NELNET INC
Form 10-Q
May 11, 2009

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

(Mark One)

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

For the quarterly period ended March 31, 2009

or

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

For the transition period from __________ to __________.

COMMISSION FILE NUMBER 001-31924

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

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

(402) 458-2370
(Registrant s telephone number, including area code)

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

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

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

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

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

As of April 30, 2009, there were 38,281,812 and 11,495,377 shares of Class A Common Stock and Class B Common Stock, par value $0.01 per share, outstanding, respectively (excluding 11,317,364 shares of Class A Common Stock held by a wholly owned subsidiary).

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	As of March 31, 2009 (unaudited)	As of December 31, 2008
Assets:		
Student loans receivable (net of allowance for loan losses of $48,497 and $50,922, respectively)	$ 25,624,337	25,413,008
Cash and cash equivalents:		
Cash and cash equivalents not held at a related party	15,070	13,129
Cash and cash equivalents held at a related party	228,635	176,718
Total cash and cash equivalents	243,705	189,847
Restricted cash and investments	1,218,512	997,272
Restricted cash due to customers	55,610	160,985
Accrued interest receivable	388,315	471,878
Accounts receivable (net of allowance for doubtful accounts of $1,180 and $1,005, respectively)	42,575	42,088
Goodwill	175,178	175,178
Intangible assets, net	70,900	77,054
Property and equipment, net	34,890	38,747
Other assets	106,105	113,666
Fair value of derivative instruments	133,010	175,174
Total assets	$ 28,093,137	27,854,897
Liabilities:		
Bonds and notes payable	$ 27,130,406	26,787,959
Accrued interest payable	48,076	81,576
Other liabilities	187,379	179,336
Due to customers	55,610	160,985
Fair value of derivative instruments	64	1,815
Total liabilities	27,421,535	27,211,671
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 38,276,870 shares as of March 31, 2009 and 37,794,067	383	378

shares as of December 31, 2008			
Class B, convertible, $0.01 par value. Authorized 60,000,000 shares; issued and outstanding 11,495,377 shares as of March 31, 2009 and December 31, 2008		115	115
Additional paid-in capital		106,678	103,762
Retained earnings		565,976	540,521
Employee notes receivable		(1,550)	(1,550)
Total shareholders equity		671,602	643,226
Commitments and contingencies			
Total liabilities and shareholders equity	$	28,093,137	27,854,897

See accompanying notes to consolidated financial statements.

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

	Three months ended March 31, 2009	2008
Interest income:		
Loan interest	$ 170,919	329,986
Investment interest	4,091	11,680
Total interest income	175,010	341,666
Interest expense:		
Interest on bonds and notes payable	146,502	325,141
Net interest income	28,508	16,525
Less provision for loan losses	7,500	5,000
Net interest income after provision for loan losses	21,008	11,525
Other income (expense):		
Loan and guaranty servicing revenue	26,471	24,661
Tuition payment processing and campus commerce revenue	15,538	13,847
Enrollment services revenue	28,771	27,222
Software services revenue	5,705	8,204
Other income	16,862	6,254
Loss on sale of loans	(206)	(47,474)
Derivative market value, foreign currency, and put option adjustments and derivative settlements, net	19,478	(16,598)
Total other income	112,619	16,116
Operating expenses:		
Salaries and benefits	38,226	53,843
Other operating expenses:		
Cost to provide enrollment services	17,793	15,403
Depreciation and amortization	10,083	10,834
Professional and other services	6,077	7,195
Occupancy and communications	5,354	5,841
Postage and distribution	2,868	3,581
Trustee and other debt related fees	2,656	2,390
Advertising and marketing	1,710	1,948
Impairment expense		18,834
Other	7,804	8,968
Total other operating expenses	54,345	74,994

Total operating expenses		92,571	128,837
Income (loss) before income taxes		41,056	(101,196)
Income tax (expense) benefit		(15,601)	31,371
Net income (loss)	$	25,455	(69,825)
Earnings (loss) per share, basic and diluted	$	0.52	(1.42)

See accompanying notes to consolidated financial statements.

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

	Preferred stock shares	Common stock shares Class A	Common stock shares Class B	Preferred stock	Class A common stock	Class B common stock	Additional paid-in capital	Retained earnings	Employee notes receivable	Total shareholders equity
Balance as of December 31, 2007		37,980,617	11,495,377	$	380	115	96,185	515,317	(3,118)	608,879
Comprehensive income:										
Net loss								(69,825)		(69,825)
Total comprehensive income (loss)										(69,825)
Cash dividend on Class A and Class B common stock $0.07 per share								(3,458)		(3,458)
Forfeitures of common stock, net of issuances		(19,780)			(1)		763			762
Compensation expense for stock-based awards							1,415			1,415
Repurchase of common stock		(48,064)					(488)			(488)
Reduction of employee notes receivable									822	822
Balance as of March 31, 2008		37,912,773	11,495,377	$	379	115	97,875	442,034	(2,296)	538,107
Balance as of December 31, 2008		37,794,067	11,495,377	$	378	115	103,762	540,521	(1,550)	643,226

Comprehensive income:								
Net income						25,455		25,455
Total comprehensive income								25,455
Issuance of common stock, net of forfeitures	486,583		5		2,345			2,350
Compensation expense for stock based awards					607			607
Repurchase of common stock	(3,780)				(36)			(36)
Balance as of March 31, 2009	38,276,870	11,495,377	$ 383	115	106,678	565,976	(1,550)	671,602

See accompanying notes to consolidated financial statements.

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

	Three months ended March 31, 2009	2008
Net income (loss)	$ 25,455	(69,825)
Adjustments to reconcile income (loss) from continuing operations to net cash provided by operating activities:		
Depreciation and amortization, including loan premiums and deferred origination costs	30,134	38,952
Provision for loan losses	7,500	5,000
Impairment expense		18,834
Derivative market value adjustment	52,122	(36,003)
Foreign currency transaction adjustment	(47,242)	92,937
Proceeds to terminate and/or amend derivative instruments	50	7,547
Payments to terminate and/or amend derivative instruments	(11,760)	
Gain from purchase of unsecured debt	(8,075)	
Loss on sale of loans	206	47,474
Deferred income tax expense (benefit)	1,323	(27,389)
Other non-cash items	1,024	3,437
Decrease in accrued interest receivable	83,563	66,778
(Increase) decrease in accounts receivable	(487)	1,332
Decrease (increase) in other assets	7,236	(11,678)
Decrease in accrued interest payable	(33,500)	(36,706)
Increase (decrease) in other liabilities	2,817	(26,027)
Net cash provided by operating activities	110,366	74,663
Cash flows from investing activities:		
Originations, purchases, and consolidations of student loans, including loan premiums and deferred origination costs	(972,450)	(1,174,366)
Purchases of student loans, including loan premiums, from a related party	(13,803)	(177,788)
Net proceeds from student loan repayments, claims, capitalized interest, participations, and other	734,445	424,315
Proceeds from sale of student loans	125	841,087
Proceeds from sale of student loans to a related party	20,016	
Purchases of property and equipment, net	(62)	(1,350)
Increase in restricted cash and investments, net	(221,240)	(868,391)
Purchases of equity method investments		(1,718)
Business acquisition contingent consideration		(18,000)
Net cash used in investing activities	(452,969)	(976,211)
Cash flows from financing activities:		

Payments on bonds and notes payable	(620,595)	(550,318)
Proceeds from issuance of bonds and notes payable	1,039,942	1,459,422
(Payments) proceeds from issuance of notes payable due to a related party, net	(21,520)	11,321
Payments of debt issuance costs	(1,448)	(3,184)
Dividends paid		(3,458)
Proceeds from issuance of common stock	118	280
Repurchases of common stock	(36)	(488)
Payments received on employee stock notes receivable		398
Net cash provided by financing activities	396,461	913,973
Net increase in cash and cash equivalents	53,858	12,425
Cash and cash equivalents, beginning of period	189,847	111,746
Cash and cash equivalents, end of period	$ 243,705	124,171
Supplemental disclosures of cash flow information:		
Interest paid	$ 177,210	354,904
Income taxes paid, net of refunds	$ 8,096	5,343

See accompanying notes to consolidated financial statements.

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NELNET, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Information as of March 31, 2009 and for the three months ended March 31, 2009 and 2008 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

1. Basis of Financial Reporting

The accompanying unaudited consolidated financial statements of Nelnet, Inc. and subsidiaries (the Company) as of March 31, 2009 and for the three months ended March 31, 2009 and 2008 have been prepared on the same basis as the audited consolidated financial statements for the year ended December 31, 2008 and, in the opinion of the Company s management, the unaudited consolidated financial statements reflect all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of results of operations for the interim periods presented. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Operating results for the three months ended March 31, 2009 are not necessarily indicative of the results for the year ending December 31, 2009. The unaudited consolidated financial statements should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2008. Certain amounts from 2008 have been reclassified to conform to the current period presentation.

2. Student Loans Receivable and Allowance for Loan Losses

Student loans receivable consisted of the following:

	As of March 31, 2009	As of December 31, 2008
Federally insured loans	$ 25,055,798	24,787,941
Non-federally insured loans	218,375	273,108
	25,274,173	25,061,049
Unamortized loan premiums and deferred origination costs	398,661	402,881
Allowance for loan losses federally insured loans	(27,310)	(25,577)
Allowance for loan losses non-federally insured loans	(21,187)	(25,345)
	$ 25,624,337	25,413,008
Federally insured allowance as a percentage of ending balance of federally insured loans	0.11%	0.10%
Non-federally insured allowance as a percentage of ending balance of non-federally insured loans	9.70%	9.28%
Total allowance as a percentage of ending balance of total loans	0.19%	0.20%

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

	Three months ended March 31, 2009	2008
Beginning balance	$ 50,922	45,592

Provision for loan losses		7,500	5,000
Loans charged off, net of recoveries		(3,905)	(3,705)
Sale of loans		(6,020)	(750)
Ending balance	$	48,497	46,137

Loan Sales

During 2008 and the three months ended March 31, 2009, the Company sold federally insured student loans to third parties in order to reduce the amount of student loans remaining under the Company s multi-year committed financing facility for Federal Family Education Loan Program (FFELP) loans, which reduced the Company s exposure related to certain equity support provisions included in this facility (see note 3 for additional information related to these equity support provisions).

On March 31, 2008, the Company sold $857.8 million (par value) of federally insured student loans resulting in the recognition of a loss of $30.4 million. In addition, on April 8, 2008, the Company sold $428.6 million (par value) of federally insured student loans. The portfolio of student loans sold on April 8, 2008 was presented as held for sale on the March 31, 2008 consolidated balance sheet and was valued at the lower of cost or fair value. The Company recognized a loss of $17.1 million during the three month period ended March 31, 2008 as a result of marking these loans to fair value.

On January 29, 2009, the Company sold $20.0 million (par value) of federally insured student loans to Union Bank & Trust Company (Union Bank), an entity under common control with the Company, resulting in the recognition of a loss of $0.2 million.

In addition, during the three month period ended March 31, 2009, the Company participated $50.5 million of non-federally insured loans to third parties. Loans participated under these agreements qualify as sales pursuant to the provisions of Statement of Financial Accounting Standards (SFAS) No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (SFAS No. 140). Accordingly, the participation interests sold are not included on the Company s consolidated balance sheet. The loss on the sale of these loans was not material. Per the terms of the servicing agreements, the Company s servicing operations are obligated to repurchase loans subject to the participation interests when such loans become 60 or 90 days delinquent. As of March 31, 2009, the Company has $5.5 million accrued related to this obligation which is included in other liabilities in the accompanying consolidated balance sheet.

3. Bonds and Notes Payable

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

	As of March 31, 2009				
	Carrying amount	**Interest rate range**		**Final maturity**	
Variable-rate bonds and notes (a):					
Bonds and notes based on indices	$ 20,387,802	0.95%	6.90%	09/25/13	06/25/41
Bonds and notes based on auction or remarketing	2,667,635	0.92%	3.75%	11/01/09	07/01/43
Total variable-rate bonds and notes	23,055,437				
Commercial paper FFELP facility (b)	1,369,485	0.41%	1.37%	05/09/10	
Fixed-rate bonds and notes (a)	193,362	5.30%	6.50%	11/01/09	05/01/29
Unsecured fixed rate debt	440,134	5.125% and 7.40%		06/01/10 and 09/15/61	
Unsecured line of credit	691,500	1.04%	1.10%	05/08/12	
Department of Education Participation	1,360,159	3.08%		09/30/09	
Other borrowings	20,329	0.50%	5.10%	01/01/10	11/01/15
	$ 27,130,406				

	As of December 31, 2008				
	Carrying amount	**Interest rate range**		**Final maturity**	
Variable-rate bonds and notes (a):					
Bonds and notes based on indices	$ 20,509,073	0.75%	5.02%	09/25/13	06/25/41

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

(a) Issued in asset-backed securitizations.

(b) Loan warehouse facilities.

Secured Financing Transactions

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

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

On July 31, 2008, the Company did not renew its liquidity provisions on its FFELP loan warehouse facility. Accordingly, the facility became a term facility and no new loan originations could be funded with this facility. In August 2008, the Company began to fund FFELP student loan originations for the 2008-2009 academic year pursuant to the U.S. Department of Education s Loan Participation Program (Participation Program) and an existing participation agreement with Union Bank.

Loan warehouse facilities

Student loan warehousing has historically allowed the Company to buy and manage student loans prior to transferring them into more permanent financing arrangements. To support its funding needs on a short-term basis, the Company historically relied upon a multi-year committed facility for FFELP loans and a $250.0 million private loan warehouse for non-federally insured student loans.

<u>FFELP Warehouse Facility</u>

The Company s multi-year committed facility for FFELP loans terminates in May 2010 and was supported by 364-day liquidity which was up for renewal on May 9, 2008. The Company obtained an extension on this renewal until July 31, 2008. On July 31, 2008, the Company did not renew the liquidity provisions of this facility. Accordingly, as of July 31, 2008, the facility became a term facility with a final maturity date of May 9, 2010. Pursuant to the terms of the agreement, since liquidity was not renewed, the Company s cost of financing under this facility increased 10 basis points. The agreement also includes provisions which allow the banks to charge a rate equal to LIBOR plus 128.5 basis points if they choose to finance their portion of the facility with sources of funds other than their commercial paper conduit. As of March 31, 2009, the Company had $1.2 billion of student loans in the facility and $1.4 billion borrowed under the facility.

The terms and conditions of the Company s warehouse facility for FFELP loans provides for formula based advance rates based on market conditions. While the Company does not believe that the loan valuation formula is reflective of the actual fair value of its loans, it is subject to compliance with such mark-to-formula provisions of the warehouse facility agreement. As of March 31, 2009, the Company had a cumulative amount of $206.7 million posted as equity funding support for this facility.

On March 26, 2009, the Company completed a privately placed asset-backed securitization of $294.6 million. Subsequent to March 31, 2009, the Company used the proceeds from the sale of these notes and additional funds of approximately $10 million to purchase approximately $305 million of principal and interest on student loans, which were previously financed under the Company s FFELP warehouse facility, which allowed the Company to withdraw cash posted as equity funding support for the facility. As of May 8, 2009, the Company had $1.2 billion of student loans in the FFELP warehouse facility, $1.1 billion borrowed under the facility, and $96.6 million posted as equity funding support for the facility.

The Company continues to look at various alternatives to remove loans from the warehouse facility including other financing arrangements, using unrestricted operating cash, and/or selling loans to third parties. In addition, in

January 2009, the U.S. Department of Education (the Department) published summary terms under which it will finance eligible FFELP Stafford and PLUS loans in a conduit vehicle established to provide funding for student lenders (the Conduit Program). Loans eligible for the Conduit Program must be first disbursed on or after October 1, 2003, but not later than June 30, 2009, and fully disbursed before September 30, 2009, and meet certain other requirements. Funding for the Conduit Program will be provided by the capital markets at a cost based on market rates. The Conduit Program will have a term of five years. As of May 8, 2009, the Company had approximately $845 million of loans included in its FFELP warehouse facility that would be eligible for the Conduit Program.

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Private Loan Warehouse Facility

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

Asset-backed securitizations

As part of the Company s issuance of asset-backed securities in March 2008 and May 2008, due to credit market conditions when these notes were issued, the Company purchased the Class B subordinated notes of $36 million (par value) and $41 million (par value), respectively. These notes are not included on the Company s consolidated balance sheet. If the credit market conditions improve, the Company anticipates selling these notes to third parties. Upon a sale to third parties, the Company would obtain cash proceeds equal to the market value of the notes on the date of such sale. Upon sale, these notes would be shown as bonds and notes payable on the Company s consolidated balance sheet. Unless there is a significant market improvement, the Company believes the market value of such notes will be less than par value. The difference between the par value and market value would be recognized by the Company as interest expense over the life of the bonds.

Department of Education s Loan Participation and Purchase Commitment Programs

In August 2008, the Department implemented the Loan Purchase Commitment Program (the Purchase Program) and the Loan Participation Program pursuant to the Ensuring Continued Access to Student Loans Act of 2008 (ECASLA). Under the Department s Purchase Program, the Department will purchase loans at a price equal to the sum of (i) par value, (ii) accrued interest, (iii) the one percent origination fee paid to the Department, and (iv) a fixed amount of $75 per loan. Under the Participation Program, the Department provides interim short term liquidity to FFELP lenders by purchasing participation interests in pools of FFELP loans. FFELP lenders are charged a rate of commercial paper plus 50 basis points on the principal amount of participation interests outstanding. Loans funded under the Participation Program must be either refinanced by the lender or sold to the Department pursuant to the Purchase Program prior to its expiration on September 30, 2009. To be eligible for purchase or participation under the Department s programs, loans were originally limited to FFELP Stafford or PLUS loans made for the academic year 2008-2009, first disbursed between May 1, 2008 and July 1, 2009, with eligible borrower benefits.

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

As of March 31, 2009, the Company had $1.4 billion of FFELP loans funded using the Participation Program. The Company plans to continue to use the Participation Program to fund loans originated for the 2008-2009 and 2009-2010 academic years. The Company has not yet determined if it will sell its 2008-2009 academic year loans to the Department under the Purchase Program.

Union Bank Participation Agreement

The Company maintains an agreement with Union Bank, as trustee for various grantor trusts, under which Union Bank has agreed to purchase from the Company participation interests in student loans (the FFELP Participation Agreement). The Company has the option to purchase the participation interests from the grantor trusts at the end of a 364-day term upon termination of the participation certificate. As of March 31, 2009 and December 31, 2008, $784.3 million and $548.4 million, respectively, of loans were subject to outstanding participation interests held by Union Bank, as trustee, under this agreement. The agreement automatically renews annually and is terminable by either party upon five business days notice. This agreement provides beneficiaries of Union Bank s grantor trusts with access to investments in interests in student loans, while providing liquidity to the Company on a short-term basis. The Company can participate loans to Union Bank to the extent of availability under the grantor trusts, up to $750 million or an amount in excess of $750 million if mutually agreed to by both parties. Loans participated under this agreement qualify as a sale pursuant to the provisions of SFAS No. 140. Accordingly, the participation interests sold are not included on the Company s consolidated balance sheet.

Unsecured Line of Credit

The Company has a $750.0 million unsecured line of credit that terminates in May 2012. As of March 31, 2009, there was $691.5 million outstanding on this line. The weighted average interest rate on this line of credit was 1.04% as of March 31, 2009. Upon termination in 2012, there can be no assurance that the Company will be able to maintain this line of credit, find alternative funding, or increase the amount outstanding under the line, if necessary. The lending commitment under the Company s unsecured line of credit is provided by a total of thirteen banks, with no individual bank representing more than 11% of the total lending commitment. The bank lending group includes Lehman Brothers Bank (Lehman), a subsidiary of Lehman Brothers Holdings Inc., which represents approximately 7% of the lending commitment under the line of credit. On September 15, 2008, Lehman Brothers Holdings Inc. filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code. Since the bankruptcy filing, the Company has experienced funding delays from Lehman for its portion of the lending commitment under the line of credit and the Company does not expect Lehman to fund future borrowing requests. As of March 31, 2009, excluding Lehman Bank s lending commitment, the Company has $51.2 million available for future use under its unsecured line of credit.

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

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

As of March 31, 2009, the Company was in compliance with all of these requirements. Many of these covenants are duplicated in the Company s other lending facilities, including its FFELP warehouse facility.

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.

Unsecured Fixed Rate Debt

During the first quarter of 2009, the Company purchased $34.9 million of its 5.125% unsecured fixed rate debt with a maturity date of June 1, 2010 for $26.8 million. These transactions resulted in a gain of $8.1 million, which is included in other income on the Company s consolidated statements of operations. (See note 11 for additional unsecured fixed rate debt purchases made by the Company subsequent to March 31, 2009).

4. Derivative Financial Instruments

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

Interest Rate Risk

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

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

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

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

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However, the Company does not generally hedge the basis risk due to the different interest rate indices associated with its assets and liabilities since the derivatives needed to hedge this risk are generally illiquid or non-existent and the relationship between the indices for most of the Company s assets and liabilities has been highly correlated over a long period of time. Recently, the spread has widened and may widen further, which has and may continue to have a significant impact on the net spread of the Company s student loan portfolio.

As of March 31, 2009, the Company had approximately $23.9 billion of FFELP loans indexed to three-month financial commercial paper rate and $20.4 billion of debt indexed to LIBOR. Due to the unintended consequences of government intervention in the commercial paper markets and limited issuances of qualifying financial commercial paper, the relationship between the three-month financial CP and LIBOR rates has been distorted and volatile. To address this issue, the Department announced that for purposes of calculating the FFELP loan index from October 27, 2008 to December 31, 2008, the Federal Reserve s Commercial Paper Funding Facility rate was used for those days in which no three-month financial commercial paper rate was available. This action partially mitigated the volatility between CP and LIBOR during the fourth quarter of 2008. However, the Department did not implement a similar methodology for the first quarter of 2009, which negatively impacted the Company s interest income earned on its student loan portfolio.

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

	As of March 31, 2009 Notional Amount	
Maturity	**Average/Discrete Basis Swaps**	**1/3 Basis Swaps**
2009	$ 1,350,000	
2011 (a)	6,000,000	
2018		1,300,000
2019		500,000
2021		250,000
2023		1,250,000
2024		250,000
2028		100,000
	$ 7,350,000	3,650,000

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

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

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

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Foreign Currency Exchange Risk

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

The Company entered into cross-currency interest rate swaps in connection with the issuance of the Euro Notes. Under the terms of these derivative instrument agreements, the Company receives from a counterparty a spread to the EURIBOR index based on notional amounts of 420.5 million and 352.7 million and pays a spread to the LIBOR index based on notional amounts of $500.0 million and $450.0 million, respectively. In addition, under the terms of these agreements, all principal payments on the Euro Notes will effectively be paid at the exchange rate in effect as of the issuance of the notes.

For the three months ended March 31, 2009, the Company recorded income of $47.2 million as a result of re-measurement of the Euro Notes and a loss of $57.1 million for the change in the fair value of the related derivative instruments. For the three months ended March 31, 2008, the Company recorded a loss of $92.9 million as a result of the re-measurement of the Euro Notes and income of $94.1 million for the change in the fair value of the related derivative instruments.

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

Accounting for Derivative Financial Instruments

The Company accounts for derivative instruments under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133), which requires that every derivative instrument be recorded on the balance sheet as either an asset or liability measured at its fair value. Management has structured all of the Company s derivative transactions with the intent that each is economically effective; however, the Company s derivative instruments do not qualify for hedge accounting under SFAS No. 133. As a result, the change in fair value of derivative instruments is recorded in the consolidated statements of operations at each reporting date. Changes or shifts in the forward yield curve and fluctuations in currency rates can significantly impact the valuation of the Company s derivatives. Accordingly, changes or shifts to the forward yield curve and fluctuations in currency rates will impact the financial position and results of operations of the Company. The change in fair value of the Company s derivatives are included in derivative market value, foreign currency, and put option adjustments and derivative settlements, net in the Company s consolidated statements of operations and resulted in an expense of $52.1 million for the three months ended March 31, 2009 and income of $36.0 million for the three months ended March 31, 2008.

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

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

	Asset derivatives		**Liability derivatives**	
	Fair value as of March 31, 2009	**Fair value as of December 31, 2008**	**Fair value as of March 31, 2009**	**Fair value as of December 31, 2008**

Average/discrete basis swaps	$ 761	2,817	(31)	(1,800)
1/3 basis swaps	22,039	5,037	(33)	(15)
Cross-currency interest rate swaps	110,210	167,320		
Total	$ 133,010	175,174	(64)	(1,815)

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

Derivatives not designated as hedging under SFAS No. 133	Amount of gain (or loss) recognized in income on derivatives Three months ended March 31 2009	2008
Settlements:		
Interest rate swaps	$	(3,177)
Average/discrete basis swaps	10,022	39,573
1/3 basis swaps	10,744	884
Cross-currency interest rate swaps	3,592	3,483
Total settlements	24,358	40,763
Change in fair value:		
Interest rate swaps		(34,871)
Average/discrete basis swaps	(286)	(26,289)
1/3 basis swaps	5,274	2,568
Cross-currency interest rate swaps	(57,110)	94,129
Other		466
Total change in fair value	(52,122)	36,003
Total impact to statements of operations	$ (27,764)	76,766

Derivative Instruments Credit and Market Risk

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

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

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

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

5. Segment Reporting

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

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

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

Fee-Based Operating Segments

Student Loan and Guaranty Servicing

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

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

Tuition Payment Processing and Campus Commerce

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

Enrollment Services

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

Software and Technical Services

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

Asset Generation and Management Operating Segment

The Asset Generation and Management segment includes the acquisition, management, and ownership of the Company s student loan assets. Revenues are primarily generated from the Company s earnings from the spread, referred to as the Company s student loan spread, between the yield received on the student loan portfolio and the costs associated with originating, acquiring, and financing its student loan portfolio. The Company generates student loan assets through direct origination or through acquisitions. The student loan assets are held in a series of education lending subsidiaries designed specifically for this purpose. In addition to the student loan portfolio, all costs and activity associated with the generation of assets, funding of those assets, and maintenance of the debt transactions are included in this segment. This includes derivative activity and the related derivative market value and foreign currency adjustments. The Company is also able to leverage its capital market expertise by providing investment advisory services and other related services to third parties through a licensed broker dealer subsidiary. Revenues and expenses for those functions are also included in the Asset Generation and Management segment.

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Segment Operating Results Base Net Income

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

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

Segment Results and Reconciliations to GAAP

	Three months ended March 31, 2009									
	Fee-Based									
	Student Loan and Guaranty Servicing	Tuition Payment Processing and Campus Commerce	Enrollment Services	Software and Technical Services	Total Fee-Based	Asset Generation and Management	Corporate Activity and Overhead	Eliminations and Reclassifications	Base net income Adjustments to GAAP Results	GAAP Results of Operations
Total interest income	$ 66	30			96	172,587	1,427	(560)	1,460	175,010
Interest expense						138,594	8,468	(560)		146,502
Net interest income (loss)	66	30			96	33,993	(7,041)		1,460	28,508
Less provision for loan losses						7,500				7,500
Net interest income (loss) after provision for loan losses	66	30			96	26,493	(7,041)		1,460	21,008
Other income (expense):										
Loan and guaranty servicing revenue	26,853				26,853		(382)			26,471
Tuition payment processing and		15,538			15,538					15,538

campus commerce revenue										
Enrollment services revenue			28,771		28,771					28,771
Software services revenue	875			4,830	5,705					5,705
Other income	112				112	4,651	12,099			16,862
Loss on sale of loans						(206)				(206)
Intersegment revenue	19,878	57		3,124	23,059		8,921	(31,980)		
Derivative market value, foreign currency, and put option adjustments									(4,880)	(4,880)
Derivative settlements, net						24,358				24,358
Total other income (expense)	47,718	15,595	28,771	7,954	100,038	28,803	20,638	(31,980)	(4,880)	112,619
Operating expenses:										
Salaries and benefits	14,704	6,545	6,095	5,185	32,529	1,775	6,267	(2,504)	159	38,226
Cost to provide enrollment services			17,793		17,793					17,793
Other expenses	8,597	2,408	3,295	678	14,978	4,959	10,461		6,154	36,552
Intersegment expenses	9,470	623	546	645	11,284	17,876	316	(29,476)		
Total operating expenses	32,771	9,576	27,729	6,508	76,584	24,610	17,044	(31,980)	6,313	92,571
Income (loss) before income taxes	15,013	6,049	1,042	1,446	23,550	30,686	(3,447)		(9,733)	41,056
Income tax (expense) benefit (a)	(5,705)	(2,298)	(396)	(550)	(8,949)	(11,661)	1,310		3,699	(15,601)
Net income (loss)	$ 9,308	3,751	646	896	14,601	19,025	(2,137)		(6,034)	25,455

(a) Tax effect is computed at the

Company s blended, statutory federal and state rate of 38%.

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	Three months ended March 31, 2008									
	Fee-Based									
	Student Loan and Guaranty Servicing	Tuition Payment Processing and Campus Commerce	Enrollment Services	Software and Technical Services	Total Fee-Based	Asset Generation and Management	Corporate Activity and Overhead	Eliminations and Reclassifications	Base net income Adjustments to GAAP Results	GAAP Results of Operations
Total interest income	$ 613	765	9		1,387	320,358	1,197	(94)	18,818	341,666
Interest expense			1		1	316,015	9,219	(94)		325,141
Net interest income (loss)	613	765	8		1,386	4,343	(8,022)		18,818	16,525
Less provision for loan losses						5,000				5,000
Net interest income (loss) after provision for loan losses	613	765	8		1,386	(657)	(8,022)		18,818	11,525
Other income (expense):										
Loan and guaranty servicing revenue	24,656				24,656	5				24,661
Tutition payment processing and campus commerce revenue		13,847			13,847					13,847
Enrollment services revenue			27,222		27,222					27,222
Software services revenue	1,452		37	6,715	8,204					8,204
Other income	32				32	4,857	1,365			6,254
Loss on sale of loans						(47,474)				(47,474)
Intersegment revenue	20,224	260		1,816	22,300		17,212	(39,512)		
Derivative market value, foreign						466			(57,827)	(57,361)

currency, and put option adjustments										
Derivative settlements, net						43,527			(2,764)	40,763
Total other income (expense)	46,364	14,107	27,259	8,531	96,261	1,381	18,577	(39,512)	(60,591)	16,116
Operating expenses:										
Salaries and benefits	13,998	5,430	6,523	5,168	31,119	2,224	14,591	4,613	1,296	53,843
Restructure expense- severance and contract termination costs	851		297	518	1,666	1,896	3,915	(7,477)		
Impairment expense	5,074				5,074	9,351	4,409			18,834
Cost to provide enrollment services			15,403		15,403					15,403
Other expenses	8,487	2,060	2,760	619	13,926	5,344	13,865	1,062	6,560	40,757
Intersegment expenses	13,278	296	1,847	394	15,815	20,602	1,293	(37,710)		
Total operating expenses	41,688	7,786	26,830	6,699	83,003	39,417	38,073	(39,512)	7,856	128,837
Income (loss) before income taxes	5,289	7,086	437	1,832	14,644	(38,693)	(27,518)		(49,629)	(101,196)
Income tax (expense) benefit (a)	(1,640)	(2,197)	(135)	(568)	(4,540)	11,995	8,531		15,385	31,371
Net income (loss)	$ 3,649	4,889	302	1,264	10,104	(26,698)	(18,987)		(34,244)	(69,825)

(a) For 2008, the consolidated effective tax rate for each applicable quarterly period is used to calculate income taxes for

each operating
segment.

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

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

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

	Student Loan and Guaranty Servicing	Tuition Payment Processing and Campus Commerce	Enrollment Services	Software and Technical Services	Asset Generation and Management	Corporate Activity and Overhead	Total
			Three months ended March 31, 2009				
Derivative market value, foreign currency, and put option adjustments (1)	$				4,880		4,880
Amortization of intangible assets (2)	1,079	1,887	3,042	146			6,154
Compensation related to business combinations (3)						159	159
Variable-rate floor income, net of settlements on derivatives (4)					(1,460)		(1,460)
Net tax effect (5)	(410)	(717)	(1,157)	(55)	(1,300)	(60)	(3,699)
Total adjustments to GAAP	$ 669	1,170	1,885	91	2,120	99	6,034
			Three months ended March 31, 2008				
Derivative market value, foreign currency, and put option adjustments (1)	$				57,400	427	57,827
Amortization of intangible assets (2)	1,256	2,051	2,822	286	145		6,560
Compensation related to business combinations (3)						1,296	1,296
Variable-rate floor income, net of settlements on derivatives (4)					(16,054)		(16,054)
Net tax effect (5)	(389)	(636)	(875)	(89)	(12,862)	(534)	(15,385)
Total adjustments to GAAP	$ 867	1,415	1,947	197	28,629	1,189	34,244

(1) Derivative market value, foreign currency, and put option adjustments: Base net income excludes the periodic unrealized gains and losses that are caused by the change in fair value on derivatives used in the Company s risk management strategy in which the Company does not qualify for hedge treatment under GAAP. Included in base net income are the economic effects of the Company s derivative instruments, which includes any cash paid or received being recognized as an expense or revenue upon actual derivative settlements. Base net income also excludes the foreign currency transaction gains or losses caused by the re-measurement of the Company s Euro-denominated bonds to U.S. dollars and the change in fair value of put options issued by the Company for certain business

acquisitions.

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

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

(4) Variable-rate floor income: Loans that reset annually on July 1 can generate excess spread income compared with the rate based on the special allowance payment formula in declining interest rate environments. The Company

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

Prior to October 1, 2008, variable rate floor income was calculated by the Company on a statutory maximum basis. However, as a result of the disruption in the capital markets beginning in August 2007, the full benefit of variable rate floor income calculated on a statutory maximum basis has not been realized by the Company due to the widening of the spread between short term interest rate indices and the Company s actual cost of funds. As a result of the ongoing volatility of interest rates, effective October 1, 2008, the Company changed its calculation of variable rate floor income to better reflect the economic benefit received by the Company. For the three months ended March 31, 2009 and 2008, the economic benefit received by the Company related to variable rate floor income was $1.5 million and $6.3 million, respectively. Variable rate floor income calculated on a statutory maximum basis for the three months ended March 31, 2009 and 2008 was

$10.8 million and $18.8 million, respectively. Beginning October 1, 2008, the economic benefit received by the Company has been used to determine base net income.

(5) In 2009, tax effect is computed at the Company s blended, statutory federal and state rate of 38%. In 2008, tax effect was computed using the Company s consolidated effective tax rate for each applicable quarterly period.

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6. Intangible Assets and Goodwill

Intangible assets consist of the following:

	Weighted average remaining useful life as of March 31, 2009	As of March 31, 2009	As of December 31, 2008
Amortizable intangible assets:			
Customer relationships (net of accumulated amortization of $32,033 and $29,737, respectively)	104	$ 48,327	50,623
Trade names (net of accumulated amortization of $6,425 and $5,478, respectively)	40	10,634	11,581
Covenants not to compete (net of accumulated amortization of $16,285 and $14,887, respectively)	17	7,337	8,735
Database and content (net of accumulated amortization of $6,010 and $5,447, respectively)	20	3,470	4,033
Computer software (net of accumulated amortization of $8,042 and $7,441, respectively)	7	960	1,561
Student lists (net of accumulated amortization of $8,197 and $7,855, respectively)			342
Other (net of accumulated amortization of $102 and $95, respectively)	83	172	179
Total amortizable intangible assets	80 months	$ 70,900	77,054

The Company recorded amortization expense on its intangible assets of $6.2 million and $6.6 million for the three months ended March 31, 2009 and 2008, respectively. The Company will continue to amortize intangible assets over their remaining useful lives. As of March 31, 2009, the Company estimates it will record amortization expense as follows:

2009	$ 16,169
2010	15,985
2011	10,031
2012	9,029
2013	6,168
2014 and thereafter	13,518
	$ 70,900

The following table summarizes the Company s allocation of goodwill by operating segment as of March 31, 2009 and December 31, 2008:

Tuition Payment Processing and Campus Commerce	$ 58,086
Enrollment Services	66,613

Software and Technical Services		8,596
Asset Generation and Management		41,883
	$	175,178

7. Fair Value

On January 1, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a consistent framework for measuring fair value, and expands disclosure requirements about fair value measurements. SFAS No. 157 applies when other accounting pronouncements require or permit fair value measurements; it does not require new fair value measurements. In February 2008, the Financial Accounting Standards Board (FASB) released FASB Staff Position SFAS No. 157-2, *Effective Date of FASB Statement No. 157* (SFAS No. 157-2), which delayed the application of SFAS No. 157 to nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. Effective January 1, 2009, the Company adopted SFAS No. 157-2 on certain nonfinancial assets and nonfinancial liabilities, which are recorded at fair value only upon impairment.

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

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

Level 1: Quoted prices for *identical* instruments in active markets. The types of financial instruments included in Level 1 are highly liquid instruments with quoted prices.

Level 2: Quoted prices for *similar* instruments in active markets, quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose primary value drivers are observable.

Level 3: Instruments whose primary value drivers are *unobservable*. Inputs are developed based on the best information available; however, significant judgment is required by management in developing the inputs.

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

	As of March 31, 2009		
	Level 1	**Level 2**	**Total**
Assets:			
Cash and cash equivalents (a)	$ 243,705		243,705
Restricted cash and investments (b)		1,218,512	1,218,512
Other assets (c)	4,670	4,342	9,012
Fair value of derivative instruments (d)		133,010	133,010
Total assets	$ 248,375	1,355,864	1,604,239
Liabilities:			
Fair value of derivative instruments (d)	$	64	64
Total liabilities	$	64	64

(a) Cash and cash equivalents includes all operating cash and investments with maturities when purchased of three months or less.

(b) Restricted cash and investments are held by trustees in various accounts subject to use restrictions imposed by the trust indenture and consist of guaranteed investment contracts, which are classified as held-to-maturity. These investments are purchased at par value, which equals their cost as of March 31, 2009.

(c) Other assets includes investments recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices. Level 1 investments include investments traded on an active exchange, such as the New York Stock Exchange, and U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets. Level 2 investments include corporate debt securities.

(d) All derivatives are accounted for at fair value in the financial statements. The fair values of derivative financial instruments are determined by derivative pricing models using the stated terms of the contracts and observable yield curves, forward foreign currency exchange rates, and volatilities from active markets. It is the Company s policy to compare its derivative fair values to those received by its counterparties in order to validate the model s outputs. Fair value of derivative instruments is comprised of market value less accrued interest and excludes collateral.

8. Shareholders Equity

Issuance of Class A Common Stock

In March 2009, the Company s 2008 annual performance-based incentives awarded to management were paid in approximately 455,000 fully vested and unrestricted shares of Class A common stock issued pursuant to the Company s Restricted Stock Plan. It is the Company s current intention to pay future annual performance-based incentives to management, if any, in common stock issued pursuant to the Restricted Stock Plan.

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9. Earnings per Common Share

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

A reconciliation of weighted average shares outstanding follows:

	Three months ended March 31,	
	2009	**2008**
Weighted average shares outstanding	49,473,953	49,444,415
Less: Nonvested restricted stock vesting solely upon continued service	331,629	392,670
Weighted average shares outstanding used to compute basic EPS	49,142,324	49,051,745
Dilutive effect of nonvested restricted stock	192,657	
Weighted average shares used to compute diluted EPS	49,334,981	49,051,745

No dilutive effect of nonvested restricted stock is presented for the three months ended March 31, 2008 as the Company reported a net loss and including these shares would have been antidilutive for the period. The dilutive effect of these shares if the Company had net income for the period was not significant.

10. Gain from Sale of Equity Method Investment

On September 28, 2007, the Company sold its 50% membership interests in Premiere Credit of North America, LLC (Premiere) for initial proceeds of $10.0 million. The Company recognized an initial gain on the sale of Premiere of $3.9 million during the three month period ended September 30, 2007. In January 2009, the Company earned $3.5 million in additional consideration as a result of the sale of Premiere. This payment represented contingent consideration that was owed to the Company if Premiere was awarded a collections contract as defined in the purchase agreement. The $3.5 million of contingent consideration is included in other income in the accompanying consolidated statements of operations for the three months ended March 31, 2009.

11. Recent Developments

Debt purchases

On April 7, 2009, the Company purchased $35.5 million of its 5.125% Senior Notes due 2010 (the 2010 Notes) for a purchase price of $31.1 million which resulted in the Company recording a gain of $4.4 million in the second quarter of 2009. Subsequent to this transaction, the Company has $204.6 million of 2010 Notes outstanding.

Restructuring Charge

On May 5, 2009, the Company adopted a plan to further streamline its operations by continuing to reduce its geographic footprint and consolidate servicing operations and related support services.

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

The Company estimates that the total before-tax charge to earnings associated with this restructuring plan will consist of $4 million to $6 million in severance costs, up to $4 million in contract termination costs, and up to $6 million in non-cash charges related to the impairment of and/or the acceleration of depreciation on property and equipment.

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Industry Developments

Department of Education Review

The Department of Education periodically reviews participants in the FFELP for compliance with program provisions. On June 28, 2007, the Department notified the Company that it would be conducting a review of the Company s practices in connection with the prohibited inducement provisions of the Higher Education Act and the associated regulations that allow borrowers to have a choice of lenders. The Company understands that the Department selected several schools and lenders for review. The Company responded to the Department s requests for information and documentation and cooperated with their review. On May 1, 2009, the Company received the Department s preliminary program review report, which covered the Department s review of the period from October 1, 2002 to September 30, 2007. The preliminary program review report contains certain initial findings of noncompliance with the Higher Education Act s prohibited inducement provisions and requires that the Company provide within 30 days an explanation for the basis of the arrangements noted in the preliminary program review report. After the Company provides an explanation of the arrangements noted in the Department s initial findings and the Department reviews such explanation and any documentation, the Department is expected to issue a final program review determination letter and advise the Company whether it intends to take any additional action. To the extent any findings are contained in the final letter, the additional action may include the assessment of fines or penalties, or the limitation, suspension, and termination of the Company s participation in FFELP.

The Company believes that it has materially complied with the Higher Education Act s prohibited inducement provisions and the rules, regulations, and guidance of the Department thereunder; however, it cannot predict the ultimate outcome of the Department s review.

Legislation

On February 26, 2009, the President introduced several proposals related to the fiscal year 2010 Federal budget, including a proposal for the elimination of the FFEL Program and a recommendation that all new student loan originations be funded through the Direct Loan Program, with loan servicing to be provided by private sector companies through performance-based contracts with the Department. On April 29, 2009, Congress passed a budget resolution including the President s proposal to eliminate the FFEL Program using the budget reconciliation procedure. In the reconciliation instructions, both the Senate Committee on Health, Education, Labor, and Pensions and the House Committee on Education and Labor shall report out for consideration by the Senate and House, respectively, no later than October 15, 2009, changes to the budget which will reduce the deficit by $1 billion for fiscal years 2009 through 2014. The resolution also includes non-binding language to maintain a competitive private sector role in the student loan program. On May 7, 2009, the President released the detailed fiscal year 2010 Federal budget, which the Department of Education has indicated reflects the elimination of the FFEL Program for loans originated on or after July 1, 2010.

Elimination of the FFEL Program would impact the Company s operations and profitability by, among other things, reducing the Company s interest revenues as a result of the inability to add new FFELP loans to the Company s portfolio and reducing guarantee and third-party servicing fees as a result of reduced FFELP loan servicing and origination volume. Additionally, the elimination of the FFEL Program would reduce education loan software sales and related consulting fees received from lenders using the Company s software products and services. The fair value and/or recoverability of the Company s goodwill, intangible assets, and other long-lived assets related to these activities could be adversely affected if the FFEL Program is eliminated.

In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, the Company performs goodwill impairment testing annually in the fourth quarter as of a November 30 valuation date or more frequently if an event occurs or circumstances change such that there is a potential that the fair value of a reporting unit or reporting units may be below their respective carrying value.

In light of continued general downturn in the economy, the tight credit markets, the Company’s decline in market capitalization, and the uncertainty that the budget proposal creates in relation to the Company’s current business model, the Company considered its goodwill assessment as of March 31, 2009. The Company believes the estimated fair value of the Company’s reporting units is in excess of their carrying values. Accordingly, no goodwill impairment was recorded as of March 31, 2009.

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 months ended March 31, 2009 and 2008. 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, 2008.

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 expectations and statements that assume or are dependent upon future events, are forward-looking statements. These forward-looking statements are subject to risks, uncertainties, assumptions, and other factors that may cause the actual results to be materially different from those reflected in such forward-looking statements. These factors include, among others, the risks and uncertainties set forth in Risk Factors and elsewhere in this Quarterly Report on Form 10-Q and the Company s Annual Report on Form 10-K for the year ended December 31, 2008 and changes in the terms of student loans and the educational credit marketplace arising from the implementation of, or changes in, applicable laws and regulations (including changes resulting from new laws, such as any new laws enacted to implement the Administration s 2010 budget proposals as they relate to FFELP), which may reduce the volume, average term, special allowance payments, and yields on student loans under the FFEL Program of the Department or result in loans being originated or refinanced under non-FFEL programs or may affect the terms upon which banks and others agree to sell FFELP loans to the Company. The Company could also be affected by changes in the demand for educational financing or in financing preferences of lenders, educational institutions, students, and their families; the Company s ability to maintain its credit facilities or obtain new facilities; the ability of lenders under the Company s credit facilities to fulfill their lending commitments under these facilities; changes to the terms and conditions of the liquidity programs offered by the Department; changes in the general interest rate environment and in the securitization markets for education loans, which may increase the costs or limit the availability of financings necessary to initiate, purchase, or carry education loans; losses from loan defaults; changes in prepayment rates, guaranty rates, loan floor rates, and credit spreads; the uncertain nature of estimated expenses that may be incurred and cost savings that may result from restructuring plans; incorrect estimates or assumptions by management in connection with the preparation of the consolidated financial statements; and changes in general economic conditions. Additionally, financial projections may not prove to be accurate and may vary materially. The reader should not place undue reliance on forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. The Company is not obligated to publicly release any revisions to forward-looking statements to reflect events after the date of this Quarterly Report on Form 10-Q or unforeseen events. Although the Company may from time to time voluntarily update its prior forward-looking statements, it disclaims any commitment to do so except as required by securities laws.

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OVERVIEW

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

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

The following provides certain events and operating activities that have impacted the financial condition and operating results of the Company during the first quarter of 2009. These items include:

- Diversification of revenue through fee-based businesses
- Net interest margin and derivative settlements related to the Company s student loan portfolio
- Decreases in operating expenses
- Reduced exposure to liquidity risk on the Company s FFELP warehouse facility
- Reduced debt burden

In addition, recent proposed legislation concerning the student loan industry may impact the future financial condition and operating results of the Company.

Revenue Diversification

In recent years, the Company has expanded products and services generated from businesses that are not dependent upon government programs, thereby reducing legislative and political risk. This revenue is primarily generated from products and services offered in the Company s Tuition Payment Processing and Campus Commerce and Enrollment Services operating segments. The only product and service offering in these segments that has been impacted by recent student loan industry developments is list marketing services. The table below includes the Company s revenue from fee-based businesses and shows the revenue earned by the Company s operating segments that are less dependent upon government programs, excluding list marketing services.

	Three months ended March 31,			
	2009	2008	$ Change	% Change
Tuition Payment Processing and Campus Commerce	$ 15,568	14,612	956	
Enrollment Services Content Management and Lead Generation	27,366	24,990	2,376	
Total revenue from fee-based businesses less dependent upon government programs	42,934	39,602	$ 3,332	8.4%
Enrollment Services List Marketing Services	1,405	2,277		
Student Loan and Guaranty Servicing	27,906	26,753		
Software and Technical Services	4,830	6,715		
Total revenue from fee-based businesses	$ 77,075	75,347		

Core Student Loan Spread

The Company s core student loan spread for the three months ended March 31, 2009 was 0.94% compared to 0.91% for the same period in 2008. Significant items impacting spread for the three months ended March 31, 2009 included:

Derivative settlements

CP/LIBOR distortion

Fixed rate floor income

Derivative settlements

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

The Company has used derivative instruments to hedge the repricing risk due to the timing of the interest rate resets on its assets and liabilities. The Company has entered into basis swaps in which the Company (i) receives three-month LIBOR set discretely in advance and pays a daily weighted average three-month LIBOR less a spread as defined in the individual agreements; and (ii) receives three-month LIBOR and pays one-month LIBOR less a spread as defined in the agreements. During the three months ended March 31, 2009, the Company received $20.8 million in settlements on these derivatives.

CP/LIBOR distortion

As of March 31, 2009, the Company had $23.9 billion of FFELP loans indexed to three-month financial commercial paper rate and $20.4 billion of debt indexed to LIBOR. Due to the unintended consequences of government intervention in the commercial paper markets and limited issuances of qualifying financial commercial paper, the relationship between the three-month financial CP and LIBOR rates has been distorted and volatile. To address this issue, the Department announced that for purposes of calculating the FFELP loan index from October 27, 2008 to December 31, 2008, the Federal Reserve s Commercial Paper Funding Facility rate was used for those days in which no three-month financial commercial paper rate was available. This action partially mitigated the volatility between CP and LIBOR during the fourth quarter of 2008. However, the Department did not implement a similar methodology for the first quarter of 2009, which negatively impacted the Company s interest income earned on its student loan 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 SAP formula set by the Department and the borrower rate, which is fixed over a period of time. The SAP formula is based on an applicable index plus a fixed spread that is dependent upon when the loan was originated, the loan s repayment status, and funding sources for the loan. The Company generally finances its student loan portfolio with variable rate debt. In low and/or declining interest rate environments, when the fixed borrower rate is higher than the rate produced by the SAP formula, the Company s student loans earn at a fixed rate while the interest on the variable rate debt typically continues to decline. In these interest rate environments, the Company may earn additional spread income that it refers to as floor income. 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. During the three months ended March 31, 2009, loan interest income includes approximately $30.3 million of fixed rate floor income.

Operating Expenses

Excluding restructure and impairment charges recognized in 2008, operating expenses decreased $10.0 million, or 9.7%, for the three months ended March 31, 2009 compared to the same period in 2008. This decrease was the result of reducing costs related to the restructuring plans implemented in September 2007 and January 2008 and a continued focus by the Company on managing costs and gaining efficiencies.

Reduction in Liquidity Risk Exposure FFELP Warehouse Facility

The terms and conditions of the Company s multi-year committed financing facility for FFELP loans provides for formula based advance rates based on current market conditions, which require equity support to be posted to the facility. In order to reduce exposure related to these equity support provisions, the Company reduced the amount of loans included in the facility in 2009 by completing an asset-backed securities transaction of $294.6 million and selling $20.0 million in student loan assets. As of May 8, 2009, the Company had $96.6 million posted as equity funding support for this facility, as compared to $280.6 million as of December 31, 2008.

As of May 8, 2009, the Company had $1.2 billion of student loans in the FFELP warehouse facility and $1.1 billion borrowed under the facility. The Company plans to remove and/or refinance the remaining collateral in this facility by using the Department s Conduit Program, using other financing arrangements, using unrestricted operating cash, and/or selling loans to third parties. As of May 8, 2009, the Company had approximately $845 million of loans included in its warehouse facility that would be eligible for the Conduit Program.

Reduction in Debt Burden

The Company purchased $34.9 million and $35.5 million of its 5.125% Senior Notes due 2010 for $26.8 million and $31.1 million during the first quarter of 2009 and in April 2009, respectively. These transactions resulted in the Company recognizing gains of $8.1 million and $4.4 million in the first and second quarters of 2009, respectively. Subsequent to these transactions, the Company has $204.6 million of 2010 Notes outstanding.

Legislation

On February 26, 2009, the President introduced several proposals related to the fiscal year 2010 Federal budget, including a proposal for the elimination of the FFEL Program and a recommendation that all new student loan originations be funded through the Direct Loan Program, with loan servicing to be provided by private sector companies through performance-based contracts with the Department. On April 29, 2009, Congress passed a budget resolution including the President s proposal to eliminate the FFEL Program using the budget reconciliation procedure. In the reconciliation instructions, both the Senate Committee on Health, Education, Labor, and Pensions and the House Committee on Education and Labor shall report out for consideration by the Senate and House, respectively, no later than October 15, 2009, changes to the budget which will reduce the deficit by $1 billion for fiscal years 2009 through 2014. The resolution also includes non-binding language to maintain a competitive private sector role in the student loan program. On May 7, 2009, the President released the detailed fiscal year 2010 Federal budget, which the Department of Education has indicated reflects the elimination of the FFEL Program for loans originated on or after July 1, 2010.

Elimination of the FFEL Program would impact the Company s operations and profitability by, among other things, reducing the Company s interest revenues as a result of the inability to add new FFELP loans to the Company s portfolio and reducing guarantee and third-party servicing fees as a result of reduced FFELP loan servicing and origination volume. Additionally, the elimination of the FFEL Program would reduce education loan software sales and related consulting fees received from lenders using the Company s software products and services. The fair value and/or recoverability of the Company s goodwill, intangible assets, and other long-lived assets related to these activities could be adversely affected if the FFEL Program is eliminated. As discussed previously, in recent years, the Company has expanded products and services generated from businesses that are not dependent upon the FFEL Program, thereby reducing legislative and political risk.

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RESULTS OF OPERATIONS

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

Net Interest Income

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

The Company s portfolio of FFELP loans originated prior to April 1, 2006 earns interest at the higher of a variable rate based on the special allowance payment (SAP) formula set by the Department of Education and the borrower rate. The SAP formula is based on an applicable index plus a fixed spread that is dependent upon when the loan was originated, the loan s repayment status, and funding sources for the loan. As a result of one of the provisions of the Higher Education Reconciliation Act of 2005 (HERA), the Company s portfolio of FFELP loans originated on or after April 1, 2006 earns interest at a variable rate based on the SAP formula. For the portfolio of loans originated on or after April 1, 2006, when the borrower rate exceeds the variable rate based on the SAP formula, the Company must return the excess to the Department.

In September 2007, the College Cost Reduction and Access Act of 2007 was enacted into law. This legislation reduced the annual yield on FFELP loans originated after October 1, 2007 and should be considered when reviewing the Company s results of operations. The Company has mitigated some of the reduction in annual yield by creating efficiencies and lowering costs, modifying borrower benefits, and reducing loan acquisition costs.

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

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

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

Provision for Loan Losses

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

The allowance for the federally insured loan portfolio is based on periodic evaluations of the Company s loan portfolios considering past experience, trends in student loan claims rejected for payment by guarantors, changes to federal student loan programs, current economic conditions, and other relevant factors. The federal government currently 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. Also, in accordance with the Student Loan Reform Act of 1993, student loans disbursed prior to October 1, 1993 are fully insured.

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

Other Income

The Company also earns fees and generates revenue from other sources, including loan and guaranty servicing, enrollment services, payment management activities, and fees from providing software and technical services.

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.

Enrollment Services Revenue Enrollment services revenue includes the sale of lists and print products, subscription-based products and services, and multiple deliverable arrangements. Revenue from the sale of lists and printed products is generally earned and recognized, net of estimated returns, upon shipment or delivery. Revenues from the sales of subscription-based products and services are recognized ratably over the term of the subscription. Subscription revenue received or receivable in advance of the delivery of services is included in deferred revenue. Revenue from multiple deliverable arrangements is recognized separately for separate units of accounting based on the units relative fair value.

Tuition Payment Processing and Campus Commerce Revenue - Tuition payment processing and campus commerce revenue includes actively managed tuition payment solutions, online payment processing, detailed information reporting, and data integration services. Fees for these payment management services are recognized over the period in which services are provided to customers.

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, the cost to provide enrollment services, costs incurred to provide tuition payment processing, campus commerce, content management, recruitment, 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 consists of costs incurred to provide lead generation and publishing and editing services in the Company s Enrollment Services operating segment. Operating expenses in 2008 also includes employee termination benefits, lease termination costs, and the write-down of certain assets related to the Company s September 2007 and January 2008 restructuring initiatives.

Three months ended March 31, 2009 compared to the three months ended March 31, 2008

Net Interest Income

	Three months ended March 31,		
	2009	**2008**	**$ Change**
Interest income:			
Loan interest	$ 170,919	329,986	(159,067)
Investment interest	4,091	11,680	(7,589)
Total interest income	175,010	341,666	(166,656)
Interest expense:			
Interest on bonds and notes payable	146,502	325,141	(178,639)
Net interest income	28,508	16,525	11,983
Provision for loan losses	7,500	5,000	2,500

Net interest income after provision for loan losses	$	21,008	11,525	9,483

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Net interest income increased for the three months ended March 31, 2009 compared to 2008 as a result of an increase in the Company s core student loan spread, excluding derivative settlements, as discussed in this Item 2 under Asset Generation and Management Operating Segment Results of Operations. Core student loan spread, excluding derivative settlements, was 0.56% and 0.32% for the three months ended March 31, 2009 and 2008, respectively. This increase was offset by a decrease in investment interest due to lower interest rates in 2009.

The provision for loan losses increased for the three months ended March 31, 2009 compared to 2008 primarily due to increases in delinquencies as a result of the continued weakening of the U.S. economy.

Other Income

	Three months ended March 31,		
	2009	**2008**	**$ Change**
Loan and guaranty servicing revenue	$ 26,471	24,661	1,810
Tuition payment processing and campus commerce revenue	15,538	13,847	1,691
Enrollment services revenue	28,771	27,222	1,549
Software services revenue	5,705	8,204	(2,499)
Other income	16,862	6,254	10,608
Loss on sale of loans	(206)	(47,474)	47,268
Derivative market value, foreign currency, and put option adjustments	(4,880)	(57,361)	52,481
Derivative settlements, net	24,358	40,763	(16,405)
Total other income	$ 112,619	16,116	96,503

Loan and guaranty servicing revenue increased due to an increase in FFELP loan servicing revenue as further discussed in this Item 2 under Student Loan and Guaranty Servicing Operating Segment Results of Operations.

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 transactions processed.

Enrollment services revenue increased due to an increase in the number of lead generation transactions processed as further discussed in this Item 2 under Enrollment Services Operating Segment Results of Operations.

Software and technical services revenue decreased as the result of a reduction in the number of projects for existing customers and the loss of customers due to the legislative developments in the student loan industry throughout 2008.

Other income increased for the three months ended March 31, 2009 compared to 2008 due to a gain of $8.1 million from the purchase of $34.9 million of the Company s unsecured fixed rate debt and a $3.5 million gain related to the Company receiving a contingency payment in the first quarter of 2009 from the sale of an equity method investment.

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

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

Further detail of the components of derivative settlements is included in Item 3, Quantitative and Qualitative Disclosures about Market Risk. The Company maintains an overall risk management strategy that incorporates the use of derivative instruments to reduce the economic effect of interest rate volatility.

Management has structured all of the Company s derivative transactions with the intent that each is economically effective; however, the Company s derivative instruments do not qualify for hedge accounting under SFAS No. 133. Derivative settlements for each applicable period should be evaluated with the Company s net interest income.

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Operating Expense

	Three months ended March 31, 2009	2008	$ Change
Salaries and benefits	$ 38,226	47,939	(9,713)
Other expenses	54,345	54,587	(242)
Operating expenses, excluding restructure expense and impairment expense	92,571	102,526	$ (9,955)
Restructure expense		7,477	
Impairment expense		18,834	
Total operating expenses	$ 92,571	128,837	

Excluding restructuring and impairment charges, operating expenses decreased $10.0 million for the three months ended March 31, 2009 compared to the same period in 2008. The decrease is the result of cost savings from the September 2007 and January 2008 restructuring plans implemented by the Company. These plans resulted in the net reduction of approximately 700 positions in the Company s overall workforce, leading to decreases in salaries and benefits and other expenses. The decrease is also a result of the Company capitalizing on the operating leverage of its business structure and strategies.

Income Taxes

The Company s effective tax rate was 38% for the three months ended March 31, 2009, compared to 31% for the same period in 2008. The 2009 effective tax rate is normalized in comparison with the same period a year ago due to the loss incurred during the first quarter of 2008. The effective tax rate during the first quarter of 2008 was reduced by various state gross receipts taxes and other items which are not deductible for tax purposes.

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

Financial Condition as of March 31, 2009 compared to December 31, 2008

	As of March 31, 2009	As of December 31, 2008	Change Dollars	Percent
Assets:				
Student loans receivable, net	$ 25,624,337	25,413,008	211,329	0.8%
Cash, cash equivalents, and investments	1,517,827	1,348,104	169,723	12.6
Goodwill	175,178	175,178		
Intangible assets, net	70,900	77,054	(6,154)	(8.0)
Fair value of derivative instruments	133,010	175,174	(42,164)	(24.1)
Other assets	571,885	666,379	(94,494)	(14.2)
Total assets	$ 28,093,137	27,854,897	238,240	0.9%
Liabilities:				
Bonds and notes payable	$ 27,130,406	26,787,959	342,447	1.3%
Fair value of derivative instruments	64	1,815	(1,751)	(96.5)
Other liabilities	291,065	421,897	(130,832)	(31.0)

Total liabilities	27,421,535	27,211,671	209,864	0.8
Shareholders equity	671,602	643,226	28,376	4.4
Total liabilities and shareholders equity	$ 28,093,137	27,854,897	238,240	0.9%

The Company s total assets increased during 2009 primarily due to an increase in student loans receivable as a result of loan originations and acquisitions, net of repayments and participations as further discussed in this Item 2 under Asset Generation and Management Operating Segment - Results of Operations. In addition, cash, cash equivalents, and investments increased due to proceeds from the issuance of bonds and notes payable. Total liabilities increased primarily due to an increase in bonds and notes payable as a result of an increase in student loan funding obligations in order to fund the increase in the Company s student loan portfolio.

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OPERATING SEGMENTS

The Company has five operating segments as defined in SFAS No. 131 as follows: Student Loan and Guaranty Servicing, Tuition Payment Processing and Campus Commerce, Enrollment Services, Software and Technical Services, and Asset Generation and Management. The Company s operating segments are defined by the products and services they offer or the types of customers they serve, and they reflect the manner in which financial information is currently evaluated by management. The accounting policies of the Company s operating segments are the same as those described in the summary of significant accounting policies included in the Company s consolidated financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2008.

Intersegment revenues are charged by a segment to another segment that provides the product or service. Intersegment revenues and expenses are included within each segment consistent with the income statement presentation provided to management. Changes in management structure or allocation methodologies and procedures may result in changes in reported segment financial information.

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

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

Base net income is the primary financial performance measure used by management to develop the Company s financial plans, track results, and establish corporate performance targets and incentive compensation. While base net income is not a substitute for reported results under GAAP, the Company relies on base net income in operating its business because base net income permits management to make meaningful period-to-period comparisons of the operational and performance indicators that are most closely assessed by management. Management believes this information provides additional insight into the financial performance of the core business activities of the Company s operating segments.

Accordingly, the tables presented below reflect base net income which is reviewed and utilized by management to manage the business for each of the Company s operating segments. Reconciliation of the segment totals to the Company s consolidated operating results in accordance with GAAP are also included in the tables below. Included below under Non-GAAP Performance Measures is further discussion regarding base net income and its limitations, including a table that details the differences between base net income and GAAP net income by operating segment.

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Segment Results and Reconciliations to GAAP

	Three months ended March 31, 2009									
	Fee-Based									
	Student Loan and Guaranty Servicing	Tuition Payment Processing and Campus Commerce	Enrollment Services	Software and Technical Services	Total Fee-Based	Asset Generation and Management	Corporate Activity and Overhead	Eliminations and Reclassifications	Base net income Adjustments to GAAP Results	GAAP Results of Operations
Total interest income	$ 66	30			96	172,587	1,427	(560)	1,460	175,010
Interest expense						138,594	8,468	(560)		146,502
Net interest income (loss)	66	30			96	33,993	(7,041)		1,460	28,508
Less provision for loan losses						7,500				7,500
Net interest income (loss) after provision for loan losses	66	30			96	26,493	(7,041)		1,460	21,008
Other income (expense):										
Loan and guaranty servicing revenue	26,853				26,853		(382)			26,471
Tuition payment processing and campus commerce revenue		15,538			15,538					15,538
Enrollment services revenue			28,771		28,771					28,771
Software services revenue	875			4,830	5,705					5,705
Other income	112				112	4,651	12,099			16,862
Loss on sale of loans						(206)				(206)
Intersegment revenue	19,878	57		3,124	23,059		8,921	(31,980)		
									(4,880)	(4,880)

Derivative market value, foreign currency, and put option adjustments										
Derivative settlements, net						24,358				24,358
Total other income (expense)	47,718	15,595	28,771	7,954	100,038	28,803	20,638	(31,980)	(4,880)	112,619
Operating expenses:										
Salaries and benefits	14,704	6,545	6,095	5,185	32,529	1,775	6,267	(2,504)	159	38,226
Costs to provide enrollment services			17,793		17,793					17,793
Other expenses	8,597	2,408	3,295	678	14,978	4,959	10,461		6,154	36,552
Intersegment expenses	9,470	623	546	645	11,284	17,876	316	(29,476)		
Total operating expenses	32,771	9,576	27,729	6,508	76,584	24,610	17,044	(31,980)	6,313	92,571
Income (loss) before income taxes	15,013	6,049	1,042	1,446	23,550	30,686	(3,447)		(9,733)	41,056
Income tax (expense) benefit (a)	(5,705)	(2,298)	(396)	(550)	(8,949)	(11,661)	1,310		3,699	(15,601)
Net income (loss)	$ 9,308	3,751	646	896	14,601	19,025	(2,137)		(6,034)	25,455

(a) Tax effect is computed at the Company s blended, statutory federal and state rate of 38%.

Three months ended March 31, 2009:						
Before Tax Operating Margin	31.4%	38.7%	3.6%	18.2%	23.5%	55.5%
Three months ended March 31, 2008:						
Before Tax Operating Margin	11.3%	47.6%	1.6%	21.5%	15.0%	(5,344.3)%

Before Tax Operating Margin excluding restructure expense, impairment expense, and the loss on sale of loans	23.9%	47.6%	2.7%	27.5%	21.9%	41.6%

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	Three months ended March 31, 2008									
	Fee-Based									
	Student Loan and Guaranty Servicing	Tuition Payment Processing and Campus Commerce	Enrollment Services	Software and Technical Services	Total Fee-Based	Asset Generation and Management	Corporate Activity and Overhead	Eliminations and Reclassifications	Base net income Adjustments to GAAP Results	GAAP Results of Operations
Total interest income	$ 613	765	9		1,387	320,358	1,197	(94)	18,818	341,666
Interest expense			1		1	316,015	9,219	(94)		325,141
Net interest income (loss)	613	765	8		1,386	4,343	(8,022)		18,818	16,525
Less provision for loan losses						5,000				5,000
Net interest income (loss) after provision for loan losses	613	765	8		1,386	(657)	(8,022)		18,818	11,525
Other income (expense):										
Loan and guaranty servicing revenue	24,656				24,656	5				24,661
Tuition payment processing and campus commerce revenue		13,847			13,847					13,847
Enrollment services revenue			27,222		27,222					27,222
Software services revenue	1,452		37	6,715	8,204					8,204
Other income	32				32	4,857	1,365			6,254
Loss on sale of loans						(47,474)				(47,474)
Intersegment revenue	20,224	260		1,816	22,300		17,212	(39,512)		
Derivative market value, foreign						466			(57,827)	(57,361)

currency, and put option adjustments										
Derivative settlements, net						43,527			(2,764)	40,763
Total other income (expense)	46,364	14,107	27,259	8,531	96,261	1,381	18,577	(39,512)	(60,591)	16,116
Operating expenses:										
Salaries and benefits	13,998	5,430	6,523	5,168	31,119	2,224	14,591	4,613	1,296	53,843
Restructure expense- severance and contract termination costs	851		297	518	1,666	1,896	3,915	(7,477)		
Impairment expense	5,074				5,074	9,351	4,409			18,834
Cost to provide enrollment services			15,403		15,403					15,403
Other expenses	8,487	2,060	2,760	619	13,926	5,344	13,865	1,062	6,560	40,757
Intersegment expenses	13,278	296	1,847	394	15,815	20,602	1,293	(37,710)		
Total operating expenses	41,688	7,786	26,830	6,699	83,003	39,417	38,073	(39,512)	7,856	128,837
Income (loss) before income taxes	5,289	7,086	437	1,832	14,644	(38,693)	(27,518)		(49,629)	(101,196)
Income tax (expense) benefit (a)	(1,640)	(2,197)	(135)	(568)	(4,540)	11,995	8,531		15,385	31,371
Net income (loss)	$ 3,649	4,889	302	1,264	10,104	(26,698)	(18,987)		(34,244)	(69,825)

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

Non-GAAP Performance Measures

In accordance with the rules and regulations of the Securities and Exchange Commission (SEC), the Company prepares financial statements in accordance with generally accepted accounting principles. In addition to evaluating the Company s GAAP-based financial information, management also evaluates the Company s operating segments on a non-GAAP performance measure referred to as base net income for each operating segment. While base net income is not a substitute for reported results under GAAP, the Company relies on base net income to manage each operating segment because management believes these measures provide additional information regarding the operational and performance indicators that are most closely assessed by management.

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

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Limitations of Base Net Income

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

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

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 certain other items that management does not consider in evaluating the Company s operating results. The following table reflects adjustments associated with these areas by operating segment and Corporate Activity and Overhead:

	Student Loan and Guaranty Servicing	**Tuition Payment Processing and Campus Commerce**	**Enrollment Services**	**Software and Technical Services**	**Asset Generation and Management**	**Corporate Activity and Overhead**	**Total**
			Three months ended March 31, 2009				
Derivative market value, foreign currency, and put option adjustments	$				4,880		4,880
Amortization of intangible assets	1,079	1,887	3,042	146			6,154
Compensation related to business combinations						159	159
Variable-rate floor income, net of settlements on derivatives					(1,460)		(1,460)
Net tax effect (a)	(410)	(717)	(1,157)	(55)	(1,300)	(60)	(3,699)
Total adjustments to GAAP	$ 669	1,170	1,885	91	2,120	99	6,034
			Three months ended March 31, 2008				
Derivative market value, foreign currency, and put option adjustments	$				57,400	427	57,827
	1,256	2,051	2,822	286	145		6,560

Amortization of intangible assets							
Compensation related to business combinations						1,296	1,296
Variable-rate floor income, net of settlements on derivatives					(16,054)		(16,054)
Net tax effect (a)	(389)	(636)	(875)	(89)	(12,862)	(534)	(15,385)
Total adjustments to GAAP	$ 867	1,415	1,947	197	28,629	1,189	34,244

(a) In 2009, tax effect is computed at the Company s blended, statutory federal and state rate of 38%. In 2008, tax effect was computed using the Company s consolidated effective tax rate for each applicable quarterly period.

Differences between GAAP and Base Net Income

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

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

Base net income excludes the foreign currency transaction gains or losses caused by the re-measurement of the Company s Euro-denominated bonds to U.S. dollars. In connection with the issuance of the Euro-denominated bonds, the Company has entered into cross-currency interest rate swaps. Under the terms of these agreements, the principal payments on the Euro-denominated notes will effectively be paid at the exchange rate in effect at the issuance date of the bonds. The cross-currency interest rate swaps also convert the floating rate paid on the Euro-denominated bonds (EURIBOR index) to an index based on LIBOR. Included in base net income are the economic effects of any cash paid or received being recognized as an expense or revenue upon actual settlements of the cross-currency interest rate swaps. These settlements are included in Derivative market value, foreign currency, and put option adjustments and derivative settlements, net on the Company s consolidated statements of operations. However, the gains or losses caused by the re-measurement of the Euro-denominated bonds to U.S. dollars and the change in market value of the cross-currency interest rate swaps are excluded from base net income as the Company believes the point-in-time estimates of value that are subject to currency rate fluctuations related to these financial instruments make it difficult to evaluate the ongoing results of operations against the Company s business plan and affect the period-to-period comparability of the results of operations. The re-measurement of the Euro-denominated bonds correlates with the change in fair value of the cross-currency interest rate swaps. However, the Company will experience unrealized gains or losses related to the cross-currency interest rate swaps if the two underlying indices (and related forward curve) do not move in parallel.

In 2008, base net income also excluded the change in fair value of put options issued by the Company for certain business acquisitions. The put options were valued by the Company each reporting period using a Black-Scholes pricing model. Therefore, the fair value of those options were primarily affected by the strike price and term of the underlying option, the Company s stock price, and the dividend yield and volatility of the Company s stock. The Company believed those point-in-time estimates of value that were subject to fluctuations made it difficult to evaluate the ongoing results of operations against the Company s business plans and affected the period-to-period comparability of the results of operations. In 2008, the Company settled all of its obligations related to these put options.

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

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

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

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

Prior to October 1, 2008, variable rate floor income was calculated by the Company on a statutory maximum basis. However, as a result of the disruption in the capital markets beginning in August 2007, the full benefit of variable rate floor income calculated on a statutory maximum basis has not been realized by the Company due to the widening of the spread between short term interest rate indices and the Company s actual cost of funds. As a result of the ongoing volatility of interest rates, effective October 1, 2008, the Company changed its calculation of variable rate floor income to better reflect the economic benefit received by the Company. For the three months ended March 31, 2009 and 2008, the economic benefit received by the Company related to variable rate floor income was $1.5 million and $6.3 million respectively. Variable rate floor income calculated on a statutory maximum basis for the three months ended March 31, 2009 and 2008 was $10.8 million and $18.8 million, respectively. Beginning October 1, 2008, the economic benefit received by the Company has been used to determine base net income.

STUDENT LOAN AND GUARANTY SERVICING OPERATING SEGMENT RESULTS OF OPERATIONS

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 and servicing provided to guaranty agencies. The servicing and business process outsourcing activities include loan origination activities, application processing, borrower updates, payment processing, due diligence procedures, and claim processing. These activities are performed internally for the Company s portfolio in addition to generating fee revenue when performed for third-party clients. The guaranty servicing, servicing support, and business process outsourcing activities include providing software and data center services, borrower and loan updates, default aversion tracking services, claim processing services, and post-default collection services to guaranty agencies.

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. In addition, the Company earns servicing revenue for the origination of loans. Guaranty servicing fees, generally, are calculated based on the number of loans serviced, volume of loans serviced, or amounts collected.

Student Loan Servicing Volumes

	As of March 31, 2009		As of December 31, 2008	
	Dollar	**Percent**	**Dollar**	**Percent**
	(dollars in millions)			
Company	$ 25,064(a)	69.3%	$ 24,596	68.5%
Third Party	11,119(b)	30.7	11,293	31.5
	$ 36,183	100.0%	$ 35,889	100.0%

(a) Approximately $1.5 billion of these loans were disbursed on or after May 1, 2008 and are eligible to be sold to the Department of Education pursuant to its

Purchase Commitment Program. The Department obtains all rights to service loans which it purchases as part of this program.

(b) Approximately $1.0 billion of these loans were disbursed on or after May 1, 2008 and may be eligible to be sold to the Department of Education pursuant to its Purchase Commitment Program. The Department obtains all rights to service loans which it purchases as part of this program. The Company has currently received notification from third party servicing customers of their intent to sell approximately $470 million to the Department prior to the September 30, 2009 deadline.

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Three months ended March 31, 2009 compared to the three months ended March 31, 2008

	Three months ended March 31,		
	2009	**2008**	**$ Change**
Net interest income after the provision for loan losses	$ 66	613	(547)
Loan and guaranty servicing revenue	26,853	24,656	2,197
Software services revenue	875	1,452	(577)
Other income	112	32	80
Intersegment revenue	19,878	20,224	(346)
Total other income	47,718	46,364	1,354
Salaries and benefits	14,704	13,998	706
Restructure expense severance and contract termination costs		851	(851)
Impairment expense		5,074	(5,074)
Other expenses	8,597	8,487	110
Intersegment expenses	9,470	13,278	(3,808)
Total operating expenses	32,771	41,688	(8,917)
Base net income before income taxes	15,013	5,289	9,724
Income tax expense	(5,705)	(1,640)	(4,065)
Base net income	$ 9,308	3,649	5,659
Before Tax Operating Margin	31.4%	11.3%	
Before Tax Operating Margin excluding restructure and impairment expense	31.4%	23.9%	

N*et interest income after the provision for loan losses*. Investment income decreased as a result of decreases in interest rates on cash held in 2009 compared to 2008.

Loan and guaranty servicing revenue. Loan and guaranty servicing revenue for the three months ended March 31, 2009 increased from the same period in 2008 as follows:

	Three months ended March 31,			
	2009	**2008**	**$ Change**	**% Change**
Origination and servicing of FFEL Program loans	$ 15,786	12,279	3,507	28.6%
Origination and servicing of non-federally insured student loans	1,872	2,271	(399)	(17.6)
Servicing and support outsourcing for guaranty agencies	9,195	10,106	(911)	(9.0)

Loan and guaranty servicing income to external parties	$	26,853	24,656	2,197	8.9%

FFELP loan servicing revenue increased due to deconversion revenue recognized during the three months ended March 31, 2009 and the favorable resolution of a servicing contract.
Non-federally insured loan servicing revenue decreased due to a significant customer ceasing to originate non-federally insured loans.
Servicing and support outsourcing for guaranty agencies decreased due to a decline in collections revenue related to the decrease in sales of rehabilitated loans.

Operating expenses. Excluding restructure and impairment charges, operating expenses decreased $3.0 million for the three months ended March 31, 2009 compared to the same period in 2008 as a result of ongoing cost savings from the Company s September 2007 and January 2008 restructuring plans.

TUITION PAYMENT PROCESSING AND CAMPUS COMMERCE OPERATING SEGMENT RESULTS OF OPERATIONS

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

Three months ended March 31, 2009 compared to the three months ended March 31, 2008

	Three months ended March 31,		
	2009	2008	$ Change
Net interest income after the provision for loan losses	$ 30	765	(735)
Tuition payment processing and campus commerce revenue	15,538	13,847	1,691
Intersegment revenue	57	260	(203)
Total other income	15,595	14,107	1,488
Salaries and benefits	6,545	5,430	1,115
Other expenses	2,408	2,060	348
Intersegment expenses	623	296	327
Total operating expenses	9,576	7,786	1,790
Base net income before income taxes	6,049	7,086	(1,037)
Income tax expense	(2,298)	(2,197)	(101)
Base net income	$ 3,751	4,889	(1,138)
Before Tax Operating Margin	38.7%	47.6%	

Net interest income after the provision for loan losses. Investment income decreased as a result of decreases in interest rates on cash held in 2009 compared to 2008.

Tuition payment processing and campus commerce revenue. Tuition payment processing and campus commerce revenue increased for the three months ended March 31, 2009 compared to the same period in 2008 as a result of an increase in the number of managed tuition payment plans as well as an increase in campus commerce transactions processed.

Operating expenses. Operating expenses increased for the three months ended March 31, 2009 compared to the same period in 2008 as a result of incurring additional costs associated with salaries and benefits, as well as other expenses, to support the increase in the number of managed tuition payment plans and campus commerce transactions. In addition, the Company continues to invest in new products and services to meet customer needs and expand product and service offerings. These investments increased operating expenses for the three months ended March 31, 2009 compared to the same period in 2008.

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ENROLLMENT SERVICES OPERATING SEGMENT RESULTS OF OPERATIONS

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

Three months ended March 31, 2009 compared to the three months ended March 31, 2008

	Three months ended March 31,		
	2009	**2008**	**$ Change**
Net interest income after the provision for loan losses	$	8	(8)
Enrollment services revenue	28,771	27,222	1,549
Software services revenue		37	(37)
Total other income	28,771	27,259	1,512
Salaries and benefits	6,095	6,523	(428)
Restructure expense severance and contract termination costs		297	(297)
Cost to provide enrollment services	17,793	15,403	2,390
Other expenses	3,295	2,760	535
Intersegment expenses	546	1,847	(1,301)
Total operating expenses	27,729	26,830	899
Base net income before income taxes	1,042	437	605
Income tax expense	(396)	(135)	(261)
Base net income	$ 646	302	344
Before Tax Operating Margin	3.6%	1.6%	
Before Tax Operating Margin excluding restructure expense	3.6%	2.7%	

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Enrollment services revenue, cost to provide enrollment services, and gross profit.

	Three months ended March 31, 2009				
	Lead generation (a)	Publishing and editing services (b)	Subtotal	Content management and recruitment services (c)	Total
Enrollment services revenue	$ 21,070	2,851	23,921	4,850	28,771
Cost to provide enrollment services	16,579	1,214	17,793		
Gross profit	$ 4,491	1,637	6,128		
Gross profit %	21.3%	57.4%	25.6%		

	Three months ended March 31, 2008				
	Lead generation (a)	Publishing and editing services (b)	Subtotal	Content management and recruitment services (c)	Total
Enrollment services revenue	$ 17,438	3,581	21,019	6,203	27,222
Cost to provide enrollment services	13,861	1,542	15,403		
Gross profit	$ 3,577	2,039	5,616		
Gross profit %	20.5%	56.9%	26.7%		

(a) Lead generation revenue, and the related costs, increased for the three months ended March 31, 2009 compared to the same period in

2008 as a result of an increase in lead generation services volume.

(b) Publishing and editing services revenue, and the related costs, decreased for the three months ended March 31, 2009 compared to the same period in 2008 due to economic conditions.

(c) Content management and recruitment services revenue decreased for the three months ended March 31, 2009 compared to the same period in 2008 due to economic conditions, the strategic realignment of products, and the impacts of legislative developments in the student loan industry on list marketing services.

Operating expenses. Excluding restructure charges and the cost to provide enrollment services, operating expenses decreased $1.2 million, or 10.7%, for the three months ended March 31, 2009 compared to the same period in 2008, as a result of continued focus on cost efficiencies.

SOFTWARE AND TECHNICAL SERVICES OPERATING SEGMENT RESULTS OF OPERATIONS

The Software and Technical Services operating segment develops student loan servicing software, which is used internally by the Company and also licensed to third-party student loan holders and servicers. This segment also provides information technology products and services, with core areas of business in educational loan software solutions, business intelligence, technical consulting services, and Enterprise Content Management solutions.

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

Three months ended March 31, 2009 compared to the three months ended March 31, 2008

	Three months ended March 31,		
	2009	**2008**	**$ Change**
Software services revenue	$ 4,830	6,715	(1,885)
Intersegment revenue	3,124	1,816	1,308
Total other income	7,954	8,531	(577)
Salaries and benefits	5,185	5,168	17
Restructure expense severance and contract termination costs		518	(518)
Other expenses	678	619	59
Intersegment expenses	645	394	251
Total operating expenses	6,508	6,699	(191)
Base net income before income taxes	1,446	1,832	(386)
Income tax expense	(550)	(568)	18
Base net income	$ 896	1,264	(368)
Before Tax Operating Margin	18.2%	21.5%	
Before Tax Operating Margin excluding restructure expense	18.2%	27.5%	

Software services revenue. Software services revenue decreased for the three months ended March 31, 2009 compared to the same period in 2008 as the result of a reduction in the number of projects for existing customers and the loss of customers due to the legislative developments in the student loan industry throughout 2008 and 2009.

Intersegment revenue. Intersegment revenue increased for the three months ended March 31, 2009 compared to the same period in 2008 as a result of an increase in the number of projects for internal customers.

Operating expenses. Excluding restructure expense, operating expenses increased $0.3 million as the Company continues to invest in new products and services to meet customer needs and expand product and service offerings. These investments increased 2009 operating expenses compared to 2008.

ASSET GENERATION AND MANAGEMENT OPERATING SEGMENT RESULTS OF OPERATIONS

The Asset Generation and Management Operating Segment includes the origination, 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 historically generated 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 costs associated with originating, acquiring, and financing its portfolio. The Company generates student loan assets through direct origination or through acquisitions. The student loan assets are held in a series of education lending subsidiaries designed specifically for this purpose.

In addition to the student loan portfolio, all costs and activity associated with the generation of assets, funding of those assets, and maintenance of the debt transactions are included in this segment. This includes derivative activity and the related derivative market value and foreign currency adjustments. The Company is also able to leverage its capital market expertise by providing investment advisory services and other related services to third parties through a licensed broker-dealer subsidiary. Revenues and expenses for those functions are also included in the Asset Generation and Management segment.

Student Loan Portfolio

The tables below outline the components of the Company s student loan portfolio:

	As of March 31, 2009				
	Total		Originated prior to 10/1/07	Originated between 10/1/07 and 6/3/08 (a)	Originated on or after 6/4/2008 (b)
Federally insured:					
Stafford	$ 8,076,074	31.5%	6,462,137	407,777	1,209,160
PLUS/SLS	581,084	2.3%	397,058	46,893	137,133
Consolidation	16,398,640	63.9%	16,240,696	157,944	
Total federally insured	25,055,798	97.7%	23,099,891	609,614	1,346,293
	100.0%		92.2%	2.4%	5.4%
Non-federally insured	218,375	0.9%			
Total student loans receivable (gross)	25,274,173	98.6%			
Unamortized premiums and deferred origination costs	398,661	1.6%			
Allowance for loan losses:					
Federally insured	(27,310)	(0.1%)			
Non-federally insured	(21,187)	(0.1%)			
Total student loans receivable (net)	$ 25,624,337	100.0%			

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	As of December 31, 2008				
	Total		Originated prior to 10/1/07	Originated between 10/1/07 and 6/3/08 (a)	Originated on or after 6/4/2008 (b)
Federally insured:					
Stafford	$ 7,602,568	29.9%	6,641,817	390,658	570,093
PLUS/SLS	527,670	2.1%	412,142	48,346	67,182
Consolidation	16,657,703	65.5%	16,614,950	42,753	
Total federally insured	24,787,941	97.5%	23,668,909	481,757	637,275
	100.0%		95.5%	1.9%	2.6%
Non-federally insured	273,108	1.1%			
Total student loans receivable (gross)	25,061,049	98.6%			
Unamortized premiums and deferred origination costs	402,881	1.6%			
Allowance for loan losses:					
Federally insured	(25,577)	(0.1%)			
Non-federally insured	(25,345)	(0.1%)			
Total student loans receivable (net)	$ 25,413,008	100.0%			

(a) Federally insured student loans originated on or after October 1, 2007 earn a reduced annual yield as a result of the enactment of the College Cost Reduction and Access Act of 2007 in September 2007.

(b) Federally insured student loans originated by the Company on or after June 4, 2008 are eligible to be participated and sold to the Department under the Department s Participation and Purchase Commitment Programs.

Origination and Acquisition

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

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

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

	Three months ended March 31, 2009	2008
Beginning balance	$ 25,061,049	26,329,213
Direct channel:		
Consolidation loan originations		65,745
Less consolidation of existing portfolio		(27,459)
Net consolidation loan originations		38,286
Stafford/PLUS loan originations	541,592	421,101
Branding partner channel	412,313	473,378
Forward flow channel		318,844
Other channels	13,805	55,922
Total channel acquisitions	967,710	1,307,531
Repayments, claims, capitalized interest, participations, and other	(628,927)	(299,800)
Consolidation loans lost to external parties	(105,518)	(129,418)
Loans sold	(20,141)	(860,172)
Ending balance	$ 25,274,173	26,347,354

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

Historically, the Company funded new loan originations using loan warehouse facilities and asset-backed securitizations. Student loan warehousing has historically allowed the Company to buy and manage student loans prior to transferring them into more permanent financing arrangements. In July 2008, the Company did not renew its liquidity provisions on its FFELP warehouse facility. Accordingly, the facility became a term facility and no new loan originations could be funded with this facility. In August 2008, the Company began funding FFELP Stafford and PLUS student loan originations for the 2008-2009 academic year pursuant to the Department s Loan Participation Program (as discussed below).

In August 2008, the Department implemented the Loan Purchase Commitment Program and the Loan Participation Program pursuant to the ECASLA. Under the Department s Purchase Program, the Department will purchase loans at a price equal to the sum of (i) par value, (ii) accrued interest, (iii) the one percent origination fee paid to the Department, and (iv) a fixed amount of $75 per loan. Under the Participation Program, the Department provides interim short term liquidity to FFELP lenders by purchasing participation interests in pools of FFELP loans. FFELP lenders are charged a rate of commercial paper plus 50 basis points on the principal amount of participation interests outstanding. Loans funded under the Participation Program must be either refinanced by the lender or sold to the Department pursuant to the Purchase Program prior to its expiration on September 30, 2009. To be eligible for purchase or participation under the Department s programs, loans were originally limited to FFELP Stafford or PLUS loans made for the academic year 2008-2009, first disbursed between May 1, 2008 and July 1, 2009, with eligible borrower benefits.

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

The Company plans to continue to use the Participation Program to fund loans originated for the 2008-2009 and 2009-2010 academic years. These programs are allowing the Company to continue originating new federal student loans to all students regardless of the school they attend.

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Activity in the Allowance for Loan Losses

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

	Three months ended March 31, 2009	2008
Balance at beginning of period	$ 50,922	45,592
Provision for loan losses:		
Federally insured loans	5,500	3,500
Non-federally insured loans	2,000	1,500
Total provision for loan losses	7,500	5,000
Charge-offs, net of recoveries:		
Federally insured loans	(3,247)	(3,322)
Non-federally insured loans	(658)	(383)
Net charge-offs	(3,905)	(3,705)
Sale of federally insured loans	(520)	(750)
Sale of non-federally insured loans	(5,500)	
Balance at end of period	$ 48,497	46,137
Allocation of the allowance for loan losses:		
Federally insured loans	$ 27,310	23,962
Non-federally insured loans	21,187	22,175
Total allowance for loan losses	$ 48,497	46,137
Net loan charge-offs as a percentage of average student loans	0.062%	0.055%
Total allowance as a percentage of average student loans	0.192%	0.172%
Total allowance as a percentage of ending balance of student loans	0.192%	0.175%
Non-federally insured allowance as a percentage of the ending balance of non-federally insured loans	9.702%	7.827%
Average student loans	$ 25,265,903	26,859,328
Ending balance of student loans	25,274,173	26,347,354
Ending balance of non-federally insured loans	218,375	283,308

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

	As of March 31, 2009 Dollars	Percent	As of December 31, 2008 Dollars	Percent
Federally Insured Loans:				
Loans in-school/grace/deferment(1)	$ 8,003,584		$ 7,374,602	
Loans in forebearance(2)	2,351,413		2,484,478	
Loans in repayment status:				
Loans current	12,877,869	87.6%	13,169,101	88.2%

Loans delinquent 31-60 days(3)	522,221	3.6	536,112	3.6
Loans delinquent 61-90 days(3)	337,362	2.3	240,549	1.6
Loans delinquent 91 days or greater(4)	963,349	6.6	983,099	6.6
Total loans in repayment	14,700,801	100.0%	14,928,861	100.0%
Total federally insured loans	$ 25,055,798		$ 24,787,941	
Non-Federally Insured Loans:				
Loans in-school/grace/deferment(1)	$ 66,520		$ 84,237	
Loans in forebearance(2)	7,172		9,540	
Loans in repayment status:				
Loans current	136,056	94.0%	169,865	94.7%
Loans delinquent 31-60 days(3)	3,455	2.4	3,315	1.8
Loans delinquent 61-90 days(3)	2,135	1.5	1,743	1.0
Loans delinquent 91 days or greater(4)	3,037	2.1	4,408	2.5
Total loans in repayment	144,683	100.0%	179,331	100.0%
Total non-federally insured loans	$ 218,375		$ 273,108	

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

(2) Loans for borrowers who have temporarily ceased making full payments due to hardship

or other factors, according to a schedule approved by the servicer consistent with the established loan program servicing procedures and policies.

(3) The period of delinquency is based on the number of days scheduled payments are contractually past due and relate to repayment loans, that is, receivables not charged off, and not in school, grace, deferment, or forbearance.

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

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Student Loan Spread Analysis

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

	Three months ended March 31,	
	2009	**2008**
Variable student loan yield	3.26%	5.92%
Consolidation rebate fees	(0.71)	(0.74)
Premium and deferred origination costs amortization	(0.30)	(0.38)
Variable student loan net yield	2.25	4.80
Student loan cost of funds interest expense	(2.16)	(4.55)
Student loan cost of funds derivative settlements	0.38	0.59
Variable student loan spread	0.47	0.84
Variable-rate floor income, net of settlements on derivatives (a)	(0.02)	(0.06)
Fixed rate floor contribution	0.49	0.13
Core student loan spread	0.94%	0.91%
Average balance of student loans	$ 25,265,903	26,859,328
Average balance of debt outstanding	25,764,285	27,828,890

(a) As a result of the ongoing volatility of interest rates, effective October 1, 2008, the Company changed its calculation of variable rate floor income to better reflect the economic benefit received by the Company. For the three months ended March 31, 2009 and 2008, the economic benefit received by the Company related to variable rate floor income was $1.5 million and $6.3 million, respectively. Variable rate floor income calculated on a statutory maximum basis for the three months ended March 31, 2009 and 2008 was $10.8 million and $18.8 million, respectively. Beginning October 1, 2008, and for presentation of prior periods, the economic benefit received by the Company has been used to determine core student loan spread. For the student loan spread analysis shown above, variable-rate floor income for prior periods was changed to reflect the economic benefit to conform to the current period presentation.

The increase in the Company s core student loan spread during the three months ended March 31, 2009 compared to 2008 was the result of the following items:

The amortization of loan premiums and deferred origination costs, which is a reduction to core student loan spread, decreased as a result of reduced costs to acquire or originate loans and a decrease in the yield earned on student loans.

The Company has a portfolio of student loans that are earning interest at a fixed borrower rate which exceeds the statutorily defined variable lender rate creating fixed rate floor income which is included in its core student loan spread. Due to lower interest rates in the three-month period ended March 31, 2009 compared to the same period in 2008, the Company received additional fixed rate floor income on a portion of its student loan portfolio. See Item 3, Quantitative and Qualitative Disclosures about Market Risk Interest Rate Risk for additional information.

The increases in the Company s core student loan spread were offset by the following items:

The passage of the College Cost Reduction Act has reduced the yield on all FFELP loans originated after October 1, 2007. As of March 31, 2009, 7.8% of the Company s federally insured student loan portfolio was originated after October 1, 2007 as compared to 2.4% as of March 31, 2008.

Historically, the movement of the various interest rate indices received on the Company s student loan assets and paid on the debt to fund such loans was highly correlated. The short term movement of the indices was dislocated beginning in August 2007. This dislocation had a negative impact on the Company s student loan net interest income during the first quarter of 2008. Due to the unintended consequences of government intervention in the commercial paper markets and limited issuances of qualifying financial commercial paper, the relationship between the three-month financial CP and LIBOR rates has continued to widen. To address this issue, the Department announced that for purposes of calculating the FFELP loan index from October 27, 2008 to December 31, 2008, the Federal Reserve s Commercial Paper Funding Facility rate was used for those days in which no three-month financial commercial paper rate was available. This action partially mitigated the volatility between CP and LIBOR for the three-month period ended on December 31, 2008. However, the Department of Education did not make a similar adjustment for the first quarter of 2009 which negatively impacted the Company s net interest income for the three month period ended March 31, 2009.

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The spread to LIBOR on asset-backed securities transactions has increased significantly since August 2007. The Company issued $4.4 billion of notes in asset-backed securities transactions ($1.2 billion in March 2008, $1.9 billion in April 2008, and $1.3 billion in May 2008) in 2008 and an additional $0.3 billion in March 2009. Prior to completing these asset-backed securities transactions, these loans were funded in the Company s FFELP warehouse facility in which the cost of funds were lower than the asset-backed securities transactions.

The interest rate on the principal amount of participation interests outstanding under the Department s Participation Program is based on a rate of commercial paper plus 50 basis points, which is set a quarter in arrears, while the earnings on the student loans is based primarily on the daily average financial commercial paper index calculated on the current fiscal quarter. Due to a declining interest rate environment during the three months ended March 31, 2009, the Company s core student loan spread was compressed due to the mismatch in the timing of these rate resets.

The Company has used derivative instruments to hedge the repricing risk due to the timing of the interest rate resets on its assets and liabilities. The Company has entered into basis swaps in which the Company (i) receives three-month LIBOR set discretely in advance and pays a daily weighted average three-month LIBOR less a spread as defined in the individual agreements; and (ii) receives three-month LIBOR and pays one-month LIBOR less a spread as defined in the agreements. Due to the significant drop in interest during the first quarter of 2008, the Company received more settlements on its Average/Discrete Basis Swaps in the first quarter of 2008 compared to the same period in 2009.

Three months ended March 31, 2009 compared to the three months ended March 31, 2008

	Three months ended March 31,		
	2009	**2008**	**$ Change**
Net interest income (loss) after provision for loan losses	$ 26,493	(657)	27,150
Loan and guaranty servicing revenue		5	(5)
Other income	4,651	4,857	(206)
Loss on sale of loans	(206)	(47,474)	47,268
Derivative market value, foreign currency, and put option adjustments		466	(466)
Derivative settlements, net	24,358	43,527	(19,169)
Total other income	28,803	1,381	27,422
Salaries and benefits	1,775	2,224	(449)
Restructure expense severance and contract termination costs		1,896	(1,896)
Impairment expense		9,351	(9,351)
Other expenses	4,959	5,344	(385)
Intersegment expenses	17,876	20,602	(2,726)
Total operating expenses	24,610	39,417	(14,807)
Base net income (loss) before income taxes	30,686	(38,693)	69,379
Income tax (expense) benefit	(11,661)	11,995	(23,656)
Base net income (loss)	$ 19,025	(26,698)	45,723

Before Tax Operating Margin	55.5%	(5,344.3%)
Before Tax Operating Margin excluding restructure expense, impairment expense, and loss on sale of loans	55.5%	41.6%

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Net interest income (loss) after provision for loan losses

	Three months ended March 31,		Change	
	2009	2008	Dollars	Percent
Loan interest	$ 232,589	386,426	(153,837)	(39.8)%
Consolidation rebate fees	(44,478)	(49,854)	5,376	10.8
Amortization of loan premiums and deferred origination costs	(18,651)	(25,404)	6,753	26.6
Total loan interest	169,460	311,168	(141,708)	(45.5)
Investment interest	3,128	9,190	(6,062)	(66.0)
Total interest income	172,588	320,358	(147,770)	(46.1)
Interest on bonds and notes payable	138,034	315,921	(177,887)	(56.3)
Intercompany interest	561	94	467	496.8
Provision for loan losses	7,500	5,000	2,500	50.0
Net interest income (loss) after provision for loan losses	$ 26,493	(657)	27,150	4,132.4%

Loan interest income decreased $153.8 million as a result of a decrease in the average student loan portfolio of $1.6 billion, or 5.9%, and a decrease in the yield earned on student loans due to a decrease in interest rates for the three months ended March 31, 2009 compared to the same period in 2008.

Consolidation rebate fees decreased due to the $1.9 billion, or 10.4%, decrease in the average consolidation portfolio.

The amortization of loan premiums and deferred origination costs decreased as a result of reduced costs to acquire or originate loans and a decrease in the yield earned on student loans.

Investment income decreased as a result of lower interest rates in the first quarter of 2009 as compared to the same period in 2008.

Interest expense decreased as a result of a decrease in interest rates on the Company s variable rate debt which lowered the Company s cost of funds (excluding net derivative settlements) to 2.16% for the three months ended March 31, 2009 compared to 4.55% for the same period a year ago. In addition, average debt decreased by $2.1 billion, or 7.4%, for the three months ended March 31, 2009 compared to the same period in 2008.

The provision for loan losses increased for the three months ended March 31, 2009 compared to the same period in 2008 primarily due to increases in delinquencies as a result of the continued weakening of the U.S. economy.

Loss on sale of loans. The Company sold student loan portfolios to third parties in 2008 and 2009 in order to reduce the amount of student loans remaining under the Company s multi-year committed financing facility for FFELP loans, which reduced the Company s exposure related to certain equity support provisions included in this facility. On January 29, 2009, the Company sold $20.0 million (par value) of federally insured student loans resulting in the recognition of a loss of $0.2 million. On March 31, 2008, the Company sold $857.8 million (par value) of federally insured student loans resulting in the recognition of a loss of $30.4 million. In addition, on April 8, 2008, the Company sold $428.6 million (par value) of federally insured student loans. The portfolio of student loans sold on April 8, 2008 was presented as held for sale on the March 31, 2008 consolidated balance sheet and was valued at the lower of cost or fair value. The Company recognized a loss of $17.1 million during the three month period ended March 31, 2008 as a result of marking these loans to fair value.

Derivative settlements, net. The Company maintains an overall risk management strategy that incorporates the use of derivative instruments to reduce the economic effect of interest rate volatility. Management has structured all of the Company s derivative transactions with the intent that each is economically effective; however, the Company s derivative instruments do not qualify for hedge accounting under SFAS No. 133. Derivative settlements for each applicable period should be evaluated with the Company s net interest income. For more information on the Company s derivatives, see note 4 in the notes to the consolidated financial statements included in this Quarterly Report on Form 10-Q.

Operating expenses. Excluding restructure and impairment charges, operating expenses decreased $3.6 million, or 12.6%, for the three months ended March 31, 2009 compared to same period in 2008. This decrease is a result of the September 2007 and January 2008 restructuring plans.

LIQUIDITY AND CAPITAL RESOURCES

The Company s fee-based businesses are not capital intensive businesses and all of these businesses produce positive operating cash flows. As such, a minimal amount of debt and equity capital is allocated to these segments. Therefore, the majority of the Liquidity and Capital Resources discussion is concentrated on the Company s Asset Generation and Management operating segment. The Company has historically utilized operating cash flow, secured financing transactions (which include warehouse facilities and asset-backed securitizations), operating lines of credit, and other borrowing arrangements to fund its Asset Generation and Management operations and student loan acquisitions. In addition, the Company uses operating cash flow, borrowings on its unsecured line of credit, and unsecured debt offerings to fund corporate activities, business acquisitions, and repurchases of common stock. The Company has also used its common stock to partially fund certain business acquisitions. The Company has a universal shelf registration statement with the SEC which allows the Company to sell up to $825.0 million of securities that may consist of common stock, preferred stock, unsecured debt securities, warrants, stock purchase contracts, and stock purchase units. The terms of any securities are established at the time of the offering.

The Company may issue equity and debt securities in the future in order to improve capital, increase liquidity, refinance upcoming maturities, or provide for general corporate purposes. Moreover, the Company may from time-to-time repurchase certain amounts of its outstanding debt securities, including debt securities which the Company may issue in the future, for cash and/or through exchanges for other securities. Such repurchases or exchanges may be made in open market transactions, privately negotiated transactions, or otherwise. Any such repurchases or exchanges will depend on prevailing market conditions, the Company s liquidity requirements, contractual restrictions, compliance with securities laws, and other factors. The amounts involved in any such transactions may be material.

The following table summarizes the Company s bonds and notes outstanding as of March 31, 2009:

	Carrying amount	Interest rate range	Final maturity
Variable-rate bonds and notes (a):			
Bonds and notes based on indices	$ 20,387,802	0.95% 6.90%	09/25/13 6/25/41
Bonds and notes based on auction or remarketing	2,667,635	0.92% 3.75%	11/01/09 07/01/43
Total variable-rate bonds and notes	23,055,437		
Commercial paper FFELP facility (b)	1,369,485	0.41% 1.37%	05/09/10
Fixed-rate bonds and notes (a)	193,362	5.30% 6.50%	11/01/09 05/01/29
Unsecured fixed rate debt	440,134	5.125% and 7.40%	06/01/10 and 09/15/61
Unsecured line of credit	691,500	1.04% 1.10%	05/08/12
Department of Education Participation	1,360,159	3.08%	09/30/09
Other borrowings	20,329	0.50% 5.10%	01/10/10 11/01/15
	$ 27,130,406		

(a) Issued in asset-backed securitizations.

(b) Loan warehouse facilities.

Secured Financing Transactions

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

Historically, the Company funded new loan originations using loan warehouse facilities and asset-backed securitizations. Student loan warehousing has historically allowed the Company to buy and manage student loans prior to transferring them into more permanent financing arrangements. In July 2008, the Company did not renew its liquidity provisions on its FFELP warehouse facility. Accordingly, the facility became a term facility and no new loan originations could be funded with this facility. In August 2008, the Company began funding FFELP Stafford and PLUS student loan originations for the 2008-2009 academic year pursuant to the Department s Loan Participation Program and a participation agreement with Union Bank.

Loan warehouse facilities

Student loan warehousing has historically allowed the Company to buy and manage student loans prior to transferring them into more permanent financing arrangements. The Company has historically relied upon two conduit warehouse loan financing vehicles to support its funding needs on a short-term basis: a multi-year committed facility for FFELP loans and a $250.0 million private loan warehouse for non-federally insured student loans.

FFELP Warehouse Facility

The Company s multi-year committed facility for FFELP loans terminates in May 2010 and was supported by 364-day liquidity which was up for renewal on May 9, 2008. The Company obtained an extension on this renewal until July 31, 2008. On July 31, 2008, the Company did not renew the liquidity provisions of this facility. Accordingly, as of July 31, 2008, the facility became a term facility with a final maturity date of May 9, 2010. Pursuant to the terms of the agreement, since liquidity was not renewed, the Company s cost of financing under this facility increased 10 basis points. The agreement also includes provisions which allow the banks to charge a rate equal to LIBOR plus 128.5 basis points if they choose to finance their portion of the facility with sources of funds other than their commercial paper conduit. As of March 31, 2009, the Company had $1.2 billion of student loans in the facility and $1.4 billion borrowed under the facility.

The terms and conditions of the Company s warehouse facility for FFELP loans provides for formula based advance rates based on market conditions. While the Company does not believe that the loan valuation formula is reflective of the actual fair value of its loans, it is subject to compliance with such mark-to-formula provisions of the warehouse facility agreement. As of March 31, 2009, the Company had a cumulative amount of $206.7 million posted as equity funding support for this facility.

On March 26, 2009, the Company completed a privately placed asset-backed securitization of $294.6 million. Subsequent to March 31, 2009, the Company used the proceeds from the sale of these notes and additional funds of approximately $10 million to purchase approximately $305 million of principal and interest on student loans, which were previously financed under the Company s FFELP warehouse facility, which allowed the Company to withdraw cash posted as equity funding support for the facility. As of May 8, 2009, the Company had $1.2 billion of student loans in the FFELP warehouse facility, $1.1 billion borrowed under the facility, and $96.6 million posted as equity funding support for the facility.

The Company continues to look at various alternatives to remove loans from the warehouse facility including other financing arrangements, using unrestricted operating cash, and/or selling loans to third parties. In addition, in January 2009, the Department published summary terms under which it will finance eligible FFELP Stafford and PLUS loans in a conduit vehicle established to provide funding for student lenders (the Conduit Program). Loans eligible for the Conduit Program must be first disbursed on or after October 1, 2003, but not later than June 30, 2009, and fully disbursed before September 30, 2009, and meet certain other requirements. Funding for the Conduit Program will be provided by the capital markets at a cost based on market rates. The Conduit Program will have a term of five years. As of May 8, 2009, the Company had approximately $845 million of loans included in its FFELP warehouse facility that would be eligible for the Conduit Program.

Private Loan Warehouse Facility

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

Asset-backed securitizations

Of the $27.1 billion of debt outstanding as of March 31, 2009, $23.2 billion was issued under term asset-backed securitizations. Depending on market conditions, the Company anticipates continuing to access the asset-backed securities market. As a result of the disruptions in the credit markets, the Company may not be able to issue asset-backed financings at rates historically achieved by the Company, at levels equal to or less than other financing agreements, or at levels otherwise considered beneficial to the Company. Accordingly, the Company s operational and financial results may be negatively impacted. Securities issued in the securitization transactions are generally priced based upon a spread to LIBOR or set under an auction or remarketing procedure.

LIBOR based notes

As of March 31, 2009, the Company had $20.4 billion of notes issued under asset-backed securitizations that primarily reprice at a fixed spread to three month LIBOR and are structured to substantially match the maturity of the funded assets. These notes fund FFELP student loans that are predominantly set based on a spread to three month commercial paper. The three month LIBOR and three month commercial paper indexes have historically been highly correlated. Based on cash flows developed to reflect management s current estimate of, among other factors, prepayments, defaults, deferment, forbearance, and interest rates, the Company currently expects future undiscounted cash flows from these transactions will be approximately $1.4 billion. These cash flows consist of net spread and servicing and administrative revenue in excess of estimated cost. However, due to the unintended consequences of government intervention in the commercial paper markets and limited issuances of qualifying financial commercial paper, the relationship between the three-month financial commercial paper and LIBOR rates has been distorted and volatile. Such distortion has had and may continue to have a significant impact on the earnings and cash flows of this portfolio.

The Company has certain LIBOR-indexed notes that match the maturity of the funded assets, however, must periodically be remarketed by the Company. Upon remarketing, the interest rates on the notes are reset. The Company also has the option to repurchase the notes prior to a failed remarketing and hold the notes as an investment until such time they can be remarketed. In the event the notes cannot be remarketed and they are not repurchased by the Company, the interest rate increases to and remains at 3-month LIBOR plus 75 basis points until such time as they can be successfully remarketed or purchased by the Company. The Company has $200 million of notes due to be remarketed on May 26, 2009 and an additional $950 million and $115 million to be remarketed in 2016 and 2018, respectively.

Auction or remarketing based notes

The interest rates on certain of the Company s asset-backed securities are set and periodically reset via a dutch auction (Auction Rate Securities) or through a remarketing utilizing remarketing agents (Variable Rate Demand Notes). The Company is currently sponsor on approximately $1.9 billion of Auction Rate Securities and $0.8 billion of Variable Rate Demand Notes.

For Auction Rate Securities, investors and potential investors submit orders through a broker-dealer as to the principal amount of notes they wish to buy, hold, or sell at various interest rates. The broker-dealers submit their clients orders to the auction agent, who then determines the clearing interest rate for the upcoming period. Interest rates on these Auction Rate Securities are reset periodically, generally every 7 to 35 days, by the auction agent or agents. During the first quarter of 2008, as part of the credit market crisis, auction rate securities from various issuers failed to receive sufficient order interest from potential investors to clear successfully, resulting in failed auction status. Since February 8, 2008, the Company s Auction Rate Securities have failed in this manner. Under normal conditions, banks have historically purchased these securities when investor demand is weak. However, since February 2008, banks have been allowing auctions to fail. Currently, all of the Company s Auction Rate Securities are in a failed auction status and the Company believes they will remain in a failed status for an extended period of time and possibly permanently.

As a result of a failed auction, the Auction Rate Securities will generally pay interest to the holder at a maximum rate as defined by the indenture. While these rates will vary, they will generally be based on a spread to LIBOR or Treasury Securities. Due to the failed auctions related to these securities, the Company could be subject to interest costs substantially above the anticipated and historical rates paid on these types of securities.

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

For Variable Rate Demand Notes, the remarketing agents set the price, which is then offered to investors. If there are insufficient potential bid orders to purchase all of the notes offered for sale, the Company could be subject to interest costs substantially above the anticipated and historical rates paid on these types of securities.

Funding New FFELP Student Loan Originations

As previously discussed, in July 2008, the Company did not renew its liquidity provisions on its FFELP warehouse facility. Accordingly, the facility became a term facility and no new loan originations could be funded with this facility. In August 2008, the Company began funding FFELP Stafford and PLUS student loan originations for 2008-2009 academic year pursuant to a participation agreement with Union Bank and the Department s Loan Participation Program.

Union Bank Participation Agreement

The Company maintains an agreement with Union Bank, as trustee for various grantor trusts, under which Union Bank has agreed to purchase from the Company participation interests in student loans (the FFELP Participation Agreement). The Company has the option to purchase the participation interests from the grantor trusts at the end of a 364-day period upon termination of the participation certificate. As of March 31, 2009, $784.3 million of loans were subject to outstanding participation interests held by Union Bank, as trustee, under this agreement. The agreement automatically renews annually and is terminable by either party upon five business days notice. This agreement provides beneficiaries of Union Bank s grantor trusts with access to investments in interests in student loans, while providing liquidity to the Company on a short term basis. The Company can participate loans to Union Bank to the extent of availability under the grantor trusts, up to $750 million or an amount in excess of $750 million if mutually agreed to by both parties. Loans participated under this agreement qualify as a sale pursuant to the provisions of SFAS No. 140. Accordingly, the participation interests sold are not included on the Company s consolidated balance sheet.

Department of Education s Loan Participation and Purchase Commitment Programs

In August 2008, the Department implemented the Loan Purchase Commitment Program and the Loan Participation Program pursuant to the ECASLA. Under the Department s Purchase Program, the Department will purchase loans at a price equal to the sum of (i) par value, (ii) accrued interest, (iii) the one percent origination fee paid to the Department, and (iv) a fixed amount of $75 per loan. Under the Participation Program, the Department provides interim short term liquidity to FFELP lenders by purchasing participation interests in pools of FFELP loans. FFELP lenders are charged a rate of commercial paper plus 50 basis points on the principal amount of participation interests outstanding. Loans funded under the Participation Program must be either refinanced by the lender or sold to the Department pursuant to the Purchase Program prior to its expiration on September 30, 2009. To be eligible for purchase or participation under the Department s programs, loans were originally limited to FFELP Stafford or PLUS loans made for the academic year 2008-2009, first disbursed between May 1, 2008 and July 1, 2009, with eligible borrower benefits.

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

As of March 31, 2009, the Company had $1.4 billion of FFELP loans funded using the Participation Program. The Company plans to continue to use the Participation Program to fund loans originated for the 2008-2009 and 2009-2010 academic years. These programs are allowing the Company to continue originating new federal student loans to all students regardless of the school they attend.

The Company has not yet determined if it will sell its 2008-2009 academic year loans to the Department under the Purchase Program. However, based on the number of 2008-2009 academic year loans held by the Company that are eligible for this program as of March 31, 2009, the Company would recognize a gain of approximately $13 million to $16 million if it chose to sell these loans under this program.

Unsecured Line of Credit

The Company has a $750.0 million unsecured line of credit that terminates in May 2012. As of March 31, 2009, there was $691.5 million outstanding on this line and $58.5 million available for future use. The weighted average interest rate on this line of credit was 1.04% as of March 31, 2009. Upon termination in 2012, there can be no assurance that the Company will be able to maintain this line of credit, find alternative funding, or increase the amount outstanding under the line, if necessary. The lending commitment under the Company s unsecured line of credit is provided by a total of thirteen banks, with no individual bank representing more than 11% of the total lending commitment. The bank lending group includes Lehman Brothers Bank, a subsidiary of Lehman Brothers Holdings Inc., which represents approximately 7% of the lending commitment under the line of credit. On September 15, 2008, Lehman Brothers Holdings Inc. filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code. Since the bankruptcy filing, the Company has experienced funding delays from Lehman and does not expect Lehman to fund future borrowing requests. As of March 31, 2009, excluding Lehman Bank s lending commitment, the Company had $51.2 million available for future use under its unsecured line of credit.

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

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

As of March 31, 2009, the Company was in compliance with all of these requirements. Many of these covenants are duplicated in the Company s other lending facilities, including its FFELP and private loan warehouses.

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.

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Unsecured Debt Offerings

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

During the first quarter of 2009 and April of 2009, the Company purchased $34.9 million and $35.5 million, respectively, of its 2010 Notes for a purchase price of $26.8 million and $31.1 million, respectively. These transactions resulted in the Company recording a gain of $8.1 million in the first quarter of 2009 and $4.4 million in the second quarter of 2009. Subsequent to these transactions, the Company has $204.6 million of Notes outstanding.

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

Non-Federally Insured Loans

During the three month period ended March 31, 2009, the Company participated $50.5 million of non-federally insured loans to third parties. Loans participated under these agreements qualify as sales pursuant to the provisions of SFAS No. 140. Accordingly, the participation interests sold are not included on the Company s consolidated balance sheet. As of May 8, 2009, the Company had approximately $178 million of unencumbered non-federally insured loans on its balance sheet. The Company plans to continue to find alternatives to fund these loans, including additional participation agreements.

Contractual Obligations

The Company is committed under noncancelable operating leases for certain office and warehouse space and equipment. The Company s contractual obligations as of March 31, 2009 were as follows:

	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Bonds and notes payable	$ 27,130,406	1,419,735	1,726,940	769,373	23,214,358
Operating lease obligations (a)	32,425	7,886	13,515	9,143	1,881
Other	41,792	20,000	21,792		
Total	$ 27,204,623	1,447,621	1,762,247	778,516	23,216,239

(a) Operating lease obligations are presented net of approximately

$2.4 million in
sublease
arrangements.

As of March 31, 2009, the Company had a reserve of $6.5 million for uncertain income tax positions per the provisions of FIN 48 (including the federal benefit received from state positions and accrued interest). This obligation is not included in the above table as the timing and resolution of the income tax positions cannot be reasonably estimated at this time.

The Company has an obligation to purchase $41.8 million of private loans from an unrelated financial institution in quarterly installments of approximately $5.0 million through the third quarter of 2010 with any remaining amount to be purchased at that time. This obligation is included in other in the above table.

As discussed previously, during the three month period ended March 31, 2009, the Company participated $50.5 million of non-federally insured loans to third parties. Loans participated under these agreements qualify as sales pursuant to the provisions of SFAS No. 140. Accordingly, the participation interests sold are not included on the Company s consolidated balance sheet. Per the terms of the servicing agreements, the Company s servicing operations is obligated to repurchase loans subject to the participation interests when such loans become 60 days delinquent. As of March 31, 2009, the Company has $5.5 million accrued related to this obligation which is included in other liabilities in the Company s consolidated balance sheet. This obligation is not included in the above table.

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

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

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

infiNET Integrated Solutions, Inc. (infiNET) Stock price guarantee of $104.8375 per share on 95,380 shares of Class A Common Stock (less the greater of $41.9335 or the gross sales price such seller obtains from a sale of the shares occurring prior to February 28, 2011 as defined in the agreement) issued as part of the original purchase price. The obligation to pay this guaranteed stock price is due February 28, 2011 and is not included in the table above. Based upon the closing sale price of the Company s Class A Common Stock as of March 31, 2009 of $8.84 per share, the Company s obligation under this stock price guarantee would have been $6.0 million (($104.8375 $41.9335) x 95,380 shares). Any cash paid by the Company in consideration of satisfying the guaranteed value of stock issued for this acquisition would be recorded by the Company as a reduction to additional paid-in capital.

Sources of Liquidity

Sources of Liquidity Available for New FFELP Stafford and PLUS Loans

The Company has unlimited sources of primary liquidity available for new FFELP Stafford and PLUS loan originations for the 2008-2009 and 2009-2010 academic years under the Department s Participation and Purchase Programs. In addition, the Company maintains an agreement with Union Bank, as trustee for various grantor trusts, under which Union Bank has agreed to purchase from the Company participation interests in student loans. See Union Bank Participation Agreement discussed earlier in this section.

Sources of Liquidity Available for General Corporate Purposes

The following table details the Company s primary sources of liquidity and the available capacity at May 8, 2009 for general corporate purposes:

Sources of primary liquidity: (a)	
Cash and cash equivalents (b)	$ 300,000
Unencumbered FFELP student loan assets	11,000
Unencumbered private student loan assets	178,000
Unused unsecured line of credit (c)	51,000
Total sources of primary liquidity	$ 540,000

(a) The sources of primary liquidity table above does not include asset-backed security investments. As part of the Company s issuance of asset-backed securitizations in March 2008 and May 2008, due to credit market conditions when these notes were issued, the

Company purchased the Class B subordinated notes of $36 million (par value) and $41 million (par value), respectively. These notes are not included on the Company s consolidated balance sheet. If the credit market conditions improve, the Company anticipates selling these notes to third parties. Upon a sale to third parties, the Company would obtain cash proceeds equal to the market value of the notes on the date of such sale. Upon sale, these notes would be shown as bonds and notes payable on the Company s consolidated balance sheet. Unless there is a significant market improvement, the Company believes the market value of such notes will be less than par value. The difference between the par value and market value would be recognized by the Company as interest expense over the life of the bonds.

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

(c) 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, a subsidiary of Lehman Brothers Holdings Inc., which represents approximately 7% of the lending commitment under the line of credit. On September 15, 2008, Lehman Brothers

Holdings Inc. filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code. Since the bankruptcy filing, the Company has experienced funding delays from Lehman and does not expect Lehman to fund future borrowing requests. The amount included in the table above excludes Lehman s commitment.

Dividends

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

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CRITICAL ACCOUNTING POLICIES

This Management s Discussion and Analysis of Financial Condition and Results of Operations discusses the Company s consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of income and expenses during the reporting periods. The Company bases its estimates and judgments on historical experience and on various other factors that the Company believes are reasonable under the circumstances. Actual results may differ from these estimates under varying assumptions or conditions. Note 3 of the consolidated financial statements, which are included in the Company s Annual Report on Form 10-K for the year ended December 31, 2008, includes a summary of the significant accounting policies and methods used in the preparation of the consolidated financial statements.

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

Allowance for Loan Losses

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

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

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

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

Revenue Recognition

Student Loan Income The Company recognizes student loan income as earned, net of amortization of loan premiums and deferred origination costs. Loan income is recognized based upon the expected yield of the loan after giving effect to borrower utilization of incentives such as principal reductions for timely payments (borrower benefits) and other yield adjustments. The estimate of the borrower benefits discount is dependent on the estimate of the number of borrowers who will eventually qualify for these benefits. For competitive and liquidity purposes, the Company frequently changes the borrower benefit programs in both amount and qualification factors. These programmatic changes must be reflected in the estimate of the borrower benefit discount. Loan premiums, deferred origination costs, and borrower benefits are included in the carrying value of the student loan on the consolidated balance sheet and are amortized over the estimated life of the loan in accordance with SFAS No. 91, *Accounting for Non-Refundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*. The most sensitive estimate for loan premiums, deferred origination costs, and borrower benefits is the estimate of the constant prepayment rate (CPR). CPR is a variable in the life of loan estimate that measures the rate at which loans in a portfolio pay before their stated maturity. The CPR is directly correlated to the average life of the portfolio. CPR equals the percentage of loans that prepay annually as a percentage of the beginning of period balance. A number of factors can affect the CPR estimate such as the rate of consolidation activity and default rates. Should any of these factors change, the estimates made by management would also change, which in turn would impact the amount of loan premium and deferred origination cost amortization recognized by the Company in a particular period.

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

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

Goodwill and Intangible Assets Impairment Assessments

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

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

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

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

Income Taxes

The Company is subject to the income tax laws of the U.S and its states and municipalities in which the Company operates. These tax laws are complex and subject to different interpretations by the taxpayer and the relevant government taxing authorities. In establishing a provision for income tax expense, the Company must make judgments and interpretations about the application of these inherently complex tax laws. The Company must also make estimates about when in the future certain items will affect taxable income in the various tax jurisdictions. Disputes over interpretations of the tax laws may be subject to review/adjudication by the court systems of the various tax jurisdictions or may be settled with the taxing authority upon examination or audit. The Company reviews these balances quarterly and as new information becomes available, the balances are adjusted, as appropriate.

Derivative Accounting

The Company accounts for its derivatives in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities, an Amendment of FASB Statement No. 133.* SFAS No. 133 requires that every derivative instrument, including certain derivative instruments embedded in other contracts, be recorded at fair value on the balance sheet as either an asset or liability. The Company determines the fair value for its derivative contracts using either (i) pricing models that consider current market conditions and the contractual terms of the derivative contract or

(ii) counterparty valuations. These factors include interest rates, time value, forward interest rate curve, and volatility factors, as well as foreign exchange rates. Pricing models and their underlying assumptions impact the amount and timing of unrealized gains and losses recognized, and the use of different pricing models or assumptions could produce different financial results. Management has structured all of the Company s derivative transactions with the intent that each is economically effective. However, the Company s derivative instruments do not qualify for hedge accounting under SFAS No. 133. Accordingly, changes in the fair value of derivative instruments are reported in current period earnings. Net settlements on derivatives are included in derivative market value, foreign currency, and put option adjustments and derivative settlements, net on the consolidated statements of operations.

RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of SFAS No. 157 are effective as of the beginning of the first fiscal year that begins after November 15, 2007 (January 1, 2008 for the Company) and is to be applied prospectively. The Company adopted SFAS No. 157 on January 1, 2008.

In February 2008, the FASB released FSP SFAS No. 157-2, *Effective Date of FASB Statement No. 157*, which delayed the application of SFAS No. 157 to nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. For the Company, SFAS No. 157-2 was effective January 1, 2009. As of January 1, 2009, the Company adopted SFAS 157 on certain nonfinancial assets and nonfinancial liabilities, which are recorded at fair value only upon impairment.

In light of the recent economic turmoil occurring in the United States, the FASB released FSP SFAS No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active* (SFAS No. 157-3), on October 10, 2008. SFAS No. 157-3 clarified, among other things, that quotes and other market inputs need not be solely used to determine fair value if they do not relate to an active market. SFAS No. 157-3 points out that when relevant observable market information is not available, an approach that incorporates management s judgments about the assumptions that market participants would use in pricing the asset in a current sale transaction would be acceptable (such as a discounted cash flow analysis). Regardless of the valuation technique applied, entities must include appropriate risk adjustments that market participants would make, including adjustments for nonperformance risk (credit risk) and liquidity risk. SFAS No. 157-3 does not have a material impact on the preparation of the Company s consolidated financial statements.

In April 2009, the FASB released FSP SFAS 157-4, *Determining Fair Value When Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (SFAS No. 157-4). SFAS No. 157-4 provides guidance on how to determine the fair value of assets and liabilities when the volume and level of activity for the asset/liability has significantly decreased. SFAS No. 157-4 also provides guidance on identifying circumstances that indicate a transaction is not orderly. In addition, SFAS No. 157-4 requires disclosure in interim and annual periods of the inputs and valuation techniques used to measure fair value and a discussion of changes in valuation techniques. SFAS No. 157-4 is effective for fiscal periods ending after June 15, 2009 (December 31, 2009 for the Company) and shall be applied prospectively. The Company is currently evaluating the impacts and disclosures related to SFAS No. 157-4.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51* (SFAS No. 160), which establishes new standards governing the accounting for and reporting of noncontrolling interests (NCIs) in partially owned consolidated subsidiaries and the loss of control of subsidiaries. Certain provisions of this standard indicate, among other things, that NCIs (previously referred to as minority interests) be treated as a separate component of equity, not as a liability; that increases and decreases in the parent s ownership interest that leave control intact be treated as equity transactions, rather than as step acquisitions or dilution gains or losses; and that losses of a partially owned consolidated subsidiary be allocated to the NCI even when such allocation might result in a deficit balance. This standard also requires changes to certain presentation and disclosure requirements. For the Company, SFAS No. 160 was effective January 1, 2009. SFAS No. 160 does not have a material impact on the preparation of the Company s consolidated financial statements. The provisions of the standard are to be applied to all NCIs prospectively, except for the presentation and disclosure requirements, which are to be applied retrospectively to all periods presented.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, which is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand the effects of derivative instruments and hedging activities on an entity s financial position, financial performance, and cash flows. The new standard also improves transparency about the location and amounts of derivative instruments in an entity s financial statements, how derivative instruments and related hedged items are accounted for under SFAS No. 133, and how derivative instruments and related hedged items affect its financial position, financial performance, and cash flows. The standard is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company adopted SFAS No. 161 on January 1, 2009 (see note 4 in the notes to the consolidated financial statements included in this Quarterly Report on Form 10-Q for disclosures related to SFAS No. 161).

In April 2009, the FASB released FSP SFAS No. 115-2 and SFAS No. 124-2, *Recognition and Presentation of Other-Than-Temporary Impairment* (SFAS No. 115-2/SFAS No. 124-2). SFAS No. 115-2/SFAS No. 124-2 amends the requirements for the recognition and measurement of other-than-temporary impairments for debt securities by modifying the pre-existing intent and ability indicator. Under SFAS No. 115-2/SFAS No. 124-2, an other-than-temporary impairment is triggered when there is an intent to sell the security, it is more likely than not that the security will be required to be sold before recovery, or the security is not expected to recover the entire amortized cost basis of the security. Additionally, SFAS No. 115-2/SFAS No. 124-2 changes the presentation of an other-than-temporary impairment in the income statement for those impairments involving credit losses. The credit loss component will be recognized in earnings and the remainder of the impairment will be recorded in other comprehensive income. SFAS No. 115-2/SFAS No. 124-2 is effective for fiscal periods ending after June 15, 2009 (December 31, 2009 for the Company). The Company is currently evaluating the impacts and disclosures related to SFAS No. 115-2/SFAS No. 124-2.

In April 2009, the FASB released FSP SFAS No. 107-1 and APB 28-1, *Interim Disclosure about Fair Value of Financial Instruments* (SFAS No. 107-1). SFAS No. 107-1 requires interim disclosures regarding the fair values of financial instruments that are within the scope of SFAS No. 107, *Disclosures about the Fair Value of Financial Instruments.* Additionally, SFAS No. 107-1 requires disclosure of the methods and significant assumptions used to estimate the fair value of financial instruments on an interim basis as well as changes of the methods and significant assumptions from prior periods. SFAS No. 107-1 does not change the accounting treatment for these financial instruments and is effective for fiscal periods ending after June 15, 2009 (December 31, 2009 for the Company). The Company is currently evaluating the impacts and disclosures related to SFAS No. 107-1.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

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

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

	As of March 31, 2009		As of December 31, 2008	
	Dollars	Percent	Dollars	Percent
Fixed-rate loan assets	$ 7,231,373	28.6%	$ 2,532,609	10.1%
Variable-rate loan assets	18,042,800	71.4	22,528,440	89.9
Total	$ 25,274,173	100.0%	$ 25,061,049	100.0%
Fixed-rate debt instruments	$ 633,496	2.3%	$ 677,096	2.5%
Variable-rate debt instruments	26,496,910	97.7	26,110,863	97.5
Total	$ 27,130,406	100.0%	$ 26,787,959	100.0%

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

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

For the three months ended March 31, 2009 and 2008, loan interest income includes approximately $30.3 million and $8.5 million of fixed rate floor income, respectively. As a result of the ongoing volatility of interest rates, effective October 1, 2008, the Company changed its calculation of variable rate floor income to better reflect the economic benefit received by the Company related to this income taking into consideration the volatility of certain rate indices which offset the value received. For the three months ended March 31, 2009 and 2008, the economic benefit received by the Company related to variable rate floor income was $1.5 million and $6.3 million, respectively. Variable rate floor income calculated on a statutory maximum basis for the three months ended March 31, 2009 and 2008 was $10.8 million and $18.8 million, respectively.

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.

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The following graph depicts fixed rate floor income for a borrower with a fixed rate of 6.75% and a SAP rate of 2.64%:
The following table shows the Company s student loan assets that are earning fixed rate floor income as of March 31, 2009:

Fixed interest rate range	Borrower/ lender weighted average yield	Estimated variable conversion rate (a)	Balance of assets earning fixed-rate floor income as of March 31, 2009
Less than 4.0%	3.65%	1.01%	$ 1,997,784
4.0 4.49%	4.20%	1.56%	1,590,910
4.5 4.99%	4.72%	2.08%	871,431
5.0 5.49%	5.24%	2.60%	572,395
5.5 5.99%	5.67%	3.03%	339,180
6.0 6.49%	6.19%	3.55%	400,041
6.5 6.99%	6.70%	4.06%	355,750
7.0 7.49%	7.17%	4.53%	121,730
7.5 7.99%	7.71%	5.07%	209,402
8.0 8.99%	8.16%	5.52%	478,762
> 9.0%	9.04%	6.40%	293,988
			$ 7,231,373

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

As of March 31, 2009, the Company had $3.6 billion of student loan assets that were eligible to earn variable-rate floor income.

The Company is exposed to interest rate risk in the form of basis risk and repricing risk because the interest rate characteristics of the Company s assets do not match the interest rate characteristics of the funding. The Company attempts to match the interest rate characteristics of certain pools of loan assets with debt instruments of substantially similar characteristics. Due to the variability in duration of the Company s assets and varying market conditions, the Company does not attempt to perfectly match the interest rate characteristics of the entire loan portfolio with the underlying debt instruments. The Company has adopted a policy of periodically reviewing the mismatch related to the interest rate characteristics of its assets and liabilities together with the Company s outlook as to current and future market conditions. Based on those factors, the Company uses derivative instruments as part of its overall risk management strategy. Derivative instruments used as part of the Company s interest rate risk management strategy currently include basis swaps and cross-currency swaps.

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The following table presents the Company s FFELP student loan assets and related funding arranged by underlying indices as of March 31, 2009:

Index (e)	**Frequency of Variable Resets**	**Assets**	**Debt outstanding that funded student loan assets (a)**
3 month H15 financial commercial paper (b)	Daily	$ 23,884,206	1,360,159
3 month Treasury bill	Varies	1,171,592	
3 month LIBOR (c)	Quarterly		20,387,802
Auction-rate or remarketing	Varies		2,667,635
Asset-backed commercial paper	Varies		1,369,485
Fixed rate			193,362
Other (d)		922,645	
		$ 25,978,443	25,978,443

(a) The Company has certain basis swaps outstanding in which the Company (i) receives three-month LIBOR set discretely in advance and pays a daily weighted average three-month LIBOR less a spread as defined in the individual agreements; and (ii) receives three-month LIBOR and pays one-month LIBOR. The Company entered into these derivative instruments to better match the interest rate characteristics on its student loan assets and the debt funding such assets. The following table summarizes these derivatives as of March 31, 2009:

	Notional Amount	
Maturity	**Average/Discrete Basis Swaps**	**1/3 Basis Swaps**
2009	$ 1,350,000	
2011 (a)	6,000,000	
2018		1,300,000
2019		500,000
2021		250,000
2023		1,250,000
2024		250,000
2028		100,000
	$ 7,350,000	3,650,000

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

(b) The Company s FFELP student loans earn interest based on the daily average H15 financial commercial paper index calculated on a fiscal quarter. The Company s funding includes FFELP student loans under the Department s Participation Program. The interest rate on the principal amount of participation interests outstanding under the Department s Participation Program is based on a rate of commercial paper plus 50 basis points, which is set a quarter in arrears, while the earnings on the student loans is based primarily on the daily average H15 financial commercial paper index calculated on the current fiscal quarter. Due to a declining interest rate environment during the three months ended March 31, 2009, the Company s core student loan spread was compressed due to the mismatch in the timing of these rate resets.

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

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

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

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

student loan net
interest income.

Financial Statement Impact of Derivative Instruments

The Company accounts for its derivative instruments in accordance with SFAS No. 133. SFAS No. 133 requires that changes in the fair value of derivative instruments be recognized currently in earnings unless specific hedge accounting criteria as specified by SFAS No. 133 are met. Management has structured all of the Company s derivative transactions with the intent that each is economically effective. However, the Company s derivative instruments do not qualify for hedge accounting under SFAS No. 133; consequently, the change in fair value of these derivative instruments is included in the Company s operating results. Changes or shifts in the forward yield curve and fluctuations in currency rates can significantly impact the valuation of the Company s derivatives. Accordingly, changes or shifts to the forward yield curve and fluctuations in currency rates will impact the financial position and results of operations of the Company. The change in fair value of the Company s derivatives are included in derivative market value, foreign currency, and put option adjustments and derivative settlements, net in the Company s consolidated statements of operations and resulted in an expense of $52.1 million and income of $36.0 million for the three months ended March 31, 2009 and 2008, respectively.

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

	Three months ended March 31,	
	2009	**2008**
Interest rate swaps	$	(3,177)
Average/discrete basis swaps	10,022	39,573
1/3 Basis swaps	10,744	884
Cross-currency interest rate swaps	3,592	3,483
Derivative settlements received (paid), net	$ 24,358	40,763

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Sensitivity Analysis

The following tables summarize the effect on the Company s earnings, based upon a sensitivity analysis performed by the Company assuming a hypothetical increase and decrease in interest rates of 100 basis points while funding spreads remain constant. In addition, as it relates to the effect on earnings, a sensitivity analysis was performed assuming the funding index increases 10 basis points while holding the asset index constant, if the funding index is different than the asset index. The effect on earnings was performed on the Company s variable rate assets and liabilities. The analysis includes the effects of the Company s interest rate and basis swaps in existence during these periods.

	Three months ended March 31, 2009					
	Interest Rates				Asset and funding index mismatches	
	Change from decrease of 100 basis points		Change from increase of 100 basis points		Increase of 10 basis points	
	Dollar	**Percent**	**Dollar**	**Percent**	**Dollar**	**Percent**
Effect on earnings:						
Increase (decrease) in pre-tax net income before impact of derivative settlements	$ 34,356	83.7%	(29,030)	(70.7)%	(6,354)	(15.5)%
Impact of derivative settlements						
Increase (decrease) in net income before taxes	$ 34,356	83.7%	(29,030)	(70.7)%	(6,354)	(15.5)%
Increase (decrease) in basic and diluted earnings per share	$ 0.43		(0.37)		(0.08)	

	Three months ended March 31, 2008					
	Interest Rates				Asset and funding index mismatches	
	Change from decrease of 100 basis points		Change from increase of 100 basis points		Increase of 10 basis points	
	Dollar	**Percent**	**Dollar**	**Percent**	**Dollar**	**Percent**
Effect on earnings:						
Increase (decrease) in pre-tax net income before impact of derivative settlements	$ 11,839	11.7%	(11,839)	(11.7)%	(6,938)	(6.9)%
Impact of derivative settlements	(6,225)	(6.2)	6,225	6.2		
	$ 5,614	5.5%	(5,614)	(5.5)%	(6,938)	(6.9)%

Increase (decrease) in net income before taxes			
Increase (decrease) in basic and diluted earnings per share	$ 0.08	(0.08)	(0.10)

Foreign Currency Exchange Risk

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

The Company entered into cross-currency interest rate swaps in connection with the issuance of the Euro Notes. Under the terms of these derivative instrument agreements, the Company receives from a counterparty a spread to the EURIBOR index based on notional amounts of 420.5 million and 352.7 million and pays a spread to the LIBOR index based on notional amounts of $500.0 million and $450.0 million, respectively. In addition, under the terms of these agreements, all principal payments on the Euro Notes will effectively be paid at the exchange rate in effect as of the issuance of the notes. The Company did not qualify these derivative instruments as hedges under SFAS No. 133; consequently, the change in fair value is included in the Company s operating results.

For the three months ended March 31, 2009, the Company recorded income of $47.2 million as a result of re-measurement of the Euro Notes and a loss of $57.1 million for the change in the fair value of the related derivative instruments. For the three months ended March 31, 2008, the Company recorded an expense of $92.9 million as a result of the re-measurement of the Euro Notes and income of $94.1 million for the change in the fair value of the related derivative instruments. These amounts are included in derivative market value, foreign currency, and put option adjustments and derivative settlements, net on the Company s consolidated statements of operations.

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

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ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

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

Changes in Internal Control over Financial Reporting

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

General

The Company is subject to various claims, lawsuits, and proceedings that arise in the normal course of business. These matters principally consist of claims by student loan borrowers disputing the manner in which their student loans have been processed and disputes with other business entities. 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.

Municipal Derivative Bid Practices Investigation

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

On March 5, 2008, SFC received a subpoena from the SEC related to a similar investigation. In addition, on June 6, 2008 and June 12, 2008, SFC received subpoenas from the New York Attorney General and the Florida Attorney General, respectively, relating to their similar investigations. Each of the subpoenas seeks information similar to that of the DOJ. The Company and SFC are cooperating with these investigations.

SFC was also named as a defendant in a number of substantially identical purported class action lawsuits, which as of June 16, 2008 have been consolidated before the U.S. District Court for the Southern District of New York, under the caption *In re Municipal Derivatives Antitrust Litigation*. The consolidated suit (the Suit) alleges several financial institutions and financial service provider defendants engaged in a conspiracy not to compete and to fix prices and rig bids for municipal derivatives (including GICs) sold to issuers of municipal bonds. The Suit also asserts claims for violations of Section 1 of the Sherman Act, fraudulent concealment, unfair competition and violation of the California Cartwright Act.

On January 30, 2009, SFC entered into a Tolling and Cooperation Agreement (Tolling Agreement) with a number of the plaintiffs involved in the Suit. In connection with the Tolling Agreement, on February 5, 2009 SFC was voluntarily dismissed from the Suit, without prejudice, on motion of the plaintiffs who are parties to the Tolling Agreement. On March 2, 2009, SFC entered into a second Tolling Agreement with the remainder of the plaintiffs involved in the Suit, and on March 3, 2009, SFC was voluntarily dismissed from the Suit without prejudice, on motion of the plaintiffs who are parties to the second Tolling Agreement. On April 30, 2009, the court granted a motion by several defendants, including SFC, to dismiss the class action complaint, with the plaintiffs granted the opportunity to file an amended complaint to replead claims.

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

Regulatory Reviews

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

By letter dated November 18, 2008, the DOJ requested that the Company provide the DOJ certain documents and information related to the Company s compliance with the prohibited inducement provisions of the Higher Education Act and associated regulations. The Company responded to the DOJ s requests and is cooperating with their review.

The Department of Education periodically reviews participants in the FFELP for compliance with program provisions. On June 28, 2007, the Department notified the Company that it would be conducting a review of the Company s practices in connection with the prohibited inducement provisions of the Higher Education Act and the associated regulations that allow borrowers to have a choice of lenders. The Company understands that the Department selected several schools and lenders for review. The Company responded to the Department s requests for information and documentation and cooperated with their review. On May 1, 2009, the Company received the Department s preliminary program review report, which covered the Department s review of the period from October 1, 2002 to September 30, 2007. The preliminary program review report contains certain initial findings of noncompliance with the Higher Education Act s prohibited inducement provisions and requires that the Company provide within 30 days an explanation for the basis of the arrangements noted in the preliminary program review report. After the Company provides an explanation of the arrangements noted in the Department s initial findings and the Department reviews such explanation and any documentation, the Department is expected to issue a final program review determination letter and advise the Company whether it intends to take any additional action. To the extent any findings are contained in a final letter, the additional action may include the assessment of fines or penalties, or the limitation, suspension, and termination of the Company s participation in FFELP.

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

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors described in the Company s Annual Report on Form 10-K for the year ended December 31, 2008 in response to Item 1A of Part I of such Form 10-K.

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

Stock Repurchases

The following table summarizes the repurchases of Class A common stock during the first quarter of 2009 by the Company or any affiliated purchaser of the Company, as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934.

Period	Total number of shares purchased (1)	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs (2) (3)	Maximum number of shares that may yet be purchased under the plans or programs (4)
January 1 January 31, 2009	1,241	$ 13.86	1,241	7,487,575
February 1 February 28, 2009	928	8.95	928	11,996,224
March 1 March 31, 2009	1,611	6.71	1,611	8,970,857
Total	3,780	$ 9.61	3,780	

(1) The total number of shares includes: (i) shares purchased pursuant to the 2006 Plan discussed in footnote (2) below; and (ii) shares purchased pursuant to the 2006 ESLP discussed in footnote (3) below, of which there were none for the months of January, February, or March 2009. Shares of Class A common stock purchased pursuant to the 2006 Plan included (i) 1,241 shares, 928 shares, and 1,611 shares in January, February, and March, respectively, that had been issued to the Company s 401(k) plan and allocated to employee participant accounts pursuant to the plan s provisions for Company matching contributions in shares of Company stock, and were purchased by the Company from the plan pursuant to employee participant instructions to dispose of such shares.

(2) On May 25, 2006, the Company publicly announced that its Board of Directors had authorized a stock repurchase program to repurchase up to a total of five million shares of the Company s Class A common stock (the 2006 Plan). On February 7, 2007, the Company s Board of Directors increased the total shares the Company is allowed to repurchase to 10 million. The 2006 Plan had an initial expiration date of May 24, 2008, which was extended until May 24, 2010 by the Company s Board of Directors on January 30, 2008.

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

(4) The maximum number of shares that may yet be purchased under the plans is calculated below. There are no assurances that any additional shares will be repurchased under either the 2006 Plan or the 2006 ESLP. Shares under the 2006 ESLP may be issued by the Company rather than purchased in open market transactions. The number of shares available to be purchased under the 2006 Plan reflects an addition of 238,237 shares purchased by the Company in connection with the previously reported settlement in July 2007 of the Company s obligations under outstanding put options issued by the Company, which shares were previously deducted but not intended to reduce the number of shares authorized for repurchase under the 2006 Plan.

As of	Maximum number of shares that may yet be purchased under the 2006 Plan (A)	Approximate dollar value of shares that may yet be purchased under the 2006 ESLP (B)	Closing price on the last trading day of the Company s Class A Common Stock (C)	(B / C) Approximate number of shares that may yet be purchased under the 2006 ESLP (D)	(A + D) Approximate number of shares that may yet be purchased under the 2006 Plan and 2006 ESLP
January 31, 2009	4,850,093	36,450,000	13.82	2,637,482	7,487,575
February 28, 2009	4,849,165	36,450,000	5.10	7,147,059	11,996,224
March 31, 2009	4,847,554	36,450,000	8.84	4,123,303	8,970,857

Working capital and dividend restrictions/limitations

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

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

- declare or pay any dividends or distributions on, or redeem, purchase, acquire or make a liquidation payment regarding, any of the Company s capital stock
- except as required in connection with the repayment of principal, and except for any partial payments of deferred interest that may be made through the alternative payment mechanism described in the Hybrid Securities indenture, make any payment of principal of, or interest or premium, if any, on, or repay, repurchase, or redeem any of the Company s debt securities that rank *pari passu* with or junior to the Hybrid Securities
- make any guarantee payments regarding any guarantee by the Company of the subordinated debt securities of any of the Company s subsidiaries if the guarantee ranks *pari passu* with or junior in interest to the Hybrid Securities

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

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

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

- pay dividends or distributions in additional shares of the Company s capital stock
- declare or pay a dividend in connection with the implementation of a shareholders rights plan, or issue stock under such a plan, or redeem or repurchase any rights distributed pursuant to such a plan
- purchase common stock for issuance pursuant to any employee benefit plans

ITEM 5. OTHER INFORMATION

The Company has elected to include the following information in this Quarterly Report on Form 10-Q in lieu of reporting it in a separately filed Form 8-K. This information would otherwise have been reported in a Form 8-K under the heading Item 2.05 Costs Associated with Exit or Disposal Activities.

Restructuring Charge

On May 5, 2009, the Company adopted a plan to further streamline its operations by continuing to reduce its geographic footprint and consolidate servicing operations and related support services.

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

The Company estimates that the total before-tax charge to earnings associated with this restructuring plan will consist of $4 million to $6 million in severance costs, up to $4 million in contract termination costs, and up to $6 million in non-cash charges related to the impairment of and/or the acceleration of depreciation on property and equipment.

ITEM 6. EXHIBITS

10.1+*	Second Amended Executive Officers Bonus Plan
31.1*	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of Chief Executive Officer Michael S. Dunlap.
31.2*	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of Chief Financial Officer Terry J. Heimes.
32**	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith.

** Furnished herewith.

\+ Indicates a compensatory plan or arrangement.

SIGNATURES

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

	NELNET, INC.
Date: May 11, 2009	By: /s/ MICHAEL S. DUNLAP Name: Michael S. Dunlap Title: Chairman and Chief Executive Officer
	By: /s/ TERRY J. HEIMES Name: Terry J. Heimes Title: Chief Financial Officer

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