

NELNET INC
Form 10-Q
November 08, 2011

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2011

or

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

For the transition period from to .

COMMISSION FILE NUMBER 001-31924

NELNET, INC.

(Exact name of registrant as specified in its charter)

NEBRASKA

(State or other jurisdiction of incorporation or organization)

84-0748903

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

121 SOUTH 13TH STREET, SUITE 201

LINCOLN, NEBRASKA

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 No

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

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

Large accelerated filer []

Accelerated filer [X]

Non-accelerated filer []

Smaller reporting company []

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [] No [X]

As of October 31, 2011, there were 35,632,225 and 11,495,377 shares of Class A Common Stock and Class B Common Stock, par value \$0.01 per share, outstanding, respectively (excluding 11,317,364 shares of Class A Common Stock held by wholly owned subsidiaries).

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September 30, 2011

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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, 2011 (unaudited)	As of December 31, 2010
Assets:		
Student loans receivable (net of allowance for loan losses of \$45,773 and \$43,626, respectively)	\$24,641,614	23,948,014
Student loans receivable - held for sale	—	84,987
Cash and cash equivalents:		
Cash and cash equivalents - not held at a related party	10,465	6,952
Cash and cash equivalents - held at a related party	81,629	276,849
Total cash and cash equivalents	92,094	283,801
Investments - trading securities	49,834	43,236
Restricted cash and investments	601,218	668,757
Restricted cash - due to customers	52,300	88,528
Accrued interest receivable	331,071	318,152
Accounts receivable (net of allowance for doubtful accounts of \$1,495 and \$1,221, respectively)	58,894	52,614
Goodwill	117,118	117,118
Intangible assets, net	33,074	38,712
Property and equipment, net	33,335	30,573
Other assets	95,055	101,054
Fair value of derivative instruments	130,620	118,346
Total assets	\$26,236,227	25,893,892
Liabilities:		
Bonds and notes payable	\$24,926,512	24,672,472
Accrued interest payable	16,965	19,153
Other liabilities	179,620	191,017
Due to customers	52,300	88,528
Fair value of derivative instruments	49,347	16,089
Total liabilities	25,224,744	24,987,259
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 35,964,088 shares as of September 30, 2011 and 36,846,353 shares as of December 31, 2010	360	368
Class B, convertible, \$0.01 par value. Authorized 60,000,000 shares;	115	115

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issued and outstanding 11,495,377 shares as of September 30, 2011 and
December 31, 2010

Additional paid-in capital	54,685	76,263	
Retained earnings	957,463	831,057	
Employee notes receivable	(1,140) (1,170)
Total shareholders' equity	1,011,483	906,633	
Commitments and contingencies			
Total liabilities and shareholders' equity	\$26,236,227	25,893,892	

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,	
	2011	2010	2011	2010
Interest income:				
Loan interest	\$ 156,955	159,287	433,247	449,607
Investment interest	672	1,169	2,254	3,474
Total interest income	157,627	160,456	435,501	453,081
Interest expense:				
Interest on bonds and notes payable	60,866	68,243	164,227	178,345
Net interest income	96,761	92,213	271,274	274,736
Less provision for loan losses	5,250	5,500	14,250	16,700
Net interest income after provision for loan losses	91,511	86,713	257,024	258,036
Other income (expense):				
Loan and guaranty servicing revenue	37,927	33,464	110,952	106,510
Tuition payment processing and campus commerce revenue	16,774	14,527	50,904	44,704
Enrollment services revenue	35,505	36,439	101,688	105,113
Software services revenue	4,622	4,624	13,745	14,467
Other income	3,931	9,432	17,249	25,188
Gain on sale of loans and debt repurchases	—	9,885	8,307	28,821
Derivative market value and foreign currency adjustments and derivative settlements, net	(13,631	) (35,391	) (37,002	) (44,317
Total other income	85,128	72,980	265,843	280,486
Operating expenses:				
Salaries and benefits	44,132	41,085	130,925	122,691
Litigation settlement	—	55,000	—	55,000
Cost to provide enrollment services	23,825	23,709	68,804	69,845
Depreciation and amortization	7,917	9,025	21,462	29,536
Restructure expense	—	4,751	—	6,020
Other	28,904	26,717	83,776	89,120
Total operating expenses	104,778	160,287	304,967	372,212
Income (loss) before income taxes	71,861	(594	) 217,900	166,310
Income tax benefit (expense)	(24,410	) 226	(78,444	) (62,363
Net income (loss)	\$47,451	(368	) 139,456	103,947
Earnings (loss) per common share:				
Net earnings (loss) - basic	\$0.98	(0.01	) 2.88	2.09
Net earnings (loss) - diluted	\$0.98	(0.01) 2.87	2.08

Weighted average common shares outstanding:

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Basic	48,059,747	48,938,333	48,177,539	49,460,625
Diluted	48,253,888	48,938,333	48,367,923	49,663,505

See accompanying notes to consolidated financial statements.

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NELNET, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)
(Dollars in thousands, except share data)
(unaudited)

	Preferred stock shares	Common Class A stock	Common Class B stock shares	Preferred stock	Class A Common stock	Class B Common stock	Additional paid-in capital	Retained earnings	Employee notes receivable	Total shareholders' equity
Balance as of June 30, 2010	—	37,995,006	11,495,377	\$—	380	115	101,232	773,468	(1,250)	873,945
Comprehensive loss:										
Net loss	—	—	—	—	—	—	—	(368)	—	(368)
Cash dividend on Class A and Class B common stock - \$0.07 per share	—	—	—	—	—	—	—	(3,435)	—	(3,435)
Issuance of common stock, net of forfeitures	—	37,728	—	—	1	—	601	—	—	602
Compensation expense for stock based awards	—	—	—	—	—	—	405	—	—	405
Repurchase of common stock	—	(1,184,261)	—	—	(13)	—	(26,602)	—	—	(26,615)
Reduction of employee stock notes receivable	—	—	—	—	—	—	—	—	80	80
Balance as of September 30, 2010	—	36,848,473	11,495,377	\$—	368	115	75,636	769,665	(1,170)	844,614
Balance as of June 30, 2011	—	37,044,372	11,495,377	\$—	370	115	74,646	914,823	(1,170)	988,784
Comprehensive income:										
Net income	—	—	—	—	—	—	—	47,451	—	47,451
Cash dividend on Class A and Class B common stock - \$0.10 per share	—	—	—	—	—	—	—	(4,811)	—	(4,811)
Issuance of common stock, net of forfeitures	—	17,157	—	—	1	—	314	—	—	315
Compensation expense for stock based awards	—	—	—	—	—	—	310	—	—	310

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Repurchase of common stock	—	(1,097,441)	—	—	(11)	—	(20,585)	—	—	(20,596)
Reduction of employee stock notes receivable	—	—	—	—	—	—	—	—	30	30
Balance as of September 30, 2011	—	35,964,088	11,495,377	\$—	360	115	54,685	957,463	(1,140)	1,011,483
Balance as of December 31, 2009	—	38,396,791	11,495,377	\$—	384	115	109,359	676,154	(1,449)	784,563
Comprehensive income:										
Net income	—	—	—	—	—	—	—	103,947	—	103,947
Cash dividend on Class A and Class B common stock - \$0.21 per share	—	—	—	—	—	—	—	(10,436)	—	(10,436)
Issuance of common stock, net of forfeitures	—	312,322	—	—	3	—	4,834	—	—	4,837
Compensation expense for stock based awards	—	—	—	—	—	—	1,096	—	—	1,096
Repurchase of common stock	—	(1,860,640)	—	—	(19)	—	(39,653)	—	—	(39,672)
Reduction of employee stock notes receivable	—	—	—	—	—	—	—	—	279	279
Balance as of September 30, 2010	—	36,848,473	11,495,377	\$—	368	115	75,636	769,665	(1,170)	844,614
Balance as of December 31, 2010	—	36,846,353	11,495,377	\$—	368	115	76,263	831,057	(1,170)	906,633
Comprehensive income:										
Net income	—	—	—	—	—	—	—	139,456	—	139,456
Cash dividend on Class A and Class B common stock - \$0.27 per share	—	—	—	—	—	—	—	(13,050)	—	(13,050)
Contingency payment related to business combination	—	—	—	—	—	—	(5,893)	—	—	(5,893)

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Issuance of common stock, net of forfeitures	—	239,620	—	—	3	—	4,427	—	—	4,430
Compensation expense for stock based awards	—	—	—	—	—	—	1,007	—	—	1,007
Repurchase of common stock	—	(1,121,885)	—	—	(11)	—	(21,119)	—	—	(21,130)
Reduction of employee stock notes receivable	—	—	—	—	—	—	—	—	30	30
Balance as of September 30, 2011	—	35,964,088	11,495,377	\$—	360	115	54,685	957,463	(1,140)	1,011,483

See accompanying notes to consolidated financial statements.

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

	Nine months ended September 30,	
	2011	2010
Net income	\$ 139,456	103,947
Adjustments to reconcile net income to net cash provided by operating activities, net of business and asset acquisitions:		
Depreciation and amortization, including loan premiums/discount and deferred origination costs	54,462	71,696
Provision for loan losses	14,250	16,700
Derivative market value adjustment	18,683	94,539
Foreign currency transaction adjustment	10,902	(58,608)
Proceeds to terminate and/or amend derivative instruments	12,369	15,169
Payments to terminate and/or amend derivative instruments	(10,068)	(763)
Gain on sale of loans	(1,345)	—
Gain from debt repurchases	(6,962)	(28,821)
Originations and purchases of student loans-held for sale	—	(97,782)
Change in investments - trading securities, net	(6,598)	(33,082)
Deferred income tax benefit	(15,916)	(4,292)
Non-cash compensation expense	1,574	1,719
Accrued litigation settlement	—	55,000
Other non-cash items	(124)	(202)
Decrease (increase) in accrued interest receivable	6,550	(88,770)
Decrease (increase) in accounts receivable	(6,280)	(26,670)
Decrease (increase) in other assets	1,065	(7,977)
(Decrease) increase in accrued interest payable	(3,207)	(104)
(Decrease) increase in other liabilities	3,135	4,131
Net cash provided by operating activities	211,946	15,830
Cash flows from investing activities, net of business and asset acquisitions:		
Originations and purchases of student loans, including loan premiums/discounts and deferred origination costs	(820,812)	(2,957,976)
Purchases of student loans, including loan premiums, from a related party	(59)	(989,002)
Net proceeds from student loan repayments, claims, capitalized interest, participations, and other	1,778,729	1,342,963
Proceeds from sale of student loans	95,178	27,191
Purchases of property and equipment, net	(9,776)	(7,496)
Decrease (increase) in restricted cash and investments, net	101,009	(67,210)
Business and asset acquisitions, net of cash acquired, including contingency payments/receipts, net	(14,029)	(3,000)
Net cash provided by (used in) investing activities	1,130,240	(2,654,530)
Cash flows from financing activities:		
Payments on bonds and notes payable	(2,386,461)	(2,541,883)
Proceeds from issuance of bonds and notes payable	995,644	5,104,517
Payments on bonds payable due to a related party	(107,050)	—

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Proceeds from issuance of bonds payable due to a related party	—	111,675	
Payments of debt issuance costs	(2,282) (7,971)
Dividends paid	(13,050	) (10,436)
Repurchases of common stock	(21,130	) (39,672)
Proceeds from issuance of common stock	406	371	
Payments received on employee stock notes receivable	30	279	
Net cash (used in) provided by financing activities	(1,533,893	) 2,616,880	
Net decrease in cash and cash equivalents	(191,707	) (21,820)
Cash and cash equivalents, beginning of period	283,801	338,181	
Cash and cash equivalents, end of period	\$92,094	316,361	
Supplemental disclosures of cash flow information:			
Interest paid	\$153,167	171,656	
Income taxes paid, net of refunds	\$97,640	77,774	
Supplemental disclosures of non-cash operating, investing, and financing activities regarding the Company's acquisition of student loans from an affiliate of Greystone & Co., Inc. are contained in note 2.			
See accompanying notes to consolidated financial statements.			

NELNET, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Information as of September 30, 2011 and for the three and nine months ended

September 30, 2011 and 2010 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, 2011 and for the three and nine months ended September 30, 2011 and 2010 have been prepared on the same basis as the audited consolidated financial statements for the year ended December 31, 2010 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, 2011 are not necessarily indicative of the results for the year ending December 31, 2011. 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, 2010.

Reclassifications

Certain amounts previously reported within operating expenses have been reclassified to conform to the current period presentation. These reclassifications include:

• Reclassifying “professional and other services,” “occupancy and communications,” “postage and distribution,” “advertising and marketing,” and “trustee and other debt related fees” to “other” operating expenses.

• Reclassifying student list amortization, which was previously included in “advertising and marketing,” to “depreciation and amortization.”

The reclassifications had no effect on consolidated net income or consolidated assets and liabilities.

2. Student Loans Receivable and Allowance for Loan Losses

The Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2010-20, Disclosure about the Credit Quality of Financing Receivables and the Allowance for Credit Losses (“ASU 2010-20”), which was an update to the Receivables Topic of the FASB Accounting Standards Codification (“ASC”). In accordance with ASU 2010-20, the Company has expanded its disclosures about the credit quality of its student loans receivable and the associated allowance for loan losses. ASU 2010-20 requires entities to provide disclosures on a disaggregated basis. The ASU defines two levels of disaggregation – portfolio segment and class of financing receivable. A portfolio segment is defined as the level at which an entity develops and documents a systematic method for determining its allowance for credit losses. Classes of financing receivables generally are a disaggregation of a portfolio segment. 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. Management has determined that each of the federally insured loan portfolio and the non-federally insured loan portfolio meets the definition of a portfolio segment. Accordingly, the portfolio segment basis disclosures required by ASU 2010-20 are presented in this note for each of these portfolios. The Company does not disaggregate its portfolio segment student loan portfolios into classes of financing receivables as defined in ASU 2010-20. In addition, as of September 30, 2011 and December 31, 2010, the Company

does not have any impaired loans as defined in the Receivables Topic of the FASB ASC.

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Student loans receivable consisted of the following:

	As of September 30, 2011		As of December 31, 2010	
	Held for investment		Held for investment	Held for sale (a)
Federally insured loans	\$24,655,652		23,757,699	—
Non-federally insured loans	29,061		26,370	84,987
	24,684,713		23,784,069	84,987
Unamortized loan premiums/discounts and deferred origination costs, net	2,674		207,571	—
Allowance for loan losses – federally insured loans	(35,190	)	(32,908) —
Allowance for loan losses – non-federally insured loans	(10,583	)	(10,718) —
	\$24,641,614		23,948,014	84,987
Allowance for federally insured loans as a percentage of such loans	0.14	%	0.14	%
Allowance for non-federally insured loans as a percentage of such loans	36.42	%	40.64	%

On January 13, 2011, the Company sold a portfolio of non-federally insured loans for proceeds of \$91.3 million (100% of par value). The Company retained credit risk related to this portfolio and will pay cash to purchase back (a) any loans which become 60 days delinquent. As of December 31, 2010, the Company classified this portfolio as held for sale and the loans were carried at fair value.

Loan Purchase

On July 8, 2011, the Company purchased the residual interest in \$1.9 billion of securitized federally insured consolidation loans. The Company acquired the ownership interest in GCO SLIMS Trust I (the "SLIMS Trust") giving the Company rights to the residual interest in GCO Education Loan Funding Trust-I (the "GCO Trust"). The GCO Trust includes federally insured consolidation loans funded to term with \$1.9 billion of notes payable that carry interest rates on a spread to LIBOR or are set and periodically reset via a "dutch auction" ("Auction Rate Securities").

On July 8, 2011, the SLIMS Trust included \$46.2 million of notes payable that carry a fixed interest rate of 5.72%. All excess interest earned from the GCO Trust must be used to pay the interest and principal on the notes payable in the SLIMS Trust until the SLIMS notes are paid in full.

The Company has consolidated these trusts on its consolidated balance sheet because management has determined the Company is the primary beneficiary of the trusts. Upon acquisition, the Company recorded all assets and liabilities of the trusts at fair value, resulting in the recognition of a student loan fair value discount of \$146 million and a bonds and notes payable fair value discount of \$167 million. All other assets acquired and liabilities assumed (restricted cash, accrued interest receivable/payable, and other assets/liabilities) were recorded at cost which approximates fair value.

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. Activity in the allowance for loan losses is shown below.

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	Three months ended September		Nine months ended September	
	30,		30,	
	2011	2010	2011	2010
Balance at beginning of period	\$42,300	50,797	43,626	50,887
Provision for loan losses:				
Federally insured loans	5,000	4,500	13,500	13,700
Non-federally insured loans	250	1,000	750	3,000
Total provision for loan losses	5,250	5,500	14,250	16,700
Charge-offs:				
Federally insured loans	(3,978	) (4,510	) (13,418	) (13,549
Non-federally insured loans	(1,175	) (1,933	) (3,395	) (5,696
Total charge-offs	(5,153	) (6,443	) (16,813	) (19,245
Recoveries - Non-federally insured loans	350	358	1,003	940
Purchases:				
Federally insured loans	2,200	—	2,200	2,710
Non-federally insured loans	—	—	—	220
Transfer to/from repurchase obligation related to loans sold/purchased, net	826	—	1,507	(2,000
Balance at end of period	\$45,773	50,212	45,773	50,212
Allocation of the allowance for loan losses:				
Federally insured loans	\$35,190	32,962	35,190	32,962
Non-federally insured loans	10,583	17,250	10,583	17,250
Total allowance for loan losses	\$45,773	50,212	45,773	50,212

Repurchase Obligations

As of September 30, 2011, the Company had participated a cumulative amount of \$117.1 million of non-federally insured loans to third parties. Loans participated under these agreements have been accounted for by the Company as loan sales. Accordingly, the participation interests sold are not included on the Company's consolidated balance sheets. Per the terms of the servicing agreements, the Company's servicing operations are obligated to repurchase loans subject to the participation interests in the event such loans become 60 or 90 days delinquent.

In addition, on January 13, 2011, the Company sold a portfolio of non-federally insured loans for proceeds of \$91.3 million (100% of par value). The Company retained credit risk related to this portfolio and will pay cash to purchase back any loans which become 60 days delinquent.

The Company's estimate related to its obligation to repurchase these loans is included in "other liabilities" in the Company's consolidated balance sheets. The activity related to this accrual is detailed below.

	Three months ended September		Nine months ended September	
	30,		30,	
	2011	2010	2011	2010
Beginning balance	\$20,689	12,600	12,600	10,600
Repurchase obligation transferred to/from the allowance for loan losses related to loans purchased/sold, net	(826) —	(1,507) 2,000
Repurchase obligation associated with loans sold (a)	—	—	6,270	—

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Current period expense (b)	—	—	2,500	—
Ending balance	\$19,863	12,600	19,863	12,600

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As discussed previously, on January 13, 2011, the Company sold a portfolio of loans and retained all credit risk related to this portfolio. These loans were classified as held for sale as of December 31, 2010 and the loans were carried at fair value. Upon sale, the Company established a repurchase obligation associated with those loans that are estimated to become 60 days delinquent.

The current period expense is included in "other" under operating expenses in the accompanying consolidated statements of operations. During the nine months ended September 30, 2011, the Company recorded an expense of \$2.5 million related to its obligation to repurchase non-federally insured loans.

Student Loan Status and Delinquencies

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 on loans held for investment.

	As of September 30, 2011		As of December 31, 2010		
	Dollars	Percent	Dollars	Percent	
Federally Insured Loans:					
Loans in-school/grace/deferment (a)	\$4,358,786		\$4,358,616		
Loans in forbearance (b)	3,390,367		2,984,869		
Loans in repayment status:					
Loans current	14,555,949	86.1	% 14,309,480	87.2	%
Loans delinquent 31-60 days (c)	675,053	4.0	794,140	4.8	
Loans delinquent 61-90 days (c)	366,831	2.2	306,853	1.9	
Loans delinquent 91 days or greater (d)	1,308,666	7.7	1,003,741	6.1	
Total loans in repayment	16,906,499	100.0	% 16,414,214	100.0	%
Total federally insured loans	\$24,655,652		\$23,757,699		
Non-Federally Insured Loans:					
Loans in-school/grace/deferment (a)	\$2,944		\$3,500		
Loans in forbearance (b)	473		292		
Loans in repayment status:					
Loans current	19,209	74.9	% 16,679	73.9	%
Loans delinquent 31-60 days (c)	893	3.5	1,546	6.8	
Loans delinquent 61-90 days (c)	1,344	5.2	1,163	5.2	
Loans delinquent 91 days or greater	4,198	16.4	3,190	14.1	
Total loans in repayment	25,644	100.0	% 22,578	100.0	%
Total non-federally insured loans	\$29,061		\$26,370		

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.

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.

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.

(d) A portion of loans included in loans delinquent 91 days or greater include federally insured loans in claim status, which are loans that have gone into default and have been submitted to the guaranty agency.

3. Bonds and Notes Payable

The following tables summarize the Company's outstanding debt obligations by type of instrument:

	As of September 30, 2011		
	Carrying amount	Interest rate range	Final maturity
Variable-rate bonds and notes (a):			
Bonds and notes based on indices	\$20,703,892	0.29% - 6.90%	11/25/15 - 7/27/48
Bonds and notes based on auction or remarketing	970,575	0.16% - 2.14%	5/1/28 - 5/25/42
Total variable-rate bonds and notes	21,674,467		
Commercial paper - FFELP warehouse facilities	719,668	0.22% - 0.45%	7/1/14
Department of Education Conduit	2,398,456	0.30%	5/8/14
Unsecured line of credit	149,390	0.63%	5/8/12
Unsecured debt - Junior Subordinated Hybrid Securities	100,697	3.74%	9/15/61
Other borrowings	43,510	3.58 % - 5.72%	11/14/11 - 3/1/22
	25,086,188		
Discount on bonds and notes payable	(159,676)		
Total	\$24,926,512		

	As of December 31, 2010		
	Carrying amount	Interest rate range	Final maturity
Variable-rate bonds and notes (a):			
Bonds and notes based on indices	\$20,170,217	0.30% - 6.90%	5/26/14 - 7/27/48
Bonds and notes based on auction or remarketing	944,560	0.24% - 1.51%	5/1/11 - 7/1/43
Total variable-rate bonds and notes	21,114,777		
Commercial paper - FFELP warehouse facility	108,381	0.29% - 0.35%	7/29/13
Department of Education Conduit	2,702,345	0.31%	5/8/14
Unsecured line of credit	450,000	0.79%	5/8/12
Unsecured debt - Junior Subordinated Hybrid Securities	163,255	7.40%	9/15/61
Related party debt	107,050	0.53%	5/20/11
Other borrowings	26,664	0.26% - 5.10%	1/1/11 - 11/11/15
	\$24,672,472		

(a) Issued in asset-backed securitizations

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 during the periods presented above include loan warehouse facilities, asset-backed securitizations, and the government's Conduit Program (as described below).

The majority of the bonds and notes payable are primarily secured by the student loans receivable, related accrued interest, and by the amounts on deposit in the accounts established under the respective bond resolutions or financing

agreements. Certain variable rate bonds and notes are secured by a letter of credit and reimbursement agreement issued by a third-party liquidity provider.

FFELP warehouse facilities

The Company funds a portion of its Federal Family Education Loan Program (the “FFEL Program” or “FFELP”) loan acquisitions using its FFELP warehouse facilities. Student loan warehousing allows the Company to buy and manage student loans prior to transferring them into more permanent financing arrangements.

On July 14, 2011, the Company renewed the liquidity agreement on its existing FFELP warehouse facility (the “NFSLW-I Warehouse”) and entered into an additional FFELP warehouse facility (the “NHELP-I Warehouse”).

When the Company renewed the liquidity agreement on its NFSLW-I Warehouse facility on July 14, 2011, it had a maximum financing amount of \$300.0 million which was increased to \$500.0 million on August 10, 2011. The NFSLW-I Warehouse has a revolving financing structure supported by 364-day liquidity provisions, which expires on April 1, 2012. The final maturity date of the facility is July 1, 2014. In the event the Company is unable to renew the liquidity provisions by April 1, 2012, the facility would become a term facility at a stepped-up cost, with no additional student loans being eligible for financing, and the Company would be required to refinance the existing loans in the facility by July 1, 2014.

The NFSLW-I Warehouse facility provides for formula based advance rates depending on FFELP loan type, up to a maximum of 85 percent to 98 percent of the principal and interest of loans financed. The advance rates for collateral may increase or decrease based on market conditions, but they are subject to a minimum advance of 84.5 to 90 percent based on loan type. As of September 30, 2011, \$362.1 million was outstanding under the NFSLW-I Warehouse facility, \$137.9 million was available for future use, and \$30.9 million was advanced as equity support.

The NHELP-I Warehouse has a maximum financing amount of \$500.0 million, with a revolving financing structure supported by 364-day liquidity provisions, which expires on October 1, 2012. The final maturity date of the facility is July 1, 2014. In the event the Company is unable to renew the liquidity provisions by October 1, 2012, the facility would become a term facility at a stepped-up cost, with no additional student loans being eligible for financing, and the Company would be required to refinance the existing loans in the facility by July 1, 2014.

The NHELP-I Warehouse facility provides for formula based advance rates depending on FFELP loan type, up to a maximum of 93 percent to 95 percent of the principal and interest of loans financed. The advance rates for collateral may increase or decrease based on market conditions, but they are subject to a minimum advance of 85 to 90 percent based on loan type. As of September 30, 2011, \$357.6 million was outstanding under the NHELP-I Warehouse facility, \$142.4 million was available for future use, and \$18.5 million was advanced as equity support.

The FFELP warehouse facilities contain financial covenants relating to levels of the Company’s consolidated net worth, ratio of adjusted EBITDA to corporate debt interest, and unencumbered cash. Any violation of these covenants could result in a requirement for the immediate repayment of any outstanding borrowings under the facilities.

Asset-backed securitizations

During the first quarter of 2011, the Company completed an asset-backed securities transaction totaling \$384.4 million. Notes issued in this asset-backed securities transaction carry interest rates based on a spread to LIBOR. The Company used the proceeds from the sale of these notes to purchase principal and interest on student loans, including loans which were previously financed in the NFSLW-I Warehouse facility.

Department of Education’s Conduit Program

In May 2009, the U.S. Department of Education (the "Department") implemented a program under which it finances eligible FFELP Stafford and PLUS loans in a conduit vehicle established to provide funding for student lenders (the "Conduit Program"). Loans eligible for the Conduit Program had to be first disbursed on or after October 1, 2003, but not later than June 30, 2009, and fully disbursed before September 30, 2009, and meet certain other requirements. Funding for the Conduit Program is provided by the capital markets at a cost based on market rates, with the Company being advanced 97 percent of the student loan face amount. Excess amounts needed to fund the remaining 3 percent of the student loan balances were contributed by the Company. The Conduit Program expires on May 8, 2014. The Student Loan Short-Term Notes ("Student Loan Notes") issued by the Conduit Program are supported by a combination of (i) notes backed by FFELP loans, (ii) a liquidity agreement with the Federal Financing Bank, and (iii) a put agreement provided by the Department. If the conduit does not have sufficient funds to pay all Student Loan Notes, then those Student Loan Notes will be repaid with funds from the Federal Financing Bank. The Federal Financing Bank will hold the notes for a short period of time and, if at the end of that time, the Student Loan Notes still cannot be paid off, the underlying FFELP loans that serve as collateral to the Conduit Program will be sold to the Department

through a put agreement at a price of 97 percent of the face amount of the loans. As of September 30, 2011, the Company had \$2.4 billion borrowed under the facility and \$85.1 million advanced as equity support in the facility. Effective July 1, 2010, no additional loans could be funded using the Conduit Program.

Unsecured Line of Credit

The Company has a \$750.0 million unsecured line of credit that terminates on May 8, 2012. As of September 30, 2011, there was \$149.4 million outstanding on this line. Upon termination in 2012, there can be no assurance that the Company will be able to maintain this line of credit, find alternative funding, or increase the amount outstanding under the line, if necessary. The lending commitment under the Company's unsecured line of credit is provided by a total of thirteen banks, with no individual bank representing more than 11% of the total lending commitment. The bank lending group includes Lehman Brothers Bank ("Lehman"), a subsidiary of Lehman Brothers Holdings Inc., which represents approximately 7% of the lending commitment under the line of credit. In September 2008, Lehman Brothers Holdings Inc. filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code. The Company does not expect that Lehman will fund future borrowing requests. As of September 30, 2011, excluding Lehman's lending commitment, the Company has \$558.6 million available for future use under its unsecured line of credit.

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

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

As of September 30, 2011, the Company was in compliance with all of these requirements. Many of these covenants are duplicated in the Company's other lending facilities, including its FFELP warehouse facilities.

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

A default on the Company's FFELP warehouse facilities 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.

Junior Subordinated Hybrid Securities

On September 27, 2006 the Company issued \$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 September 28, 2011 was 7.40%, payable semi-annually. Beginning September 29, 2011 through September 29, 2036, the "scheduled maturity date," the interest rate on the Hybrid Securities is 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 or in part, any time on or after September 29, 2011, at their principal amount plus accrued and unpaid interest, provided in the case of a redemption in part that the principal amount outstanding after such redemption is at least \$50.0 million.

Related Party Transactions

Union Bank Participation Agreement

The Company maintains an agreement with Union Bank and Trust Company ("Union Bank"), an entity under common control, 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 uses this facility as an additional source to fund FFELP student loans. As of September 30, 2011 and December 31, 2010, \$505.1 million and \$350.4 million, respectively, of loans were subject to outstanding participation interests held by Union Bank, as trustee, under this agreement. The agreement automatically renews annually and is terminable by either party upon five business days notice. This agreement provides beneficiaries of Union Bank's grantor trusts with access to investments in interests in student loans, while providing liquidity to the Company. The Company can participate loans to Union Bank to the extent of availability under the grantor trusts, up to \$750.0 million or an amount in excess of \$750.0 million if mutually agreed to by both parties. Loans participated under this agreement have been accounted for by the Company as loan sales. Accordingly, the participation interests sold are not included on the Company's consolidated balance sheets.

Related Party Debt

The Company has from time to time repurchased certain of its own asset-backed securities (bonds and notes payable). For accounting purposes, these notes have been effectively retired and are not included on the Company's consolidated balance sheets. However, these securities are legally outstanding at the trust level and the Company could sell these notes to third parties or redeem the notes at par as cash is generated by the trust estate. As of December 31, 2010, the Company had \$107.1 million of these securities participated to Union Bank, as trustee for various grantor trusts, and such notes were included in "bonds and notes payable" on the Company's consolidated balance sheet. During the first quarter of 2011, the Company redeemed all outstanding notes under this participation.

Debt Repurchases

During the first nine months of 2010 and 2011, the Company repurchased outstanding debt as summarized in note 4, "Gain on Sale of Loans and Debt Repurchases."

4. Gain on Sale of Loans and Debt Repurchases

“Gain on sale of loans and debt repurchases” in the accompanying consolidated statements of income is composed of the following items:

	Three months ended September 30, 2011			Nine months ended September 30, 2011		
	Notional amount	Purchase price	Gain	Notional amount	Purchase price	Gain
Gains on debt repurchases:						
Junior Subordinated Hybrid Securities	\$—	—	—	62,558	55,651	6,907
Asset-backed securities (a)	11,654	11,654	—	12,254	12,199	55
	\$11,654	11,654	—	74,812	67,850	6,962
Gain on sale of loans			—			1,345
Gain on sale of loans and debt repurchases			\$—			\$8,307

	Three months ended September 30, 2010			Nine months ended September 30, 2010		
	Notional amount	Purchase price	Gain	Notional amount	Purchase price	Gain
Gains on debt repurchases:						
Junior Subordinated Hybrid Securities	\$34,995	30,073	4,922	34,995	30,073	4,922
Asset-backed securities (a)	85,675	80,712	4,963	477,700	453,801	23,899
	\$120,670	110,785	9,885	512,695	483,874	28,821

For accounting purposes, the asset-backed securities repurchased by the Company are effectively retired and are not included on the Company’s consolidated balance sheet. However, as of September 30, 2011, the Company has purchased a cumulative amount of \$72.6 million of these securities that remain legally outstanding at the trust level (a) and the Company could sell these notes to third parties or redeem the notes at par as cash is generated by the trust estate. 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. The par value of these notes (\$72.6 million as of September 30, 2011) may not represent market value of such securities.

5. Derivative Financial Instruments

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

Interest Rate Risk

The Company’s primary market risk exposure arises from fluctuations in its borrowing and lending rates, the spread between which could impact the Company due to shifts in market interest rates. Because the Company generates a significant portion of its earnings from its student loan spread, the interest rate sensitivity of the balance sheet is a key profitability driver. The Company has adopted a policy of periodically reviewing the mismatch related to the interest rate characteristics of its assets and liabilities together with the Company’s assessment of current and future market conditions. Based on those factors, the Company uses derivative instruments as part of its overall risk management strategy.

Basis Swaps

The Company funds the majority of its student loan assets with one-month or three-month LIBOR indexed floating rate securities. Meanwhile, the interest earned on the Company's student loan assets is indexed to commercial paper and treasury bill rates. The different interest rate characteristics of the Company's loan assets and liabilities funding these assets results in basis risk. The Company also faces repricing risk due to the timing of the interest rate resets on its liabilities, which may occur as infrequently as once a quarter, in contrast to the timing of the interest rate resets on its assets, which generally occurs daily. In a declining

interest rate environment, this may cause the Company's student loan spread to compress, while in a rising rate environment, it may cause the spread to increase. As of September 30, 2011, the Company had \$23.7 billion and \$1.0 billion of FFELP loans indexed to the three-month financial commercial paper rate and the three-month treasury bill rate, respectively, both of which reset daily, and \$20.0 billion of debt indexed to three-month LIBOR, which resets quarterly, and \$0.7 billion of debt indexed to one-month LIBOR, which resets monthly.

Because of the different indice types and different indice reset frequencies, the Company is exposed to interest rate risk in the form of basis risk and repricing risk, which, as noted above, is the risk that the different indices may reset at different frequencies, or will not move in the same direction or with the same magnitude. While these indices are all short term in nature with rate movements that are highly correlated over a longer period of time, there have been points in recent history when volatility has been high and correlation has been reduced.

The Company has used derivative instruments to hedge both the basis and repricing risk on certain student loans in which the Company earns interest based on a treasury bill rate that resets daily and are funded with debt indexed to primarily three-month LIBOR. To hedge these loans, the Company has entered into basis swaps in which the Company receives three-month LIBOR set discretely in advance and pays a weekly treasury bill rate plus a spread as defined in the agreement ("T-Bill/LIBOR Basis Swaps").

However, the Company does not generally hedge the basis risk on those assets indexed to the commercial paper rate that are funded with liabilities in which the Company pays primarily on the LIBOR indice, since the derivatives needed to hedge this risk are generally illiquid or non-existent and the relationship between these indices has been highly correlated over a long period of time.

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

The following table summarizes the Company's basis swaps outstanding as of both September 30, 2011 and December 31, 2010:

Maturity	Notional amounts	
	1:3 Basis Swaps	T-Bill/LIBOR Basis Swaps
2011	\$—	225,000
2021	250,000	—
2023	1,250,000	—
2024	250,000	—
2028	100,000	—
2039 (a)	150,000	—
2040 (b)	200,000	—
	\$2,200,000	225,000

(a) This derivative has a forward effective start date in 2015.

(b) This derivative has a forward effective start date in 2020.

Interest rate swaps – floor income hedges

FFELP loans originated prior to April 1, 2006 generally earn interest at the higher of a floating rate based on the Special Allowance Payment (or SAP) formula set by the Department and the borrower rate, which is fixed over a period of time. The SAP formula is based on an applicable indice plus a fixed spread that is dependent upon when the loan was originated, the loan's repayment status, and funding sources for the loan. The Company generally finances its student loan portfolio with variable rate debt. In low and/or declining interest rate environments, when the fixed borrower rate is higher than the rate produced by the SAP formula, the Company's student loans earn at a fixed rate while the interest on the variable rate debt typically continues to decline. In these interest rate environments, the Company may earn additional spread income that it refers to as floor income.

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

Absent the use of derivative instruments, a rise in interest rates may reduce the amount of floor income received and this may have an impact on earnings due to interest margin compression caused by increasing financing costs, until such time as the federally insured loans earn interest at a variable rate in accordance with their special allowance payment formulas. In higher interest rate environments, where the interest rate rises above the borrower rate and fixed rate loans effectively become variable rate loans, the impact of the rate fluctuations is reduced.

As of September 30, 2011 and December 31, 2010, the Company had \$11.1 billion and \$8.5 billion, respectively, of student loan assets that were earning fixed rate floor income. The following tables summarize the outstanding derivative investments used by the Company to economically hedge these loans.

	As of September 30, 2011	
Maturity	Notional amount	Weighted average fixed rate paid by the Company (a)
2013	\$2,150,000	0.85 %
2014	750,000	0.85
2015	100,000	2.26
2020	50,000	3.23
	\$3,050,000	0.87 %
	As of December 31, 2010	
Maturity	Notional amount	Weighted average fixed rate paid by the Company (a)
2011	\$4,300,000	0.53 %
2012	3,950,000	0.67
2013	650,000	1.07
2015	100,000	2.26
2020	50,000	3.23
	\$9,050,000	0.66 %

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

Interest rate swaps – unsecured debt hedges

On September 27, 2006, the Company issued \$200.0 million aggregate principal amount of Junior Subordinated Hybrid Securities. As of September 30, 2011, \$100.7 million of these notes were outstanding. The interest rate on the Hybrid Securities from the date they were issued through September 28, 2011 was 7.40%. Beginning September 29, 2011 through September 29, 2036, the interest rate on the Hybrid Securities is equal to three-month LIBOR plus 3.375%, payable quarterly. As of September 30, 2011 and December 31, 2010, the Company had the following derivatives outstanding that are used to effectively convert the variable interest rate on the Hybrid Securities to a fixed rate.

As of September 30, 2011

Notional amount (a)	Weighted average fixed rate paid by the Company (b)
\$75,000	4.28 %

As of December 31, 2010

Notional amount (a)	Weighted average fixed rate paid by the Company (b)
\$100,000	4.27 %

(a) The effective start date on \$75 million (notional amount) of the derivatives outstanding is March 2012 with a maturity date of September 29, 2036.

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

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 Notes with interest rates based on a spread to the EURIBOR index. As a result of these transactions, the Company is exposed to market risk related to fluctuations in foreign currency exchange rates between the U.S. dollar and Euro. The principal and accrued interest on these notes is re-measured at each reporting period and recorded on the Company's balance sheet in U.S. dollars based on the foreign currency exchange rate on that date. Changes in the principal and accrued interest amounts as a result of foreign currency exchange rate fluctuations are included in the "derivative market value and foreign currency adjustments and derivative settlements, net" in the Company's consolidated statements of income.

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 indice based on notional amounts of €420.5 million and €352.7 million and pays a spread to the LIBOR indice 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 between the U.S. dollar and Euro as of the issuance of the notes.

The following table shows the income statement impact as a result of the re-measurement of the Euro Notes and the change in the fair value of the related derivative instruments. These items are included in "derivative market value and foreign currency adjustments and derivative settlements, net" on the accompanying consolidated statements of operations.

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Re-measurement of Euro Notes	\$73,453	(106,468)	(10,902)	58,608
Change in fair value of cross currency interest rate swaps	(53,142)	107,531	28,125	(52,491)
Total impact to statements of income - income (expense)	\$20,311	1,063	17,223	6,117

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

bonds.

Accounting for Derivative Financial Instruments

The Company records derivative instruments on the consolidated balance sheets as either an asset or liability measured at its fair value. Management has structured the majority of the Company's derivative transactions with the intent that each is economically

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effective; however, the Company's derivative instruments do not qualify for hedge accounting. As a result, the change in fair value of the Company's derivatives at each reporting date are included in "derivative market value and foreign currency adjustments and derivative settlements, net" in the Company's consolidated statements of operations. Changes or shifts in the forward yield curve and fluctuations in currency rates can significantly impact the valuation of the Company's derivatives. Accordingly, changes or shifts to the forward yield curve and fluctuations in currency rates will impact the financial position and results of operations of the Company.

Any proceeds received or payments made by the Company to terminate a derivative in advance of its expiration date, or to amend the terms of an existing derivative, are included in "derivative market value and foreign currency adjustments and derivative settlements, net" on the consolidated statements of operations and are accounted for as a change in fair value of such derivative. During the three and nine months ended September 30, 2011, the Company terminated and/or amended certain derivatives for net payments of \$9.5 million and net proceeds of \$2.3 million, respectively. During the three and nine months ended September 30, 2010, the Company terminated and/or amended certain derivatives for net proceeds of \$0.4 million and \$14.4 million, respectively.

The following table summarizes the fair value of the Company's derivatives not designated as hedging:

	Fair value of asset derivatives		Fair value of liability derivatives	
	As of September 30, 2011	As of December 31, 2010	As of September 30, 2011	As of December 31, 2010
1:3 basis swaps	\$7,479	10,489	770	44
T-Bill/LIBOR basis swaps	13	—	7	201
Interest rate swaps - floor income hedges	—	10,569	25,760	15,372
Interest rate swaps - hybrid debt hedges	—	1,132	22,535	470
Cross-currency interest rate swaps	123,043	94,918	—	—
Other	85	1,238	275	2
Total	\$130,620	118,346	49,347	16,089

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

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Derivatives not designated as hedging	Three months ended September		Nine months ended September	
	30, 2011	2010	2011	2010
Settlements:				
1:3 basis swaps	\$321	893	902	974
T-Bill/LIBOR basis swaps	(69	) —	(263) —
Interest rate swaps - floor income hedges	(3,482	) (4,040	) (16,045	) (12,183
Interest rate swaps - hybrid debt hedges	(250	) (242	) (744	) (242
Cross-currency interest rate swaps	3,745	1,025	8,625	3,243
Other	(8	) (222	) 108	(178
Total settlements - income (expense)	257	(2,586	) (7,417	) (8,386
Change in fair value:				
1:3 basis swaps	1,702	1,258	(3,736	) 7,012
T-Bill/LIBOR basis swaps	87	(221	) 208	15
Interest rate swaps - floor income hedges	(15,423	) (26,736	) (20,137	) (34,284
Interest rate swaps - hybrid debt hedges	(20,747	) (6,031	) (23,196	) (11,352
Cross-currency interest rate swaps	(53,142	) 107,531	28,125	(52,491
Other	182	(2,138	) 53	(3,439
Total change in fair value - (expense) income	(87,341	) 73,663	(18,683	) (94,539
Re-measurement of Euro Notes (foreign currency transaction adjustment) - income (expense)	73,453	(106,468	) (10,902	) 58,608
Derivative market value and foreign currency adjustments and derivative settlements - (expense) income	\$(13,631	) (35,391	) (37,002	) (44,317

Derivative Instruments - Credit and Market Risk

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

When the fair value of a derivative instrument is negative (a liability on the Company's balance sheet), the Company would owe the counterparty if the derivative was settled and, therefore, has no immediate credit risk. Additionally, if the negative fair value of derivatives with a counterparty exceeds a specified threshold, the Company may have to make a collateral deposit with the counterparty. The threshold at which the Company posts collateral is dependent upon the Company's unsecured credit rating. If the Company's credit ratings are downgraded from current levels or if interest and foreign currency exchange rates move materially, the Company could be required to deposit a significant amount of collateral with its derivative instrument counterparties. The collateral deposits, if significant, could negatively impact the Company's liquidity and capital resources. As of September 30, 2011, the Company had \$48.5 million posted as collateral to derivative counterparties, which is included in "restricted cash and investments" in the Company's consolidated balance sheet. The Company does not use the collateral to offset fair value amounts recognized in the financial statements for derivative instruments.

When the fair value of a derivative contract is positive (an asset on the Company's balance sheet), this generally indicates that the counterparty would owe the Company if the derivative was settled. If the counterparty fails to perform, credit risk with such counterparty is equal to the extent of the fair value gain in the derivative less any collateral held by the Company. If the Company was unable to collect from a counterparty, it would have a loss equal to the amount the derivative is recorded on the consolidated balance sheet. As of September 30, 2011, the trustee for the Company's asset-backed securities transactions held \$100.3 million of collateral from the counterparty on the

cross-currency interest rate swaps. The Company considers counterparties' credit risk when determining the fair value of derivative positions on its exposure net of collateral. However, the Company does not use the collateral to offset fair value amounts recognized in the financial statements for derivative instruments.

The Company attempts to manage market and credit risks associated with interest and foreign currency exchange rates by establishing and monitoring limits as to the types and degree of risk that may be undertaken and by entering into transactions with high-quality counterparties that are reviewed periodically by the Company's risk committee. As of September 30, 2011, all of the Company's derivative counterparties had investment grade credit ratings. The Company also has a policy of requiring that all derivative contracts be governed by an International Swaps and Derivatives Association, Inc. Master Agreement.

6. Investments

Included in “investments – trading securities” on the consolidated balance sheets as of September 30, 2011 and December 31, 2010 are debt and equity securities that are bought and held principally for the purpose of selling them in the near term. These investments are classified as trading securities and reported at fair value.

In December 2010, Union Bank established various trusts whereby Union Bank serves as trustee for the purpose of purchasing, holding, managing, and selling investments in student loan asset-backed securities. Union Bank, in its individual capacity, and the Company have both invested money into the trusts. As of September 30, 2011 and December 31, 2010, the Company had \$9.6 million and \$4.9 million, respectively, invested in the trusts, and such investments are included in “investments – trading securities” on the consolidated balance sheets.

Prior to May 1, 2011, the Company and Union Bank employed certain individuals as dual employees and such employees provided consulting and advisory services to Union Bank as trustee for these trusts, and Union Bank agreed to pay the Company for the share of such employees’ salary and payroll based on the value of such services rendered as well as the loss of value of such dual employees’ services to the Company. On May 9, 2011, a subsidiary of the Company entered into a management agreement with Union Bank, effective as of May 1, 2011, under which the subsidiary performs various advisory and management services on behalf of Union Bank with respect to investments in securities by the trusts, including identifying securities for purchase or sale by the trusts. The agreement provides that Union Bank will pay to the subsidiary annual fees of 25 basis points on the outstanding balance of the investments in the trusts. As of September 30, 2011, the outstanding balance of investments in the trusts was \$326.1 million. In addition, Union Bank will pay additional fees to the subsidiary of 50% of the gains from the sale of securities from the trusts. During the three and nine months ended September 30, 2011, the Company recognized \$2.9 million and \$4.1 million, respectively, of fee revenue related to this agreement which is included in “other income” in the accompanying consolidated statements of income.

7. Intangible Assets

Intangible assets consist of the following:

	Weighted average remaining useful life as of September 30, 2011 (months)	As of September 30, 2011	As of December 31, 2010
Amortizable intangible assets:			
Customer relationships (net of accumulated amortization of \$58,450 and \$49,743, respectively)	64	\$26,656	28,576
Computer software (net of accumulated amortization of \$4,399 and \$2,419, respectively)	16	3,519	5,499
Trade names (net of accumulated amortization of \$8,694 and \$6,956, respectively)	15	2,899	4,637
Total - amortizable intangible assets	54	\$33,074	38,712

The Company recorded amortization expense on its intangible assets of \$4.5 million and \$5.4 million for the three months ended September 30, 2011 and 2010, respectively, and \$12.4 million and \$18.1 million for the nine months ended September 30, 2011 and 2010, respectively. The Company will continue to amortize intangible assets over their remaining useful lives. As of September 30, 2011, the Company estimates it will record amortization expense as

follows:

2011 (October 1 - December 31)	\$4,491
2012	17,531
2013	4,286
2014	2,429
2015	925
2016 and thereafter	3,412
	\$33,074

20

During the first quarter of 2010, the Company purchased certain assets of a software company that constituted a business combination. The initial consideration paid by the Company was \$3.0 million in cash. In addition to the initial purchase price, additional payments are to be made by the Company based on certain operating results as defined in the purchase agreement. These contingent payments are payable in two additional annual installments due in March 2012 and March 2013 and in total are estimated by the Company, as of September 30, 2011, to be \$3.5 million. The contingent payments will be remeasured to fair value each reporting date until the contingency is resolved, with all changes in fair value being recognized in earnings. Substantially all of the purchase price was allocated to a computer software intangible asset that is being amortized over three years.

On June 30, 2011, the Company purchased contracts with more than 370 K-12 schools to provide tuition payment plan services. The initial consideration paid by the Company was \$6.9 million in cash. The initial purchase price is subject to adjustment based on customer retention. In September 2011, the Company received approximately \$51,000 as an adjustment to the purchase price. The final adjustment to purchase price, if any, will occur on May 31, 2012. Substantially all of the purchase price was allocated to a customer relationship intangible asset that is being amortized over three years.

8. Goodwill

The following table summarizes the Company's allocation of goodwill by operating segment as of September 30, 2011 and December 31, 2010:

Student Loan and Guaranty Servicing	\$8,596
Tuition Payment Processing and Campus Commerce	58,086
Enrollment Services	8,553
Asset Generation and Management	41,883
	\$117,118

9. Shareholders' Equity

Dividends

Dividends of \$0.07, \$0.10, and \$0.10 per share on the Company's Class A and Class B common stock were paid on March 15, 2011, June 15, 2011, and September 15, 2011 respectively, to all holders of record as of March 1, 2011, June 1, 2011, and September 1, 2011, respectively. In addition, a \$0.10 per share dividend on the Company's Class A and Class B common stock will be paid on December 15, 2011 to all holders of record as of December 1, 2011.

Stock Repurchases

Shares repurchased by the Company during 2011 are shown in the table below.

	Total shares repurchased	Purchase price (in thousands)	Average price of shares repurchased (per share)
Three months ended March 31, 2011	14,465	\$310	\$21.44
Three months ended June 30, 2011	9,979	224	22.39
Three months ended September 30, 2011	1,097,441	20,596	18.77
Nine months ended September 30, 2011	1,121,885	\$21,130	\$18.83

Contingent Consideration - infiNET Integrated Solutions, Inc. (“infiNET”)

In 2004, the Company purchased 50% of the stock of infiNET and, in 2006, purchased the remaining 50% of infiNET’s stock. infiNET provides software for customer-focused electronic transactions, information sharing, and electronic account and bill presentment for colleges and universities. Consideration for the purchase of the remaining 50% of the stock of infiNET included 95,380 restricted shares of the Company’s Class A common stock. The purchase agreement provided that the 95,380 shares of Class A common stock issued in the acquisition were subject to stock price guaranty provisions whereby if on or about February 28, 2011 the average market trading price of the Class A common stock was less than \$104.8375 per share and had not exceeded

that price for any 25 consecutive trading days during the 5-year period from the closing of the acquisition to February 28, 2011, then the Company was required to pay additional cash to the sellers of infiNET for each share of Class A common stock issued in an amount representing the difference between \$104.8375 less the greater of \$41.9335 or the gross sales price such seller obtained from a sale of the shares occurring subsequent to February 28, 2011. On February 28, 2011, the Company paid \$5.9 million in cash to satisfy this obligation. This payment was recorded by the Company as a reduction to additional paid-in capital.

10. Earnings per Common Share

Presented below is a summary of the components used to calculate basic and diluted earnings per share. The Company applies the two-class method of computing earnings per share, which requires the calculation of separate earnings per share amounts for unvested share-based awards and for common stock. Unvested share-based awards that contain nonforfeitable rights to dividends are considered securities which participate in undistributed earnings with common stock. Earnings per share attributable to common stock is shown in the table below.

A reconciliation of weighted average shares outstanding follows:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Net income (loss) attributable to Nelnet, Inc.	\$47,451	(368	) 139,456	103,947
Less earnings (loss) allocated to holders of unvested restricted stock	303	(4	) 873	671
Net income (loss) available to common stockholders	\$47,148	(364	) 138,583	103,276
Weighted average common shares outstanding - basic	48,059,747	48,938,333	48,177,539	49,460,625
Dilutive effect of the assumed vesting of restricted stock awards	194,141	—	190,384	202,880
Weighted average common shares outstanding - diluted	48,253,888	48,938,333	48,367,923	49,663,505
Basic earnings (loss) per common share	\$0.98	(0.01	) 2.88	2.09
Diluted earnings (loss) per common share	\$0.98	(0.01	) 2.87	2.08

No diluted effect of the assumed vesting of restricted stock awards is presented for the three months ended September 30, 2010 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.

There were no shares that were antidilutive and not included in average shares outstanding for the diluted earnings per share calculation.

11. Segment Reporting

The Company earns fee-based revenue through its Student Loan and Guaranty Servicing, Tuition Payment Processing and Campus Commerce, and Enrollment Services operating segments. In addition, the Company earns net interest income on its student loan portfolio in its Asset Generation and Management operating segment. The Company's operating segments are defined by the products and services they offer and 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 note 2 in the notes to the consolidated financial statements included in the Company's Annual Report filed on Form 10-K for the year ended December 31, 2010. 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 Company allocates certain corporate overhead expenses to the individual operating segments. These expenses include certain corporate activities related to executive management, human resources, accounting, legal, occupancy, and marketing. These costs are allocated to each operating segment based on estimated use of such activities and services.

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

Fee-Based Operating Segments

Student Loan and Guaranty Servicing

The following are the primary product and service offerings the Company offers as part of its Student Loan and Guaranty Servicing segment:

- Servicing of FFELP loans
- Origination and servicing of non-federally insured student loans
- Servicing federally-owned student loans for the Department of Education
- Servicing and support outsourcing for guaranty agencies
 - Student loan servicing software and other information technology products and services

The Student Loan and Guaranty Servicing operating segment provides for the servicing of the Company's student loan portfolios and the portfolios of third parties. The loan servicing activities include loan origination activities, loan conversion activities, application processing, borrower updates, payment processing, due diligence procedures, funds management reconciliations, and claim processing. These activities are performed internally for the Company's portfolio in addition to generating external fee revenue when performed for third party clients.

In June 2009, the Department of Education named the Company as one of four private sector companies awarded a servicing contract to service federally-owned student loans. In September 2009, the Company began servicing loans under this contract. The contract spans five years with one five-year renewal at the option of the Department.

This operating segment also provides servicing activities for guarantee agencies. These activities include providing software and data center services, borrower and loan updates, default aversion tracking services, claim processing services, and post-default collection services.

This operating segment also develops student loan servicing software, which is used internally by the Company and also licensed to third party student loan holders and servicers. In addition, this operating segment provides information technology products and services with core areas of business in educational loan software solutions, technical consulting services, and Enterprise content management solutions.

Tuition Payment Processing and Campus Commerce

The Company's Tuition Payment Processing and Campus Commerce operating segment provides products and services to help students and families manage the payment of education costs at all levels (K-12 and higher education). It also provides innovative education-focused technologies, services, and support solutions to help schools with the everyday challenges of collecting and processing commerce data.

In the K-12 market, the Company offers actively managed tuition payment plans as well as assistance with financial needs assessment, enrollment management, and donor management. The Company offers two principal products to the higher education market: actively managed tuition payment plans and campus commerce technologies and payment processing.

Enrollment Services

The Enrollment Services operating segment offers products and services that are focused on helping colleges recruit and retain students (interactive and list marketing services) and helping students plan and prepare for life after high school (publishing services and resource centers). Interactive marketing products and services include agency of record services, qualified inquiry generation, pay per click, and other marketing management, along with call center solutions. The majority of interactive marketing revenue

is derived from fees which are earned through the delivery of qualified inquiries or clicks provided to colleges and universities. List marketing services include providing lists to help higher education institutions and businesses reach the middle school, high school, college bound high school, college, and young adult market places. Publishing services include test preparation study guides, school directories and databases, and career exploration guides. Resource centers include online courses, scholarship search and selection data, career planning, and on-line information about colleges and universities.

Asset Generation and Management Operating Segment

The Asset Generation and Management Operating Segment includes the acquisition, management, and ownership of the Company's student loan assets, which has historically been the Company's largest product and service offering. The Company generates a substantial portion of its earnings from the spread, referred to as the Company's student loan spread, between the yield it receives on its student loan portfolio and the associated costs to finance such portfolio. The student loan assets are held in a series of education lending subsidiaries designed specifically for this purpose. In addition to the student loan spread earned on its portfolio, all costs and activity associated with managing the portfolio, such as servicing of the assets and debt maintenance are included in this segment.

As a result of legislation (the Reconciliation Act of 2010), effective July 1, 2010, all new federal loan originations are made by the Department of Education through the Direct Loan Program and the Company no longer originates FFELP loans. This legislation does not alter or affect the terms and conditions of existing FFELP loans.

Corporate Activity and Overhead

Corporate Activity and Overhead 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

Corporate Activities also includes certain corporate activities and overhead functions related to executive management, human resources, accounting and finance, legal, and marketing. Beginning in 2010, these costs were allocated to each operating segment based on estimated use of such activities and services.

Segment Operating Results – “Base Net Income”

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

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

Income Taxes

For segment reporting, income taxes are applied based on 38% of income (loss) before taxes for each individual operating segment. The difference between the consolidated income tax expense and the sum of taxes calculated for each operating segment is included in income taxes in Corporate Activity and Overhead.

Reclassifications

Certain amounts previously reported within operating expenses have been reclassified to conform to the current period presentation. These reclassifications had no effect on any of the segments' net income or assets and liabilities.

Segment Results and Reconciliations to GAAP

Three months ended September 30, 2011

Fee-Based

	Student Loan and Guaranty Servicing	Tuition Payment Processing and Campus Commerce	Enrollment Services	Total Fee- Based	Asset Generation and Management	Corporate Activity and Overhead	Eliminations	Base Net Income	Adjustments to GAAP Results	GAAP Results of Operations
Total interest income	\$ 15	11	—	26	157,071	1,285	(755)	157,627	—	157,627
Interest expense	—	—	—	—	59,049	2,572	(755)	60,866	—	60,866
Net interest income (loss)	15	11	—	26	98,022	(1,287)	—	96,761	—	96,761
Less provision for loan losses	—	—	—	—	5,250	—	—	5,250	—	5,250
Net interest income (loss) after provision for loan losses	15	11	—	26	92,772	(1,287)	—	91,511	—	91,511
Other income (expense):										
Loan and guaranty servicing revenue	37,927	—	—	37,927	—	—	—	37,927	—	37,927
Intersegment servicing revenue	16,622	—	—	16,622	—	—	(16,622)	—	—	—
Tuition payment processing and campus commerce revenue	—	16,774	—	16,774	—	—	—	16,774	—	16,774
Enrollment services revenue	—	—	35,505	35,505	—	—	—	35,505	—	35,505
Software services revenue	4,622	—	—	4,622	—	—	—	4,622	—	4,622
Other income	—	—	—	—	3,694	237	—	3,931	—	3,931
Gain on sale of loans and debt repurchases	—	—	—	—	—	—	—	—	—	—
Derivative market value										

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and foreign currency adjustments	—	—	—	—	—	—	—	—	(13,888)	(13,888)
Derivative settlements, net	—	—	—	—	507	(250)	—	257	—	257
Total other income (expense)	59,171	16,774	35,505	111,450	4,201	(13)	(16,622)	99,016	(13,888)	85,128
Operating expenses:										
Salaries and benefits	25,335	7,594	6,484	39,413	694	4,025	—	44,132	—	44,132
Cost to provide enrollment services	—	—	23,825	23,825	—	—	—	23,825	—	23,825
Depreciation and amortization	2,005	286	784	3,075	—	352	—	3,427	4,490	7,917
Restructure expense	—	—	—	—	—	—	—	—	—	—
Other	14,420	2,302	2,129	18,851	3,311	6,742	—	28,904	—	28,904
Intersegment expenses, net	1,291	1,166	783	3,240	16,865	(3,483)	(16,622)	—	—	—
Total operating expenses	43,051	11,348	34,005	88,404	20,870	7,636	(16,622)	100,288	4,490	104,778
Income (loss) before income taxes and corporate overhead allocation	16,135	5,437	1,500	23,072	76,103	(8,936)	—	90,239	(18,378)	71,861
Corporate overhead allocation	(963)	(321)	(321)	(1,605)	(1,605)	3,210	—	—	—	—
Income (loss) before income taxes	15,172	5,116	1,179	21,467	74,498	(5,726)	—	90,239	(18,378)	71,861
Income tax (expense) benefit	(5,765)	(1,944)	(448)	(8,157)	(27,902)	4,665	—	(31,394)	6,984	(24,410)
Net income (loss)	\$9,407	3,172	731	13,310	46,596	(1,061)	—	58,845	(11,394)	47,451

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Three months ended September 30, 2010

Fee-Based

	Student Loan and Guaranty Servicing	Tuition Payment Processing and Campus Commerce	Enrollment Services	Total Fee-Based	Asset Generation and Management	Corporate Activity and Overhead	Eliminations	Base Net Income	Adjustments to GAAP Results	GAAP Results of Operations
Total interest income	\$ 13	12	—	25	159,752	1,919	(1,240)	160,456	—	160,456
Interest expense	—	—	—	—	64,302	5,181	(1,240)	68,243	—	68,243
Net interest income (loss)	13	12	—	25	95,450	(3,262)	—	92,213	—	92,213
Less provision for loan losses	—	—	—	—	5,500	—	—	5,500	—	5,500
Net interest income (loss) after provision for loan losses	13	12	—	25	89,950	(3,262)	—	86,713	—	86,713
Other income (expense):										
Loan and guaranty servicing revenue	33,464	—	—	33,464	—	—	—	33,464	—	33,464
Intersegment servicing revenue	20,022	—	—	20,022	—	—	(20,022)	—	—	—
Tuition payment processing and campus commerce revenue	—	14,527	—	14,527	—	—	—	14,527	—	14,527
Enrollment services revenue	—	—	36,439	36,439	—	—	—	36,439	—	36,439
Software services revenue	4,624	—	—	4,624	—	—	—	4,624	—	4,624
Other income	—	—	—	—	4,710	4,722	—	9,432	—	9,432
Gain on sale of loans and debt repurchases	—	—	—	—	4,963	4,922	—	9,885	—	9,885
Derivative market value and										

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foreign currency adjustments	—	—	—	—	—	—	—	—	(32,805)	(32,805)
Derivative settlements, net	—	—	—	—	(2,131)	(455)	—	(2,586)	—	(2,586)
Total other income (expense)	58,110	14,527	36,439	109,076	7,542	9,189	(20,022)	105,785	(32,805)	72,980
Operating expenses:										
Salaries and benefits	22,682	6,652	6,142	35,476	1,054	4,615	(60)	41,085	—	41,085
Litigation settlement	—	—	—	—	—	55,000	—	55,000	—	55,000
Cost to provide enrollment services	—	—	23,709	23,709	—	—	—	23,709	—	23,709
Depreciation and amortization	1,362	330	1,624	3,316	—	354	—	3,670	5,355	9,025
Restructure expense	4,751	—	—	4,751	—	—	—	4,751	—	4,751
Other	12,470	2,053	2,556	17,079	2,937	6,701	—	26,717	—	26,717
Intersegment expenses, net	1,166	973	701	2,840	20,295	(3,173)	(19,962)	—	—	—
Total operating expenses	42,431	10,008	34,732	87,171	24,286	63,497	(20,022)	154,932	5,355	160,287
Income (loss) before income taxes and corporate overhead allocation	15,692	4,531	1,707	21,930	73,206	(57,570)	—	37,566	(38,160)	(594)
Corporate overhead allocation	(1,676)	(559)	(559)	(2,794)	(2,793)	5,587	—	—	—	—
Income (loss) before income taxes	14,016	3,972	1,148	19,136	70,413	(51,983)	—	37,566	(38,160)	(594)
Income tax (expense) benefit	(5,326)	(1,510)	(436)	(7,272)	(26,757)	19,754	—	(14,275)	14,501	226
Net income (loss)	\$8,690	2,462	712	11,864	43,656	(32,229)	—	23,291	(23,659)	(368)
Additional information:	\$8,690	2,462	712	11,864	43,656	(32,229)	—	23,291		

Net income (loss)								
Plus:								
Litigation settlement (a)	—	—	—	—	—	55,000	—	55,000
Plus:								
Restructure expense (b)	4,751	—	—	4,751	—	—	—	4,751
Less: Net tax effect	(1,805)	—	—	(1,805)	—	(20,900)	—	(22,705)
Net income (loss), excluding litigation settlement and restructure expense	\$11,636	2,462	712	14,810	43,656	1,871	—	60,337

(a) During the third quarter of 2010, the Company recorded a \$55.0 million litigation settlement charge.

(b) During 2010, the Company recorded restructuring charges associated with previously implemented restructuring plans.

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Nine months ended September 30, 2011

Fee-Based

	Student Loan and Guaranty Servicing	Tuition Payment Processing and Campus Commerce	Enrollment Services	Total Fee- Based	Asset Generation and Management	Corporate Activity and Overhead	Eliminations	Base Net Income	Adjustments to GAAP Results	GAAP Results of Operations
Total interest income	\$42	19	—	61	433,994	3,578	(2,132)	435,501	—	435,501
Interest expense	—	—	—	—	158,034	8,325	(2,132)	164,227	—	164,227
Net interest income (loss)	42	19	—	61	275,960	(4,747)	—	271,274	—	271,274
Less provision for loan losses	—	—	—	—	14,250	—	—	14,250	—	14,250
Net interest income (loss) after provision for loan losses	42	19	—	61	261,710	(4,747)	—	257,024	—	257,024
Other income (expense):										
Loan and guaranty servicing revenue	110,952	—	—	110,952	—	—	—	110,952	—	110,952
Intersegment servicing revenue	51,272	—	—	51,272	—	—	(51,272)	—	—	—
Tuition payment processing and campus commerce revenue	—	50,904	—	50,904	—	—	—	50,904	—	50,904
Enrollment services revenue	—	—	101,688	101,688	—	—	—	101,688	—	101,688
Software services revenue	13,745	—	—	13,745	—	—	—	13,745	—	13,745
Other income	—	—	—	—	11,827	5,422	—	17,249	—	17,249
Gain on sale of loans and debt repurchases	—	—	—	—	1,400	6,907	—	8,307	—	8,307
Derivative market value and										

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foreign currency adjustments	—	—	—	—	—	—	—	—	(29,585)	(29,585)
Derivative settlements, net	—	—	—	—	(6,805)	(612)	—	(7,417)	—	(7,417)
Total other income (expense)	175,969	50,904	101,688	328,561	6,422	11,717	(51,272)	295,428	(29,585)	265,843
Operating expenses:										
Salaries and benefits	75,454	21,995	18,672	116,121	2,181	12,623	—	130,925	—	130,925
Cost to provide enrollment services	—	—	68,804	68,804	—	—	—	68,804	—	68,804
Depreciation and amortization	4,647	967	2,377	7,991	—	1,046	—	9,037	12,425	21,462
Restructure expense	—	—	—	—	—	—	—	—	—	—
Other	43,604	7,263	6,889	57,756	9,988	16,032	—	83,776	—	83,776
Intersegment expenses, net	3,720	3,377	2,560	9,657	52,059	(10,444)	(51,272)	—	—	—
Total operating expenses	127,425	33,602	99,302	260,329	64,228	19,257	(51,272)	292,542	12,425	304,967
Income (loss) before income taxes and corporate overhead allocation	48,586	17,321	2,386	68,293	203,904	(12,287)	—	259,910	(42,010)	217,900
Corporate overhead allocation	(2,949)	(983)	(983)	(4,915)	(4,914)	9,829	—	—	—	—
Income (loss) before income taxes	45,637	16,338	1,403	63,378	198,990	(2,458)	—	259,910	(42,010)	217,900
Income tax (expense) benefit	(17,340)	(6,208)	(533)	(24,081)	(75,616)	5,289	—	(94,408)	15,964	(78,444)
Net income (loss)	\$28,297	10,130	870	39,297	123,374	2,831	—	165,502	(26,046)	139,456

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Nine months ended September 30, 2010

Fee-Based

	Student Loan and Guaranty Servicing	Tuition Payment Processing and Campus Commerce	Enrollment Services	Total Fee-Based	Asset Generation and Management	Corporate Activity and Overhead	Eliminations	Base Net Income	Adjustments to GAAP Results	GAAP Results of Operations
Total interest income	\$43	24	—	67	450,715	5,439	(3,140)	453,081	—	453,081
Interest expense	—	—	—	—	164,063	17,422	(3,140)	178,345	—	178,345
Net interest income (loss)	43	24	—	67	286,652	(11,983)	—	274,736	—	274,736
Less provision for loan losses	—	—	—	—	16,700	—	—	16,700	—	16,700
Net interest income (loss) after provision for loan losses	43	24	—	67	269,952	(11,983)	—	258,036	—	258,036
Other income (expense):										
Loan and guaranty servicing revenue	106,764	—	—	106,764	—	(254)	—	106,510	—	106,510
Intersegment servicing revenue	63,571	—	—	63,571	—	—	(63,571)	—	—	—
Tuition payment processing and campus commerce revenue	—	44,704	—	44,704	—	—	—	44,704	—	44,704
Enrollment services revenue	—	—	105,113	105,113	—	—	—	105,113	—	105,113
Software services revenue	14,467	—	—	14,467	—	—	—	14,467	—	14,467
Other income	519	—	—	519	14,114	10,555	—	25,188	—	25,188
Gain on sale of loans and debt repurchases	—	—	—	—	23,899	4,922	—	28,821	—	28,821
Derivative market value and										

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foreign currency adjustments	—	—	—	—	—	—	—	—	(35,931)	(35,931)
Derivative settlements, net	—	—	—	—	(7,931)	(455)	—	(8,386)	—	(8,386)
Total other income (expense)	185,321	44,704	105,113	335,138	30,082	14,768	(63,571)	316,417	(35,931)	280,486
Operating expenses:										
Salaries and benefits	69,591	19,864	18,660	108,115	3,698	12,540	(1,662)	122,691	—	122,691
Litigation settlement	—	—	—	—	—	55,000	—	55,000	—	55,000
Cost to provide enrollment services	—	—	69,845	69,845	—	—	—	69,845	—	69,845
Depreciation and amortization	3,538	1,002	5,744	10,284	3	1,146	—	11,433	18,103	29,536
Restructure expense	6,040	—	—	6,040	—	(20)	—	6,020	—	6,020
Other	45,638	6,433	7,563	59,634	10,147	19,339	—	89,120	—	89,120
Intersegment expenses, net	4,158	2,626	1,775	8,559	63,011	(9,661)	(61,909)	—	—	—
Total operating expenses	128,965	29,925	103,587	262,477	76,859	78,344	(63,571)	354,109	18,103	372,212
Income (loss) before income taxes and corporate overhead allocation	56,399	14,803	1,526	72,728	223,175	(75,559)	—	220,344	(54,034)	166,310
Corporate overhead allocation	(4,349)	(1,450)	(1,450)	(7,249)	(7,247)	14,496	—	—	—	—
Income (loss) before income taxes	52,050	13,353	76	65,479	215,928	(61,063)	—	220,344	(54,034)	166,310
Income tax (expense) benefit	(19,779)	(5,076)	(28)	(24,883)	(82,053)	24,040	—	(82,896)	20,533	(62,363)
Net income (loss)	\$32,271	8,277	48	40,596	133,875	(37,023)	—	137,448	(33,501)	103,947
Additional information:	\$32,271	8,277	48	40,596	133,875	(37,023)	—	137,448		

Net income (loss)								
Plus:								
Litigation settlement (a)	—	—	—	—	—	55,000	—	55,000
Plus:								
Restructure expense (b)	6,040	—	—	6,040	—	(20)	—	6,020
Less: Net tax effect	(2,295)	—	—	(2,295)	—	(20,892)	—	(23,187)
Net income (loss), excluding litigation settlement and restructure expense	\$36,016	8,277	48	44,341	133,875	(2,935)	—	175,281

(a) During the third quarter of 2010, the Company recorded a \$55.0 million litigation settlement charge.

(b) During 2010, the Company recorded restructuring charges associated with previously implemented restructuring plans.

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, and amortization of intangible assets. These items are excluded from management's evaluation of 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	Asset Generation and Management	Corporate Activity and Overhead	Total
Three months ended September 30, 2011						
Derivative market value and foreign currency adjustments (a)	\$—	—	—	(6,677	) 20,565	13,888
Amortization of intangible assets (b)	2,099	1,513	878	—	—	4,490
Net tax effect (c)	(798	) (575	) (334	) 2,537	(7,814	) (6,984
Total adjustments to GAAP	\$ 1,301	938	544	(4,140	) 12,751	11,394
Three months ended September 30, 2010						
Derivative market value and foreign currency adjustments (a)	\$—	—	—	24,966	7,839	32,805
Amortization of intangible assets (b)	2,112	1,120	2,123	—	—	5,355
Net tax effect (c)	(803	) (426	) (807	) (9,487	) (2,978	) (14,501
Total adjustments to GAAP	\$ 1,309	694	1,316	15,479	4,861	23,659
Nine months ended September 30, 2011						
Derivative market value and foreign currency adjustments (a)	\$—	—	—	6,443	23,142	29,585
Amortization of intangible assets (b)	6,299	3,492	2,634	—	—	12,425
Net tax effect (c)	(2,394	) (1,327	) (1,001	) (2,448	) (8,794	) (15,964
Total adjustments to GAAP	\$ 3,905	2,165	1,633	3,995	14,348	26,046
Nine months ended September 30, 2010						
Derivative market value and foreign currency adjustments (a)	\$—	—	—	20,955	14,976	35,931
Amortization of intangible assets (b)	6,462	4,636	7,005	—	—	18,103
Net tax effect (c)	(2,456	) (1,763	) (2,665	) (7,963	) (5,686	) (20,533
Total adjustments to GAAP	\$ 4,006	2,873	4,340	12,992	9,290	33,501

(a) Derivative market value and foreign currency 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.

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

(c) Income taxes are applied based on 38% for the individual operating segments.

12. Fair Value

The following tables present the Company's financial assets and liabilities that are measured at fair value on a recurring basis.

	As of September 30, 2011			Total
	Level 1	Level 2	Level 3	
Assets:				
Investments (a)	\$ 14,263	—	35,571	49,834
Fair value of derivative instruments (b)	—	130,620	—	130,620
Total assets	\$ 14,263	130,620	35,571	180,454
Liabilities:				
Fair value of derivative instruments (b)	\$—	49,347	—	49,347
Total liabilities	\$—	49,347	—	49,347
As of December 31, 2010				
	Level 1	Level 2	Level 3	Total
Assets:				
Investments (a)	\$31,375	—	11,861	43,236
Fair value of derivative instruments (b)	—	118,346	—	118,346
Total assets	\$31,375	118,346	11,861	161,582
Liabilities:				
Fair value of derivative instruments (b)	\$—	16,089	—	16,089
Total liabilities	\$—	16,089	—	16,089

Investments represent investments classified by the Company as “trading securities” which are recorded at fair value on a recurring basis. Level 1 investments are measured based upon quoted prices and include investments traded on an active exchange, such as the New York Stock Exchange, and U.S. Treasury securities that trade in active markets. Level 3 investments include student loan auction rate asset-backed securities. The fair value for the (a) student loan auction rate asset-backed securities is determined using indicative quotes from broker dealers or an income approach valuation technique (present value using the discount rate adjustment technique) that considers, among other things, rates currently observed in publicly traded debt markets for debt of similar terms to companies with comparable credit risk.

All derivatives are accounted for at fair value on a recurring basis. The fair value of derivative financial (b) instruments is 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.

When determining the fair value of derivatives, the Company takes into account counterparty credit risk for positions where it is exposed to the counterparty on a net basis by assessing exposure net of collateral held. The net exposures for each counterparty are adjusted based on market information available for the specific counterparty.

There were no transfers into or out of level 1, level 2, or level 3 for the nine months ended September 30, 2011.

The following table presents a roll forward of the fair value of Level 3 assets during 2011.

	Level 3 Investments - trading securities	
Balance at December 31, 2010	\$11,861	
Total realized and unrealized gains (losses) included in income, net (a)	(105)
Purchases	23,890	
Redemptions/Sales	(5,931)
Balance at March 31, 2011	29,715	
Total realized and unrealized gains (losses) included in income, net (a)	636	
Purchases	3,261	
Redemptions/Sales	(8,940)
Balance at June 30, 2011	24,672	
Total realized and unrealized gains (losses) included in income, net (a)	(3,632)
Purchases	28,668	
Redemptions/Sales	(14,137)
Balance at September 30, 2011	\$35,571	
Total gains (losses) included in income attributable to the change in unrealized gains (losses) relating to Level 3 assets held at September 30, 2011: (a)		
Three month period ended September 30, 2011	\$(4,303)
Nine month period ended September 30, 2011	(4,152)

(a) Realized and unrealized gains (losses) are included in "other income" in the Company's consolidated statements of income.

The following table summarizes the fair values of all of the Company's financial instruments on the consolidated balance sheets:

	As of September 30, 2011		As of December 31, 2010	
	Fair value	Carrying value	Fair value	Carrying value
Financial assets:				
Student loans receivable	\$24,254,401	24,641,614	24,836,538	23,948,014
Student loans receivable - held for sale	—	—	84,987	84,987
Cash and cash equivalents	92,094	92,094	283,801	283,801
Investments - trading securities	49,834	49,834	43,236	43,236
Restricted cash	375,394	375,394	453,748	453,748
Restricted cash – due to customers	52,300	52,300	88,528	88,528
Restricted investments	225,824	225,824	215,009	215,009
Accrued interest receivable	331,071	331,071	318,152	318,152
Derivative instruments	130,620	130,620	118,346	118,346

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Financial liabilities:

Bonds and notes payable	23,819,415	24,926,512	24,651,191	24,672,472
Accrued interest payable	16,965	16,965	19,153	19,153
Due to customers	52,300	52,300	88,528	88,528
Derivative instruments	49,347	49,347	16,089	16,089

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The methodologies for estimating the fair value of financial assets and liabilities that are measured at fair value on a recurring basis are discussed above. The remaining financial assets and liabilities were estimated using the following methods and assumptions:

Student Loans Receivable and Student Loans Receivable – Held for Sale

The Company's student loans are accounted for at cost or at the lower of cost or market if the loan is held-for-sale. Student loans classified as held for sale at December 31, 2010 are those loans which the Company sold in January 2011 and were valued using the sales price (100% of par value) less the estimated credit risk related to this portfolio. The Company retained credit risk related to this portfolio and will pay cash to purchase back any loans which become 60 days delinquent. For all other loans, fair values were determined by modeling loan cash flows using stated terms of the assets and internally-developed assumptions to determine aggregate portfolio yield, net present value, and average life. The significant assumptions used to project cash flows are prepayment speeds, default rates, cost of funds, required return on equity, and future interest rates and indice relationships. A number of significant inputs into the models are internally derived and not observable to market participants.

Cash and Cash Equivalents, Restricted Cash, Restricted Cash – Due to Customers, Restricted Investments, Accrued Interest Receivable/Payable and Due to Customers

The carrying amount approximates fair value due to the variable rate of interest and/or the short maturities of these instruments.

Bonds and Notes Payable

Bonds and notes payable are accounted for at cost in the financial statements except when denominated in a foreign currency. Foreign currency-denominated borrowings are re-measured at current spot rates in the financial statements. The fair value of bonds and notes payable was determined from quotes from broker dealers or through standard bond pricing models using the stated terms of the borrowings, observable yield curves, and market credit spreads. Fair value adjustments for unsecured corporate debt are made based on indicative quotes from observable trades.

13. 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. In addition, from time to time, the Company receives information and document requests from state or federal regulators concerning its business practices. The Company cooperates with these inquiries and responds to the requests. 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. 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.

Bais Yaakov of Spring Valley v. Peterson's Nelnet, LLC

On January 4, 2011, a complaint against Peterson's Nelnet, LLC ("Peterson's"), a subsidiary of the Company, was filed in the U.S. District Court for the District of New Jersey (the "District Court"). The complaint alleges that Peterson's sent six advertising faxes to the named plaintiff in 2008-2009 that were not the result of express invitation or permission granted by the plaintiff and did not include certain opt out language. The complaint also alleges that such faxes violated the federal Telephone Consumer Protection Act (the "TCPA"), purportedly entitling the plaintiff to \$500 per violation, trebled for willful violations for each of the six faxes. The complaint further alleges that Peterson's had sent putative class members more than 10,000 faxes that violated the TCPA, amounting to more than \$5 million in statutory penalty damages and more than \$15 million if trebled for willful violations. The complaint seeks to establish a class action for two different classes of plaintiffs: Class A, to whom Peterson's sent unsolicited fax advertisements containing opt out notices similar to those contained in the faxes received by the named plaintiff; and Class B, to whom Peterson's sent fax advertisements containing opt out notices similar to those contained in the faxes received by the named plaintiff. As of the filing date of this report, the District Court has not established or recognized any class.

On February 16, 2011, Peterson's filed a motion to dismiss the complaint, which was denied by the District Court on April 15, 2011 shortly after a similar motion to dismiss that had been granted in an unrelated case involving alleged TCPA violations related

to faxes was reversed by the U.S. Court of Appeals for the Third Circuit (the “Appeals Court”), which has jurisdiction over the District Court. On April 29, 2011, Peterson’s filed an answer to the complaint, but also filed a motion for reconsideration of the motion to dismiss. On May 17, 2011, the Appeals Court granted a petition for rehearing of the motion to dismiss in the unrelated TCPA fax case, and on May 31, 2011, Peterson’s filed a motion for stay pending the outcome of that rehearing. On September 12, 2011, the motion for stay was granted, and the motion for reconsideration was denied by the District Court. On September 20, 2011, the named plaintiff filed a motion for reconsideration of the District Court’s order, which is set for hearing on November 22, 2011.

Peterson’s intends to continue to contest the suit vigorously. Due to the preliminary stage of this matter and the uncertainty and risks inherent in class determination and the overall litigation process, the Company believes that a meaningful estimate of a reasonably possible loss, if any, or range of reasonably possible losses, if any, cannot currently be made.

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, 2011 and 2010. 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, 2010.

Reclassifications

Certain amounts previously reported within operating expenses have been reclassified to conform to the current period presentation. These reclassifications include:

• Reclassifying “professional and other services,” “occupancy and communications,” “postage and distribution,” “advertising and marketing,” and “trustee and other debt related fees” to “other” operating expenses.

• Reclassifying student list amortization, which was previously included in “advertising and marketing,” to “depreciation and amortization.”

The reclassifications had no effect on consolidated net income or consolidated assets and liabilities.

Forward-looking and cautionary statements

This report contains forward-looking statements and information that are based on management’s current expectations as of the date of this document. Statements that are not historical facts, including statements about the Company’s plans and expectations for future financial condition, results of operations or economic performance, or that address management’s plans and objectives for future operations, and statements that assume or are dependent upon future events, are forward-looking statements. The words “may,” “should,” “could,” “would,” “predict,” “potential,” “continue,” “expect,” “anticipate,” “future,” “intend,” “plan,” “believe,” “estimate,” “assume,” “forecast,” “will,” and similar expressions, as well as in future tense, are intended to identify forward-looking statements.

The forward-looking statements are based on assumptions and analysis made by management in light of management's experience and its perception of historical trends, current conditions, expected future developments, and other factors that management believes are appropriate under the circumstances. These statements are subject to known and unknown risks, uncertainties, assumptions, and other factors that may cause the actual results and performance to be materially different from any future results or performance expressed or implied by such forward-looking statements. These factors include, among others, the risks and uncertainties set forth in the "Risk Factors" section included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010 and subsequent Quarterly Reports on Form 10-Q and elsewhere in this report, and include such risks and uncertainties as:

risks related to the Company's student loan portfolio, such as interest rate basis and repricing risk resulting from the fact that the interest rate characteristics of the Company's student loan assets do not match the interest rate characteristics of the funding for those assets, the risk of loss of floor income on certain student loans originated under the FFEL Program

of the U.S. Department Education, risks related to the use of derivatives to manage exposure to interest rate fluctuations, and potential losses from loan defaults, changes in prepayment rates, guaranty rates, loan floor rates, and credit spreads;

risks related to the Company's liquidity and funding requirements, including the Company's ability to maintain credit facilities or obtain new facilities, the ability of lenders under the Company's credit facilities to fulfill their lending commitments under these facilities, the Company's ability to satisfy debt obligations secured by student loan assets and related collateral, and 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 purchase, refinance, or continue to carry education loans;

risks from changes in the student loan and educational credit and services marketplace resulting from the implementation of, or changes in, applicable laws, regulations, and government programs, including the discontinuance of private sector student loan originations under the FFEL Program effective July 1, 2010, the uncertain nature of the potential impact of the Department's new loan consolidation program, and the Company's ability to maintain its loan servicing contract with the Department to service federally-owned student loans and to comply with servicing agreements with third party customers for the service of loans under the Federal Direct Loan and FFEL Programs;

risks from changes in the demand or preferences for educational financing and related services by educational institutions, students, and their families;

uncertainties inherent in forecasting future cash flows from student loan assets and related asset-backed securitizations;

risks associated with litigation, complex government regulations, changes in general economic conditions, which have recently led to higher rates of student loan defaults, changes in credit market conditions, and related party transactions; and

uncertainties inherent in the estimates and assumptions about future events that management is required to make in the preparation of the Company's consolidated financial statements.

All forward-looking statements contained in this report are qualified by these cautionary statements and are made only as of the date of this document. Although the Company may from time to time voluntarily update or revise its prior forward-looking statements to reflect actual results or changes in the Company's expectations, the Company disclaims any commitment to do so except as required by securities laws.

OVERVIEW

The Company is an innovative education services company focused primarily on providing fee-based processing services and quality education-related products and services in four core areas: loan financing, loan servicing, payment processing, and enrollment services (education planning). These products and services help students and families plan, prepare, and pay for their education and make the administrative and financial processes more efficient for schools and financial organizations. In addition, the Company earns net interest income on a portfolio of federally insured student loans.

The Company has certain business objectives in place that include:

• Continue to grow and diversify fee-based revenue

- Manage operating costs
- Maximize the value of existing portfolio
- Use liquidity to capitalize on market opportunities

Achieving these business objectives, as well as significant legislation changes in the student loan industry as discussed below, has impacted and will continue to impact the financial condition and operating results of the Company.

Legislative Impact on Operating Results

The Company has a portfolio of student loans in which it earns net interest income. These loans were originated and acquired by the Company under the FFEL Program.

On March 30, 2010, President Obama signed into law the Reconciliation Act of 2010. Effective July 1, 2010, this law prohibits new loan originations under the FFEL Program and requires that all new federal loan originations be made through the Federal Direct Loan Program. The new law does not alter or affect the terms and conditions of existing FFELP loans.

As a result of the Reconciliation Act of 2010, effective July 1, 2010, the Company no longer originates new FFELP loans. In addition, as a result of this legislation, net interest income on the Company's existing FFELP loan portfolio, as well as fee-based revenue from guarantee and third party FFELP servicing, will decline over time as the Company's customers' FFELP loan portfolios are paid down.

Due to the legislative changes in the student loan industry, the Company believes there will be opportunities to purchase FFELP loan portfolios and/or expand its current level of guarantee and third party FFELP servicing volume on behalf of current FFELP participants looking to adjust their FFELP businesses. For example, during the first nine months of 2011, the Company purchased \$2.7 billion of FFELP student loans.

In addition, on October 25, 2011, The White House and the Department announced a short-term consolidation program to eligible student loan borrowers. The Department's program will allow student loan borrowers with at least one legacy FFELP loan and at least one federal student loan owned by the Department to convert those loans to Special Direct Consolidation Loans under the Federal Direct Loan Program. The Company currently owns approximately \$3 billion of FFEL Program loans that the Company believes will be eligible for the new program. This program could reduce the Company's FFEL Program student loan portfolio and related net interest income. See Part II, Item 1A, "Risk Factors," for further information related to this program and the potential impact to the Company.

Continue to Grow and Diversify Fee-Based Revenue

The Company has expanded products and services generated from businesses that are not dependent upon the FFEL Program, thereby reducing legislative and political risk related to the education lending industry. Revenues from these businesses are primarily generated from products and services offered in the Company's Tuition Payment Processing and Campus Commerce and Enrollment Services operating segments. In addition, in September 2009, the Company began servicing federally-owned student loans for the Department. The amount of federally-owned student loans originated through the Direct Loan Program is expected to increase substantially, which will lead to an increase in servicing volume and related revenue for the Company. Revenue earned from servicing federally-owned student loans is included in the Student Loan and Guaranty Servicing operating segment. A summary of revenue from the Company's fee-based businesses is shown below.

	Three months ended September 30,				
	2011	2010	\$ Change	% Change	
Student Loan and Guaranty Servicing (a)	\$42,564	38,101	4,463	11.7	%
Tuition Payment Processing and Campus Commerce	16,785	14,539	2,246	15.4	
Enrollment Services (b)	35,505	36,439	(934)	(2.6))
Total revenue from fee-based businesses	\$94,854	89,079	5,775	6.5	%

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	Nine months ended September				
	30,				
	2011	2010	\$ Change	% Change	
Student Loan and Guaranty Servicing (a)	\$124,739	121,793	2,946	2.4	%
Tuition Payment Processing and Campus Commerce	50,923	44,728	6,195	13.9	
Enrollment Services (b)	101,688	105,113	(3,425)	(3.3))
Total revenue from fee-based businesses	\$277,350	271,634	5,716	2.1	%

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The Student Loan and Guaranty Servicing operating segment included \$8.6 million and \$5.3 million of revenue earned from rehabilitation collections on defaulted loans for the three months ended September 30, 2011 and 2010, respectively, and \$24.2 million and \$27.6 million for the nine months ended September 30, 2011 and 2010, respectively.

Enrollment services revenue has been negatively affected by the current regulatory uncertainty in the for-profit college industry, which has caused schools to decrease spending on marketing efforts as further discussed in this Item 2 under “Enrollment Services Operating Segment – Results of Operations.”

As shown below, the Company's revenue and income before taxes related to its fee-based operating segments continues to increase. The table below includes the consolidated operating results of the Company excluding the Asset Generation and Management Operating segment. Thus, the below table reflects the operating results of the Company as if it was not generating any earnings from its student loan portfolio.

Income (loss) before taxes (a)		
(\$5 million)	\$67 million	\$80 million

Excludes restructure and impairment expenses and a litigation settlement charge recognized in 2010. See the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of the Company's Annual Report on Form 10-K for the year ended December 31, 2010 for additional information on total operating expenses by segment and these adjustments thereto.

The Company's revenue and income before taxes related to its fee-based operating segments for the nine months ended September 30, 2011 was \$336 million and \$61 million, respectively.

Hosted Servicing Software Revenue

The Company offers a hosted servicing software solution that can be used by third parties to service various types of student loans, including Federal Direct Loan Program and FFEL Program loans. Currently, including a contract with an incumbent Direct Loan Program service provider, the Company has agreements with third parties to add more than 12 million borrowers to its hosted servicing software solution. The Company does not provide servicing of loans as part of these agreements. In October 2011, the Company began hosting student loan servicing volume on its servicing software platforms. As of October 31, 2011, more than 9.5 million borrowers were hosted on these platforms. The Company will begin to recognize this additional software services revenue in the fourth quarter of 2011.

Manage Operating Costs

Excluding a litigation settlement and restructuring charges recognized in 2010, operating expenses increased \$4.2 million (4.2%) for the three months ended September 30, 2011 and decreased \$6.2 million (2.0%) for the nine months ended September 30, 2011 compared to the same periods in 2010 as further discussed in this Item 2 under "Results of Operations – Operating Expenses."

Maximize the Value of Existing Portfolio

Fixed rate floor income

Loans originated prior to April 1, 2006 generally earn interest at the higher of a floating rate based on the Special Allowance Payment or the 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 indice plus a fixed spread that is dependent upon when the loan was originated, the loan's repayment status, and funding sources for the loan. The Company generally finances its student loan portfolio with variable rate debt. In low and/or declining interest rate environments, when the fixed borrower rate is higher than the rate produced by the SAP formula, the Company's student loans earn at a fixed rate while the interest on the variable rate debt typically continues to decline. In these interest rate environments, the Company earns additional spread income that it refers to as floor income. 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.

The Company has earned fixed rate floor income as summarized below:

	Three months ended September 30,		Nine months ended September 30,		
	2011	2010	2011	2010	
Fixed rate floor income, gross	\$44,080	38,263	121,126	112,731	
Derivative settlements (a)	(3,482)	(4,040)	(16,045)	(12,183)	
Fixed rate floor income, net	\$40,598	34,223	105,081	100,548	
Fixed rate floor income contribution to spread, net	0.65	% 0.51	% 0.59	% 0.53	%

(a) Includes settlement payments on derivatives used to hedge student loans earning fixed rate floor income.

The high levels of fixed rate floor income earned during 2011 and 2010 are due to historically low interest rates. If interest rates remain low, the Company anticipates continuing to earn significant fixed rate floor income in future periods. See Item 3, "Quantitative and Qualitative Disclosures about Market Risk," which provides additional detail on the Company's portfolio earning fixed rate floor income and the derivatives used by the Company to hedge these loans.

Future Cash Flow from Portfolio

The majority of the Company's portfolio of student loans is funded in asset-backed securitizations that are structured to substantially match the maturity of the funded assets, thereby minimizing liquidity risk. In addition, due to (i) the difference between the yield the Company receives on the loans and cost of financing within these transactions, and (ii) the excess servicing and administration fees the Company earns from these transactions, the Company has created a portfolio that will generate earnings and significant cash flow over the life of these transactions.

As of September 30, 2011, based on cash flow models 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 its portfolio to be approximately \$1.83 billion as detailed below. The \$1.83 billion

includes approximately \$330 million (as of September 30, 2011) of overcollateralization included in the asset-backed securitizations. These excess net asset positions are reflected variously in the following balances on the consolidated balance sheet: "student loans receivable," "restricted cash and investments," and "accrued interest receivable."

The forecasted cash flow presented below includes all loans currently funded in asset-backed securitizations. As of September 30, 2011, the Company had \$21.5 billion of loans included in asset-backed securitizations, which represented 87 percent of its total FFELP student loan portfolio. The forecasted cash flow does not include cash flows that the Company expects to receive related to loans funded through the Department of Education's Conduit Program and other warehouse facilities or loans originated and/or acquired subsequent to September 30, 2011.

(a) The Company uses various assumptions, including prepayments and future interest rates, when preparing its cash flow forecast. These assumptions are further discussed below.

Prepayments: The primary variable in establishing a life of loan estimate is the level and timing of prepayments. Prepayment rates equal the percentage of loans that prepay annually as a percentage of the beginning of period balance, net of scheduled principal payments. A number of factors can affect estimated prepayment rates, including the level of consolidation activity and default rates. Should any of these factors change, management may revise its assumptions, which in turn would impact the projected future cash flow. The Company's cash flow forecast above assumes prepayment rates that are generally consistent with those utilized in the Company's recent asset-backed securities transactions. If management used a prepayment rate assumption two times greater than what was used to forecast the cash flow, the cash flow forecast would be reduced by approximately \$370 million to \$430 million.

On October 25, 2011, The White House and the Department announced a short-term consolidation program to eligible student loan borrowers. The Department's program will allow student loan borrowers with at least one legacy FFELP loan and at least one federal student loan owned by the Department to convert those loans to Special Direct Consolidation Loans under the Federal Direct Loan Program. The Company currently owns approximately \$3 billion of FFEL Program loans that the Company believes will be eligible for the new program, of which approximately \$2 billion are permanently funded in asset-backed securitizations, and the forecasted cash flows from these loans are included in the table above. This program could increase the prepayments on the loans eligible for this program and decrease the forecasted cash flows. See Part II, Item 1A, "Risk Factors," for further information related to this program and the potential impact to the Company.

Interest rates: The Company funds the majority of its student loans with three-month LIBOR ("LIBOR") indexed floating rate securities. Meanwhile, the interest earned on the Company's student loan assets are indexed primarily to a commercial paper rate ("CP"). The different interest rate characteristics of the Company's loan assets and liabilities funding these assets result in basis risk. The Company's cash flow forecast assumes LIBOR will exceed CP by 12 basis points for the life of the portfolio, which approximates the historical relationship between these indices. If the forecast is computed assuming a spread of 24 basis points between CP and LIBOR for the life of the portfolio, the cash flow forecast would be reduced by approximately \$80 million to \$120 million.

The Company uses the current forward interest rate yield curve to forecast cash flows. A change in the forward interest rate curve would impact the future cash flows generated from the portfolio. An increase in future interest rates will reduce the amount of fixed rate floor income the Company is currently receiving. The Company attempts to mitigate the impact of a rise in short-term rates by hedging interest rate risks. As of September 30, 2011, the net fair value of the Company's interest rate derivatives used to hedge loans earning fixed rate floor income was a liability of \$25.8 million. See Item 3, "Quantitative and Qualitative Disclosures about Market Risk — Interest Rate Risk."

Use Liquidity to Capitalize on Market Opportunities

The Company has used and will continue to use its improved liquidity position to capitalize on market opportunities, including FFELP student loan acquisitions; strategic acquisitions and investments in its core business areas of loan financing, loan servicing, payment processing, and enrollment services (education planning); and capital management initiatives, including stock repurchases, debt repurchases, and dividend distributions.

During 2011, the Company has used its improved liquidity to accomplish the following items:

FFELP Student Loan Acquisitions

Purchased \$2.7 billion of FFELP student loans through September 30, 2011

Acquisitions and Investments in Core Business Areas

-Purchased contracts with more than 370 K-12 schools to provide tuition payment plan services

Capital Management

-Repurchased 1.1 million shares of common stock through September 30, 2011 for \$21.1 million (\$18.83 per share)
-Repurchased \$74.8 million notional amount of debt through September 30, 2011 recognizing a gain of \$7.0 million
-Raised the quarterly dividend paid on the Company's common stock to \$0.10 per share (\$13.1 million of dividends paid through September 30, 2011)

RESULTS OF OPERATIONS

The Company's operating results are primarily driven by the performance of its existing portfolio and the revenues generated by its fee-based businesses and the costs to provide such 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 income as net interest income. The amortization/accretion of loan premiums and discounts, 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 consolidated statements of income. The amortization of debt issuance costs is included in interest expense on the Company's consolidated statements of income.

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 or SAP formula set by the Department of Education and the borrower rate. The SAP formula is based on an applicable indice plus a fixed spread that is dependent upon when the loan was originated, the loan's repayment status, and funding sources for the loan. The Company'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.

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 investments 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 used by the Company to fund general business operations and certain asset and business acquisitions.

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 collection 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 appropriate 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.

The allowance for the federally insured loan portfolio is based on periodic evaluations of the Company's loan portfolios considering loans in repayment versus those in a nonpaying status, delinquency status, trends in defaults in the portfolio based on Company and industry data, 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. The federal government guarantees 97% of the principal of and the interest on federally insured student loans disbursed on and after July 1, 2006 (and 98% for those loans disbursed prior to July 1, 2006), which limits the Company's loss exposure on the outstanding balance of the Company's federally insured portfolio. Student loans disbursed prior to October 1, 1993 are fully insured.

In determining the appropriateness 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, delinquency status, type of program, trends in defaults in the portfolio based on Company and industry data, past experience, current economic conditions, and other relevant factors. The Company places a non-federally insured loan on nonaccrual status when the collection of principal and interest is 30 days past due and charges off the loan and accrued interest when the collection of principal and interest is 120 days past due.

Other Income

The Company also earns fees and generates revenue from other sources as summarized below.

Student Loan and Guaranty Servicing Revenue – 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, volume of loans serviced, or amounts collected. Revenue is recognized when earned pursuant to applicable agreements, and when ultimate collection is assured.

Tuition Payment Processing and Campus Commerce Revenue – Tuition payment processing and campus commerce revenue primarily includes actively managed tuition payment solutions and online payment processing. Fees for these services are recognized over the period in which services are provided to customers.

Enrollment Services Revenue – Enrollment services revenue primarily consists of the following items:

Interactive marketing – Interactive marketing revenue is derived primarily from fees which are earned through the delivery of qualified inquiries or clicks. The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is reasonably assured.

Delivery is deemed to have occurred at the time a qualified inquiry or click is delivered to the customer provided that no significant obligations remain. From time to time, the Company may agree to credit certain inquiries or clicks if they fail to meet the contractual or other guidelines of a particular client. The Company has established a sales reserve based on historical experience. To date, such credits have been immaterial and within management's expectations.

For a portion of its interactive marketing revenue, the Company has agreements with providers of online media or traffic ("Publishers") used in the generation of inquiries or clicks. The Company receives a fee from its customers and pays a fee to Publishers either on a cost per inquiry, cost per click, or cost per number of impressions basis. The Company is the primary obligor in the transaction. As a result, the fees paid by the Company's customers are recognized as revenue and the fees paid to its Publishers are included in "cost to provide enrollment services" in the Company's consolidated statements of income.

List marketing - Revenue from the sale of lists is generally earned and recognized, net of estimated returns, upon delivery.

Publishing services - Revenue from the sale of print products is generally earned and recognized, net of estimated returns, upon shipment or delivery.

Resource centers – Resource centers services include online courses, scholarship search and selection data, career planning, and online information about colleges and universities. The majority of these services are sold based on subscriptions and/or are performance based. Revenues from sales of subscription and performance based services are recognized ratably over the term of the contract as earned. Subscription and performance based revenues received or receivable in advance of the delivery of services is included in deferred revenue.

Software Services Revenue – Software services revenue 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; collection costs related to rehabilitation revenue; the cost to provide enrollment services; costs incurred to provide tuition payment processing, campus commerce, resource center and list marketing services, and software and technical services to third parties; the depreciation and amortization of capital assets and intangible assets; investments in products, services, and technology to meet customer needs and support continued revenue growth; and other general and administrative expenses. The cost to provide enrollment services, as discussed previously, consists of costs incurred to provide interactive marketing and publishing and editing services in the Company's Enrollment Services operating segment. Operating expenses in 2010 also includes employee termination benefits and lease termination costs.

Three and nine months ended September 30, 2011 compared to the three and nine months ended September 30, 2010

Net Interest Income (net of settlements on derivatives)

	Three months ended September 30,				Nine months ended September 30,			
	2011	2010	Change		2011	2010	Change	
			\$	%			\$	%
Interest income:								
Loan interest	\$156,955	159,287	(2,332)	(1.5)%	\$433,247	449,607	(16,360)	(3.6)%
Investment interest	672	1,169	(497)	(42.5)	2,254	3,474	(1,220)	(35.1)
Total interest income	157,627	160,456	(2,829)	(1.8)	435,501	453,081	(17,580)	(3.9)
Interest expense:								
Interest on bonds and notes payable	60,866	68,243	(7,377)	(10.8)	164,227	178,345	(14,118)	(7.9)
Net interest income	96,761	92,213	4,548	4.9	271,274	274,736	(3,462)	(1.3)
Provision for loan losses	5,250	5,500	(250)	(4.5)	14,250	16,700	(2,450)	(14.7)
Net interest income after provision for loan losses	91,511	86,713	4,798	5.5	257,024	258,036	(1,012)	(0.4)
Derivative settlements, net (a)	257	(2,586)	2,843	(109.9)	(7,417)	(8,386)	969	(11.6)

Net interest income
after
provision for loan
losses (net of
settlements on
derivatives)

\$91,768	84,127	7,641	9.1	%	\$249,607	249,650	(43)	—	%
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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 the majority of the Company's (a) derivative transactions with the intent that each is economically effective; however, the Company's derivative instruments do not qualify for hedge accounting. Derivative settlements for each applicable period should be evaluated with the Company's net interest income.

Net interest income after provision for loan losses, net of settlements on derivatives, changed for the three and nine months ended September 30, 2011 compared to the same periods in 2010 as follows:

	Three months ended September 30,				Nine months ended September 30,				
	2011	2010	Change		2011	2010	Change		
			\$	%			\$	%	
Variable student loan interest margin, net of settlements on derivatives (a)	\$58,320	59,416	(1,096	) (1.8	)% \$164,847	179,750	(14,903	) (8.3)%
Fixed rate floor income, net of settlements on derivatives (b)	40,598	34,223	6,375	18.6	105,081	100,548	4,533	4.5	
Investment interest (c)	672	1,169	(497	) (42.5	) 2,254	3,474	(1,220	) (35.1)
Corporate debt interest expense (d)	(2,572	) (5,181	) 2,609	(50.4	) (8,325	) (17,422	) 9,097	(52.2)
Provision for loan losses (e)	(5,250	) (5,500	) 250	(4.5	) (14,250	) (16,700	) 2,450	(14.7)
Net interest income after provision for loan losses (net of settlements on derivatives)	\$91,768	84,127	7,641	9.1	% \$249,607	249,650	(43) —	%

Variable student loan spread is impacted by variable rate student loan interest, consolidation rebate fees, (a) amortization/accretion of loan premiums and discounts, and interest expense on bonds and notes. See Item 2 under "Asset Generation and Management Operating Segment – Results of Operations" for additional information.

The Company has a portfolio of student loans that are earning interest at a fixed borrower rate which exceeds the (b) statutorily defined variable lender rate generating fixed rate floor income. See Item 3, "Quantitative and Qualitative Disclosures about Market Risk – Interest Rate Risk" for additional information.

(c) Investment interest decreased for the three and nine months ended September 30, 2011 compared with the same periods in 2010 due to a decrease in average cash held.

Corporate debt interest expense includes interest expense incurred by the Company on its 5.125% Senior Notes due 2010 (the "Senior Notes"), Junior Subordinated Hybrid Securities, and its \$750 million unsecured line of credit. (d) Corporate debt interest expense decreased for the three and nine months ended September 30, 2011 compared with the same periods in 2010 due to a reduction in debt outstanding due to the purchase of Junior Subordinated Hybrid Securities, the maturity of the Senior Notes on June 1, 2010, and using excess cash to pay down a portion of the unsecured line of credit.

(e) The provision for loan losses represents the periodic expense of maintaining an allowance sufficient to absorb losses inherent in the Company's portfolio of loans. The provision for loan losses recognized by the Company decreased during the three and nine months ended September 30, 2011 compared to the same periods in 2010, primarily due to a decrease in the non-federally insured loan provision due to a decrease in the dollar amount of the

Company's student loan portfolio, including those loans in repayment.

Other Income

	Three months ended September 30,				Nine months ended September 30,				
	2011	2010	Change	%	2011	2010	Change	%	
Loan and guaranty servicing revenue (a)	\$37,927	33,464	4,463	13.3	% \$110,952	106,510	4,442	4.2	%
Tuition payment processing and campus commerce revenue (b)	16,774	14,527	2,247	15.5	50,904	44,704	6,200	13.9	
Enrollment services revenue (c)	35,505	36,439	(934)	(2.6)	101,688	105,113	(3,425)	(3.3)	
Software services revenue (d)	4,622	4,624	(2)	—	13,745	14,467	(722)	(5.0)	
Other income (e)	3,931	9,432	(5,501)	(58.3)	17,249	25,188	(7,939)	(31.5)	
Gain on sale of loans and debt repurchases (f)	—	9,885	(9,885)	(100.0)	8,307	28,821	(20,514)	(71.2)	
Derivative market value and foreign currency adjustments (g)	(13,888)	(32,805)	18,917	(57.7)	(29,585)	(35,931)	6,346	(17.7)	
Derivative settlements, net (h)	257	(2,586)	2,843	(109.9)	(7,417)	(8,386)	969	(11.6)	
Total other income	\$85,128	72,980	12,148	16.6	% \$265,843	280,486	(14,643)	(5.2)	%

"Loan and guaranty servicing revenue" increased for the three months ended September 30, 2011 compared to the same period in 2010 due to an increase in servicing revenue from the Department of Education and an increase in guaranty servicing revenue, partially offset by a decrease in FFELP servicing revenue. "Loan and guaranty servicing revenue" increased for the nine months ended September 30, 2011 compared to the same period in 2010 due to an increase in government servicing revenue, partially offset by decreases in FFELP servicing and guaranty servicing revenues. See Item 2 under "Student Loan and Guaranty Servicing Operating Segment – Results of Operations" for additional information.

"Tuition payment processing and campus commerce revenue" increased due to an increase in the number of managed tuition payment plans and an increase in campus commerce customers as discussed in this Item 2 under "Tuition Payment Processing and Campus Commerce Operating Segment – Results of Operations."

"Enrollment services revenue" decreased due to a decrease in interactive marketing services volume, as further discussed in this Item 2 under "Enrollment Services Operating Segment – Results of Operations." Enrollment services revenue has been negatively affected by the current regulatory uncertainty in the for-profit college industry, which has caused schools to decrease spending on marketing efforts.

"Software services revenue" decreased due to a reduction in the number of projects for existing customers and the loss of customers due to legislative developments in the student loan industry throughout 2010 and 2011.

(e) The following table summarizes the components of "other income."

	Three months ended September 30, 2011	September 30, 2010	Nine months ended September 30, 2011	September 30, 2010
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Borrower late fee income	\$2,995	3,133	9,807	9,370
Investment advisory fees	2,943	—	4,123	—
529 Plan administration fees	468	1,495	2,039	4,052
Investments - unrealized gains/(losses), net	(4,648	) 1,219	(2,820	) 1,830
Other	2,173	3,585	4,100	9,936
Other income	\$3,931	9,432	17,249	25,188

(f) "Gain on sale of loans and debt repurchases" includes the following:

	Three months ended September 30, 2011			Nine months ended September 30, 2011		
	Notional amount	Purchase price	Gain	Notional amount	Purchase price	Gain
Gains on debt repurchases:						
Junior Subordinated Hybrid Securities	\$—	—	—	62,558	55,651	6,907
Asset-backed securities	11,654	11,654	—	12,254	12,199	55
	\$11,654	11,654	—	74,812	67,850	6,962
Gain on sale of loans			—			1,345
Gain on sale of loans and debt repurchases, net			\$—			\$8,307

	Three months ended September 30, 2010			Nine months ended September 30, 2010		
	Notional amount	Purchase price	Gain	Notional amount	Purchase price	Gain
Gains on debt repurchases:						
Junior Subordinated Hybrid Securities	\$34,995	30,073	4,922	34,995	30,073	4,922
Asset-backed securities	85,675	80,712	4,963	477,700	453,801	23,899
	\$120,670	110,785	9,885	512,695	483,874	28,821

Due to improvements in the capital markets, the opportunities for the Company to repurchase debt at less than par are becoming more limited.

The change in "derivative market value and foreign currency adjustments" is the result of the change in the fair value (g) of the Company's derivative portfolio and transaction gains/losses resulting from the re-measurement of the Company's Euro-denominated bonds to U.S. dollars. These changes are summarized below.

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Change in fair value of derivatives - income (expense)	\$(87,341)	) 73,663	(18,683)	) (94,539)
Foreign currency transaction adjustment - income (expense)	73,453	(106,468)	(10,902)	) 58,608
Derivative market value and foreign currency adjustments - income (expense)	\$(13,888)	) (32,805)	(29,585)	) (35,931)

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 the majority of the Company's (h) derivative transactions with the intent that each is economically effective; however, the Company's derivative instruments do not qualify for hedge accounting. Derivative settlements for each applicable period should be evaluated with the Company's net interest income.

Further detail of the components of derivative settlements is included in Item 3, "Quantitative and Qualitative Disclosures about Market Risk."

Operating Expenses

As shown below, excluding a litigation settlement and restructuring charges recognized in 2010, operating expenses increased \$4.2 million (4.2%) for the three months ended September 30, 2011 and decreased \$6.2 million (2.0%) for the nine months ended September 30, 2011 compared to the same periods in 2010.

	Three months ended September 30,		Change		
	2011	2010	\$	%	
Salaries and benefits (a)	\$44,132	41,085	3,047	7.4	%
Cost to provide enrollment services (b)	23,825	23,709	116	0.5	
Depreciation and amortization (c)	7,917	9,025	(1,108)	(12.3))
Other expenses (d)	28,904	26,717	2,187	8.2	
Total operating expenses, excluding litigation settlement and restructure expense	104,778	100,536	\$4,242	4.2	%
Litigation settlement (e)	—	55,000			
Restructure expense (f)	—	4,751			
Total operating expenses	\$104,778	160,287			

	Nine months ended September 30,		Change		
	2011	2010	\$	%	
Salaries and benefits (a)	\$130,925	122,691	8,234	6.7	%
Cost to provide enrollment services (b)	68,804	69,845	(1,041)	(1.5))
Depreciation and amortization (c)	21,462	29,536	(8,074)	(27.3))
Other expenses (d)	83,776	89,120	(5,344)	(6.0))
Total operating expenses, excluding litigation settlement and restructure expense	304,967	311,192	\$(6,225)	(2.0))%
Litigation settlement (e)	—	55,000			
Restructure expense (f)	—	6,020			
Total operating expenses	\$304,967	372,212			

- (a) Salaries and benefits increased in the Student Loan and Guaranty Servicing operating segment as a result of additional costs incurred related to the government servicing contract and preparation of support for the hosted servicing software product. Salaries and benefits also increased in the Tuition Payment and Campus Commerce operating segment as a result of supporting the increase in the number of managed tuition payment plans and campus commerce customers. These increases were partially offset by a decrease in salaries and benefits in the Asset Generation and Management operating segment as a result of continued focus by the Company on managing costs and gaining efficiencies.
- (b) Cost to provide enrollment services is impacted by changes in interactive marketing revenues. See Item 2 under “Enrollment Services Operating Segment – Results of Operations” for additional information.
- (c) Depreciation and amortization decreased due to decreases in the amortization of intangible assets and student list costs.
- (d) Other expenses increased for the three months ended September 30, 2011 compared to the same period in 2010 due to increases in collection costs related to loan rehabilitation revenue and additional costs incurred related to the government servicing contract and preparation of support for the hosted servicing software product. These costs were partially offset by a decrease in consulting and professional fees, which were primarily legal costs associated with the Oberg litigation. Other expenses decreased for the nine months ended September 30, 2011 compared to the same period in 2010 due to a decrease in collection costs related to loan rehabilitation revenue, as well as a decrease in legal fees associated with the Oberg litigation. The decrease in other expenses was partially offset by an increase in costs related to the government servicing contract and preparation of support for the hosted servicing software product. In addition, the Company recognized an expense of \$2.5 million in 2011 related to the

Company's obligation to repurchase non-federally insured loans. No expense related to this obligation was incurred in 2010.

(e) On August 13, 2010, the Company reached an agreement in principal to pay \$55.0 million to settle all claims associated with the "qui tam" action brought by Jon H. Oberg on behalf of the United States of America. The settlement agreement was finalized on October 25, 2010. As a result of the settlement, the Company recorded a \$55.0 million pre-tax charge during the third quarter of 2010 and paid the settlement on November 3, 2010.

(f) Restructure expenses incurred in 2010 were related to a 2009 restructuring plan. This plan was completed during the third quarter of 2010.

Income Taxes

The Company's effective tax rate was 34.0% and 36.0% for the three and nine months ended September 30, 2011, respectively, compared to 38.0%, and 37.5% for the same periods in 2010, respectively. The effective tax rate for 2011 decreased compared to the same periods in 2010 due to state incentive tax credits and an overall reduction of the state effective tax rate.

Segment Operating Results

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, 2011 compared to December 31, 2010

	As of September 30, 2011	As of December 31, 2010	Change Dollars	Percent	
Assets:					
Student loans receivable, net	\$24,641,614	23,948,014	693,600	2.9	%
Student loans receivable - held for sale	—	84,987	(84,987)	(100.0))
Cash, cash equivalents, and investments	795,446	1,084,322	(288,876)	(26.6))
Goodwill	117,118	117,118	—	—	
Intangible assets, net	33,074	38,712	(5,638)	(14.6))
Fair value of derivative instruments	130,620	118,346	12,274	10.4	
Other assets	518,355	502,393	15,962	3.2	
Total assets	\$26,236,227	25,893,892	342,335	1.3	%
Liabilities:					
Bonds and notes payable	\$24,926,512	24,672,472	254,040	1.0	%
Fair value of derivative instruments	49,347	16,089	33,258	206.7	
Other liabilities	248,885	298,698	(49,813)	(16.7))
Total liabilities	25,224,744	24,987,259	237,485	1.0	
Shareholders' equity	1,011,483	906,633	104,850	11.6	
Total liabilities and shareholders' equity	\$26,236,227	25,893,892	342,335	1.3	%

Total assets and total liabilities increased in 2011. The increase in total assets was primarily due to the acquisition of \$2.7 billion of FFEL Program loans, partially offset by a decrease of student loans which occurred as a result of repayments and the loss of loans to consolidation to external parties. The increase in total liabilities was primarily due to funding more student loan assets, partially offset by paying down on certain bonds and notes payable. See the activity of loans acquired in this Item 2 under "Asset Generation and Management – Results of Operations."

OPERATING SEGMENTS

The Company earns fee-based revenue through its Student Loan and Guaranty Servicing, Tuition Payment Processing and Campus Commerce, and Enrollment Services operating segments. In addition, the Company earns net interest income on its student loan portfolio in its Asset Generation and Management operating segment. 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 note 2 in the notes to the consolidated financial statements included in the Company's Annual Report filed on Form 10-K for the year ended December 31, 2010. 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 Company allocates certain corporate overhead expenses to the individual operating

segments. These expenses include certain corporate activities related to executive management, human resources, accounting, legal, occupancy, and marketing. These costs are allocated to each operating segment based on estimated use of such activities and services.

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

"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.

Income Taxes

For segment reporting, income taxes are applied based on 38% of income (loss) before taxes for each individual operating segment. The difference between the consolidated income tax expense and the sum of taxes calculated for each operating segment is included in income taxes in Corporate Activity and Overhead.

Reclassifications

Certain amounts previously reported within operating expenses have been reclassified to conform to the current period presentation. These reclassifications had no effect on any of the segments' net income or assets and liabilities.

Segment Results and Reconciliations to GAAP

Three months ended September 30, 2011

	Fee-Based			Total Fee- Based	Asset Generation and Management	Corporate Activity and Overhead	Elimination	Base Net Income	Adjustment to GAAP Results	GAAP Results of Operations
	Student Loan and Guaranty Servicing	Tuition Payment Processing and Campus Commerce	Enrollment Services							
Total interest income	\$ 15	11	—	26	157,071	1,285	(755)	157,627	—	157,627
Interest expense	—	—	—	—	59,049	2,572	(755)	60,866	—	60,866
Net interest income (loss)	15	11	—	26	98,022	(1,287)	—	96,761	—	96,761
Less provision for loan losses	—	—	—	—	5,250	—	—	5,250	—	5,250
Net interest income (loss) after provision for loan losses	15	11	—	26	92,772	(1,287)	—	91,511	—	91,511
Other income (expense):										
Loan and guaranty servicing revenue	37,927	—	—	37,927	—	—	—	37,927	—	37,927
Intersegment servicing revenue	16,622	—	—	16,622	—	—	(16,622)	—	—	—
Tuition payment processing and campus commerce revenue	—	16,774	—	16,774	—	—	—	16,774	—	16,774
Enrollment services revenue	—	—	35,505	35,505	—	—	—	35,505	—	35,505
Software services revenue	4,622	—	—	4,622	—	—	—	4,622	—	4,622
Other income	—	—	—	—	3,694	237	—	3,931	—	3,931
Gain on sale of loans and debt repurchases	—	—	—	—	—	—	—	—	—	—
Derivative market value and foreign currency adjustments	—	—	—	—	—	—	—	—	(13,888)	(13,888)
Derivative settlements, net	—	—	—	—	507	(250)	—	257	—	257

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Total other income (expense)	59,171	16,774	35,505	111,450	4,201	(13)	(16,622)	99,016	(13,888)	85,128
Operating expenses:										
Salaries and benefits	25,335	7,594	6,484	39,413	694	4,025	—	44,132	—	44,132
Cost to provide enrollment services	—	—	23,825	23,825	—	—	—	23,825	—	23,825
Depreciation and amortization	2,005	286	784	3,075	—	352	—	3,427	4,490	7,917
Restructure expense	—	—	—	—	—	—	—	—	—	—
Other	14,420	2,302	2,129	18,851	3,311	6,742	—	28,904	—	28,904
Intersegment expenses, net	1,291	1,166	783	3,240	16,865	(3,483)	(16,622)	—	—	—
Total operating expenses	43,051	11,348	34,005	88,404	20,870	7,636	(16,622)	100,288		