,752	(671)
Base net income	$ 2,306	2,591	(285)	8,374	7,752	622
Before Tax Operating Margin	29.7%	36.3%		33.0%	36.0%	

Net interest income after the provision for loan losses. Investment income decreased as a result of decreases in interest rates on cash held in 2008 compared to 2007.

Other fee-based income. Other fee-based income increased for the three and nine months ended September 30, 2008 compared to the same period in 2007 as a result of an increase in the number of managed tuition payment plans as well as an increase in campus commerce clients.

Operating expenses. Operating expenses increased for the three and nine months ended September 30, 2008 compared to the same period in 2007 as a result of incurring additional costs associated with salaries and benefits, as well as other expenses, to support the increase in the number of managed tuition payment plans and campus commerce clients. In addition, the Company continues to invest in products, services, and technology to meet customer needs and

support continued revenue growth. These investments increased 2008 operating expenses compared to 2007.

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ENROLLMENT SERVICES AND LIST MANAGEMENT OPERATING SEGMENT RESULTS OF OPERATIONS

The Company s 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.

Three and nine months ended September 30, 2008 compared to the three and nine months ended September 30, 2007

	Three months ended September 30,			Nine months ended September 30,		
	2008	2007	$ Change	2008	2007	$ Change
Net interest income after the provision for loan losses	$ 5	109	(104)	13	285	(272)
Other fee-based income	29,859	23,471	6,388	83,148	73,341	9,807
Software services income		169	(169)	37	456	(419)
Intersegment revenue	2	(37)	39	2	891	(889)
Total other income	29,861	23,603	6,258	83,187	74,688	8,499
Salaries and benefits	5,805	8,095	(2,290)	18,701	26,486	(7,785)
Restructure expense severance and contract termination costs		737	(737)	282	737	(455)
Impairment expense		11,401	(11,401)		11,401	(11,401)
Other expenses	20,416	13,809	6,607	55,863	42,957	12,906
Intersegment expenses	1,509	67	1,442	4,936	252	4,684
Total operating expenses	27,730	34,109	(6,379)	79,782	81,833	(2,051)
Base net income (loss) before income taxes	2,136	(10,397)	12,533	3,418	(6,860)	10,278
Income tax expense (benefit)	790	(3,951)	4,741	1,187	(2,607)	3,794
Base net income (loss)	$ 1,346	(6,446)	7,792	2,231	(4,253)	6,484
Before Tax Operating Margin	7.2%	(43.8%)		4.1%	(9.1%)	
Before Tax Operating Margin excluding restructure and impairment expense	7.2%	7.3%		4.4%	7.0%	

Other fee-based income. Other fee-based income increased as a result of an increase in lead generation volume and an increase in other enrollment products and services, such as test preparation study guides and online courses,

admissions consulting, and essay and resume editing services. This increase in income was offset by a decrease due to the impacts of the legislative developments in the student loan industry on the list marketing services offered by this segment. In addition, the Company reduced the number of student recognition publications it plans to offer. Excluding the income associated with the list marketing services and student recognition publications, other fee-based income increased approximately $6.7 million, or 32.3%, and $18.4 million, or 31.6%, for the three and nine months ended September 30, 2008 compared to the same periods in 2007.

Operating expenses. Excluding restructure and impairment charges, operating expenses increased $5.8 million, or 26.2%, and $9.8 million, or 14.1%, for the three and nine months ended September 30, 2008 compared to the same periods in 2007 as a result of an increase in costs associated with providing lead generation services and the allocation of additional corporate overhead expenses, which were included in Corporate Activity and Overhead for the three and nine months ended September 30, 2007. The increases in operating expenses were offset as a result of cost savings from the September 2007 and January 2008 restructuring plans, resulting in the decrease in salaries and benefits of $2.3 million and $7.8 million for the three and nine months ended September 30, 2008 compared to the same periods in 2007. Excluding intersegment expenses and restructure and impairment charges, the before tax operating margin was 12.2% and 10.4% for the three and nine months ended September 30, 2008.

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SOFTWARE AND TECHNICAL SERVICES OPERATING SEGMENT RESULTS OF OPERATIONS

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.

Many of the Company s customers receiving services in this segment have been negatively impacted as a result of the passage of the College Cost Reduction Act and the recent disruption in the capital markets. This impact could decrease the demand for products and services and affect this segment s future revenue and profit margins.

Three and nine months ended September 30, 2008 compared to the three and nine months ended September 30, 2007

	Three months ended September 30,			Nine months ended September 30,		
	2008	2007	$ Change	2008	2007	$ Change
Net interest income after the provision for loan losses	$				18	(18)
Software services income	4,217	5,257	(1,040)	15,828	16,566	(738)
Intersegment revenue	1,660	4,805	(3,145)	4,993	13,026	(8,033)
Total other income	5,877	10,062	(4,185)	20,821	29,592	(8,771)
Salaries and benefits	4,138	6,537	(2,399)	14,031	18,869	(4,838)
Restructure expense severance and contract termination costs		58	(58)	487	58	429
Other expenses	568	689	(121)	1,901	2,224	(323)
Intersegment expenses	826	147	679	1,562	550	1,012
Total operating expenses	5,532	7,431	(1,899)	17,981	21,701	(3,720)
Base net income before income taxes	345	2,631	(2,286)	2,840	7,909	(5,069)
Income tax expense	128	1,000	(872)	902	3,006	(2,104)
Base net income	$ 217	1,631	(1,414)	1,938	4,903	(2,965)
Before Tax Operating Margin	5.9%	26.1%		13.6%	26.7%	
Before Tax Operating Margin excluding restructure expense	5.9%	26.7%		16.0%	26.9%	

Software services income. Software services income decreased for the three and nine months ended September 30, 2008 compared to the same period in 2007 as the result of a reduction in the number of projects for existing customers and the loss of customers due to the legislative developments in the student loan industry throughout 2008.

Intersegment revenue. Intersegment revenue decreased for the three and nine months ended September 30, 2008 compared to the same periods in 2007 as a result of a decrease in projects for internal customers.

Operating expenses. The decrease in operating expenses was driven by a decrease in costs associated with salaries and benefits as a result of the decrease in projects for customers and the loss of customers due to legislative developments in the student loan industry. These decreases were partially offset by increases in operating expenses as a result of the allocation of additional corporate overhead expenses, which were included in Corporate Activity and Overhead for the three and nine months ended September 30, 2007. In addition, the Company continues to invest in new products and services to meet customer needs and expand product and service offerings. These investments increased 2008 operating expenses compared to 2007.

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ASSET GENERATION AND MANAGEMENT OPERATING SEGMENT RESULTS OF OPERATIONS

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.

Student Loan Portfolio

The table below outlines the components of the Company s student loan portfolio:

	As of September 30, 2008		As of December 31, 2007	
	Dollars	Percent	Dollars	Percent
Federally insured: (a) (b)				
Stafford				
Originated prior to 10/1/07	$ 6,780,214	25.7%	$ 6,624,009	24.8%
Originated on or after 10/1/07	689,097	2.6	101,901	0.4
PLUS/SLS				
Originated prior to 10/1/07	428,037	1.6	414,708	1.5
Originated on or after 10/1/07	85,066	0.3	15,233	0.1
Consolidation				
Originated prior to 10/1/07	17,427,448	66.2	18,646,993	69.8
Originated on or after 10/1/07	316,031	1.2	251,554	0.9
Non-federally insured	275,520	1.0	274,815	1.0
Total	26,001,413	98.6	26,329,213	98.5
Unamortized premiums and deferred origination costs	423,926	1.6	452,501	1.7
Allowance for loan losses:				
Allowance federally insured	(24,366)	(0.1)	(24,534)	(0.1)
Allowance non-federally insured	(24,704)	(0.1)	(21,058)	(0.1)
	$ 26,376,269	100.0%	$ 26,736,122	100.0%

(a) The College Cost Reduction Act reduced the yield on federally insured loans originated on or

after October 1, 2007. As of September 30, 2008 and December 31, 2007, $221.6 million and $278.9 million, respectively, of federally insured student loans are excluded from the above table as these loans are accounted for as participation interests sold under an agreement with Union Bank which is further discussed in note 7 of the Company s consolidated financial statements included in this Quarterly Report. As of September 30, 2008, $172.6 million of the loans accounted for as participation interests sold under this agreement were originated on or after October 1, 2007.

(b) As of September 30, 2008, $429.2 million of federally

insured student loans were eligible to be sold or participated to the Department under the Department s Loan Purchase Commitment and Participation Programs, of which $263.9 million were participated to the Department under the Participation Program.

Origination and Acquisition

The Company originates and acquires loans through various methods and channels including: (i) direct-to-consumer channel (in which the Company originates student loans directly with student and parent borrowers), (ii) campus based origination channels, and (iii) spot purchases.

The Company will originate or acquire loans through its campus based channel either directly under one of its brand names or through other originating lenders. In addition to its brands, the Company acquires student loans from lenders to whom the Company provides marketing and/or origination services established through various contracts. Branding partners are lenders for which the Company acts as a marketing agent in specified geographic areas. A forward flow lender is one for whom the Company provides origination services but provides no marketing services or whom simply agrees to sell loans to the Company under forward sale commitments.

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The following table sets forth the activity of loans originated or acquired through each of the Company s channels:

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Beginning balance	$ 25,612,126	25,746,000	26,329,213	23,414,468
Direct channel:				
Consolidation loan originations	44	914,842	69,073	2,815,791
Less consolidation of existing portfolio	(27)	(537,539)	(28,474)	(1,450,326)
Net consolidation loan originations	17	377,303	40,599	1,365,465
Stafford/PLUS loan originations	416,721	426,740	952,050	923,450
Branding partner channel	334,685	125,220	935,992	583,213
Forward flow channel	114,488	178,226	517,548	946,342
Other channels		24,373	55,922	791,087
Total channel acquisitions	865,911	1,131,862	2,502,111	4,609,557
Repayments, claims, capitalized interest, participations, and other	(369,940)	(479,512)	(1,255,183)	(1,112,878)
Consolidation loans lost to external parties	(106,684)	(200,719)	(282,951)	(627,473)
Loans sold		(17,661)	(1,291,777)	(103,704)
Ending balance	$ 26,001,413	26,179,970	26,001,413	26,179,970

The Company has significant financing needs that it meets through the capital markets, including the debt and secondary markets. Since August 2007, these markets have experienced unprecedented disruptions, which has had an adverse impact on the Company s earnings and financial condition. Since the Company could not determine nor control the length of time or extent to which the capital markets would remain disrupted, it reduced its direct and indirect costs related to its asset generation activities and was more selective in pursuing origination activity, in both the school and direct to consumer channels. Accordingly, in January 2008, the Company suspended Consolidation and private student loan originations and, during the second quarter of 2008, exercised contractual rights to discontinue, suspend, or defer the acquisition of student loans in connection with substantially all of its branding and forward flow relationships. Prior to and in conjunction with exercising this right, during the first quarter of 2008, the Company accelerated the purchase of loans from certain branding partner and forward flow lenders of approximately $511 million.

During July 2008, the Company purchased approximately $440 million of student loans from certain branding partner and forward flow lenders of which such purchases were previously deferred. These loans were financed in the Company s FFELP warehouse facility prior to the term-out of this agreement.

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

Increases statutory limits on annual and aggregate borrowing for FFELP loans; and

Allows the Department to act as a secondary market and enter into agreements with lenders to purchase certain FFELP loans or participation interests in those loans.

As a result of this legislation, the Departments of Education and Treasury developed a plan to implement the Ensuring Continued Access to Student Loans Act. Among other things, this plan:

Allows the Department to purchase certain 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 would continue originating new federal student loans for the 2008-2009 academic year to all students regardless of the school they attend. 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 Department s Participation Program and Purchase Program from September 30, 2009 to September 30, 2010. Management of the Company is encouraged by these developments; however, until the Department provides additional details regarding the programs, the Company is unable to determine the full impact these programs will have on the Company s origination volume.

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Activity in the Allowance for Loan Losses

The provision for loan losses represents the periodic expense of maintaining an allowance sufficient to absorb losses, net of recoveries, inherent in the portfolio of student loans. An analysis of the Company s allowance for loan losses is presented in the following table:

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Balance at beginning of period	$ 47,909	27,140	45,592	26,003
Provision for loan losses:				
Federally insured loans	4,500	17,040	12,000	20,158
Non-federally insured loans	2,500	1,300	6,000	3,470
Total provision for loan losses	7,000	18,340	18,000	23,628
Charge-offs, net of recoveries:				
Federally insured loans	(4,218)	(1,327)	(11,418)	(3,852)
Non-federally insured loans	(1,621)	(139)	(2,354)	(594)
Net charge-offs	(5,839)	(1,466)	(13,772)	(4,446)
Sale of federally insured loans			(750)	
Sale of non-federally insured loans				(1,171)
Balance at end of period	$ 49,070	44,014	49,070	44,014
Allocation of the allowance for loan losses:				
Federally insured loans	$ 24,366	23,907	24,366	23,907
Non-federally insured loans	24,704	20,107	24,704	20,107
Total allowance for loan losses	$ 49,070	44,014	49,070	44,014
Net loan charge-offs as a percentage of average student loans	0.090%	0.023%	0.070%	0.024%
Total allowance as a percentage of average student loans	0.188%	0.170%	0.187%	0.177%
Total allowance as a percentage of ending balance of student loans	0.189%	0.168%	0.189%	0.168%
Non-federally insured allowance as a percentage of the ending balance of non-federally insured loans	8.966%	7.995%	8.966%	7.995%
Average student loans	$ 26,035,006	25,866,660	26,220,486	24,799,585
Ending balance of student loans	26,001,413	26,179,970	26,001,413	26,179,970
Ending balance of non-federally insured loans	275,520	251,503	275,520	251,503

The allowance for loan losses increased during the three and nine months ended September 30, 2008 compared to the same period in 2007 as a result of the elimination of the Exceptional Performer program. Due to the elimination of this program, the Company recorded an expense of $15.7 million in September 2007 to increase the Company s allowance

for loan losses related to the increase in risk share.

Delinquencies have the potential to adversely impact the Company s earnings through increased servicing and collection costs and account charge-offs. The table below shows the Company s student loan delinquency amounts:

	As of September 30, 2008		As of December 31, 2007	
	Dollars	Percent	Dollars	Percent
Federally Insured Loans:				
Loans in-school/grace/deferment(1)	$ 8,250,265		$ 7,115,505	
Loans in forebearance(2)	2,527,052		3,015,456	
Loans in repayment status:				
Loans current	13,171,661	88.1%	13,937,702	87.5%
Loans delinquent 31-60 days(3)	557,788	3.7	682,956	4.3
Loans delinquent 61-90 days(3)	267,665	1.8	353,303	2.2
Loans delinquent 91 days or greater(4)	951,462	6.4	949,476	6.0
Total loans in repayment	14,948,576	100.0%	15,923,437	100.0%
Total federally insured loans	$ 25,725,893		$ 26,054,398	
Non-Federally Insured Loans:				
Loans in-school/grace/deferment(1)	$ 103,833		$ 111,946	
Loans in forebearance(2)	8,921		12,895	
Loans in repayment status:				
Loans current	154,130	94.7%	142,851	95.3%
Loans delinquent 31-60 days(3)	3,005	1.9	3,450	2.3
Loans delinquent 61-90 days(3)	2,325	1.4	1,247	0.8
Loans delinquent 91 days or greater(4)	3,306	2.0	2,426	1.6
Total loans in repayment	162,766	100.0%	149,974	100.0%
Total non-federally insured loans	$ 275,520		$ 274,815	

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(1) Loans for borrowers who still may be attending school or engaging in other permitted educational activities and are not yet required to make payments on the loans, *e.g.*, residency periods for medical students or a grace period for bar exam preparation for law students.

(2) Loans for borrowers who have temporarily ceased making full payments due to hardship or other factors, according to a schedule approved by the servicer consistent with the established loan program servicing procedures and policies.

(3) The period of delinquency is based on the number of days scheduled payments are contractually past due and

relate to repayment loans, that is, receivables not charged off, and not in school, grace, deferment, or forbearance.

(4) Loans delinquent 91 days or greater include loans in claim status, which are loans that have gone into default and have been submitted to the guaranty agency for FFELP loans, or, if applicable, the insurer for non-federally insured loans, to process the claim for payment.

Student Loan Spread Analysis

The following table analyzes the student loan spread on the Company s portfolio of student loans and represents the spread on assets earned in conjunction with the liabilities and derivative instruments used to fund the assets:

	Three months ended September 30,		Nine months ended September 30,	
	2008	**2007**	**2008**	**2007**
Student loan yield	5.38%	7.83%	5.69%	7.87%
Consolidation rebate fees	(0.72)	(0.76)	(0.74)	(0.77)
Premium and deferred origination costs amortization	(0.33)	(0.36)	(0.35)	(0.36)
Student loan net yield	4.33	6.71	4.60	6.74
Student loan cost of funds (a)	(3.29)	(5.65)	(3.50)	(5.54)
Student loan spread	1.04	1.06	1.10	1.20
Variable-rate floor income, net of settlements on derivatives (b)	(0.02)	(0.01)	(0.17)	
Core student loan spread	1.02%	1.05%	0.93%	1.20%

Average balance of student loans	$ 26,035,006	25,866,660	26,220,486	24,799,585
Average balance of debt outstanding	26,769,955	27,321,874	27,120,342	26,293,342

(a) The student loan cost of funds includes the effects of net settlement costs on the Company s derivative instruments (excluding the net settlements of $1.7 million and $12.1 million, for the three and nine months ended September 30, 2007, respectively, on those derivatives no longer hedging student loan assets).

(b) The Company entered into interest rate swaps with effective dates beginning in January 2008 to hedge a portion of the variable-rate floor income. Settlements on these derivatives are presented as part of the Company s statutory calculation of variable-rate floor income. The maturity

date for these
derivatives was
June 30, 2008.

As noted in Item 3, Quantitative and Qualitative Disclosures about Market Risk , the Company has a portfolio of student loans that are earning interest at a fixed borrower rate which exceeds the statutorily defined variable lender rate creating fixed rate floor income which is included in its core student loan spread. The majority of these loans are consolidation loans that earn the greater of the borrower rate or 2.64% above the average commercial paper rate during the calendar quarter. When excluding fixed rate floor income, the Company s core student loan spread was 0.92% and 0.80% for the three and nine months ended September 30, 2008, respectively, and 1.04% and 1.16% for the three and nine months ended September 30, 2007, respectively.

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The compression of the Company s core student loan spread during the three and nine months ended September 30, 2008 compared to 2007 was the result of the following items:

Historically, the movement of the various interest rate indices received on the Company s student loan assets and paid on the debt to fund such loans was highly correlated. As shown in Item 3, Quantitative and Qualitative Disclosures about Market Risk, the short-term movement of the indices was dislocated beginning in August 2007. This dislocation has had a negative impact on the Company s student loan net interest income.

The spread to LIBOR on asset-backed securities transactions has increased significantly since August 2007. Since August 2007, the Company has issued $6.0 billion of notes in asset-backed securities transactions ($1.5 billion in August 2007, $1.2 billion in March 2008, $1.9 billion in April 2008, and $1.3 billion in May 2008). The increase in costs on these transactions from historical levels have had and will continue to have a negative impact on the Company s student loan net interest income. The increased spread to LIBOR on asset-backed securities transactions is shown in the below table:

As a result of the passage of the College Cost Reduction and Access Act of 2007, the yield on FFELP loans originated after October 1, 2007 was reduced. As of September 30, 2008, the Company had $1.1 billion of FFELP loans originated after October 1, 2007. The core student loan spread on FFELP loans originated after October 1, 2007 for both the three and nine months ended September 30, 2008 was approximately 40 to 50 basis points.

The decrease in the Company s core student loan spread was offset by a non-recurring benefit related to the Company s cost of funds related to certain of its asset-backed securities. The interest rates on approximately $2.0 billion of the Company s asset-backed securities are set and periodically reset via a dutch auction (Auction Rate Securities). As previously disclosed, the auction process to establish the rates on the Auction Rate Securities has failed. 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 governing documents. During the three and nine month periods ended September 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.

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Three and nine months ended September 30, 2008 compared to the three and nine months ended September 30, 2007

	Three months ended September 30,			Nine months ended September 30,		
	2008	2007	$ Change	2008	2007	$ Change
Net interest income after the provision for loan losses	$ 58,767	50,920	7,847	112,001	193,527	(81,526)
Loan and guaranty servicing income	(136)	170	(306)	26	288	(262)
Other fee-based income	4,167	3,526	641	13,494	10,511	2,983
Other income	(88)	1,181	(1,269)	293	4,329	(4,036)
Gain (loss) on sale of loans		492	(492)	(47,426)	3,288	(50,714)
Derivative market value, foreign currency, and put option adjustments				466		466
Derivative settlements, net	789	(4,065)	4,854	55,954	(4,950)	60,904
Total other income	4,732	1,304	3,428	22,807	13,466	9,341
Salaries and benefits	1,980	6,154	(4,174)	6,157	20,600	(14,443)
Restructure expense severance and contract termination costs		1,921	(1,921)	1,845	1,921	(76)
Impairment expense		28,291	(28,291)	9,351	28,291	(18,940)
Other expenses	5,354	7,429	(2,075)	15,793	22,940	(7,147)
Intersegment expenses	18,200	20,924	(2,724)	57,754	59,594	(1,840)
Total operating expenses	25,534	64,719	(39,185)	90,900	133,346	(42,446)
Base net income (loss) before income taxes	37,965	(12,495)	50,460	43,908	73,647	(29,739)
Income tax expense (benefit)	14,047	(4,748)	18,795	15,889	27,986	(12,097)
Base net income (loss)	$ 23,918	(7,747)	31,665	28,019	45,661	(17,642)
Before Tax Operating Margin	59.8%	(23.9%)		32.6%	35.6%	
Before Tax Operating Margin excluding restructure expense, impairment expense, provision for loan losses related to the loss of Exceptional Performer, and	59.8%	49.2%		56.3%	53.7%	

the loss on sale of loans
during the first quarter 2008

Net interest income after the provision for loan losses

	Three months ended September 30,		Change	
	2008	2007	Dollars	Percent
Loan interest	$ 351,331	509,596	(158,265)	(31.1)%
Consolidation rebate fees	(47,105)	(49,492)	2,387	4.8
Amortization of loan premiums and deferred origination costs	(21,338)	(23,450)	2,112	9.0
Total loan interest	282,888	436,654	(153,766)	(35.2)
Investment interest	7,151	17,399	(10,248)	(58.9)
Total interest income	290,039	454,053	(164,014)	(36.1)
Interest on bonds and notes payable	223,523	384,793	(161,270)	(41.9)
Intercompany interest	749		749	N/A
Provision for loan losses	7,000	18,340	(11,340)	(61.8)
Net interest income after provision for loan losses	$ 58,767	50,920	7,847	15.4%

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The average student loan portfolio increased $0.2 billion, or 0.7%, for the three months ended September 30, 2008 compared to the same period in 2007. The increase in average loans was offset by a decrease in the yield earned on student loans. Loan interest income decreased $158.3 million as a result of these factors.

Consolidation rebate fees decreased due to the $0.9 billion, or 4.6%, decrease in the average consolidation portfolio.

The amortization of loan premiums and deferred origination costs decreased as a result of reduced costs to acquire or originate loans.

Investment income decreased as a result of an overall decrease in average cash held in 2008 as compared to 2007, as well as lower interest rates.

Interest expense decreased as a result of a decrease in interest rates on the Company s variable rate debt which lowered the Company s cost of funds (excluding net derivative settlements) to 3.32% for the three months ended September 30, 2008 compared to 5.59% for the same period a year ago. In addition, average debt decreased by $0.6 billion, or 2.0%, for the three months ended September 30, 2008 compared to the same period in 2007.

Excluding an expense of $15.7 million in September 2007 to increase the Company s allowance for loan losses related to the increase in risk share as a result of the elimination of the Exceptional Performer program in the third quarter of 2007, the provision for loan losses increased for the three months ended September 30, 2008 compared to 2007. The provision for loan losses for federally insured loans increased as a result of the increase in risk share as a result of the loss of Exceptional Performer in September 2007. The provision for loan losses for non-federally insured loans increased primarily due to increases in delinquencies as a result of the continued weakening of the U.S. economy.

	Nine months ended September 30,		Change	
	2008	2007	Dollars	Percent
Loan interest	$ 1,083,078	1,461,594	(378,516)	(25.9)%
Consolidation rebate fees	(144,680)	(143,657)	(1,023)	(0.7)
Amortization of loan premiums and deferred origination costs	(69,583)	(67,143)	(2,440)	(3.6)
Total loan interest	868,815	1,250,794	(381,979)	(30.5)
Investment interest	23,875	51,153	(27,278)	(53.3)
Total interest income	892,690	1,301,947	(409,257)	(31.4)
Interest on bonds and notes payable	761,300	1,081,588	(320,288)	(29.6)
Intercompany interest	1,389	3,204	(1,815)	(56.6)
Provision for loan losses	18,000	23,628	(5,628)	(23.8)
Net interest income after provision for loan losses	$ 112,001	193,527	(81,526)	(42.1)%

The average student loan portfolio increased $1.4 billion, or 5.7%, for the nine months ended September 30, 2008 compared to the same period in 2007. The increase in average loans was offset by a decrease in the yield earned on student loans. Loan interest income decreased $378.5 million as a result of these factors.

Consolidation rebate fees increased due to the $0.5 billion, or 2.8%, increase in the average consolidation loan portfolio.

The amortization of loan premiums and deferred origination costs increased as a result of an increase in the average student loan portfolio offset as a result of reduced costs to acquire or originate loans.

Investment income decreased as a result of an overall decrease in average cash held in 2008 as compared to 2007, as well as lower interest rates.

Interest expense decreased as a result of a decrease in interest rates on the Company s variable rate debt which lowered the Company s cost of funds (excluding net derivative settlements) to 3.75% for the nine months ended September 30, 2008 compared to 5.52% for the same period a year ago. This was offset by a $0.8 billion, or 3.2%, increase in average debt for the nine months ended September 30, 2008 compared to the same period in 2007.

Excluding an expense of $15.7 million in September 2007 to increase the Company s allowance for loan losses related to the increase in risk share as a result of the elimination of the Exceptional Performer program in the third quarter of 2007, the provision for loan losses increased for the nine months ended September 30, 2008 compared to 2007. The provision for loan losses for federally insured loans increased as a result of the increase in risk share as a result of the loss of Exceptional Performer in September 2007. The provision for loan losses for non-federally insured loans increased primarily due to increases in delinquencies as a result of the continued weakening of the U.S. economy.

Other fee-based income. Borrower late fees increased $0.7 million and $2.5 million for the three and nine months ended September 30, 2008 compared to the same periods in 2007.

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Other income. Other income decreased due to the elimination of an agreement with a third party during the third quarter of 2007 under which the Company provided administrative services to the third party for a fee.

Gain (loss) on sale of loans. The Company sold $857.8 million (par value) of federally insured student loans resulting in the recognition of a loss of $30.4 million on March 31, 2008. In addition, on April 8, 2008, the Company sold $428.6 million (par value) of federally insured student loans. 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 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 to certain equity support provisions included in this facility.

Operating expenses. Excluding the restructure and impairment charges, operating expenses decreased $9.0 million, or 26.0%, and $23.4 million, or 22.7%, for the three and nine months ended September 30, 2008 compared to same periods in 2007. This decrease is a result of the September 2007 and January 2008 restructuring plans.

LIQUIDITY AND CAPITAL RESOURCES

The Company s fee-based businesses are not capital intensive businesses and all of these businesses produce positive operating cash flows. As such, a minimal amount of debt and equity capital is allocated to these segments. Therefore, the majority of the Liquidity and Capital Resources discussion is concentrated on the Company s Asset Generation and Management operating segment. The Company has historically utilized operating cash flow, secured financing transactions (which include warehouse facilities and asset-backed securitizations), operating lines of credit, and other borrowing arrangements to fund its Asset Generation and Management operations and student loan acquisitions. In addition, the Company uses operating cash flow, borrowings on its unsecured line of credit, and unsecured debt offerings to fund corporate activities, business acquisitions, and repurchases of common stock. The Company has also used its common stock to partially fund certain business acquisitions. The Company has a universal shelf registration statement with the SEC which allows the Company to sell up to $750.0 million of securities that may consist of common stock, preferred stock, unsecured debt securities, warrants, stock purchase contracts, and stock purchase units. The terms of any securities are established at the time of the offering. This shelf registration statement expires in December 2008.

The following table summarizes the Company s bonds and notes outstanding as of September 30, 2008:

	As of September 30, 2008		
	Carrying amount	Interest rate range	Final maturity
Variable-rate bonds and notes (a):			
Bonds and notes based on indices	$ 20,891,535	2.79% - 5.07%	09/25/13 - 06/25/41
Bonds and notes based on auction or remarketing (b)	2,771,445	0.00% - 9.01%	11/01/09 - 07/01/43
Total variable-rate bonds and notes	23,662,980		
Commercial paper FFELP facility (c)	2,525,410	2.54% - 3.94%	05/09/10
Commercial paper private loan facility (c)	132,020	3.14%	03/14/09
Fixed-rate bonds and notes (a)	205,435	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	645,000	2.90% - 3.65%	05/08/12
Department of Education Participation	263,920	3.25%	09/30/09
Other borrowings	95,070	4.09% - 5.10%	05/22/09 - 11/01/15

$ 28,004,835

(a) Issued in asset-backed securitizations.

(b) As of September 30, 2008, the Company had $165 million of bonds based on an auction rate of 0%, due to the Maximum Rate auction provisions in the underlying documents for such financings. The Maximum Rate provisions include multiple components, one of which is based on T-bill rates. The T-bill component calculation for these bonds produced negative rates, which resulted in auction rates of zero percent for the applicable period.

(c) Loan warehouse facilities.

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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 and asset-backed securitizations.

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 accessed alternative sources of funding to originate new FFELP student loans, including the Department of Education s Loan Participation Program (Participation Program), and an existing facility with Union Bank which are further discussed below.

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. 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 $250.0 million private loan warehouse for non-federally insured student loans, and a single-seller extendible commercial paper conduit 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. In addition, 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 believes it has met this requirement for the annual period ending in May 2009. However, the Company does have an obligation to remove approximately $30 million of loans by December 31, 2008 because these loans were partially disbursed when the facility was termed-out on July 31, 2008. Under the current terms of the facility, the remaining collateral will need to be refinanced or removed by May 9, 2010. As of September 30, 2008 and November 7, 2008, $2.5 billion and $2.1 billion, respectively, was outstanding under this facility.

The terms and conditions of the Company s warehouse facility for FFELP loans provide for mark-to-market advance rates. On October 22, 2008, the Company posted $165.5 million in additional funds to the facility based on this mark-to-market provision. 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-market provisions of the warehouse facility agreement. As of September 30, 2008 and November 7, 2008, the Company had a cumulative amount of $209.1 million and $374.6 million, respectively, posted as equity funding support for this facility.

The Company has utilized its $750.0 million unsecured line of credit to fund equity advances on its warehouse facility. As of November 7, 2008, the Company has $691.5 million outstanding under this line of credit. The line of credit terminates in May 2012.

Continued dislocations in the credit markets may cause additional volatility in the loan valuation formula. Should a significant change in the valuation of loans result in additional required equity funding support for the warehouse facility greater than what the Company can provide and the Company has not amended the facility as discussed below, the warehouse facility could be subject to an event of default resulting in a termination of the facility and an acceleration of the repayment provisions. A default on the 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.

To reduce the Company s exposure from the mark-to-market advance rate provision included in the FFELP warehouse facility, the Company has signed a letter agreement engaging Banc of America Securities LLC to arrange an amendment of certain of the Company s credit facilities, including but not limited to an amendment to place a floor on the valuation of collateral in the Company s FFELP loan warehouse line of credit for which Bank of America, N.A. acts as administrative agent. Banc of America Securities LLC has commenced the amendment process and together with the Company is seeking the approval of the Company s lenders of a proposed amendment of such credit facilities on mutually agreeable terms. In addition, the Company continues to look at various alternatives to remove loans from the warehouse facility including other financing arrangements and/or selling loans to third parties.

In addition, on November 8, 2008, the Department announced they intend to provide liquidity support to one or more conforming asset backed commercial paper conduits to purchase and provide longer-term financing for FFELP loans. While details of this conduit are forthcoming, it is intended that all fully-disbursed non-consolidation FFELP loans awarded between October 1, 2003 and July 1, 2009 will be eligible for inclusion. As of November 7, 2008, the Company had approximately $900 million of loans included in its warehouse facility that would be eligible for this proposed conduit program.

Private Loan Warehouse Facility

The private loan warehouse facility, which terminates on March 14, 2009, is an uncommitted facility that is offered to the Company by a banking partner. As of September 30, 2008 and November 7, 2008, $132.0 million was outstanding under this facility. 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 September 30, 2008 and November 7, 2008, the Company had $50.5 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.

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The Company has an obligation to reduce the amount outstanding in this facility approximately $30 million by December 15, 2008. The Company plans to sell loans in the facility and/or other unencumbered private loan assets and/or use operating cash to satisfy this obligation.

Commercial Paper Warehouse Program

In August 2006, the Company established a $5.0 billion extendable commercial paper warehouse program for FFELP loans, under which it can issue one or more short-term extendable secured liquidity notes. As of September 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 foreseeable future.

Asset-backed securitizations

Of the $28.0 billion of debt outstanding as of September 30, 2008, $23.9 billion was issued under term asset-backed securitizations. Depending on market conditions, the Company anticipates continuing to access the asset-backed securities market. As a result of the disruptions in the credit markets, the Company may not be able to issue asset-backed financings at rates historically achieved by the Company, at levels equal to or less than other financing agreements, or at levels otherwise considered beneficial to the Company. Accordingly, the Company s operational and financial results may be negatively impacted. Securities issued in the securitization transactions are generally priced based upon a spread to LIBOR or set under an auction or remarketing procedure.

LIBOR based notes

As of September 30, 2008, the Company had $20.9 billion of notes issued under asset-backed securitizations that primarily reprice at a fixed spread to three month LIBOR and are structured to substantially match the maturity of the funded assets. These notes fund FFELP student loans that are predominantly set based on a spread to three month commercial paper. The three month LIBOR and three month commercial paper indexes have been highly correlated historically. Based on cash flows developed to reflect management s current estimate of, among other factors, prepayments, defaults, deferment, forbearance, and interest rates, the Company currently expects future undiscounted cash flows from these transactions will be approximately $1.4 billion. These cash flows consist of net spread and servicing and administrative revenue in excess of estimated cost.

The Company has certain LIBOR-indexed notes that match the maturity of the funded assets, however, must periodically be remarketed by the Company. Upon remarketing, the interest rates on the notes are reset. The Company also has the option to repurchase the notes prior to a failed remarketing and hold the notes as an investment until such time they can be remarketed. In the event the notes cannot be remarketed and they are not repurchased by the Company, the interest rate steps up to and remains at 3-month LIBOR plus 75 basis points until such time they can be successfully remarketed or purchased by the Company. The Company has $130 million and $200 million of notes due to be remarketed on November 25, 2008 and May 25, 2009, respectively, and an additional $950 million and $115 million to be remarketed in 2016 and 2018, respectively.

Auction or remarketing based notes

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 $1.9 billion of Auction Rate Securities and $0.8 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, 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 September 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.

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During the three month period ended September 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 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.

Funding New FFELP Student Loan Originations

Department of Education s Loan Participation and Purchase Commitment Programs

On July 1, 2008, pursuant to the Ensuring Continued Access to Student Loans Act, the Department of Education announced terms under which it will offer to purchase certain FFELP student loans and participation interests in certain FFELP student loans from FFELP lenders. 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 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.

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 has provided preliminary guidance relating to the extension and has indicated that programs similar to the Participation Program and Purchase Program will be implemented for the 2009-2010 academic year along with providing liquidity support for one or more asset backed commercial paper conduits for FFELP Stafford and PLUS loans awarded between October 1, 2003 and July 1, 2009. The Department has 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. Management understands that such loans will not be eligible for participation under the Department s 2009-2010 Participation Program, but should be eligible for refinancing through the Department s commercial paper conduit program. Management of the Company is encouraged by these developments; however, until the Department provides additional details regarding the programs, the Company is unable to determine the full impact these programs will have on the Company.

The Company has completed and filed all relevant documents to participate in the Department of Education s Participation Program and began to utilize the Participation Program in the third quarter of 2008 to fund a significant portion of its loan originations for the 2008-2009 academic year. As of September 30, 2008 and November 7, 2008, $263.9 million and $504.4 million of loans, respectively, were funded using the Participation Program.

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 September 30, 2008 and November 7, 2008, $221.6 million and $335.3 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.

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Operating Lines of Credit

The Company has a $750.0 million unsecured line of credit that terminates in May 2012. As of September 30, 2008, there was $645.0 million outstanding on this line and $105.0 million available for future use. The weighted average interest rate on this line of credit was 3.44% as of September 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 November 7, 2008, the Company has contributed $425.1 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 November 7, 2008, the Company has $691.5 million outstanding under this line of credit and $58.5 million available for future uses. The lending commitment on the Company s unsecured line of credit is provided by multiple banks. Lehman Brothers Bank, FSB (Lehman Bank) represents seven percent 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, Lehman Bank has experienced funding delays for its portion of the lending commitment under the line of credit. As of November 7, 2008, excluding Lehman Bank 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:

(v) A minimum consolidated net worth;

(vi) A minimum adjusted EBITDA to corporate debt interest (over the last four rolling quarters);

(vii) A limitation on subsidiary indebtedness; and

(viii) A limitation on the percentage of non-guaranteed loans in the Company s portfolio.

As of September 30, 2008, the Company was in compliance with all of these requirements and believes it has the ability to maintain the covenants in future periods. Many of these covenants are duplicated in the Company s other lending facilities, including its FFELP and private loan warehouses.

As previously discussed, continued dislocations in the credit markets may cause additional volatility in the loan valuation formula included in the Company s FFELP warehouse facility. Should a significant change in the valuation of loans result in additional required equity funding support for the warehouse facility greater than what the Company can provide, the warehouse facility could be subject to an event of default resulting in a termination of the facility and an acceleration of the repayment provisions. A default on the 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.

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.

Universal Shelf Offerings

In May 2005, the Company consummated a debt offering under its universal shelf consisting of $275.0 million in aggregate principal amount of Senior Notes due June 1, 2010 (the Notes). The Notes are unsecured obligations of the Company. The interest rate on the Notes is 5.125%, payable semiannually. At the Company s option, the Notes are redeemable in whole at any time or in part from time to time at the redemption price described in the Company s prospectus supplement.

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In September 2006, the Company consummated a debt offering under its universal shelf consisting of $200.0 million aggregate principal amount of Junior Subordinated Hybrid Securities (Hybrid Securities). The Hybrid Securities are unsecured obligations of the Company. The interest rate on the Hybrid Securities from the date they were issued through the optional redemption date, September 28, 2011, is 7.40%, payable semi-annually. Beginning September 29, 2011 through September 29, 2036, the scheduled maturity date , the interest rate on the Hybrid Securities will be equal to three-month LIBOR plus 3.375%, payable quarterly. The principal amount of the Hybrid Securities will become due on the scheduled maturity date only to the extent that the Company has received proceeds from the sale of certain qualifying capital securities prior to such date (as defined in the Hybrid Securities prospectus). If any amount is not paid on the scheduled maturity date, it will remain outstanding and bear interest at a floating rate as defined in the prospectus, payable monthly. On September 15, 2061, the Company must pay any remaining principal and interest on the Hybrid Securities in full whether or not the Company has sold qualifying capital securities. At the Company s option, the Hybrid Securities are redeemable in whole at any time or in part from time to time at the redemption price described in the prospectus supplement.

The proceeds from these unsecured debt offerings were or will be used by the Company to fund general business operations, certain asset and business acquisitions, and the repurchase of stock under the Company s stock repurchase plan.

Contractual Obligations

The Company is committed under noncancelable operating leases for certain office and warehouse space and equipment. The Company s contractual obligations as of September 30, 2008 were as follows:

	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Bonds and notes payable	$ 28,004,835	501,742	2,914,569	790,422	23,798,102
Operating lease obligations	41,607	9,278	16,398	11,976	3,955
Other	62,520	30,300	32,220		
Total	$ 28,108,962	541,320	2,963,187	802,398	23,802,057

As of September 30, 2008, the Company had a reserve of $8.8 million for uncertain income tax positions per the provisions of FIN 48. This obligation is not included in the above table as the timing and resolution of the income tax positions cannot be reasonably estimated at this time.

The Company has an obligation to purchase $51.9 million of private loans from an unrelated financial institution in eight quarterly installments beginning in the fourth quarter of 2008. The first seven installments will equal approximately $5 million and the eighth and final installment will include the remaining outstanding balance of loans to be purchased. This obligation is included in other in the above table.

The Company has commitments with its branding partners and forward flow lenders which obligate the Company to purchase loans originated under specific criteria, although the branding partners and forward flow lenders are typically not obligated to provide the Company with a minimum amount of loans. These commitments generally run for periods ranging from one to five years and are generally renewable. The Company has significant financing needs that it meets through the capital markets, including the debt and secondary markets. Since August 2007, these markets have experienced unprecedented disruptions, which are having an adverse impact on the Company s earnings and financial condition. The Company cannot determine nor control the length of time or extent to which the capital markets will remain disrupted. Accordingly, the Company has the ability to exercise contractual rights to discontinue, suspend, or defer the acquisition of student loans in connection with its branding and forward flow relationships. Commitments to purchase loans under these arrangements are not included in the table above.

As a result of the Company s recent acquisitions, the Company has certain contractual obligations or commitments as follows:

LoanSTAR Funding Group, Inc. (LoanSTAR) As part of the agreement for the acquisition of the capital stock of LoanSTAR from the Greater Texas Foundation (Texas Foundation), the Company agreed to sell student loans in an aggregate amount sufficient to permit the Texas Foundation to maintain a portfolio of loans equal to no less than $200 million through October 2010. The sales price for such loans is the fair value mutually agreed upon between the Company and the Texas Foundation. To satisfy this obligation, the Company is obligated to sell loans to the Texas Foundation on a quarterly basis; however, the Foundation recently has chosen not to purchase such loans.

infiNET Integrated Solutions, Inc. (infiNET) Stock price guarantee of $104.8375 per share on 95,380 shares of Class A Common Stock (less the greater of $41.9335 or the gross sales price such seller obtains from a sale of the shares occurring prior to February 28, 2011 as defined in the agreement) issued as part of the original purchase price. The obligation to pay this guaranteed stock price is due February 28, 2011 and is not included in the table above. Based upon the closing sale price of the Company s Class A Common Stock as of September 30, 2008 of $14.20 per share, the Company s obligation under this stock price guarantee would have been $6.0 million (($104.8375 $41.9335) x 95,380 shares). Any cash paid by the Company in consideration of satisfying the guaranteed value of stock issued for this acquisition would be recorded by the Company as a reduction to additional paid-in capital.

5280 Solutions, Inc. 258,760 shares of Class A Common Stock issued as part of the original purchase price is subject to a put option arrangement whereby during the 30-day period ending November 30, 2008, the holders may require the Company to repurchase all or part of the shares at a price of $37.10 per share. The value of this put option as of September 30, 2008 was $9.6 million and is included in other in the above table. The Company paid $9.6 million on November 10, 2008 to satisfy its obligation related to these agreements.

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Sources of Liquidity

Sources of Liquidity Available for New FFELP Stafford and PLUS Loans

On July 31, 2008, the Company did not renew the liquidity provisions of its FFELP warehouse facility. Accordingly, on July 31, 2008, the facility became a term facility with a final maturity date of May 9, 2010. No new student loan originations can be funded under this program. In addition, the Company has $5.0 billion authorized for future issuance under its FFELP Commercial Paper 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 unlikely a market will exist in the future. However, the Company has unlimited sources of primary liquidity available for new FFELP Stafford and PLUS loan originations for the 2008-2009 academic year under the Department s Participation and Purchase Programs. In addition, 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. See Union Bank Participation Agreement discussed earlier in this section.

Sources of Liquidity Available for General Corporate Purposes

The following table details the Company s primary sources of liquidity and the available capacity at November 7, 2008 for general corporate purposes:

Sources of primary liquidity: (a)	
Cash and cash equivalents (b)	$ 117,894
Unencumbered private student loan assets	93,437
Unused unsecured line of credit (c)	51,200
Total sources of primary liquidity	$ 262,531

(a) The sources of primary liquidity table above does not include the following:

Asset-backed security investments 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.

(b) The Company also has restricted cash and investments, however, the Company is limited in the

amounts of funds that can be transferred from its subsidiaries through intercompany loans, advances, or cash dividends. These limitations result from the restrictions contained in trust indentures under debt financing arrangements to which the Company s education lending subsidiaries are parties. The Company does not believe these limitations will significantly affect its operating cash needs. The amounts of cash and investments restricted in the respective reserve accounts of the education lending subsidiaries are shown on the balance sheets as restricted cash and investments.

(c) As of November 7, 2008, the Company has

$691.5 million outstanding under this line of credit and $58.5 million available for future uses. The lending commitment on the Company s unsecured line of credit is provided by multiple banks. Lehman Bank represents seven percent 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 Bank for its portion of the lending commitment under the line of credit. As of November 7, 2008, excluding Lehman Bank s lending commitment, the Company

has
$51.2 million
available for
future use under
its unsecured
line of credit.

Dividends

In the first quarter of 2007, the Company began paying dividends of $0.07 per share on the Company s Class A and Class B Common Stock which were paid quarterly through the first quarter of 2008. On May 21, 2008, the Company announced that it was temporarily suspending its quarterly dividend program. The Company will continue to evaluate its dividend policy, which is subject to future earnings, capital requirements, financial condition, and other factors.

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CRITICAL ACCOUNTING POLICIES

This Management s Discussion and Analysis of Financial Condition and Results of Operations discusses the Company s consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of income and expenses during the reporting periods. The Company bases its estimates and judgments on historical experience and on various other factors that the Company believes are reasonable under the circumstances. Actual results may differ from these estimates under varying assumptions or conditions. Note 3 of the consolidated financial statements, which are included in the Company s Annual Report on Form 10-K for the year ended December 31, 2007, includes a summary of the significant accounting policies and methods used in the preparation of the consolidated financial statements.

On an on-going basis, management evaluates its estimates and judgments, particularly as they relate to accounting policies that management believes are most critical that is, they are most important to the portrayal of the Company s financial condition and results of operations and they require management s most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Management has identified the following critical accounting policies that are discussed in more detail below: allowance for loan losses, revenue recognition, purchase price accounting related to business and certain asset acquisitions, and income taxes.

Allowance for Loan Losses

The allowance for loan losses represents management s estimate of probable losses on student loans. This evaluation process is subject to numerous estimates and judgments. The Company evaluates the adequacy of the allowance for loan losses on its federally insured loan portfolio separately from its non-federally insured loan portfolio.

The allowance for the federally insured loan portfolio is based on periodic evaluations of the Company s loan portfolios considering past experience, trends in student loan claims rejected for payment by guarantors, changes to federal student loan programs, current economic conditions, and other relevant factors. Should any of these factors change, the estimates made by management would also change, which in turn would impact the level of the Company s future provision for loan losses.

In determining the adequacy of the allowance for loan losses on the non-federally insured loans, the Company considers several factors including: loans in repayment versus those in a nonpaying status, months in repayment, delinquency status, type of program, and trends in defaults in the portfolio based on Company and industry data. Should any of these factors change, the estimates made by management would also change, which in turn would impact the level of the Company s future provision for loan losses. The Company places a non-federally insured loan on nonaccrual status and charges off the loan when the collection of principal and interest is 120 days past due.

The allowance for federally insured and non-federally insured loans is maintained at a level management believes is adequate to provide for estimated probable credit losses inherent in the loan portfolio. This evaluation is inherently subjective because it requires estimates that may be susceptible to significant changes.

Revenue Recognition

Student Loan Income The Company recognizes student loan income as earned, net of amortization of loan premiums and deferred origination costs. Loan income is recognized based upon the expected yield of the loan after giving effect to borrower utilization of incentives such as principal reductions for timely payments (borrower benefits) and other yield adjustments. The estimate of the borrower benefits discount is dependent on the estimate of the number of borrowers who will eventually qualify for these benefits. For competitive purposes, the Company frequently changes the borrower benefit programs in both amount and qualification factors. These programmatic changes must be reflected in the estimate of the borrower benefit discount. Loan premiums, deferred origination costs, and borrower benefits are included in the carrying value of the student loan on the consolidated balance sheet and are amortized over the estimated life of the loan in accordance with SFAS No. 91, *Accounting for Non-Refundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*. The most sensitive estimate for loan premiums, deferred origination costs, and borrower benefits is the estimate of the constant prepayment rate (CPR). CPR is a variable in the life of loan estimate that measures the rate at which loans in a portfolio pay before

their stated maturity. The CPR is directly correlated to the average life of the portfolio. CPR equals the percentage of loans that prepay annually as a percentage of the beginning of period balance. A number of factors can affect the CPR estimate such as the rate of consolidation activity and default rates. Should any of these factors change, the estimates made by management would also change, which in turn would impact the amount of loan premium and deferred origination cost amortization recognized by the Company in a particular period.

Other Fee-Based Income Other fee-based income is primarily attributable to fees for providing services and the sale of lists and print products. Fees associated with services are recognized in the period services are rendered and earned under service arrangements with clients where service fees are fixed or determinable and collectibility is reasonably assured. The Company s service fees are determined based on written price quotations or service agreements having stipulated terms and conditions that do not require management to make any significant judgments or assumptions regarding any potential uncertainties. Revenue from the sale of lists and print products is generally earned and recognized, net of estimated returns, upon shipment or delivery.

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The Company assesses collectibility of revenues and its allowance for doubtful accounts based on a number of factors, including past transaction history with the customer and the credit-worthiness of the customer. An allowance for doubtful accounts is established to record accounts receivable at estimated net realizable value. If the Company determines that collection of revenues is not reasonably assured at or prior to delivery of the Company s services, revenue is recognized upon the receipt of cash.

Purchase Price Accounting Related to Business and Certain Asset Acquisitions

The Company has completed several business and asset acquisitions which have generated significant amounts of goodwill and intangible assets and related amortization. The values assigned to goodwill and intangibles, as well as their related useful lives, are subject to judgment and estimation by the Company. Goodwill and intangibles related to acquisitions are determined and based on purchase price allocations. Valuation of intangible assets is generally based on the estimated cash flows related to those assets, while the initial value assigned to goodwill is the residual of the purchase price over the fair value of all identifiable assets acquired and liabilities assumed. Useful lives are determined based on the expected future period of the benefit of the asset, the assessment of which considers various characteristics of the asset, including historical cash flows. Due to the number of estimates involved related to the allocation of purchase price and determining the appropriate useful lives of intangible assets, management has identified purchase price accounting as a critical accounting policy.

Goodwill and Intangible Assets Impairment Assessments

The Company reviews goodwill for impairment annually and whenever triggering events or changes in circumstances indicate its carrying value may not be recoverable in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142). The provisions of SFAS No. 142 require that a two-step impairment test be performed on goodwill. In the first step, the Company compares the fair value of each reporting unit to its carrying value. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is considered not impaired and the Company is not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then the Company must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit s goodwill. If the carrying value of a reporting unit s goodwill exceeds its implied fair value, then the Company would record an impairment loss equal to the difference.

Determining the fair value of a reporting unit involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, future economic and market conditions, and determination of appropriate market comparables. Actual future results may differ from those estimates.

The Company makes judgments about the recoverability of purchased intangible assets annually and whenever triggering events or changes in circumstances indicate that an other than temporary impairment may exist. Each quarter the Company evaluates the estimated remaining useful lives of purchased intangible assets and whether events or changes in circumstances warrant a revision to the remaining periods of amortization. In accordance with FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, recoverability of these assets is measured by comparison of the carrying amount of the asset to the future undiscounted cash flows the asset is expected to generate. If the asset is considered to be impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset.

Assumptions and estimates about future values and remaining useful lives of the Company s intangible and other long-lived assets are complex and subjective. They can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in the Company s business strategy and internal forecasts. Although the Company believes the historical assumptions and estimates used are reasonable and appropriate, different assumptions and estimates could materially impact the reported financial results.

Income Taxes

The Company is subject to the income tax laws of the U.S and its states and municipalities in which the Company operates. These tax laws are complex and subject to different interpretations by the taxpayer and the relevant government taxing authorities. In establishing a provision for income tax expense, the Company must make judgments and interpretations about the application of these inherently complex tax laws. The Company must also make

estimates about when in the future certain items will affect taxable income in the various tax jurisdictions. Disputes over interpretations of the tax laws may be subject to review/adjudication by the court systems of the various tax jurisdictions or may be settled with the taxing authority upon examination or audit. The Company reviews these balances quarterly and as new information becomes available, the balances are adjusted, as appropriate.

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RECENT ACCOUNTING PRONOUNCEMENTS

In December 2007, the FASB issued SFAS No. 141R, *Business Combinations* (SFAS No. 141R), which changes the accounting for business acquisitions. SFAS No. 141R requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction and establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed in a business combination. Certain provisions of this standard will, among other things, impact the determination of acquisition-date fair value of consideration paid in a business combination (including contingent consideration); exclude transaction costs from acquisition accounting; and change accounting practices for acquired contingencies, acquisition-related restructuring costs, in-process research and development, indemnification assets, and tax benefits. For the Company, SFAS No. 141R is effective for business combinations and adjustments to an acquired entity s deferred tax asset and liability balances occurring after December 31, 2008. The Company is currently evaluating the future impacts and disclosures related to SFAS No. 141R.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of SFAS No. 157 are effective as of the beginning of the first fiscal year that begins after November 15, 2007 (January 1, 2008 for the Company) and is to be applied prospectively. The Company adopted SFAS No. 157 on January 1, 2008. 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. The Company is currently evaluating the impacts and disclosures related to SFAS No. 157-2, but would not expect SFAS No. 157-2 to have a material impact on the Company s consolidated results of operations or financial condition. In light of the recent economic turmoil occurring in the United States, the FASB released FSP SFAS No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active* (SFAS No. 157-3), on October 10, 2008. SFAS No. 157-3 clarified, among other things, that quotes and other market inputs need not be solely used to determine fair value if they do not relate to an active market. SFAS No. 157-3 points out that when relevant observable market information is not available, an approach that incorporates management s judgments about the assumptions that market participants would use in pricing the asset in a current sale transaction would be acceptable (such as a discounted cash flow analysis). Regardless of the valuation technique applied, entities must include appropriate risk adjustments that market participants would make, including adjustments for nonperformance risk (credit risk) and liquidity risk.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* (SFAS No. 159), which permits an entity to choose, at specified election dates, to measure eligible financial instruments and certain other items at fair value that are not currently required to be measured at fair value. An entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS No. 159 allows entities to achieve an offset accounting effect for certain changes in fair value of related assets and liabilities without having to apply complex hedge accounting provisions, and is expected to expand the use of fair value measurement consistent with the Board s long-term objectives for financial instruments. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007 (January 1, 2008 for the Company). At the effective date, an entity may elect the fair value option for eligible items that exist at that date. The entity shall report the effect of the first remeasurement to fair value as a cumulative-effect adjustment to the opening balance of retained earnings. Upon the effective date of SFAS No. 159, the Company has elected not to measure any items at fair value that were not currently required to be measured at fair value. Accordingly, the adoption of SFAS No. 159 had no impact on the Company s financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51* (SFAS No. 160), which establishes new standards governing the accounting for and reporting of noncontrolling interests (NCIs) in partially owned consolidated subsidiaries and the loss of control of subsidiaries. Certain provisions of this standard indicate, among other things, that NCIs (previously referred to as

minority interests) be treated as a separate component of equity, not as a liability; that increases and decreases in the parent s ownership interest that leave control intact be treated as equity transactions, rather than as step acquisitions or dilution gains or losses; and that losses of a partially owned consolidated subsidiary be allocated to the NCI even when such allocation might result in a deficit balance. This standard also requires changes to certain presentation and disclosure requirements. For the Company, SFAS No. 160 is effective beginning January 1, 2009. The provisions of the standard are to be applied to all NCIs prospectively, except for the presentation and disclosure requirements, which are to be applied retrospectively to all periods presented. The Company is currently evaluating the future impacts and disclosures related to SFAS No. 60.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, which is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand the effects of derivative instruments and hedging activities on an entity s financial position, financial performance, and cash flows. The new standard also improves transparency about the location and amounts of derivative instruments in an entity s financial statements, how derivative instruments and related hedged items are accounted for under SFAS No. 133, and how derivative instruments and related hedged items affect its financial position, financial performance, and cash flows. The standard is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company is currently evaluating the future impacts and disclosures related to SFAS No. 161.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS No. 162). This standard is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with generally accepted accounting principles in the United States for non-governmental entities. SFAS No. 162 is effective 60 days following approval by the U.S. Securities and Exchange Commission (SEC) of the Public Company Accounting Oversight Board s amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*. The Company does not expect SFAS No. 162 to have a material impact on the preparation of its consolidated financial statements.

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In December 2007, the FASB ratified the Emerging Issues Task Force consensus on EITF Issue No. 07-1, *Accounting for Collaborative Arrangements* (EITF No. 07-1), that discusses how parties to a collaborative arrangement (which does not establish a legal entity within such arrangement) should account for various activities. The consensus indicates that costs incurred and revenues generated from transactions with third parties (i.e. parties outside of the collaborative arrangement) should be reported by the collaborators on the respective line items in their income statements pursuant to EITF Issue No. 99-19, *Reporting Revenue Gross as a Principal Versus Net as an Agent*. Additionally, the consensus provides that income statement characterization of payments between the participants in a collaborative arrangement should be based upon existing authoritative pronouncements; analogy to such pronouncements if not within their scope; or a reasonable, rational, and consistently applied accounting policy election. EITF No. 07-1 is effective for the Company beginning January 1, 2009 and is to be applied retrospectively to all periods presented for collaborative arrangements existing as of the date of adoption. The Company is currently evaluating the impacts and disclosures related to EITF No. 07-1.

In April 2008, the FASB issued FSP SFAS 142-3, *Determination of the Useful Life of Intangible Assets* (FSP 142-3). This guidance is intended to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142), and the period of expected cash flows used to measure the fair value of the asset under SFAS 141R when the underlying arrangement includes renewal or extension of terms that would require substantial costs or result in a material modification to the asset upon renewal or extension. Companies estimating the useful life of a recognized intangible asset must now consider their historical experience in renewing or extending similar arrangements or, in the absence of historical experience, must consider assumptions that market participants would use about renewal or extension as adjusted for SFAS 142 s entity-specific factors. FSP 142-3 is effective for the Company beginning January 1, 2009. The Company is currently evaluating the potential impact of the adoption of FSP 142-3 on its consolidated financial position, results of operations, and cash flows.

In September 2008, the FASB issued FSP SFAS 133-1 and FIN 45-4, *Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45, and Clarification of the Effective Date of FASB Statement No. 161* (FSP 133-1 and FIN 45-4), that require additional disclosures for sellers of credit derivative instruments and certain guarantees. FSP 133-1 and FIN 45-4 amend FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and FASB Interpretation No. 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, by requiring additional disclosures for certain guarantees and credit derivatives sold including: maximum potential amount of future payments, the related fair value, and the current status of the payment/performance risk. The standard is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company is currently evaluating the impacts and disclosures related to FSP 133-1 and FIN 45-4.

In June 2008, the FASB issued FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities* (EITF 03-6-1). EITF 03-6-1 defines participating securities as those that are expected to vest and are entitled to receive nonforfeitable dividends or dividend equivalents. Unvested share-based payment awards that have a right to receive dividends on common stock (restricted stock) will be considered participating securities and included in earnings per share using the two-class method. The two-class method requires net income to be reduced for dividends declared and paid in the period on such shares. Remaining net income is then allocated to each class of stock (proportionately based on unrestricted and restricted shares which pay dividends) for calculation of basic earnings per share. Diluted earnings per share would then be calculated based on basic shares outstanding plus any additional potentially dilutive shares, such as options and restricted stock that do not pay dividends or are not expected to vest. This FSP is effective in the first quarter 2009. The Company is currently evaluating the impacts and disclosures relating to EITF 03-6-1.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET 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 sensitivity of the balance sheet is a key profitability driver.

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The following table sets forth the Company s loan assets and debt instruments by rate characteristics:

	As of September 30, 2008		As of December 31, 2007	
	Dollars	Percent	Dollars	Percent
Fixed-rate loan assets	$ 2,240,539	8.6%	$ 1,136,544	4.3%
Variable-rate loan assets	23,760,874	91.4	25,192,669	95.7
Total	$ 26,001,413	100.0%	$ 26,329,213	100.0%
Fixed-rate debt instruments	680,435	2.4%	689,476	2.5%
Variable-rate debt instruments	27,324,400	97.6	27,426,353	97.5
Total	$ 28,004,835	100.0%	$ 28,115,829	100.0%

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 SAP formula is based on an applicable index plus a fixed spread that is dependant 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 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 legislation enacted in 2006, lenders are required to rebate floor income and variable-rate floor income to the Department for all FFELP loans originated on or after April 1, 2006.

For the three and nine months ended September 30, 2008, loan interest income includes approximately $6.8 million and $25.2 million of fixed rate floor income, respectively. For the three and nine months ended September 30, 2007, loan interest income includes approximately $0.8 million and $7.0 million of fixed rate floor income, respectively. For the three and nine months ended September 30, 2008, loan interest income includes approximately $1.6 million and $42.3 million of variable-rate floor income, respectively. The Company earned $0.6 million of variable-rate floor income during both the three and nine months ended September 30, 2007.

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 the special allowance payment 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.

The following graph depicts fixed rate floor income for a borrower with a fixed rate of 6.75% and a SAP rate of 2.64%:

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The following table shows the Company s student loan assets that are earning fixed rate floor income as of September 30, 2008:

Fixed interest rate range	Borrower/ lender weighted average yield	Estimated variable conversion rate (a)	Balance of assets earning fixed-rate floor income as of September 30, 2008 (b)
4.5 - 4.99%	4.84%	2.20%	$ 1,274
5.0 - 5.49%	5.08%	2.44%	7,614
5.5 - 5.99%	5.74%	3.10%	245,169
6.0 - 6.49%	6.19%	3.55%	419,291
6.5 - 6.99%	6.70%	4.06%	375,929
7.0 - 7.49%	7.17%	4.53%	130,684
7.5 - 7.99%	7.71%	5.07%	224,331
8.0 - 8.99%	8.16%	5.52%	512,938
> 9.0%	9.04%	6.40%	323,309
			$ 2,240,539

(a) The estimated variable conversion rate is the estimated short-term interest rate at which loans would convert to variable rate.

(b) As of September 30, 2008, the Company had $204.8 million of fixed rate debt that was used by the Company to hedge fixed-rate student loan assets. The weighted average interest rate paid by the

Company on this debt as of September 30, 2008 was 6.17%.

The following table summarizes the outstanding derivative instruments as of September 30, 2008 used by the Company to hedge fixed-rate student loan assets.

Maturity	Notional Amount	Weighted average fixed rate paid by the Company (a)
2009	$ 500,000	4.08%
2010	500,000	3.84
	$ 1,000,000	3.96%

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

As of September 30, 2008, the Company had $3.8 billion of student loan assets that were eligible to earn variable-rate floor income. As a result of the decrease in short-term interest rates subsequent to September 30, 2008, the Company anticipates earning additional variable-rate floor income in the fourth quarter.

The Company is exposed to interest rate risk in the form of basis risk and repricing risk because the interest rate characteristics of the Company s assets do not match the interest rate characteristics of the funding. The Company attempts to match the interest rate characteristics of certain pools of loan assets with debt instruments of substantially similar characteristics. Due to the variability in duration of the Company s assets and varying market conditions, the Company does not attempt to perfectly match the interest rate characteristics of the entire loan portfolio with the underlying debt instruments. 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. Derivative instruments used as part of the Company s interest rate risk management strategy currently include interest rate swaps, basis swaps, and cross-currency swaps.

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The following table presents the Company s student loan assets and related funding arranged by underlying indices as of September 30, 2008:

Index (e)	Frequency of Variable Resets	Assets	Debt outstanding that funded student loan assets (a)
3 month H15 financial commercial paper (b)	Daily	$ 24,422,798	354,003
3 month Treasury bill	Varies	1,303,095	
Private student loans		275,520	
3 month LIBOR (c)	Quarterly		20,891,535
Auction-rate or remarketing	Varies		2,771,445
Asset-backed commercial paper	Varies		2,657,430
Fixed rate			205,435
Other (d)		878,435	
		$ 26,879,848	26,879,848

(a) During 2007, the Company 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 September 30, 2008:

Maturity	Notional Amount
2008	$ 1,000,000
2009	1,000,000
2010 (1)	5,500,000
2011	2,700,000
2012	2,400,000
	$ 12,600,000

(1) In October 2008, the Company terminated a basis swap with a notional amount of $1.0 billion and an original maturity date in 2010 for proceeds of $0.6 million. This derivative is included in the above table.

(b) The Company s FFELP student loans earn interest based on the daily average H15 financial commercial paper index calculated on a fiscal quarter. The Company s funding includes

$90.1 million funding private student loans under a participation agreement with Union Bank and $263.9 million funding FFELP student loans under the Department s Participation Program.

(c) The Company has Euro-denominated notes that reprice on the EURIBOR index. The Company has entered into derivative instruments (cross-currency interest rate swaps) that convert the EURIBOR index to 3 month LIBOR. As a result, these notes are reflected in the 3 month LIBOR category in the above table. See Foreign Currency Exchange Risk.

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(d) Assets include restricted cash and investments and other assets.

(e) Historically, the movement of the various interest rate indices received on the Company s student loan assets and paid on the debt to fund such loans was highly correlated. As shown below, the short-term movement of the indices was dislocated beginning in August 2007. This dislocation has had a negative impact on the Company s student loan net interest income.

Financial Statement Impact of Derivative Instruments

The Company accounts for its derivative instruments in accordance with SFAS No. 133. SFAS No. 133 requires that changes in the fair value of derivative instruments be recognized currently in earnings unless specific hedge accounting criteria as specified by SFAS No. 133 are met. 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; consequently, the change in fair value of these derivative instruments is included in the Company s operating results. 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. The change in fair value of the Company s derivatives are included in derivative market value, foreign currency, and put option adjustments and derivative settlements, net in the Company s consolidated statements of operations and resulted in an expense of $119.9 million and $72.4 million for the three and nine months ended September 30, 2008, respectively, and income of $72.7 million and $93.0 million for the three and nine months ended September 30, 2007, respectively.

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

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Interest rate swaps loan portfolio	$ (3,176)		(14,195)	4,753
Basis swaps loan portfolio	(3,999)	(2,608)	41,606	(2,489)
Interest rate swaps other (a)		1,729		12,050
Cross-currency interest rate swaps	7,963	(1,457)	18,577	(7,214)
Derivative settlements received (paid), net	$ 788	(2,336)	45,988	7,100

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(a) During the fourth quarter 2006, in consideration of not receiving 9.5% special allowance payments on a prospective basis, the Company entered into a series of off-setting interest rate swaps that mirrored the $2.45 billion in pre-existing interest rate swaps that the Company had utilized to hedge its loan portfolio receiving 9.5% special allowance payments against increases in interest rates.

During the second quarter 2007, the Company entered into a series of off-setting interest rate swaps that mirrored the remaining interest rate swaps utilized to hedge the Company s student loan

portfolio against increases in interest rates.

The net effect of the offsetting derivatives discussed above was to lock in a series of future income streams on underlying trades through their respective maturity dates. The net settlements on these derivatives are included in interest rate swaps other. In August 2007, the Company terminated these derivatives for net proceeds of $50.8 million.

Sensitivity Analysis

The following tables summarize the effect on the Company s earnings, based upon a sensitivity analysis performed by the Company assuming a hypothetical increase and decrease in interest rates of 100 basis points and an increase in interest rates of 200 basis points while funding spreads remain constant. The effect on earnings was performed on the Company s variable-rate assets and liabilities. The analysis includes the effects of the Company s interest rate and basis swaps in existence during these periods. As a result of the Company s interest rate management activities, the Company expects such a change in pre-tax net income resulting from a 100 basis point increase or decrease or a 200 basis point increase in interest rates would not result in a proportional decrease in net income.

	Three months ended September 30, 2008					
	Change from decrease of 100 basis points		Change from increase of 100 basis points		Change from increase of 200 basis points	
	Dollar	Percent	Dollar	Percent	Dollar	Percent
	(dollars in thousands)					
Effect on earnings:						
Increase (decrease) in pre-tax net income before impact of derivative settlements	$ 8,803	23.3%	(2,299)	(6.1)%	(3,170)	(8.4)%
Impact of derivative settlements	(3,101)	(8.2)	3,100	8.2	6,201	16.4
	$ 5,702	15.1%	801	2.1%	3,031	8.0%

Increase in net income before taxes			
Increase in basic and diluted earning per share	$ 0.07	0.01	0.04

	Three months ended September 30, 2007					
	Change from decrease of 100 basis points		Change from increase of 100 basis points		Change from increase of 200 basis points	
	Dollar	Percent	Dollar	Percent	Dollar	Percent
	(dollars in thousands)					
Effect on earnings:						
Increase in pre-tax net income before impact of derivative settlements	$ 7,557	27.7%	159	0.6%	1,395	5.1%
Impact of derivative settlements						
Increase in net income before taxes	$ 7,557	27.7%	159	0.6%	1,395	5.1%
Increase in basic and diluted earning per share	$ 0.09				0.02	

	Nine months ended September 30, 2008					
	Change from decrease of 100 basis points		Change from increase of 100 basis points		Change from increase of 200 basis points	
	Dollar	Percent	Dollar	Percent	Dollar	Percent
	(dollars in thousands)					
Effect on earnings:						
Increase (decrease) in pre-tax net income before impact of derivative settlements	$ 33,585	2,205.2%	(33,585)	(2,205.2)%	(46,123)	(3,028.4)%
Impact of derivative settlements	(8,141)	(534.5)	8,141	534.5	16,282	1,069.1
Increase (decrease) in net income before taxes	$ 25,444	1,670.7%	(25,444)	(1,670.7)%	(29,841)	(1,959.3)%
Increase (decrease) in basic and diluted earning per share	$ 0.33		(0.33)		(0.38)	

Nine months ended September 30, 2007

	Change from decrease of 100 basis points		Change from increase of 100 basis points		Change from increase of 200 basis points	
	Dollar	Percent	Dollar	Percent	Dollar	Percent
	(dollars in thousands)					
Effect on earnings:						
Increase in pre-tax net income before impact of derivative settlements	$ 15,170	58.0%	8,858	33.9%	20,980	80.2%
Impact of derivative settlements						
Increase in net income before taxes	$ 15,170	58.0%	8,858	33.9%	20,980	80.2%
Increase in basic and diluted earning per share	$ 0.20		0.12		0.27	

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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 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. and Euro dollars. 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. The Company did not qualify these derivative instruments as hedges under SFAS No. 133; consequently, the change in fair value is included in the Company s operating results.

For the three and nine months ended September 30, 2008, the Company recorded income of $128.9 million and $40.4 million, respectively, as a result of re-measurement of the Euro Notes and losses of $129.0 million and $37.3 million, respectively, for the change in the fair value of the related derivative instrument. For the three and nine months ended September 30, 2007, the Company recorded losses of $54.0 million and $79.0 million, respectively, as a result of the re-measurement of the Euro Notes, and income of $58.8 million and $85.8 million, respectively, for the change in the fair value of the related derivative instrument. Both of these amounts are included in derivative market value, foreign currency, and put option adjustments and derivative settlements, net on the Company s consolidated statements of operations.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Under supervision and with the participation of certain members of the Company s management, including the chief executive and the chief financial officers, the Company completed an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures (as defined in SEC Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on this evaluation, the Company s chief executive and chief financial officers believe that the disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report on Form 10-Q with respect to timely communication to them and other members of management responsible for preparing periodic reports and material information required to be disclosed in this Quarterly Report on Form 10-Q as it relates to the Company and its consolidated subsidiaries.

The effectiveness of the Company s or any system of disclosure controls and procedures is subject to certain limitations, including the exercise of judgment in designing, implementing, and evaluating the controls and procedures, the assumptions used in identifying the likelihood of future events, and the inability to eliminate misconduct completely. As a result, there can be no assurance that the Company s disclosure controls and procedures will prevent all errors or fraud or ensure that all material information will be made known to appropriate management in a timely fashion. By their nature, the Company s or any system of disclosure controls and procedures can provide only reasonable assurance regarding management s control objectives.

Changes in Internal Control over Financial Reporting

There was no change in the Company s internal control over financial reporting during the Company s last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. 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.

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Municipal Derivative Bid Practices Investigation

As previously disclosed, on February 8, 2008, Shockley Financial Corp. (SFC), an indirect, wholly-owned subsidiary of the Company 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. SFC currently has one employee. The Company and SFC are cooperating with the investigation.

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. In addition, on or about June 6, 2008 and June 12, 2008, SFC received a subpoena from both the New York Attorney General (the NYAG) and the Florida Attorney General, respectively, relating to their investigations concerning the bidding of municipal GICs and possible violations of various state and federal laws. The subpoenas seek certain information and documents from SFC relating to its GIC business. The Company and SFC are cooperating with these investigations.

SFC has also been named as a defendant in a number of 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 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 students and their parents regarding the financial aid process (the NYAG Fund).

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. On September 9, 2008, the Company announced that it agreed to adopt the NYAG s Student Loan Direct Marketing Code of Conduct. As part of the agreement, the Company agreed to contribute $200,000 to the NYAG Fund.

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 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 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 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.

ITEM 1A. RISK FACTORS

Except as set forth below and except as disclosed in the Company s Quarterly Reports on Form 10-Q for the quarters ended March 31, 2008 and June 30, 2008, there have been no material changes from the risk factors described in the Company s Annual Report on Form 10-K for the year ended December 31, 2007 in response to Item 1A of Part I of such Form 10-K.

The recent credit and financial market crisis has had an adverse effect on the Company s liquidity and poses counterparty risks.

The recent unprecedented disruptions in the credit and financial markets, and the related crisis affecting the banking system which resulted in the enactment of the Emergency Economic Stabilization Act of 2008 in October 2008, have had and may continue to have an adverse effect on the cost and availability of financing for the Company s student loan portfolios and, as a result, have had and may continue to have an adverse effect on the Company s liquidity, results of operations, and financial condition. Such adverse conditions may continue or worsen in the future.

The Company has historically relied on a multi-seller bank provided conduit warehouse facility to fund the origination and acquisition of FFELP student loans. The 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 of the 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 of May 9, 2010. As of November 7, 2008, the outstanding balance under this facility was $2.1 billion. 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. In addition, 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 believes it has met this requirement for the annual period ending in May 2009. However, the Company does have an obligation to remove approximately $30 million of loans by December 31, 2008 because these loans were partially disbursed when the facility was termed-out on July 31, 2008. Under the current terms of the facility, the remaining collateral will need to be refinanced or removed by May 9, 2010.

The warehouse facility for FFELP loans also currently provides for mark-to-market advance rates related to the valuation of financed loans. On October 22, 2008, the Company posted $165.5 million in additional funds to the facility based on this mark-to-market provision. 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 the current mark-to-market provisions of the warehouse facility agreement. As of November 7, 2008, the Company has a cumulative amount of $374.6 million posted as equity funding support for the facility.

The Company has utilized its $750.0 million unsecured line of credit to fund equity advances on its warehouse facility. As of November 7, 2008, the Company had $691.5 million outstanding under the line of credit and

$58.5 million available for future use. The lending commitment under the 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 Bank, 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 Bank for its portion of the lending commitment under the line of credit.

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Continued disruptions in the credit and financial markets may cause additional volatility in the mark-to-market loan valuation formula under the warehouse facility. Should a significant change in the valuation of loans result in additional required equity funding support for the warehouse facility greater than what the Company can provide and the Company has not amended the facility as discussed below, the warehouse facility could be subject to an event of default resulting in a termination of the facility and an acceleration of the repayment provisions. A default on the 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.

To reduce the Company s exposure from the mark-to-market advance rate provision included in the FFELP warehouse facility, the Company has signed a letter agreement engaging Banc of America Securities LLC to arrange an amendment of certain of the Company s credit facilities, including but not limited to an amendment to place a floor on the valuation of collateral in the Company s FFELP loan warehouse line of credit for which Bank of America, N.A. acts as administrative agent. Banc of America Securities LLC has commenced the amendment process and together with the Company is seeking the approval of the Company s lenders of a proposed amendment of such credit facilities on mutually agreeable terms. In addition, the Company continues to look at various alternatives to remove loans from the warehouse facility including other financing arrangements and/or selling loans to third parties.

In addition, on November 8, 2008, the Department announced they intend to provide liquidity support to one or more conforming asset backed commercial paper conduits to purchase and provide longer-term financing for FFELP loans. While details of this conduit are forthcoming, it is intended that all fully-disbursed non-consolidation FFELP loans awarded between October 1, 2003 and July 1, 2009 will be eligible for inclusion. As of November 7, 2008, the Company had approximately $900 million of loans included in its warehouse facility that would be eligible for this proposed conduit program.

The Company has historically used its warehouse facility to pool student loans in order to maximize loan portfolio characteristics for efficient financing and to properly time market conditions for movement of the loans into an asset-backed securitization. In addition, the Company has historically relied on asset-backed securitizations as a significant source of funding for student loans on a long-term basis. Since late September 2008, the severe disruptions in the credit and financial markets have made asset-backed securitization financing generally unavailable. The Company is currently unable to predict when market conditions will allow for future asset-backed securitization financing. If the Company were unable to continue to securitize student loans on favorable terms, it could use alternative funding sources to meet liquidity needs, including (i) the Department of Education s new financing programs as discussed below for loans disbursed after April 30, 2008, (ii) an existing FFELP loan participation facility with Union Bank, an entity under common control with the Company, and (iii) the Company s unsecured line of credit; however, such alternatives may result in the sale of loans by the Company and a loss of the accompanying servicing rights. If the Company is unable to obtain cost-effective and stable funding alternatives, its funding capabilities and liquidity would be negatively impacted and its cost of funds could increase, adversely affecting the Company s results of operations. In addition, the Company s ability to originate and acquire student loans would be limited or could be eliminated. With respect to the origination of new FFELP student loans, the Company currently expects to utilize the Department of Education s new financing programs as discussed below, the participation facility with Union Bank, and the Company s unsecured line of credit.

On July 1, 2008, pursuant to the Ensuring Continued Access to Student Loans Act, the Department of Education announced terms under which it will offer to purchase certain FFELP student loans and participation interests in certain FFELP student loans from FFELP lenders. 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. Lenders will have until September 30, 2009 to sell loans to the Department. Under the Department s 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. On August 14, 2008, the Company received notification that the Department had approved the Master Participation Agreement the Company submitted to enable the Company to begin participating in the Participation Program. The Company expects to utilize the Participation Program to fund a significant portion of its loan originations for the 2008-2009 academic year.

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 has provided preliminary guidance relating to the extension and has indicated that programs similar to the Participation Program and Purchase Program will be implemented for the 2009-2010 academic year along with providing liquidity support for one or more asset backed commercial paper conduits for FFELP Stafford and PLUS loans awarded between October 1, 2003 and July 1, 2009. The Department has 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. Management understands that such loans will not be eligible for participation under the Department s 2009-2010 Participation Program, but should be eligible for refinancing through the Department s commercial paper conduit program. Management of the Company is encouraged by these developments; however, until the Department provides additional details regarding the programs, the Company is unable to determine the full impact these programs will have on the Company.

There can be no assurance that the Department s Participation Program and Purchase Program, the participation facility with Union Bank, or the Company s unsecured line of credit will be adequate to fund the Company s student loan origination and acquisition obligations. As such, the Company s ability to originate and acquire student loans could be limited or eliminated.

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The recent credit and financial market crisis has increased the risk that a lending, investment, or derivative counterparty will not be able to meet its obligations to the Company. As discussed above, since the bankruptcy filing of Lehman Brothers Holdings Inc. in September 2008, the Company has experienced funding delays from Lehman Bank for its portion of the Company s borrowing requests under its line of credit, and the Company anticipates that Lehman Bank may not fund future borrowing requests by the Company. In addition, as of September 30, 2008, the Company had a total of $658.4 million invested in guaranteed investment contracts (GICs), for which there is no available or active market. Approximately $118.3 million of these GICs are with foreign banks, which receive support from the governments. The remaining $540.1 million of these GICs are with a total of three banks, all of which are currently AA rated, and with one such bank representing 88% of this amount. A default by the counterparties under the GICs could lead to a loss of the Company s investment and have a material adverse effect on the Company s results of operations and financial condition.

The recent reductions in the Company s student loan purchases from branding and forward flow partners could have an adverse impact on its business.

The Company has historically acquired student loans through forward flow commitments and branding partner arrangements with other student loan lenders. The enactment of the College Cost Reduction Act in September 2007 resulted in a reduction in the yields on student loans and, accordingly, a reduction in the amount of the premium the Company could pay lenders under its forward flow commitments and branding partner arrangements. In addition, the current capital market disruptions have rendered origination or acquisition of student loans through these channels uneconomical. Accordingly, the Company has recently reduced the acquisition of student loans through its branding and forward flow relationships. As a result, the Company has and will continue to experience a decrease in its forward flow and branding partner loan volume. The Company can give no assurance that it will be successful in renegotiating or renewing, on economically reasonable terms, its branding and forward flow agreements once those agreements expire. Loss of a strong branding or forward flow partner, or relationships with schools from which a significant volume of student loans is directly or indirectly acquired, could result in an adverse effect on the Company s business.

Recent changes in legislation may affect the Company s business and profitability.

On August 14, 2008, the Higher Education Opportunity Act became law. The Higher Education Opportunity Act amends the Higher Education Act to revise and reauthorize Higher Education Act 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.

The Higher Education Opportunity Act may affect the Company s profitability by increasing costs as a result of required changes to the Company s operations.

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ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Stock Repurchases

The following table summarizes the repurchases of Class A common stock during the third quarter of 2008 by the Company or any affiliated purchaser of the Company, as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934.

Period	Total number of shares purchased (1)	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs (2) (3)	Maximum number of shares that may yet be purchased under the plans or programs (4)
July 1 - July 31, 2008	843	$ 10.64	843	8,006,039
August 1 - August 31, 2008	4,581	13.22	4,581	6,938,898
September 1 - September 30, 2008	2,140	15.67	2,140	7,184,957
Total	7,564	$ 13.63	7,564	

(1) The total number of shares includes: (i) shares purchased pursuant to the 2006 Plan discussed in footnote (2) below; and (ii) shares purchased pursuant to the 2006 ESLP discussed in footnote (3) below, of which there were none for the months of July, August, or September 2008. Shares of Class A common stock purchased

pursuant to the 2006 Plan included (i) 843 shares, 363 shares, and 2,140 shares in July, August, and September, respectively, that had been issued to the Company s 401(k) plan and allocated to employee participant accounts pursuant to the plan s provisions for Company matching contributions in shares of Company stock, and were purchased by the Company from the plan pursuant to employee participant instructions to dispose of such shares, and (ii) 4,218 shares purchased in August 2008 from employees upon cancellation of loans associated with shares originally acquired pursuant to the 2006 ESLP.

(2) On May 25, 2006, the Company publicly announced that its Board of Directors had

authorized a stock repurchase program to repurchase up to a total of five million shares of the Company s Class A common stock (the 2006 Plan). On February 7, 2007, the Company s Board of Directors increased the total shares the Company is allowed to repurchase to 10 million. The 2006 Plan had an initial expiration date of May 24, 2008, which was extended until May 24, 2010 by the Company s Board of Directors on January 30, 2008.

(3) On May 25, 2006, the Company publicly announced that the shareholders of the Company approved an Employee Stock Purchase Loan Plan (the 2006 ESLP) to allow the Company to make loans to employees for the purchase of shares of the Company s Class A common stock either in

the open market or directly from the Company. A total of $40 million in loans may be made under the 2006 ESLP, and a total of one million shares of Class A common stock are reserved for issuance under the 2006 ESLP. Shares may be purchased directly from the Company or in the open market through a broker at prevailing market prices at the time of purchase, subject to any conditions or restrictions on the timing, volume, or prices of purchases as determined by the Compensation Committee of the Board of Directors and set forth in the Stock Purchase Loan Agreement with the participant. The 2006 ESLP shall terminate May 25, 2016.

(4) The maximum number of shares that may yet be purchased under the plans is calculated below. There are no assurances that

any additional shares will be repurchased under either the 2006 Plan or the 2006 ESLP. Shares under the 2006 ESLP may be issued by the Company rather than purchased in open market transactions.

As of	Maximum number of shares that may yet be purchased under the 2006 Plan (A)	Approximate dollar value of shares that may yet be purchased under the 2006 ESLP (B)	Closing price on the last trading day of the Company s Class A Common Stock (C)	(B / C) Approximate number of shares that may yet be purchased under the 2006 ESLP (D)	(A + D) Approximate number of shares that may yet be purchased under the 2006 Plan and 2006 ESLP
July 31, 2008	4,624,777	36,450,000	10.78	3,381,262	8,006,039
August 31, 2008	4,620,196	36,450,000	15.72	2,318,702	6,938,898
September 30, 2008	4,618,056	36,450,000	14.20	2,566,901	7,184,957

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Working capital and dividend restrictions/limitations

The Company s credit facilities, including its revolving line of credit which is available through May of 2012, impose restrictions on the Company s minimum consolidated net worth, the ratio of the Company s Adjusted EBITDA to corporate debt interest, the indebtedness of the Company s subsidiaries, and the ratio of Non-FFELP loans to all loans in the Company s portfolio. In addition, trust indentures and other financing agreements governing debt issued by the Company s education lending subsidiaries may have general limitations on the amounts of funds that can be transferred to the Company by its subsidiaries through cash dividends.

On September 27, 2006 the Company consummated a debt offering of $200.0 million aggregate principal amount of Junior Subordinated Hybrid Securities (Hybrid Securities). So long as any Hybrid Securities remain outstanding, if the Company gives notice of its election to defer interest payments but the related deferral period has not yet commenced or a deferral period is continuing, then the Company will not, and will not permit any of its subsidiaries to:

- declare or pay any dividends or distributions on, or redeem, purchase, acquire or make a liquidation payment regarding, any of the Company s capital stock;

- except as required in connection with the repayment of principal, and except for any partial payments of deferred interest that may be made through the alternative payment mechanism described in the Hybrid Securities indenture, make any payment of principal of, or interest or premium, if any, on, or repay, repurchase, or redeem any of the Company s debt securities that rank *pari passu* with or junior to the Hybrid Securities; or

- make any guarantee payments regarding any guarantee by the Company of the subordinated debt securities of any of the Company s subsidiaries if the guarantee ranks *pari passu* with or junior in interest to the Hybrid Securities.

In addition, if any deferral period lasts longer than one year, the limitation on the Company s ability to redeem or repurchase any of its securities that rank *pari passu* with or junior in interest to the Hybrid Securities will continue until the first anniversary of the date on which all deferred interest has been paid or cancelled.

If the Company is involved in a business combination where immediately after its consummation more than 50% of the surviving entity s voting stock is owned by the shareholders of the other party to the business combination, then the immediately preceding sentence will not apply to any deferral period that is terminated on the next interest payment date following the date of consummation of the business combination.

However, at any time, including during a deferral period, the Company will be permitted to:

- pay dividends or distributions in additional shares of the Company s capital stock;

- declare or pay a dividend in connection with the implementation of a shareholders rights plan, or issue stock under such a plan, or redeem or repurchase any rights distributed pursuant to such a plan; and

- purchase common stock for issuance pursuant to any employee benefit plans.

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ITEM 6. EXHIBITS

10.1*	Fourth Amendment of Amended and Restated Participation Agreement, dated as of August 1, 2005, by and between Union Bank and Trust Company and Nelnet, Inc. (f/k/a NELnet, Inc.) (subsequently renamed National Education Loan Network, Inc.).
10.2*	Fifth Amendment of Amended and Restated Participation Agreement, dated as of November 1, 2005, by and between Union Bank and Trust Company and Nelnet, Inc. (f/k/a NELnet, Inc.) (subsequently renamed National Education Loan Network, Inc.).
10.3*	Sixth Amendment of Amended and Restated Participation Agreement, dated as of December 12, 2005, by and between Union Bank and Trust Company and Nelnet, Inc. (f/k/a NELnet, Inc.) (subsequently renamed National Education Loan Network, Inc.).
10.4*	Master Participation Agreement, dated as of August 14, 2008, by and between the United States Department of Education and Nelnet, Inc.
10.5*	Master Loan Sale Agreement, dated as of August 14, 2008, by and between the United States Department of Education and Nelnet, Inc.
10.6*+	Separation Agreement, dated as of July 21, 2008, by and between Matthew D. Hall and Nelnet, Inc.
31.1*	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of Chief Executive Officer Michael S. Dunlap.
31.2*	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of Chief Financial Officer Terry J. Heimes.
32**	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith

** Furnished herewith

\+ Indicates a compensatory plan or arrangement

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NELNET, INC.

Date: November 10, 2008

By: /s/ MICHAEL S. DUNLAP
Name: Michael S. Dunlap
Title: Chairman and Chief Executive Officer

By: /s/ TERRY J. HEIMES
Name: Terry J. Heimes
Title: Chief Financial Officer

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