NELNET INC
Form 10-Q
November 09, 2010

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

FORM 10-Q

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

For the quarterly period ended September 30, 2010

or

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

For the transition period from to .

COMMISSION FILE NUMBER 001-31924

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

NEBRASKA	84-0748903
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

121 SOUTH 13TH STREET, SUITE 201 LINCOLN, NEBRASKA	68508
(Address of principal executive offices)	(Zip Code)

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

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

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

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

Large accelerated filer [ ]	Accelerated filer [X]
Non-accelerated filer [ ]	Smaller reporting company [ ]

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

As of October 31, 2010, there were 36,841,793 and 11,495,377 shares of Class A Common Stock and Class B Common Stock, par value $0.01 per share, outstanding, respectively (excluding 11,317,364 shares of Class A Common Stock held by wholly owned subsidiaries).

NELNET, INC.
FORM 10-Q
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	As of September 30, 2010 (unaudited)	As of December 31, 2009
Assets:		
Student loans receivable (net of allowance for loan losses of $50,212 and $50,887 respectively)	$24,436,162	23,926,957
Student loans receivable - held for sale	2,109,440	—
Cash and cash equivalents:		
Cash and cash equivalents - not held at a related party	13,667	12,301
Cash and cash equivalents - held at a related party	302,694	325,880
Total cash and cash equivalents	316,361	338,181
Investments - trading securities	33,082	—
Restricted cash and investments	692,702	625,492
Restricted cash - due to customers	54,532	91,741
Accrued interest receivable	418,083	329,313
Accounts receivable (net of allowance for doubtful accounts of $846 and $1,198, respectively)	68,713	42,043
Goodwill	143,717	143,717
Intangible assets, net	43,352	53,538
Property and equipment, net	28,011	26,606
Other assets	113,597	104,940
Fair value of derivative instruments	128,827	193,899
Total assets	$28,586,579	25,876,427
Liabilities:		
Bonds and notes payable	$27,391,188	24,805,289
Accrued interest payable	19,727	19,831
Accrued litigation settlement charge	55,000	—
Other liabilities	175,156	172,514
Due to customers	54,532	91,741
Fair value of derivative instruments	46,362	2,489
Total liabilities	27,741,965	25,091,864
Shareholders' equity:		
Preferred stock, $0.01 par value. Authorized 50,000,000 shares; no shares issued or outstanding	—	—
Common stock:		
Class A, $0.01 par value. Authorized 600,000,000 shares; issued and outstanding 36,848,473 shares as of September 30,		

2010 and 38,396,791 shares as of December 31, 2009	368	384
Class B, convertible, $0.01 par value. Authorized 60,000,000 shares; issued and outstanding 11,495,377 shares as of September 30, 2010 and December 31, 2009	115	115
Additional paid-in capital	75,636	109,359
Retained earnings	769,665	676,154
Employee notes receivable	(1,170)	(1,449)
Total shareholders' equity	844,614	784,563
Commitments and contingencies		
Total liabilities and shareholders' equity	$28,586,579	25,876,427

See accompanying notes to consolidated financial statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Interest income:				
Loan interest	$ 159,287	143,255	449,607	474,587
Investment interest	1,169	1,943	3,474	8,810
Total interest income	160,456	145,198	453,081	483,397
Interest expense:				
Interest on bonds and notes payable	68,243	76,016	178,345	328,600
Net interest income	92,213	69,182	274,736	154,797
Less provision for loan losses	5,500	7,500	16,700	23,000
Net interest income after provision for loan losses	86,713	61,682	258,036	131,797
Other income (expense):				
Loan and guaranty servicing revenue	33,464	26,006	106,510	81,280
Tuition payment processing and campus commerce revenue	14,527	12,987	44,704	40,373
Enrollment services revenue	36,439	30,670	105,113	88,188
Software services revenue	4,624	4,600	14,467	16,424
Other income	9,432	5,846	25,188	20,298
Gain on sale of loans and debt repurchases, net	9,885	14,036	28,821	27,571
Derivative market value and foreign currency adjustments and derivative settlements, net	(35,391)	7,740	(44,317)	2,740
Total other income	72,980	101,885	280,486	276,874
Operating expenses:				
Salaries and benefits	41,085	36,398	122,691	113,322
Other operating expenses:				
Litigation settlement	55,000	—	55,000	—
Cost to provide enrollment services	23,709	20,323	69,845	56,208
Professional and other services	11,428	6,584	37,820	20,382
Depreciation and amortization	7,577	8,769	24,350	28,379
Restructure expense	4,751	3,340	6,020	6,628
Occupancy and communications	3,632	3,194	10,672	12,330
Postage and distribution	2,911	1,958	8,488	7,100
Advertising and marketing	2,403	1,936	8,386	5,632
Trustee and other debt related fees	1,097	2,387	3,445	7,487
Other	6,694	7,773	25,495	25,121
Total other operating expenses	119,202	56,264	249,521	169,267
Total operating expenses	160,287	92,662	372,212	282,589
Income (loss) before income taxes	(594)	70,905	166,310	126,082
Income tax benefit (expense)	226	(24,501)	(62,363)	(46,020)

Net income (loss)	$(368)	46,404	103,947	80,062
Earnings (loss) per common share:				
Net earnings (loss) - basic	$(0.01)	0.93	2.09	1.60
Net earnings (loss) - diluted	$(0.01)	0.93	2.08	1.60
Dividends paid per common share	$0.07	—	0.21	—
Weighted average common shares outstanding:				
Basic	48,938,333	49,611,423	49,460,625	49,432,165
Diluted	48,938,333	49,808,856	49,663,505	49,633,290

See accompanying notes to consolidated financial statements.

NELNET, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS

(Dollars in thousands, except share data)

(unaudited)

	Preferred stock shares	Common stock shares Class A	Common stock shares Class B	Preferred stock	Class A common stock	Class B common stock	Additional paid-in capital	Retained earnings	Employee notes receivable	sha
Balance as of June 30, 2009	—	38,325,492	11,495,377	$—	383	115	107,959	574,179	(1,449)	681
Comprehensive income:										
Net income	—	—	—	—	—	—	—	46,404	—	46,
Issuance of common stock, net of forfeitures	—	31,403	—	—	1	—	241	—	—	242
Compensation expense for stock based awards	—	—	—	—	—	—	349	—	—	349
Repurchase of common stock	—	(7,434)	—	—	(1)	—	(107)	—	—	(10
Balance as of September 30, 2009	—	38,349,461	11,495,377	$—	383	115	108,442	620,583	(1,449)	728
Balance as of June 30, 2010	—	37,995,006	11,495,377	$—	380	115	101,232	773,468	(1,250)	873
Comprehensive loss:										
Net loss	—	—	—	—	—	—	—	(368)	—	(36
Cash dividend on Class A and Class B common stock - $0.07 per share	—	—	—	—	—	—	—	(3,435)	—	(3,
Issuance of common stock, net of forfeitures	—	37,728	—	—	1	—	601	—	—	602
Compensation expense for stock based awards	—	—	—	—	—	—	405	—	—	405
	—	(1,184,261)	—	—	(13)	—	(26,602)	—	—	(26

Repurchase of common stock									
Reduction of employee stock notes receivable	—	—	—	——	—	—	—	80	80
Balance as of September 30, 2010	—	36,848,473	11,495,377	$—368	115	75,636	769,665	(1,170)	844
Balance as of December 31, 2008	—	37,794,067	11,495,377	$—378	115	103,762	540,521	(1,550)	643
Comprehensive income:									
Net income	—	—	—	——	—	—	80,062	—	80,(
Issuance of common stock, net of forfeitures	—	569,937	—	—6	—	3,539	—	—	3,5
Compensation expense for stock based awards	—	—	—	——	—	1,310	—	—	1,3
Repurchase of common stock	—	(14,543)	—	—(1)	—	(169)	—	—	(17
Reduction of employee stock notes receivable	—	—	—	——	—	—	—	101	101
Balance as of September 30, 2009	—	38,349,461	11,495,377	$—383	115	108,442	620,583	(1,449)	728
Balance as of December 31, 2009	—	38,396,791	11,495,377	$—384	115	109,359	676,154	(1,449)	784
Comprehensive income:									
Net income	—	—	—	——	—	—	103,947	—	103
Cash dividend on Class A and Class B common stock - $0.21 per share	—	—	—	——	—	—	(10,436)	—	(10
Issuance of common stock, net of	—	312,322	—	—3	—	4,834	—	—	4,8

forfeitures									
Compensation expense for stock based awards	—	—	—	——	—	1,096	—	—	1,09
Repurchase of common stock	—	(1,860,640)	—	—(19)	—	(39,653)	—	—	(39
Reduction of employee stock notes receivable	—	—	—	——	—	—	—	279	279
Balance as of September 30, 2010	—	36,848,473	11,495,377	$—368	115	75,636	769,665	(1,170)	844

See accompanying notes to consolidated financial statements.

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

	Nine months ended September 30,	
	2010	2009
Net income		
Adjustments to reconcile income to net cash provided by operating activities, net of business acquisition:	$ 103,947	80,062
Depreciation and amortization, including loan premiums and deferred origination costs	71,696	88,118
Provision for loan losses	16,700	23,000
Derivative market value adjustment	94,539	(19,912)
Foreign currency transaction adjustment	(58,608)	55,979
Proceeds received to terminate and/or amend derivative instruments	15,169	3,820
Payments to terminate and/or amend derivative instruments	(763)	(11,710)
Gain from repurchase of bonds and notes payable	(28,821)	(19,185)
Originations and purchases of student loans-held for sale	(97,782)	(13,345)
Gain on sale of loans, net	—	(8,386)
Change in investments - trading securities, net	(33,082)	(893)
Deferred income tax benefit	(4,292)	(30,654)
Non-cash compensation expense	1,719	1,825
Accrued litigation settlement	55,000	—
Other non-cash items	(202)	1,744
(Increase) decrease in accrued interest receivable	(88,770)	82,640
Increase in accounts receivable	(26,670)	(7,180)
Decrease in other assets	(7,977)	10,869
Decrease in accrued interest payable	(104)	(56,717)
Increase in other liabilities	4,131	34,575
Net cash provided by operating activities	15,830	214,650
Cash flows from investing activities, net of business acquisition:		
Originations and purchases of student loans, including loan premiums/discounts and deferred origination costs	(2,957,976)	(2,104,234)
Purchases of student loans from a related party	(989,002)	(39,649)
Net proceeds from student loan repayments, claims, capitalized interest, participations, and other	1,342,963	1,507,981
Proceeds from sale of student loans	27,191	550,176
Proceeds from sale of student loans to a related party	—	61,452
Purchases of property and equipment, net	(7,496)	(466)
(Increase) decrease in restricted cash and investments, net	(67,210)	198,636
Business acquisition, net of cash acquired	(3,000)	—
Net cash (used in) provided by investing activities	(2,654,530)	173,896
Cash flows from financing activities:		
Payments on bonds and notes payable	(2,541,883)	(3,978,507)

Proceeds from issuance of bonds and notes payable	5,104,517	3,761,543
Payments on bonds payable due to a related party	—	(21,520)
Proceeds from issuance of bonds payable due to a related party	111,675	—
Payments of debt issuance costs	(7,971)	(5,876)
Dividends paid	(10,436)	—
Repurchases of common stock	(39,672)	(170)
Proceeds from issuance of common stock	371	329
Payments received on employee stock notes receivable	279	101
Net cash provided by (used in) financing activities	2,616,880	(244,100)
Net (decrease) increase in cash and cash equivalents	(21,820)	144,446
Cash and cash equivalents, beginning of period	338,181	189,847
Cash and cash equivalents, end of period	$316,361	334,293
Supplemental disclosures of cash flow information:		
Interest paid	$171,656	380,543
Income taxes paid, net of refunds	$77,774	69,924

See accompanying notes to consolidated financial statements.

NELNET, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Information as of September 30, 2010 and for the three and nine months ended
September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

1. Basis of Financial Reporting

The accompanying unaudited consolidated financial statements of Nelnet, Inc. and subsidiaries (the "Company") as of September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 have been prepared on the same basis as the audited consolidated financial statements for the year ended December 31, 2009 and, in the opinion of the Company's management, the unaudited consolidated financial statements reflect all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of results of operations for the interim periods presented. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Operating results for the three and nine months ended September 30, 2010 are not necessarily indicative of the results for the year ending December 31, 2010. The unaudited consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

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 gains on debt repurchases to "gain on sale of loans and debt repurchases, net" which were previously included in "other income."

- Reclassifying costs incurred by the Company related to restructuring activities to "restructure expense," which were previously included in "salaries and benefits" and "occupancy and communications." See note 13 for information related to the restructuring activity including additional information related to the types of costs incurred.

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

2. Recent Developments

Litigation Settlement

On August 13, 2010, the Company reached an agreement in principal to pay $55.0 million to settle all claims associated with the previously disclosed "qui tam" action brought by Jon H. Oberg on behalf of the United States of America. The settlement agreement was finalized on October 25, 2010. As a result of the settlement, the Company recorded a $55.0 million pre-tax charge ($34.1 million after tax) during the third quarter of 2010. The Company expects that the Internal Revenue Service (the "IRS") will review the settlement as part of its normal procedures for settlements with government agencies, to determine if the payments are deductible as ordinary and necessary business expenses. While the Company believes that the payments are fully deductible under the applicable tax laws, the IRS may not agree with that position. The settlement expense is reported as a separate line item on a pre-tax basis in the consolidated statement of operations and the accrual is reported as a separate line item on the consolidated balance sheet. On November 3, 2010, the Company paid the $55.0 million settlement.

The Company believed it had strong defenses to the Oberg Complaint, but entered into the settlement agreement in order to eliminate the uncertainty, distraction, and expense of a trial.

See note 14 for additional information related to this settlement.

Legislation – FFELP

On March 30, 2010, President Obama signed into law the Health Care and Education Reconciliation Act of 2010 (the "Reconciliation Act of 2010"). Effective July 1, 2010, this law prohibits new loan originations under the Federal Family Education Loan Program ("FFELP" or "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 no longer originates 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 (the “Department”) 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. As of September 30, 2010, the Company had $2.1 billion of 2009-2010 academic year loans classified as held for sale funded in the Department’s Participation Program that were sold to the Department under the Purchase Program during October 2010. Upon selling the $2.1 billion in loans held for sale, the Company recognized a pre-tax gain during the fourth quarter of 2010 of $33.8 million. The Company earned approximately $1 million in 2009 and approximately $6 million during the nine months ended September 30, 2010 in net interest income on the 2009-2010 academic year loans prior to selling them to the Department.

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 nine month period ended September 30, 2010 and year ended December 31, 2009, the Company recognized approximately $280 million and approximately $247 million, respectively, of net interest income on its FFELP loan portfolio; approximately $80 million and approximately $100 million, respectively, in guarantee and third-party FFELP servicing revenue; and approximately $6 million and approximately $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 first nine months of 2010, the Company purchased $2.5 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 of Education to provide additional servicing capacity for loans owned by the Department. These loans include Direct Loan Program loans and FFEL Program loans purchased by the Department under the authority granted in the Ensuring Continued Access to Student Loans Act of 2008 (“ECASLA”) legislation. In September 2009, the Department began assigning FFEL purchased loans to the four servicers. Beginning with the second year of servicing in July 2010, the Department began allocating new loan volume among the four servicers based on certain performance metrics. As of September 30, 2010, the Company was servicing $21.8 billion of loans under this contract. For the three and nine months ended September 30, 2010, the Company earned $8.7 million and $18.4 million, respectively, in revenue under this contract.

3. Student Loans Receivable and Allowance for Loan Losses

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

As of September 30, 2010, the Company had $2.1 billion of FFELP loans classified as held for sale. These loans were funded using the Department's Participation Program and were sold to the Department during October 2010 under the Purchase Program. Under the Purchase Program, the Department purchased the loans at a price equal to the sum of (i) par value, (ii) accrued interest, (iii) the one percent origination fee paid to the Department, and (iv) a fixed amount of $75 per loan. Upon selling the $2.1 billion in loans held for sale, the Company recognized a pre-tax gain in the fourth quarter of 2010 of $33.8 million. See note 4 for additional information related to the Department's Participation and Purchase Programs.

Student loans receivable consisted of the following:

	As of September 30, 2010		As of December 31, 2009
	Held for investment	Held for sale	Held for investment
Federally insured loans	$24,132,245	2,081,827	23,472,553
Non-federally insured loans	126,923	—	163,321
	24,259,168	2,081,827	23,635,874
Unamortized loan premiums/discounts and deferred origination costs, net	227,206	27,613	341,970
Allowance for loan losses – federally insured loans	(32,962)	—	(30,102)
Allowance for loan losses – non-federally insured loans	(17,250)	—	(20,785)
	$24,436,162	2,109,440	23,926,957
Allowance for federally insured loans - held for investment as a percentage of such loans	0.14%		0.13%
Allowance for non-federally insured loans as a percentage of such loans	13.59%		12.73%

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

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Beginning balance	$50,797	50,000	50,887	50,922
Provision for loan losses	5,500	7,500	16,700	23,000
Loans charged off, net of recoveries	(6,085)	(4,380)	(18,305)	(13,482)
Purchase of loans	—	—	2,930	—
Sale of loans	—	(3,000)	(2,000)	(10,320)
Ending balance	$50,212	50,120	50,212	50,120

As of September 30, 2010, the Company has participated a cumulative amount of $120.5 million of non-federally insured loans to third parties, including $20.0 million, $1.0 million, and $6.0 million during the first, second, and third quarters of 2010, respectively. Loans participated under these agreements have been accounted for by the Company as loan sales. Accordingly, the participation interests sold are not included on the Company's consolidated balance sheets. The loss on the sale of these loans for the three and nine months ended September 30, 2010 was not material. Per the terms of the servicing agreements, the Company's servicing operations are obligated to repurchase loans subject to the participation interests in the event such loans become 60 or 90 days delinquent. The activity in the accrual account related to this repurchase obligation, which is included in "other liabilities" in the accompanying consolidated balance sheets, is detailed below.

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Beginning balance	$12,600	7,600	10,600	—
Transfer from allowance for loan losses	—	3,000	2,000	9,800
Reserve for repurchase of delinquent loans (a)	—	—	—	800

Ending balance	$12,600	10,600	12,600	10,600

(a) The reserve for repurchase of delinquent loans is included in "other" under other operating expenses in the accompanying consolidated statements of operations.

Related Party Loan Activity

During 2008 and 2009, the Company sold $611.9 million of FFELP student loans (the “FFELP Loans”) to Union Bank & Trust Company (“Union Bank”), an entity under common control with the Company. These loans were sold pursuant to an affiliate transaction exemption granted by the Federal Reserve Board which allowed Union Bank to purchase FFELP loans from the Company. In connection with the exemption and the loan purchases by Union Bank, an Assurance Commitment Agreement (the “Commitment Agreement”) was also entered into, by and among, the Company, Union Bank, and Michael S. Dunlap, the Company’s Chairman, Chief Executive Officer, and a principal shareholder of the Company. Per the terms of the Commitment Agreement, the Company provided certain assurances to Union Bank designed to mitigate potential losses related to the FFELP Loans, including holding amounts in escrow equal to the unguaranteed portion and reimbursing Union Bank for losses, if any, related to the portfolio. As part of this agreement, the Company was also obligated to buy back loans once they were 30 days delinquent. During the first quarter 2010, the Company purchased $535.9 million (par value) of federally insured student loans from Union Bank, which represented all outstanding FFELP loans remaining under the provisions of the Commitment Agreement. As a result of this loan purchase, the Company no longer has a commitment to hold amounts in escrow, reimburse Union Bank for losses, and buy back delinquent loans related to this portfolio.

During the first nine months of 2010, the Company purchased $2.5 billion of FFELP student loans from third parties, including $989 million (par value) from Union Bank and approximately $900 million from a state agency. In conjunction with the Company's purchase of loans from the state agency, Union Bank purchased loans from the state agency under similar terms.

4. Bonds and Notes Payable

The Company has historically utilized operating cash flow, secured financing transactions (which include warehouse facilities, asset-backed securitizations, and the government's Participation and Conduit Programs), operating lines of credit, and other borrowing arrangements to fund its Asset Generation and Management operations and student loan acquisitions. In addition, the Company has used operating cash flow, borrowings on its unsecured line of credit, and unsecured debt offerings to fund corporate activities, business acquisitions, and repurchases of common stock.

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

	As of September 30, 2010		
	Carrying amount	Interest rate range	Final maturity
Variable-rate bonds and notes (a):			
Bonds and notes based on indices	$20,349,202	0.30% - 6.90%	5/26/14 - 7/27/48
Bonds and notes based on auction or remarketing	1,172,335	0.23% - 1.76%	5/1/11 - 7/1/43
Total variable-rate bonds and notes	21,521,537		
Commercial paper - FFELP facility (b)	29,976	0.28% - 0.41%	7/29/13
Unsecured debt - Junior Subordinated Hybrid Securities	163,255	7.40%	9/15/61
Unsecured line of credit	691,500	0.79%	5/8/12
Department of Education Participation	2,049,227	0.91%	10/15/10
Department of Education Conduit	2,799,180	0.37%	5/8/14
Related party debt	111,675	0.73%	5/20/11
Other borrowings	24,838	0.26% - 5.10%	11/14/10 - 11/1/15
	$27,391,188		

	As of December 31, 2009		
	Carrying amount	Interest rate range	Final maturity
Variable-rate bonds and notes (a):			
Bonds and notes based on indices	$ 20,187,356	0.26% - 6.90%	5/26/14 - 4/25/42
Bonds and notes based on auction or remarketing	1,726,960	0.21% - 3.73%	5/1/11 - 7/1/43
Total variable-rate bonds and notes	21,914,316		
Commercial paper - FFELP facility (b)	305,710	0.21% - 0.32%	8/3/12
Fixed-rate bonds and notes (a)	8,940		7/2/20 - 5/1/29

		6.15% - 6.34%	
Unsecured debt - Senior Notes	66,716	5.125%	6/1/10
Unsecured debt - Junior Subordinated Hybrid Securities	198,250	7.40%	9/15/61
Unsecured line of credit	691,500	0.73%	5/8/12
Department of Education Participation	463,912	0.79%	9/30/10
Department of Education Conduit	1,125,929	0.27%	5/8/14
Other borrowings	30,016	0.24% - 5.10%	1/1/10 - 11/1/15
	$ 24,805,289		

(a) Issued in asset-backed securitizations

(b) Loan warehouse facility

Secured Financing Transactions

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

The majority of the bonds and notes payable are primarily secured by the student loans receivable, related accrued interest, and by the amounts on deposit in the accounts established under the respective bond resolutions or financing agreements. Certain variable rate bonds and notes are secured by a letter of credit and reimbursement agreement issued by State Street.

Historically, the Company funded loan originations and acquisitions using loan warehouse facilities and asset-backed securitizations. Student loan warehousing allows the Company to buy and manage student loans prior to transferring them into more permanent financing arrangements. In August 2008, the Company began funding FFELP Stafford and PLUS student loan originations for the 2008-2009 and 2009-2010 academic years pursuant to the Department's Participation Program and a participation agreement with Union Bank. In 2009, the Company began funding loans under the Department's Conduit Program.

Loan warehouse facility

On July 30, 2010, the Company renewed its FFELP warehouse facility (the "2009/2010 FFELP Warehouse Facility"). The 2009/2010 FFELP Warehouse Facility has a maximum financing amount of $500.0 million, with a revolving financing structure supported by 364-day liquidity provisions, which expire on July 29, 2011. The final maturity date of the facility is July 29, 2013. In the event the Company is unable to renew the liquidity provisions by July 29, 2011, the facility would become a term facility at a stepped-up cost, with no additional student loans being eligible for financing, and the Company would be required to refinance the existing loans in the facility by July 29, 2013.

The 2009/2010 FFELP Warehouse Facility provides for formula based advance rates depending on FFELP loan type, up to a maximum of 85 percent to 98 percent of the principal and interest of loans financed. The advance rates for collateral may increase or decrease based on market conditions, but they are subject to a minimum advance of 75 to 80 percent based on loan type. The facility contains financial covenants relating to levels of the Company's consolidated net worth, ratio of adjusted EBITDA to corporate debt interest, and unencumbered cash. Any violation of these covenants could result in a requirement for the immediate repayment of any outstanding borrowings under the facility. As of September 30, 2010, $30.0 million was outstanding under the FFELP Warehouse Facility and $470.0 million was available for future use.

Asset-backed securitizations

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

On February 17, 2010, March 9, 2010, and August 3, 2010 the Company completed asset-backed securities transactions of $523.3 million, $660.0 million, and $378.3 million, respectively. Notes issued in these transactions carry interest rates based on a spread to LIBOR. The Company used the proceeds from the sale of these notes to purchase principal and interest on student loans, including loans which were previously financed in other asset-backed securitizations and the 2009/2010 FFELP Warehouse Facility.

Department of Education's Loan Participation and Purchase Commitment Programs

In August 2008, the Department implemented the Purchase Program and the Participation Program pursuant to ECASLA. Under the Participation Program, the Department provided interim short term liquidity to FFELP lenders by purchasing participation interests in pools of FFELP loans. FFELP lenders were charged a rate of commercial paper plus 50 basis points on the principal amount of participation interests outstanding. Loans funded under the Participation Program for the 2009-2010 academic year had to be either refinanced by the lender by September 30, 2010 or sold to the Department pursuant to the Purchase Program on or prior to October 15, 2010. As of September 30, 2010, the Company had $2.0 billion borrowed under the Participation Program. During October 2010, the Company sold $2.1 billion of FFELP loans funded under the Participation Program to the Department using the Department's Purchase Program and paid off all advances outstanding ($2.0 billion) under the Participation Program.

Department of Education's Conduit Program

In May 2009, the Department implemented a program under which it financed eligible FFELP Stafford and PLUS loans in a conduit vehicle established to provide funding for student lenders (the "Conduit Program"). Loans eligible for the Conduit Program had to be first disbursed on or after October 1, 2003, but not later than June 30, 2009, and fully disbursed before September 30, 2009, and meet certain other requirements. Funding for the Conduit Program is provided by the capital markets at a cost based on market rates, with the Company being advanced 97 percent of the student loan face amount. Excess amounts needed to fund the remaining 3 percent of the student loan balances were contributed by the Company. The Conduit Program expires on May 8, 2014. The Student Loan Short-Term Notes ("Student Loan Notes") issued by the Conduit Program are supported by a combination of (i) notes backed by FFELP loans, (ii) a liquidity agreement with the Federal Financing Bank, and (iii) a put agreement provided by the Department. If the conduit does not have sufficient funds to pay all Student Loan Notes, then those Student Loan Notes will be repaid with funds from the Federal Financing Bank. The Federal Financing Bank will hold the notes for a short period of time and, if at the end of that time, the Student Loan Notes still cannot be paid off, the underlying FFELP loans that serve as collateral for the Conduit Program will be sold to the Department through a put agreement at a price of 97 percent of the face amount of the loans. As of September 30, 2010 and December 31, 2009, the Company had $2.8 billion and $1.1 billion, respectively, borrowed under the facility and $95.9 million and $66.8 million, respectively, advanced as equity support in the facility. Beginning July 1, 2010, no additional loans can be funded using the Conduit Program.

Unsecured Line of Credit

The Company has a $750.0 million unsecured line of credit that terminates in May 2012. As of September 30, 2010, there was $691.5 million outstanding on this line. Upon termination in 2012, there can be no assurance that the Company will be able to maintain this line of credit, find alternative funding, or increase the amount outstanding under the line, if necessary. The lending commitment under the Company's unsecured line of credit is provided by a total of thirteen banks, with no individual bank representing more than 11% of the total lending commitment. The bank lending group includes Lehman Brothers Bank ("Lehman"), a subsidiary of Lehman Brothers Holdings Inc., which represents approximately 7% of the lending commitment under the line of credit. In September 2008, Lehman Brothers Holdings Inc. filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code. The Company does not expect that Lehman will fund future borrowing requests. As of September 30, 2010, excluding Lehman's lending commitment, the Company has $51.2 million available for future use under its unsecured line of credit.

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

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

As of September 30, 2010, the Company was in compliance with all of these requirements. Many of these covenants are duplicated in the Company's other lending facilities, including its FFELP warehouse facility.

The Company's operating line of credit does not have any covenants related to unsecured debt ratings. However, changes in the Company's ratings (as well as the amounts the Company borrows) have modest implications on the pricing level at which the Company obtains funding. A default on the 2009/2010 FFELP Warehouse Facility would result in an event of default on the Company's unsecured line of credit that would result in the outstanding balance on the line of credit becoming immediately due and payable.

Related Party Transactions

Union Bank Participation Agreement

The Company maintains an agreement with Union Bank, as trustee for various grantor trusts, under which Union Bank has agreed to purchase from the Company participation interests in student loans (the "FFELP Participation Agreement"). The Company has the option to purchase the participation interests from the grantor trusts at the end of a 364-day term upon termination of the participation certificate. As of September 30, 2010 and December 31, 2009, $360.2 million and $613.3 million, respectively, of loans were subject to outstanding participation interests held by Union Bank, as trustee, under this agreement. The agreement automatically renews annually and is terminable by either party upon five business days notice. This agreement provides beneficiaries of Union Bank's grantor trusts with access to investments in interests in student loans, while providing liquidity to the Company on a short-term basis. The Company can participate loans to Union Bank to the extent of availability under the grantor trusts, up to $750 million or an amount in excess of $750 million if mutually agreed to by both parties. Loans participated under this agreement have been accounted for by the Company as loan sales. Accordingly, the participation interests sold

are not included on the Company's consolidated balance sheet.

Related Party Debt

The Company has from time to time repurchased certain of its own asset-backed securities (bonds and notes payable). For accounting purposes, these notes have been effectively retired and are not included on the Company's consolidated balance sheet. However, these securities are legally outstanding at the trust level and the Company could sell these notes to third parties or redeem the notes at par as cash is generated by the trust estate. During the three months ended September 30, 2010, the Company participated $111.7 million of these securities to Union Bank, as trustee for various grantor trusts, and obtained cash proceeds equal to the par value of the notes. The Company has entered into a Guaranteed Purchase Agreement with Union Bank whereby the Company must purchase these notes back from the trust at par upon the request of Union Bank. As of September 30, 2010, these notes are included in "bonds and notes payable" on the Company's consolidated balance sheet.

Debt Repurchases

The Company has repurchased outstanding debt as summarized below. Gains recorded by the Company from the repurchase of debt are included in "gain on sale of loans and debt repurchases, net" on the Company's consolidated statements of operations.

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

	Three months ended September 30, 2009			Nine months ended September 30, 2009		
	Notional amount	Purchase price	Gain	Notional amount	Purchase price	Gain
Unsecured debt - Senior Notes due 2010	$137,898	138,505	(607)	208,284	196,376	11,908
Unsecured debt - Junior Subordinated Hybrid Securities	—	—	—	1,750	350	1,400
Asset-backed securities	44,950	39,095	5,855	46,050	40,173	5,877
	$182,848	177,600	5,248	256,084	236,899	19,185

Subsequent to September 30, 2010, the Company repurchased an additional $107.8 million (notional amount) of asset-backed securities resulting in a gain of approximately $4 million.

5. Derivative Financial Instruments

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

Interest Rate Risk

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

Basis Swaps

The Company funds the majority of its student loan assets with three-month LIBOR indexed floating rate securities. Meanwhile, the interest earned on the Company's student loan assets is indexed to commercial paper and treasury bill rates. The different interest rate characteristics of the Company's loan assets and liabilities funding these assets results in basis risk. The Company also faces repricing risk due to the timing of the interest rate resets on its liabilities, which may occur as infrequently as once a quarter, in contrast to the timing of the interest rate resets on its assets, which generally occurs daily. In a declining interest rate environment, this may cause the Company's student loan spread to compress, while in a rising rate environment, it may cause the spread to increase. As of September 30, 2010, the Company had $25.2 billion and $1.0 billion of FFELP loans indexed to the three-month financial commercial paper rate and the three-month treasury bill rate, respectively, both of which reset daily, and $20.3 billion of debt indexed to three-month LIBOR, which resets quarterly.

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

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

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

The Company has also used derivative instruments to hedge the repricing risk due to the timing of the interest rate resets on its assets and liabilities. The Company has entered into basis swaps in which the Company:

- receives three-month LIBOR set discretely in advance and pays a daily weighted average three-month LIBOR less a spread as defined in the agreements (the "Average/Discrete Basis Swaps")

- receives three-month LIBOR set discretely in advance and pays one-month LIBOR plus or minus a spread as defined in the agreements (the "1/3 Basis Swaps")

The following table summarizes the Company's basis swaps outstanding:

	As of September 30, 2010 Notional Amounts		
Maturity	1/3 Basis Swaps	T-Bill/LIBOR Basis Swaps	
2011	$—	225,000	(a)
2021	250,000	—	
2023	1,250,000	—	
2024	250,000	—	
2028	100,000	—	
2039	150,000	—	
2040	200,000	—	
	$2,200,000	225,000	

	As of December 31, 2009 Notional Amounts		
Maturity	1/3 Basis Swaps	T-Bill/LIBOR Basis Swaps	
2010	$ 1,000,000	—	
2011	—	225,000	(a)
2013	500,000	—	
2014	500,000	—	
2018	1,300,000	—	

2019	500,000	—
2021	250,000	—
2023	1,250,000	—
2024	250,000	—
2028	100,000	—
2039	150,000	—
	$ 5,800,000	225,000

(a) The effective start dates on these derivatives are in October 2010 ($75 million), November 2010 ($75 million), and December 2010 ($75 million).

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Interest rate swaps – floor income hedges

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

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

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

As of September 30, 2010 and December 31, 2009, the Company had $8.6 billion and $10.3 billion, respectively, of student loan assets that were earning fixed rate floor income. The following tables summarize the outstanding derivative investments used by the Company to economically hedge these loans.

	As of September 30, 2010			
Maturity		Notional Amount	Weighted average fixed rate paid by the Company (a)	
2010	$	3,750,000	0.48	%
2011		5,750,000	0.54	
2012		950,000	1.08	
2013		650,000	1.07	
2015		100,000	2.26	
2020		100,000	3.23	
	$	11,300,000	0.64	%

	As of December 31, 2009	
Maturity	Notional Amount	Weighted average fixed rate paid by

		the Company (a)	
2010	$4,750,000	0.54	%
2011	150,000	1.03	
	$4,900,000	0.55	%

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

Subsequent to September 30, 2010, the Company entered into additional derivatives to hedge loans earning fixed rate floor income. The following table summarizes these derivatives.

Maturity	Notional Amount	Weighted average fixed rate paid by the Company (a)	
2012	$3,000,000	0.54	%

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

Interest rate swaps – unsecured debt hedges

On September 27, 2006, the Company issued $200.0 million aggregate principal amount of Junior Subordinated Hybrid Securities ("Hybrid Securities"). The interest rate on the Hybrid Securities from the date they were issued through September 28, 2011 is 7.40%, payable semi-annually. Beginning September 29, 2011 through September 29, 2036, the interest rate on the Hybrid Securities will be equal to three-month LIBOR plus 3.375%, payable quarterly. The Company has entered into the following derivatives to effectively convert the future variable interest rate on a portion of the Hybrid Securities to a fixed rate.

Derivatives outstanding as of:	Notional Amount (a)	Weighted average fixed rate paid by the Company (b)
September 30, 2010	$ 100,000	4.27 %
December 31, 2009	$ 25,000	4.24 %

(a) The effective start date on $75 million (notional amount) of the derivatives outstanding as of September 30, 2010 is March 2012. The maturity on $75 million (notional amount) of the derivatives outstanding as of September 30, 2010 is September 29, 2036. $25 million (notional amount) of the derivatives outstanding as of September 30, 2010 are cancelable on September 29, 2011 at the Company's discretion.

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

Foreign Currency Exchange Risk

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

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Re-measurement of Euro Notes	$(106,468)	(39,356)	58,608	(55,979)
Change in fair value of cross currency interest rate swaps	107,531	44,773	(52,491)	28,871
Total impact to statements of operations - income (expense)	$1,063	5,417	6,117	(27,108)

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

Accounting for Derivative Financial Instruments

The Company records derivative instruments on the consolidated balance sheet as either an asset or liability measured at its fair value. Management has structured the majority of the Company's derivative transactions with the intent that each is economically effective; however, the Company's derivative instruments do not qualify for hedge accounting. As a result, the change in fair value of the Company's derivatives at each reporting date are included in "derivative market value and foreign currency adjustments and derivative settlements, net" in the Company's consolidated statements of operations. Changes or shifts in the forward yield curve and fluctuations in currency rates can significantly impact the valuation of the Company's derivatives. Accordingly, changes or shifts to the forward yield curve and fluctuations in currency rates will impact the financial position and results of operations of the Company.

Any proceeds received or payments made by the Company to terminate a derivative in advance of its expiration date, or to amend the terms of an existing derivative, are included in "derivative market value and foreign currency adjustments and derivative settlements, net" on the consolidated statements of operations and are accounted for as a change in fair value on such derivative. During the nine month periods ended September 30, 2010 and 2009, the Company terminated and/or amended certain derivatives for net proceeds of $14.4 million and net payments of $7.9 million, respectively.

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

	Fair value of asset derivatives		Fair value of liability derivatives	
	As of September 30, 2010	As of December 31, 2009	As of September 30, 2010	As of December 31, 2009
Average/discrete basis swaps	$—	—	—	—
1/3 basis swaps	11,453	17,768	129	—
T-Bill/LIBOR basis swaps	—	—	86	259
Interest Rate swaps - floor income hedges	47	4,497	32,063	2,230
Interest Rate swaps - hybrid debt hedges	—	1,817	10,390	—
Cross-currency interest rate swaps	117,327	169,817	—	—
Other	—	—	3,694	—
Total	$128,827	193,899	46,362	2,489

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

Derivatives not designated as hedging	Amount of gain (or loss) recognized in income on derivatives Three months ended September 30,		Amount of gain (or loss) recognized in income on derivatives Nine months ended September 30,	
	2010	2009	2010	2009
Settlements:				
Average/discrete basis swaps	$—	646	—	11,707
1/3 basis swaps	893	3,071	974	20,473
T-Bill/LIBOR basis swaps	—	—	—	—
Interest rate swaps - floor income hedges	(4,040)	(436)	(12,183)	(447)
Interest rate swaps - hybrid debt hedges	(242)	—	(242)	—
Cross-currency interest rate swaps	1,025	1,633	3,243	7,074
Other	(222)	—	(178)	—
Total settlements - (expense) income	(2,586)	4,914	(8,386)	38,807
Change in fair value:				
Average/discrete basis swaps	—	1,864	—	(16,813)
1/3 basis swaps	1,258	(1,115)	7,012	8,751
T-Bill/LIBOR basis swaps	(221)	—	15	—
Interest rate swaps - floor income hedges	(26,736)	(2,822)	(34,284)	(1,811)

Interest rate swaps - hybrid debt hedges	(6,031)	—	(11,352)	—
Cross-currency interest rate swaps	107,531	44,773	(52,491)	28,871
Other	(2,138)	(518)	(3,439)	914
Total change in fair value - (expense) income	73,663	42,182	(94,539)	19,912
Re-measurement of Euro Notes (foreign currency transaction adjustment) - (expense) income	(106,468)	(39,356)	58,608	(55,979)
Derivative market value and foreign currency adjustments and derivative settlements - (expense) income	$(35,391)	7,740	(44,317)	2,740

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Derivative Instruments - Credit and Market Risk

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

When the fair value of a derivative instrument is negative (a liability on the Company's balance sheet), the Company would owe the counterparty if the derivative was settled and, therefore, has no immediate credit risk. Additionally, if the negative fair value of derivatives with a counterparty exceeds a specified threshold, the Company may have to make a collateral deposit with the counterparty. The threshold at which the Company posts collateral is dependent upon the Company's unsecured credit rating. If the Company's credit ratings are downgraded from current levels or if interest and foreign currency exchange rates move materially, the Company could be required to deposit a significant amount of collateral with its derivative instrument counterparties. The collateral deposits, if significant, could negatively impact the Company's liquidity and capital resources. As of September 30, 2010, the Company had $44.1 million posted as collateral to derivative counterparties, which is included in "restricted cash and investments" in the Company's consolidated balance sheet. The Company does not use the collateral to offset fair value amounts recognized in the financial statements for derivative instruments.

When the fair value of a derivative contract is positive (an asset on the Company's balance sheet), this generally indicates that the counterparty would owe the Company if the derivative was settled. If the counterparty fails to perform, credit risk with such counterparty is equal to the extent of the fair value gain in the derivative less any collateral held by the Company. If the Company was unable to collect from a counterparty, it would have a loss equal to the amount the derivative is recorded on the consolidated balance sheet. As of September 30, 2010, the trustee on the Company's asset-backed securities transactions held $143.2 million of collateral from the counterparty on the cross-currency interest rate swaps. The Company considers counterparties' credit risk when determining the fair value of derivative positions on its exposure net of collateral. However, the Company does not use the collateral to offset fair value amounts recognized in the financial statements for derivative instruments.

The Company attempts to manage market and credit risks associated with interest and foreign currency exchange rates by establishing and monitoring limits as to the types and degree of risk that may be undertaken, and by entering into transactions with high-quality counterparties that are reviewed periodically by the Company's risk committee. As of September 30, 2010, all of the Company's derivative counterparties had investment grade credit ratings. The Company also has a policy of requiring that all derivative contracts be governed by an International Swaps and Derivatives Association, Inc. Master Agreement.

6. Segment Reporting

The Company earns fee-based revenue through its Student Loan and Guaranty Servicing, Tuition Payment Processing and Campus Commerce, and Enrollment Services operating segments. In addition, the Company earns net interest income on its student loan portfolio through 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 federally-owned student loans. In September 2009, the Company began servicing loans under this contract. The contract spans five years with one, five-year renewal at the option of the Department.

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

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

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.

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 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 services includes test preparation study guides. Resource centers and list marketing products and services include online courses and related services and list marketing services.

Asset Generation and Management Operating Segment

The Asset Generation and Management operating segment includes the acquisition, management, and ownership of the Company's student loan assets. 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.

Corporate Activity and Overhead

Corporate Activity and Overhead includes the following items:

- Income earned on certain investment activities
- Interest expense incurred on unsecured debt transactions
- Other products and service offerings that are not considered operating segments

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

Segment Operating Results – "Base Net Income"

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

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

Income Taxes

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

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 gains on debt repurchases to "gain on sale of loans and debt repurchases, net" which were previously included in "other income."

In addition, during the third quarter of 2010, management changed its internal reporting related to intersegment revenue and expenses. These changes included reclassifying all "intersegment revenue" (with the exception of intersegment servicing revenue earned by the Student Loan and Guaranty Servicing segment from the Asset Generation and Management segment) to "intersegment expenses, net." Other than intersegment servicing revenue, the intersegment activity is primarily the allocation of operating expenses to the appropriate segment.

The reclassification described above had no effect on any of the segments' net income or assets and liabilities. Prior period segment operating results were restated to conform to the current period presentation.

Segment Results and Reconciliations to GAAP

	Three months ended September 30, 2010									
	Student Loan and Guaranty Servicing	Fee-Based 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	12	—	25	159,752	1,919	(1,240)	160,456	—	160,456
Interest expense	—	—	—	—	64,302	5,181	(1,240)	68,243	—	68,243
Net interest income (loss)	13	12	—	25	95,450	(3,262)	—	92,213	—	92,213
Less provision for loan losses	—	—	—	—	5,500	—	—	5,500	—	5,500
Net interest income (loss) after provision for loan losses	13	12	—	25	89,950	(3,262)	—	86,713	—	86,713
Other income (expense):										
Loan and guaranty servicing revenue	33,464	—	—	33,464	—	—	—	33,464	—	33,464
Intersegment servicing revenue	20,045	—	—	20,045	—	—	(20,045)	—	—	—
Tuition payment processing and campus commerce revenue	—	14,527	—	14,527	—	—	—	14,527	—	14,527
Enrollment services revenue	—	—	36,439	36,439	—	—	—	36,439	—	36,439
	4,624	—	—	4,624	—	—	—	4,624	—	4,624

Software services revenue										
Other income	—	—	—	—	4,710	4,722	—	9,432	—	9,432
Gain on sale of loans and debt repurchases, net	—	—	—	—	4,963	4,922	—	9,885	—	9,885
Derivative market value and foreign currency adjustments	—	—	—	—	—	—	—	—	(32,805)	(32,805)
Derivative settlements, net	—	—	—	—	(2,131)	(455)	—	(2,586)	—	(2,586)
Total other income (expense)	58,133	14,527	36,439	109,099	7,542	9,189	(20,045)	105,785	(32,805)	72,980
Operating expenses:										
Salaries and benefits	22,682	6,652	6,142	35,476	1,054	4,615	(60)	41,085	—	41,085
Cost to provide enrollment services	—	—	23,709	23,709	—	—	—	23,709	—	23,709
Other expenses	18,583	2,383	4,180	25,146	2,937	62,055	—	90,138	5,355	95,493
Intersegment expenses, net	1,166	992	705	2,863	20,295	(3,173)	(19,985)	—	—	—
Total operating expenses	42,431	10,027	34,736	87,194	24,286	63,497	(20,045)	154,932	5,355	160,287
Income (loss) before income taxes and corporate overhead allocation	15,715	4,512	1,703	21,930	73,206	(57,570)	—	37,566	(38,160)	(594)
Corporate overhead allocation	(1,676)	(559)	(559)	(2,794)	(2,793)	5,587	—	—	—	—
Income (loss) before income taxes	14,039	3,953	1,144	19,136	70,413	(51,983)	—	37,566	(38,160)	(594)

Income tax (expense) benefit	(5,335)	(1,502)	(435)	(7,272)	(26,757)	19,754	—	(14,275)	14,501	226
Net income (loss)	$8,704	2,451	709	11,864	43,656	(32,229)	—	23,291	(23,659)	(368)
Additional information:										
Net income (loss)	$8,704	2,451	709	11,864	43,656	(32,229)	—	23,291	(23,659)	(368)
Plus: Litigation settlement (a)	—	—	—	—	—	55,000	—	55,000	—	55,000
Plus: Restructure expense (b)	4,751	—	—	4,751	—	—	—	4,751	—	4,751
Less: Net tax effect	(1,805)	—	—	(1,805)	—	(20,900)	—	(22,705)	—	(22,705)
Net income (loss), excluding litigation settlement and restructure expense	$11,650	2,451	709	14,810	43,656	1,871	—	60,337	(23,659)	36,678

(a) During the third quarter of 2010, the Company recorded a $55.0 million litigation settlement charge. See note 14 for additional information related to this settlement.

(b) During the third quarter of 2010, the Company recorded restructuring charges associated with previously implemented restructuring plans. See note 13 for additional information related to these charges.

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	Three months ended September 30, 2009									
	Student Loan and Guaranty Servicing	Fee-Based 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	$23	16	—	39	144,310	1,191	(342)	145,198	—	145,198
Interest expense	—	—	—	—	69,914	6,444	(342)	76,016	—	76,016
Net interest income (loss)	23	16	—	39	74,396	(5,253)	—	69,182	—	69,182
Less provision for loan losses	—	—	—	—	7,500	—	—	7,500	—	7,500
Net interest income (loss) after provision for loan losses	23	16	—	39	66,896	(5,253)	—	61,682	—	61,682
Other income (expense):										
Loan and guaranty servicing revenue	26,387	—	—	26,387	—	(381)	—	26,006	—	26,006
Intersegment servicing revenue	21,512	—	—	21,512	—	—	(21,512)	—	—	—
Tuition payment processing and campus commerce revenue	—	12,987	—	12,987	—	—	—	12,987	—	12,987
Enrollment services revenue	—	—	30,670	30,670	—	—	—	30,670	—	30,670
Software services revenue	4,600	—	—	4,600	—	—	—	4,600	—	4,600

Other income	137	—	—	137	4,104	1,605	—	5,846	—	5,846
Gain on sale of loans and debt repurchases, net	—	—	—	—	14,643	(607)	—	14,036	—	14,036
Derivative market value and foreign currency adjustments	—	—	—	—	—	—	—	—	2,826	2,826
Derivative settlements, net	—	—	—	—	4,914	—	—	4,914	—	4,914
Total other income (expense)	52,636	12,987	30,670	96,293	23,661	617	(21,512)	99,059	2,826	101,885
Operating expenses:										
Salaries and benefits	20,044	6,399	5,337	31,780	1,693	4,099	(1,174)	36,398	—	36,398
Cost to provide enrollment services	—	—	20,323	20,323	—	—	—	20,323	—	20,323
Other expenses	14,731	2,265	3,266	20,262	4,801	5,565	1	30,629	5,312	35,941
Intersegment expenses, net	1,154	608	411	2,173	20,764	(2,598)	(20,339)	—	—	—
Total operating expenses	35,929	9,272	29,337	74,538	27,258	7,066	(21,512)	87,350	5,312	92,662
Income (loss) before income taxes	16,730	3,731	1,333	21,794	63,299	(11,702)	—	73,391	(2,486)	70,905
Income tax (expense) benefit	(6,357)	(1,418)	(507)	(8,282)	(24,054)	6,976	—	(25,360)	859	(24,501)
Net income (loss)	$ 10,373	2,313	826	13,512	39,245	(4,726)	—	48,031	(1,627)	46,404
Additional information:										
Net income (loss)	$ 10,373	2,313	826	13,512	39,245	(4,726)	—	48,031	(1,627)	46,404
Plus: Restructure	3,151	—	—	3,151	—	189	—	3,340	—	3,340

expense (a)										
Less: Net tax effect	(1,197)	—	—	(1,197)	—	43	—	(1,154)	—	(1,154)
Net income (loss), excluding restructure expense	$ 12,327	2,313	826	15,466	39,245	(4,494)	—	50,217	(1,627)	48,590

(a) During the third quarter of 2009, the Company recorded restructuring charges associated with previously implemented restructuring plans. See note 13 for additional information related to these charges.

	Nine months ended September 30, 2010									
	Student Loan and Guaranty Servicing	Fee-Based 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	C
Total interest income	$43	24	—	67	450,715	5,439	(3,140)	453,081	—	
Interest expense	—	—	—	—	164,063	17,422	(3,140)	178,345	—	
Net interest income (loss)	43	24	—	67	286,652	(11,983)	—	274,736	—	
Less provision for loan losses	—	—	—	—	16,700	—	—	16,700	—	
Net interest income (loss) after provision for loan losses	43	24	—	67	269,952	(11,983)	—	258,036	—	
Other income (expense):										
Loan and guaranty servicing revenue	106,764	—	—	106,764	—	(254)	—	106,510	—	
Intersegment servicing revenue	63,594	—	—	63,594	—	—	(63,594)	—	—	
Tuition payment processing and campus commerce revenue	—	44,704	—	44,704	—	—	—	44,704	—	
Enrollment services revenue	—	—	105,113	105,113	—	—	—	105,113	—	
Software services revenue	14,467	—	—	14,467	—	—	—	14,467	—	

Other income	519	—	—	519	14,114	10,555	—	25,188	—
Gain on sale of loans and debt repurchases, net	—	—	—	—	23,899	4,922	—	28,821	—
Derivative market value and foreign currency adjustments	—	—	—	—	—	—	—	—	(35,931)
Derivative settlements, net	—	—	—	—	(7,931)	(455)	—	(8,386)	—
Total other income (expense)	185,344	44,704	105,113	335,161	30,082	14,768	(63,594)	316,417	(35,931)
Operating expenses:									
Salaries and benefits	69,591	19,864	18,660	108,115	3,698	12,540	(1,662)	122,691	—
Cost to provide enrollment services	—	—	69,845	69,845	—	—	—	69,845	—
Other expenses	55,216	7,435	13,307	75,958	10,150	75,465	—	161,573	18,103
Intersegment expenses, net	4,158	2,645	1,779	8,582	63,011	(9,661)	(61,932)	—	—
Total operating expenses	128,965	29,944	103,591	262,500	76,859	78,344	(63,594)	354,109	18,103
Income (loss) before income taxes and corporate overhead allocation	56,422	14,784	1,522	72,728	223,175	(75,559)	—	220,344	(54,034)
Corporate overhead allocation	(4,349)	(1,450)	(1,450)	(7,249)	(7,247)	14,496	—	—	—
Income (loss) before income taxes	52,073	13,334	72	65,479	215,928	(61,063)	—	220,344	(54,034)
Income tax (expense) benefit	(19,788)	(5,068)	(27)	(24,883)	(82,053)	24,040	—	(82,896)	20,533

Net income (loss)	$32,285	8,266	45	40,596	133,875	(37,023)	—	137,448	(33,501)
Additional information:									
Net income (loss)	$32,285	8,266	45	40,596	133,875	(37,023)	—	137,448	(33,501)
Plus: Litigation settlement (a)	—	—	—	—	—	55,000	—	55,000	—
Plus: Restructure expense (b)	6,040	—	—	6,040	—	(20)	—	6,020	—
Less: Net tax effect	(2,295)	—	—	(2,295)	—	(20,892)	—	(23,187)	—
Net income (loss), excluding litigation settlement and restructure expense	$36,030	8,266	45	44,341	133,875	(2,935)	—	175,281	(33,501)

(a) During the third quarter of 2010, the Company recorded a $55.0 million litigation settlement charge. See note 14 for additional information related to this charge.

(b) During 2010, the Company recorded restructuring charges associated with previously implemented restructuring plans. See note 13 for additional information related to these charges.

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	Nine months ended September 30, 2009									
	Student Loan and Guaranty Servicing	Fee-Based 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	G R Ope
Total interest income	$102	57	—	159	473,130	3,930	(1,324)	475,895	7,502	48
Interest expense	—	—	—	—	306,846	23,078	(1,324)	328,600	—	32
Net interest income (loss)	102	57	—	159	166,284	(19,148)	—	147,295	7,502	15
Less provision for loan losses	—	—	—	—	23,000	—	—	23,000	—	23
Net interest income (loss) after provision for loan losses	102	57	—	159	143,284	(19,148)	—	124,295	7,502	13
Other income (expense):										
Loan and guaranty servicing revenue	82,424	—	—	82,424	—	(1,144)	—	81,280	—	81
Intersegment servicing revenue	62,246	—	—	62,246	—	—	(62,246)	—	—	—
Tuition payment processing and campus commerce revenue	—	40,373	—	40,373	—	—	—	40,373	—	40
Enrollment services revenue	—	—	88,188	88,188	—	—	—	88,188	—	88
Software services revenue	16,424	—	—	16,424	—	—	—	16,424	—	16

Other income	498	—	—	498	12,974	6,826	—	20,298	—	20
Gain (loss) on sale of loans and debt repurchases, net	—	—	—	—	14,263	13,308	—	27,571	—	27
Derivative market value and foreign currency adjustments	—	—	—	—	—	—	—	—	(36,067)	(3
Derivative settlements, net	—	—	—	—	38,807	—	—	38,807	—	38
Total other income (expense)	161,592	40,373	88,188	290,153	66,044	18,990	(62,246)	312,941	(36,067)	27
Operating expenses:										
Salaries and benefits	63,645	19,346	17,295	100,286	5,203	11,958	(4,284)	113,163	159	11
Cost to provide enrollment services	—	—	56,208	56,208	—	—	—	56,208	—	56
Other expenses	45,965	7,012	9,602	62,579	15,635	17,592	2	95,808	17,251	11
Intersegment expenses, net	2,777	1,790	1,188	5,755	59,372	(7,163)	(57,964)	—	—	—
Total operating expenses	112,387	28,148	84,293	224,828	80,210	22,387	(62,246)	265,179	17,410	28
Income (loss) before income taxes	49,307	12,282	3,895	65,484	129,118	(22,545)	—	172,057	(45,975)	12
Income tax (expense) benefit	(18,738)	(4,667)	(1,480)	(24,885)	(49,066)	11,150	—	(62,801)	16,781	(4
Net income (loss)	$30,569	7,615	2,415	40,599	80,052	(11,395)	—	109,256	(29,194)	80
Additional information:										
Net income (loss)	$30,569	7,615	2,415	40,599	80,052	(11,395)	—	109,256	(29,194)	80
	6,408	—	—	6,408	—	220	—	6,628	—	6,

Plus: Restructure expense (a)										
Less: Net tax effect	(2,339)	—	—	(2,339)	—	(80)	—	(2,419)	—	(2
Net income (loss), excluding restructure expense	$34,638	7,615	2,415	44,668	80,052	(11,255)	—	113,465	(29,194)	84

(a) During 2009, the Company recorded restructuring charges associated with restructuring plans. See note 13 for additional information related to these charges.

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

	Student Loan and Guaranty Servicing	Tuition Payment Processing and Campus Commerce	Enrollment Services	Asset Generation and Management	Corporate Activity and Overhead	Total
	Three months ended September 30, 2010					
Derivative market value and foreign currency adjustments (a)	$—	—	—	24,966	7,839	32,805
Amortization of intangible assets (b)	2,112	1,120	2,123	—	—	5,355
Compensation related to business combinations (c)	—	—	—	—	—	—
Variable-rate floor income, net of settlements on derivatives (d)	—	—	—	—	—	—
Net tax effect (e)	(803)	(426)	(807)	(9,487)	(2,978)	(14,501)
Total adjustments to GAAP	$1,309	694	1,316	15,479	4,861	23,659
	Three months ended September 30, 2009					
Derivative market value and foreign currency adjustments (a)	$—	—	—	(2,826)	—	(2,826)
Amortization of intangible assets (b)	1,219	1,842	2,251	—	—	5,312
Compensation related to business combinations (c)	—	—	—	—	—	—
Variable-rate floor income, net of settlements on derivatives (d)	—	—	—	—	—	—
Net tax effect (e)	(464)	(700)	(855)	1,074	86	(859)
Total adjustments to GAAP	$755	1,142	1,396	(1,752)	86	1,627
	Nine months ended September 30, 2010					
Derivative market value and foreign currency adjustments (a)	$—	—	—	20,955	14,976	35,931
Amortization of intangible assets (b)	6,462	4,636	7,005	—	—	18,103
Compensation related to business combinations (c)	—	—	—	—	—	—
Variable-rate floor income, net of settlements on derivatives (d)	—	—	—	—	—	—
Net tax effect (e)	(2,456)	(1,763)	(2,665)	(7,963)	(5,686)	(20,533)
Total adjustments to GAAP	$4,006	2,873	4,340	12,992	9,290	33,501
	Nine months ended September 30, 2009					
	$—	—	—	37,499	(1,432)	36,067

Derivative market value and foreign currency adjustments (a)						
Amortization of intangible assets (b)	3,659	5,598	7,994	—	—	17,251
Compensation related to business combinations (c)	—	—	—	—	159	159
Variable-rate floor income, net of settlements on derivatives (d)	—	—	—	(7,502)	—	(7,502)
Net tax effect (e)	(1,391)	(2,127)	(3,037)	(11,399)	1,173	(16,781)
Total adjustments to GAAP	$2,268	3,471	4,957	18,598	(100)	29,194

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

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

(c) 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. The compensation expense related to existing agreements was fully expensed in 2009. "Base net income" excludes this expense.

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

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

7. Intangible Assets

Intangible assets consist of the following:

	Weighted average remaining useful life as of September 30, 2010 (months)	As of September 30, 2010	As of December 31, 2009
Amortizable intangible assets:			
Customer relationships (net of accumulated amortization of $48,162 and $38,785, respectively)	72	$31,613	40,991
Computer software (net of accumulated amortization of $10,490 and $8,915, respectively)	28	6,158	87
Trade names (net of accumulated amortization of $11,265 and $9,101, respectively)	27	5,287	7,452
Covenants not to compete (net of accumulated amortization of $23,491 and $20,372, respectively)	3	110	3,229
Database and content (net of accumulated amortization of $9,296 and $7,701, respectively)	3	184	1,779
Total - amortizable intangible assets	60	$43,352	53,538

The Company recorded amortization expense on its intangible assets of $5.4 million and $5.3 million for the three months ended September 30, 2010 and 2009, respectively, and $18.1 million and $17.3 million for the nine months ended September 30, 2010 and 2009, respectively. The Company will continue to amortize intangible assets over their remaining useful lives. As of September 30, 2010, the Company estimates it will record amortization expense as follows:

2010 (October 1 - December 31)	$4,640
2011	15,784
2012	15,269
2013	2,024
2014	1,298
2015 and thereafter	4,337
	$43,352

During the first quarter of 2010, the Company purchased certain assets of a software company that constituted a business combination. The initial consideration paid by the Company was $3.0 million in cash. In addition to the initial purchase price, additional payments are to be made by the Company based on certain operating results as defined in the purchase agreement. These contingent payments are payable in three annual installments beginning in March 2011 and in total are estimated by the Company to be $4.8 million. The contingent payments will be

remeasured to fair value each reporting date until the contingency is resolved, with all changes in fair value being recognized in earnings. Substantially all of the purchase price was allocated to a computer software intangible asset that will be amortized over three years.

8. Goodwill

The following table summarizes the Company's allocation of goodwill by operating segment as of September 30, 2010 and December 31, 2009:

Student Loan and Guaranty Servicing	$8,596
Tuition Payment Processing and Campus Commerce	58,086
Enrollment Services	35,152
Asset Generation and Management	41,883
	$143,717

The Company performs goodwill impairment testing annually (every November 30) or more frequently if an event occurs or circumstances change such that there is a potential that the fair value of a reporting unit or reporting units may be below their respective carrying values. When testing goodwill for impairment, the Company performs a two-step impairment test as prescribed in ASC Topic 350, Intangibles – Goodwill and Other. In the first step, the Company compares the fair value of each reporting unit to its carrying value. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is considered not impaired and the Company is not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then the Company must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, the Company would record an impairment loss equal to the difference.

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 FFELP and requires that all new federal loan originations be made through the Direct Loan Program. This new legislation does not alter or affect the terms and conditions of existing FFELP loans.

The provisions of the Reconciliation Act of 2010 were consistent with President Obama's February 2009 budget request to Congress and the student loan legislation passed in September 2009 by the House of Representatives (the "SAFRA Legislation"), both of which called for the elimination of the FFEL Program and a requirement that all new federal loans be made through the Direct Loan Program.

During the Company's goodwill impairment testing completed as of November 30, 2009, the Company performed the first step of the goodwill impairment test to determine whether the fair value of each of its reporting units exceeded the carrying value of net assets assigned to that unit. The fair value of each reporting unit was determined by weighing different valuation approaches, as applicable, with the primary approach being the income approach.

The income approach measures the value of each reporting unit based on the present value of the reporting unit's future economic benefit determined based on discounted cash flows derived from the Company's projections for each reporting unit. These projections reflect the estimated future strategic operating and financial performance of each respective reporting unit, including assumptions related to applicable cost savings and planned dispositions or wind down activities. In conjunction with the Company's November 30, 2009 impairment assessment, cash flow projections were made for each reporting unit as if the Administration's budget proposal and SAFRA Legislation were enacted. Accordingly, cash flow projections for each reporting unit assumed no new FFELP loan originations beyond June 30, 2010. As such, management has determined that passage of the Reconciliation Act of 2010 does not decrease the fair value of any reporting unit from the fair value assessment as of November 30, 2009 and management did not perform an impairment assessment during any reporting period during 2010 as a result of the passage of, and subsequent impact related to, the Reconciliation Act of 2010.

However, as a result of the Reconciliation Act of 2010, the Company no longer originates new (first disbursement) FFELP loans and net interest income on the Company's existing FFELP loan portfolio will decline over time as the Company's portfolio pays down. As a result, as this revenue stream winds down, goodwill impairment will be triggered for the Asset Generation and Management reporting unit due to the passage of time and depletion of projected cash flows stemming from its FFELP student loan portfolio. Other than the Asset Generation and Management reporting unit, management believes the elimination of FFELP will not have an adverse impact on the fair value of the Company's other reporting units.

9. Investments

Included in investments on the consolidated balance sheet at September 30, 2010 are debt and equity securities that are bought and held principally for the purpose of selling them in the near term. These investments are classified as trading securities and reported at fair value, with unrealized gains and losses included in earnings.

10. Fair Value of Financial Instruments

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

	As of September 30, 2010		
	Level 1	Level 2	Total
Assets:			

Investments (a)	$33,082	—	33,082
Fair value of derivative instruments (b)	—	128,827	128,827
Total assets	$33,082	128,827	161,909
Liabilities:			
Fair value of derivative instruments (b)	$—	46,362	46,362
Total liabilities	$—	46,362	46,362

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	As of December 31, 2009		
	Level 1	Level 2	Total
Assets:			
Fair value of derivative instruments (b)	$—	193,899	193,899
Total assets	$—	193,899	193,899
Liabilities:			
Fair value of derivative instruments (b)	$—	2,489	2,489
Total liabilities	$—	2,489	2,489

(a) Investments represent investments classified by the Company as "trading securities," which are recorded at fair value on a recurring basis. Level 1 investments are measured based upon quoted prices and include investments traded on an active exchange, such as the New York Stock Exchange, and U.S. Treasury securities.

(b) All derivatives are accounted for at fair value on a recurring basis. The fair values of derivative financial instruments are determined by derivative pricing models using the stated terms of the contracts and observable yield curves, forward foreign currency exchange rates, and volatilities from active markets. Fair value of derivative instruments is comprised of market value less accrued interest and excludes collateral.

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

	As of September 30, 2010		As of December 31, 2009	
	Fair value	Carrying value	Fair value	Carrying value
Financial assets:				
Student loans receivable	$25,394,972	24,436,162	24,387,267	23,926,957
Student loans receivable - held for sale	2,143,191	2,109,440	—	—
Cash and cash equivalents	316,361	316,361	338,181	338,181
Investments - trading securities	33,082	33,082	—	—
Restricted cash	432,443	432,443	318,530	318,530
Restricted cash – due to customers	54,532	54,532	91,741	91,741
Restricted investments	260,259	260,259	306,962	306,962
Accrued interest receivable	418,083	418,083	329,313	329,313
Derivative instruments	128,827	128,827	193,899	193,899
Financial liabilities:				
Bonds and notes payable	27,256,200	27,391,188	24,741,306	24,805,289
Accrued interest payable	19,727	19,727	19,831	19,831
Due to customers	54,532	54,532	91,741	91,741
Derivative instruments	46,362	46,362	2,489	2,489

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

Student Loans Receivable and Student Loans Receivable – Held for Sale

The Company's student loans are accounted for at cost or at the lower of cost or market if the loan is held-for-sale. Student loans classified as held-for-sale are those which the Company has the ability and intent to sell under the

Department's Purchase Program. These loans are valued using the committed sales price under the Purchase Program. For all other loans, fair values were determined by modeling loan cash flows using stated terms of the assets and internally-developed assumptions to determine aggregate portfolio yield, net present value, and average life. The significant assumptions used to project cash flows are prepayment speeds, default rates, and future interest rates and index relationships. A number of significant inputs into the models are internally derived.

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

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

Bonds and Notes Payable

The fair value of the bonds and notes payable is based on market prices for securities that possess similar credit risk and interest rate risk.

11. Shareholders' Equity

Stock Repurchases

Shares repurchased by the Company during 2010 are shown in the table below.

	Total shares repurchased	Purchase Price (in thousands)	Average price of shares repurchased (per share)
Three months ended March 31, 2010	12,936	$236	$18.28
Three months ended June 30, 2010	663,443	12,821	19.33
Three months ended September 30, 2010	1,184,261	26,615	22.47
Nine months ended September 30, 2010	1,860,640	$39,672	$21.32

During 2006, the Company's Board of Directors authorized a stock repurchase program to repurchase shares of the Company's Class A common stock. As of September 30, 2010, 2,988,310 shares may still be purchased under the plan. The plan has an expiration date of May 24, 2012.

Issuance of Class A Common Stock

In March 2010 and 2009, the Company's 2009 and 2008 annual performance-based incentives awarded to management were paid in approximately 173,000 and 455,000 fully vested and unrestricted shares of Class A common stock, respectively, issued pursuant to the Company's Restricted Stock Plan.

Dividends

In the first quarter of 2007, the Company began paying dividends of $0.07 per share on the Company's Class A and Class B Common Stock, which were paid quarterly through the first quarter of 2008. On May 21, 2008, the Company announced that it was temporarily suspending its quarterly dividend program. On November 5, 2009, the Company's Board of Directors voted to reinstate the quarterly dividend program effective for the fourth quarter 2009. Accordingly, during 2010, a dividend of $0.07 per share on the Company's Class A and Class B Common Stock was paid on March 15, 2010, June 15, 2010, and September 15, 2010 to all holders of record as of March 1, 2010, June 1, 2010, and September 1, 2010, respectively.

The Nelnet Board of Directors declared a fourth-quarter cash dividend on its outstanding shares of Class A common stock and Class B common stock of $0.49 per share. The dividend consists of a quarterly dividend of $0.07 per share, and an additional $0.42 per share representing $0.07 per share for each of the six quarters in 2008 and 2009 during which the Company had suspended dividend payments to preserve capital during a volatile period in the market. The dividend will be paid on December 15, 2010 to shareholders of record as of December 1, 2010.

12. Earnings per Common Share

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

A reconciliation of weighted average shares outstanding follows:

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Net income (loss) attributable to Nelnet, Inc.	$(368)	46,404	103,947	80,062
Less earnings (loss) allocated to unvested restricted stockholders	(4)	291	671	514
Net income (loss) available to common stockholders	$(364)	46,113	103,276	79,548
Weighted average common shares outstanding - basic	48,938,333	49,611,423	49,460,625	49,432,165
Dilutive effect of the assumed vesting of restricted stock awards	—	197,433	202,880	201,125
Weighted average common shares outstanding - diluted	48,938,333	49,808,856	49,663,505	49,633,290
Basic earnings (loss) per common share	$(0.01)	0.93	2.09	1.60
Diluted earnings (loss) per common share	$(0.01)	0.93	2.08	1.60

No diluted effect of the assumed vesting of restricted stock awards is presented for the three months ended September 30, 2010 as the Company reported a net loss and including these shares would have been antidilutive for the period. The dilutive effect of these shares if the Company had net income for the period was not significant.

13. Restructuring Charge

On May 8, 2009, as a result of continued challenges in the economy and the student loan industry, the Company adopted a plan to further streamline its operations by continuing to reduce its geographic footprint and consolidate servicing operations and related support services.

Management developed a restructuring plan that resulted in lower costs and provided enhanced synergies through cross training, career development, and simplified communications. The Company simplified its operating structure to leverage its larger facilities and technology by closing certain offices and downsizing its presence in certain geographic locations. Approximately 300 associates were impacted by this restructuring plan. However, the majority of these functions were relocated to the Company’s Lincoln headquarters and Denver offices. Implementation of the plan began immediately and was completed during the third quarter of 2010.

The total charge to earnings associated with this restructuring plan was $11.7 million, consisting of $5.3 million in severance costs and $6.4 million in contract terminations. The majority of this restructuring charge and related activity impacted the Company’s Student Loan and Guaranty Servicing operating segment.

The Company also initiated restructuring plans in 2007 and 2008, which impacted the results of operations in 2009 and 2010. Selected information relating to all restructuring plans follow:

	2009 Restructuring Plan			
	Employee termination benefits	Lease terminations	2007 and 2008 Restructuring Plans (a)	Total
Restructuring accrual as of December 31, 2008	$—	—	3,480	3,480
Restructuring costs recognized during the three month period ended:				
June 30, 2009	1,482	1,291	515	3,288
September 30, 2009	1,412	1,786	142	3,340
December 31, 2009	1,353	(46)	47	1,354
Total 2009 costs	4,247	3,031	704	7,982
Cash payments - 2009	(898)	(605)	(900)	(2,403)
Restructuring accrual as of December 31, 2009	3,349	2,426	3,284	9,059
Restructuring costs recognized during the three month period ended March 31, 2010	997	200	—	1,197
Cash payments	(264)	(406)	(354)	(1,024)
Restructuring accrual as of March 31, 2010	4,082	2,220	2,930	9,232
Restructuring costs recognized during the three month period ended June 30, 2010	72	—	—	72
Cash payments	(1,376)	(1,555)	(298)	(3,229)
Restructuring accrual as of June 30, 2010	2,778	665	2,632	6,075
Restructuring costs recognized during the three month period ended September 30, 2010	—	3,160	1,591	4,751
Cash payments	(1,557)	(92)	(282)	(1,931)
Restructuring accrual as of September 30, 2010	$1,221	3,733	3,941	8,895

(a) The 2009 and 2010 activity related to the 2007 and 2008 restructuring plans relate primarily to lease terminations.

14. Legal Proceedings and Regulatory Reviews

General

The Company is subject to various claims, lawsuits, and proceedings that arise in the normal course of business. These matters principally consist of claims by student loan borrowers disputing the manner in which their student loans have been processed and disputes with other business entities. In addition, from time to time the Company receives information and document requests from state or federal regulators concerning its business practices. The Company cooperates with these inquiries and responds to the requests. While the Company cannot predict the ultimate outcome of any inquiry or investigation, the Company believes its activities have materially complied with applicable law, including the Higher Education Act, the rules and regulations adopted by the Department of Education there under, and the Department's guidance regarding those rules and regulations. Other than as specifically discussed below, on the basis of present information, anticipated insurance coverage, and advice received from counsel, it is the opinion of the Company's management that the disposition or ultimate determination of these claims, lawsuits, and proceedings will not have a material adverse effect on the Company's business, financial position, or results of operations.

Regulatory Reviews

The Department of Education periodically reviews participants in the FFELP for compliance with program provisions. On June 28, 2007, the Department notified the Company that it would be conducting a review of the Company's practices in connection with the prohibited inducement provisions of the Higher Education Act and the associated regulations that allow borrowers to have a choice of lenders. The Company understands that the Department selected several schools and lenders for review. The Company responded to the Department's requests for information and documentation and cooperated with their review. On May 1, 2009, the Company received the Department's preliminary program review report, which covered the Department's review of the period from October 1, 2002 to September 30, 2007. The preliminary program review report contained certain initial findings of noncompliance with the Higher Education Act's prohibited inducement provisions and required that the Company provide an explanation for the basis of the arrangements noted in the preliminary program review report. The Company responded and provided an explanation of the arrangements noted in the Department's initial findings, and on September 3, 2010, the Department issued a Final Program Review Determination letter, advising the Company it would not take further action with respect to six of the seven initial findings, deeming the Company's responses to those findings sufficient to resolve the initial questions. With respect to the remaining initial finding, the Department alleged a violation of the prohibited inducements provisions regarding the Company's relationship with one higher education institution in 2006-07, and indicated that it intended to assess a fine of $27,500, the statutory penalty for such violations. The Company is confident its practices complied with applicable law and the Department's guidance on applicable law, but in order to resolve the remaining issue, on October 28, 2010, the Company entered into a Settlement Agreement and Release with the Department, pursuant to which the Company denied any liability or violation of law, agreed not to appeal the Department's decision, and agreed to pay the Department $27,500 in settlement of the matter.

United States ex rel Oberg v. Nelnet, Inc. et al

On September 28, 2009, the Company was served with a Summons and First Amended Complaint naming the Company as one of ten defendants in a "qui tam" action brought by Jon H. Oberg on behalf of the United States of America. Qui tam actions assert claims by an individual on behalf of the federal government, and are filed under seal until the government decides, if at all, to intervene in the case.

An original complaint in the action was filed under seal in the U.S. District Court for the Eastern District of Virginia on September 21, 2007, and was unsealed on August 26, 2009 upon the government's filing of a Notice of Election to Decline Intervention in the matter. The First Amended Complaint (the "Oberg Complaint") was filed on August 24, 2009, and alleged the defendant student loan lenders submitted false claims for payment to the Department of Education in order to obtain special allowance payments on certain student loans at a rate of 9.5%, which the Oberg Complaint alleged were in excess of amounts permitted by law.

The Oberg Complaint alleged that approximately $407 million in unlawful 9.5% special allowance payment claims were submitted by the Company, and sought a judgment against the defendants in the amount of three times the amount of damages sustained by the government in connection with the alleged overbilling by the defendants for special allowance payments, as well as civil penalties.

The 9.5% special allowance payments received by the Company were disclosed by the Company on multiple occasions beginning in 2003. In January 2007, the Company entered into a settlement agreement with the Department of Education to resolve an audit report by the Office of Inspector General of the Department of Education with respect to the Company's student loan portfolio receiving special allowance payments at a minimum 9.5% interest rate. The settlement agreement with the Department contains an acknowledgment by the Department of Education that the dispute with the Company in connection with billings for 9.5% interest was in good faith.

On August 13, 2010, the Company reached an agreement in principle to resolve the Oberg Complaint, subject to the final approval of the Department of Justice ("Justice") and the finalization of a formal binding settlement agreement. The approval by Justice, finalization of the settlement agreement, and dismissal of the Oberg Complaint by the Court, were completed on October 25, 2010. The Company recorded a $55.0 million pre-tax charge ($34.1 million after tax) during the third quarter of 2010 related to the settlement. The Company expects that the IRS will review the settlement agreement as part of its normal procedures for settlements with government agencies, to determine if the payments are deductible as ordinary and necessary business expenses. While the Company believes that the payments are fully deductible under applicable tax law, the IRS may not agree with that position.

The Company believed it had strong defenses to the Oberg Complaint, but entered into the settlement agreement in order to eliminate the uncertainty, distraction, and expense of a trial.

15. Legislation

Legislation – Dodd-Frank Act

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). The Dodd-Frank Act represents a comprehensive overhaul of the financial services industry within the United States, establishes the new federal Bureau of Consumer Financial Protection (the "BCFP"), an independent agency within the Federal Reserve to regulate consumer financial products, including education loans, and services offered primarily for personal, family or household purposes, and will require the BCFP and other federal agencies, including the SEC and the Commodity Futures Trading Commission (the "CFTC"), to undertake various assessments and rulemakings. The majority of the provisions in the Dodd-Frank Act are aimed at financial institutions. However, there are components of the legislation that will have an impact on the Company, including new requirements for derivatives and securitizations as discussed below, corporate governance and executive compensation provisions for public companies, and provisions which may impact the Company as it works with financial institutions and credit rating agencies.

The Dodd-Frank Act provides the CFTC and the SEC with substantial new authority to regulate over-the-counter derivatives transactions, and includes provisions that require derivatives transactions to be executed through an exchange or centrally cleared, unless an exemption applies based on regulations to be developed by the CFTC and the SEC. The CFTC and the SEC have initiated rulemaking processes with respect to derivatives. Although the Company cannot predict the ultimate outcome of these rulemakings, new regulations in this area may result in increased costs and cash collateral margin requirements for the types of derivatives the Company uses to hedge or otherwise manage its financial risks related to volatility in interest rates and foreign currency exchange rates.

There are also provisions in the Dodd-Frank Act that will affect future student loan portfolio securitization financing transactions by the Company through the issuance of asset-backed securities. The SEC and federal banking agencies are directed to adopt regulations requiring issuers of asset-backed securities or persons who organize and initiate asset-backed securities transactions to retain a portion of the underlying assets' credit risk, new disclosure and reporting requirements for each tranche of asset-backed securities, including new loan-level data requirements, and new disclosure requirements relating to the representations, warranties and enforcement mechanisms available to investors in asset-backed securities. The SEC has issued proposed new rules governing asset-backed securities. Although the Company cannot predict the ultimate outcome of this rulemaking, the Dodd-Frank Act provisions and new regulations in this area are expected to affect the terms of future student loan securitization transactions that the Company facilitates and result in greater risk retention and less flexibility for the Company in structuring such transactions.

At this time, it is difficult to predict the extent to which the Dodd-Frank Act or the resulting regulations will impact the Company's business and operations. As rules and regulations are promulgated by the federal agencies responsible for implementing and enforcing the provisions in the Dodd-Frank Act, the Company will need to apply adequate resources to ensure that it is in compliance with all applicable provisions. Compliance with these new laws and regulations may result in additional costs and may otherwise adversely impact the Company's results of operations, financial condition, or liquidity.

Legislation – Department of Education – Incentive Compensation in Recruiting

Certain provisions in recently promulgated regulations under the Higher Education Act could have an impact on the Company's Enrollment Services operating segment, as a result of its services provided to for-profit schools. The United States Higher Education Act provides that to be eligible to participate in Federal student financial aid programs, an educational institution, including for-profit schools, must enter into a program participation agreement with the Secretary of the Department of Education. The agreement includes a number of conditions with which an institution must comply to be granted initial and continuing eligibility to participate. Among those conditions is a prohibition on institutions providing any commission, bonus, or other incentive payment based directly or indirectly on success in securing enrollments to any individual or entity engaged in recruiting or admission activities. Previous regulations promulgated under the Higher Education Act specified a number of types of compensation, or "safe harbors," that did not constitute incentive compensation in violation of this agreement. One of those safe harbors permitted an institution to award incentive compensation for Internet-based recruitment and admission activities. The Department of Education's newly issued regulations repeal all existing safe harbors regarding incentive compensation in recruiting, though exempting click-based payments to third parties for the provision of internet generated student contact information. Additionally, the regulations include misrepresentation standards for advertisements, offers, and communications presented to prospective students, with associated penalties for noncompliance with these standards. The regulations are effective July 1, 2011. These regulations may subject the Company to greater risk of liability and may increase the Company's costs of compliance with these regulations or limit the Company's ability to serve for-profit schools.

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

(Management's Discussion and Analysis of Financial Condition and Results of Operations is for the three and nine months ended September 30, 2010 and 2009. All dollars are in thousands, except per share amounts, unless otherwise noted.)

The following discussion and analysis provides information that the Company's management believes is relevant to an assessment and understanding of the consolidated results of operations and financial condition of the Company. The discussion should be read in conjunction with the Company's consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

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 gains on debt repurchases to "gain on sale of loans and debt repurchases, net" which were previously included in "other income."
- Reclassifying costs incurred by the Company related to restructuring activities to "restructure expense," which were previously included in "salaries and benefits" and "occupancy and communications."

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

Forward-looking and cautionary statements

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

The forward-looking statements are based on assumptions and analyses made by management in light of management's experience and its perception of historical trends, current conditions, expected future developments, and other factors that management believes are appropriate under the circumstances. These statements are subject to known and unknown risks, uncertainties, assumptions, and other factors that may cause the actual results and performance to be materially different from any future results or performance expressed or implied by such forward-looking statements. These risks and uncertainties are described in the "Risk Factors" section included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009 and subsequent Quarterly Reports on Form 10-Q and the discussion of risks and uncertainties set forth elsewhere in this Quarterly Report on Form 10-Q, and include such risks and uncertainties as:

- risks related to the Company's student loan portfolio, such as interest rate basis and repricing risk resulting from the fact that the interest rate characteristics of the Company's student loan assets do not match the interest rate characteristics of the funding for those assets, the risk of loss of floor income on certain student loans originated under the prior FFEL Program, risks related to the use of derivatives to manage exposure to interest rate fluctuations, and potential losses from loan defaults, changes in prepayment rates, guaranty rates, loan floor rates, and credit spreads;

- risks related to the Company's liquidity and funding requirements, including the Company's ability to maintain credit facilities or obtain new facilities, the ability of lenders under the Company's credit facilities to fulfill their lending commitments under these facilities, the Company's ability to satisfy debt obligations secured by student loan assets and related collateral, and changes in the general interest rate environment and in the securitization markets for education loans which may increase the costs or limit the availability of financings necessary to purchase, refinance, or continue to carry education loans;

- risks from changes in the student loan and educational credit marketplace resulting from the implementation of, or changes in, applicable laws and regulations, including the discontinuance of private sector student loan originations under the FFEL Program effective July 1, 2010, and the Company's ability to maintain its loan servicing contract with the Department of Education to service federally-owned student loans;

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

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

- uncertainties related to the estimation of expenses that may be incurred and cost savings that may result from restructuring plans;

- risks associated with litigation, complex government regulations, and changes in general economic and credit market conditions; and

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

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

OVERVIEW

The Company is 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

Litigation Settlement

On August 13, 2010, the Company reached an agreement in principal to pay $55.0 million to settle all claims associated with the previously disclosed “qui tam” action brought by Jon H. Oberg on behalf of the United States of America. The settlement agreement was finalized on October 25, 2010. As a result of the settlement, the Company recorded a $55.0 million pre-tax charge ($34.1 million after tax) during the third quarter of 2010. The Company expects that the Internal Revenue Service (the “IRS”) will review the settlement agreement as part of its normal procedures for settlements with government agencies, to determine if the payments are deductible as ordinary and necessary business expenses. While the Company believes that the payments are fully deductible under applicable tax law, the IRS may not agree with that position.

The Company believed it had strong defenses to the Oberg Complaint, but entered into the settlement agreement in order to eliminate the uncertainty, distraction, and expense of a trial.

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 no longer originates 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. As of September 30, 2010, the Company had $2.1 billion of 2009-2010 academic year loans classified as held for sale funded in the Department’s Participation Program that were sold to the Department under the Purchase Program during October 2010. Upon selling the $2.1 billion in loans held

for sale, the Company recognized a pre-tax gain during the fourth quarter 2010 of $33.8 million. The Company earned approximately $1 million in 2009 and approximately $6 million during the nine months ended September 30, 2010 in net interest income on the 2009-2010 academic year loans prior to selling them to the Department.

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 nine month period ended September 30, 2010 and year ended December 31, 2009, the Company recognized approximately $280 million and approximately $247 million, respectively, of net interest income on its FFELP loan portfolio; approximately $80 million and approximately $100 million, respectively, in guarantee and third-party FFELP servicing revenue; and approximately $6 million and approximately $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 first nine months of 2010, the Company purchased $2.5 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 of Education to provide additional servicing capacity for loans owned by the Department. These loans include Direct Loan Program loans and FFEL Program loans purchased by the Department under the authority granted in the ECASLA legislation. In September 2009, the Department began assigning FFEL purchased loans to the four servicers. Beginning with the second year of servicing in July 2010, the Department began allocating new loan volume among the four servicers based on five performance metrics.

- Three metrics measure the satisfaction among separate customer groups, including borrowers, financial aid personnel at postsecondary schools participating in the federal student loan programs, and Federal Student Aid and other federal agency personnel or contractors who work with the servicers.
- Two performance metrics measure the success of default prevention efforts as reflected by the percentage of borrowers and percentage of dollars in each servicer's portfolio that go into default.

Based on the first year of survey results, the Company will be allocated 16% of the new loan volume originated by the Department for the period from August 15, 2010 through August 14, 2011 (the second year of the servicing contract). The Department is projecting an estimated 6 million new borrowers in total during the second year of this contract to be allocated to the four servicers. As of September 30, 2010, the Company was servicing $21.8 billion of loans for 2.5 million borrowers under this contract. For the nine months ended September 30, 2010, the Company earned $18.4 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. 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 $14.3 million (19.1%) and $43.6 million (19.1%) for the three and nine months ended September 30, 2010 compared with the same periods in 2009.

	Three months ended September 30,				
	2010	2009	$ Change	% Change	
Student Loan and Guaranty Servicing (a)	$38,101	31,147	6,954	22.3	%
Tuition Payment Processing and Campus Commerce	14,539	13,003	1,536	11.8	
Enrollment Services	36,439	30,670	5,769	18.8	
Total revenue from fee-based businesses	$89,079	74,820	14,259	19.1	%

	Nine months ended September 30,				
	2010	2009	$ Change	% Change	
Student Loan and Guaranty Servicing (a)	$121,793	99,448	22,345	22.5	%
	44,728	40,430	4,298	10.6	

Tuition Payment Processing and Campus Commerce					
Enrollment Services	105,113	88,188	16,925	19.2	
Total revenue from fee-based businesses	$271,634	228,066	43,568	19.1	%

(a) The Student Loan and Guaranty Servicing operating segment included $5.3 million and $0.6 million of revenue earned from rehabilitation collections on defaulted loans in the third quarters of 2010 and 2009, respectively, and $27.6 million and $6.9 million for the nine months ended September 30, 2010 and 2009, respectively.

Manage Operating Costs

As shown below, excluding the litigation settlement, the cost to provide enrollment services, restructure expense, and collection costs related to loan rehabilitation revenue, operating expenses increased $5.5 million (8.1%) and $8.8 million (4.1%) for the three and nine months ended September 30, 2010 compared with the same periods in 2009. These increases are due primarily to an increase in the number of employees in the Student Loan and Guaranty Servicing operating segment due to the significant increase in servicing loan volume as a result of the government servicing contract.

	Three months ended September 30,			
	2010	2009	$ Change	% Change
Salaries and benefits	$41,085	36,398	4,687	12.9 %
Other expenses (a)	32,750	31,933	817	2.6
Operating expenses, excluding the litigation settlement, the cost to provide enrollment services, restructure expense, and collection costs related to loan rehabilitation revenue	73,835	68,331	$5,504	8.1 %
Litigation settlement	55,000	—		
Cost to provide enrollment services	23,709	20,323		
Restructure expense	4,751	3,340		
Collection costs related to loan rehabilitation revenue (b)	2,992	668		
Total operating expenses	$160,287	92,662		

	Nine months ended September 30,			
	2010	2009	$ Change	% Change
Salaries and benefits	$122,691	113,322	9,369	8.3 %
Other expenses (a)	102,298	102,886	(588)	(0.6)
Operating expenses, excluding the litigation settlement, the cost to provide enrollment services, restructure expense, and collection costs related to loan rehabilitation revenue	224,989	216,208	$8,781	4.1 %
Litigation settlement	55,000	—		
Cost to provide enrollment services	69,845	56,208		
Restructure expense	6,020	6,628		
Collection costs related to loan rehabilitation revenue (b)	16,358	3,545		
Total operating expenses	$372,212	282,589		

(a) Excludes the litigation settlement, the cost to provide enrollment services, restructure expense, and collection costs related to loan rehabilitation revenue.

(b) 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 operations 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.

(a) The interest earned on the majority of the Company's FFELP student loan assets is indexed to the three-month commercial paper index. The Company funds the majority of its assets with three-month LIBOR indexed floating rate securities. The relationship between these two indexes has a significant impact on student loan spread. This table (the right axis) shows the difference between the average three-month LIBOR and commercial paper indexes by quarter.

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 the first half of 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. Variable student loan spread decreased during the third quarter of 2010 due to the CP/LIBOR spread widening compared to the previous quarter.

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 September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Fixed rate floor income, gross	$38,263	39,284	112,731	106,623
Derivative settlements (a)	(4,040)	(436)	(12,183)	(436)
Fixed rate floor income, net	$34,223	38,848	100,548	106,187
Fixed rate floor income contribution to spread, net	0.51%	0.61%	0.53%	0.56%

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

The high levels of fixed rate floor income earned during 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. See Item 3, "Quantitative and Qualitative Disclosures about Market Risk" which provides additional detail on the Company's portfolio earning fixed rate floor income and the derivatives used by the Company to hedge these loans.

Future Cash Flow from Portfolio

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

As of September 30, 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 $1.72 billion as detailed below.

The forecasted cash flow presented below includes all loans currently funded in asset-backed securitizations. As of September 30, 2010, the Company had $21.3 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 September 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 the completion of additional asset-backed securitizations during 2010 and favorable changes in forward interest rates, offset by cash received during the first three 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. Prepayment rates equal the percentage of loans that prepay annually as a percentage of the beginning of period balance, net of scheduled principal payments. A number of factors can affect estimated prepayment rates, including the level of consolidation activity and default rates. Should any of these factors change, management may revise its assumptions, which in turn would impact the projected future cash flow. The Company's cash flow forecast above assumes prepayment rates that are generally consistent with those utilized in recent asset-backed securities transactions. If management used a prepayment rate assumption two times greater than what was used to forecast the cash flow, the cash flow forecast would be reduced by approximately $350 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 result in basis risk. The Company's cash flow forecast assumes LIBOR will exceed CP by 12 basis points for the life of the portfolio, which approximates the historical relationship between these indexes. If the forecast is computed assuming a spread of 24 basis points between CP and LIBOR for the life of the portfolio, the cash flow forecast would be reduced by approximately $100 million to $130 million.

The Company uses the current forward interest rate yield curve to forecast cash flows. A change in the forward interest rate curve would impact the future cash flows generated from the portfolio. An increase in future interest rates will reduce the amount of fixed rate floor income the Company is currently receiving. The Company attempts to mitigate the impact of a rise in short-term rates by hedging interest rate risks. As of September 30, 2010, the fair value of the Company's interest rate derivatives used to hedge loans earning fixed rate floor income was a negative $32 million (a liability on the Company's balance sheet). See Item 3, "Quantitative and Qualitative Disclosures about Market Risk — Interest Rate Risk."

FFELP 2009-2010 Academic Year Originations

During the third quarter, the Company continued to use the Department's Participation Program to fund loans originated for the 2009-2010 academic year. As of September 30, 2010, the Company had $2.1 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 were sold to the Department under its Purchase Program during October 2010. Upon selling the $2.1 billion in loans held for sale, the Company received $125.9 million in cash proceeds and recognized a pre-tax gain of $33.8 million. Cash proceeds significantly exceeded the gain primarily due to the receipt of interest income that had accrued on the student loans funded in the Participation Program. Prior to paying the Participation off in full, all cash generated on loans funded by the Participation was required to pay interest and principal on the participation.

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 2010, the Company used operating cash to repurchase outstanding debt 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.

	Asset-backed securities			Junior Subordinated Hybrid Securities		
	Notional amount	Purchase price	Gain	Notional amount	Purchase price	Gain
Three months ended March 31, 2010	$ 274,250	264,073	10,177	—	—	—
Three months ended June 30, 2010	117,775	109,016	8,759	—	—	—
Three months ended September 30, 2010	85,675	80,712	4,963	34,995	30,073	4,922
Nine months ended September 30, 2010	$ 477,700	453,801	23,899	34,995	30,073	4,922

Subsequent to September 30, 2010, the Company repurchased an additional $107.8 million (notional amount) of asset-backed securities resulting in a gain of approximately $4 million.

Student Loan Purchases

During the first nine months of 2010, the Company purchased $2.5 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 2010, the Company repurchased and retired shares of its Class A common stock as shown in the table below.

	Total shares repurchased	Purchase Price (in thousands)	Average price of shares repurchased (per share)
Three months ended March 31, 2010	12,936	$236	$18.28
Three months ended June 30, 2010	663,443	12,821	19.33

Three months ended September 30, 2010	1,184,261	26,615	22.47
Nine months ended September 30, 2010	1,860,640	$39,672	$21.32

RESULTS OF OPERATIONS

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

Net Interest Income

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

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

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

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

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

Provision for Loan Losses

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

The allowance for the federally insured loan portfolio is based on periodic evaluations of the Company's loan portfolios considering past experience, trends in student loan claims rejected for payment by guarantors, changes to federal student loan programs, current economic conditions, and other relevant factors. The federal government guarantees 97% of the principal of and the interest on federally insured student loans disbursed on and after July 1, 2006 (and 98% for those loans disbursed prior to July 1, 2006), which limits the Company's loss exposure on the outstanding balance of the Company's federally insured portfolio. Student loans disbursed prior to October 1, 1993 are fully insured.

In determining the appropriateness of the allowance for loan losses on the non-federally insured loans, the Company considers several factors including: loans in repayment versus those in a nonpaying status, delinquency status, type of program, and trends in defaults in the portfolio based on Company and industry data. The Company places a non-federally insured loan on nonaccrual status when the collection of principal and interest is 30 days past due and charges off the loan when the collection of principal and interest is 120 days past due.

Other Income

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

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

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

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

- Interactive Marketing – Interactive marketing revenue is derived primarily from fees which are earned through the delivery of qualified leads or clicks. The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is reasonably assured. Delivery is deemed to have occurred at the time a qualified lead or click is delivered to the customer provided that no significant obligations remain. From time to time, the Company may agree to credit certain leads or clicks if they fail to meet the contractual or other guidelines of a particular client. The Company has established a sales reserve based on historical experience. To date, such credits have been immaterial and within management's expectations.

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

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

- Resource centers and list marketing – Resource centers and list marketing services includes the sale of subscription and performance based products and services, as well as list sales. Revenues from sales of subscription and performance based products and services are recognized ratably over the term of the contract. Subscription and performance based revenues received or receivable in advance of the delivery of services is included in deferred revenue. Revenue from the sale of lists is generally earned and recognized, net of estimated returns, upon delivery.

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

Operating Expenses

Operating expenses includes indirect costs incurred to generate and acquire student loans; costs incurred to manage and administer the Company's student loan portfolio and its financing transactions; costs incurred to service the Company's student loan portfolio and the portfolios of third parties; collection costs related to rehabilitation revenue; the cost to provide enrollment services; costs incurred to provide tuition payment processing, campus commerce, resource center and list marketing services, and software and technical services to third parties; the depreciation and amortization of capital assets and intangible assets; investments in products, services, and technology to meet customer needs and support continued revenue growth; and other general and administrative expenses. The cost to provide enrollment services, as discussed previously, consists of costs incurred to provide interactive marketing and publishing and editing services in the Company's Enrollment Services operating segment. Operating expenses also includes employee termination benefits and lease termination costs related to the Company's restructuring initiatives. For the third quarter of 2010, operating expenses also includes a litigation settlement charge.

Three and nine months ended September 30, 2010 compared to the three and nine months ended September 30, 2009

Net Interest Income (net of settlements on derivatives)

	Three months ended September 30,				Nine months ended September 30,			
			Change				Change	
	2010	2009	$	%	2010	2009	$	%
Interest income:								
Loan interest	$ 159,287	143,255	16,032	11.2 %	$ 449,607	474,587	(24,980)	(5.3) %
Investment interest	1,169	1,943	(774)	(39.8)	3,474	8,810	(5,336)	(60.6)
Total interest income	160,456	145,198	15,258	10.5	453,081	483,397	(30,316)	(6.3)
Interest expense:								
Interest on bonds and notes payable	68,243	76,016	(7,773)	(10.2)	178,345	328,600	(150,255)	(45.7)
Net interest income	92,213	69,182	23,031	33.3	274,736	154,797	119,939	77.5
	5,500	7,500	(2,000)	(26.7)	16,700	23,000	(6,300)	(27.4)

Provision for loan losses								
Net interest income after provision for loan losses	86,713	61,682	25,031	40.6	258,036	131,797	126,239	95.8
Derivative settlements, net (a)	(2,586)	4,914	(7,500)	(152.6)	(8,386)	38,807	(47,193)	(121.6)
Net interest income after provision for loan losses (net of settlements on derivatives)	$ 84,127	66,596	17,531	26.3 %	$ 249,650	170,604	79,046	46.3 %

(a) The Company maintains an overall risk management strategy that incorporates the use of derivative instruments to reduce the economic effect of interest rate volatility. Management has structured the majority of the Company's derivative transactions with the intent that each is economically effective; however, the Company's derivative instruments do not qualify for hedge accounting. Derivative settlements for each applicable period should be evaluated with the Company's net interest income.

Net interest income after provision for loan losses, net of settlements on derivatives, changed for the three and nine months ended September 30, 2010 compared with the same periods in 2009 as follows:

	Three months ended September 30,				Nine months ended September 30,			
			Change				Change	
	2010	2009	$	%	2010	2009	$	%
Student loan interest margin, net of settlements on derivatives (a)	$59,416	39,749	19,667	49.5 %	$179,750	94,183	85,567	90.9 %
Fixed rate floor income, net of settlements on derivatives (b)	34,223	38,848	(4,625)	(11.9)	100,548	106,187	(5,639)	(5.3)
Variable-rate floor income, net of settlements on derivatives (c)	—	—	—	—	—	7,502	(7,502)	(100.0)
Investment interest (d)	1,169	1,943	(774)	(39.8)	3,474	8,810	(5,336)	(60.6)
Corporate debt interest expense (e)	(5,181)	(6,444)	1,263	(19.6)	(17,422)	(23,078)	5,656	(24.5)
Provision for loan losses (f)	(5,500)	(7,500)	2,000	(26.7)	(16,700)	(23,000)	6,300	(27.4)
Net interest income after provision for loan losses (net of settlements on derivatives)	$84,127	66,596	17,531	26.3 %	$249,650	170,604	79,046	46.3 %

(a) Variable student loan spread increased to 0.90% and 0.94% for the three and nine months ended September 30, 2010 compared with 0.66% and 0.54% for the same periods in 2009 as further discussed in this Item 2 under “Asset Generation and Management Operating Segment – Results of Operations – Student Loan Spread Analysis.”

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

(c) 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. A portion of the Company’s portfolio was earning variable-rate floor income during the first and second quarters of 2009. No variable-rate floor income was earned during 2010.

(d) Investment interest decreased for the three and nine months ended September 30, 2010 compared with the same periods in 2009 due to lower interest rates and a decrease in average cash held.

(e)

Corporate debt interest expense includes interest expense incurred by the Company on its 5.125% Senior Notes due 2010 (the "Senior Notes"), Junior Subordinated Hybrid Securities, and its $750 million unsecured line of credit. Corporate debt interest expense decreased for the three and nine months ended September 30, 2010 compared with the same periods in 2009 due to a reduction in debt outstanding due to the purchase of certain Senior Notes and Junior Subordinated Hybrid Securities and the maturity of the Senior Notes on June 1, 2010. During the first, second, and third quarters of 2009, the Company purchased $34.9 million, $35.5 million, and $137.9 million, respectively, of its Senior Notes. The remaining balance outstanding on the Senior Notes, $66.7 million, was paid on June 1, 2010. In the third quarter of 2010, the Company purchased $35.0 million of its Junior Subordinated Hybrid securities.

(f) The provision for loan losses represents the periodic expense of maintaining an allowance sufficient to absorb losses inherent in the Company's portfolio of loans. The provision for loan losses recognized by the Company was larger during the three and nine months ended September 30, 2009 compared with the same periods in 2010, primarily due to the provision related to the Company's non-federally insured student loan portfolio. During 2009, the Company increased its allowance for non-federally insured loans due to management's projected performance of the portfolio in light of economic conditions. As of September 30, 2010, the dollar amount of the Company's non-federally insured student loan portfolio, including those loans in repayment and loans delinquent, decreased from the same period a year ago. These decreases, as well as continued aging of the portfolio, resulted in less provision expense recognized by the Company during 2010 as compared to 2009 related to the Company's non-federally insured portfolio.

Other Income

	Three months ended September 30,				Nine months ended September 30,			
			Change				Change	
	2010	2009	$	%	2010	2009	$	%
Loan and guaranty servicing revenue (a)	$33,464	26,006	7,458	28.7 %	$106,510	81,280	25,230	31.0 %
Tuition payment processing and campus commerce revenue (b)	14,527	12,987	1,540	11.9	44,704	40,373	4,331	10.7
Enrollment services revenue (c)	36,439	30,670	5,769	18.8	105,113	88,188	16,925	19.2
Software services revenue (d)	4,624	4,600	24	0.5	14,467	16,424	(1,957)	(11.9)
Other income (e)	9,432	5,846	3,586	61.3	25,188	20,298	4,890	24.1
Gain on sale of loans and debt repurchases, net (f)	9,885	14,036	(4,151)	(29.6)	28,821	27,571	1,250	4.5
Derivative market value and foreign currency adjustments (g)	(32,805)	2,826	(35,631)	(1,260.8)	(35,931)	(36,067)	136	(0.4)
Derivative settlements, net (h)	(2,586)	4,914	(7,500)	(152.6)	(8,386)	38,807	(47,193)	(121.6)
Total other income	$72,980	101,885	(28,905)	(28.4) %	$280,486	276,874	3,612	1.3 %

(a) "Loan and guaranty servicing revenue" increased due to an increase in loan servicing revenue as a result of servicing loans for the Department, as well as an increase in guaranty servicing revenue as a result of recognizing $5.3 million and $27.6 million in revenue related to rehabilitation collections on defaulted loans in the three and nine months ended September 30, 2010 compared with $0.6 million and $6.9 million for the same periods in 2009. This additional revenue was offset by a decrease in external FFELP servicing revenue due to the loss of servicing volume from third party customers as a result of these customers selling their portfolios to the Company or the Department under the Purchase Program. See Item 2 under "Student Loan and Guaranty Servicing Operating Segment – Results of Operations" for additional information.

(b) "Tuition payment processing and campus commerce revenue" increased due to an increase in the number of managed tuition payment plans and an increase in campus commerce transactions processed as discussed

in this Item 2 under "Tuition Payment Processing and Campus Commerce Operating Segment – Results of Operations."

(c) "Enrollment services revenue" increased due to an increase in interactive marketing revenue as further discussed in this Item 2 under "Enrollment Services Operating Segment – Results of Operations."

(d) "Software services revenue" decreased due to a reduction in the number of projects for existing customers and the loss of customers due to the legislative developments in the student loan industry throughout 2009 and 2010.

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

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Borrower late fee income	$3,133	2,859	9,370	8,648
Gain on sale of equity method investment	—	—	—	3,500
Other	6,299	2,987	15,818	8,150
Other income	$9,432	5,846	25,188	20,298

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

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

	Three months ended September 30, 2009			Nine months ended September 30, 2009		
	Notional amount	Purchase price	Gain	Notional amount	Purchase price	Gain
Gains on debt repurchases:						
5.125% Senior Notes due 2010	$ 137,898	138,505	(607)	$ 208,284	196,376	11,908
Junior Subordinated Hybrid Securities	—	—	—	1,750	350	1,400
Asset-backed securities	44,950	39,095	5,855	46,050	40,173	5,877
	$ 182,848	177,600	5,248	$ 256,084	236,899	19,185
Gain on sale of loans, net (1)			8,788			8,386
Gain on sale of loans and debt repurchases, net			$ 14,036			$ 27,571

(1) Includes a gain of $9.7 million related to the sale of $427.7 million of student loans to the Department under the Purchase Program during the three months ended September 30, 2009.

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

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Change in fair value of derivatives	$73,663	42,182	(94,539)	19,912
Foreign currency transaction adjustment	(106,468)	(39,356)	58,608	(55,979)
Derivative market value and foreign currency adjustments	$(32,805)	2,826	(35,931)	(36,067)

(h) Further detail of the components of derivative settlements is included in Item 3, “Quantitative and Qualitative Disclosures about Market Risk.” The Company maintains an overall risk management strategy that incorporates the use of derivative instruments to reduce the economic effect of interest rate volatility. Management has structured the majority of the Company’s derivative transactions with the intent that each is economically effective; however, the Company’s derivative instruments do not qualify for hedge accounting. Derivative settlements for each applicable period should be evaluated with the Company’s net interest income.

Operating Expenses

As shown below, excluding the litigation settlement, the cost to provide enrollment services, restructuring expense, and collection costs related to loan rehabilitation revenue, operating expenses increased $5.5 million (8.1%) and $8.8 million (4.1%) for the three and nine months ended September 30, 2010 compared with the same periods in 2009. The

Company continues to manage operating costs while growing its fee-based businesses.

	Three months ended September 30,				
	2010	2009	$ Change	% Change	
Salaries and benefits	$41,085	36,398	4,687	12.9	%
Other expenses (a)	32,750	31,933	817	2.6	
Operating expenses, excluding the litigation settlement, the cost to provide enrollment services, restructure expense, and collection costs related to loan rehabilitation revenue	73,835	68,331	$5,504	8.1	%
Litigation settlement	55,000	—			
Cost to provide enrollment services	23,709	20,323			
Restructure expense	4,751	3,340			
Collection costs related to loan rehabilitation revenue (b)	2,992	668			
Total operating expenses	$160,287	92,662			

	Nine months ended September 30,			
	2010	2009	$ Change	% Change
Salaries and benefits	$122,691	113,322	9,369	8.3 %
Other expenses (a)	102,298	102,886	(588)	(0.6)
Operating expenses, excluding the litigation settlement, the cost to provide enrollment services, restructure expense, and collection costs related to loan rehabilitation revenue	224,989	216,208	$8,781	4.1 %
Litigation settlement	55,000	—		
Cost to provide enrollment services	69,845	56,208		
Restructure expense	6,020	6,628		
Collection costs related to loan rehabilitation revenue (b)	16,358	3,545		
Total operating expenses	$372,212	282,589		

(a) Excludes the litigation settlement, the cost to provide enrollment services, restructure expenses related to lease terminations, and collection costs related to loan rehabilitation revenue.

(b) 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 operations and are shown separately in the above table for comparability purposes for the periods shown.

Income Taxes

The Company's effective tax rate was 38.0% and 37.5% for the three and nine months ended September 30, 2010 compared to 34.5% and 36.5% for the same periods in 2009, respectively. The effective tax rate in 2009 was lower than 2010 due to a net decrease in the Company's gross unrecognized tax benefits liability during 2009. Management expects the Company's effective income tax rate to remain relatively stable for the remainder of 2010.

Segment Operating Results

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

Financial Condition as of September 30, 2010 compared to December 31, 2009

	As of September 30, 2010	As of December 31, 2009	Change	
			Dollars	Percent
Assets:				
Student loans receivable, net	$ 24,436,162	23,926,957	509,205	2.1 %
Student loans receivable - held for sale	2,109,440	—	2,109,440	100.0
Cash, cash equivalents, and investments	1,096,677	1,055,414	41,263	3.9
Goodwill	143,717	143,717	—	—

Intangible assets, net		43,352	53,538	(10,186	)	(19.0	)
Fair value of derivative instruments		128,827	193,899	(65,072	)	(33.6	)
Other assets		628,404	502,902	125,502		25.0	
Total assets	$	28,586,579	25,876,427	2,710,152		10.5	%
Liabilities:							
Bonds and notes payable	$	27,391,188	24,805,289	2,585,899		10.4	%
Fair value of derivative instruments		46,362	2,489	43,873		1,762.7	
Other liabilities		304,415	284,086	20,329		7.2	
Total liabilities		27,741,965	25,091,864	2,650,101		10.6	
Shareholders' equity		844,614	784,563	60,051		7.7	
Total liabilities and shareholders' equity	$	28,586,579	25,876,427	2,710,152		10.5	%

Total assets and total liabilities increased during 2010 primarily due to the Company originating and acquiring student loans in 2010 and funding the loans with bonds and notes payable. See the activity of loans originated and acquired in this Item 2 under “Asset Generation and Management – Results of Operations.”

OPERATING SEGMENTS

The Company earns fee-based revenue through its Student Loan and Guaranty Servicing, Tuition Payment Processing and Campus Commerce, and Enrollment Services operating segments. In addition, the Company earns net interest income on its student loan portfolio in its Asset Generation and Management operating segment. The Company's operating segments are defined by the products and services they offer or the types of customers they serve, and they reflect the manner in which financial information is currently evaluated by management. 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 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.

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

Accordingly, the tables presented below reflect "base net income" which is reviewed and utilized by management to manage the business for each of the Company's operating segments. Reconciliation of the segment totals to the

Company's consolidated operating results in accordance with GAAP are also included in the tables below. Included below under "Non-GAAP Performance Measures" is further discussion regarding "base net income" and its limitations, including a table that details the differences between "base net income" and GAAP net income by operating segment.

Income Taxes

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

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 gains on debt repurchases to "gain on sale of loans and debt repurchases, net" which were previously included in "other income."

In addition, during the third quarter of 2010, management changed its internal reporting related to intersegment revenue and expenses. These changes included reclassifying all “intersegment revenue” (with the exception of intersegment servicing revenue earned by the Student Loan and Guaranty Servicing segment from the Asset Generation and Management segment) to “intersegment expenses, net.” Other than intersegment servicing revenue, the intersegment activity is primarily the allocation of operating expenses to the appropriate segment.

The reclassification described above had no effect on any of the segments’ net income or assets and liabilities. Prior period segment operating results were restated to conform to the current period presentation.

Segment Results and Reconciliations to GAAP

	Three months ended September 30, 2010									
	Student Loan and Guaranty Servicing	Fee-Based 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	GA Re o Oper
Total interest income	$13	12	—	25	159,752	1,919	(1,240)	160,456	—	160
Interest expense	—	—	—	—	64,302	5,181	(1,240)	68,243	—	68,
Net interest income (loss)	13	12	—	25	95,450	(3,262)	—	92,213	—	92,
Less provision for loan losses	—	—	—	—	5,500	—	—	5,500	—	5,5
Net interest income (loss) after provision for loan losses	13	12	—	25	89,950	(3,262)	—	86,713	—	86,
Other income (expense):										
Loan and guaranty servicing revenue	33,464	—	—	33,464	—	—	—	33,464	—	33,
Intersegment servicing revenue	20,045	—	—	20,045	—	—	(20,045)	—	—	—
	—	14,527	—	14,527	—	—	—	14,527	—	14,

Tuition payment processing and campus commerce revenue										
Enrollment services revenue	—	—	36,439	36,439	—	—	—	36,439	—	36,
Software services revenue	4,624	—	—	4,624	—	—	—	4,624	—	4,6
Other income	—	—	—	—	4,710	4,722	—	9,432	—	9,4
Gain on sale of loans and debt repurchases, net	—	—	—	—	4,963	4,922	—	9,885	—	9,8
Derivative market value and foreign currency adjustments	—	—	—	—	—	—	—	—	(32,805)	(32
Derivative settlements, net	—	—	—	—	(2,131)	(455)	—	(2,586)	—	(2,
Total other income (expense)	58,133	14,527	36,439	109,099	7,542	9,189	(20,045)	105,785	(32,805)	72,
Operating expenses:										
Salaries and benefits	22,682	6,652	6,142	35,476	1,054	4,615	(60)	41,085	—	41,
Cost to provide enrollment services	—	—	23,709	23,709	—	—	—	23,709	—	23,
Other expenses	18,583	2,383	4,180	25,146	2,937	62,055	—	90,138	5,355	95,
Intersegment expenses, net	1,166	992	705	2,863	20,295	(3,173)	(19,985)	—	—	—
Total operating expenses	42,431	10,027	34,736	87,194	24,286	63,497	(20,045)	154,932	5,355	160
Income (loss) before income taxes and	15,715	4,512	1,703	21,930	73,206	(57,570)	—	37,566	(38,160)	(59

corporate overhead allocation										
Corporate overhead allocation	(1,676)	(559)	(559)	(2,794)	(2,793)	5,587	—	—	—	—
Income (loss) before income taxes	14,039	3,953	1,144	19,136	70,413	(51,983)	—	37,566	(38,160)	(59
Income tax (expense) benefit	(5,335)	(1,502)	(435)	(7,272)	(26,757)	19,754	—	(14,275)	14,501	226
Net income (loss)	$ 8,704	2,451	709	11,864	43,656	(32,229)	—	23,291	(23,659)	(36
Additional information:										
Net income (loss)	$ 8,704	2,451	709	11,864	43,656	(32,229)	—	23,291	(23,659)	(36
Plus: Litigation settlement (a)	—	—	—	—	—	55,000	—	55,000	—	55,
Plus: Restructure expense (b)	4,751	—	—	4,751	—	—	—	4,751	—	4,7
Less: Net tax effect	(1,805)	—	—	(1,805)	—	(20,900)	—	(22,705)	—	(22
Net income (loss), excluding litigation settlement and restructure expense	$ 11,650	2,451	709	14,810	43,656	1,871	—	60,337	(23,659)	36,

(a) During the third quarter of 2010, the Company recorded a $55.0 million litigation settlement charge. See note 14 in the accompanying consolidated financial statements included in this report for additional information related to this settlement.

(b) During the third quarter of 2010, the Company recorded restructuring charges associated with previously implemented restructuring plans. See note 13 in the accompanying consolidated financial statements included in this report for additional information related to these charges.

	Three months ended September 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	A
Total interest income	$23	16	—	39	144,310	1,191	(342)	145,198	—
Interest expense	—	—	—	—	69,914	6,444	(342)	76,016	—
Net interest income (loss)	23	16	—	39	74,396	(5,253)	—	69,182	—
Less provision for loan losses	—	—	—	—	7,500	—	—	7,500	—
Net interest income (loss) after provision for loan losses	23	16	—	39	66,896	(5,253)	—	61,682	—
Other income (expense):									
Loan and guaranty servicing revenue	26,387	—	—	26,387	—	(381)	—	26,006	—
Intersegment servicing revenue	21,512	—	—	21,512	—	—	(21,512)	—	—
Tuition payment processing and campus commerce revenue	—	12,987	—	12,987	—	—	—	12,987	—
Enrollment services revenue	—	—	30,670	30,670	—	—	—	30,670	—
Software services revenue	4,600	—	—	4,600	—	—	—	4,600	—

Other income	137	—	—	137	4,104	1,605	—	5,846	—
Gain on sale of loans and debt repurchases, net	—	—	—	—	14,643	(607)	—	14,036	—
Derivative market value and foreign currency adjustments	—	—	—	—	—	—	—	—	2,
Derivative settlements, net	—	—	—	—	4,914	—	—	4,914	—
Total other income (expense)	52,636	12,987	30,670	96,293	23,661	617	(21,512)	99,059	2,
Operating expenses:									
Salaries and benefits	20,044	6,399	5,337	31,780	1,693	4,099	(1,174)	36,398	—
Cost to provide enrollment services	—	—	20,323	20,323	—	—	—	20,323	—
Other expenses	14,731	2,265	3,266	20,262	4,801	5,565	1	30,629	5,
Intersegment expenses, net	1,154	608	411	2,173	20,764	(2,598)	(20,339)	—	—
Total operating expenses	35,929	9,272	29,337	74,538	27,258	7,066	(21,512)	87,350	5,
Income (loss) before income taxes	16,730	3,731	1,333	21,794	63,299	(11,702)	—	73,391	(2
Income tax (expense) benefit	(6,357)	(1,418)	(507)	(8,282)	(24,054)	6,976	—	(25,360)	85
Net income (loss)	$10,373	2,313	826	13,512	39,245	(4,726)	—	48,031	(1
Additional information:									
Net income (loss)	$10,373	2,313	826	13,512	39,245	(4,726)	—	48,031	(1
Plus: Restructure	3,151	—	—	3,151	—	189	—	3,340	—

expense (a)									
Less: Net tax effect	(1,197)	—	—	(1,197)	—	43	—	(1,154)	—
Net income (loss), excluding restructure expense	$12,327	2,313	826	15,466	39,245	(4,494)	—	50,217	(1

(a) During the third quarter of 2009, the Company recorded restructuring charges associated with previously implemented restructuring plans. See note 13 in the accompanying consolidated financial statements included in this report for additional information related to these charges.

	Nine months ended September 30, 2010									
	Student Loan and Guaranty Servicing	Fee-Based 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	C I Op
Total interest income	$43	24	—	67	450,715	5,439	(3,140)	453,081	—	4
Interest expense	—	—	—	—	164,063	17,422	(3,140)	178,345	—	1
Net interest income (loss)	43	24	—	67	286,652	(11,983)	—	274,736	—	2
Less provision for loan losses	—	—	—	—	16,700	—	—	16,700	—	1
Net interest income (loss) after provision for loan losses	43	24	—	67	269,952	(11,983)	—	258,036	—	2
Other income (expense):										
Loan and guaranty servicing revenue	106,764	—	—	106,764	—	(254)	—	106,510	—	1
Intersegment servicing revenue	63,594	—	—	63,594	—	—	(63,594)	—	—	-
Tuition payment processing and campus commerce revenue	—	44,704	—	44,704	—	—	—	44,704	—	4
Enrollment services revenue	—	—	105,113	105,113	—	—	—	105,113	—	1
Software services	14,467	—	—	14,467	—	—	—	14,467	—	1

revenue										
Other income	519	—	—	519	14,114	10,555	—	25,188	—	2
Gain on sale of loans and debt repurchases, net	—	—	—	—	23,899	4,922	—	28,821	—	2
Derivative market value and foreign currency adjustments	—	—	—	—	—	—	—	—	(35,931)	(
Derivative settlements, net	—	—	—	—	(7,931)	(455)	—	(8,386)	—	(
Total other income (expense)	185,344	44,704	105,113	335,161	30,082	14,768	(63,594)	316,417	(35,931)	2
Operating expenses:										
Salaries and benefits	69,591	19,864	18,660	108,115	3,698	12,540	(1,662)	122,691	—	1
Cost to provide enrollment services	—	—	69,845	69,845	—	—	—	69,845	—	6
Other expenses	55,216	7,435	13,307	75,958	10,150	75,465	—	161,573	18,103	1
Intersegment expenses, net	4,158	2,645	1,779	8,582	63,011	(9,661)	(61,932)	—	—	-
Total operating expenses	128,965	29,944	103,591	262,500	76,859	78,344	(63,594)	354,109	18,103	3
Income (loss) before income taxes and corporate overhead allocation	56,422	14,784	1,522	72,728	223,175	(75,559)	—	220,344	(54,034)	1
Corporate overhead allocation	(4,349)	(1,450)	(1,450)	(7,249)	(7,247)	14,496	—	—	—	-
Income (loss) before	52,073	13,334	72	65,479	215,928	(61,063)	—	220,344	(54,034)	1

income taxes										
Income tax (expense) benefit	(19,788)	(5,068)	(27)	(24,883)	(82,053)	24,040	—	(82,896)	20,533	(
Net income (loss)	$32,285	8,266	45	40,596	133,875	(37,023)	—	137,448	(33,501)	1
Additional information:										
Net income (loss)	$32,285	8,266	45	40,596	133,875	(37,023)	—	137,448	(33,501)	1
Plus: Litigation settlement (a)	—	—	—	—	—	55,000	—	55,000	—	5
Plus: Restructure expense (b)	6,040	—	—	6,040	—	(20)	—	6,020	—	6
Less: Net tax effect	(2,295)	—	—	(2,295)	—	(20,892)	—	(23,187)	—	(
Net income (loss), excluding litigation settlement and restructure expense	$36,030	8,266	45	44,341	133,875	(2,935)	—	175,281	(33,501)	1

(a) During the third quarter of 2010, the Company recorded a $55.0 million litigation settlement charge. See note 14 in the accompanying consolidated financial statements included in this report for additional information related to this settlement.

(b) During 2010, the Company recorded restructuring charges associated with previously implemented restructuring plans. See note 13 in the accompanying consolidated financial statements included in this report for additional information related to these charges.

	Nine months ended September 30, 2009									
	Student Loan and Guaranty Servicing	Fee-Based 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	G I Op
Total interest income	$ 102	57	—	159	473,130	3,930	(1,324)	475,895	7,502	4
Interest expense	—	—	—	—	306,846	23,078	(1,324)	328,600	—	3
Net interest income (loss)	102	57	—	159	166,284	(19,148)	—	147,295	7,502	1
Less provision for loan losses	—	—	—	—	23,000	—	—	23,000	—	2
Net interest income (loss) after provision for loan losses	102	57	—	159	143,284	(19,148)	—	124,295	7,502	1
Other income (expense):										
Loan and guaranty servicing revenue	82,424	—	—	82,424	—	(1,144)	—	81,280	—	8
Intersegment servicing revenue	62,246	—	—	62,246	—	—	(62,246)	—	—	-
Tuition payment processing and campus commerce revenue	—	40,373	—	40,373	—	—	—	40,373	—	4
Enrollment services revenue	—	—	88,188	88,188	—	—	—	88,188	—	8
Software services revenue	16,424	—	—	16,424	—	—	—	16,424	—	1

Other income	498	—	—	498	12,974	6,826	—	20,298	—	2
Gain (loss) on sale of loans and debt repurchases, net	—	—	—	—	14,263	13,308	—	27,571	—	2
Derivative market value and foreign currency adjustments	—	—	—	—	—	—	—	—	(36,067)	(
Derivative settlements, net	—	—	—	—	38,807	—	—	38,807	—	3
Total other income (expense)	161,592	40,373	88,188	290,153	66,044	18,990	(62,246)	312,941	(36,067)	2
Operating expenses:										
Salaries and benefits	63,645	19,346	17,295	100,286	5,203	11,958	(4,284)	113,163	159	1
Cost to provide enrollment services	—	—	56,208	56,208	—	—	—	56,208	—	5
Other expenses	45,965	7,012	9,602	62,579	15,635	17,592	2	95,808	17,251	1
Intersegment expenses, net	2,777	1,790	1,188	5,755	59,372	(7,163)	(57,964)	—	—	-
Total operating expenses	112,387	28,148	84,293	224,828	80,210	22,387	(62,246)	265,179	17,410	2
Income (loss) before income taxes	49,307	12,282	3,895	65,484	129,118	(22,545)	—	172,057	(45,975)	1
Income tax (expense) benefit	(18,738)	(4,667)	(1,480)	(24,885)	(49,066)	11,150	—	(62,801)	16,781	(
Net income (loss)	$30,569	7,615	2,415	40,599	80,052	(11,395)	—	109,256	(29,194)	8
Additional information:										
Net income (loss)	$30,569	7,615	2,415	40,599	80,052	(11,395)	—	109,256	(29,194)	8
	6,408	—	—	6,408	—	220	—	6,628	—	6

Plus: Restructure expense (a)										
Less: Net tax effect	(2,339)	—	—	(2,339)	—	(80)	—	(2,419)	—	(
Net income (loss), excluding restructure expense	$34,638	7,615	2,415	44,668	80,052	(11,255)	—	113,465	(29,194)	8

(a) During 2009, the Company recorded restructuring charges associated with restructuring plans. See note 13 in the accompanying consolidated financial statements included in this report for additional information related to these charges.

Non-GAAP Performance Measures

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

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

Limitations of "Base Net Income"

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

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

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

	Student Loan and Guaranty Servicing	Tuition Payment Processing and Campus Commerce	Enrollment Services	Asset Generation and Management	Corporate Activity and Overhead	Total
	Three months ended September 30, 2010					
Derivative market value and foreign currency adjustments	$ —	—	—	24,966	7,839	32,805
Amortization of intangible assets	2,112	1,120	2,123	—	—	5,355
Compensation related to business combinations	—	—	—	—	—	—
Variable-rate floor income, net of settlements on derivatives	—	—	—	—	—	—
Net tax effect (a)	(803)	(426)	(807)	(9,487)	(2,978)	(14,501)
Total adjustments to GAAP	$ 1,309	694	1,316	15,479	4,861	23,659
	Three months ended September 30, 2009					
Derivative market value and foreign currency	$ —	—	—	(2,826)	—	(2,826)

adjustments						
Amortization of intangible assets	1,219	1,842	2,251	—	—	5,312
Compensation related to business combinations	—	—	—	—	—	—
Variable-rate floor income, net of settlements on derivatives	—	—	—	—	—	—
Net tax effect (a)	(464)	(700)	(855)	1,074	86	(859)
Total adjustments to GAAP	$ 755	1,142	1,396	(1,752)	86	1,627

Nine months ended September 30, 2010

Derivative market value and foreign currency adjustments	$ —	—	—	20,955	14,976	35,931
Amortization of intangible assets	6,462	4,636	7,005	—	—	18,103
Compensation related to business combinations	—	—	—	—	—	—
Variable-rate floor income, net of settlements on derivatives	—	—	—	—	—	—
Net tax effect (a)	(2,456)	(1,763)	(2,665)	(7,963)	(5,686)	(20,533)
Total adjustments to GAAP	$ 4,006	2,873	4,340	12,992	9,290	33,501

Nine months ended September 30, 2009

Derivative market value and foreign currency adjustments	$ —	—	—	37,499	(1,432)	36,067
Amortization of intangible assets	3,659	5,598	7,994	—	—	17,251
Compensation related to business combinations	—	—	—	—	159	159
Variable-rate floor income, net of settlements on derivatives	—	—	—	(7,502)	—	(7,502)
Net tax effect (a)	(1,391)	(2,127)	(3,037)	(11,399)	1,173	(16,781)
Total adjustments to GAAP	$ 2,268	3,471	4,957	18,598	(100)	29,194

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

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 risk includes 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 market value and foreign currency adjustments and derivative settlements, net” on the Company’s 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 market value and foreign currency adjustments and derivative settlements, net” on the Company’s 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 and derivative settlements, net” on the Company’s 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.

STUDENT LOAN AND GUARANTY SERVICING OPERATING SEGMENT – RESULTS OF OPERATIONS

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 federally-owned student loans. In September 2009, the Company began servicing loans under this contract. The contract spans five years with one, five-year renewal at the option of the Department. Servicing loans under this contract will increase revenue earned by this segment. However, as the portfolio ages, operating margins under this contract are expected to be lower than historical levels achieved. See "Recent Developments" under this Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" for additional information on this contract.

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.

Segment Summary of Results

Significant items impacting 2010 operating results include:

- $18.4 million of government servicing revenue earned in 2010, growth of number of borrowers to 2.5 million, and growth of loan volume to $21.8 billion under this contract.

- $ 27.6 million of guaranty servicing revenue earned in 2010 from rehabilitation collections on defaulted loan assets.

Student Loan Servicing Volumes (dollars in millions)

Company Owned	$24,889	$23,139	$24,378	$26,351	$26,183	$24,025
% of total	70.2 %	61.6 %	56.7 %	55.3 %	47.0 %	42.6 %
Number of borrowers:						
Government servicing:	22,478	441,913	1,055,896	1,530,308	2,510,630	2,643,398
FFELP servicing:	2,431,612	2,311,558	2,327,016	2,329,150	2,227,288	1,926,767

(a) As of September 30, 2010, the Company was servicing $2.1 billion of loans owned by the Company and approximately $140 million of loans for third parties that were sold to the Department in October 2010 pursuant to the Department's Loan Purchase Commitment Program. The Company retained servicing on these loans and, as of October 31, 2010, these loans are included in the Government Servicing volume in the above table.

Three and nine months ended September 30, 2010 compared to the three and nine months ended September 30, 2009

	Three months ended September 30,				Nine months ended September 30,			
			Change				Change	
	2010	2009	$	%	2010	2009	$	%
Net interest income	$ 13	23	(10)	(43.5) %	$ 43	102	(59)	(57.8)%
Loan and guaranty servicing revenue	33,464	26,387	7,077	26.8	106,764	82,424	24,340	29.5
Intersegment servicing revenue	20,045	21,512	(1,467)	(6.8)	63,594	62,246	1,348	2.2
Software services revenue	4,624	4,600	24	0.5	14,467	16,424	(1,957)	(11.9)
Other income	—	137	(137)	(100.0)	519	498	21	4.2
Total other income	58,133	52,636	5,497	10.4	185,344	161,592	23,752	14.7
Salaries and benefits	22,682	20,044	2,638	13.2	69,591	63,645	5,946	9.3
Other expenses	18,583	14,731	3,852	26.1	55,216	45,965	9,251	20.1
Intersegment expenses	1,166	1,154	12	1.0	4,158	2,777	1,381	49.7
Total operating expenses	42,431	35,929	6,502	18.1	128,965	112,387	16,578	14.8
"Base net income" before income taxes and corporate overhead allocation	15,715	16,730	(1,015)	(6.1)	56,422	49,307	7,115	14.4
Corporate overhead allocation	(1,676)	—	(1,676)	(100.0)	(4,349)	—	(4,349)	(100.0)
"Base net income" before income taxes	14,039	16,730	(2,691)	(16.1)	52,073	49,307	2,766	5.6
Income tax expense	(5,335)	(6,357)	1,022	(16.1)	(19,788)	(18,738)	(1,050)	5.6
"Base net income"	$ 8,704	10,373	(1,669)	(16.1) %	$ 32,285	30,569	1,716	5.6 %

Additional information:								
"Base net income"	$ 8,704	10,373	(1,669)	(16.1) %	$ 32,285	30,569	1,716	5.6 %
Restructure expense (included in other expenses above)	4,751	3,151	1,600	50.8	6,040	6,408	(368)	(5.7)
Net tax effect	(1,805)	(1,197)	(608)	50.8	(2,295)	(2,339)	44	(1.9)
"Base net income," excluding restructure expense	$ 11,650	12,327	(677)	(5.5) %	$ 36,030	34,638	1,392	4.0 %
Before Tax Operating Margin (a)	27.0 %	31.8 %			30.4 %	30.5 %		
Before Tax Operating Margin (b)	34.3 %	38.3 %			32.4 %	33.8 %		

(a) Excludes corporate overhead allocation.

(b) Excludes corporate overhead allocation, restructure expense, and the revenue and collection fees paid related to rehabilitation collections

Loan and guaranty servicing revenue.

	Three months ended September 30,					
	2010			2009		
	Origination revenue	Servicing revenue	Total revenue	Origination revenue	Servicing revenue	Total revenue
FFELP Servicing (a)	$ —	9,492	9,492	$ 857	13,556	14,413
Private Servicing	742	1,921	2,663	514	1,760	2,274
Government Servicing (b)	—	8,689	8,689	—	31	31
Guaranty Servicing (c)	12	12,608	12,620	82	9,587	9,669
Loan and guaranty	$ 754	32,710	33,464	$ 1,453	24,934	26,387

servicing revenue

a) FFELP origination revenue decreased in 2010 compared with 2009 due to legislative changes and market disruptions causing lenders to exit the FFELP marketplace. In addition, effective July 1, 2010, the Reconciliation Act of 2010 prohibits new loan originations under the FFEL Program. FFELP servicing revenue decreased in 2010 due to the loss of servicing volume from third party customers as a result of these customers selling their portfolios to the Company and/or the Department under the Purchase Program.

b) The Company began servicing loans for the Department in September 2009.

c) Guaranty servicing revenue increased in 2010 due to $5.3 million in revenue earned from rehabilitation collections on defaulted loan assets in the third quarter of 2010. In the third quarter of 2009, revenue from rehabilitation collections on defaulted loans was $0.6 million.

	Nine months ended September 30,					
	2010			2009		
	Origination revenue	Servicing revenue	Total revenue	Origination revenue	Servicing revenue	Total revenue
FFELP Servicing (a)	$ 254	30,712	30,966	$ 1,632	42,877	44,509
Private Servicing	1,046	5,776	6,822	618	5,523	6,141
Government Servicing (b)	—	18,376	18,376	—	31	31
Guaranty Servicing (c)	131	50,469	50,600	296	31,447	31,743
Loan and guaranty servicing revenue	$ 1,431	105,333	106,764	$ 2,546	79,878	82,424

(a) FFELP origination revenue decreased in 2010 compared with 2009 due to legislative changes and market disruptions causing lenders to exit the FFELP marketplace. In addition, effective July 1, 2010, the Reconciliation Act of 2010 prohibits new loan originations under the FFEL Program. FFELP servicing revenue decreased in 2010 due to the loss of servicing volume from third party customers as a result of these customers selling their portfolios to the Company and/or the Department under the Purchase Program.

(b) The Company began servicing loans for the Department in September 2009.

(c) Guaranty servicing revenue increased in 2010 due to $27.6 million in revenue earned from rehabilitation collections on defaulted loan assets in 2010. In 2009, revenue from rehabilitation collections on defaulted loans was $6.9 million.

Intersegment servicing revenue. Intersegment servicing revenue includes servicing revenue earned for the Student Loan and Guaranty Servicing operating segment as a result of servicing loans for the Asset Generation and Management operating segment.

Software services revenue. Software services revenue decreased for the nine month period ended September 30, 2010 due to a reduction in the number of projects for existing customers and loss of customers due to the legislative developments in the student loan industry throughout 2009 and 2010.

Operating expenses. Excluding restructure charges and collection fees paid related to rehabilitation revenue, operating expenses increased $2.6 million (8.0%) and $4.1 million (4.0%) for the three and nine months ended September 30, 2010 compared with the same periods in 2009, respectively. These increases were due to incurring additional costs to support the increase in servicing volume.

TUITION PAYMENT PROCESSING AND CAMPUS COMMERCE OPERATING SEGMENT – RESULTS OF OPERATIONS

The Tuition Payment Processing and Campus Commerce operating segment provides products and services to help institutions and education seeking families manage the payment of education costs during the 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.

This segment of the Company’s business is subject to seasonal fluctuations which correspond, or are related to, the traditional school year. Tuition management revenue is recognized over the course of the academic term, but the peak operational activities take place in summer and early fall. Revenue associated with providing electronic commerce subscription services is recognized over the service period with the highest revenue months being July through September and December and January. The Company’s operating expenses do not follow the seasonality of the revenues. This is primarily due to fixed year-round personnel costs and seasonal marketing costs.

Segment Summary of Results

Significant items impacting 2010 operating results include:

- $4.3 million (10.7%) increase in revenue from 2009 as a result of an increase in the number of managed tuition payment plans and campus commerce transactions processed.

Three and nine months ended September 30, 2010 compared to the three and nine months ended September 30, 2009

	Three months ended September 30,				Nine months ended September 30,			
			Change				Change	
	2010	2009	$	%	2010	2009	$	%
Net interest income	$ 12	16	(4)	(25.0)%	$ 24	57	(33)	(57.9)%
Tuition payment processing and campus commerce revenue	14,527	12,987	1,540	11.9	44,704	40,373	4,331	10.7
Salaries and benefits	6,652	6,399	253	4.0	19,864	19,346	518	2.7
Other expenses	2,383	2,265	118	5.2	7,435	7,012	423	6.0
Intersegment expenses	992	608	384	63.2	2,645	1,790	855	47.8
Total operating expenses	10,027	9,272	755	8.1	29,944	28,148	1,796	6.4
"Base net income"	4,512	3,731	781	20.9	14,784	12,282	2,502	20.4

before income taxes and corporate overhead allocation								
Corporate overhead allocation	(559)	—	(559)	(100.0)	(1,450)	—	(1,450)	(100.0)
"Base net income" before income taxes	3,953	3,731	222	6.0	13,334	12,282	1,052	8.6
Income tax expense	(1,502)	(1,418)	(84)	5.9	(5,068)	(4,667)	(401)	8.6
"Base net income"	$ 2,451	2,313	138	6.0 %	$ 8,266	7,615	651	8.5 %
Before Tax Operating Margin (a)	31.0 %	28.7 %			33.1 %	30.4 %		

(a) Excludes corporate overhead allocation.

Tuition payment processing and campus commerce revenue. Tuition payment processing and campus commerce revenue increased in 2010 compared with the same periods in 2009 as a result of an increase in the number of managed tuition payment plans as well as an increase in campus commerce transactions processed.

Operating expenses. Operating expenses increased in 2010 compared with the same periods in 2009 as a result of incurring additional costs to support the increase in the number of managed tuition payment plans and campus commerce transactions. In addition, the Company continues to invest in new products and services to meet customer needs and expand product and service offerings. These investments increased operating expenses in 2010 compared to 2009.

ENROLLMENT SERVICES OPERATING SEGMENT – RESULTS OF OPERATIONS

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

Approximately 95% of interactive marketing revenue included in this segment is generated from for-profit schools. The revenue and margins of the Enrollment Services operating segment could be negatively impacted by decelerations in growth rates and declines in enrollments at for-profit schools.

Segment Summary of Results

Significant items impacting 2010 operating results include:

- $16.9 million (19.2%) increase in revenue as a result of an increase in interactive marketing services volume.
- $3.1 million increase in operating expenses due to accelerating the amortization of student list costs in 2010.

Three and nine months ended September 30, 2010 compared to the three and nine months ended September 30, 2009

	Three months ended September 30,				Nine months ended September 30,			
			Change				Change	
	2010	2009	$	%	2010	2009	$	%
Enrollment services revenue	$ 36,439	30,670	5,769	18.8 %	$ 105,113	88,188	16,925	19.2 %
Salaries and benefits	6,142	5,337	805	15.1	18,660	17,295	1,365	7.9
Cost to provide enrollment services	23,709	20,323	3,386	16.7	69,845	56,208	13,637	24.3
Other expenses	4,180	3,266	914	28.0	13,307	9,602	3,705	38.6
Intersegment expenses	705	411	294	71.5	1,779	1,188	591	49.7
Total operating expenses	34,736	29,337	5,399	18.4	103,591	84,293	19,298	22.9
"Base net income" before income taxes and corporate overhead allocation	1,703	1,333	370	27.8	1,522	3,895	(2,373)	(60.9)

Corporate overhead allocation	(559)	—	(559)	(100.0)	(1,450)	—	(1,450)	(100.0)
"Base net income" before income taxes	1,144	1,333	(189)	(14.2)	72	3,895	(3,823)	(98.2)
Income tax expense	(435)	(507)	72	(14.2)	(27)	(1,480)	1,453	(98.2)
"Base net income"	$ 709	826	(117)	(14.2) %	$ 45	2,415	(2,370)	(98.1) %
Before Tax Operating Margin (a)	4.7 %	4.3 %			1.4 %	4.4 %		
Before Tax Operating Margin (b)	8.6 %	6.8 %			6.4 %	6.8 %		

(a) Excludes corporate overhead allocation.

(b) Excludes corporate overhead allocation and list cost amortization expense.

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

	Three months ended September 30, 2010				
	Interactive marketing (b)	Publishing services (c)	Subtotal	Resource centers and list marketing (d)	Total
Enrollment services revenue	$30,135	3,617	33,752	2,687	36,439
Cost to provide enrollment services	22,827	882	23,709		
Gross profit	$7,308	2,735	10,043		
Gross profit %	24.3 %	75.6 %	29.8 %		

	Three months ended September 30, 2009 (a)				
	Interactive marketing (b)	Publishing services (c)	Subtotal	Resource centers and list marketing (d)	Total
Enrollment services revenue	$24,778	3,437	28,215	2,455	30,670
Cost to provide enrollment services	19,141	1,182	20,323		
Gross profit	$5,637	2,255	7,892		
Gross profit %	22.8 %	65.6 %	28.0 %		

	Nine months ended September 30, 2010				
	Interactive marketing (b)	Publishing services (c)	Subtotal	Resource centers and list marketing (d)	Total
Enrollment services revenue	$88,409	7,803	96,212	8,901	105,113
Cost to provide enrollment services	67,464	2,381	69,845		
Gross profit	$20,945	5,422	26,367		
Gross profit %	23.7 %	69.5 %	27.4 %		

	Nine months ended September 30, 2009 (a)				
	Interactive marketing (b)	Publishing services (c)	Subtotal	Resource centers and list marketing (d)	Total
Enrollment services revenue	$71,024	8,885	79,909	8,279	88,188
Cost to provide enrollment services	52,891	3,317	56,208		
Gross profit	$18,133	5,568	23,701		
Gross profit %	25.5 %	62.7 %	29.7 %		

(a) Certain amounts from 2009 have been reclassified to conform to the current period presentation.

(b) Interactive marketing revenue increased $5.4 million (21.6%) and $17.4 million (24.5%) for the three and nine months ended September 30, 2010 compared with the same periods in 2009 as a result of an increase in interactive marketing services volume. The gross profit margin for the three months ended September 30, 2010 compared to 2009 increased as a result of an increase in revenue for products with a higher gross profit margin. This increase in gross profit for the quarter was offset by a decrease due to more competitive pricing, leading to a decrease in the

gross profit margin for the nine months ended September 30, 2010 compared to 2009.

(c) Publishing services revenue increased $0.2 million (5.2%) and decreased $1.1 million (12.2%) for the three and nine months ended September 30, 2010 compared with the same periods in 2009. The increase for the quarter is due to an increase in the quantity of products sold. This increase was offset by a decrease due to competition related to online delivery of similar products, which lead to a decrease in revenue year over year. The gross profit margin for publishing and editing services increased as a result of a shift in the mix of products sold.

(d) Resource centers and list marketing revenue increased $0.2 million (9.5%) and $0.6 million (7.5%) for the three and nine months ended September 30, 2010 compared with the same periods in 2009. Resource centers and list marketing revenue increased due to an increase in contracts for new customers and pricing increases for existing customers, offset by a decrease in list sales.

Other expenses. Other expenses for the three months ended September 30, 2010 and 2009 and nine months ended September 30, 2010 and 2009 includes $1.4 million and $0.7 million, respectively, and $5.2 million and $2.1 million, respectively, of amortization expense related to student list costs. In 2010, the Company began accelerating the amortization of student list costs over a shorter period of time to better reflect the pattern in which the economic benefit of this asset is used to generate revenue.

Operating expenses. Excluding the cost to provide enrollment services and list amortization expense, operating expenses increased $1.3 million (15.8%) and $2.6 million (9.8%) for the three and nine months ended September 30, 2010 compared to the same periods in 2009 as a result of incurring additional costs to support the increase in interactive marketing revenue. In addition, the Company continues to invest in new products and services to meet customer needs and expand product and service offerings. These investments increased operating expenses in 2010 compared to 2009.

ASSET GENERATION AND MANAGEMENT OPERATING SEGMENT – RESULTS OF OPERATIONS

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

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 no longer originates new (first disbursement) FFELP loans after June 30, 2010. See "Overview – Recent Developments – Legislation – FFELP" in this Item 2 for additional information.

Segment Summary of Results

Significant items impacting 2010 operating results include:

- Continued recognition of significant fixed rate floor income of $100.5 million (net of settlement payments on derivatives used to hedge student loans earning floor income of $12.2 million) due to historically low interest rates.
- A gain of $23.9 million in 2010 from the purchase of $477.7 million of the Company's asset-backed securities.
- Improved student loan spread compared to 2009 as a result of significant tightening of the CP/LIBOR spread.
- The purchase of $2.5 billion of FFELP student loans during the first nine months of 2010 from various third-parties.

Student Loan Portfolio

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

	As of September 30, 2010		As of December 31, 2009
	Held for investment	Held for sale (a)	Held for investment
Federally insured loans:			
Stafford and other	$8,108,425	2,081,827	7,620,792
Consolidation	16,023,820	—	15,851,761
Total	24,132,245	2,081,827	23,472,553
Non-federally insured loans	126,923	—	163,321
	24,259,168	2,081,827	23,635,874
	227,206	27,613	341,970

Unamortized loan discount/premiums and deferred origination costs, net			
Allowance for loan losses – federally insured loans	(32,962)	—	(30,102)
Allowance for loan losses – non-federally insured loans	(17,250)	—	(20,785)
	$24,436,162	2,109,440	23,926,957

(a) 2009-2010 Academic Year loans were eligible to be participated and sold to the Department under the Department's Participation and Purchase Programs. As of September 30, 2010, these loans were classified as held for sale. During October 2010, the Company sold these loans to the Department under the Department's Purchase Program.

Origination and Acquisition

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

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Beginning balance	$26,515,788	25,299,539	23,635,874	25,061,049
Direct channel - Stafford/PLUS loan originations	42,074	496,720	831,048	1,295,156
Branding partner channel	48,183	70,217	587,703	665,788
Forward flow channel	3,934	75,260	111,240	126,304
Spot purchases	30,423	19,257	2,545,284	39,627
Total channel acquisitions	124,614	661,454	4,075,275	2,126,875
Repayments, claims, capitalized interest, participations, and other	(105,591)	(261,922)	(906,400)	(1,198,890)
Consolidation loans lost to external parties	(187,661)	(149,984)	(436,563)	(322,573)
Loans sold	(6,155)	(479,601)	(27,191)	(596,975)
Ending balance	$26,340,995	25,069,486	26,340,995	25,069,486

As discussed previously, as a result of the Reconciliation Act of 2010, the Company no longer originates first disbursements on any FFELP loans first disbursed after June 30, 2010. If a first disbursement was made prior to July 1, 2010, subsequent disbursements of that loan may still be made under the FFELP.

Due to the legislative changes in the student loan industry, the Company believes there will be opportunities to purchase FFELP loan portfolios on behalf of current FFELP participants looking to modify their involvement in FFELP and/or exit the market. For example, during the first nine months of 2010, the Company purchased approximately $2.5 billion of FFELP student loans from various third-parties.

Activity in the Allowance for Loan Losses

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

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Balance at beginning of period	$50,797	50,000	50,887	50,922
Provision for loan losses:				
Federally insured loans	4,500	4,500	13,700	15,000
Non-federally insured loans	1,000	3,000	3,000	8,000
Total provision for loan losses	5,500	7,500	16,700	23,000
Charge-offs, net of recoveries:				
Federally insured loans	(4,510)	(3,578)	(13,549)	(11,042)
Non-federally insured loans	(1,575)	(802)	(4,756)	(2,440)
Net charge-offs	(6,085)	(4,380)	(18,305)	(13,482)

Purchase (sale) of federally insured loans	—	—	2,710	(520)
Purchase (sale) of non-federally insured loans	—	(3,000)	(1,780)	(9,800)
Balance at end of period	$50,212	50,120	50,212	50,120
Allocation of the allowance for loan losses:				
Federally insured loans	$32,962	29,015	32,962	29,015
Non-federally insured loans	17,250	21,105	17,250	21,105
Total allowance for loan losses	$50,212	50,120	50,212	50,120

	As of September 30,	
	2010	2009
Allowance for federally insured loans as a percentage of such loans (excluding loans held-for-sale)	0.14 %	0.12 %
Allowance for non-federally insured loans as a percentage of such loans	13.59 %	12.63 %

Repurchase Obligation

As of September 30, 2010, the Company has participated a cumulative amount of $120.5 million of non-federally insured loans to third parties, including $20.0 million, $1.0 million, and $6.0 million participated during the first, second, and third quarters of 2010, respectively. Loans participated under these agreements have been accounted for by the Company as loan sales. Accordingly, the participation interests sold are not included on the Company's consolidated balance sheets.

Per the terms of the servicing agreements, the Company's servicing operations are obligated to repurchase loans subject to the participation interests in the event such loans become 60 or 90 days delinquent. The activity in the accrual account related to this repurchase obligation, which is included in "other liabilities" in the Company's consolidated balance sheet, is detailed below.

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Beginning balance	$12,600	7,600	10,600	—
Transfer from allowance for loan losses	—	3,000	2,000	9,800
Reserve for repurchase of delinquent loans (a)	—	—	—	800
Ending balance	$12,600	10,600	12,600	10,600

(a) The reserve for repurchase of delinquent loans is included in "other" under other operating expenses in the consolidated statements of operations.

Student Loan Status and Delinquencies

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

	As of September 30, 2010		As of December 31, 2009	
	Dollars	Percent	Dollars	Percent
Federally Insured Loans:				
Loans in-school/grace/deferment (a)	$7,035,714		$5,783,648	
Loans in forebearance (b)	3,340,975		2,495,672	
Loans in repayment status:				
Loans current	13,832,782	87.3 %	13,038,428	85.8 %
Loans delinquent 31-60 days (c)	578,579	3.7	691,232	4.5
Loans delinquent 61-90 days (c)	260,337	1.6	314,265	2.1
Loans delinquent 91 days or greater (d)	1,165,685	7.4	1,149,308	7.6
Total loans in repayment	15,837,383	100.0 %	15,193,233	100.0 %
Total federally insured loans	$26,214,072		$23,472,553	
Non-Federally Insured Loans:				
Loans in-school/grace/deferment (a)	$22,184		$34,815	
Loans in forebearance (b)	1,174		1,919	
Loans in repayment status:				
Loans current	96,954	93.5 %	118,761	93.8 %
Loans delinquent 31-60 days (c)	2,127	2.1	3,023	2.4
Loans delinquent 61-90 days (c)	1,220	1.2	1,559	1.2
Loans delinquent 91 days or greater (d)	3,264	3.2	3,244	2.6
Total loans in repayment	103,565	100.0 %	126,587	100.0 %
Total non-federally insured loans	$126,923		$163,321	

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

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

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

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

Student Loan Spread Analysis

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

	Three months ended			Nine months endedd	
	September 30, 2010	June 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Variable student loan yield	2.63 %	2.72 %	2.64 %	2.64 %	2.95
Consolidation rebate fees	(0.64)	(0.67)	(0.68)	(0.68)	(0.70)
Premium/discount and deferred origination costs amortization	(0.18)	(0.19)	(0.31)	(0.21)	(0.29)
Variable student loan net yield	1.81	1.86	1.65	1.75	1.96
Student loan cost of funds - interest expense	(0.94)	(0.81)	(1.07)	(0.83)	(1.58)
Student loan cost of funds - derivative settlements	0.03	0.01	0.08	0.02	0.20
Variable student loan spread	0.90	1.06	0.66	0.94	0.58
Variable rate floor income, net of settlements on derivatives	—	—	—	—	(0.04)
Fixed rate floor income, net of settlements on derivatives	0.51	0.48	0.61	0.53	0.56
Core student loan spread	1.41 %	1.54 %	1.27 %	1.47 %	1.10
Average balance of student loans	$26,548,957	25,931,220	25,056,836	25,520,327	25,148,707
Average balance of debt outstanding	26,636,184	26,124,574	25,677,213	25,661,594	25,704,825

A trend analysis of the Company's core and variable student loan spreads is summarized below.

(a) The interest earned on the majority of the Company's FFELP student loan assets is indexed to the three-month commercial paper index. The Company funds the majority of its assets with three-month LIBOR indexed floating rate securities. The relationship between these two indexes has a significant impact on student loan spread. This table shows the difference between the average three-month LIBOR and commercial paper indexes by quarter.

The Company's variable student loan spread was impacted primarily by the following items:

- The tightening/widening of the CP/LIBOR spread increases/decreases variable student loan spread. Historically, the movement of the various interest rate indices received on the Company's student loan assets, primarily three-month commercial paper, and paid on the debt to fund such loans, primarily LIBOR, was highly

correlated. The short-term movement of these indices was dislocated beginning in August 2007 which negatively impacted the Company's net interest income during the first six months of 2009. Beginning in the third quarter of 2009, the CP/LIBOR spread began to tighten to more historical levels, as shown in the graph above, which has had a positive impact on spread. In the third quarter of 2010, the CP/LIBOR spread widened, resulting in a decrease to spread.

- A decrease in the amortization of loan premiums/discounts and deferred origination costs as a result of loans purchased at a discount, which has reduced the net costs being amortized.

The primary difference between variable student loan spread and core student loan spread is fixed rate floor income, net of settlements on derivatives. A summary of fixed rate floor income and its contribution to core student spread follows:

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Fixed rate floor income, gross	$ 38,263	39,284	112,731	106,623
Derivative settlements (a)	(4,040)	(436)	(12,183)	(436)
Fixed rate floor income, net	$ 34,223	38,848	100,548	106,187
Fixed rate floor income contribution to spread, net	0.51 %	0.61 %	0.53 %	0.56 %

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

The high levels of fixed rate floor income earned during 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. See Item 3, “Quantitative and Qualitative Disclosures about Market Risk” which provides additional detail on the Company’s portfolio earning fixed rate floor income and the derivatives used by the Company to hedge these loans.

Three and nine months ended September 30, 2010 compared to the three and nine months ended September 30, 2009

	Three months ended September 30,				Nine months ended September 30,			
			Change				Change	
	2010	2009	$	%	2010	2009	$	%
Net interest income after provision for loan losses	$ 89,950	66,896	23,054	34.5 %	$ 269,952	143,284	126,668	88.4 %
Other income	4,710	4,104	606	14.8	14,114	12,974	1,140	8.8
Gain (loss) on sale of loans and debt repurchases, net	4,963	14,643	(9,680)	(66.1)	23,899	14,263	9,636	67.6
Derivative settlements, net	(2,131)	4,914	(7,045)	(143.4)	(7,931)	38,807	(46,738)	(120.4)
Total other income	7,542	23,661	(16,119)	(68.1)	30,082	66,044	(35,962)	(54.5)

Salaries and benefits	1,054	1,693	(639)	(37.7)	3,698	5,203	(1,505)	(28.9)
Other expenses	2,937	4,801	(1,864)	(38.8)	10,150	15,635	(5,485)	(35.1)
Intersegment expenses	20,295	20,764	(469)	(2.3)	63,011	59,372	3,639	6.1
Total operating expenses	24,286	27,258	(2,972)	(10.9)	76,859	80,210	(3,351)	(4.2)
"Base net income" before income taxes and corporate overhead allocation	73,206	63,299	9,907	15.7	223,175	129,118	94,057	72.8
Corporate overhead allocation	(2,793)	—	(2,793)	(100.0)	(7,247)	—	(7,247)	(100.0)
"Base net income" before income taxes	70,413	63,299	7,114	11.2	215,928	129,118	86,810	67.2
Income tax expense	(26,757)	(24,054)	(2,703)	11.2	(82,053)	(49,066)	(32,987)	67.2
"Base net income"	$ 43,656	39,245	4,411	11.2 %	$ 133,875	80,052	53,823	67.2 %

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

	Three months ended September 30,				Nine months ended September 30,			
			Change				Change	
	2010	2009	$	%	2010	2009	$	%
Student loan interest, net of settlements on derivatives (a)	$177,847	172,044	5,803	3.4 %	$510,336	586,173	(75,837)	(12.9) %
Consolidation rebate fees (b)	(42,993)	(43,191)	198	(0.5)	(128,658)	(131,496)	2,838	(2.2)
Amortization of loan premiums/discounts and deferred origination costs (c)	(11,921)	(19,532)	7,611	(39.0)	(40,550)	(54,972)	14,422	(26.2)
Interest on bonds and notes payable (d)	(63,062)	(69,572)	6,510	(9.4)	(160,922)	(305,522)	144,600	(47.3)
Student loan interest margin, net of settlements on derivatives	59,871	39,749	20,122	50.6	180,206	94,183	86,023	91.3
Fixed rate floor income, net of settlements on derivatives (e)	34,223	38,848	(4,625)	(11.9)	100,548	106,187	(5,639)	(5.3)
Investment interest (f)	465	1,055	(590)	(55.9)	1,107	6,045	(4,938)	(81.7)
Intercompany interest	(1,240)	(342)	(898)	262.6	(3,140)	(1,324)	(1,816)	137.2
Provision for loan losses (g)	(5,500)	(7,500)	2,000	(26.7)	(16,700)	(23,000)	6,300	(27.4)
Net interest income after provision for loan losses (net of settlements on derivatives (h))	$87,819	71,810	16,009	22.3 %	$262,021	182,091	79,930	43.9 %

(a) Student loan interest, net of settlements on derivatives, increased as a result of an increase in the average student loan portfolio of $1.5 billion (6.0%) for the three months ended September 30, 2010 compared to the same period in 2009. This increase was offset by a decrease in the yield earned on student loans, net of settlements on derivatives, to 2.66% for the three months ended September 30, 2010, from 2.72% compared to the same period in 2009.

Student loan interest, net of settlements on derivatives, decreased as a result of a decrease in the yield earned on student loans, net of settlements on derivatives, to 2.66% for the nine months ended September 30, 2010, from 3.15% compared to the same period in 2009 due to lower interest rates and a decrease in derivative settlements. This decrease was offset by an increase in the average student loan portfolio of $0.4 billion (1.5%) for the nine months

ended September 30, 2010 compared to the same period in 2009.

(b) Consolidation rebate fees decreased due to a decrease in the average consolidation loan portfolio for which these fees are paid in 2010, compared with the same periods in 2009.

(c) The amortization of loan premiums/discounts and deferred origination costs decreased as a result of loans purchased at a discount which has reduced the net costs being amortized.

(d) Interest expense decreased as a result of a decrease in interest rates on the Company's variable rate debt which lowered the Company's cost of funds (excluding net derivative settlements) to 0.94% and 0.83% for the three and nine months ended September 30, 2010, respectively, compared with 1.07% and 1.58 % for the same periods in 2009.

(e) Depending on the type of loan and when it was originated, the borrower rate on student loans is either fixed to term or is reset to an annual rate each July 1. As a result, for loans where the borrower rate is fixed to term, the Company may earn floor income for an extended period of time, which the Company refers to as fixed rate floor income. A summary of fixed rate floor income follows.

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Fixed rate floor income, gross	$ 38,263	39,284	112,731	106,623
Derivative settlements (a)	(4,040)	(436)	(12,183)	(436)
Fixed rate floor income, net	$ 34,223	38,848	100,548	106,187

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

The high levels of fixed rate floor income earned during 2009 and 2010 are due to historically low interest rates.

(f) Investment income decreased as a result of lower interest rates earned on cash held and a decrease in average cash held for the three and nine months ended September 30, 2010 compared with the same periods in 2009.

(g) The provision for loan losses represents the periodic expense of maintaining an allowance sufficient to absorb losses inherent in the Company's portfolio of loans. The provision for loan losses recognized by the Company was larger during the three and nine months ended September 30, 2009 compared with the same periods in 2010, primarily due to the provision related to the Company's non-federally insured student loan portfolio. During 2009, the Company increased its allowance for non-federally insured loans due to management's projected performance of the portfolio in light of economic conditions. As of September 30, 2010, the dollar amount of the Company's non-federally insured student loan portfolio, including those loans in repayment and loans delinquent, decreased from the same period a year ago. These decreases, as well as continued aging of the portfolio, resulted in less provision expense recognized by the Company during 2010 as compared to 2009 related to the Company's non-federally insured portfolio.

(h) The Company maintains an overall risk management strategy that incorporates the use of derivative instruments to reduce the economic effect of interest rate volatility. Management has structured the majority of the Company's derivative transactions with the intent that each is economically effective; however, the Company's derivative instruments do not qualify for hedge accounting. Derivative settlements for each applicable period should be evaluated with the Company's net interest income.

Other income. The following table summarizes the components of "other income".

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Borrower late fee income	$ 3,133	2,859	9,370	8,648
Other	1,577	1,245	4,744	4,326
Other income	$ 4,710	4,104	14,114	12,974

Gain (loss) on sale of loans and debt repurchases, net. A summary of gains (losses) from the sale of loans and debt repurchases follows:

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Gain (loss) on sale of loans, net (a)	$ —	8,788	—	8,386
Gain on debt repurchases - asset-backed securities	4,963	5,855	23,899	5,877
Gain (loss) on sale of loans and debt repurchases, net	$ 4,963	14,643	23,899	14,263

(a) Gain (loss) on sale of loans includes a gain of $9.7 million related to the sale of $427.7 million of student loans to the Department under the Purchase Program during the three months ended September 30, 2009.

Salaries and benefits and other expenses. "Salaries and benefits" and "other expenses" decreased for the three and nine months ended September 30, 2010 compared with the same periods in 2009 as a result of continued focus by the Company on managing costs and gaining efficiencies and continued benefits from restructuring activities.

Intersegment expenses. Intersegment expenses include fees paid to the Student Loan and Guaranty Servicing operating segment for the servicing of the Company's student loan portfolio.

LIQUIDITY AND CAPITAL RESOURCES

The Company's fee generating businesses are non-capital intensive and all produce positive operating cash flows. As such, a minimal amount of debt and equity capital is allocated to the fee-based segments and any liquidity or capital needs are satisfied using cash flow from operations. Therefore, the Liquidity and Capital Resources discussion is concentrated on the Company's liquidity and capital needs to meet existing debt obligations, primarily unsecured corporate debt and debt facilities in the Asset Generation and Management operating segment.

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

The Company has historically utilized operating cash flow, secured financing transactions (which include warehouse facilities, asset-backed securitizations, and liquidity programs offered by the Department), operating lines of credit, and other borrowing arrangements to fund its Asset Generation and Management operations and student loan acquisitions. In addition, the Company has used operating cash flow, borrowings on its unsecured line of credit, and unsecured debt offerings to fund corporate activities, business acquisitions, and repurchases of common stock. The Company has also used its common stock to partially fund certain business acquisitions. The Company has a universal shelf registration statement with the SEC which allows the Company to sell up to $825.0 million of securities that may consist of common stock, preferred stock, unsecured debt securities, warrants, stock purchase contracts, and stock purchase units. The terms of any securities are established at the time of the offering.

The following table summarizes the Company's debt obligations as of September 30, 2010.

		Carrying amount	Interest rate range	Final maturity
Asset Generation and Management:				
Bonds and notes issued in asset-backed securitizations	$	21,521,537	0.23% - 6.90%	5/1/11 - 7/27/48
Department of Education Participation		2,049,227	0.91%	10/15/10
FFELP warehouse facility		29,976	0.28% - 0.41%	7/29/13
Department of Education Conduit		2,799,180	0.37%	5/8/14
Related party debt		111,675	0.73%	5/20/11
Other borrowings		24,838	0.26% - 5.10%	11/14/10 - 11/1/15
		26,536,433		
Unsecured Corporate Debt:				
Unsecured line of credit		691,500	0.79%	5/8/12
Junior Subordinated Hybrid securities		163,255	7.40%	9/15/61
		854,755		
	$	27,391,188		

Liquidity Needs

The Company has two primary liquidity needs:

- Satisfy unsecured debt obligations, specifically its unsecured line of credit
- Satisfy debt obligations secured by student loan assets and related collateral

Liquidity Needs and Sources of Liquidity Available to Satisfy Unsecured Debt Obligations

Excluding the Junior Subordinated Hybrid securities (which have a maturity in 2061), the Company has the following unsecured debt obligation:

	Balance outstanding as of September 30, 2010	Balance outstanding as of October 31, 2010

Unsecured Corporate Debt:				
Unsecured line of credit - due May 2012	$	691,500	691,500	

Sources of liquidity currently available to satisfy unsecured debt obligations

The following table details the Company's sources of liquidity currently available:

		As of September 30, 2010	As of October 31, 2010 (c)	
Sources of primary liquidity:				
Cash and cash equivalents	$	316,361	335,000	(d)
Investments - trading securities		33,082	31,000	
Unencumbered FFELP student loan assets		1,877	1,745	
Unencumbered private student loan assets		126,923	120,575	
Asset-backed security investments - Class B subordinated notes (a)		77,000	77,000	
Asset-backed security investments (b)		207,700	315,500	
Total sources of primary liquidity	$	762,943	880,820	

(a) As part of the Company's issuance of asset-backed securitizations in March 2008 and May 2008, due to credit market conditions when these notes were issued, the Company purchased the Class B subordinated notes of $36 million (par value) and $41 million (par value), respectively. These notes are not included on the Company's consolidated balance sheet. If the credit market conditions continue to improve, the Company anticipates selling these notes to third parties. Upon a sale to third parties, the Company would obtain cash proceeds equal to the market value of the notes on the date of such sale. The amount included in the table above is the par value of these subordinated notes and may not represent market value upon sale of the notes.

(b) The Company has repurchased its own asset-backed securities (bonds and notes payable). For accounting purposes, these notes are effectively retired and are not included on the Company's consolidated balance sheet. However, as of September 30, 2010 and October 31, 2010, $207.7 million and $315.5 million, respectively, of these securities are legally outstanding at the trust level and the Company could sell these notes to third parties or redeem the notes at par as cash is generated by the trust estate. Upon a sale to third parties, the Company would obtain cash proceeds equal to the market value of the notes on the date of such sale. The amount included in the table above is the par value of these notes and may not represent market value upon sale of the notes.

(c) The Company generated significant cash during October 2010 when it sold loans to the Department. As of September 30, 2010, the Company had $2.1 billion of FFELP loans classified as held for sale. These loans were funded using the Department's Participation Program and were sold to the Department under the Purchase Program. Upon selling the $2.1 billion in loans held for sale, the Company received net cash proceeds of $125.9 million resulting in a pre-tax gain of $33.8 million. The table above represents the Company's cash position after selling these loans.

(d) On November 3, 2010, the Company paid $55.0 million related to a litigation settlement. See "Overview – Recent Developments – Litigation Settlement" in this Item 2 for additional information related to this settlement. The cash and cash equivalents balance as of October 31, 2010 in the above table excludes $55.0 million related to the cash paid in November for this settlement.

Cash generated from operations

In addition to current sources of liquidity, the Company plans to use cash generated from operations to satisfy its unsecured debt obligations. The Company has historically generated positive cash flow from operations. For the nine months ended September 30, 2010 and year ended December 31, 2009, the Company had net cash flow from operating activities of $15.8 million and $324.7 million, respectively.

Liquidity Needs and Sources of Liquidity Available to Satisfy Debt Obligations Secured by Student Loan Assets and Related Collateral

The Company had the following debt obligations outstanding that are secured by student loan assets and related collateral.

	As of September 30, 2010		
		Carrying amount	Final maturity
Asset Generation and Management:			
Bonds and notes issued in asset-backed securitizations	$	21,521,537	5/1/11 - 7/27/48
Department of Education Participation		2,049,227	10/15/10
FFELP warehouse facility		29,976	7/29/13
Department of Education Conduit		2,799,180	5/8/14
Related party debt		111,675	5/20/11
Other borrowings		24,838	11/14/10 - 11/1/15
	$	26,536,433	

Bonds and notes issued in asset-backed securitizations

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

As of September 30, 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 $1.72 billion as detailed below.

The forecasted cash flow presented below includes all loans currently funded in asset-backed securitizations. As of September 30, 2010, the Company had $21.3 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 September 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 the completion of additional asset-backed securitizations during 2010 and favorable changes in forward interest rates, offset by cash received during the first three 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. Prepayment rates equal the percentage of loans that prepay annually as a percentage of the beginning of period balance, net of scheduled principal payments. A number of factors can affect estimated prepayment rates, including the level of consolidation activity and default rates. Should any of these factors change, management may revise its assumptions, which in turn would impact the projected future cash flow. The Company's cash flow forecast above assumes prepayment rates that are generally consistent with those utilized in recent asset-backed securities transactions. If management used a prepayment rate assumption two times greater than what was used to forecast the cash flow, the cash flow forecast would be reduced by approximately $350 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 result in basis risk. The Company's cash flow forecast assumes LIBOR will exceed CP by 12 basis points for the life of the portfolio, which approximates the historical relationship between these indexes. If the forecast is computed assuming a spread of 24 basis points between CP and LIBOR for the life of the portfolio, the cash flow forecast would be reduced by approximately $100 million to $130 million.

The Company uses the current forward interest rate yield curve to forecast cash flows. A change in the forward interest rate curve would impact the future cash flows generated from the portfolio. An increase in future interest rates will reduce the amount of fixed rate floor income the Company is currently receiving. The Company attempts to mitigate the impact of a rise in short-term rates by hedging interest rate risks. As of September 30, 2010, the fair value of the Company's interest rate derivatives used to hedge loans earning fixed rate floor income was a negative $32 million (a liability on the Company's balance sheet). See Item 3, "Quantitative and Qualitative Disclosures about Market Risk — Interest Rate Risk."

Department of Education Participation

In August 2008, the Department implemented the Purchase and Participation Programs pursuant to ECASLA. Under the Participation Program, the Department provided interim short term liquidity to FFELP lenders by purchasing participation interests in pools of FFELP loans. FFELP lenders were charged a rate of commercial paper plus 50 basis points on the principal amount of participation interests outstanding. Loans funded under the Participation Program for the 2009-2010 academic year had to be either refinanced by the lender by September 30, 2009 or sold to the Department pursuant to the Purchase Program on or prior to October 15, 2010.

As of September 30, 2010, the Company had $2.0 billion borrowed under the Participation Program. During October 2010, the Company sold $2.1 billion of FFELP loans funded under the Participation Program to the Department using the Department's Purchase Program and paid off all advances outstanding ($2.0 billion) under the Participation Program.

FFELP Warehouse Facility

On July 30, 2010, the Company renewed its 2009/2010 FFELP Warehouse Facility. The 2009/2010 FFELP Warehouse Facility has a maximum financing amount of $500.0 million, with a revolving financing structure supported by 364-day liquidity provisions, which expire on July 29, 2011. The final maturity date of the facility is July 29, 2013. In the event the Company is unable to renew the liquidity provisions by July 29, 2011, the facility would become a term facility at a stepped-up cost, with no additional student loans being eligible for financing, and the Company would be required to refinance the existing loans in the facility by July 29, 2013.

The 2009/2010 FFELP Warehouse Facility provides for formula based advance rates depending on FFELP loan type up to a maximum of 85 percent to 98 percent of the principal and interest financed. The advance rates for collateral may increase or decrease based on market conditions, but they are subject to a minimum advance of 75 to 80 percent based on loan type. The facility contains financial covenants relating to levels of the Company's consolidated net worth, ratio of adjusted EBITDA to corporate debt interest, and unencumbered cash. Any violation of these covenants could result in a requirement for the immediate repayment of any outstanding borrowings under the facility. As of September 30, 2010, $30.0 million was outstanding under the FFELP warehouse facility and $470.0 million was available for future use. As of September 30, 2010, the Company had $2.3 million advanced as equity support in the facility.

Upon termination or expiration of the facility, the Company would expect to access the securitization market, use operating cash, rely on sale of assets, or transfer collateral to satisfy any remaining obligations.

Department of Education Conduit

In May 2009, the Department implemented a program under which it financed eligible FFELP Stafford and PLUS loans in a conduit vehicle established to provide funding for student lenders (the "Conduit Program"). Loans eligible for the Conduit Program had to be first disbursed on or after October 1, 2003, but not later than June 30, 2009, and fully disbursed before September 30, 2009, and meet certain other requirements. Beginning July 1, 2010, no additional loans can be funded using the Conduit Program. Funding for the Conduit Program is provided by the capital markets at a cost based on market rates, with the Company being advanced 97 percent of the student loan face amount. Excess amounts needed to fund the remaining 3 percent of the student loan balances were contributed by the Company. The Conduit Program expires on May 8, 2014. The Student Loan Short-Term Notes ("Student Loan Notes") issued by the Conduit Program are supported by a combination of (i) notes backed by FFELP loans, (ii) a liquidity agreement with the Federal Financing Bank, and (iii) a put agreement provided by the Department. If the conduit does not have sufficient funds to pay all Student Loan Notes, then those Student Loan Notes will be repaid with funds from the Federal Financing Bank. The Federal Financing Bank will hold the notes for a short period of time and, if at the end of that time, the Student Loan Notes still cannot be paid off, the underlying FFELP loans that serve as collateral for the Conduit Program will be sold to the Department through a put agreement at a price of 97 percent of the face amount of the loans. As of September 30, 2010, the Company had $2.8 billion borrowed under the facility and $95.9 million advanced as equity support in the facility.

The Company expects to access the securitization market prior to the Conduit Program's maturity to refinance the student loan collateral included in the Conduit with debt that is structured to match the maturity of the assets.

Related Party Debt

The Company has from time to time repurchased its own asset-backed securities (bonds and notes payable). For accounting purposes, these notes have been effectively retired and are not included on the Company's consolidated balance sheet. However, these securities are legally outstanding at the trust level and the Company could sell these

notes to third parties or redeem the notes at par as cash is generated by the trust estate. During the three months ended September 30, 2010, the Company participated $111.7 million of these securities to Union Bank, as trustee for various grantor trusts, and obtained cash proceeds equal to the par value of the notes. The Company has entered into a Guaranteed Purchase Agreement with Union Bank whereby the Company must purchase these notes back from Union Bank at par upon the request of Union Bank.

Upon termination or expiration of this participation, the Company would expect to use operating cash or rely on the sale of assets to satisfy this debt.

Other Liquidity Needs

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. As a result of the Reconciliation Act of 2010, the Company no longer originates new (first disbursement) FFELP loans after June 30, 2010.

Due to the legislative changes in the student loan industry, the Company believes there will be opportunities to purchase FFELP loan portfolios on behalf of current FFELP participants looking to modify their involvement in FFELP and/or exit that business. For example, during the first nine months of 2010, the Company purchased $2.5 billion of FFELP student loans from various third-parties.

The Company plans to fund FFELP student loan acquisitions from third parties using its agreement with Union Bank, as trustee for various grantor trusts, under which Union Bank has agreed to purchase from the Company participation interests in student loans (as described below); using its FFELP warehouse facility (as described above); and continuing to access the asset-backed securities market.

Union Bank Participation Agreement

The Company maintains an agreement with Union Bank, as trustee for various grantor trusts, under which Union Bank has agreed to purchase from the Company participation interests in student loans (the "FFELP Participation Agreement"). The Company has the option to purchase the participation interests from the grantor trusts at the end of a 364-day period upon termination of the participation certificate. As of September 30, 2010, $360.2 million of loans were subject to outstanding participation interests held by Union Bank, as trustee, under this agreement. The agreement automatically renews annually and is terminable by either party upon five business days notice. This agreement provides beneficiaries of Union Bank's grantor trusts with access to investments in interests in student loans, while providing liquidity to the Company on a short term basis. The Company can participate loans to Union Bank to the extent of availability under the grantor trusts, up to $750 million or an amount in excess of $750 million if mutually agreed to by both parties. Loans participated under this agreement have been accounted for by the Company as loan sales. Accordingly, the participation interests sold are not included on the Company's consolidated balance sheet.

Asset-backed securities transactions

Depending on market conditions, the Company anticipates continuing to access the asset-backed securities market. Asset-backed securities transactions would be used to refinance student loans included in the FFELP warehouse facility, the Department of Education Conduit facility, and/or existing asset-backed security transactions. The FFELP warehouse facility and Department Conduit facility have advance rates that are less than par. As of September 30, 2010, the Company had approximately $2.3 million advanced in the FFELP warehouse facility and $95.9 million advanced in the Department Conduit facility. Depending on the terms of asset-backed security transactions, refinancing loans included in these facilities could produce positive cash flow to the Company by reducing required advance rates and are contemplated by management when making student loan financing decisions.

During the nine months ended September 30, 2010, the Company completed asset-backed securities transactions totaling $1.6 billion. The Company used the proceeds from the sale of these notes to purchase student loans, including loans previously financed in other asset-backed securitizations and the FFELP warehouse facility.

Although the Company has demonstrated its ability to access the asset-backed securities market in 2009 and the first nine months of 2010 and expects asset-backed securities transactions to remain a primary source of funding over the long term, the Company also expects its transaction volumes to be more limited and pricing less favorable than prior to the credit market dislocation that began in August 2007, with significantly reduced opportunities to place subordinated tranches of asset-backed securities with investors. At present, while the markets have demonstrated some signs of recovery, the Company is unable to predict when market conditions will allow for more regular, reliable, and cost-effective access to the term asset-backed securities market.

Description of Other Debt Facilities

Unsecured Line of Credit

The Company has a $750.0 million unsecured line of credit that terminates in May 2012. As of September 30, 2010, there was $691.5 million outstanding on this line. Upon termination in 2012, there can be no assurance that the Company will be able to maintain this line of credit, find alternative funding, or increase the amount outstanding under the line, if necessary. The lending commitment under the Company's unsecured line of credit is provided by a total of thirteen banks, with no individual bank representing more than 11% of the total lending commitment. The bank lending group includes Lehman Brothers Bank, a subsidiary of Lehman Brothers Holdings Inc., which represents approximately 7% of the lending commitment under the line of credit. In September 2008, Lehman Brothers Holdings Inc. filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code. The Company does not expect Lehman to fund future borrowing requests. As of September 30, 2010, excluding Lehman's lending commitment, the Company had $51.2 million available for future use under its unsecured line of credit.

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

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

As of September 30, 2010, the Company was in compliance with all of these requirements. Many of these covenants are duplicated in the Company's other lending facilities, including its FFELP warehouse facilities.

A default on the 2009/2010 FFELP Warehouse Facility would result in an event of default on the Company's unsecured line of credit that would result in the outstanding balance on the line of credit becoming immediately due and payable.

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

Junior Subordinated Hybrid Securities

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

Debt Repurchases

Due to the Company's improved cash position, the Company repurchased debt during 2010. Gains recorded by the Company from the purchase of debt are included in "gain (loss) on the sale of loans and debt repurchases, net" on the Company's consolidated statements of operations.

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

Stock Repurchases

Shares repurchased by the Company during 2010 are shown in the table below.

	Total shares	Purchase price	Average price of

	repurchased	(in thousands)	shares repurchased (per share)
Three months ended March 31, 2010	12,936	$ 236	$ 18.28
Three months ended June 30, 2010	663,443	12,821	19.33
Three months ended September 30, 2010	1,184,261	26,615	22.47
Nine months ended September 30, 2010	1,860,640	$ 39,672	$ 21.32

Contractual Obligations

The Company's contractual obligations were as follows:

	As of September 30, 2010				
	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Bonds and notes payable	$ 27,391,188	2,227,622	721,476	2,970,340	21,471,750
Operating lease obligations (a)	19,446	6,544	10,295	2,607	—
Total	$ 27,410,634	2,234,166	731,771	2,972,947	21,471,750

(a) The Company is committed under noncancelable operating leases for certain office and warehouse space and equipment. Operating lease obligations are presented net of approximately $3.2 million in sublease arrangements.

As of September 30, 2010, the Company had a reserve of $7.5 million for uncertain income tax positions (including the federal benefit received from state positions and accrued interest). This obligation is not included in the above table as the timing and resolution of the income tax positions cannot be reasonably estimated at this time.

As of September 30, 2010, the Company has participated a cumulative amount of $120.5 million of non-federally insured loans to third parties. The Company has accounted for these participations as loan sales. Accordingly, the participation interests sold are not included on the Company's consolidated balance sheet. Per the terms of the servicing agreements, the Company's servicing operations are obligated to repurchase loans subject to the participation interests when such loans become 60 or 90 days delinquent. As of September 30, 2010, the Company has $12.6 million accrued related to this obligation which is included in "other liabilities" in the Company's consolidated balance sheet. This obligation is not included in the above table.

In 2004, the Company purchased 50% of the stock of infiNET Integrated Solutions, Inc. ("infiNET") and, in 2006, purchased the remaining 50% of infiNET's stock. Consideration for the purchase of the remaining 50% of the stock of infiNET included 95,380 restricted shares of the Company's Class A common stock. Under the terms of the purchase agreement, the 95,380 shares of Class A common stock issued in the acquisition are subject to stock price guaranty provisions whereby if on or about February 28, 2011 the average market trading price of the Class A common stock is less than $104.8375 per share and has not exceeded that price for any 25 consecutive trading days during the 5-year period from the closing of the acquisition to February 28, 2011, then the Company must pay additional cash to the sellers of infiNET for each share of Class A common stock issued in an amount representing the difference between $104.8375 less the greater of $41.9335 or the gross sales price such seller obtained from a sale of the shares occurring subsequent to February 28, 2011 as defined in the agreement. Based on the closing price of the Company's Class A common stock as of September 30, 2010 of $22.88 per share, the Company's obligation under this stock price guarantee would have been approximately $6.0 million (($104.8375-$41.9335) x 95,380 shares). Any payment on the guaranty is reduced by the aggregate of any dividends or other distributions made by the Company to the sellers. Any cash paid by the Company in consideration of satisfying the guaranteed value of stock issued for this acquisition would be recorded by the Company as a reduction to additional paid-in capital. The obligation to pay this guaranteed stock price is due February 28, 2011 and is not included in the table above.

During the first quarter of 2010, the Company purchased certain assets of a software company. The initial consideration paid by the Company was $3.0 million in cash. In addition to the initial purchase price, additional payments are to be made by the Company based on certain operating results as defined in the purchase

agreement. These contingent payments are payable in three annual installments beginning in March 2011 and in total are estimated by the Company to be $4.8 million. The contingent payments will be remeasured to fair value each reporting date until the contingency is resolved with all changes in fair value being recognized in earnings. These contingent payments are not included in the table above.

Dividends

In the first quarter of 2007, the Company began paying dividends of $0.07 per share on the Company's Class A and Class B Common Stock which were paid quarterly through the first quarter of 2008. On May 21, 2008, the Company announced that it was temporarily suspending its quarterly dividend program. On November 5, 2009, the Company's Board of Directors voted to reinstate the quarterly dividend program effective for the fourth quarter 2009. Accordingly, during 2010, a dividend of $0.07 per share on the Company's Class A and Class B Common Stock was paid on each March 15, 2010, June 15, 2010, and September 15, 2010 to all holders of record as of March 1, 2010, June 1, 2010, and September 1, 2010, respectively.

The Nelnet Board of Directors declared a fourth-quarter cash dividend on its outstanding shares of Class A common stock and Class B common stock of $0.49 per share. The dividend consists of a quarterly dividend of $0.07 per share, and an additional $0.42 per share representing $0.07 per share for each of the six quarters in 2008 and 2009 during which the Company had suspended dividend payments to preserve capital during a volatile period in the market. The dividend will be paid on December 15, 2010 to shareholders of record at the close of business on December 1, 2010.

The Company currently plans to continue making quarterly dividend payments, subject to future earnings, capital requirements, financial condition, and other factors. In addition, the payment of dividends is subject to the terms of the Company's outstanding junior subordinated hybrid securities, which generally provide that if the Company defers interest payments on those securities it cannot pay dividends on its capital stock.

CRITICAL ACCOUNTING POLICIES

This Management's Discussion and Analysis of Financial Condition and Results of Operations discusses the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of income and expenses during the reporting periods. The Company bases its estimates and judgments on historical experience and on various other factors that the Company believes are reasonable under the circumstances. Actual results may differ from these estimates under varying assumptions or conditions. Note 3 of the consolidated financial statements, which are included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009, includes a summary of the significant accounting policies and methods used in the preparation of the consolidated financial statements.

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

Allowance for Loan Losses

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

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

In determining the appropriateness of the allowance for loan losses on the non-federally insured loans, the Company considers several factors including: loans in repayment versus those in a nonpaying status, delinquency status, type of program, and trends in defaults in the portfolio based on Company and industry data. Should any of these factors change, the estimates made by management would also change, which in turn would impact the level of the Company's future provision for loan losses. The Company places a non-federally insured loan on nonaccrual status when the collection of principal and interest is 30 days past due and charges off the loan when the collection of principal and interest is 120 days past due.

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

Revenue Recognition

Student Loan Income – The Company recognizes student loan income as earned, net of amortization of loan premiums and discounts and deferred origination costs. Loan income is recognized based upon the expected yield of the loan after giving effect to borrower utilization of incentives such as principal reductions for timely payments ("borrower benefits") and other yield adjustments. The estimate of the borrower benefits discount is dependent on the estimate of the number of borrowers who will eventually qualify for these benefits. For competitive and liquidity purposes, the Company frequently changes the borrower benefit programs in both amount and qualification factors. These programmatic changes must be reflected in the estimate of the borrower benefit discount. Loan premiums/discounts, deferred origination costs, and borrower benefits are included in the carrying value of the student loan on the consolidated balance sheet and are amortized over the estimated life of the loan. The most sensitive estimate for loan premiums/discounts, deferred origination costs, and borrower benefits is the estimate of the constant prepayment rate ("CPR"). CPR is a variable in the life of loan estimate that measures the rate at which loans in a portfolio pay before their stated maturity. The CPR is directly correlated to the average life of the portfolio. CPR equals the percentage of loans that prepay annually as a percentage of the beginning of period balance, net of scheduled principal payments. A number of factors can affect the CPR estimate, including the level of consolidation activity and default rates. Should any of these factors change, the estimates made by management would also change, which in turn would impact the amount of loan premium/discount and deferred origination cost amortization recognized by the Company in a particular period.

Loan and guaranty servicing revenue – Loan servicing fees are determined according to individual agreements with customers and are calculated based on the dollar value of loans, number of loans, or number of borrowers serviced for each customer. Guaranty servicing fees, generally, are calculated based on the number of loans serviced, volume of loans serviced, or amounts collected.

Tuition payment processing and campus commerce revenue - Fees for payment management services are recognized over the period in which services are provided to customers.

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

- Interactive marketing – Interactive marketing services revenue is derived primarily from fees which are earned through the delivery of qualified leads or clicks. The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is reasonably assured. Delivery is deemed to have occurred at the time a qualified lead or click is delivered to the customer provided that no significant obligations remain. From time to time, the Company may agree to credit certain leads or clicks if they fail to meet the contractual or other guidelines of a particular client. The Company has established a sales reserve based on historical experience. To date, such credits have been immaterial and within management's expectations.

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

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

- Resource centers and list marketing – Resource centers and list marketing services includes the sale of subscription and performance based products and services, as well as list sales. Revenues from sales of subscription and performance based products and services are recognized ratably over the term of the contract. Subscription and performance based revenues received or receivable in advance of the delivery of services is included in deferred revenue. Revenue from the sale of lists is generally earned and recognized, net of estimated returns, upon delivery.

Fees associated with the majority of the services described above are recognized in the period services are rendered and earned under service arrangements with clients where service fees are fixed or determinable and collectability is reasonably assured. The Company's service fees are determined based on written price quotations or service agreements having stipulated terms and conditions that do not require management to make any significant judgments or assumptions regarding any potential uncertainties.

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

Goodwill and Intangible Assets – Impairment Assessments

The Company reviews goodwill for impairment annually (every November 30) and whenever triggering events or changes in circumstances indicate its carrying value may not be recoverable. The Company performs a two-step impairment test on goodwill. In the first step, the Company compares the fair value of each reporting unit to its carrying value. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is considered not impaired and the Company is not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then the Company must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then the Company would record an impairment loss equal to the difference.

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

The Company makes judgments about the recoverability of purchased intangible assets annually and whenever triggering events or changes in circumstances indicate that an other than temporary impairment may exist. Each quarter the Company evaluates the estimated remaining useful lives of purchased intangible assets and whether events or changes in circumstances warrant a revision to the remaining periods of amortization. Recoverability of these assets is measured by comparison of the carrying amount of the asset to the future undiscounted cash flows the asset is expected to generate. If the asset is considered to be impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset.

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

Income Taxes

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

Derivative Accounting

The Company records derivative instruments at fair value on the balance sheet as either an asset or liability. The Company determines the fair value for its derivative contracts using either (i) pricing models that consider current market conditions and the contractual terms of the derivative contract or (ii) counterparty valuations. These factors include interest rates, time value, forward interest rate curve, and volatility factors, as well as foreign exchange rates. Pricing models and their underlying assumptions impact the amount and timing of unrealized gains and losses recognized, and the use of different pricing models or assumptions could produce different financial results. Management has structured the majority of the Company's derivative transactions with the intent that each is economically effective. However, the Company's derivative instruments do not qualify for hedge accounting. Accordingly, changes in the fair value of derivative instruments are reported in current period earnings. Net settlements on derivatives are included in "derivative market value and foreign currency adjustments and derivative settlements, net" on the consolidated statements of operations.

RECENT ACCOUNTING PRONOUNCEMENTS

Fair Value Measurements

The Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2010-06, Improving Disclosures about Fair Value Measurements. This ASU provides amendments to Topic 820, Fair Value Measurements and Disclosures, that will provide more robust disclosures about (1) the different classes of assets and liabilities measured at fair value, (2) the valuation techniques and inputs used, (3) the activity in Level 3 fair value measurements, and (4) the transfers between Levels 1, 2, and 3. The update was effective for annual or interim periods beginning after December 15, 2009 (January 1, 2010 for the Company), except for the disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements, which will be effective for fiscal and interim periods beginning after December 15, 2010 (January 1, 2011 for the Company). To date, the update has not had, and the Company does not anticipate the disclosures required about Level 3 measurements effective January 1, 2011 to have, a material impact on the preparation of and disclosures in the Company's consolidated financial statements.

Transfers of Financial Assets and the Variable Interest Entity Consolidation Model

The FASB issued ASU 2009-16, Accounting for Transfers of Financial Assets, an update to ASC 860, Transfers and Servicing, which provides guidance on improving the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. The update removes the concept of a qualifying special-purpose entity. Additionally, the update defines the term participating interest to establish specific conditions for reporting a transfer of a portion of a financial asset as a sale, and also requires that a transferor recognize and initially measure at fair value all assets obtained (including a transferor's beneficial interest) and liabilities incurred as a result of a transfer of financial assets accounted for as a sale. The update was effective for fiscal and interim periods beginning after November 15, 2009 (January 1, 2010 for the Company). The Company adopted the update for the fiscal and interim period beginning January 1, 2010. The Company completed three asset-backed securitizations during the nine months ended September 30, 2010. Consistent with all historical asset-backed securitizations completed by the Company, these transactions are accounted for as a secured borrowing and the student loan assets and notes payable remain on the consolidated balance sheet per the provisions of ASC Topic 860. The Company's non-federally insured loan participation agreements continue to qualify as a transfer of financial assets (accounted for as a sale) under the provisions of ASC Topic 860 (see note 3 in the accompanying consolidated financial statements included in this Report).

The FASB issued ASU 2009-17, Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities. ASU 2009-17 amended the guidance on variable interest entities in ASC Topic 810 (FASB Interpretation No. 46R, Consolidation of Variable Interest Entities) related to the consolidation of variable interest entities. It required reporting entities to evaluate former QSPEs for consolidation, changed the approach to determining a VIE's primary beneficiary from a quantitative assessment to a qualitative assessment designed to identify a controlling financial interest, and increased the frequency of required reassessments to determine whether a company is the primary beneficiary of a VIE. It also clarified, but did not significantly change, the characteristics that identify a VIE. The update was effective for fiscal and interim periods beginning after November 15, 2009. For the Company, the update was effective January 1, 2010 and did not have an impact on the preparation of the Company's consolidated financial statements.

Revenue Recognition

In October 2009, the FASB issued ASU 2009-13, Multiple Deliverable Revenue Arrangements, to be included in ASC Subtopic 605-25. ASC Subtopic 605-25, Revenue Recognition – Multiple-Element Arrangements (EITF Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables"), sets forth requirements that must be met for an entity to recognize revenue from the sale of a delivered item that is part of a multiple-element arrangement when other items have not yet been delivered. One of those current requirements is that there be objective and reliable evidence of the standalone selling price of the undelivered items, which must be supported by either vendor-specific objective evidence (VSOE) or third-party evidence (TPE).

ASU 2009-13 amends ASC 605-25 to eliminate the requirement that all undelivered elements have VSOE or TPE before an entity can recognize the portion of an overall arrangement fee that is attributable to items that already have been delivered. In the absence of VSOE or TPE of the standalone selling price for one or more delivered or undelivered elements in a multiple-element arrangement, entities will be required to estimate the selling prices of those elements. The overall arrangement fee will be allocated to each element (both delivered and undelivered items) based on their relative selling prices, regardless of whether those selling prices are evidenced by VSOE or TPE or are based on the entity's estimated selling price. Application of the "residual method" of allocating an overall arrangement fee between delivered and undelivered elements will no longer be permitted upon adoption of ASU 2009-13. Additionally, the new guidance will require entities to disclose more information about their multiple-element revenue arrangements.

The update will be effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010 (January 1, 2011 for the Company), with early adoption permitted. The adoption of this standard will not have a material effect on the Company's financial position or results of operations.

In October 2009, the FASB issued ASU 2009-14, Certain Revenue Arrangements that Include Software Elements, to be included in ASC Subtopic 985-605. ASC Subtopic 985-605, Software—Revenue Recognition, addresses the accounting for revenue transactions involving software. Currently, that guidance applies to revenue arrangements for products or services that include software that is "more-than-incidental" to the products or services as a whole.

ASU 2009-14 amends ASC Subtopic 985-605 to exclude from its scope tangible products that contain both software and non-software components that function together to deliver a product's essential functionality. The update is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010 (January 1, 2011 for the Company), with early adoption permitted. The adoption of this standard will not have a material effect on the Company's financial position or results of operations.

Disclosures about Credit Quality and the Allowance for Credit Losses

The FASB issued ASU 2010-20, Disclosure about the Credit Quality of Financing Receivables and the Allowance for Credit Losses, an update to ASC 310, Receivables. This ASU expands existing disclosures about the credit quality of financing receivables and their allowance for credit losses. The ASU affects all entities with financing receivables, excluding short-term trade accounts receivable or receivables measured at fair value or lower of cost or fair value.

Entities will be required to provide disclosures on a disaggregated basis. The ASU defines two levels of disaggregation—portfolio segment and class of financing receivable. A portfolio segment is defined as the level at which an entity develops and documents a systematic method for determining its allowance for credit losses. Classes of financing receivables generally are a disaggregation of portfolio segment.

Existing disclosures are amended to require an entity to provide the following disclosures about its financing receivables on a disaggregated basis:

1. A rollforward schedule of the allowance for credit losses from the beginning of the reporting period to the end of the reporting period on a portfolio segment basis, with the ending balance further disaggregated on the basis of the impairment method

2. For each disaggregated ending balance in item (1) above, the related recorded investment in financing receivables

3. The nonaccrual status of financing receivables by class of financing receivables

4. Impaired financing receivables by class of financing receivables.

The ASU requires an entity to provide the following additional disclosures about its financing receivables:

1. Credit quality indicators of financing receivables at the end of the reporting period by class of financing receivables

2. The aging of past due financing receivables at the end of the reporting period by class of financing receivables

3. The nature and extent of troubled debt restructurings that occurred during the period by class of financing receivables and their effect on the allowance for credit losses

4. The nature and extent of financing receivables modified as troubled debt restructurings within the previous twelve months that defaulted during the reporting period by class of financing receivables and their effect on the allowance for credit losses

5. Significant purchases and sales of financing receivables during the reporting period disaggregated by portfolio segment.

For public companies, the disclosures as of the end of a reporting period (such as accounting policies for each portfolio segment, ending balances of allowance for credit losses, and credit-quality indicators) are effective for interim and annual reporting periods ending on or after December 15, 2010 (December 31, 2010 for the Company). The disclosures about activity that occurs during a reporting period (such as modifications and rollforward of allowance for credit losses) are effective for interim and annual reporting periods beginning on or after December 15, 2010 (January 1, 2011 for the Company). The Company will present the required disclosures beginning with the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
(All dollars are in thousands, except share amounts, unless otherwise noted)

Interest Rate Risk

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

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

	As of September 30, 2010		As of December 31, 2009	
	Dollars	Percent	Dollars	Percent
Fixed-rate loan assets	$ 8,621,337	32.7 %	$ 10,305,622	43.6 %
Variable-rate loan assets	17,719,658	67.3	13,330,252	56.4
Total	$ 26,340,995	100.0 %	$ 23,635,874	100.0 %
Fixed-rate debt instruments	$ 163,255	0.6 %	$ 273,906	1.1 %
Variable-rate debt instruments	27,227,933	99.4	24,531,383	98.9
Total	$ 27,391,188	100.0 %	$ 24,805,289	100.0 %

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Fixed rate floor income, gross	$ 38,263	39,284	112,731	106,623
Derivative settlements (a)	(4,040)	(436)	(12,183)	(436)
Fixed rate floor income, net	$ 34,223	38,848	100,548	106,187

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

The high levels of fixed rate floor income earned during 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.

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

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

The following table shows the Company's student loan assets that are earning fixed rate floor income as of September 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 September 30, 2010
3.0 - 3.49%	3.21%	0.57%	$	1,819,477
3.5 - 3.99%	3.65%	1.01%		1,855,477
4.0 - 4.49%	4.20%	1.56%		1,456,116
4.5 - 4.99%	4.72%	2.08%		803,727
5.0 - 5.49%	5.25%	2.61%		541,746
5.5 - 5.99%	5.67%	3.03%		327,331
6.0 - 6.49%	6.19%	3.55%		384,992
6.5 - 6.99%	6.70%	4.06%		344,836
7.0 - 7.49%	7.17%	4.53%		120,850
7.5 - 7.99%	7.71%	5.07%		211,468
8.0 - 8.99%	8.16%	5.52%		474,388
> 9.0%%	9.04%	6.40%		280,930
			$	8,621,338

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

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

Weighted average fixed

Maturity		Notional Amount	rate paid by the Company (a)	
2010	$	3,750,000	0.48	%
2011		5,750,000	0.54	
2012		950,000	1.08	
2013		650,000	1.07	
2015		100,000	2.26	
2020		100,000	3.23	
	$	11,300,000	0.64	%

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

Subsequent to September 30, 2010, the Company entered into additional derivatives to hedge loans earning fixed rate floor income. The following table summarizes these derivatives.

Maturity		Notional Amount	Weighted average fixed rate paid by the Company (a)	
2012	$	3,000,000	0.54	%

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

As of September 30, 2010, the Company had $3.2 billion of student loan assets that were eligible to earn variable-rate floor income.

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

The following table presents the Company's FFELP student loan assets and related funding arranged by underlying indices as of September 30, 2010:

Index	Frequency of Variable Resets		Assets	Debt outstanding that funded student loan assets (a)
3 month H15 financial commercial paper (b)	Daily	$	25,181,140	2,049,227
3 month Treasury bill (c)	Varies		1,032,932	—
3 month LIBOR (d)	Quarterly		—	20,349,202
Auction-rate or remarketing (e)	Varies		—	1,172,335
Asset-backed commercial paper (f)	Varies		—	2,829,156
Other (g)			322,361	136,513
		$	26,536,433	26,536,433

(a) The Company has certain basis swaps outstanding in which the Company receives three-month LIBOR and pays one-month LIBOR plus or minus a spread as defined in the agreements. The Company entered into these derivative instruments to better match the interest rate characteristics on its student loan assets and the debt funding such assets. The following table summarizes these derivatives as of September 30, 2010:

Maturity		Notional Amounts
2021	$	250,000
2023		1,250,000
2024		250,000
2028		100,000
2039		150,000
2040		200,000
	$	2,200,000

(b) The Company's FFELP student loans earn interest based on the daily average H15 financial commercial paper index calculated on a fiscal quarter. The Company's funding includes FFELP student loans under the Department's Participation Program. The interest rate on the principal amount of participation interests outstanding under the Department's Participation Program is based on a rate of commercial paper plus 50 basis points, which is set a quarter in arrears, while the earnings on the student loans is based primarily on the daily average H15 financial commercial paper index calculated on the current fiscal quarter.

(c) The Company has used derivative instruments to hedge both the basis and repricing risk on certain student loans in which the Company earns interest based on a treasury bill rate that resets daily and are funded with debt indexed to primarily three-month LIBOR. To hedge these loans, the Company has entered into basis swaps in which the Company receives three-month LIBOR set discretely in advance and pays a weekly treasury bill rate plus a spread as defined in the agreement. The following table summarizes these derivatives as of September 30, 2010:

Maturity	Notional Amount
2011	$ 225,000 (1)

(1) The effective start dates on these derivatives are in October 2010 ($75 million), November 2010 ($75 million), and December 2010 ($75 million).

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

(e) The interest rates on certain of the Company's asset-backed securities are set and periodically reset via a "dutch auction" ("Auction Rate Securities") or through a remarketing utilizing remarketing agents ("Variable Rate Demand Notes"). As of September 30, 2010, the Company is sponsor on $0.9 billion of Auction Rate Securities and $0.3 billion of Variable Rate Demand Notes.

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

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

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

(f) Asset-backed commercial paper consists of $30.0 million funded in the Company's FFELP warehouse facility and $2.8 billion funded through the Department's Conduit Program. Funding for the Conduit Program is provided by the capital markets at a cost based on market rates.

(g) Assets include restricted cash and investments and other assets. Debt outstanding includes other debt obligations secured by student loan assets and related collateral.

Financial Statement Impact of Derivative Instruments

The Company recognizes changes in the fair value of derivative instruments currently in earnings unless specific hedge accounting criteria are met. Management has structured the majority of the Company's derivative transactions with the intent that each is economically effective. However, the Company's derivative instruments do not qualify for hedge accounting; consequently, the change in fair value of these derivative instruments is included in the Company's operating results. Changes or shifts in the forward yield curve and fluctuations in currency rates can significantly impact the valuation of the Company's derivatives. Accordingly, changes or shifts to the forward yield curve and fluctuations in currency rates will impact the financial position and results of operations of the Company. The change in fair value of the Company's derivatives are included in "derivative market value and foreign currency adjustments and derivative settlements, net" in the Company's consolidated statements of operations and resulted in income of $73.7 million and expense of $94.5 million for the three and nine months ended September 30, 2010, respectively, and

income of $42.2 million and $19.9 million for the three and nine months ended September 30, 2009, respectively.

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

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Settlements:				
Average/discrete basis swaps	$ —	646	—	11,707
1/3 basis swaps	893	3,071	974	20,473
Interest rate swaps - floor income hedges	(4,040)	(436)	(12,183)	(447)
Interest rate swaps - unsecured debt hedges	(242)	—	(242)	—
Cross-currency interest rate swaps	1,025	1,633	3,243	7,074
Other	(222)	—	(178)	—
Total settlements - (expense) income	$ (2,586)	4,914	(8,386)	38,807

Sensitivity Analysis

The following tables summarize the effect on the Company's earnings, based upon a sensitivity analysis performed by the Company assuming hypothetical increases in interest rates of 100 basis points and 300 basis points while funding spreads remain constant. In addition, as it relates to the effect on earnings, a sensitivity analysis was performed assuming the funding index increases 10 basis points and 30 basis points while holding the asset index constant, if the funding index is different than the asset index. The effect on earnings was performed on the Company's variable rate assets (including loans earning fixed rate floor income) and liabilities. The analysis includes the effects of the Company's interest rate and basis swaps in existence during these periods.

	Three months ended September 30, 2010							
	Interest Rates				Asset and funding index mismatches			
	Change from increase of 100 basis points		Change from increase of 300 basis points		Increase of 10 basis points		Increase of 30 basis points	
	Dollar	Percent	Dollar	Percent	Dollar	Percent	Dollar	Percent
Effect on earnings:								
Increase (decrease) in pre-tax net income before impact of derivative settlements	$ (17,036)	(2,867.8)%	$ (31,616)	(5,322.6)%	$ (6,714)	(1,130.3)%	$ (20,141)	(3,390.8)%
Impact of derivative settlements	19,810	3,334.9	59,429	10,004.8	—	—	—	—
Increase (decrease) in net income before taxes	$ 2,774	467.1 %	$ 27,813	4,682.2 %	$ (6,714)	(1,130.3)%	$ (20,141)	(3,390.8)%
Increase (decrease) in basic and diluted earnings per share	$ 0.04		$ 0.35		$ (0.09)		$ (0.26)	

	Three months ended September 30, 2009							
	Interest Rates				Asset and funding index mismatches			
	Change from increase of 100 basis points		Change from increase of 300 basis points		Increase of 10 basis points		Increase of 30 basis points	
	Dollar	Percent	Dollar	Percent	Dollar	Percent	Dollar	Percent
Effect on earnings:								
	$ (19,343)	(137.0) %	$ (35,660)	(252.5) %	$ (6,472)	(45.8) %	$ (19,416)	(137.5) %

Increase (decrease) in pre-tax net income before impact of derivative settlements								
Impact of derivative settlements	41	0.3	123	0.9	—	—	—	—
Increase (decrease) in net income before taxes	$ (19,302)	(136.7) %	$ (35,537)	(251.6) %	$ (6,472)	(45.8) %	$ (19,416)	(137.5) %
Increase (decrease) in basic and diluted earnings per share	$ (0.23)		$ (0.42)		$ (0.08)		$ (0.23)	

	Nine months ended September 30, 2010							
	Change from increase of 100 basis points		Change from increase of 300 basis points		Asset and funding index mismatches			
					Increase of 10 basis points		Increase of 30 basis points	
	Dollar	Percent	Dollar	Percent				
Effect on earnings:								
Increase (decrease) in pre-tax net income before impact of derivative settlements	$ (50,582)	(30.5) %	$ (93,219)	(56.1) %	$ (19,193)	(11.5) %	$ (57,580)	(34.6) %
Impact of derivative settlements	48,163	29.0	144,489	86.9	—	—	—	—
Increase (decrease) in net income before taxes	$ (2,419)	(1.5) %	$ 51,270	30.8 %	$ (19,193)	(11.5) %	$ (57,580)	(34.6) %
Increase (decrease) in basic and diluted earning per share	$ (0.03)		$ 0.65		$ (0.24)		$ (0.73)	

	Nine months ended September 30, 2009							
	Change from increase of 100 basis points		Change from increase of 300 basis points		Asset and funding index mismatches			
					Increase of 10 basis points		Increase of 30 basis points	
	Dollar	Percent	Dollar	Percent				
Effect on earnings:								
Increase (decrease) in pre-tax net income before impact of derivative settlements	$ (67,504)	(122.3) %	$ (116,630)	(211.4) %	$ (19,228)	(34.8) %	$ (57,685)	(104.5) %
Impact of derivative settlements	80	0.1	247	0.2	—	—	—	—
Increase (decrease) in net income before taxes	$ (67,424)	(122.2) %	$ (116,383)	(211.2) %	$ (19,228)	(34.8) %	$ (57,685)	(104.5) %
Increase (decrease) in basic and diluted earning per share	$ (0.83)		$ (1.44)		$ (0.24)		$ (0.71)	

Foreign Currency Exchange Risk

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

The Company entered into cross-currency interest rate swaps in connection with the issuance of the Euro Notes. Under the terms of these derivative instrument agreements, the Company receives from a counterparty a spread to the EURIBOR index based on notional amounts of €420.5 million and €352.7 million and pays a spread to the LIBOR index based on notional amounts of $500.0 million and $450.0 million, respectively. In addition, under the terms of these agreements, all principal payments on the Euro Notes will effectively be paid at the exchange rate in effect as of the issuance of the notes. The Company did not qualify these derivative instruments as hedges under accounting authoritative guidance; consequently, the change in fair value is included in the Company's operating results.

The following table summarizes the financial statement impact as a result of the remeasurement of the Euro Notes and change in the fair value of the related derivative instruments. These amounts are included in "derivative market value and foreign currency adjustments and derivative settlements, net" on the Company's consolidated statements of operations.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Re-measurement of Euro Notes	$ (106,468)	(39,356)	58,608	(55,979)
Change in fair value of cross-currency derivatives	107,531	44,773	(52,491)	28,871
Total impact to statements of operations - income (expense)	$ 1,063	5,417	6,117	(27,108)

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

Financial Statement Impact – Derivatives and Foreign Currency Transaction Adjustments

The following table summarizes all of the components of "derivative market value and foreign currency adjustments and derivative settlements, net" included in the consolidated statements of operations.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Change in fair value of derivatives	$ 73,663	42,182	(94,539)	19,912
Foreign currency transaction adjustment (Euro Notes)	(106,468)	(39,356)	58,608	(55,979)
Derivative settlements, net	(2,586)	4,914	(8,386)	38,807
Derivative market value and foreign currency	$ (35,391)	7,740	(44,317)	2,740

adjustments and derivative settlements, net

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

General

The Company is subject to various claims, lawsuits, and proceedings that arise in the normal course of business. These matters principally consist of claims by student loan borrowers disputing the manner in which their student loans have been processed and disputes with other business entities. In addition, from time to time the Company receives information and document requests from state or federal regulators concerning its business practices. The Company cooperates with these inquiries and responds to the requests. While the Company cannot predict the ultimate outcome of any inquiry or investigation, the Company believes its activities have materially complied with applicable law, including the Higher Education Act, the rules and regulations adopted by the Department of Education thereunder, and the Department's guidance regarding those rules and regulations. Other than as specifically discussed below, on the basis of present information, anticipated insurance coverage, and advice received from counsel, it is the opinion of the Company's management that the disposition or ultimate determination of these claims, lawsuits, and proceedings will not have a material adverse effect on the Company's business, financial position, or results of operations.

Regulatory Reviews

The Department of Education periodically reviews participants in the FFELP for compliance with program provisions. On June 28, 2007, the Department notified the Company that it would be conducting a review of the Company's practices in connection with the prohibited inducement provisions of the Higher Education Act and the associated regulations that allow borrowers to have a choice of lenders. The Company understands that the Department selected several schools and lenders for review. The Company responded to the Department's requests for information and documentation and cooperated with their review. On May 1, 2009, the Company received the Department's preliminary program review report, which covered the Department's review of the period from October 1, 2002 to September 30, 2007. The preliminary program review report contained certain initial findings of noncompliance with the Higher Education Act's prohibited inducement provisions and required that the Company provide an explanation for the basis of the arrangements noted in the preliminary program review report. The Company responded and provided an explanation for the basis of the arrangements noted in the Department's initial findings, and on September 3, 2010, the Department issued a Final Program Review Determination letter, advising the Company it would not take further action with respect to six of the seven initial findings, deeming the Company's responses to those findings sufficient to resolve the initial questions. With respect to the remaining initial finding, the Department alleged a violation of the prohibited inducements provisions regarding the Company's relationship with one higher education institution in 2006-07 and indicated that it intended to assess a fine of $27,500, the statutory penalty for such violations. The Company is confident its practices complied with applicable law and the Department's guidance on applicable law, but in order to resolve the remaining issue, on October 28, 2010, the Company entered into a Settlement Agreement and Release with the Department, pursuant to which the Company denied any liability or violation of law, agreed not to appeal the Department's decision, and agreed to pay the Department $27,500 in settlement of the matter.

United States ex rel Oberg v. Nelnet, Inc. et al

On September 28, 2009, the Company was served with a Summons and First Amended Complaint naming the Company as one of ten defendants in a "qui tam" action brought by Jon H. Oberg on behalf of the United States of America. Qui tam actions assert claims by an individual on behalf of the federal government, and are filed under seal until the government decides, if at all, to intervene in the case.

An original complaint in the action was filed under seal in the U.S. District Court for the Eastern District of Virginia on September 21, 2007, and was unsealed on August 26, 2009 upon the government's filing of a Notice of Election to Decline Intervention in the matter. The First Amended Complaint (the "Oberg Complaint") was filed on August 24, 2009, and alleged the defendant student loan lenders submitted false claims for payment to the Department of Education in order to obtain special allowance payments on certain student loans at a rate of 9.5%, which the Oberg Complaint alleged were in excess of amounts permitted by law.

The Oberg Complaint alleged that approximately $407 million in unlawful 9.5% special allowance payment claims were submitted by the Company, and sought a judgment against the defendants in the amount of three times the amount of damages sustained by the government in connection with the alleged overbilling by the defendants for special allowance payments, as well as civil penalties.

The 9.5% special allowance payments received by the Company were disclosed by the Company on multiple occasions beginning in 2003. In January 2007, the Company entered into a settlement agreement with the Department of Education to resolve an audit report by the Office of Inspector General of the Department of Education with respect to the Company's student loan portfolio receiving special allowance payments at a minimum 9.5% interest rate. The settlement agreement with the Department contains an acknowledgment by the Department of Education that the dispute with the Company in connection with billings for 9.5% interest was in good faith.

On August 13, 2010, the Company reached an agreement in principle to resolve the Oberg Complaint, subject to the final approval of the Department of Justice ("Justice") and the finalization of a formal binding settlement agreement. The approval by Justice, finalization of the settlement agreement, and dismissal of the Oberg Complaint by the Court, were completed on October 25, 2010. The Company recorded a $55.0 million pre-tax charge during the third quarter of 2010 related to the settlement. The Company expects that the Internal Revenue Service (the "IRS") will review the settlement agreement as part of its normal procedures for settlements with government agencies, to determine if the payments are deductible as ordinary and necessary business expenses. While the Company believes that the payments are fully deductible under the applicable tax law, the IRS may not agree with that position.

The Company believed it had strong defenses to the Oberg Complaint, but entered into the settlement agreement in order to eliminate the uncertainty, distraction, and expense of a trial.

United States ex rel Vigil v. Nelnet, Inc. et al

On November 4, 2009, the Company was served with a Summons and Third Amended Complaint naming the Company as one of three defendants in an unrelated qui tam action brought by Rudy Vigil (the "Vigil Complaint"). This matter was filed under seal in the U.S. District Court for the District of Nebraska on July 11, 2007 and was unsealed on October 15, 2009 following the government's notice that it declined to intervene in the matter. The Vigil Complaint, filed by a former employee of the Company, appeared to allege that the Company engaged in false advertising and offered prohibited inducements to student loan borrowers in order to increase the Company's loan holdings, and subsequently submitted false claims to the Department of Education in order to obtain special allowance payments and default claim payments on such loans. The Company filed a Motion to Dismiss the Vigil Complaint, and on April 1, 2010, the Court granted the Motion, dismissing the Vigil Complaint with prejudice.

On April 7, 2010, Mr. Vigil filed a Notice of Appeal of the Court's Order of Dismissal. On June 9, 2010 Mr. Vigil filed his appeal brief with the United States Court of Appeals for the Eighth Circuit ("Appeals Court"). The Company filed its responsive brief on July 8, 2010 and Mr. Vigil filed his reply brief on August 2, 2010. A date has not been set by the Appeals Court for oral argument.

The Company believes it has strong defenses to the Vigil Complaint and will continue to vigorously contest the matter. Due to the uncertainty, costs, and risks inherent in the litigation process, the Company cannot predict the ultimate outcome or resolution.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors described in the Company's Annual Report on Form 10-K for the year ended December 31, 2009 in response to Item 1A of Part I of such Form 10-K.

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

Stock Repurchases

The following table summarizes the repurchases of Class A common stock during the third quarter of 2010 by the Company or any "affiliated purchaser" of the Company, as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934.

	Total number of	Maximum number

Period	Total number of shares purchased (1)		Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs (2) (3)	Maximum number of shares that may yet be purchased under the plans or programs (4)
July 1 - July 31, 2010	4,349	$	19.03	3,905	5,975,273
August 1 - August 31, 2010	391,762		21.11	391,762	5,439,099
September 1 - September 30, 2010	788,150		23.17	787,165	4,581,404
Total	1,184,261	$	22.47	1,182,832	

(1) The total number of shares includes: (i) shares purchased pursuant to the 2006 Plan discussed in footnote (2) below; (ii) shares owned and tendered by employees to satisfy tax withholding obligations upon the vesting of restricted shares; and (iii) shares purchased pursuant to the 2006 ESLP discussed in footnote (3) below, of which there were none for the months of July, August, and September 2010, respectively. Shares of Class A common stock purchased pursuant to the 2006 Plan were 3,905 shares, 391,762 shares, and 787,165 shares in July, August, and September 2010, respectively, including (a) 785 shares, 1,762 shares, and 565 shares purchased in July, August, and September 2010, respectively, that had been issued to the Company's 401(k) plan and allocated to employee participant accounts pursuant to the plan's provisions for Company matching contributions in shares of Company stock, and were purchased by the Company from the plan pursuant to employee participant instructions to dispose of such shares; and (b) 3,120 shares, 0 shares, and 0 shares purchased in July, August, and September 2010, respectively, upon the cancellation of certain employee stock purchase loans under the 2006 ESLP. Shares of Class A common stock tendered by employees to satisfy tax withholding obligations included 444 shares, 0 shares, and 985 shares in July, August, and September 2010, respectively. Unless otherwise indicated, shares owned and tendered by employees to satisfy tax withholding obligations were purchased at the closing price of the Company's shares on the date of vesting.

(2) The Company’s Board of Directors authorized a stock repurchase program to repurchase up to a total of ten million shares of the Company’s Class A common stock (the “2006 Plan”). The 2006 Plan has an expiration date of May 24, 2012.

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

(4) The maximum number of shares that may yet be purchased under the plans is calculated below. There are no assurances that any additional shares will be repurchased under either the 2006 Plan or the 2006 ESLP. Shares under the 2006 ESLP may be issued by the Company rather than purchased in open market transactions.

As of	Maximum number of shares that may yet be purchased under the 2006 Plan (A)	Approximate dollar value of shares that may yet be purchased under the 2006 ESLP (B)	Closing price on the last trading day of the Company's Class A Common Stock (C)	(B / C) Approximate number of shares that may yet be purchased under the 2006 ESLP (D)	(A + D) Approximate number of shares that may yet be purchased under the 2006 Plan and 2006 ESLP
July 31, 2010	4,167,237	36,450,000	20.16	1,808,036	5,975,273
August 31, 2010	3,775,475	36,450,000	21.91	1,663,624	5,439,099
September 30, 2010	2,988,310	36,450,000	22.88	1,593,094	4,581,404

Working capital and dividend restrictions/limitations

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

The supplemental indenture for the Company’s $200.0 million aggregate principal amount of Hybrid Securities issued in September 2006 provides that so long as any Hybrid Securities remain outstanding, if the Company gives notice of its election to defer interest payments but the related deferral period has not yet commenced or a deferral period is continuing, then the Company will not, and will not permit any of its subsidiaries to:

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

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

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

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

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

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

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

ITEM 6. EXHIBITS

10.1 Settlement Agreement, made and entered into by and between the United States of America, acting through to Commercial Litigation Branch of the United States Department of Justice and on behalf of the United States Department of Education, Nelnet, Inc., Nelnet Education Loan Funding, Inc., and Jon H. Oberg, filed as Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on October 29, 2010 and incorporated herein by reference.

10.2* Thirteenth Amendment of Amended and Restated Participation Agreement, dated as of September 1, 2010, by and between Union Bank and Trust Company and National Education Loan Network, Inc.

10.3* Guaranteed Purchase Agreement, dated as of September 1, 2010, by and between Nelnet, Inc. and Union Bank and Trust Company.

31.1* Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of Chief Executive Officer Michael S. Dunlap.

31.2* Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of Chief Financial Officer Terry J. Heimes.

32** Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith
** Furnished herewith

SIGNATURES

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

NELNET, INC.

Date: November 9, 2010	By:	/s/ MICHAEL S. DUNLAP
	Name:	Michael S. Dunlap
	Title:	Chairman and Chief Executive Officer
	By:	/s/ TERRY J. HEIMES
	Name:	Terry J. Heimes
	Title:	Chief Financial Officer