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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported)
August 9, 2010

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

| | | |
|---|--|---|
| Nebraska _____ (State or other jurisdiction of incorporation) | 001-31924 _____ (Commission File Number) | 84-0748903 _____ (I.R.S. Employer Identification No.) |
| 121 South 13th Street Suite 201 Lincoln, Nebraska _____ (Address of principal executive offices) | | 68508 _____ (Zip Code) |

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 2.02 Results of Operations and Financial Condition.

On August 9, 2010, Nelnet, Inc. (the “Company”) issued a press release with respect to its financial results for the quarter ended June 30, 2010. A copy of the press release is furnished as Exhibit 99.1 to this report. In addition, a copy of the supplemental financial information for the quarter ended June 30, 2010, which was made available on the Company’s website at www.nelnetinvestors.com on August 9, 2010 in connection with the press release, is furnished as Exhibit 99.2 to this report.

The above information and Exhibits 99.1 and 99.2 shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934 (the “Exchange Act”), nor shall such information and Exhibits be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Exchange Act, except as shall be expressly set forth by specific reference in such a filing. In addition, information on the Company’s website is not incorporated by reference into this report and should not be considered part of this report.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits. The following exhibits are furnished as part of this report:

| Exhibit No. | Description |
|----------------|---|
| 99.1 | Press Release dated August 9, 2010 – “Nelnet Reports Second Quarter 2010 Results” |
| 99.2 | Supplemental Financial Information for the Quarter Ended June 30, 2010 |

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 hereunto duly authorized.

Dated: August 9, 2010

NELNET, INC.

By: /s/ TERRY J. HEIMES

Name: Terry J. Heimes

Title: Chief Financial Officer

Nelnet Reports Second Quarter 2010 Results

- Base net income of \$1.17 per share for the second quarter of 2010
- Payment processing and enrollment services revenue increased 19 percent
- Servicing 1.5 million borrowers for the Department of Education
- Repurchased 663,443 shares of common stock

LINCOLN, Neb., August 9, 2010 -- Nelnet (NYSE: NNI) today reported base net income of \$58.4 million, or \$1.17 per share, for the second quarter of 2010, compared with \$29.7 million, or \$0.60 per share, for the same quarter a year ago. For the six months ended June 30, 2010, the company reported base net income of \$114.9 million, or \$2.31 per share, compared with \$62.2 million, or \$1.26 per share, for the same period in 2009. Base net income excludes restructuring charges.

Base net income in the second quarter of 2010 includes pre-tax gains of \$8.8 million, or \$0.11 per share after tax, from the company's repurchase of \$118 million of asset-backed debt and is compared with pre-tax gains of \$5.9 million, or \$0.07 per share after tax, from the repurchase of debt in the second quarter of 2009.

“Through the first two quarters of 2010, we are excited with our operating results and the progress we are making toward key objectives,” said Mike Dunlap, Nelnet Chairman and Chief Executive Officer. “Nelnet is a strong, diverse, and dynamic company with a bright future. Growing and diversifying our fee-based revenue, maximizing the value of our loan portfolio, managing our expense structure as we grow, and using our financial strength and liquidity to make the most of opportunities will continue to be priorities.”

Diversifying and increasing fee-based revenue

In the second quarter of 2010, Nelnet's fee-based revenue from the company's payment processing and enrollment services businesses increased \$7.6 million, or 19 percent, to \$48.2 million, compared with the same period in 2009.

In September 2009, Nelnet began servicing student loans for the Department of Education under a contract that will increase the company's fee-based revenue as the servicing volume increases. As of June 30, 2010, the company was servicing \$12.9 billion of loans for 1.5 million borrowers on behalf of the Department. In the second quarter of 2010, Nelnet reported revenue from this servicing contract of \$6.1 million, compared with \$3.5 million for the first quarter of 2010.

Maximizing the value of existing portfolio

At June 30, 2010, net student loan assets were \$26.7 billion, including \$1.9 billion of federal student loans purchased from third parties during the second quarter and \$2.0 billion of federal student loans classified as held for sale. The loans held for sale are expected to generate a pre-tax gain of \$30 million to \$33 million when the loans are sold to the Department under its Loan Purchase Program during the fourth quarter of 2010.

Substantially all of Nelnet's federal student loans are financed for the life of the loan at rates the company currently believes will generate significant future cash flow. Narrower spreads and historically low interest rates are continuing to provide an opportunity for the company to generate substantial near-term value and cash flow from its student loan portfolio. For the second quarter of 2010, Nelnet reported net interest income of \$97.4 million, compared with \$57.1 million for the same period a year ago. Net interest income includes \$31.1 million and \$37.1 million of fixed rate floor income for the second quarters of 2010 and 2009, respectively. If interest rates remain low, the company anticipates earning significant fixed rate floor income in future quarters as well.

The company reported core student loan spread of 1.54 percent for the second quarter of 2010, compared with 1.09 percent for the same period of 2009 and 1.45 percent for the first quarter of 2010. Core student loan spread is benefiting from the significant tightening between the three-month financial commercial paper rate (CP) and three-month LIBOR indices. Most of the company's federal student loans are indexed to CP and the company's debt is indexed to LIBOR, therefore, disparity between these indices has a negative impact on the company's interest income.

Managing operating expenses

From the same period a year ago, comparable operating expenses increased \$2.4 million, or 3 percent, for the three months ended June 30, 2010.

Repurchasing common stock

During the three-month period ended June 30, 2010, Nelnet repurchased and retired 663,443 shares of Class A common stock, under the company's stock repurchase program, for \$12.8 million, or an average price of \$19.33 per share.

GAAP net income

Nelnet reported GAAP net income for the second quarter of 2010 of \$50.0 million, or \$0.99 per dilutive share, compared with \$8.2 million, or \$0.16 per dilutive share, for the second quarter of 2009. For the six months ended June 30, 2010, the company reported GAAP net income of \$104.3 million, or \$2.08 per dilutive share, compared with \$33.7 million, or \$0.68 per dilutive share, for the same period in 2009.

While base net income is not a substitute for reported results under GAAP, 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. 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.

A description of base net income and a reconciliation of GAAP net income to base net income can be found in supplemental financial information to this earnings release online at www.nelnetinvestors.com/results.cfm.

Board of Directors declares dividend

The Nelnet Board of Directors declared a third quarter cash dividend on the company's outstanding shares of Class A common stock and Class B common stock of \$0.07 per share. The dividend will be paid on September 15, 2010, to shareholders of record at the close of business on September 1, 2010. Nelnet currently has 38.0 million shares of Class A common stock and 11.5 million shares of Class B common stock outstanding.

Nelnet will host a conference call to discuss this earnings release at 11:00 a.m. (Eastern) Tuesday, August 10, 2010. To access the call live, participants in the United States and Canada should dial 877.303.9101, and international callers should dial 760.666.4786 at least 15 minutes prior to the call. A live audio webcast of the call will also be available at www.nelnetinvestors.com under the Events & Webcasts menu. A replay of the conference call will be available through August 20, 2010. To access the replay via telephone within the United States and Canada, callers should dial 800.642.1687. International callers should dial 706.645.9291. All callers accessing the replay will need to use the confirmation code 82397628. A replay of the audio webcast will also be available at www.nelnetinvestors.com.

This press release contains forward-looking statements based on management's current expectations as of the date of this release. These statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Because such statements inherently involve risks and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking statements. Such risks include, among others, changes in the terms of student loans and the educational credit marketplace arising from the implementation of applicable laws and regulations, and from changes in such laws and regulations; adverse results in legal disputes; changes in the demand for educational financing or in financing preferences of educational institutions, students, and their families; increased financing costs; and changes in the general interest rate environment. For more information, see the company's filings with the Securities and Exchange Commission, including the forward-looking statements contained in the company's supplemental financial information for the second quarter of 2010. All information in this release is as of August 9, 2010. The company does not undertake any obligation to update or revise these forward-looking statements to conform the statement to actual results or changes in the company's expectations.

Condensed Consolidated Statements of Income

| | Three months ended | | | Six months ended | |
|--|--------------------|-------------|-------------|------------------|-------------|
| | June 30, | March 31, | June 30, | June 30, | June 30, |
| | 2010 | 2010 | 2009 | 2010 | 2009 |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Interest income: | | | | | |
| Loan interest | \$ 167,902 | 151,048 | 177,202 | 318,950 | 366,772 |
| Amortization of loan premiums and deferred origination costs | (12,549) | (16,081) | (16,789) | (28,630) | (35,440) |
| Investment interest | 1,304 | 1,001 | 2,776 | 2,305 | 6,867 |
| Total interest income | 156,657 | 135,968 | 163,189 | 292,625 | 338,199 |
| Interest expense: | | | | | |
| Interest on bonds and notes payable | 59,243 | 50,859 | 106,082 | 110,102 | 252,584 |
| Net interest income | 97,414 | 85,109 | 57,107 | 182,523 | 85,615 |
| Less provision for loan losses | 6,200 | 5,000 | 8,000 | 11,200 | 15,500 |
| Net interest income after provision for loan losses | 91,214 | 80,109 | 49,107 | 171,323 | 70,115 |
| Other income (expense): | | | | | |
| Loan and guaranty servicing revenue | 36,652 | 36,394 | 28,803 | 73,046 | 55,274 |
| Tuition payment processing and campus commerce revenue | 12,795 | 17,382 | 11,848 | 30,177 | 27,386 |
| Enrollment services revenue | 35,403 | 33,271 | 28,747 | 68,674 | 57,518 |
| Software services revenue | 5,499 | 4,344 | 6,119 | 9,843 | 11,824 |
| Other income | 8,496 | 7,260 | 5,665 | 15,756 | 14,452 |
| Gain on sale of loans and debt repurchases, net | 8,759 | 10,177 | 5,666 | 18,936 | 13,535 |
| Derivative market value and foreign currency adjustments | (7,231) | 4,105 | (34,013) | (3,126) | (38,893) |
| Derivative settlements, net | (3,377) | (2,423) | 9,535 | (5,800) | 33,893 |
| Total other income | 96,996 | 110,510 | 62,370 | 207,506 | 174,989 |
| Operating expenses: | | | | | |
| Salaries and benefits | 41,034 | 41,641 | 40,180 | 82,675 | 78,406 |
| Other expenses | 36,844 | 33,522 | 33,299 | 70,366 | 63,697 |
| Cost to provide enrollment services | 24,111 | 22,025 | 18,092 | 46,136 | 35,885 |
| Amortization of intangible assets | 6,232 | 6,516 | 5,785 | 12,748 | 11,939 |
| Total operating expenses | 108,221 | 103,704 | 97,356 | 211,925 | 189,927 |
| Income before income taxes | 79,989 | 86,915 | 14,121 | 166,904 | 55,177 |
| Income tax expense | (29,996) | (32,593) | (5,918) | (62,589) | (21,519) |
| Net income | \$ 49,993 | 54,322 | 8,203 | 104,315 | 33,658 |
| Earnings per common share: | | | | | |
| Net earnings - basic | \$ 1.00 | 1.09 | 0.16 | 2.08 | 0.68 |
| Net earnings - diluted | \$ 0.99 | 1.08 | 0.16 | 2.08 | 0.68 |
| Dividends per common share | \$ 0.07 | 0.07 | — | 0.14 | — |
| Weighted average shares outstanding: | | | | | |
| Basic | 49,735,398 | 49,716,696 | 49,534,413 | 49,726,099 | 49,339,451 |

| | | | | | |
|---------|------------|------------|------------|------------|------------|
| Diluted | 49,934,648 | 49,912,589 | 49,733,561 | 49,923,680 | 49,543,461 |
|---------|------------|------------|------------|------------|------------|



Condensed Consolidated Balance Sheets

| | As of June 30, 2010 (unaudited) | As of December 31, 2009 | As of June 30, 2009 (unaudited) |
|--|--|----------------------------------|--|
| Assets: | | | |
| Student loans receivable, net | \$ 24,746,932 | 23,926,957 | 23,889,571 |
| Student loans receivable - held for sale | 1,995,869 | — | 1,749,290 |
| Cash, cash equivalents, and investments (trading securities) | 305,778 | 338,181 | 371,380 |
| Restricted cash and investments | 706,965 | 717,233 | 1,123,607 |
| Goodwill | 143,717 | 143,717 | 175,178 |
| Intangible assets, net | 48,708 | 53,538 | 65,115 |
| Other assets | 620,054 | 696,801 | 736,401 |
| Total assets | <u>\$ 28,568,023</u> | <u>25,876,427</u> | <u>28,110,542</u> |
| Liabilities: | | | |
| Bonds and notes payable | \$ 27,428,772 | 24,805,289 | 27,169,573 |
| Other liabilities | 265,306 | 286,575 | 259,782 |
| Total liabilities | <u>27,694,078</u> | <u>25,091,864</u> | <u>27,429,355</u> |
| Shareholders' equity | <u>873,945</u> | <u>784,563</u> | <u>681,187</u> |
| Total liabilities and shareholders' equity | <u>\$ 28,568,023</u> | <u>25,876,427</u> | <u>28,110,542</u> |

Media contact: Ben Kiser, 402.458.3024

Investor contact: Phil Morgan, 402.458.3038

For Release: August 9, 2010

Media Contact: Ben Kiser, 402.458.3024

Investor Contact: Phil Morgan, 402.458.3038

Nelnet, Inc. supplemental financial information for the second quarter 2010

(All dollars are in thousands, except per share amounts, unless otherwise noted)

This earnings supplement 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 under "Risk Factors" included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009 and the risks and uncertainties set forth elsewhere in the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010; increases in financing costs; limits on liquidity; any adverse outcomes in any significant litigation to which the Company is a party; and changes in the terms of student loans and the educational credit marketplace arising from the implementation of, or changes in, applicable laws and regulations, which may reduce the average term, special allowance payments, and yields on student loans under the Federal Family Education Loan Program (the "FFEL Program" or "FFELP"). 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 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, refinance, or carry education loans; losses from loan defaults; changes in prepayment rates, guaranty rates, loan floor rates, and credit spreads; uncertainties inherent in forecasting future cash flows from student loan assets and related asset-backed securitizations; the uncertain nature of estimated expenses that may be incurred and cost savings that may result from restructuring plans; and changes in general economic conditions. The preparation of the Company's consolidated financial statements also requires management to make certain estimates and assumptions including estimates and assumptions about future events. These estimates or assumptions may prove to be incorrect. All forward-looking statements contained in this report are qualified by these cautionary statements and are made only as of the date of this document. The Company does not undertake any obligation to update or revise these forward-looking statements to conform the statement to actual results or changes in the Company's expectations.

Condensed Consolidated Statements of Income

| | Three months ended | | | Six months ended | |
|--|---------------------------------|----------------------------------|---------------------------------|---------------------------------|---------------------------------|
| | June 30, 2010 (unaudited) | March 31, 2010 (unaudited) | June 30, 2009 (unaudited) | June 30, 2010 (unaudited) | June 30, 2009 (unaudited) |
| Interest income: | | | | | |
| Loan interest | \$ 167,902 | 151,048 | 177,202 | 318,950 | 366,772 |
| Amortization of loan premiums and deferred origination costs | (12,549) | (16,081) | (16,789) | (28,630) | (35,440) |
| Investment interest | 1,304 | 1,001 | 2,776 | 2,305 | 6,867 |
| Total interest income | 156,657 | 135,968 | 163,189 | 292,625 | 338,199 |
| Interest expense: | | | | | |
| Interest on bonds and notes payable | 59,243 | 50,859 | 106,082 | 110,102 | 252,584 |
| Net interest income | 97,414 | 85,109 | 57,107 | 182,523 | 85,615 |
| Less provision for loan losses | 6,200 | 5,000 | 8,000 | 11,200 | 15,500 |
| Net interest income after provision for loan losses | 91,214 | 80,109 | 49,107 | 171,323 | 70,115 |
| Other income (expense): | | | | | |
| Loan and guaranty servicing revenue | 36,652 | 36,394 | 28,803 | 73,046 | 55,274 |
| Tuition payment processing and campus commerce revenue | 12,795 | 17,382 | 11,848 | 30,177 | 27,386 |
| Enrollment services revenue | 35,403 | 33,271 | 28,747 | 68,674 | 57,518 |
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| Other income | 8,496 | 7,260 | 5,665 | 15,756 | 14,452 |
| Gain on sale of loans and debt repurchases, net | 8,759 | 10,177 | 5,666 | 18,936 | 13,535 |
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| Derivative settlements, net | (3,377) | (2,423) | 9,535 | (5,800) | 33,893 |
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| Total operating expenses | 108,221 | 103,704 | 97,356 | 211,925 | 189,927 |
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| Income tax expense | (29,996) | (32,593) | (5,918) | (62,589) | (21,519) |
| Net income | \$ 49,993 | 54,322 | 8,203 | 104,315 | 33,658 |
| Earnings per common share: | | | | | |
| Net earnings - basic | \$ 1.00 | 1.09 | 0.16 | 2.08 | 0.68 |
| Net earnings - diluted | \$ 0.99 | 1.08 | 0.16 | 2.08 | 0.68 |
| Dividends per common share | \$ 0.07 | 0.07 | — | 0.14 | — |
| Weighted average shares outstanding: | | | | | |

| | | | | | |
|---------|------------|------------|------------|------------|------------|
| Basic | 49,735,398 | 49,716,696 | 49,534,413 | 49,726,099 | 49,339,451 |
| Diluted | 49,934,648 | 49,912,589 | 49,733,561 | 49,923,680 | 49,543,461 |

Condensed Consolidated Balance Sheets

| | As of June 30, 2010 (unaudited) | As of December 31, 2009 | As of June 30, 2009 (unaudited) |
|--|--|-------------------------------|--|
| Assets: | | | |
| Student loans receivable, net | \$ 24,746,932 | 23,926,957 | 23,889,571 |
| Student loans receivable - held for sale | 1,995,869 | — | 1,749,290 |
| Cash, cash equivalents, and investments (trading securities) | 305,778 | 338,181 | 371,380 |
| Restricted cash and investments | 706,965 | 717,233 | 1,123,607 |
| Goodwill | 143,717 | 143,717 | 175,178 |
| Intangible assets, net | 48,708 | 53,538 | 65,115 |
| Other assets | 620,054 | 696,801 | 736,401 |
| Total assets | <u>\$ 28,568,023</u> | <u>25,876,427</u> | <u>28,110,542</u> |
| Liabilities: | | | |
| Bonds and notes payable | \$ 27,428,772 | 24,805,289 | 27,169,573 |
| Other liabilities | 265,306 | 286,575 | 259,782 |
| Total liabilities | <u>27,694,078</u> | <u>25,091,864</u> | <u>27,429,355</u> |
| Shareholders' equity | <u>873,945</u> | <u>784,563</u> | <u>681,187</u> |
| Total liabilities and shareholders' equity | <u>\$ 28,568,023</u> | <u>25,876,427</u> | <u>28,110,542</u> |

Reclassifications

Certain amounts previously reported have been reclassified to conform to the current period presentation. The reclassifications were made to change the income statement presentation to provide the users of the financial statements additional information related to the operating results of the Company. These reclassifications include reclassifying the Company's gain on debt repurchases to "gain on sale of loans and debt repurchases, net," which were previously recorded in "other income." In addition, in the first quarter of 2010, a change in operating results reviewed by management changed the operating segments historically reported by the Company. Prior period segment operating results were restated to conform to the current period presentation. See "Operating Segments" for additional information on the change in operating segment reporting. The reclassifications had no effect on consolidated net income or consolidated assets and liabilities.

OVERVIEW

The Company is a transaction processing and finance company focused primarily on providing quality education related products and services to students, families, schools, and financial institutions nationwide. The Company earns its revenue from fee-based processing businesses, including its loan servicing, payment processing, and interactive marketing businesses, and the net interest income on its student loan portfolio.

The Company has certain business objectives in place that include:

- Grow and diversify revenue from fee based businesses
- Manage operating costs
- Maximize the value of existing portfolio
- Use liquidity to capitalize on market opportunities

Achieving these business objectives has impacted and will continue to impact the financial condition and operating results of the Company during 2010. Each of these items are discussed below.

Recent Developments

Legislation – FFELP

On March 30, 2010, President Obama signed into law the Reconciliation Act of 2010. Effective July 1, 2010, this law prohibits new loan originations under the FFEL Program and requires that all new federal loan originations be made through the Direct Loan Program. If a first disbursement has been made on a FFELP loan prior to July 1, 2010, subsequent disbursements of that loan may still be made under the FFELP. The new law does not alter or affect the terms and conditions of existing FFELP loans.

As a result of the Reconciliation Act of 2010, the Company will no longer originate new (first disbursement) FFELP loans after June 30, 2010. As such, subsequent to 2010, the Company will no longer recognize a gain from originating and subsequently selling FFELP loans to the Department of Education under the Department's Purchase Program. During the third and fourth quarters of 2009, the Company recognized a pre-tax gain of \$9.7 million and \$26.9 million, respectively, from selling \$427.7 million and \$1.6 billion, respectively, of 2008-2009 academic year loans to the Department under the Purchase Program. The Company continues to use the Department's Participation Program to fund loans originated for the 2009-2010 academic year. As of June 30, 2010, the Company had \$2.0 billion of loans classified as held for sale funded in the Participation Program that are expected to be sold to the Department under the Purchase Program. The Company estimates that it will recognize a pre-tax gain during the fourth quarter of 2010 of approximately \$30 million to \$33 million when it sells these loans under this program. In addition, as a result of the Reconciliation Act of 2010, net interest income on the Company's existing FFELP loan portfolio, as well as fee-based revenue from guarantee and third-party FFELP servicing and education loan software licensing and consulting fees, will decline over time as the Company and its customers' FFELP loan portfolios are paid down. During the six month period ended June 30, 2010 and year ended December 31, 2009, the Company recognized approximately \$187 million and \$247 million, respectively, of net interest income on its FFELP loan portfolio; \$61 million and \$100 million, respectively, in guarantee and third-party FFELP servicing revenue; and approximately \$5 million and \$12 million, respectively, in education loan software licensing and consulting fees related to the FFEL Program.

Due to the legislative changes in the student loan industry, the Company believes there will be opportunities to purchase FFELP loan portfolios and/or expand its current level of guarantee and third-party FFELP servicing volume on behalf of current FFELP participants looking to modify their involvement in FFELP and/or exit that business. For example, during the second quarter of 2010, the Company purchased \$1.9 billion of FFELP student loans from various third-parties.

Direct Loan Servicing Contract

In June 2009, the Company was one of four private sector companies awarded a student loan servicing contract by the Department. The Company began servicing loans for the Department in September 2009 and, as of June 30, 2010, the Company was servicing \$12.9 billion of loans for 1.5 million borrowers under this contract. The Department has estimated \$116 billion of new student loan originations will be funded through the Direct Loan Program for the 2010-2011 academic year (July 1, 2010 – June 30, 2011). This volume will be allocated by the Department to the four servicers based on performance factors such as customer satisfaction levels and default rates. For the six-month period ended June 30, 2010, the Company earned \$9.7 million in revenue under this contract.

Grow and Diversify Revenue from Fee-Based Businesses

The Company has expanded products and services generated from businesses that are not dependent upon the FFEL Program, thereby reducing legislative and political risk related to the education lending industry. Revenues from these businesses are primarily generated from products and services offered in the Company's Tuition Payment Processing and Campus Commerce and Enrollment Services operating segments. In addition, in September 2009, the Company began servicing federally-owned student loans for the Department of Education. As discussed previously, the amount of federally-owned student loans originated through the Direct Loan Program is expected to increase substantially, which will lead to an increase in servicing volume and related revenue for the Company. As shown below, revenue earned from the Company's fee-based operating segments has grown \$14.5 million (19.0%) and \$29.3 million (19.1%) for the three and six months ended June 30, 2010 compared with the same periods in 2009, respectively.

| | Three months ended | | | |
|--|--------------------|------------------|---------------|--------------|
| | June 30, 2010 | June 30, 2009 | \$ Change | % Change |
| Student Loan and Guaranty Servicing (a) | \$ 42,463 | 35,565 | 6,898 | 19.4% |
| Enrollment Services | 35,403 | 28,747 | 6,656 | 23.2 |
| Tuition Payment Processing and Campus Commerce | 12,799 | 11,859 | 940 | 7.9 |
| Total revenue from fee-based businesses | <u>\$ 90,665</u> | <u>76,171</u> | <u>14,494</u> | <u>19.0%</u> |

| | Six months ended | | | |
|--|------------------|------------------|-----------|----------|
| | June 30, 2010 | June 30, 2009 | \$ Change | % Change |
| Student Loan and Guaranty Servicing (a) | \$ 83,692 | 68,301 | 15,391 | 22.5% |
| Enrollment Services | 68,674 | 57,518 | 11,156 | 19.4 |
| Tuition Payment Processing and Campus Commerce | 30,189 | 27,427 | 2,762 | 10.1 |
| Total revenue from fee-based businesses | \$ 182,555 | 153,246 | 29,309 | 19.1% |

(a) The Student Loan and Guaranty Servicing operating segment included \$12.3 million and \$5.8 million of revenue earned from rehabilitation collections on defaulted loans for the three months ended June 30, 2010 and 2009, respectively, and \$22.3 million and \$6.2 million for the six months ended June 30, 2010 and 2009, respectively.

Manage Operating Costs

The table below compares current year operating expenses with prior periods. The Company continues to manage operating costs while growing its fee-based businesses.

| | Three months ended | | | |
|--|--------------------|------------------|-----------|----------|
| | June 30, 2010 | June 30, 2009 | \$ Change | % Change |
| Salaries and benefits (a) | \$ 40,962 | 38,699 | 2,263 | 5.8% |
| Other expenses (b) | 34,933 | 34,824 | 109 | 0.3 |
| Operating expenses, excluding the cost to provide enrollment services, restructure expenses, and collection costs related to loan rehabilitation revenue | 75,895 | 73,523 | \$ 2,372 | 3.2% |
| Cost to provide enrollment services | 24,111 | 18,092 | | |
| Restructure expense (c) | 72 | 3,288 | | |
| Collection costs related to loan rehabilitation revenue (d) | 8,143 | 2,453 | | |
| Total operating expenses | \$ 108,221 | 97,356 | | |

| | Three months ended | | | |
|--|--------------------|-------------------|-----------|----------|
| | June 30, 2010 | March 31, 2010 | \$ Change | % Change |
| Salaries and benefits (a) | \$ 40,962 | 40,644 | 318 | 0.8% |
| Other expenses (b) | 34,933 | 34,615 | 318 | 0.9 |
| Operating expenses, excluding the cost to provide enrollment services, restructure expenses, and collection costs related to loan rehabilitation revenue | 75,895 | 75,259 | \$ 636 | 0.8% |
| Cost to provide enrollment services | 24,111 | 22,025 | | |
| Restructure expense (c) | 72 | 1,197 | | |
| Collection costs related to loan rehabilitation revenue (d) | 8,143 | 5,223 | | |
| Total operating expenses | \$ 108,221 | 103,704 | | |

| | Six months ended | | | |
|--|------------------|------------------|-----------|----------|
| | June 30, 2010 | June 30, 2009 | \$ Change | % Change |
| Salaries and benefits (a) | \$ 81,606 | 76,925 | 4,681 | 6.1% |
| Other expenses (b) | 69,548 | 70,952 | (1,404) | (2.0) |
| Operating expenses, excluding the cost to provide enrollment services, restructure expenses, and collection costs related to loan rehabilitation revenue | 151,154 | 147,877 | \$ 3,277 | 2.2% |
| Cost to provide enrollment services | 46,136 | 35,885 | | |
| Restructure expense (c) | 1,269 | 3,288 | | |
| Collection costs related to loan rehabilitation revenue (d) | 13,366 | 2,877 | | |
| Total operating expenses | \$ 211,925 | 189,927 | | |

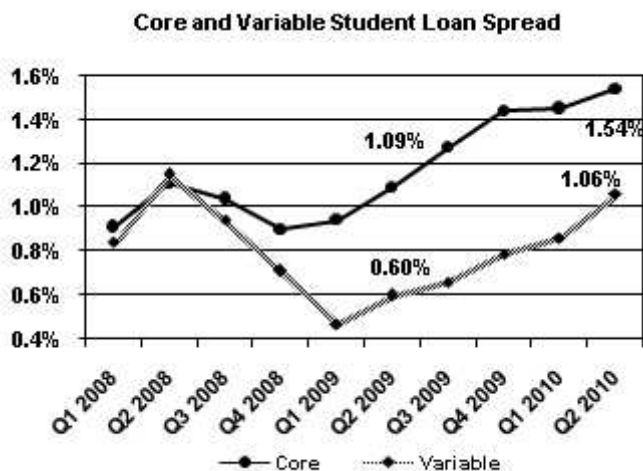
- (a) Excludes restructure expenses related to employee termination costs.
- (b) Excludes costs to provide enrollment services, restructure expenses related to lease terminations, and collection costs related to loan rehabilitation revenue.
- (c) Restructure expense is included in “salaries and benefits” and “occupancy and communications” in the consolidated statements of income.
- (d) The Company incurred collection costs directly related to revenue earned from rehabilitation loans. These costs are included in “professional and other services” in the consolidated statements of income and are shown separately in the above table for comparability purposes for the periods shown.

Maximize the Value of Existing Portfolio

Fixed rate floor income

Loans originated prior to April 1, 2006 generally earn interest at the higher of a floating rate based on the Special Allowance Payment or the SAP formula set by the Department and the borrower rate, which is fixed over a period of time. The SAP formula is based on an applicable 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 earns additional spread income that it refers to as floor income. For loans where the borrower rate is fixed to term, the Company earns floor income for an extended period of time, which the Company refers to as fixed rate floor income.

The Company's core student loan spread (variable student loan spread including fixed rate floor contribution) and variable student loan spread (net interest margin excluding fixed rate floor income) is summarized below.



As reflected in the previous table, the Company's core and variable student loan spread increased in 2010 compared with the same periods in 2009. The Company's variable student loan spread increased throughout 2009 and 2010 as a result of the tightening of the commercial paper rate, which is the primary rate the Company earns on its student loan portfolio, and the LIBOR rate, which is the primary rate the Company pays to fund its student loan assets. The CP/LIBOR spread during the first and second quarters of 2010 was 5 and 2 basis points, respectively, compared to 52 and 45 basis points for the same periods in 2009, respectively. The primary difference between variable student loan spread and core student loan spread is fixed rate floor income. A summary of fixed rate floor income and its contribution to core spread follows.

| | Three months ended June 30, | | Six months ended June 30, | |
|---|-----------------------------|---------------|---------------------------|---------------|
| | 2010 | 2009 | 2010 | 2009 |
| Fixed rate floor income, gross | \$ 35,340 | 37,054 | 74,467 | 67,339 |
| Derivative settlements (a) | (4,286) | — | (8,142) | — |
| Fixed rate floor income, net | <u>\$ 31,054</u> | <u>37,054</u> | <u>66,325</u> | <u>67,339</u> |
| Fixed rate floor income contribution to spread, net | 0.48% | 0.59% | 0.53% | 0.54% |

(a) includes settlement payments on derivatives used to hedge student loans

The high levels of fixed rate floor income earned during 2009 and 2010 are due to historically low interest rates. If interest rates remain low, the Company anticipates continuing to earn significant fixed rate floor income in future periods.

Future Cash Flow from Portfolio

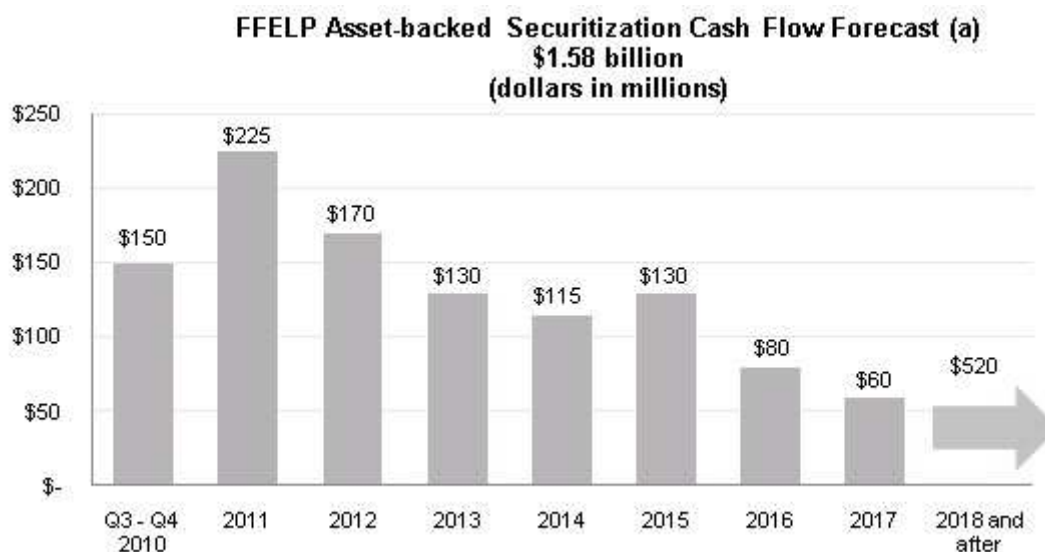
The majority of the Company's portfolio of student loans is funded in asset-backed securitizations that are structured to substantially match the maturity of the funded assets, thereby minimizing liquidity risk. In addition, due to (i) the difference between the yield the Company receives on the loans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

As of June 30, 2010, based on cash flow models developed to reflect management's current estimate of, among other factors, prepayments, defaults, deferment, forbearance, and interest rates, the Company currently expects future undiscounted cash flows from its portfolio to be approximately \$1.58 billion as detailed below.

The forecasted cash flow presented below includes all loans currently funded in asset-backed securitizations. As of June 30, 2010, the Company had \$21.5 billion of loans included in asset-backed securitizations which represented 88 percent of its total FFELP student loan portfolio classified as held for investment. The forecasted cash flow does not include cash flows that the Company expects to receive related to loans funded through the Department of Education's Conduit and Loan Participation and Purchase Programs and other warehouse facilities or loans originated and/or acquired subsequent to June 30, 2010.

The Company expects the future cash flows shown below would correspond to earnings when excluding the amortization of loan premiums/discounts and deferred origination costs, potential derivative activity used by the Company to hedge the portfolio, and other portfolio management and administrative costs. Because the Company does not use gain-on-sale accounting when issuing asset-backed securitizations, the future earnings of these transactions are not yet reflected in the Company's consolidated financial statements.

The increase in the Company's expected portfolio cash flows from December 31, 2009 (which was \$1.43 billion) is due to completing additional asset-backed securitizations during 2010 and favorable changes in forward interest rates, offset by cash received during the first two quarters of 2010.



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

Prepayments : The primary variable in establishing a life of loan estimate is the level and timing of prepayments. Prepayments equal the percentage of loans that prepay annually as a percentage of the beginning of period balance, net of scheduled principal payments. A number of factors can affect the prepayment estimate, including the level of consolidation activity and default rates. Should any of these factors change, management may revise its assumptions which in turn would impact the projected future cash flow. The Company's cash flow forecast above assumes prepayments that are generally consistent with those utilized in recent asset-backed securities transactions. If management used a prepayment assumption two times greater than what was used to forecast the cash flow, the cash flow forecast is reduced by approximately \$320 million to \$400 million.

Interest rates : The Company funds the majority of its student loans with three-month LIBOR ("LIBOR") indexed floating rate securities. Meanwhile, the interest earned on the Company's student loan assets are indexed primarily to a commercial paper rate ("CP"). The different interest rate characteristics of the Company's loan assets and liabilities funding these assets results in basis risk. The Company's cash flow forecast assumes LIBOR will exceed CP by 12 basis points for the life of the portfolio, which approximates the historical relationship between these indexes. If the forecast is performed assuming a spread of 24 basis points between CP and LIBOR for the life of the portfolio, the cash flow forecast is reduced by approximately \$100 million to \$150 million.

The Company uses the current forward interest rate yield curve to forecast cash flows. A change in the forward interest rate curve would impact the future cash flows generated from the portfolio. An increase in future interest rates will reduce the amount of fixed rate floor income the Company is currently receiving. The Company attempts to mitigate the impact of a rise in short-term rates by hedging interest rate risks. See Item 3, "Quantitative and Qualitative Disclosures about Market Risk — Interest Rate Risk."

FFELP 2009-2010 Academic Year Originations

The Company continues to use the Department's Participation Program to fund loans originated for the 2009-2010 academic year. As of June 30, 2010, the Company had \$2.0 billion of FFELP loans funded using the Participation Program, which are classified as held for sale on the Company's consolidated balance sheet. These loans are expected to be sold to the Department under its Purchase Program during the fourth quarter of 2010. Upon selling the \$2.0 billion in loans held for sale, the Company expects to recognize a pre-tax gain of approximately \$30 million to \$33 million.

Use Liquidity to Capitalize on Market Opportunities

The Company has used and will continue to use its improved liquidity position to capitalize on market opportunities, including debt repurchases, student loan purchases, and stock repurchases, as discussed further below.

Debt Repurchases

During the first and second quarters of 2010, the Company used operating cash to repurchase additional asset-backed securities as summarized below. Due to improvements in the capital markets, the opportunities for the Company to repurchase debt at less than par are becoming more limited.

| | <u>Notional amount</u> | <u>Purchase price</u> | <u>Gain</u> |
|-----------------------------------|------------------------|-----------------------|---------------|
| Three months ended March 31, 2010 | \$ 274,250 | 264,073 | 10,177 |
| Three months ended June 30, 2010 | <u>117,775</u> | <u>109,016</u> | <u>8,759</u> |
| Six months ended June 30, 2010 | <u>\$ 392,025</u> | <u>373,089</u> | <u>18,936</u> |

Student Loan Purchases

As disclosed previously, during the second quarter of 2010, the Company purchased \$1.9 billion (par value) of student loans. The Company believes there will be additional opportunities to purchase FFELP loan portfolios and/or expand its current level of guarantee and third-party FFELP servicing volume from current FFELP participants looking to modify their involvement and/or exit the market.

Stock Repurchases

During the three month period ended June 30, 2010, the Company repurchased and retired 663,443 shares of Class A common stock for \$12.8 million (average share price of \$19.33 per share) under the Company's stock repurchase program.

Non-GAAP Performance Measures

In accordance with the rules and regulations of the Securities and Exchange Commission ("SEC"), the Company prepares financial statements in accordance with generally accepted accounting principles ("GAAP"). In addition to evaluating the Company's GAAP-based financial information, management also evaluates the Company on a non-GAAP performance measure referred to as "base net income". While "base net income" is not a substitute for reported results under GAAP, the Company provides "base net income" as additional information regarding its financial results.

“Base net income” is the primary financial performance measure used by management to develop financial plans, establish corporate performance targets, allocate resources, track results, evaluate performance, and determine incentive compensation. 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.

The following table provides a reconciliation of GAAP net income to “base net income”.

| | Three months ended | | | Six months ended | |
|--|--------------------|-------------------|------------------|------------------|------------------|
| | June 30, 2010 | March 31, 2010 | June 30, 2009 | June 30, 2010 | June 30, 2009 |
| GAAP net income | \$ 49,993 | 54,322 | 8,203 | 104,315 | 33,658 |
| Base adjustments: | | | | | |
| Derivative market value and foreign currency adjustments | 7,231 | (4,105) | 34,013 | 3,126 | 38,893 |
| Amortization of intangible assets | 6,232 | 6,516 | 5,785 | 12,748 | 11,939 |
| Compensation related to business combinations | — | — | — | — | 159 |
| Variable rate floor income, net of settlements on derivatives | — | — | (6,042) | — | (7,502) |
| Total base adjustments before income taxes | 13,463 | 2,411 | 33,756 | 15,874 | 43,489 |
| Net tax effect | (5,116) | (916) | (14,147) | (6,032) | (16,961) |
| Total base adjustments | 8,347 | 1,495 | 19,609 | 9,842 | 26,528 |
| Base net income | <u>\$ 58,340</u> | <u>55,817</u> | <u>27,812</u> | <u>114,157</u> | <u>60,186</u> |
| Earnings per share: | | | | | |
| GAAP net income | \$ 1.00 | 1.09 | 0.16 | 2.08 | 0.68 |
| Adjustment for application of the two-class method of computing earnings per share (a) | 0.01 | — | — | 0.02 | — |
| Total base adjustments | 0.16 | 0.03 | 0.40 | 0.20 | 0.54 |
| Base net income | <u>\$ 1.17</u> | <u>1.12</u> | <u>0.56</u> | <u>2.30</u> | <u>1.22</u> |

- (a) On January 1, 2009, the Company began applying the two-class method of computing earnings per share. The two-class method requires the calculation of separate earnings per share amounts for unvested share-based awards and for common stock. Unvested share-based awards that contain nonforfeitable rights to dividends are considered securities which participate in undistributed earnings with common stock. GAAP net earnings per share in the above table represents earnings per share attributable to common stockholders. The adjustment to “base net income” reflects the earnings allocated to unvested restricted stockholders.

The following table summarizes the impact to “base net income” from restructuring charges recognized by the Company.

| | Three months ended | | | Six months ended | |
|---|--------------------|-------------------|------------------|------------------|------------------|
| | June 30, 2010 | March 31, 2010 | June 30, 2009 | June 30, 2010 | June 30, 2009 |
| Base net income | \$ 58,340 | 55,817 | 27,812 | 114,157 | 60,186 |
| Adjusted base adjustments: | | | | | |
| Restructuring charges | 72 | 1,197 | 3,288 | 1,269 | 3,288 |
| Adjusted base adjustments before income taxes | 72 | 1,197 | 3,288 | 1,269 | 3,288 |
| Net tax effect | (27) | (455) | (1,378) | (482) | (1,282) |
| Total adjusted base adjustments | 45 | 742 | 1,910 | 787 | 2,006 |
| Base net income, excluding restructuring charges (net of tax) | <u>\$ 58,385</u> | <u>56,559</u> | <u>29,722</u> | <u>114,944</u> | <u>62,192</u> |
| Earnings per share: | | | | | |
| Base net income | \$ 1.17 | 1.12 | 0.56 | 2.30 | 1.22 |
| Total adjusted base adjustments | — | 0.02 | 0.04 | 0.01 | 0.04 |
| Base net income, excluding restructuring charges (net of tax) | <u>\$ 1.17</u> | <u>1.14</u> | <u>0.60</u> | <u>2.31</u> | <u>1.26</u> |

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.

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 and foreign currency adjustments : “ Base net income” excludes the periodic unrealized gains and losses that are caused by the change in fair value on derivatives used in the Company’s risk management strategy in which the Company does not qualify for “hedge treatment” under GAAP. As such, the Company recognizes changes in fair value of derivative instruments currently in earnings. 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 to manage interest rate risks include interest rate swaps and basis swaps. Management has structured the majority 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,” 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 settlements, net” on the attached condensed consolidated statements of income.

“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 settlements, net” on the attached condensed consolidated statements of income. 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 generally correlates with the change in fair value of the cross-currency interest rate swaps. However, the Company will experience unrealized gains or losses related to the cross-currency interest rate swaps if the two underlying indices (and related forward curve) do not move in parallel.

The gains and/or losses included in “derivative market value and foreign currency adjustments” on the attached condensed consolidated statements of income are primarily caused by interest rate and currency volatility, as well as the volume and terms of derivatives not receiving hedge treatment. “Base net income” excludes these unrealized gains and losses and isolates the effect of interest rate and currency volatility related to the fair value of such instruments during the period. Under GAAP, the effects of these factors on the fair value of 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. The compensation expense related to these existing agreements was fully expensed in 2009.

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.

Operating Segments

The Company earns fee-based revenue through its Student Loan and Guaranty Servicing, Tuition Payment Processing and Campus Commerce, and Enrollment Services operating segments. In addition, the Company earns net interest income on its student loan portfolio in its Asset Generation and Management operating segment. The Company's operating segments are defined by the products and services they offer or the types of customers they serve, and they reflect the manner in which financial information is currently evaluated by management. In the first quarter of 2010, internal reporting to executive management (the "chief operating decision maker") changed to reflect operational changes made within the organization. The operations of various segments changed in the first quarter of 2010 in order for the Company to capitalize on external servicing opportunities while obtaining maximum operating leverage. The change in operating results reviewed by management changed the operating segments historically reported by the Company. The operational and internal reporting changes included moving the majority of software and information technology products and services and related expenses to the Student Loan and Guaranty Servicing operating segment. The internal and external revenue and expenses related to these products and services were historically included within Corporate Activities and the former Software and Technical Services operating segment. The Software and Technical Services operating segment no longer meets the definition of an operating segment as described in the Accounting Standards Codification ("ASC") Topic 280, *Segment Reporting* . Prior period segment operating results were restated to conform to the current period presentation.

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. In 2010, the Company began allocating certain corporate overhead expenses to the individual operating segments. These expenses include certain corporate activities related to executive management, human resources, accounting and finance, legal, and marketing. These costs are allocated to each operating segment based on estimated use of such activities and services. These allocations were not made in 2009, and thus are not reflected in the 2009 segment operating results.

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

Fee-Based Operating Segments

Student Loan and Guaranty Servicing

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

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

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

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

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

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

Student Loan and Guaranty Servicing –Summary of Results

Significant items impacting 2010 operating results include:

- \$9.7 million of government servicing revenue earned in 2010 and growth of number of borrowers to 1.5 million and loan volume to \$12.9 billion under this contract.
- \$22.3 million of guaranty servicing revenue earned in 2010 from rehabilitation collections on defaulted loan assets.

Tuition Payment Processing and Campus Commerce

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 K-12 and higher education 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.

Tuition Payment Processing and Campus Commerce –Summary of Results

Significant items impacting 2010 operating results include:

- \$2.8 million (10%) increase in revenue from 2009 as a result of an increase in the number of managed tuition payment plans and campus commerce transactions processed.

Enrollment Services

The Enrollment Services operating segment offers products and services that are focused on helping colleges recruit and retain students (interactive and list marketing products and services) and helping students plan and prepare for life after high school (publishing and editing services and resource centers). Interactive marketing products and services include vendor lead management services, admissions lead generation, pay per click marketing management, email marketing, and admissions consulting. Publishing and editing services include test preparation study guides and essay editing services. Resource centers and list marketing products and services include online courses and related services and list marketing services.

Enrollment Services –Summary of Results

Significant items impacting 2010 operating results include:

- \$11.2 million (19%) increase in revenue as a result of an increase in interactive marketing services volume.
- A decrease in gross profit margin for interactive marketing services due to more competitive pricing.
- \$2.4 million increase in operating expenses due to accelerating the amortization of student list costs in 2010.

Asset Generation and Management Operating Segments

The Asset Generation and Management operating 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 and servicing of those assets, and maintenance of the debt transactions are included in this segment.

Asset Generation and Management – Summary of Results

Significant items impacting 2010 operating results include:

- Significant tightening of the CP/LIBOR spread which has increased student loan spread.
- A gain of \$18.9 million in 2010 from the purchase of \$392.0 million of the Company's asset-backed securities.
- The purchase of \$1.9 billion of FFELP student loans in the second quarter from various third-parties.
- Fixed rate floor income of \$66.3 million in 2010 (net of settlement payments on derivatives used to hedge student loans earning floor income of \$8.1 million) due to historically low interest rates.

Segment Operating Results

The tables below reflect “base net income” for each of the Company’s operating segments. Reconciliation of the segment totals to the Company’s operating results in accordance with GAAP is also included in the tables below.

| | Three months ended June 30, 2010 | | | | | | | | |
|---|---|---|------------------------|---------------|---------------------|-----------------------|--------------------------|-------------------------------------|--------------------------|
| | Fee-Based | | | Total | Asset Generation | Corporate Activity | Eliminations | "Base net income" Adjustments | GAAP |
| | Student Loan and Guaranty Servicing | Tuition Payment Processing and Campus Commerce | Enrollment Services | | | | | | |
| | | | | Fee- Based | and Management | and Overhead | and Reclassifications | to GAAP Results | Results of Operations |
| Total interest income | \$ 17 | 4 | — | 21 | 155,701 | 1,922 | (987) | — | 156,657 |
| Interest expense | — | — | — | — | 54,105 | 6,125 | (987) | — | 59,243 |
| Net interest income (loss) | 17 | 4 | — | 21 | 101,596 | (4,203) | — | — | 97,414 |
| Less provision for loan losses | — | — | — | — | 6,200 | — | — | — | 6,200 |
| Net interest income (loss) after provision for loan losses | 17 | 4 | — | 21 | 95,396 | (4,203) | — | — | 91,214 |
| Other income (expense): | | | | | | | | | |
| Loan and guaranty servicing revenue | 36,652 | — | — | 36,652 | — | — | — | — | 36,652 |
| Tuition payment processing and campus commerce revenue | — | 12,795 | — | 12,795 | — | — | — | — | 12,795 |
| Enrollment services revenue | — | — | 35,403 | 35,403 | — | — | — | — | 35,403 |
| Software services revenue | 5,499 | — | — | 5,499 | — | — | — | — | 5,499 |
| Other income | 295 | — | — | 295 | 4,636 | 3,565 | — | — | 8,496 |
| Gain on sale of loans and debt repurchases, net | — | — | — | — | 8,759 | — | — | — | 8,759 |
| Intersegment revenue | 23,834 | 66 | 14 | 23,914 | — | 4,098 | (28,012) | — | — |
| Derivative market value and foreign currency adjustments | — | — | — | — | — | — | — | (7,231) | (7,231) |
| Derivative settlements, net | — | — | — | — | (3,377) | — | — | — | (3,377) |
| Total other income (expense) | 66,280 | 12,861 | 35,417 | 114,558 | 10,018 | 7,663 | (28,012) | (7,231) | 96,996 |
| Operating expenses: | | | | | | | | | |
| Salaries and benefits | 23,327 | 6,594 | 6,447 | 36,368 | 1,286 | 3,808 | (428) | — | 41,034 |
| Restructure expense- severance and contract termination costs | 84 | — | — | 84 | — | (12) | (72) | — | — |
| Cost to provide enrollment services | — | — | 24,111 | 24,111 | — | — | — | — | 24,111 |
| Other expenses | 19,825 | 2,611 | 4,065 | 26,501 | 2,992 | 7,351 | — | 6,232 | 43,076 |
| Intersegment expenses | 3,014 | 945 | 655 | 4,614 | 21,891 | 1,007 | (27,512) | — | — |
| Total operating expenses | 46,250 | 10,150 | 35,278 | 91,678 | 26,169 | 12,154 | (28,012) | 6,232 | 108,221 |
| Income (loss) before income taxes and corporate overhead allocation | 20,047 | 2,715 | 139 | 22,901 | 79,245 | (8,694) | — | (13,463) | 79,989 |
| Corporate overhead allocation | (1,484) | (495) | (495) | (2,474) | (2,473) | 4,947 | — | — | — |
| Income (loss) before income taxes | 18,563 | 2,220 | (356) | 20,427 | 76,772 | (3,747) | — | (13,463) | 79,989 |
| Income tax (expense) benefit (a) | (7,053) | (844) | 135 | (7,762) | (29,173) | 1,823 | — | 5,116 | (29,996) |
| Net income (loss) | \$ 11,510 | 1,376 | (221) | 12,665 | 47,599 | (1,924) | — | (8,347) | 49,993 |

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

Three months ended June 30, 2010:

| | | | | |
|---------------------------------|-------|-------|------|-------|
| Before Tax Operating Margin (1) | 30.2% | 21.1% | 0.4% | 20.0% |
| Before Tax Operating Margin (2) | 30.2% | 21.1% | 4.5% | 21.2% |

Three months ended March 31, 2010:

| | | | | |
|---------------------------------|-------|-------|--------|-------|
| Before Tax Operating Margin (1) | 32.3% | 43.3% | (1.0%) | 24.3% |
| Before Tax Operating Margin (2) | 32.3% | 43.3% | 5.9% | 26.3% |

Three months ended June 30, 2009:

| | | | | |
|---------------------------------|-------|-------|------|-------|
| Before Tax Operating Margin (1) | 27.5% | 21.0% | 5.2% | 20.2% |
| Before Tax Operating Margin (2) | 27.5% | 21.0% | 7.8% | 21.0% |

(1) Excludes corporate overhead allocation (2010)

(2) Excludes corporate overhead allocation (2010) and list cost amortization expense (2010 and 2009)

Three months ended March 31, 2010

| | Fee-Based | | | | | | | | |
|---|---|---|------------------------|------------------------|--|--|--|---|----------------------------------|
| | Student Loan and Guaranty Servicing | Tuition Payment Processing and Campus Commerce | Enrollment Services | Total Fee- Based | Asset Generation and Management | Corporate Activity and Overhead | Eliminations and Reclassifications | "Base net income" Adjustments to GAAP Results | GAAP Results of Operations |
| Total interest income | \$ 13 | 8 | — | 21 | 135,262 | 1,598 | (913) | — | 135,968 |
| Interest expense | — | — | — | — | 45,656 | 6,116 | (913) | — | 50,859 |
| Net interest income (loss) | 13 | 8 | — | 21 | 89,606 | (4,518) | — | — | 85,109 |
| Less provision for loan losses | — | — | — | — | 5,000 | — | — | — | 5,000 |
| Net interest income (loss) after provision for loan losses | 13 | 8 | — | 21 | 84,606 | (4,518) | — | — | 80,109 |
| Other income (expense): | | | | | | | | | |
| Loan and guaranty servicing revenue | 36,648 | — | — | 36,648 | — | (254) | — | — | 36,394 |
| Tuition payment processing and campus commerce revenue | — | 17,382 | — | 17,382 | — | — | — | — | 17,382 |
| Enrollment services revenue | — | — | 33,271 | 33,271 | — | — | — | — | 33,271 |
| Software services revenue | 4,344 | — | — | 4,344 | — | — | — | — | 4,344 |
| Other income | 224 | — | — | 224 | 4,768 | 2,268 | — | — | 7,260 |
| Gain on sale of loans and debt repurchases, net | — | — | — | — | 10,177 | — | — | — | 10,177 |
| Intersegment revenue | 22,719 | 65 | 17 | 22,801 | — | 4,081 | (26,882) | — | — |
| Derivative market value and foreign currency adjustments | — | — | — | — | — | — | — | 4,105 | 4,105 |
| Derivative settlements, net | — | — | — | — | (2,423) | — | — | — | (2,423) |
| Total other income (expense) | 63,935 | 17,447 | 33,288 | 114,670 | 12,522 | 6,095 | (26,882) | 4,105 | 110,510 |
| Operating expenses: | | | | | | | | | |
| Salaries and benefits | 23,582 | 6,618 | 6,071 | 36,271 | 1,358 | 4,117 | (105) | — | 41,641 |
| Restructure expense- severance and contract termination costs | 1,205 | — | — | 1,205 | — | (8) | (1,197) | — | — |
| Cost to provide enrollment services | — | — | 22,025 | 22,025 | — | — | — | — | 22,025 |
| Other expenses | 15,519 | 2,441 | 5,062 | 23,022 | 4,221 | 6,079 | 200 | 6,516 | 40,038 |
| Intersegment expenses | 2,982 | 839 | 450 | 4,271 | 20,825 | 684 | (25,780) | — | — |
| Total operating expenses | 43,288 | 9,898 | 33,608 | 86,794 | 26,404 | 10,872 | (26,882) | 6,516 | 103,704 |
| Income (loss) before income taxes and corporate overhead allocation | 20,660 | 7,557 | (320) | 27,897 | 70,724 | (9,295) | — | (2,411) | 86,915 |
| Corporate overhead allocation | (1,189) | (396) | (396) | (1,981) | (1,981) | 3,962 | — | — | — |
| Income (loss) before income taxes | 19,471 | 7,161 | (716) | 25,916 | 68,743 | (5,333) | — | (2,411) | 86,915 |
| Income tax (expense) benefit (a) | (7,400) | (2,722) | 273 | (9,849) | (26,123) | 2,463 | — | 916 | (32,593) |
| Net income (loss) | \$ 12,071 | 4,439 | (443) | 16,067 | 42,620 | (2,870) | — | (1,495) | 54,322 |

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

Three months ended June 30, 2009

| | Fee-Based | | | Total | Asset Generation | Corporate Activity | Eliminations and Reclassifications | "Base net income" Adjustments to GAAP Results | GAAP Results of Operations |
|---|---|---|------------------------|---------|---------------------|-----------------------|--|---|----------------------------------|
| | Student Loan and Guaranty Servicing | Tuition Payment Processing and Campus Commerce | Enrollment Services | | | | | | |
| Total interest income | \$ 13 | 11 | — | 24 | 156,233 | 1,312 | (422) | 6,042 | 163,189 |
| Interest expense | — | — | — | — | 98,338 | 8,166 | (422) | — | 106,082 |
| Net interest income (loss) | 13 | 11 | — | 24 | 57,895 | (6,854) | — | 6,042 | 57,107 |
| Less provision for loan losses | — | — | — | — | 8,000 | — | — | — | 8,000 |
| Net interest income (loss) after provision for loan losses | 13 | 11 | — | 24 | 49,895 | (6,854) | — | 6,042 | 49,107 |
| Other income (expense): | | | | | | | | | |
| Loan and guaranty servicing revenue | 29,184 | — | — | 29,184 | — | (381) | — | — | 28,803 |
| Tuition payment processing and campus commerce revenue | — | 11,848 | — | 11,848 | — | — | — | — | 11,848 |
| Enrollment services revenue | — | — | 28,747 | 28,747 | — | — | — | — | 28,747 |
| Software services revenue | 6,119 | — | — | 6,119 | — | — | — | — | 6,119 |
| Other income | 249 | — | — | 249 | 4,219 | 1,197 | — | — | 5,665 |
| Gain on sale of loans and debt repurchases, net | — | — | — | — | (174) | 5,840 | — | — | 5,666 |
| Intersegment revenue | 23,012 | 53 | 277 | 23,342 | — | 3,862 | (27,204) | — | — |
| Derivative market value and foreign currency adjustments | — | — | — | — | — | — | — | (34,013) | (34,013) |
| Derivative settlements, net | — | — | — | — | 9,535 | — | — | — | 9,535 |
| Total other income (expense) | 58,564 | 11,901 | 29,024 | 99,489 | 13,580 | 10,518 | (27,204) | (34,013) | 62,370 |
| Operating expenses: | | | | | | | | | |
| Salaries and benefits | 21,247 | 6,402 | 5,863 | 33,512 | 1,735 | 4,057 | 876 | — | 40,180 |
| Restructure expense- severance and contract termination costs | 3,257 | — | — | 3,257 | — | 31 | (3,288) | — | — |
| Cost to provide enrollment services | — | — | 18,092 | 18,092 | — | — | — | — | 18,092 |
| Other expenses | 15,103 | 2,339 | 3,041 | 20,483 | 5,875 | 5,134 | 1,807 | 5,785 | 39,084 |
| Intersegment expenses | 2,852 | 669 | 508 | 4,029 | 20,732 | 1,838 | (26,599) | — | — |
| Total operating expenses | 42,459 | 9,410 | 27,504 | 79,373 | 28,342 | 11,060 | (27,204) | 5,785 | 97,356 |
| Income (loss) before income taxes | 16,118 | 2,502 | 1,520 | 20,140 | 35,133 | (7,396) | — | (33,756) | 14,121 |
| Income tax (expense) benefit (a) | (6,126) | (951) | (577) | (7,654) | (13,351) | 940 | — | 14,147 | (5,918) |
| Net income (loss) | \$ 9,992 | 1,551 | 943 | 12,486 | 21,782 | (6,456) | — | (19,609) | 8,203 |

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

Six months ended June 30, 2010

| | Fee-Based | | | Total | Asset Generation | Corporate Activity | Eliminations | "Base net income" Adjustments | GAAP |
|---|--|---|--------------------------------|-----------------------|-----------------------------|-------------------------------|----------------------------------|--|----------------------------------|
| | Student Loan and Guaranty Servicing | Tuition Payment Processing and Campus Commerce | Enrollment Services | | | | | | |
| | | | | Fee- Based | and Management | and Overhead | and Reclassifications | to GAAP Results | Results of Operations |
| Total interest income | \$ 30 | 12 | — | 42 | 290,963 | 3,520 | (1,900) | — | 292,625 |
| Interest expense | — | — | — | — | 99,761 | 12,241 | (1,900) | — | 110,102 |
| Net interest income (loss) | 30 | 12 | — | 42 | 191,202 | (8,721) | — | — | 182,523 |
| Less provision for loan losses | — | — | — | — | 11,200 | — | — | — | 11,200 |
| Net interest income (loss) after provision for loan losses | 30 | 12 | — | 42 | 180,002 | (8,721) | — | — | 171,323 |
| Other income (expense): | | | | | | | | | |
| Loan and guaranty servicing revenue | 73,300 | — | — | 73,300 | — | (254) | — | — | 73,046 |
| Tuition payment processing and campus commerce revenue | — | 30,177 | — | 30,177 | — | — | — | — | 30,177 |
| Enrollment services revenue | — | — | 68,674 | 68,674 | — | — | — | — | 68,674 |
| Software services revenue | 9,843 | — | — | 9,843 | — | — | — | — | 9,843 |
| Other income | 519 | — | — | 519 | 9,404 | 5,833 | — | — | 15,756 |
| Gain on sale of loans and debt repurchases, net | — | — | — | — | 18,936 | — | — | — | 18,936 |
| Intersegment revenue | 46,553 | 131 | 31 | 46,715 | — | 8,179 | (54,894) | — | — |
| Derivative market value and foreign currency adjustments | — | — | — | — | — | — | — | (3,126) | (3,126) |
| Derivative settlements, net | — | — | — | — | (5,800) | — | — | — | (5,800) |
| Total other income (expense) | 130,215 | 30,308 | 68,705 | 229,228 | 22,540 | 13,758 | (54,894) | (3,126) | 207,506 |
| Operating expenses: | | | | | | | | | |
| Salaries and benefits | 46,909 | 13,212 | 12,518 | 72,639 | 2,644 | 7,925 | (533) | — | 82,675 |
| Restructure expense- severance and contract termination costs | 1,289 | — | — | 1,289 | — | (20) | (1,269) | — | — |
| Cost to provide enrollment services | — | — | 46,136 | 46,136 | — | — | — | — | 46,136 |
| Other expenses | 35,344 | 5,052 | 9,127 | 49,523 | 7,213 | 13,430 | 200 | 12,748 | 83,114 |
| Intersegment expenses | 5,996 | 1,784 | 1,105 | 8,885 | 42,716 | 1,691 | (53,292) | — | — |
| Total operating expenses | 89,538 | 20,048 | 68,886 | 178,472 | 52,573 | 23,026 | (54,894) | 12,748 | 211,925 |
| Income (loss) before income taxes and corporate overhead allocation | 40,707 | 10,272 | (181) | 50,798 | 149,969 | (17,989) | — | (15,874) | 166,904 |
| Corporate overhead allocation | (2,673) | (891) | (891) | (4,455) | (4,454) | 8,909 | — | — | — |
| Income (loss) before income taxes | 38,034 | 9,381 | (1,072) | 46,343 | 145,515 | (9,080) | — | (15,874) | 166,904 |
| Income tax (expense) benefit (a) | (14,453) | (3,566) | 408 | (17,611) | (55,296) | 4,286 | — | 6,032 | (62,589) |
| Net income (loss) | \$ 23,581 | 5,815 | (664) | 28,732 | 90,219 | (4,794) | — | (9,842) | 104,315 |

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

Three months ended June 30, 2010:

| | | | | |
|---------------------------------|-------|-------|--------|-------|
| Before Tax Operating Margin (1) | 31.3% | 33.9% | (0.3%) | 22.2% |
| Before Tax Operating Margin (2) | 31.3% | 33.9% | 5.2% | 23.8% |

Three months ended June 30, 2009:

| | | | | |
|---------------------------------|-------|-------|------|-------|
| Before Tax Operating Margin (1) | 28.8% | 31.1% | 4.4% | 22.0% |
| Before Tax Operating Margin (2) | 28.8% | 31.1% | 6.8% | 22.7% |

(1) Excludes corporate overhead allocation (2010)

(2) Excludes corporate overhead allocation (2010) and list cost amortization expense (2010 and 2009)

Six months ended June 30, 2009

| | Fee-Based | | | | | | | | |
|--|--|---|--------------------------------|---------------------------------|--|--|---|--|---|
| | Student Loan and Guaranty Servicing | Tuition Payment Processing and Campus Commerce | Enrollment Services | Total Fee- Based | Asset Generation and Management | Corporate Activity and Overhead | Eliminations and Reclassifications | "Base net income" Adjustments to GAAP Results | GAAP Results of Operations |
| Total interest income | \$ 79 | 41 | — | 120 | 328,820 | 2,739 | (982) | 7,502 | 338,199 |
| Interest expense | — | — | — | — | 236,932 | 16,634 | (982) | — | 252,584 |
| Net interest income (loss) | 79 | 41 | — | 120 | 91,888 | (13,895) | — | 7,502 | 85,615 |
| Less provision for loan losses | — | — | — | — | 15,500 | — | — | — | 15,500 |
| Net interest income (loss) after provision for loan losses | 79 | 41 | — | 120 | 76,388 | (13,895) | — | 7,502 | 70,115 |
| Other income (expense): | | | | | | | | | |
| Loan and guaranty servicing revenue | 56,037 | — | — | 56,037 | — | (763) | — | — | 55,274 |
| Tuition payment processing and campus commerce revenue | — | 27,386 | — | 27,386 | — | — | — | — | 27,386 |
| Enrollment services revenue | — | — | 57,518 | 57,518 | — | — | — | — | 57,518 |
| Software services revenue | 11,824 | — | — | 11,824 | — | — | — | — | 11,824 |
| Other income | 361 | — | — | 361 | 8,870 | 5,221 | — | — | 14,452 |
| Gain (loss) on sale of loans and debt repurchases, net | — | — | — | — | (380) | 13,915 | — | — | 13,535 |
| Intersegment revenue | 44,970 | 110 | 277 | 45,357 | — | 7,862 | (53,219) | — | — |
| Derivative market value and foreign currency adjustments | — | — | — | — | — | — | — | (38,893) | (38,893) |
| Derivative settlements, net | — | — | — | — | 33,893 | — | — | — | 33,893 |
| Total other income (expense) | 113,192 | 27,496 | 57,795 | 198,483 | 42,383 | 26,235 | (53,219) | (38,893) | 174,989 |
| Operating expenses: | | | | | | | | | |
| Salaries and benefits | 43,601 | 12,947 | 11,958 | 68,506 | 3,510 | 7,859 | (1,628) | 159 | 78,406 |
| Restructure expense - severance and contract termination costs | 3,257 | — | — | 3,257 | — | 31 | (3,288) | — | — |
| Cost to provide enrollment services | — | — | 35,885 | 35,885 | — | — | — | — | 35,885 |
| Other expenses | 27,977 | 4,747 | 6,336 | 39,060 | 10,834 | 11,996 | 1,807 | 11,939 | 75,636 |
| Intersegment expenses | 5,859 | 1,292 | 1,054 | 8,205 | 38,608 | 3,297 | (50,110) | — | — |
| Total operating expenses | 80,694 | 18,986 | 55,233 | 154,913 | 52,952 | 23,183 | (53,219) | 12,098 | 189,927 |
| Income (loss) before income taxes | 32,577 | 8,551 | 2,562 | 43,690 | 65,819 | (10,843) | — | (43,489) | 55,177 |
| Income tax (expense) benefit (a) | (12,381) | (3,249) | (973) | (16,603) | (25,012) | 3,135 | — | 16,961 | (21,519) |
| Net income (loss) | \$ 20,196 | 5,302 | 1,589 | 27,087 | 40,807 | (7,708) | — | (26,528) | 33,658 |

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

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

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

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, amortization of intangible assets, and certain other items that management does not consider in evaluating the Company's operating results. See "Non-GAAP Performance Measures." The following tables reflect adjustments associated with these areas by operating segment and Corporate Activity and Overhead:

| | Student Loan and Guaranty Servicing | Tuition Payment Processing and Campus Commerce | Enrollment Services | Asset Generation and Management | Corporate Activity and Overhead | Total |
|---|--|---|--------------------------------|--|--|---------------|
| Three months ended June 30, 2010 | | | | | | |
| Derivative market value and foreign currency adjustments | \$ — | — | — | 550 | 6,681 | 7,231 |
| Amortization of intangible assets | 2,114 | 1,591 | 2,527 | — | — | 6,232 |
| Compensation related to business combinations | — | — | — | — | — | — |
| Variable-rate floor income, net of settlements on derivatives | — | — | — | — | — | — |
| Net tax effect (a) | (803) | (605) | (958) | (209) | (2,541) | (5,116) |
| Total adjustments to GAAP | <u>\$ 1,311</u> | <u>986</u> | <u>1,569</u> | <u>341</u> | <u>4,140</u> | <u>8,347</u> |
| Three months ended March 31, 2010 | | | | | | |
| Derivative market value and foreign currency adjustments | \$ — | — | — | (4,561) | 456 | (4,105) |
| Amortization of intangible assets | 2,236 | 1,925 | 2,355 | — | — | 6,516 |
| Compensation related to business combinations | — | — | — | — | — | — |
| Variable-rate floor income, net of settlements on derivatives | — | — | — | — | — | — |
| Net tax effect (a) | (850) | (732) | (895) | 1,733 | (172) | (916) |
| Total adjustments to GAAP | <u>\$ 1,386</u> | <u>1,193</u> | <u>1,460</u> | <u>(2,828)</u> | <u>284</u> | <u>1,495</u> |
| Three months ended June 30, 2009 | | | | | | |
| Derivative market value and foreign currency adjustments | \$ — | — | — | 35,445 | (1,432) | 34,013 |
| Amortization of intangible assets | 1,215 | 1,869 | 2,701 | — | — | 5,785 |
| Compensation related to business combinations | — | — | — | — | — | — |
| Variable-rate floor income, net of settlements on derivatives | — | — | — | (6,042) | — | (6,042) |
| Net tax effect (a) | (462) | (710) | (1,027) | (11,173) | (775) | (14,147) |
| Total adjustments to GAAP | <u>\$ 753</u> | <u>1,159</u> | <u>1,674</u> | <u>18,230</u> | <u>(2,207)</u> | <u>19,609</u> |
| Six months ended June 30, 2010 | | | | | | |
| Derivative market value and foreign currency adjustments | \$ — | — | — | (4,011) | 7,137 | 3,126 |
| Amortization of intangible assets | 4,350 | 3,516 | 4,882 | — | — | 12,748 |
| Compensation related to business combinations | — | — | — | — | — | — |
| Variable-rate floor income, net of settlements on derivatives | — | — | — | — | — | — |
| Net tax effect (a) | (1,653) | (1,337) | (1,858) | 1,524 | (2,708) | (6,032) |
| Total adjustments to GAAP | <u>\$ 2,697</u> | <u>2,179</u> | <u>3,024</u> | <u>(2,487)</u> | <u>4,429</u> | <u>9,842</u> |
| Six months ended June 30, 2009 | | | | | | |
| Derivative market value and foreign currency adjustments | \$ — | — | — | 40,325 | (1,432) | 38,893 |
| Amortization of intangible assets | 2,440 | 3,756 | 5,743 | — | — | 11,939 |
| Compensation related to business combinations | — | — | — | — | 159 | 159 |

| | | | | | | |
|---|-----------------|----------------|----------------|-----------------|--------------|-----------------|
| Variable-rate floor income, net of settlements on derivatives | — | — | — | (7,502) | — | (7,502) |
| Net tax effect (a) | <u>(952)</u> | <u>(1,465)</u> | <u>(2,240)</u> | <u>(12,800)</u> | <u>496</u> | <u>(16,961)</u> |
| Total adjustments to GAAP | <u>\$ 1,488</u> | <u>2,291</u> | <u>3,503</u> | <u>20,023</u> | <u>(777)</u> | <u>26,528</u> |

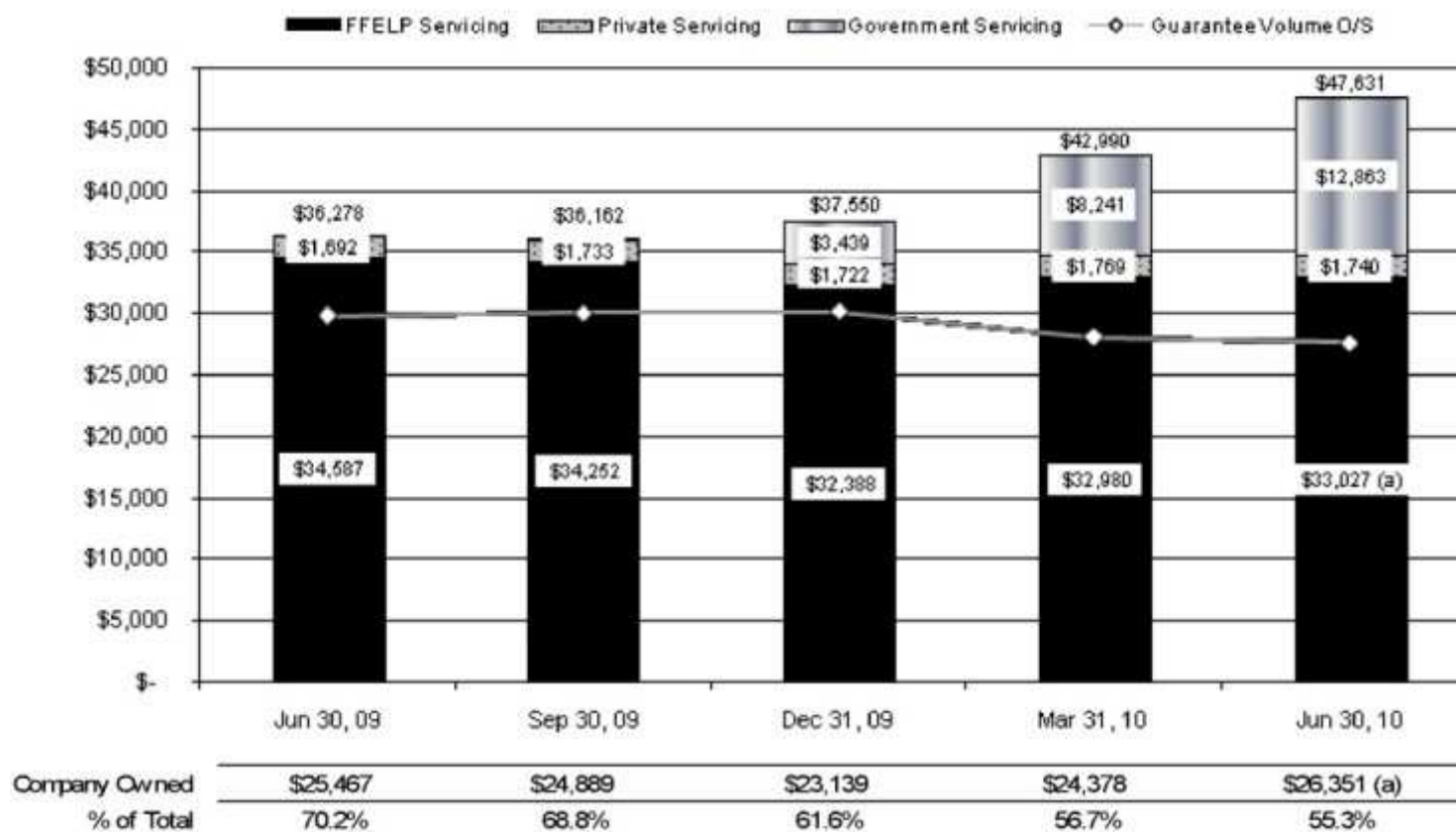
(a) Income taxes are based on 38% for the individual operating segments.

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

The following table summarizes the components of “net interest income after provision for loan losses,” net of “derivative settlements, net” included in the attached condensed consolidated statements of income.

| | Three months ended | | | Six months ended | |
|---|--------------------|-------------------|------------------|------------------|------------------|
| | June 30, 2010 | March 31, 2010 | June 30, 2009 | June 30, 2010 | June 30, 2009 |
| Variable student loan interest margin, net of settlements on derivatives | \$ 67,804 | 52,530 | 28,936 | 120,334 | 54,434 |
| Fixed rate floor income, net of settlements on derivatives | 31,054 | 35,271 | 37,054 | 66,325 | 67,339 |
| Variable rate floor income, net of settlements on derivatives | — | — | 6,042 | — | 7,502 |
| Investment interest | 1,304 | 1,001 | 2,776 | 2,305 | 6,867 |
| Corporate debt interest expense | (6,125) | (6,116) | (8,166) | (12,241) | (16,634) |
| Provision for loan losses | (6,200) | (5,000) | (8,000) | (11,200) | (15,500) |
| Net interest income after provision for loan losses (net of settlements on derivatives) | \$ 87,837 | 77,686 | 58,642 | 165,523 | 104,008 |

Student Loan Servicing Volumes (dollars in millions)



Number of borrowers:

| | | | | | |
|-----------------------|---|--------|---------|-----------|-----------|
| Government servicing: | — | 22,478 | 441,913 | 1,055,896 | 1,530,308 |
|-----------------------|---|--------|---------|-----------|-----------|

| | | | | | |
|---------------------|-----------|-----------|-----------|-----------|-----------|
| FFELP servicing: | 2,358,647 | 2,431,612 | 2,311,558 | 2,327,016 | 2,329,150 |
|---------------------|-----------|-----------|-----------|-----------|-----------|

- (a) As of June 30, 2010, the Company was servicing \$2.0 billion of loans owned by the Company and approximately \$0.4 billion of loans for third parties that were disbursed on or after July 1, 2009 and may be eligible to be sold to the Department pursuant to its Loan Purchase Commitment Program. The Company expects to retain servicing on all loans sold to the Department which are currently being serviced by the Company.

Derivative Market Value and Foreign Currency Adjustments

The following table summarizes the components of “derivative market value and foreign currency adjustments” included in the attached condensed consolidated statements of income.

| | Three months ended | | | Six months ended | |
|---|--------------------|-------------------|------------------|------------------|------------------|
| | June 30, 2010 | March 31, 2010 | June 30, 2009 | June 30, 2010 | June 30, 2009 |
| Change in fair value of derivatives - (expense) income | \$ (100,632) | (67,570) | 29,852 | (168,201) | (22,270) |
| Foreign currency transaction adjustment (re-measurement of Euro notes) - (expense) income | 93,401 | 71,675 | (63,865) | 165,075 | (16,623) |
| Derivative market value and foreign currency adjustments- (expense) income | <u>\$ (7,231)</u> | <u>4,105</u> | <u>(34,013)</u> | <u>(3,126)</u> | <u>(38,893)</u> |

Derivative Settlements, net

The following table summarizes the components of “derivate settlements, net” included in the attached condensed consolidated statements of income.

| | Three months ended | | | Six months ended | |
|---|--------------------|-------------------|------------------|------------------|------------------|
| | June 30, 2010 | March 31, 2010 | June 30, 2009 | June 30, 2010 | June 30, 2009 |
| Settlements: | | | | | |
| Average/discrete basis swaps | \$ — | — | 1,040 | — | 11,062 |
| 1/3 basis swaps | 80 | 131 | 6,657 | 221 | 17,401 |
| Interest rate swaps - floor income hedges | (4,286) | (3,856) | (11) | (8,143) | (11) |
| Interest rate swaps - unsecured debt hedges | (79) | — | — | (79) | — |
| Cross-currency interest rate swaps | 917 | 1,302 | 1,849 | 2,219 | 5,441 |
| Other | (9) | — | — | (18) | — |
| Total settlements - (expense) income | <u>\$ (3,377)</u> | <u>(2,423)</u> | <u>9,535</u> | <u>(5,800)</u> | <u>33,893</u> |

Student Loans Receivable

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

| | As of June 30, 2010 | | As of December 31, 2009 | As of June 30, 2009 | |
|--|------------------------|----------------------|-------------------------------|------------------------|----------------------|
| | Held for investment | Held for sale (a) | Held for investment | Held for investment | Held for sale (a) |
| Federally insured loans | \$ 24,408,131 | 1,970,516 | 23,472,553 | 23,367,777 | 1,731,040 |
| Non-federally insured loans | 137,141 | — | 163,321 | 200,722 | — |
| | <u>24,545,272</u> | <u>1,970,516</u> | <u>23,635,874</u> | <u>23,568,499</u> | <u>1,731,040</u> |
| Unamortized loan discount/premiums and deferred origination costs, net | 252,457 | 25,353 | 341,970 | 371,072 | 18,250 |
| Allowance for loan losses – federally insured loans | (32,972) | — | (30,102) | (28,093) | — |
| Allowance for loan losses – non-federally insured loans | (17,825) | — | (20,785) | (21,907) | — |
| | <u>\$ 24,746,932</u> | <u>1,995,869</u> | <u>23,926,957</u> | <u>23,889,571</u> | <u>1,749,290</u> |

- (a) 2009-2010 Academic Year loans are eligible to be participated and sold to the Department under the Department's Participation and Purchase Programs. As of June 30, 2010, these loans are classified as held for sale as they are expected to be sold to the Department under the Department's Purchase Program during the fourth quarter of 2010.

Student Loan Spread

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 | | | Six months ended | |
|---|--------------------|-------------------|------------------|------------------|------------------|
| | June 30, 2010 | March 31, 2010 | June 30, 2009 | June 30, 2010 | June 30, 2009 |
| Variable student loan yield | 2.72% | 2.56% | 2.94% | 2.64% | 3.10% |
| Consolidation rebate fees | (0.67) | (0.71) | (0.70) | (0.69) | (0.71) |
| Premium and deferred origination costs amortization | (0.19) | (0.27) | (0.27) | (0.23) | (0.28) |
| Variable student loan net yield | 1.86 | 1.58 | 1.97 | 1.72 | 2.11 |
| Student loan cost of funds - interest expense | (0.81) | (0.75) | (1.52) | (0.78) | (1.84) |
| Student loan cost of funds - derivative settlements | 0.01 | 0.03 | 0.15 | 0.02 | 0.27 |
| Variable student loan spread | 1.06 | 0.86 | 0.60 | 0.96 | 0.54 |
| Variable-rate floor income, net of settlements on derivatives | — | — | (0.10) | — | (0.06) |
| Fixed rate floor income, net of settlements on derivatives | 0.48 | 0.59 | 0.59 | 0.53 | 0.54 |
| Core student loan spread | <u>1.54%</u> | <u>1.45%</u> | <u>1.09%</u> | <u>1.49%</u> | <u>1.02%</u> |
| Average balance of student loans | \$ 25,931,220 | 24,080,805 | 25,123,382 | 25,006,012 | 25,194,642 |
| Average balance of debt outstanding | 26,124,574 | 24,197,221 | 15,683,991 | 25,166,222 | 25,723,916 |

Fixed Rate Floor Income

The following table shows the Company's student loan assets that are earning fixed rate floor income as of June 30, 2010:

| Fixed interest rate range | Borrower/lender weighted average yield | Estimated variable conversion rate (a) | Balance of assets earning fixed-rate floor income as of June 30, 2010 |
|----------------------------------|---|---|--|
| 3.0 - 3.49% | 3.28% | 0.57% | \$ 1,366,463 |
| 3.5 - 3.99% | 3.65% | 1.01% | 1,878,739 |
| 4.0 - 4.49% | 4.20% | 1.56% | 1,488,709 |
| 4.5 - 4.99% | 4.72% | 2.08% | 826,557 |
| 5.0 - 5.49% | 5.24% | 2.60% | 539,173 |
| 5.5 - 5.99% | 5.67% | 3.03% | 322,856 |
| 6.0 - 6.49% | 6.19% | 3.55% | 378,205 |
| 6.5 - 6.99% | 6.70% | 4.06% | 336,379 |
| 7.0 - 7.49% | 7.17% | 4.53% | 116,100 |
| 7.5 - 7.99% | 7.71% | 5.07% | 196,903 |
| 8.0 - 8.99% | 8.16% | 5.52% | 442,787 |
| > 9.0% | 9.04% | 6.40% | 254,513 |
| | | | <u>\$ 8,147,384</u> |

- (a) The estimated variable conversion rate is the estimated short-term interest rate at which loans would convert to variable rate. As of June 30, 2010, the short-term interest rate was 41 basis points.

The following table summarizes the outstanding derivatives instruments as of June 30, 2010 used by the Company to hedge fixed-rate student loan assets.

| Maturity | Notional Amount | Weighted average fixed rate paid by the Company (a) |
|-----------------|------------------------|--|
| 2010 | \$ 4,500,000 | 0.52% |
| 2011 | 2,000,000 | 0.65 |
| 2012 | 950,000 | 1.08 |
| 2013 | 150,000 | 1.44 |
| 2015 | 100,000 | 2.26 |
| 2020 | 100,000 | 3.23 |
| | <u>\$ 7,800,000</u> | <u>0.70%</u> |

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