NELNET INC
Form 10-K
February 29, 2008

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

(Mark One)

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

For the fiscal year ended December 31, 2007

Or

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

For the transition period from to .

COMMISSION FILE NUMBER 001-31924

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

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

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

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

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:
TITLE OF EACH CLASS
Class A Common Stock, Par Value $0.01 per Share
NAME OF EACH EXCHANGE ON WHICH REGISTERED:
New York Stock Exchange
SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes o No þ

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes o No þ

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

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

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

The aggregate market value of the Registrant s voting common stock held by non-affiliates of the Registrant on June 29, 2007 (the last business day of the Registrant s most recently completed second fiscal quarter), based upon the closing sale price of the Registrant s Class A Common Stock on that date of $24.44 per share, was $624,345,266. For purposes of this calculation, the Registrant s directors, executive officers, and greater than 10 percent shareholders are deemed to be affiliates.

As of January 31, 2008, there were 37,939,281 and 11,495,377 shares of Class A Common Stock and Class B Common Stock, par value $0.01 per share, outstanding, respectively (excluding 11,068,604 shares of Class A Common Stock held by a wholly owned subsidiary).

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s definitive Proxy Statement to be filed for its 2008 Annual Meeting of Shareholders scheduled to be held May 22, 2008 are incorporated by reference into Part III of this Form 10-K.

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This report contains forward-looking statements and information that are based on management s current expectations as of the date of this document. When used in this report, the words anticipate, believe, estimate, intend, and e and similar expressions are intended to identify forward-looking statements. These forward-looking statements are subject to risks, uncertainties, assumptions, and other factors that may cause the actual results to be materially different from those reflected in such forward-looking statements. These factors include, among others, the risks and uncertainties set forth in Risk Factors and elsewhere in this Annual Report on Form 10-K (the Report) and changes in the terms of student loans and the educational credit marketplace arising from the implementation of, or changes in, applicable laws and regulations, which may reduce the volume, average term, and yields on student loans under the Federal Family Education Loan Program (the FFEL Program or FFELP) of the U.S. Department of Education (the Department) or result in loans being originated or refinanced under non-FFEL programs or may affect the terms upon which banks and others agree to sell FFELP loans to the Company. The Company could also be affected by changes in the demand for educational financing or in financing preferences of lenders, educational institutions, students, and their families; changes in the general interest rate environment and in the securitization markets for education loans, which may increase the costs or limit the availability of financings necessary to initiate, purchase, or carry education loans; losses from loan defaults; and changes in prepayment rates and credit spreads; and the uncertain nature of the expected benefits from acquisitions and the ability to successfully integrate operations. Additionally, financial projections may not prove to be accurate and may vary materially. The reader should not place undue reliance on forward-looking statements, which speak only as of the date of this Report. The Company is not obligated to publicly release any revisions to forward-looking statements to reflect events after the date of this Report or unforeseen events. Although the Company may from time to time voluntarily update its prior forward-looking statements, it disclaims any commitment to do so except as required by securities laws.

PART I.

ITEM 1. BUSINESS

Overview

The Company is an education planning and financing company focused on providing quality products and services to students, families, and schools nationwide. The Company was formed as a Nebraska corporation in 1977. The Company ranks among the nation s leaders in terms of total student loan assets originated, held, and serviced, principally consisting of loans originated under the FFEL Program (a detailed description of the FFEL Program is included in Appendix A to this Report). The Company offers a broad range of pre-college, in-college, and post-college products and services to students, families, schools, and financial institutions. These products and services help students and families plan and pay for their education and students plan their careers. The Company s products and services are designed to simplify the education planning and financing process and are focused on providing value to students, families, and schools throughout the education life cycle. In recent years, the Company s acquisitions have enhanced its position as a vertically-integrated industry leader. These acquisitions have allowed the Company to expand the products and services delivered to customers and to further diversify its revenue.

Education Life Cycle

Product and Service Offerings

The Company continues to diversify its sources of revenue including those generated from businesses that are not dependent upon government programs reducing legislative and political risk. The following tables summarize the Company s net interest income and fee-based revenues as a percentage of the Company s total revenue for the years ended December 31, 2005, 2006, and 2007 (dollars in thousands):

Revenue Diversification

Management evaluates the Company s GAAP-based financial information as well as operating results on a non-GAAP performance measure referred to as base net income . Management believes base net income provides additional insight into the financial performance of the core operations. For further information, see Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations.

Operating Segments

The Company has five operating segments as defined in Statement of Financial Accounting Standards (SFAS) No. 131, *Disclosures about Segments of an Enterprise and Related Information* (SFAS No. 131), as follows: Asset Generation and Management, Student Loan and Guaranty Servicing, Tuition Payment Processing and Campus Commerce, Enrollment Services and List Management, and Software and Technical Services. 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 accordance with SFAS No. 131, the Company includes separate financial information about its operating segments in note 21 of the notes to the consolidated financial statements included in this Report.

Asset Generation and Management

The Company s Asset Generation and Management operating segment is its largest product and service offering and has historically driven the majority of the Company s earnings. As discussed below, the yield on student loans have been adversely impacted due to recent legislation and capital market disruptions. As a result, the Company plans to be more selective in pursuing origination activity and will experience a decrease in loan volume. The Company owns a large portfolio of student loan assets through a series of education lending subsidiaries. The Company obtains loans through direct origination or through acquisition of loans.

The Company s education lending subsidiaries are engaged in the securitization of education finance assets. These education lending subsidiaries hold beneficial interests in eligible loans, subject to creditors with specific interests. The liabilities of the Company s education lending subsidiaries are not the direct obligations of Nelnet, Inc. or any of its other subsidiaries. Each education lending subsidiary is structured to be bankruptcy remote, meaning that they should not be consolidated in the event of bankruptcy of the parent company or any other subsidiary. The transfers of student loans to the eligible lender trusts do not qualify as sales under the provisions of SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (SFAS No. 140), as the trusts continue to be under the effective control of the Company. Accordingly, all the financial activities and related assets and liabilities, including debt, of the securitizations are reflected in the Company s consolidated financial statements.

Legislative Developments

On September 27, 2007, the President signed into law the College Cost Reduction and Access Act of 2007 (the College Cost Reduction Act). This legislation contains provisions with significant implications for participants in the FFEL Program, including cutting funding to the FFEL Program by $20 billion over a five year period as estimated by the Congressional Budget Office. Among other things, this legislation:

Reduced special allowance payments to for-profit lenders and not-for-profit lenders by 0.55 percentage points and 0.40 percentage points, respectively, for both Stafford and Consolidation loans disbursed on or after October 1, 2007;

Reduced special allowance payments to for-profit lenders and not-for-profit lenders by 0.85 percentage points and 0.70 percentage points, respectively, for PLUS loans disbursed on or after October 1, 2007;

Increased origination fees paid by lenders on all FFELP loan types, from 0.5 percent to 1.0 percent, for all loans first disbursed on or after October 1, 2007;

Eliminated all provisions relating to Exceptional Performer status, and the monetary benefit associated with it, effective October 1, 2007; and

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

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As a result of this legislation, management expects the annual yield on FFELP loans to decrease by approximately 70 to 80 basis points on student loans originated after October 1, 2007.

Restructuring Charges

Legislative Impact

On September 6, 2007, the Company announced a strategic initiative to create efficiencies and lower costs in advance of the enactment of the College Cost Reduction Act, which impacted the FFEL Program. In anticipation of the federally driven cuts to the student loan programs, management initiated a variety of strategies intended to modify the Company s student loan business model, including lowering the cost of student loan acquisition, creating efficiencies in the Company s asset generation business, and decreasing operating expenses through a reduction in workforce and realignment of operating facilities.

Capital Markets Impact

The Company has significant financing needs that it meets through the capital markets, including the debt and secondary markets. Since August 2007, these markets have experienced unprecedented disruptions, which are having an adverse impact on the Company s earnings and financial condition. On January 23, 2008, the Company announced a plan to further reduce operating expenses related to its student loan origination and related businesses by reducing marketing, sales, service, and related support costs through a reduction in workforce and realignment of certain operating facilities as a result of the ongoing disruption in the global credit markets. Since the Company cannot determine nor control the length of time or extent to which the capital markets remain disrupted, it will reduce its direct and indirect costs related to its asset generation activities and be more selective in pursuing origination activity, in both the direct-to-consumer and campus based channels, for both private loans and FFELP loans. Accordingly, the Company has suspended consolidation student loan originations and will continue to review the viability of continuing to originate and acquire student loans through its various channels. As a result of these items, the Company will experience a decrease in origination volume compared to historical periods.

Student Loan Portfolio

Student loans owned by the Company include those originated under the FFEL Program, including the Stafford Loan Program, a program which allows for loans to be made to parents of undergraduate students and to graduate students (PLUS), and loans that consolidate certain borrower obligations (Consolidation), as well as non-federally insured loans. The following tables summarize the composition of the Company s student loan portfolio as of December 31, 2005, 2006, and 2007, exclusive of the unamortized costs of origination and acquisition (dollars in millions):

Student Loan Portfolio Composition

Historically, the Company s earnings and earnings growth were directly affected by the size of its portfolio of student loans, the interest rate characteristics of its portfolio, the costs associated with financing, servicing, and managing its portfolio, and the costs associated with origination and acquisition of the student loans in the portfolio, which includes, among other things, borrower benefits and rebate fees to the federal government. The Company currently generates a substantial portion of its earnings from the spread, referred to as its student loan spread, between the yield it receives on its student loan portfolio and the costs noted above. While the spread may vary due to fluctuations in interest rates and borrowing costs, the special allowance payments the Company receives from the federal government ensure the Company receives a minimum yield on its student loans, so long as certain requirements are met.

Student Loan Originations and Acquisitions

During the years ended December 31, 2007 and 2006, the Company originated or acquired a total of $2.9 billion and $3.5 billion, respectively, in student loans (net of repayments, consolidation loans lost, and loans sold), as indicated in the table below (dollars in thousands).

	Year ended December 31,	
	2007	**2006**
Beginning balance	$ 23,414,468	19,912,955
Direct channel:		
Consolidation loan originations	3,096,754	5,299,820
Less consolidation of existing portfolio	(1,602,835)	(2,643,880)
Net consolidation loan originations	1,493,919	2,655,940
Stafford/PLUS loan originations	1,086,398	1,035,695
Branding partner channel	662,629	720,641
Forward flow channel	1,105,145	1,600,990
Other channels	804,019	682,852
Total channel acquisitions	5,152,110	6,696,118
Repayments, claims, capitalized interest, participations, and other	(1,321,055)	(1,332,086)
Consolidation loans lost to external parties	(800,978)	(1,114,040)
Loans sold	(115,332)	(748,479)
Ending balance	$ 26,329,213	23,414,468

The Company originates and acquires loans through various methods, including: (i) direct-to-consumer channel, (ii) campus based channel, and (iii) spot purchases.

Direct-to-Consumer Channel

Through its direct-to-consumer channel, the Company originates student loans directly with students and parent borrowers. Student loans that the Company originates directly historically have been the most profitable because typically the cost to originate is less than the premiums paid or cost to acquire loans acquired through other channels. Included in the direct-to-consumer channel are consolidation loans originated by the Company. Once a student s loans have entered the grace or repayment period, their student loans are eligible to be consolidated if they meet certain requirements. Loan consolidation allows borrowers to make a single payment per month with a fixed interest rate, instead of multiple payments on multiple loans, and also enables borrowers to extend their loan repayment period for up to 30 years, depending upon the size of the consolidation loan.

During 2006 and 2007, the Company originated $5.3 billion and $3.1 billion of consolidation loans, respectively, through this channel. With the changes in legislation and impact of capital markets, the Company has suspended consolidation loan originations in January 2008.

Campus Based Channel

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. Similar to the direct-to-consumer channel, loans originated directly by the Company are generally more profitable because the cost to originate is less than the premiums paid or cost to acquire loans from 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 who simply agrees to sell loans to the Company under forward sale commitments. Generally, branding partner loans are more profitable for the Company than loans acquired from forward flow lenders. The Company ordinarily purchases loans originated by branding partners and forward flow lenders pursuant to a contractual commitment, at a premium above par, following full disbursement of the loans. The Company ordinarily retains rights to acquire loans subsequently made to the same borrowers, called serial loans. Origination and servicing of loans made by branding partners and forward flow lenders is primarily performed by the Company so that loans need not be moved from a different servicer upon purchase by the Company. In addition, the loan origination and servicing agreements generally provide for life of loan servicing so that loans cannot be moved to a different servicer.

The Company s agreements and commitments with these lenders to purchase loans are commonly three to five years in duration and ordinarily contain provisions for automatic renewal for successive terms. The Company is generally obligated to purchase all of the loans originated by the Company on behalf of lenders under these commitments as well as some loans originated elsewhere; however, some branding partners retain rights to portions of their loan originations and in some instances forward flow lenders are only obligated to sell loans originated in certain specific geographic regions or exclude loans that are otherwise committed for sale to third parties. Additionally, branding partners and forward flow lenders are not necessarily obligated to provide the Company with a minimum amount of loans. In addition, purchases from branding partners and forward flow lenders are subject to the Company s ability to fund such purchases.

Spot Purchases

The Company also acquires student loan portfolios from various entities under one-time agreements, or spot purchases. Typically, spot purchased loans have higher costs of acquisition compared to other loan channels.

Legislative and Credit Market Impact to Student Loan Originations and Acquisitions

The College Cost Reduction Act has resulted in a reduction in the yields on student loans and, accordingly, a reduction in the amount of the premium the Company is able to pay lenders under its forward flow commitments and branding partner arrangements. As a result, the Company has been working with its forward flow and branding partner clients to renegotiate the premiums payable under its agreements. There can be no assurance that the Company will be successful in renegotiating the premiums under these agreements and, accordingly, the Company may be required to terminate commitments which are not economically reasonable. As a result, the Company will experience a decrease in its forward flow and branding partner loan volume. The Company has also had to terminate its affinity and referral programs and accordingly will experience a decrease in loan volume as a result.

The Company s primary funding needs are those required to finance its student loan portfolio and satisfy its cash requirements for new student loan originations and acquisitions. The Company relies upon secured financing vehicles as its most significant source of funding for student loans. Current conditions in the debt markets include reduced liquidity and increased credit risk premiums for most market participants. These conditions have increased the cost and reduced the availability of debt in the capital markets. As a result, a prolonged period of market illiquidity will affect the Company s loan acquisition and origination volumes. As previously discussed, as a result of the disruptions in the capital markets, the Company plans to be more selective in pursuing origination activity in both the direct-to-consumer and campus based channels. In addition to suspending consolidation loan originations, the Company is also evaluating the economic and market feasibility of continuing its asset generation and acquisition activities in the same manner and scale as historical periods.

Student Loan Financing

A significant portion of the net cash flow the Company receives is generated by the interest earnings on the underlying student loans less amounts paid to the bondholders, loan servicing fees, and any other expenses relating to the financing transactions. The Company generally relies upon secured financing vehicles as its most significant source of funding for student loans. The Company s rights to cash flow from securitized student loans are subordinate to bondholder interests. These secured financing vehicles may be shorter term warehousing programs or longer term permanent financing structures. The size and structure of the financing vehicles may vary, including the term, base interest rate, and applicable covenants.

Student loan warehousing allows the Company to buy and manage student loans prior to transferring them into more permanent financing arrangements. The Company uses its warehouse facilities to pool student loans in order to maximize loan portfolio characteristics for efficient financing and to properly time market conditions for movement of the loans. As of December 31, 2007, the Company had student loan warehousing capacity of $9.2 billion through commercial paper conduit programs (of which $6.9 billion was outstanding and $2.3 billion was available for future use). See Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

The Company had $20.6 billion in asset-backed securities issued and outstanding as of December 31, 2007, which included $17.5 billion of notes with variable interest rates based on a spread to LIBOR and $2.9 billion of notes with variable interest rates which are set and periodically reset via a dutch auction (Auction Rate Securities) or through a remarketing utilizing broker-dealers and remarketing agents (Variable Rate Demand Notes). These asset-backed securities allow the Company to finance student loan assets on a long term basis. In 2007, the Company completed two asset-backed securitizations totaling $3.8 billion.

The Company has significant financing needs that it meets through the capital markets, including the debt and secondary markets. Since August 2007, these markets have experienced unprecedented disruptions, which have had an adverse impact on the Company s earnings and financial condition. See Item 1A, Risk Factors Liquidity and Capital Resources.

Interest Rate Risk Management

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 Part II, Item 7A, Quantitative and Qualitative Disclosures about Market Risk Interest Rate Risk.

The interest rate earned by the Company and the interest rate paid by the underlying borrowers on the Company s portfolio of FFELP loans is set forth in the Higher Education Act of 1965, as amended (the Higher Education Act), and the Department s regulations thereunder and, generally, is based upon the date the loan was originated.

FFELP student loans generally earn interest at the higher of a floating rate based on the Special Allowance Payment or SAP formula set by the Department and the borrower rate, which is fixed over a period of time. The SAP formula is based on an applicable index plus a fixed spread that is 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 continues to decline. In these interest rate environments, the Company earns additional spread income that it refers to as fixed rate floor income.

Depending on the type of the student loan and when it was originated, the borrower rate is either fixed to term or is reset to market rate each July 1. As a result, for loans where the borrower rate is fixed to term, the Company earns floor income for an extended period of time, which the Company refers to as fixed rate floor income, and for those loans where the borrower rate is reset annually on July 1, the Company earns floor income to the next reset date, which the Company refers to as variable-rate floor income. In accordance with new legislation enacted in 2006, lenders are required to rebate floor income and variable-rate floor income to the Department for all new FFELP loans 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 the special allowance payment formula. In higher interest rate environments, where the interest rate rises above the borrower rate and fixed-rate loans effectively become variable rate loans, the impact of the rate fluctuations is reduced.

Credit Risk

The Company s portfolio of student loan assets is subject to minimal credit risk, generally based upon the type of loan, date of origination, and quality of the underlying loan servicing. Substantially all of the Company s loan portfolio (99% at December 31, 2007) is guaranteed at some level by the Department. Depending upon when the loan was first disbursed, and subject to certain servicing requirements, the federal government currently guarantees 97% or 98% of the principal of and the interest on federally insured student loans, which limits the Company s loss exposure to 2% or 3% of the outstanding balance of the Company s federally insured portfolio (for older loans disbursed prior to 1993, the guaranty rate is 100%). The Company s portfolio of non-federally insured loans is subject to credit risk similar to other consumer loan assets.

Drivers of Growth in the Student Loan Industry

The increase in the Company s student loan portfolio has been driven in part by the growth in the overall student loan marketplace. The student loan marketplace growth is a result of rising higher education enrollment and the rising annual cost of education, which is illustrated in the following charts.

As a result of estimated higher education enrollment and the increase in the cost of education, it is estimated that student loan originations will continue to grow similar to historical levels, which is illustrated in the following chart.

Student Loan Origination Volume

Competition

The Company faces competition from many lenders in the highly competitive student loan industry. Through its size, the Company has successfully leveraged economies of scale to gain market share and to compete by offering a full array of loan products and services. In addition, the Company has attempted to differentiate itself from other lenders through its customer service, comprehensive product offering, vertical integration, technology, and strong relationships with colleges and universities.

The Company views SLM Corporation, the parent company of Sallie Mae, as its largest competitor in loan origination and student loans held. Large national and regional banks are also strong competitors, although many are involved only in the origination of student loans. Additionally, in different geographic locations across the country, the Company faces strong competition from the regional tax-exempt student loan secondary markets. The Federal Direct Loan (FDL) Program, in which the Federal government lends money directly to students and families, has also historically reduced the origination volume available for FFEL Program participants.

The following tables summarize the top FFELP loan holders, originators, and consolidators as of September 30, 2005 (the latest date information was available from the Department):

Top FFELP Loan Holders			Top FFELP Stafford and PLUS Originators			Top FFELP Consolidators		
Rank	**Name**	**$ billions**	**Rank**	**Name**	**$ billions**	**Rank**	**Name**	**$ billions**
1	Sallie Mae	$ 102.3	1	JPMorgan Chase	$ 5.4	1	Sallie Mae	$ 19.3
2	Citigroup	24.6	2	Sallie Mae	5.0	2	Citigroup	4.8
3	**Nelnet**	15.8	3	**Nelnet**	4.1	3	**Nelnet**	4.1
4	Wachovia	10.7	4	Citigroup	3.3	4	JPMorgan Chase	2.2
5	Wells Fargo	9.6	5	Bank of America	2.9	5	SunTrust	1.9
6	Brazos Group	9.0	6	Wells Fargo	2.3	6	Northstar	1.7
7	College Loan Corp.	7.8	7	Wachovia	2.1	7	Goal Financial	1.7
8	JPMorgan Chase	7.5	8	College Loan Corp.	1.2	8	College Loan Corp.	1.6
9	PHEAA	6.8	9	U.S. Bancorp	1.1	9	Brazos Group	1.6
10	Goal Financial	5.3	10	Access Group	1.1	10	PHEAA	1.6

Source: Department of Education

Seasonality

The Company earns net interest income on its portfolio of student loans. Net interest income is primarily driven by the size and composition of the portfolio in addition to the cost of borrowing and the prevailing interest rate environment. Although originations of student loans are generally subject to seasonal trends which will generally correspond to the traditional academic school year, the size of the Company s portfolio, the periodic acquisition of student loans through its various channels, and the run-off of its portfolio limits the seasonality of net interest income. Unlike the lack of seasonality associated with interest income, the Company incurs significantly more asset generation costs prior to and at the beginning of the academic school year.

Student Loan and Guaranty Servicing

The Company s servicing division offers lenders across the United States a complete line of education loan services, including application processing, underwriting, fund disbursement, customer service, account maintenance, federal reporting and billing collections, payment processing, default aversion, claim filing, and recovery/collection services. These activities are performed internally for the Company s portfolio in addition to generating fee revenue when performed for third-party clients. The Company s student loan servicing division uses proprietary systems to manage the servicing process. These systems provide for automated compliance with most of the regulations adopted under Title IV of the Higher Education Act. The Company offers three primary product offerings as part of its loan and guaranty servicing functions. These product offerings and percentage of total Student Loan and Guaranty Servicing revenue provided by each during the year ended December 31, 2007 are as follows:

1. Origination and servicing of FFEL Program loans (43.3%);

2. Origination and servicing of non-federally insured student loans (8.0%); and

3. Servicing and support outsourcing for guaranty agencies (48.7%).

The following table summarizes the Company s loan servicing volumes for FFELP and private loans (dollars in millions):

	As of December 31, 2007		As of December 31, 2006	
	Dollar	**Percent**	**Dollar**	**Percent**
Company	$ 25,640	75.8%	$ 21,869	71.5%

Third Party		8,177	24.2		8,725	28.5
Total	$	33,817	100.0%	$	30,594	100.0%

The Company performs the origination and servicing activities for FFEL Program loans for itself as well as third-party clients. The Company believes service, reputation, and/or execution are factors considered by schools in developing their lender lists and customers selecting a servicer for their loans. Management believes it is important to provide exceptional customer service at a reasonable price in order to increase the Company s loan servicing and origination volume at schools with which the Company does business.

The Company s FFELP servicing customers include branding and forward flow lenders who sell loans to the Company as well as other national and regional banks and credit unions. The Company also has various state and non-profit secondary markets as third-party clients. The majority of the Company s external loan servicing activities are performed under life of loan contracts. Life of loan servicing essentially provides that as long as the loan exists, the Company shall be the sole servicer of that loan; however, the agreement may contain deconversion provisions where, for a fee, the lender may move the loan to another servicer.

The Company also provides origination and servicing activities for non-federally insured loans. Although similar in terms of activities and functions (i.e., disbursement processing, application processing, payment processing, statement distribution, and reporting) private loan servicing activities are not focused on compliance with provisions of the Higher Education Act and may be more customized to individual client requirements.

The Company also provides servicing support for guaranty agencies, which are the organizations that serve as the intermediary between the U.S. federal government and FFELP lenders, who are responsible for paying the claims made on defaulted loans. The Department has designated 35 guarantors that have been formed as either state agencies or non-profit corporations that provide FFELP guaranty services in one or more states. Approximately half of these guarantors contract for operational or technology services, or both. The services provided by the Company include operational, administrative, financial, and technology services to guarantors participating in the FFEL Program and state agencies that run financial aid grant and scholarship programs.

The Company s guaranty servicing is limited to a small group of customers, which include Tennessee Student Assistance Corporation (TSAC), College Assist (which is the Colorado state-designated guarantor of FFELP student loans formerly known as College Access Network), National Student Loan Program (NSLP), and the Higher Education Assistance Commission (HESC) of New York.

In October 2005, the Company entered into an agreement to amend an existing contract with College Assist. Under the agreement, the Company provides student loan servicing and guaranty operations and assumed the operational expenses and employment of certain College Assist employees. College Assist pays the Company a portion of the gross servicing and guaranty fees as consideration for the Company providing these services on behalf of College Assist. As a result of the passage of the College Cost Reduction Act, on October 2, 2007, the Department notified College Assist of its decision to formally terminate the Voluntary Flexible Agreement (VFA) between the Department and College Assist effective January 1, 2008. The termination of the VFA will decrease the Company s guaranty income by approximately $9 million annually.

The chart below shows the number of third-party servicing customers, by product, within the Company s Student Loan and Guaranty Servicing segment as of December 31, 2007:

Product Type	**Number of Third-party Servicing Customers**
FFELP	121
Private	19
Guaranty	4
Total	144

Competition

There is a relatively large number of lenders and servicing organizations who participate in the FFEL Program. The chart below lists the top ten servicing organizations for FFEL loans as of December 31, 2006 (the latest date information was available from the Department).

Top FFELP Loan Servicers

Rank	**Name**	**$ billions**
1	Sallie Mae	$ 115.2
2	PHEAA	32.1
3	**Nelnet**	29.2
4	ACS	28.8
5	Great Lakes	26.8
6	Citigroup	19.5
7	JPMorgan Chase	10.6
8	Wells Fargo	10.2
9	Edfinancial	6.4
10	Express Loan Servicing	6.3

Source: Student Loan Servicing Alliance

The principal competitor for existing and prospective loan and guaranty servicing business is SLM Corporation. Sallie Mae is the largest FFELP provider of origination and servicing functions as well as one of the largest service providers of non-federally guaranteed loans. The Company believes the number of guaranty agencies contracting for technology services will increase as states continue expanding the scope of their financial aid grant programs and as a result of existing deficient or outdated systems. Since there is a finite universe of clients, competition for existing and new contracts is considered high. Agencies may choose to contract for part or all of their services, and the Company believes its products and services are competitive. To enhance its competitiveness, the Company continues to focus on service quality and technological enhancements.

Seasonality

The revenue earned by the Company s loan and guaranty servicing operations is primarily related to the outstanding portfolio size and composition and the amount of disbursement and origination activity. Revenue generated by recurring monthly activity is driven based on the outstanding portfolio size and composition and has little seasonality. However, a portion of the fees received by the Company under various servicing contracts do relate to services provided in relation to the origination and disbursement of student loans. Stafford and PLUS loans are disbursed as directed by the school and are usually divided into two or three equal disbursements released at specified times during the school year. The two periods of August through October and December through March account for the majority of the Company s total annual Stafford and PLUS loan disbursements. For private loan origination activities, disbursements peak from June through September and the Company will earn a large portion of its origination fee income during these months. There is also a seasonal fluctuation in guaranty processing levels due to the correlation of the delivery of loans to students attending schools with traditional academic calendars, with peak season occurring from approximately July to September.

Tuition Payment Processing and Campus Commerce

The Company s Tuition Payment Processing and Campus Commerce operating segment provides products and services to help institutions and education seeking families manage the payment of education costs during the pre-college and college stages of the education life cycle. The Company provides actively managed tuition payment solutions, online payment processing, detailed information reporting, and data integration services to K-12 and higher educational institutions, families, and students. In addition, the Company provides financial needs analysis for students applying for aid in private and parochial K-12 schools.

The K-12 market consists of nearly 30,000 private and faith-based educational institutions nationally. In the K-12 market the Company offers tuition management services as well as assistance with financial needs assessment, enrollment management, and donor management. The Company has actively managed tuition payment plans in place at approximately 3,900 K-12 educational institutions.

Tuition management services include payment plan administration, ancillary billing, accounts receivable management, and record keeping. K-12 educational institutions contract with the Company to administer deferred payment plans where the institution allows the responsible party to make monthly payments over 6-12 months. The Company collects a fee from either the institution or the payer as an administration fee.

The Company offers two principal products to the higher education market actively managed tuition payment plans and campus commerce outsourcing. The Company has actively managed tuition payment plans in place at approximately 600 colleges and universities. Higher educational institutions contract with the Company to administer deferred payment plans where the institution allows the responsible party to make monthly payments on either a semester or annual basis. The Company collects a fee from either the institution or the payer as an administration fee.

The campus commerce solution, QuikPAY®, is sold as a subscription service to colleges and universities. QuikPAY processes payments through the appropriate channels in the banking or credit card networks to make deposits into the client s bank account. It can be further deployed to other departments around campus as requested (e.g., application fees, alumni giving, parking, events, etc.). There are approximately 200 college and university campuses using the QuikPAY system. The Company earns revenue for e-billing, hosting/maintenance, credit card convenience fees, and e-payment transaction fees.

Competition

This segment of the Company s business focuses on two separate markets private and faith-based K-12 schools and higher education colleges and universities.

The Company is the largest provider of tuition management services to the private and faith-based K-12 market in the United States. Competitors range from banking companies, tuition management providers, financial needs assessment providers, accounting firms, and a myriad of software companies. The Company s principal competitive advantages are (i) the service it provides to institutions, (ii) the information management tools provided with the Company s service, and (iii) the Company s ability to interface with the institution s clients.

In the higher education market, the Company targets business officers at colleges and universities. In this market, there are four primary competitors to the Company: SLM Corporation, TouchNet, CashNet, and solutions developed in-house by colleges and universities. The Company believes its clients select products primarily on technological superiority and feature functionality, but price and service also impact the selection process.

Seasonality

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 QuikPAY 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.

Enrollment Services and List Management

The Company s Enrollment Services and List Management operating segment provides education planning resources to help education seeking families and the institutions that serve them during primarily the pre-college phase of the education life cycle. The Company provides an integrated suite of direct marketing products and services to help schools and businesses reach the middle school, high school, college bound high school, college, and young adult market places. In addition, the Company offers enrollment products and services that are focused on helping (i) students plan and prepare for life after high school and (ii) colleges recruit and retain students. The Company s enrollment products and services include the following:

- Test preparation study guides and online courses
- Admissions consulting
- Licensing of scholarship data
- Essay and resume editing services
- Financial aid products
- Student recognition publications
- Vendor lead management services
- Pay per click management

Email marketing

Admissions lead generation

List marketing services

Call center services

As with all of the Company s products and services, the Company s focus is on the education seeking family both college bound and in college and the Company delivers products and services in this segment through four primary customer channels: higher education, corporate and government, K-12, and direct-to-consumer/customer service. Many of the Company s products in this segment are distributed online; however, products such as study guides and books are distributed as printed materials. In addition, essay and resume editing services are delivered primarily by contract editors. In addition to its other clients, the Company provides on-line test preparation services and products to the United States Army, Navy, and Air Force under contracts with one year terms.

Competition

In this segment, the primary areas in which the Company competes are: lead generation and management, test preparation study guides and online courses, call center services, and student recognition publications.

There are several large competitors in the areas of lead generation, test preparation, and student recognition, but the Company does not believe any one competitor has a dominant position in all of the product and service areas offered by the Company. Additionally, there are few competitors in the college planning resource center arena. The Company has seen increased competition in the area of call center operations, including outsourced admissions, as other companies have recognized the potential in this market.

The Company competes through various methods, including price, brand awareness, depth of product and service selection, and customer service. The Company has attempted to be a one stop shop for the education seeking family looking for career assessment, test preparation, and college and financial aid information. The Company also offers its institutional clients a breadth of services unrivaled in the education industry.

Seasonality

As with the Company s other business segments, portions of the Company s Enrollment Services and List Management segment are subject to seasonal fluctuations based upon the traditional academic school year, with peaks in January and August. Additionally, the Company recognizes revenue from the sale of lists and books when these products are distributed to the customer. Revenue from the sale of lists is dependent on demand for the lists and varies from period to period. Also, the Company s student recognition activities are related to the mailing of two primary publications. These publications have historically been mailed in the December to January and June to July time periods and production costs are recorded as incurred, which are three to nine months prior to book shipment.

Software and Technical Services

The Company uses internally developed student loan servicing software and also licenses this software to third-party student loan holders and servicers. The Company also provides information technology products and services, with core areas of business in educational loan software solutions, business intelligence, technical consulting services, and Enterprise Content Management (ECM) solutions.

The Company licenses, maintains, and supports the following systems and software:

HELMS/HELM-Net, STAR, and SLSS, systems which are used in the full servicing of FFELP, private, consolidation, and Canadian loans;

Mariner, which is used for consolidation loan origination;

InfoCentre, which is a data warehouse and analysis tool for educational loans; and

Uconnect, a tool to facilitate information sharing between different applications.

The Company s clients within the education loan marketplace include large and small financial institutions, secondary markets, loan originators, and loan servicers. The Company s software and documentation is distributed electronically via its web site and, if necessary, on CD-ROM. Primary support for clients is done remotely from the Company s offices, but the Company does provide on-site support and training when required.

The Company also supplies and supports ECM solutions. The Company s Technical Consulting Services group provides consulting services, primarily Microsoft related, both within and outside of the educational loan marketplace. The Company s Microsoft Enterprise Consulting practice also provides products and solutions for the Microsoft platform. Examples of these products are Uconnect® (an application integration product), Dynamic Payables® (an Accounts Payable automation product), and Dynamic Filer® (a low-cost file, scan, and search solution).

The Company is a reseller of IBM hardware and software, Hummingbird (Open Text), Kofax, and Ultimus document imaging technology, and the Company s products require third party software from Microsoft. All of these third party products and resources are generally available and in some cases the Company relies on its clients obtaining these products directly from the vendors rather than through the Company. The Company is a Microsoft Gold Certified partner and a Microsoft Business Solutions partner.

A significant portion of the software and technology services business is dependent on the existence of and participants in the FFEL Program. If the federal government were to terminate the FFEL Program or the number of entities participating in the program were to decrease, the Company s software and technical services segment would be impacted. The recent legislation and capital market disruptions have had an impact on the profitability of FFEL Program participants. As a result, the number of entities participating in the FFEL Program has and may continue to be adversely impacted. This impact could have an effect on the Company s software and technical services segment.

Competition

The Company is one of the leaders in the education loan software processing industry. Approximately 60% of the top 100 lenders in the FFEL Program utilize the Company s software either directly or indirectly. Management believes the Company s competitors in this segment are much smaller than the Company and do not have the depth of knowledge or products offered by the Company.

The Company s primary method of competition in this segment is based upon its depth of knowledge, experience, and product offerings in the education loan industry. The Company believes it has a competitive edge in offering proven solutions, since the Company s competition consists primarily of consulting firms that offer services and not products. The Company also faces competition from loan servicers; however, loan servicing companies are outsourcing solutions which do not allow a client to differentiate themselves in the market.

Seasonality

Software demonstrations and decisions to purchase software generally take place during year-end budget season, but management believes implementation timeframes vary enough to provide a consistent revenue stream throughout the year. In addition, software support is a year long ongoing process and not generally affected by seasonality.

Intellectual Property

The Company owns numerous trademarks and service marks (Marks) to identify its various products and services. As of December 31, 2007, the Company had approximately 18 pending and 83 registered Marks. The Company actively asserts its rights to these Marks when it believes harmful infringement may exist. The Company believes its Marks have developed and continue to develop strong brand-name recognition in the industry and the consumer marketplace. Each of the Marks has, upon registration, an indefinite duration so long as the Company continues to use the Mark on or in connection with such goods or services as the Mark identifies. In order to protect the indefinite duration, the Company makes filings to continue registration of the Marks. The Company owns four patent applications that have been published, but have not yet been issued and has also actively asserted its rights thereunder in situations where the Company believes its claims may be infringed upon. The Company owns many copyright-protected works, including its various computer system codes and displays, Web sites, publications, and marketing collateral. The Company also has trade secret rights to many of its processes and strategies and its software product designs. The Company s software products are protected by both registered and common law copyrights, as well as strict confidentiality and ownership provisions placed in license agreements which restrict the ability to copy, distribute, or improperly disclose the software products. The Company also has adopted internal procedures designed to protect the Company s intellectual property.

The Company seeks federal and/or state protection of intellectual property when deemed appropriate, including patent, trademark/service mark, and copyright. The decision whether to seek such protection may depend on the perceived value of the intellectual property, the likelihood of securing protection, the cost of securing and maintaining that protection, and the potential for infringement. The Company s employees are trained in the fundamentals of intellectual property, intellectual property protection, and infringement issues. The Company s employees are also required to sign agreements requiring, among other things, confidentiality of trade secrets, assignment of inventions, and non-solicitation of other employees post-termination. Consultants, suppliers, and other business partners are also required to sign nondisclosure agreements to protect the Company s proprietary rights.

Employees

As of December 31, 2007, the Company had approximately 2,800 employees. Approximately 1,450 of these employees held professional and management positions while approximately 1,350 were in support and operational positions. None of the Company s employees are covered by collective bargaining agreements. The Company is not involved in any material disputes with any of its employees, and the Company believes that relations with its employees are good.

Available Information

Copies of the Company s annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to such reports are available on the Company s Web site free of charge as soon as reasonably practicable after such reports are filed with or furnished to the United States Securities and Exchange Commission (the SEC). Investors and other interested parties can access these reports and the Company s proxy statements at http://www.nelnet.com. The SEC maintains an Internet site (http://www.sec.gov) that contains periodic and other reports such as annual, quarterly, and current reports on Forms 10-K, 10-Q, and 8-K, respectively, as well as proxy and information statements regarding the Company and other companies that file electronically with the SEC.

The Company has adopted a Code of Conduct that applies to directors, officers, and employees, including the Company s principal executive officer and its principal financial and accounting officer, and has posted such Code of Conduct on its Web site. Amendments to and waivers granted with respect to the Company s Code of Conduct relating to its executive officers and directors which are required to be disclosed pursuant to applicable securities laws and stock exchange rules and regulations will also be posted on its Web site. The Company s Corporate Governance Guidelines, Audit Committee Charter, Compensation Committee Charter, and Nominating and Corporate Governance Committee Charter are also posted on its Web site and, along with its Code of Conduct, are available in print without charge to any shareholder who requests them. Please direct all requests as follows:

Nelnet, Inc.
121 South 13th Street, Suite 201
Lincoln, Nebraska 68508
Attention: Secretary

Information on the Company s Web site is not incorporated by reference into this Report and should not be considered part of this Report.

ITEM 1A. RISK FACTORS

Asset Generation and Management and Student Loan and Guaranty Servicing Operating Segments

The following risk factors relate to the Company s operating segments most impacted by the provisions of the FFEL Program which include:

Asset Generation and Management; and

Student Loan and Guaranty Servicing.

Additional risk factors affecting these segments are set forth under the Liquidity and Capital Resources caption below.

Changes in legislation and regulations could have a negative impact upon the Company s business and may affect its profitability.

Funds for payment of interest subsidy payments, special allowance payments, and other payments under the FFEL Program are subject to annual budgetary appropriations by Congress. Federal budget legislation has in the past contained provisions that restricted payments made under the FFEL Program to achieve reductions in federal spending. Future federal budget legislation may adversely affect expenditures by the Department, and the financial condition of the guaranty agencies.

Furthermore, Congressional amendments to the Higher Education Act or other relevant federal laws, and rules and regulations promulgated by the Secretary of Education, may adversely impact holders of FFELP loans. For example, changes might be made to the rate of interest or special allowance payments paid on FFELP loans, to the level of insurance provided by guaranty agencies, or to the servicing requirements for FFELP loans. Such changes could have a material adverse effect on the Company and its results of operations.

On September 27, 2007, the President signed into law the College Cost Reduction Act that contained provisions with significant implications for participants in the FFEL Program. In addition to the College Cost Reduction Act, other bills have been introduced in Congress which contain provisions which could significantly impact participants in the FFEL Program. Among other things, the proposals include:

requiring disclosures relating to placement on preferred lender lists ;

banning various arrangements between lenders and schools;

banning lenders from offering certain gifts to school employees;

eliminating the school-as-lender program;

encouraging borrowers to maximize their borrowing through government loan programs, rather than private loan programs with higher interest rates;

encouraging schools to participate in the Federal Direct Loan Program through increased federal grant funds; and

increasing the lender origination fee for consolidation loans.

As of the date of this Report, none of these other bills have been enacted into law. The impact of the proposed legislation is difficult to predict; however, increased fees for FFEL Program lenders and decreased loan volume as a result of increased participation in the Federal Direct Loan Program could have a negative impact on the Company s revenues.

The Higher Education Reconciliation Act of 2005 (HERA) was enacted into law on February 8, 2006, and effectively reauthorized the Title IV provisions of the FFEL Program through 2012. HERA did not reauthorize the entire Higher Education Act, which is set to expire on March 31, 2008 (as a result of the Third Higher Education Extension Act of 2007). Therefore, further action will be required by Congress to reauthorize the remaining titles of the Higher Education Act. Reauthorization could result in the Company s revenues being negatively impacted.

The Company cannot predict the outcome of this or any other legislation impacting the FFEL Program and recognizes that a level of political and legislative risk always exists within the industry. This could include changes in legislation further impacting lender margins, fees paid to the Department, new policies affecting the competition between the Federal Direct Loan and FFEL Programs, additional lender risk sharing, or the elimination of the FFEL Program in its entirety.

In addition to changes to the FFEL Program and the Higher Education Act, various state laws targeted at student lending companies have been proposed or are in the process of being enacted. Many of these laws propose or require changes to lending and business practices of student lenders. These laws could have a negative impact on the Company s operations by requiring changes to the Company s business practices and operations.

The Company may be subject to penalties and sanctions if it fails to comply with governmental regulations or guaranty agency rules.

The Company s principal business is comprised of originating, acquiring, holding, and servicing student loans made and guaranteed pursuant to the FFEL Program, which was created by the Higher Education Act. The Higher Education Act governs many aspects of the Company s operations. The Company is also subject to rules of the agencies that act as guarantors of the student loans, known as guaranty agencies. In addition, the Company is subject to certain federal and state banking laws, regulations, and examinations, as well as federal and state consumer protection laws and regulations, including, without limitation, laws and regulations governing borrower privacy protection, information security, restrictions on access to student information, and specifically with respect to the Company s non-federally insured loan portfolio, certain state usury laws and related regulations and the Federal Truth in Lending Act. All or most of these laws and regulations impose substantial requirements upon lenders and servicers involved in consumer finance. Failure to comply with these laws and regulations could result in liability to the Company, the imposition of civil penalties, and potential class action suits.

The Company s failure to comply with regulatory regimes described above may arise from:

breaches of the Company s internal control systems, such as a failure to adjust manual or automated servicing functions following a change in regulatory requirements;

privacy issues;

technological defects, such as a malfunction in or destruction of the Company s computer systems; or

fraud by the Company s employees or other persons in activities such as borrower payment processing.

Such failure to comply, irrespective of the reason, could subject the Company to loss of the federal guaranty on federally insured loans, costs of curing servicing deficiencies or remedial servicing, suspension or termination of the Company s right to participate in the FFEL Program or to participate as a servicer, negative publicity, and potential legal claims or actions brought by the Company s servicing customers and borrowers.

The Company has the ability to cure servicing deficiencies and the Company s historical losses in this area have been minimal. However, the Company s loan servicing and guaranty servicing activities are highly dependent on its information systems, and while the Company has well-developed and tested business recovery systems, the Company faces the risk of business disruption should there be extended failures of its systems. The Company also manages operational risk through its risk management and internal control processes covering its product and service offerings.

These internal control processes are documented and tested regularly.

Competition created by the Federal Direct Loan Program and from other lenders and servicers and the impact of recent legislation may adversely impact the volume of future originations and the Company s servicing business.

The Company s student loan originations generally are limited to students attending eligible educational institutions in the United States. Volume of originations are greater at some schools than others, and the Company s ability to remain an active lender at a particular school with concentrated volumes is subject to a variety of risks, including the fact that each school has the option to remove the Company from its preferred lender list or to add other lenders to its preferred lender list, and the risk that a school may enter the Federal Direct Loan Program. Additionally, new regulations adopted by the Department relating to preferred lender lists may have the effect of reducing the Company s loan volume.

Under the Federal Direct Loan Program, the Department makes loans directly to student borrowers through the educational institutions they attend. The volume of student loans made under the FFEL Program and available for the Company to originate or acquire may be reduced to the extent loans are made to students under the Federal Direct Loan Program. In addition, if the Federal Direct Loan Program expands, to the extent the volume of loans serviced by the Company is reduced, the Company may experience reduced economies of scale, which could adversely affect earnings. Loan volume reductions could further reduce amounts received by the guaranty agencies available to pay claims on defaulted student loans.

In the FFEL Program market, the Company faces significant competition from SLM Corporation, the parent company of Sallie Mae and other existing lenders and servicers. As the Company seeks to further expand its business, the Company will face numerous other competitors, many of which will be well established in the markets the Company seeks to penetrate. Some of the Company s competitors are much larger than the Company, have better brand recognition, and have greater financial and other resources. In addition, several competitors have large market capitalizations or cash reserves and are better positioned to acquire companies or portfolios in order to gain market share. Consequently, such competitors may have more flexibility to address the risks inherent in the student loan business. Finally, some of the Company s competitors are tax-exempt organizations that do not pay federal or state income taxes and which usually have the ability to issue tax-exempt securities, which typically carry a lower cost of funds than the Company s securities. These factors could give the Company s competitors a strategic advantage.

In 2005, the Company entered into an agreement to amend an existing contract with College Assist. Under the agreement, the Company provides student loan servicing and guaranty operations. College Assist pays the Company a portion of the gross servicing and guaranty fees as consideration for the Company providing these services on behalf of College Assist. The Company is a partner in a loan servicing consortium with College Assist in which lenders agree to use the Company as a FFELP student loan servicer and College Assist as the Guarantor for all loans made to Colorado schools. One of the Company s customers has recently decided to stop participating in the consortium. Other lenders have indicated a willingness to continue participation, but only for time commitments of a month to month or 12 month duration. In the past, these commitments were made for five year terms. Reductions in participation of consortium lenders would have an adverse impact to the Company s operating results as this would impact the Company s loan servicing revenue and its guaranty servicing revenue (as the Company receives a portion of the gross guaranty fees from College Assist for providing such services).

Due to the impact of the recent legislative changes and capital market disruptions, FFELP lenders are re-evaluating the markets in which they will originate loans. Some are looking at the cohort default rates of the schools with which they do business. Several lenders have decided not to purchase loans that have been rehabilitated out of default as established by federal regulation (Rehabilitated Loans). Rehabilitated Loans collections comprise approximately 20 percent of the Company s guaranty servicing revenue. The Company s guaranty servicing revenue could be negatively impacted as a result of the decrease in the number of lenders using this service.

A decrease in third-party servicing volume could have a negative effect on the Company s earnings.

To the extent that third-party servicing clients reduce the volume of student loans that the Company processes on their behalf, the Company s income would be reduced, and, to the extent the related costs could not be reduced correspondingly, net income could be adversely affected. Such volume reductions occur for a variety of reasons, including if third-party servicing clients commence or increase internal servicing activities, shift volume to another service provider, perhaps because of competition or service levels, or exit the FFEL Program completely, for instance as a result of reduced interest rate margins.

The Company s inability or choice not to maintain its relationships with significant branding and forward flow partners and/or customers could have an adverse impact on its business.

The Company s inability or choice not to maintain strong relationships with significant schools, branding and forward flow partners, servicing customers, and guaranty agencies could result in loss of:

loan origination volume with borrowers attending certain schools;

loan origination volume generated by some of the Company s branding and forward flow partners; and

loan and guaranty servicing volume generated by some of the Company s loan servicing and guaranty agency customers.

The Company acquires student loans through forward flow commitments and branding partner arrangements with other student loan lenders, but each of these commitments has a finite term. The passage of the College Cost Reduction Act has resulted in a reduction in the yields on student loans and, accordingly, a reduction in the amount of the premium the Company will be able to pay lenders under its forward flow commitments and branding partner arrangements. As a result, the Company has been working with its forward flow and branding partner clients to renegotiate the premiums payable under its agreements. There can be no assurance that the Company will be successful in renegotiating the premiums under these agreements and, accordingly, the Company may be required to terminate commitments which are not economically reasonable. In addition, the current capital market disruption may render origination or acquisition of student loans through these channels uneconomical. As a result, the Company may experience a decrease in its forward flow and branding partner loan volume. In addition, upon expiration of these agreements, there can be no assurance that these lenders will renew or extend their existing forward flow commitments or branding partner relationships on terms that are favorable to the Company, if at all, following their expiration. Loss of a strong branding or forward flow partner or relationships with schools from which a significant volume of student loans is directly or indirectly acquired, could result in an adverse effect on the Company s business.

The Company could be sanctioned if it conducts activities which are considered prohibited inducements under the Higher Education Act.

The Higher Education Act generally prohibits a lender from providing certain inducements to educational institutions or individuals in order to secure applicants for FFELP loans. The Company has structured its relationships and product offerings in a manner intended to comply with the Higher Education Act and the available communications and guidance from the Department.

If the Department were to change its position on any of these matters, the Company may have to change the way it markets products and services and a new marketing strategy may not be as effective. If the Company fails to respond to the Department s change in position, the Department could potentially impose sanctions upon the Company that could negatively impact the Company s business.

Legislation has been introduced in Congress modifying the prohibited inducement provisions of the Higher Education Act, and the Department of Education published new regulations on November 1, 2007 relating to prohibited inducements that go into effect on July 1, 2008. The Department has requested that companies begin complying with the new regulations immediately even though they are not yet in effect. As a result, the Company has modified, or intends to modify, its business practices to comply with the prohibited inducement provisions as ultimately enacted or adopted, including the termination of the Company s affinity relationships and referral programs. Termination of these programs may result in decreased loan volume for the Company. In addition, changes to the Company s business practices in order to comply with the new prohibited inducement provisions may negatively impact the Company s business.

Future losses due to defaults on loans held by the Company present credit risk which could adversely affect the Company s earnings.

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

The Company s non-federally insured loans are unsecured and are not guaranteed or reinsured under the FFEL Program or any other federal student loan program and are not insured by any private insurance program. Accordingly, the Company bears the full risk of loss on these loans if the borrower and co-borrower, if applicable, default. In determining the adequacy of the allowance for loan losses on the non-federally insured loans, the Company considers several factors including: loans in repayment versus those in a nonpaying status, months in repayment, delinquency status, type of program, and trends in defaults in the portfolio based on Company and industry data. The Company places a non-federally insured loan on nonaccrual status and charges off the loan when the collection of principal and interest is 120 days past due.

The evaluation of the allowance for loan losses is inherently subjective, as it requires material estimates that may be subject to significant changes. The provision for loan losses reflects the activity for the applicable period and provides an allowance at a level that the Company s management believes is adequate to cover probable losses inherent in the loan portfolio. However, future defaults can be higher than anticipated due to a variety of factors such as downturns in the economy, regulatory or operational changes in debt management operations effectiveness, and other unforeseen future trends. If actual performance is worse than estimated, this could materially affect the Company s estimate of the allowance for loan losses and the related provision for loan losses in the Company s statement of operations.

The Company must satisfy certain requirements necessary to maintain the federal guarantees of its federally insured loans, and the Company may incur penalties or lose its guarantees if it fails to meet these requirements.

The Company must meet various requirements in order to maintain the federal guaranty on its federally insured loans. These requirements establish servicing requirements and procedural guidelines and specify school and borrower eligibility criteria. The federal guaranty on the Company s federally insured loans is conditioned on compliance with origination, servicing, and collection standards set by the Department and guaranty agencies. Federally insured loans that are not originated, disbursed, or serviced in accordance with the Department s regulations risk partial or complete loss of the guaranty thereof. If the Company experiences a high rate of servicing deficiencies (including any deficiencies resulting from the conversion of loans from one servicing platform to another) or costs associated with remedial servicing, and if the Company is unsuccessful in curing such deficiencies, the eventual losses on the loans that are not cured could be material.

A guaranty agency may reject a loan for claim payment as a result of a violation of the FFEL Program due diligence servicing requirements. In addition, a guaranty agency may reject claims under other circumstances, including, for example, if a claim is not timely filed or adequate documentation is not maintained. Once a loan ceases to be guaranteed, it is ineligible for federal interest subsidies and special allowance payments. If a loan is rejected for claim payment by a guaranty agency, the Company continues to pursue the borrower for payment and/or institutes a process to reinstate the guaranty.

Rejections of claims as to portions of interest may be made by guaranty agencies for certain violations of the due diligence collection and servicing requirements, even though the remainder of a claim may be paid. Examples of errors that cause claim rejections include isolated missed collection calls or failures to send collection letters as required.

The Department has implemented school eligibility requirements, which include default rate limits. In order to maintain eligibility in the FFEL Program, schools must maintain default rates below these specified limits, and both guaranty agencies and lenders are required to ensure that loans are made only to or on behalf of students attending schools that do not exceed the default rate limits.

If the Company fails to comply with any of the above requirements, it could incur penalties or lose the federal guaranty on some or all of its federally insured loans. If the Company s actual loss on denied guarantees were to increase substantially in future periods the impact could be material to the Company s operations.

The Company could experience cash flow problems if a guaranty agency defaults on its guaranty obligation.

A deterioration in the financial status of a guaranty agency and its ability to honor guaranty claims on defaulted student loans could result in a failure of that guaranty agency to make its guaranty payments in a timely manner, if at all. The financial condition of a guaranty agency can be adversely affected if it submits a large number of reimbursement claims to the Department, which results in a reduction of the amount of reimbursement that the Department is obligated to pay the guaranty agency. The Department may also require a guaranty agency to return its reserve funds to the Department upon a finding that the reserves are unnecessary for the guaranty agency to pay its FFEL Program expenses or to serve the best interests of the FFEL Program.

If the Department has determined that a guaranty agency is unable to meet its guaranty obligations, the loan holder may submit claims directly to the Department, and the Department is required to pay the full guaranty claim. However, the Department s obligation to pay guaranty claims directly in this fashion is contingent upon the Department making the determination that a guaranty agency is unable to meet its guaranty obligations. The Department may not ever make this determination with respect to a guaranty agency and, even if the Department does make this determination, payment of the guaranty claims may not be made in a timely manner, which could result in the Company experiencing cash shortfalls.

Management periodically reviews the financial condition of its guarantors and does not believe the level of concentration creates an unusual or unanticipated credit risk. In addition, management believes that based on amendments to the Higher Education Act, the security for and payment of any of the education lending subsidiaries obligations would not be materially adversely affected as a result of legislative action or other failure to perform on its obligations on the part of any guaranty agency. The Company, however, cannot provide absolute assurances to that effect.

Higher rates of prepayments of student loans could reduce the Company s profits.

Pursuant to the Higher Education Act, borrowers may prepay loans made under the FFEL Program at any time without penalty. Prepayments may result from consolidating student loans, which tends to occur more frequently in low interest rate environments, from borrower defaults, which will result in the receipt of a guaranty payment, and from voluntary full or partial prepayments, among other things. High prepayment rates will have the most impact on the Company s asset-backed securitization transactions, since these securities are priced according to their expected average lives. The rate of prepayments of student loans may be influenced by a variety of economic, social, and other factors affecting borrowers, including interest rates and the availability of alternative financing.

The Company s profits could be adversely affected by higher prepayments, which would reduce the amount of interest the Company received and expose the Company to reinvestment risk.

Consolidation loan activity by competitors present a risk to the Company s loan portfolio and profitability.

The Company s portfolio of federally insured loans is subject to refinancing through the use of consolidation loans, which are expressly permitted by the Higher Education Act. In January 2008, the Company suspended consolidation student loan originations as a result of legislative actions and capital market disruptions which impacted the profitability of consolidation loans. As a result, the Company may lose student loans in its portfolio that are consolidated away by competing lenders. Increased consolidations of student loans by the Company s competitors may result in a negative return on loans, when considering the origination costs or acquisition premiums paid with respect to these loans. Additionally, consolidation of loans away by competing lenders can result in a decrease of the Company s servicing portfolio, thereby decreasing fee-based servicing income.

The Company faces liquidity risks associated with financing student loan originations and acquisitions.

The Company s primary funding needs are those required to finance its student loan portfolio and satisfy its cash requirements for new student loan originations and acquisitions. The Company relies upon secured financing vehicles as its most significant source of funding for student loans. Current conditions in the debt markets have resulted in reduced liquidity and increased credit risk premiums for most market participants. These conditions can increase the cost and reduce the availability of debt in the capital markets. As a result, a prolonged period of market illiquidity may affect the Company s loan acquisition and origination volumes and could have an adverse impact on the Company s future earnings and financial condition. See Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

Elimination of the FFEL Program would have a significant negative effect on the Company s earnings and operations.

In connection with the 2008 presidential election, certain candidates have proposed the elimination of the FFEL Program. Elimination of the FFEL Program would significantly impact the Company s operations and profitability by, among other things, reducing the Company s interest revenues as a result of the inability to add new FFELP loans to the Company s portfolio and reducing third-party servicing fees as a result of reduced FFELP loan servicing and origination volume from the Company s third-party servicing customers. The Company cannot predict whether any such proposals will ultimately be enacted.

Operating Segments Fee Based Businesses

The following risk factors relate to the Company s operating segments not directly related to the FFEL Program. These operating segments include:

- Tuition Payment Processing and Campus Commerce;
- Enrollment Services and List Management; and
- Software and Technical Services.

If regulatory authorities prohibit student lenders from engaging in non-lending activities, the Company may no longer be allowed to offer certain products and services or may be required to exit the lending business, which could negatively impact the Company s revenues.

As a diversified education services company, the Company offers many products and services which are not related to the FFEL Program. Recently, various regulatory authorities have started to examine the relationships between student lending companies and their customers. In the event state and/or federal authorities adopt restrictions on the products and services which may be offered by student lending companies, the Company may have to cease offering certain products and services or may be limited to marketing those products and services to customers which do not participate in the FFEL Program. Any restrictions on the Company s ability to market or sell products or services may have a negative impact on the Company s revenues.

Changes in legislation and regulations could have a negative impact upon the Company s business and may affect its profitability.

Changes to privacy and direct mail legislation could negatively impact the Company, in particular the Company s list management and lead generation activities. Changes in such legislation could restrict the Company s ability to collect information for its list management and lead generation activities and its ability to use the information it collects. The Company has a privacy policy that covers how certain subsidiaries collect, protect, and use personal information. Depending on the department, product, and/or other factors, certain entities may have more restrictive information handling practices.

The Company s Software and Technical Services operating segment provides information technology products and services, with core areas of business in student loan software solutions for schools, lenders, and guarantors. Many of the Company s customers receiving these services have been negatively impacted as a result of the passage of the College Cost Reduction Act in September 2007 and the recent disruption in the capital markets. This impact could decrease the demand for the Company s products and services and affect the Company s revenue and profit margins.

The Company s results are affected by competitive conditions and customer preferences.

Demand for the Company s products and services, which impact revenue and profit margins, is affected by (i) the development and timing of the introduction of competitive products and services; (ii) the Company s response to pricing to stay competitive; and (iii) the change in customers preferences for the Company s products and services, including the success of products and services offered by competitors. In addition, K-12 and post-secondary enrollment numbers impact the demand for the Company s products and services. Education enrollment numbers are impacted by general population trends and the general state of the economy. Revenue in the Company s fee-based businesses is recurring only to the extent that customer relationships are sustained. Reduction in volume or loss of a customer relationship could have a negative impact on the Company s results of operations.

Liquidity and Capital Resources

The Company faces liquidity risks associated with financing student loan originations and acquisitions.

The Company s primary funding needs are those required to finance its student loan portfolio and satisfy its cash requirements for new student loan originations and acquisitions. In general, the amount, type, and cost of the Company s funding, including securitization and unsecured financing from the capital markets and borrowings from financial institutions, have a direct impact on the Company s operating expenses and financial results and can limit the Company s ability to grow its student loan assets. The Company relies upon secured financing vehicles as its most significant source of funding for student loans. The Company s primary secured financing vehicles are loan warehouse facilities and asset-backed securitizations.

As discussed in more detail below with respect to the Company s loan warehouse facilities and asset-backed securitizations, the recent unprecedented disruptions in the credit markets have had and may continue to have an adverse impact on the cost and availability of financing for the Company s student loan portfolios, and as a result have had and may continue to have an adverse impact on the Company s results of operations and financial condition. Such credit market conditions may continue or worsen in the future.

Student loan warehousing allows the Company to buy and manage student loans prior to transferring them into more permanent financing arrangements. A portion of the Company s operating and warehouse financings are provided by third parties, over which it has no control. Current conditions in the debt markets have resulted in reduced liquidity and increased credit risk premiums for most market participants. These conditions can increase the cost and reduce the availability of debt in the capital markets. If warehouse financing sources are unavailable, the Company may be unable to meet its financial commitments to schools, branding partners, or forward flow lenders when due unless the Company is able to find alternative funding mechanisms. The Company attempts to mitigate the impact of debt market disruptions by obtaining adequate committed and uncommitted facilities from a variety of reliable sources. There can be no assurance, however, that the Company will be successful in these efforts, that such facilities will be adequate, or that the cost of debt will allow the Company to operate at profitable levels.

The Company currently relies on two conduit warehouse loan financing vehicles to support its funding needs on a short-term basis a multi-seller bank provided conduit with $8.9 billion of committed funding for FFELP student loans and a private loan warehouse with $250.0 million in authorized financing for non-federally insured student loans. The Company s private loan warehouse terminates in January 2009. The facility for FFELP loans, which terminates in May 2010, is supported by 364-day liquidity which is up for renewal in May 2008. In order to continue funding new originations, the Company s liquidity must be renewed. If not renewed, the Company s ability to fund new originations in the facility will be at risk. If the Company is able to renew its liquidity on this line, it will come at an increased cost compared to historical periods. If the Company is not able to renew the liquidity on this facility or renew the facility at a price acceptable to the Company, it may become a term facility with a maturity date of May 2010. The Company s cost of financing on the term facility would be slightly higher than its current cost of funds as a warehouse facility. If the Company s warehouse facility becomes a term facility, the Company will no longer be able to fund new FFELP student loan originations or acquisitions.

The terms and conditions of the Company s warehouse facility for FFELP loans provide for advance rates related to financed loans subject to a valuation formula based on current market conditions. Dislocation in the credit markets including disruptions in the current capital markets can and will cause short-term volatility in the loan valuation formulas and could reduce advance rates requiring a portion of the financed loans to be funded using equity or alternative sources. Severe volatility and dislocation in the credit markets, although temporary, could cause the valuation assigned to its student loan portfolio financed by the applicable line to be less than par. Should a significant change in the valuation of subject loans require an equity contribution or reduction in advance rates greater than what the Company can or is willing to inject, the warehouse line could be subject to termination. While the Company does not believe the loan valuation formula is reflective of the fair market value of its loans, it is subject to compliance with provisions of the warehouse documents. The Company s private loan warehouse facility has similar credit enhancement provisions.

The Company uses its warehouse facilities to pool student loans in order to maximize loan portfolio characteristics for efficient financing and to properly time market conditions for movement of the loans into an asset-backed securitization. The Company has historically relied upon, and expects to continue to rely upon, asset-backed securitizations as its most significant source of funding for student loans on a long-term basis. If this market continues to experience difficulties or worsen, the Company may be unable to securitize its student loans or to do so on favorable terms, including pricing, or may do so at an increased price as compared to its current or future warehouse cost.

A number of factors could make such securitization more difficult, more expensive, or unavailable on any terms, including, but not limited to, financial results and losses, changes within the Company s organization, specific events that have an adverse impact on the Company s reputation, changes in the activities of the Company s business partners, disruptions in the capital markets, specific events that have an adverse impact on the financial services industry, counter-party availability, changes affecting the Company s assets, the Company s corporate and regulatory structure, interest rate fluctuations, ratings agencies actions, general economic conditions, and the legal, regulatory, accounting, and tax environments governing the Company s funding transactions. In addition, the Company s ability to raise funds is strongly affected by the general state of the United States and world economies, and may become increasingly difficult due to economic and other factors. If the Company were unable to continue to securitize student loans on favorable terms, it could use alternative funding sources to meet liquidity needs. If the Company is unable to find cost-effective and stable funding alternatives, its funding capabilities and liquidity would be negatively impacted and its cost of funds could increase, adversely affecting the Company s results of operations. In addition, the Company s ability to originate and acquire student loans would be limited or could be eliminated.

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 s primary market risk exposure arises from fluctuations in its borrowing and lending rates, the spread between which could be impacted by shifts in market interest rates. The borrower rates on the Company s current portfolio of federally insured loans are generally reset by the Department each July 1st based on a formula determined by the date of the origination of the loan, with the exception of rates on consolidation loans, which are generally fixed-rate to the borrower for the life of the loan. For all FFELP loans originated after July 1, 2006, the loans are fixed-rate to the borrower for the life of the loan. For FFELP loans originated prior to April 1, 2006, the interest rate the Company actually receives on federally insured loans is the greater of the borrower rate and a SAP rate determined by a formula based on a spread to either the 91-day Treasury Bill index or the 90-day commercial paper index, depending on when the loans were originated and the current repayment status of the loans. On FFELP loans originated on or after April 1, 2006, the Company only earns interest at the SAP rate determined by a formula based on 90-day commercial paper. For the FFELP portfolio of loans originated on or after April 1, 2006, when the borrower rate exceeds the variable rate based upon the SAP formula, the Company must return the excess to the Department.

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

In using different index types and different index reset frequencies to fund assets, the Company is exposed to interest rate risk in the form of basis risk and repricing risk, which is the risk that the different indices may reset at different frequencies, or will not move in the same direction or with the same magnitude. While these indices are short-term with rate movements that are highly correlated over a longer period of time, there can be no assurance that this high correlation will not be disrupted by capital market dislocations or other factors not within the Company s control. In such circumstances, the Company s earnings could be adversely affected, possibly to a material extent.

The Company uses derivative instruments to hedge the basis risk due to the timing of the interest rate resets on its assets and liabilities. However, the Company does not generally hedge the basis risk due to the different interest rate indices associated with its assets and liabilities since the relationship between the indices for most of the Company s assets and liabilities is highly correlated. Nevertheless, the basis between the indices may widen from time to time, which would impact the net spread on the portfolio.

Characteristics unique to asset-backed securitizations may negatively affect the Company s continued liquidity.

The interest rates on certain of the Company s asset-backed securities are set and periodically reset via a dutch auction (Auction Rate Securities) or through a remarketing utilizing broker-dealers and remarketing agents (Variable Rate Demand Notes).

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. Recently, as part of the ongoing credit market crisis, several auction rate securities from various issuers have 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, the banks would step in when investor demand is weak. However, as of recently, they have been allowing these auctions to fail.

As a result of a failed auction, the Auction Rate Securities will generally pay interest to the holder at a maximum rate as defined by the governing documents or indenture. While these rates will vary slightly by class of security, they will generally be based on a spread to Libor or Treasury Securities and will approximate the current one month LIBOR rate plus 75 to 150 basis points. These maximum rates are subject to increase if the credit ratings on the bonds are downgraded.

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

For Variable Rate Demand Notes, the remarketing agents set the price, which is then offered to investors. If there are insufficient potential bid orders to purchase all of the notes offered for sale, the Company could be subject to interest costs substantially above the anticipated and historical rates paid on these types of securities. Certain of the Variable Rate Demand Notes are secured by financial guaranty insurance policies issued by Municipal Bond Investors Assurance (MBIA). The Variable Rate Demand Notes insured by MBIA are currently experiencing reduced investor demand and certain of these securities have been put to the liquidity provider, Lloyds TSB Bank, at a cost ranging from Federal Funds plus 150 basis points to LIBOR plus 175 basis points.

If there is no demand for the Company s Auction Rate Securities and Variable Rate Demand Notes, the Company could be subject to interest costs substantially above the anticipated and historical rates paid on these types of securities.

The Company is exposed to interest rate risk because of the interest rate characteristics of certain of its assets and the interest rate characteristics of the related funding of such assets.

FFELP student loans generally earn interest at the higher of a floating rate based on the Special Allowance Payment or SAP formula set by the Department and the borrower rate, which is fixed over a period of time. The Company generally finances its student loan portfolio with variable-rate debt. In low and/or declining interest rate environments, when the fixed borrower rate is higher than the rate produced by the SAP formula, the Company s student loans earn at a fixed rate while the interest on the variable-rate debt continues to decline. In these interest rate environments, the Company earns additional spread income that it refers to as fixed rate floor income.

Depending on the type of the student loan and when it was originated, the borrower rate is either fixed to term or is reset to market rate each July 1. As a result, for loans where the borrower rate is fixed to term, the Company earns floor income for an extended period of time, which the Company refers to as fixed rate floor income, and for those loans where the borrower rate is reset annually on July 1, the Company earns floor income to the next reset date, which the Company refers to as variable-rate floor income. In accordance with new legislation enacted in 2006, lenders are required to rebate floor income and variable-rate floor income to the Department for all new FFELP loans 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 the special allowance payment formula. In higher interest rate environments, where the interest rate rises above the borrower rate and fixed-rate loans effectively become variable rate loans, the impact of the rate fluctuations is reduced.

The Company is subject to foreign currency exchange risk and such risk could lead to increased costs.

As a result of the Company s offerings in Euro-denominated notes, the Company is exposed to market risk related to fluctuations in foreign currency exchange rates between the U.S. and Euro dollars. The principal and accrued interest on these notes is re-measured at each reporting period and recorded on the Company s balance sheet in U.S. dollars based on the foreign currency exchange rate on that date. When foreign currency exchange rates between the U.S. and Euro dollars change significantly, earnings may fluctuate significantly. The Company entered into cross-currency interest rate swaps in connection with the issuance of these notes.

The Company s derivative instruments may not be successful in managing interest and foreign currency exchange rate risks, which may negatively impact the Company s operations.

When the Company utilizes derivative instruments, it utilizes them to manage interest and foreign currency exchange rate sensitivity. Although the Company does not use derivative instruments for speculative purposes, its derivative instruments do not qualify for hedge accounting under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities, an Amendment of FASB Statement No. 133* (SFAS No. 133); consequently, the change in fair value, called the mark to market , of these derivative instruments is included in the Company s operating results. Changes or shifts in the forward yield curve and foreign currency exchange rates can and have significantly impacted the valuation of the Company s derivatives. Accordingly, changes or shifts in the forward yield curve and foreign currency exchange rates will impact the financial position, results of operations, and cash flows of the Company. Further, the Company may have to repay certain costs (including transaction fees) or be subject to wide bid/ask spreads if the Company terminates a derivative instrument. The derivative instruments used by the Company are typically in the form of interest rate swaps, basis swaps, interest rate floor contracts, and cross-currency interest rate swaps.

Developing an effective strategy for dealing with movements in interest rates and foreign currency exchange rates is complex, and no strategy can completely insulate the Company from risks associated with such fluctuations. Although the Company believes its derivative instruments are highly effective, because many of its derivatives are not balance guaranteed to a particular pool of student loans, the Company is subject to prepayment risk that could result in the Company being under or over hedged that may result in material losses to the Company. In addition, a counterparty to a derivative instrument could default on its obligation, thereby exposing the Company to counterparty risk. Further, the Company may have to repay certain costs, such as transaction fees or brokerage costs, if the Company terminates a derivative instrument. Finally, the Company s interest rate and foreign currency exchange risk management activities could expose the Company to substantial mark to market losses if interest rates or foreign currency exchange rates move materially differently from the environment when the derivatives were entered into. As a result, the Company cannot offer any assurance that its economic hedging activities will effectively manage its interest and foreign currency exchange rate sensitivity nor have the desired beneficial impact on its results of operations or financial condition.

When the mark to market of a derivative instrument is negative, the Company owes the counterparty and, therefore, has no counterparty risk. Additionally, if the negative mark to market of derivatives with a counterparty exceeds a specified threshold, the Company may have to pay a collateral deposit to the counterparty. If interest and foreign currency exchange rates move materially, the Company could be required to deposit a significant amount of collateral with its derivative instrument counterparties. The collateral deposits, if significant, could negatively impact the Company s capital resources. The Company attempts to manage market 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.

The ratings of the Company or of any securities sold by the Company may change, which may increase the Company s costs of capital and may reduce the liquidity of the Company s securities.

Ratings are based primarily on the creditworthiness of the Company, the underlying assets of asset-backed securitizations, the amount of credit enhancement in any given transaction and the legal structure of any given transaction. Ratings are not a recommendation to purchase, hold, or sell any of the Company s securities inasmuch as the ratings do not comment as to the market price or suitability for investors. There is no assurance that ratings will remain in effect for any given period of time or that current ratings will not be lowered or withdrawn by any rating agency. Ratings for the Company or any of its securities may be increased, lowered, or withdrawn by any rating agency if in the rating agency s judgment circumstances so warrant. If the Company s credit ratings are lowered or withdrawn, the Company may experience an increase in interest rates or other costs associated with the capital raising activities by the Company, which may negatively affect the Company s operations. Additionally, a lowered or withdrawn credit rating may negatively affect the liquidity of the Company s securities.

The Company may be limited in its ability to pay dividends or make other payments as a result of the terms of certain outstanding securities issued by the Company.

In September 2006, the Company issued certain junior subordinated hybrid securities (the Hybrid Securities). So long as the Hybrid Securities remain outstanding, if the Company has given 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 indenture relating to the Hybrid Securities, make any payment of principal of, or interest or premium, if any, on, or repay, repurchase or redeem any of the Company s debt securities that rank *pari passu* with or junior to the Hybrid Securities; or make any guaranty payments regarding any guaranty by the Company of the subordinated debt securities of any of the Company s subsidiaries if the guaranty ranks *pari passu* with or junior in interest to the Hybrid Securities.

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

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

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

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

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

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

If the Company s stock price falls, the Company s contingent obligations under certain agreements related to business acquisitions increase.

In November 2005, the Company purchased the remaining 50% of the stock of 5280 Solutions, Inc. (5280). Consideration for the purchase was 258,760 restricted shares of the Company s Class A common stock. The 258,760 shares of Class A common stock issued in the acquisition are subject to put option agreements whereby during the 30-day period ending November 30, 2008 the holders may require the Company to repurchase all or part of the shares at a price of $37.10 per share. The value of the put options as of the closing date of the acquisition was $1.2 million and was recorded by the Company as additional purchase price. The change in the value of the put option each reporting period is included in the Company s operating results. As of December 31, 2007, the value of the put options was $6.1 million. The fair value of these options is primarily affected by the strike price and term of the underlying option, the Company s current stock price, and the dividend yield and volatility of the Company s stock. Accordingly, changes or shifts in these inputs will impact the financial position and results of operations of the Company.

In February 2006, the Company purchased the remaining 50% of the stock of infiNET Integrated Solutions, Inc. (infiNET). Consideration for the purchase of the remaining 50% of the stock of infiNET was $9.5 million in cash and 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. 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.

General Risk Factors

Incorrect estimates and assumptions by management in connection with the preparation of the Company s consolidated financial statements could adversely affect the reported amounts of assets and liabilities and the reported amounts of income and expenses.

The preparation of the Company s consolidated financial statements requires management to make certain critical accounting estimates and assumptions that could affect the reported amounts of assets and liabilities and the reported amounts of income and expense during the reporting periods. See Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies .

The Company s future results may be affected by various legal and regulatory proceedings.

The outcome of legal proceedings may differ from the Company s expectations because the outcomes of litigation, including regulatory matters, are often difficult to reliably predict. Various factors or developments can lead the Company to change current estimates of liabilities and related insurance receivables where applicable, or make such estimates for matters previously not susceptible of reasonable estimates, such as a significant judicial ruling or judgment, a significant settlement, significant regulatory developments or changes in applicable law. A future adverse ruling, settlement, or unfavorable development could result in future charges that could have a material adverse effect on the Company s results of operations or cash flows in any particular period.

The Company s failure to successfully manage business and certain asset acquisitions could have a material adverse effect on the Company s business, financial condition, and/or results of operations.

The Company may acquire new products and services or enhance existing products and services through acquisitions of other companies, product lines, technologies, and personnel, or through investments in other companies. During 2004 through 2006, the Company acquired the stock and certain assets of 17 different entities. Any acquisition or investment is subject to a number of risks. Such risks may include diversion of management time and resources, disruption of the Company s ongoing business, difficulties in integrating acquisitions, dilution to existing stockholders if the Company s common stock is issued in consideration for an acquisition or investment, incurring or assuming indebtedness or other liabilities in connection with an acquisition, lack of familiarity with new markets, and difficulties in supporting new product lines. The Company s failure to successfully manage acquisitions or investments, or successfully integrate acquisitions, could have a material adverse effect on the Company s business, financial condition, and/or results of operations. Correspondingly, the Company s expectations to the accretive nature of the acquisitions could be inaccurate.

The market price of the Company s Class A common stock may fluctuate significantly, which may result in losses for investors.

From January 1, 2007 to February 15, 2008, the closing daily sales price of the Company s Class A common stock as reported by the New York Stock Exchange ranged from a low of $9.84 per share to a high of $28.00 per share. The Company expects the Class A common stock to continue to be subject to fluctuations as a result of a variety of factors, including factors beyond the Company s control. These factors include:

- changes in interest rates and credit market conditions affecting the cost and availability of financing for the Company s student loan assets;

- changes in the education financing regulatory framework;

- changes in demand for education financing or other products and services that the Company offers;

- variations in the Company s quarterly operating results;

- changes in financial estimates by securities analysts;

- changes in market valuations of comparable companies; and

- future sales of the Company s Class A common stock.

The Company may not meet the expectations of shareholders and/or of securities analysts at some time in the future, and the market price of the Company s Class A common stock could decline as a result.

The Company may not always pay dividends on its common stock.

The payment of future dividends on the Company s shares of Class A common stock and Class B common stock remains in the discretion of the Company s Board of Directors and will continue to depend on the Company s earnings, capital requirements, financial condition, and other factors. In addition, the payment of dividends is subject to the terms of certain other outstanding securities issued by the Company as discussed above. The Board of Directors may determine in the future to reduce the current quarterly dividend rate of $0.07 per share or discontinue the payment of dividends altogether.

Negative publicity that may be associated with the student lending industry, including negative publicity about the Company, may harm the Company s reputation and adversely affect operating results.

Recently, the student lending industry has been the subject of various investigations and reports. The publicity associated with these investigations and reports may have a negative impact on the Company s reputation. To the extent that potential or existing customers decide not to utilize the Company s products or services as a result of such publicity, the Company s operating results may be adversely affected.

If management does not effectively execute the Company s restructuring plans, this could adversely affect the Company s operations, revenue, and the ability to compete.

On September 6, 2007, the Company announced a strategic restructuring initiative to create efficiencies and lower costs in advance of the enactment of the College Cost Reduction Act, which impacted the FFEL Program in which the Company participates. The Company has significant financing needs that it meets through the capital markets, including the debt and secondary markets. Since August 2007, these markets have experienced unprecedented disruptions, which are having an adverse impact on the Company s earnings and financial condition. On January 23, 2008, the Company announced a plan to further reduce operating expenses related to its student loan origination and related businesses as a result of the ongoing disruption in the credit markets.

The Company continues to implement its restructuring initiatives, including lowering the cost of student loan acquisition, creating efficiencies in its asset generation business, and decreasing operating expenses through a reduction in workforce and realignment of operating facilities. The Company expects these initiatives to be substantially completed during 2008.

If the Company is unable to successfully implement its reorganization initiatives or if those initiatives do not have the desired effects or result in the projected efficiencies, the Company may incur additional or unexpected expenses which would adversely affect the Company s operations and revenues.

Failures in the Company s information technology system could materially disrupt its business.

The Company s servicing and operating processes are highly dependent upon its information technology system infrastructure, and the Company faces the risk of business disruption if failures in its information systems occur, which could have a material impact upon its business and operations. The Company depends heavily on its own computer-based data processing systems in servicing both its own student loans and those of third-party servicing customers and providing tuition payment and campus commerce transactions and lead generation products and services. The Company regularly backs up its data and maintains detailed disaster recovery plans. A major physical disaster or other calamity that causes significant damage to information systems could adversely affect the Company s business. Additionally, loss of information systems for a sustained period of time could have a negative impact on the Company s performance and ultimately on cash flow in the event the Company were unable to process transactions and/or provide services to customers.

A loss of customer data requiring notification to customers could negatively impact the Company s business.

The Company, on its own behalf and on behalf of other entities, stores a significant amount of personal data about the customers to whom the Company provides services. If the Company were to suffer a major loss of customer data, through breach of its systems or otherwise, entities for which the Company provides services might choose to find another service provider.

Certain participants in the Company s stock compensation and benefit plans may have rescission rights with respect to shares of stock acquired under those plans.

In April 2007, the Company discovered that as a result of inadvertent issues related to the delivery of documents to participants, certain participants in the Company s Employee Share Purchase Plan, Restricted Stock Plan, Directors Stock Compensation Plan, and Employee Stock Purchase Loan Plan may not have during certain time frames actually received all of the information required to constitute a fully compliant prospectus under the Securities Act of 1933. While the issuance of shares under those plans has been registered with the Securities and Exchange Commission under registration statements on Form S-8, it is a violation of Section 5 of the Securities Act of 1933 to sell a security for which a registration statement has been filed unless accompanied or preceded by a prospectus that meets the requirements of Section 10 of the Securities Act of 1933.

Section 12 of the Securities Act of 1933 generally provides for a one-year rescission right for an investor who acquires a security from a seller who does not comply with the prospectus delivery requirements of Section 5 of the Securities Act of 1933. As such, an investor successfully asserting a rescission right during the one-year time period has the right to require an issuer to repurchase the securities acquired by the investor at the price paid by the investor for the securities (or if such security has been disposed of, to receive damages with respect to any loss on such disposition), plus interest from the date of acquisition. These rights may apply to affected participants in the Company s plans. The Company believes that its potential liability for rescission claims or other damages is not material to the Company s financial condition; however, the Company s potential liability could become material to results of operations for a particular period if, during the one-year period following non-compliant sales, the market price of the shares of Class A common stock falls significantly below the affected participants acquisition prices.

Exposure related to certain tax issues could decrease the Company s net income.

A corporation is considered to be a personal holding company under the U.S. Internal Revenue Code of 1986, as amended (the Code), if (1) at least 60% of its adjusted ordinary gross income is personal holding company income (generally, passive income) and (2) at any time during the last half of the taxable year more than half, by value, of its stock is owned by five or fewer individuals, as determined under attribution rules of the Code. If both of these tests are met, a personal holding company is subject to an additional tax on its undistributed personal holding company income, currently at a 15% rate. Five or fewer individuals hold more than half the value of the Company s stock. In June 2003, the Company submitted a request for a private letter ruling from the Internal Revenue Service seeking a determination that its federally guaranteed student loans qualify as assets of a lending or finance business, as defined in the Code. Such a determination would have assured the Company that holding such loans does not make it a personal holding company. Based on its historical practice of not issuing private letter rulings concerning matters that it considers to be primarily factual, however, the Internal Revenue Service has indicated that it will not issue the requested ruling, taking no position on the merits of the legal issue.

So long as more than half of the Company s value continues to be held by five or fewer individuals, if it were to be determined that some portion of its federally guaranteed student loans does not qualify as assets of a lending or finance business, as defined in the Code, the Company could become subject to personal holding company tax on its undistributed personal holding company income. The Company continues to believe that neither Nelnet, Inc. nor any of its subsidiaries is a personal holding company. However, even if Nelnet, Inc. or one of its subsidiaries was determined to be a personal holding company, the Company believes that by utilizing intercompany distributions, it could eliminate or substantially eliminate its exposure to personal holding company taxes, although it cannot assure that this will be the case.

The Company is subject to federal and state income tax laws and regulations. Income tax regulations are often complex and require interpretation. Changes in income tax regulations could negatively impact the Company s results of operations. If states enact legislation, alter apportionment methodologies, or aggressively apply the income tax nexus standards, the Company may become subject to additional state taxes. The applicability and taxation on the earnings from intangible personal property has been the subject of state audits and litigation with state taxing authorities and tax policy debates by various state legislatures. As the Congress and U.S. Supreme Court have not provided clear guidance in this regard, conflicting state laws and court decisions create tremendous uncertainty and expense for taxpayers conducting interstate commerce.

During 2007, the Company began to be examined by multiple state taxing authorities. These taxing authorities routinely challenge certain filing methodologies, apportionment, and certain deductions reported by the Company on its income tax returns. In accordance with SFAS No. 109, *Accounting for Income Taxes*, and FAS Interpretation No. 48, *Account for Uncertainty in Income Taxes*, the Company establishes reserves for tax contingencies related to deductions and credits that it may be unable to sustain. Differences between the reserves for tax contingencies and the amounts ultimately owed are recorded in the period they become known. Adjustments to the Company s reserves could have a material effect on the Company s financial statements.

In October 2007, the Company received a letter from the Internal Revenue Service (IRS) revoking a previously issued Private Letter Ruling retroactive to September 30, 2003 concerning the Company s arbitrage and excess interest calculations on certain of its tax-exempt bonds. The IRS letter provided procedures for the Company to follow to appeal the retroactive application of the revocation. The Company responded to the IRS in November 2007 requesting relief from retroactivity and has recently received a request for additional information from the IRS. The Company cannot predict the ultimate outcome of the IRS letter and has not determined its legal remedies if its request regarding retroactive application is denied. An adverse outcome could be material to the financial statements and could cause the Company to take action with respect to surplus fund withdrawals since September 30, 2003 if the Private Letter Ruling is applied retroactively.

Transactions with affiliates and potential conflicts of interest of certain of the Company s officers and directors, including the Company s Chief Executive Officer, pose risks to the Company s shareholders that the Company may not enter into transactions on the same terms that the Company could receive from unrelated, third-parties.

The Company has entered into certain contractual arrangements with entities controlled by Michael S. Dunlap, the Company s Chairman, Chief Executive Officer, and a principal shareholder, and members of his family and, to a lesser extent, with entities in which other directors and members of management hold equity interests or board or management positions. Such arrangements constitute a significant portion of the Company s business and include sales of student loans and student loan origination rights by such affiliates to the Company. These arrangements may present potential conflicts of interest. Many of these arrangements are with Union Bank and Trust Company (Union Bank), in which Michael S. Dunlap owns an indirect interest and of which he serves as non-executive chairman. The Company intends to maintain its relationship with Union Bank, which management believes provides substantial benefits to the Company, although there can be no assurance that any transactions between the Company and entities controlled by Mr. Dunlap, his family, and/or other officers and directors of the Company are, or in the future will be, on terms that are no less favorable than what could be obtained from an unrelated third party.

The Company s Chairman and Chief Executive Officer owns a substantial percentage of the Company s Class A and Class B common stock and is able to control all matters subject to a shareholder vote.

Michael S. Dunlap, the Company s Chairman, Chief Executive Officer, and a principal shareholder, beneficially owns a substantial percentage of the Company s outstanding shares of Class A common stock and Class B common stock. Each share of Class A common stock has one vote and each share of Class B common stock has ten votes on all matters to be voted upon by the Company s shareholders. As a result, Mr. Dunlap is able to control all matters requiring approval by the Company s shareholders, including the election of all members of the Board of Directors, and may do so in a manner with which other shareholders may not agree or which they may not consider to be in the best interest of other shareholders. In addition, Stephen F. Butterfield, the Company s Vice Chairman, owns a substantial number of shares of Class B common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

The Company has no unresolved comments from the staff of the Securities and Exchange Commission regarding its periodic or current reports under the Securities Exchange Act of 1934.

ITEM 2. PROPERTIES

The following table lists the principal facilities for office space owned or leased by the Company. The Company owns the building in Lincoln, Nebraska where its principal office is located. The building is subject to a lien securing the outstanding mortgage debt on the property.

Location	Primary Function or Segment	Approximate square feet	Lease expiration date
Lincoln, NE	Corporate Headquarters, Asset Generation and Management, Student Loan and Guaranty Servicing	137,000	
Aurora, CO	Asset Generation and Management, Student Loan and Guaranty Servicing, Software and Technical Services	124,000	February 2015
Jacksonville, FL	Student Loan and Guaranty Servicing, Software and Technical Services	109,000	January 2014
Lawrenceville, NJ	Enrollment Services and List Management	62,000	April 2011

The square footage amounts above exclude a total of approximately 60,000 square feet of owned office space in Lincoln, Nebraska that the Company leases to third parties. The Company also leases approximately 62,000 square feet of office space in Indianapolis, Indiana where Asset Generation and Management and Student Loan and Guaranty Servicing operations were previously conducted, of which 56,000 square feet is now subleased to third parties. The Company leases other office facilities located throughout the United States. These properties are leased on terms and for durations that are reflective of commercial standards in the communities where these properties are located. The Company believes that its respective properties are generally adequate to meet its long-term business goals. The Company s principal office is located at 121 South 13th Street, Suite 201, Lincoln, Nebraska 68508.

ITEM 3. 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 borrowers disputing the manner in which their loans have been processed and disputes with other business entities. On the basis of present information, anticipated insurance coverage, and advice received from counsel, it is the opinion of the Company s management that the disposition or ultimate determination of these claims, lawsuits, and proceedings will not have a material adverse effect on the Company s business, financial position, or results of operations.

On February 8, 2008, Shockley Financial Corp. (SFC), an indirect wholly owned subsidiary of the Company with two associates that provides investment advisory services for the investment of proceeds from the issuance of municipal and corporate bonds, received a grand jury subpoena issued by the U.S. District Court for the Southern District of New York upon application of the Antitrust Division of the U.S. Department of Justice. The subpoena seeks certain information and documents from SFC in connection with the Department of Justice s ongoing criminal investigation of the bond industry with respect to possible anti-competitive practices related to awards of guaranteed investment contracts (GICs) and other products for the investment of proceeds from bond issuances. The Company and SFC are cooperating with the investigation. In connection with this matter, SFC, the Company, or other subsidiaries of the Company may receive subpoenas from other regulatory agencies. The Company understands that the Antitrust Division of the U.S. Department of Justice, the Securities and Exchange Commission, and the Internal Revenue Service have each been conducting investigations of GIC placement activities. Due to the preliminary nature of this matter as to SFC, the Company is unable to predict the ultimate outcome of this matter.

Industry Investigations

On January 11, 2007, the Company received a letter from the New York Attorney General (the NYAG) requesting certain information and documents from the Company in connection with the NYAG s investigation into preferred lender list activities. Since January 2007, a number of state attorneys general, including the NYAG, and the U.S. Senate Committee on Health, Education, Labor, and Pensions have announced or are reportedly conducting broad inquiries or investigations of the activities of various participants in the student loan industry, including activities which may involve perceived conflicts of interest. A focus of the inquiries or investigations has been on any financial arrangements among student loan lenders and other industry participants which may facilitate increased volumes of student loans for particular lenders. Like many other student loan lenders, the Company has received informal requests for information from certain state attorneys general and the Chairman of the U.S. Senate Committee on Health, Education, Labor, and Pensions in connection with their inquiries or investigations. In addition, the Company has received subpoenas for information from the NYAG, the New Jersey Attorney General, and the Ohio Attorney General. In each case the Company is cooperating with the requests and subpoenas for information that it has received.

On April 20, 2007, the Company announced that it had agreed with the Nebraska Attorney General to voluntarily adopt a Nelnet Student Loan Code of Conduct, post a review of the Company s business practices on its website, and commit $1.0 million to help educate students and families on how to plan and pay for their education.

On July 31, 2007, the Company announced that it had agreed with the NYAG to adopt the NYAG s Code of Conduct, which is substantially similar to the Nelnet Student Loan Code of Conduct. The NYAG s Code of Conduct also includes an agreement to eliminate two services the Company had previously announced plans to discontinue the Company s outsourcing of calls for financial aid offices and its agreements with college alumni associations providing for marketing of consolidation loans to the associations members. As part of the agreement, the Company agreed to contribute $2.0 million to a national fund for educating high school seniors and their parents regarding the financial aid process.

On October 10, 2007, the Company received a subpoena from the NYAG requesting certain information and documents from the Company in connection with the NYAG s investigation into direct-to-consumer marketing practices of student lenders. The Company is cooperating with the request.

While the Company cannot predict the ultimate outcome of any inquiry or investigation, the Company believes its activities have materially complied with applicable law, including the Higher Education Act, the rules and regulations adopted by the Department of Education thereunder, and the Department s guidance regarding those rules and regulations.

Department of Education Review

The Department of Education periodically reviews participants in the FFEL Program for compliance with program provisions. On June 28, 2007, the Department of Education notified the Company that it would be conducting a review of the Company s administration of the FFEL Program under the Higher Education Act. The Company understands that as of July 23, 2007, the Department of Education had selected 47 schools and 27 lenders for review. Specifically, the Department is reviewing the Company s practices in connection with the prohibited inducement provisions of the Higher Education Act and the provisions of the Higher Education Act and the associated regulations which allow borrowers to have a choice of lenders. The Company has responded to the Department of Education s requests for information and documentation and is cooperating with their review.

While the Company cannot predict the ultimate outcome of the review, the Company believes its activities have materially complied with the Higher Education Act, the rules and regulations adopted by the Department of Education thereunder, and the Department s guidance regarding those rules and regulations.

Department of Justice

In connection with the Company s settlement with the Department of Education in January 2007 to resolve the OIG audit report with respect to the Company s student loan portfolio receiving special allowance payments at a minimum 9.5% interest rate, the Company was informed by the Department of Education that a civil attorney with the Department of Justice had opened a file regarding the issues set forth in the OIG report, which the Company understands is common procedure following an OIG audit report. The Company has engaged in discussions and provided information to the Department of Justice in connection with the review. While the Company is unable to predict the ultimate outcome of the review, the Company believes its practices complied with applicable law, including the provisions of the Higher Education Act, the rules and regulations adopted by the Department of Education thereunder, and the Department s guidance regarding those rules and regulations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of fiscal 2007.

PART II.

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company s Class A Common Stock is listed and traded on the New York Stock Exchange under the symbol NNI, while its Class B Common Stock is not publicly traded. The number of holders of record of the Company s Class A Common Stock and Class B Common Stock as of January 31, 2008 was 675 and eight, respectively. Because many shares of the Company s Class A Common stock are held by brokers and other institutions on behalf of shareholders, the Company is unable to estimate the total number of beneficial owners represented by these record holders. The following table sets forth the high and low sales prices for the Company s Class A Common Stock for each full quarterly period in 2007 and 2006.

	2007				2006			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
High	$ 27.92	$ 28.00	$ 24.35	$ 19.61	$ 43.19	$ 42.97	$ 40.65	$ 30.79
Low	23.38	22.99	17.11	11.99	40.00	36.04	28.52	25.24

During each quarter in 2007, the Company paid a cash dividend of $0.07 per share on the Company s Class A and Class B Common Stock. The Company did not pay cash dividends on either class of its Common Stock in 2006. The Company s Board of Directors approved a 2008 first quarter cash dividend of $0.07 per share on the Company s Class A and Class B Common Stock to be paid on March 15, 2008 to shareholders of record as of March 1, 2008. The Company currently plans to continue making a quarterly dividend payment in the future, subject to future earnings, capital requirements, financial condition, and other factors.

Performance Graph

The following graph compares the change in the cumulative total shareholder return on the Company s Class A Common Stock to that of the cumulative return of the Dow Jones U.S. Total Market Index and the Dow Jones U.S. Financial Services Index. The graph assumes that the value of an investment in the Company s Class A Common Stock and each index was $100 on December 11, 2003 (the date of the Company s initial public offering of its Class A Common Stock), and that all dividends, if applicable, were reinvested. The performance shown in the graph represents past performance and should not be considered an indication of future performance.

Company/Index	**12/11/2003**	**12/31/2003**	**12/31/2004**	**12/31/2005**	**12/31/2006**	**12/31/2007**
Nelnet, Inc.	$ 100.00	$ 102.75	$ 123.53	$ 186.61	$ 125.50	$ 59.17
Dow Jones U.S. Index	$ 100.00	$ 103.71	$ 116.17	$ 123.52	$ 142.75	$ 151.33
Dow Jones U.S. Financial Services Index	$ 100.00	$ 103.63	$ 118.41	$ 128.33	$ 163.95	$ 137.54

The preceding information under the caption Performance Graph shall be deemed to be furnished but not filed witl the Securities and Exchange Commission.

Stock Repurchases

The following table summarizes the repurchases of Class A common stock during the fourth quarter of 2007 by the Company or any affiliated purchaser of the Company, as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934.

Period	Total number of shares purchased (1)	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs (2) (3)	Maximum number of shares that may yet be purchased under the plans or programs (4)
October 1 - October 31, 2007	3,247	$ 18.95	3,247	6,717,146
November 1 - November 30, 2007	65,581	16.08	65,581	7,332,998
December 1 - December 31, 2007	2,100	12.85	2,100	7,555,499
Total	70,928	$ 16.11	70,928	

(1) The total number of shares includes: (i) shares purchased pursuant to the 2006 Plan discussed in footnote (2) below; and (ii) shares purchased pursuant to the 2006 ESLP discussed in footnote (3) below, of which there were none for the months of October, November, or December 2007. Shares of Class A common stock purchased pursuant to the 2006 Plan included

(i) 3,247 shares, 1,169 shares, and 1,515 shares in October, November, and December, 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, (ii) 11,312 shares and 585 shares in November and December, respectively, purchased from employees upon termination of employment with the Company, which shares were originally acquired pursuant to the 2006 ESLP, and (iii) 53,100 shares in November purchased in the open market in transactions not related to the 2006 ESLP.

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

(3) On May 25, 2006, the Company publicly announced that the shareholders

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

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

As of	Maximum number of shares that may yet be purchased under the 2006 Plan (A)	Approximate dollar value of shares that may yet be purchased under the 2006 ESLP (B)	Closing price on the last trading day of the Company's Class A Common Stock (C)	(B / C) Approximate number of shares that may yet be purchased under the 2006 ESLP (D)	(A + D) Approximate number of shares that may yet be purchased under the 2006 Plan and 2006 ESLP
October 31, 2007	4,755,359	$ 36,450,000	$ 18.58	1,961,787	6,717,146
November 30, 2007	4,689,778	36,450,000	13.79	2,643,220	7,332,998
December 31, 2007	4,687,678	36,450,000	12.71	2,867,821	7,555,499

Equity Compensation Plans

For information regarding the Company s equity compensation plans, see Part III, Item 12 of this Report.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected financial and other operating information of the Company. The selected financial data in the table is derived from the consolidated financial statements of the Company. The following selected financial data should be read in conjunction with the consolidated financial statements, the related notes, and Management s Discussion and Analysis of Financial Condition and Results of Operations included in this Report. As a result of certain transactions as summarized below, the period-to-period comparability of the Company s financial position and results of operations may be difficult.

During 2004 through 2006, the Company acquired the stock and certain assets of 17 different entities;

The Company began recognizing interest income in 2004 on a loan portfolio in which it earned a minimum interest rate of 9.5 percent. Interest income earned on this portfolio decreased as a result of rising interest rates and the pay down of the portfolio. As a result of the Company s settlement entered into with the Department, beginning July 1, 2006 the Company no longer recognizes 9.5 percent floor income on this loan portfolio;

In May 2007, the Company sold EDULINX, a Canadian student loan service provider and subsidiary of the Company. As a result of this transaction, the results of operations for EDULINX are reported as discontinued operations for all periods presented;

Upon passage of the College Cost Reduction Act in September 2007, management evaluated the carrying amount of goodwill and certain intangible assets. Based on the legislative changes and the student loan business model modifications the Company implemented as a result of the legislative changes, the Company recorded an impairment charge of $39.4 million;

In September 2007, the Company recorded an expense of $15.7 million to increase the Company s allowance for loan losses related to the increase in risk share as a result of the elimination of the Exceptional Performer program; and

In September 2007, the Company announced a strategic initiative to create efficiencies and lower costs in advance of the enactment of the College Cost Reduction Act, which impacted the FFEL Program in which the Company participates. As a result of these strategic decisions, the Company recorded restructuring charges of $20.3 million.

Management evaluates the Company s GAAP-based financial information as well as operating results on a non-GAAP performance measure referred to as base net income. Management believes base net income provides additional insight into the financial performance of the core operations.

	Year ended Decmber 31,				
	2007	2006	2005	2004	2003
	(dollars in thousands, except share data)				
Income Statement Data:					
Net interest income	$ 244,614	308,459	328,999	398,160	171,722
Less provision (recovery) for loan losses	28,178	15,308	7,030	(529)	11,475
Net interest income after provision (recovery) for loan losses	216,436	293,151	321,969	398,689	160,247
Other income	330,835	263,166	145,801	119,893	121,976
Derivative market value, foreign currency, and put option adjustments	26,806	(31,075)	96,227	(11,918)	(1,183)
Derivative settlements, net	18,677	23,432	(17,008)	(34,140)	(1,601)
Salaries and benefits	(236,631)	(214,676)	(142,132)	(130,840)	(124,273)
Amortization of intangible assets	(30,426)	(25,062)	(8,151)	(8,707)	(12,766)
Impairment expense	(49,504)	(21,488)			
Other operating expenses	(219,048)	(185,053)	(117,448)	(98,580)	(96,111)
Income before income taxes and minority interest	57,145	102,395	279,258	234,397	46,289
Income from continuing operations	35,429	65,916	178,074	149,170	27,103
Income (loss) from discontinued operations, net of tax	(2,575)	2,239	3,048	9	
Net income	32,854	68,155	181,122	149,179	27,103
Earnings per share, basic and diluted:					
Continuing operations	$ 0.71	1.23	3.31	2.78	0.60
Discontinued operations	(0.05)	0.04	0.06		
Net income	0.66	1.27	3.37	2.78	0.60
Weighted average shares outstanding (basic)	49,618,107	53,593,056	53,761,727	53,648,605	45,501,583
Weighted average shares outstanding (diluted)	49,628,802	53,593,056	53,761,727	53,648,605	45,501,583
Dividends per common share	$ 0.28				
Other Data:					
Origination and acquisition volume (a)	$ 5,152,110	6,696,118	8,471,121	4,070,529	3,093,014
Average student loans	25,143,059	21,696,466	15,716,388	11,809,663	9,316,354
Student loans serviced (at end of period) (b)	33,817,458	30,593,592	26,988,839	21,076,045	18,773,899
Ratios:					
Core student loan spread	1.13%	1.42%	1.51%	1.66%	1.78%

Net loan charge-offs as a percentage of average student loans	0.030%	0.012%	0.006%	0.070%	0.080%
Shareholders equity to total assets (at end of period)	2.09%	2.51%	2.85%	3.01%	2.56%

	As of December 31,				
	2007	2006	2005	2004	2003
	(dollars in thousands)				
Balance Sheet Data:					
Cash and cash equivalents	$ 111,746	102,343	96,678	41,181	198,423
Student loans receivables, net	26,736,122	23,789,552	20,260,807	13,461,814	10,455,442
Goodwill and intangible assets	277,525	353,008	243,630	16,792	11,630
Total assets	29,162,783	26,796,873	22,798,693	15,169,511	11,932,831
Bonds and notes payable	28,115,829	25,562,119	21,673,620	14,300,606	11,366,458
Shareholders equity	608,879	671,850	649,492	456,175	305,489

(a) Initial loans originated or acquired through various channels, including originations through the direct channel; acquisitions through the branding partner channel, the forward flow channel, and the secondary market (spot purchases); and loans acquired in portfolio and business acquisitions.

(b) The student loans serviced does not include loans serviced by EDULINX for all periods presented.

ITEM 7. 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 years ended December 31, 2007, 2006, and 2005. All dollars are in thousands, except per share amounts, unless otherwise noted.)

OVERVIEW

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

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

During 2007, the Company continued to diversify its revenue streams, increase fee-based revenue, utilize its scale and capacity to create efficiencies, and deploy capital by repurchasing shares of the Company s stock and paying its first quarterly dividends.

- Fee-based revenue for the year ended December 31, 2007 was 56% of total revenues compared to 44% for the year ended December 31, 2006.

- Fee-based revenue increased $71.8 million, or 30%, from $239.8 million for the year ended December 31, 2006 to $311.6 million for the year ended December 31, 2007.

- Operating expenses, excluding acquisitions and restructuring and legislative charges, increased $5.0 million, or 1.2%, from $399.7 million for the year ended December 31, 2006 to $404.7 million for the year ended December 31, 2007.

- The Company repurchased 3.4 million shares of its Class A common stock for $82.1 million during the year ended December 31, 2007.

- The Company paid a cash dividend of $0.07 per share on the Company s Class A and Class B common stock on March 15, 2007, June 15, 2007, September 15, 2007, and December 17, 2007. Total dividends paid in 2007 was $13.8 million.

- As of December 31, 2007, student loan assets were $26.7 billion, an increase of $2.9 billion, or 12.4%, compared to December 31, 2006.

The following events occurred in 2007 that significantly affected the operating results of the Company:

- The Company sold EDULINX and is reporting this transaction as discontinued operations;

- The College Cost Reduction Act was enacted;

- The Company initiated a restructuring plan; and

- The debt and secondary markets experienced unprecedented disruptions.

Sale of EDULINX

On May 25, 2007, the Company sold EDULINX, a Canadian student loan service provider and subsidiary of the Company. The Company recognized a net loss of $8.3 million related to the transaction. As a result of this transaction, the results of operations for EDULINX are reported as discontinued operations for all periods presented.

Legislative Impact

On September 27, 2007, the President signed into law the College Cost Reduction Act. This legislation contains provisions with significant implications for participants in the FFEL Program, including cutting funding to the FFEL

Program by $20 billion over a five year period as estimated by the Congressional Budget Office. Among other things, this legislation:

Reduced special allowance payments to for-profit lenders and not-for-profit lenders by 0.55 percentage points and 0.40 percentage points, respectively, for both Stafford and Consolidation loans disbursed on or after October 1, 2007;

Reduced special allowance payments to for-profit lenders and not-for-profit lenders by 0.85 percentage points and 0.70 percentage points, respectively, for PLUS loans disbursed on or after October 1, 2007;

Increased origination fees paid by lenders on all FFELP loan types, from 0.5 percent to 1.0 percent, for all loans first disbursed on or after October 1, 2007;

Eliminated all provisions relating to Exceptional Performer status, and the monetary benefit associated with it, effective October 1, 2007; and

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

As a result of this legislation, management expects the annual yield on FFELP loans to decrease by 70 to 80 basis points on student loans originated after October 1, 2007.

Upon passage of the College Cost Reduction Act, management evaluated the carrying amount of goodwill and certain intangible assets. Based on the legislative changes and the student loan business model modifications the Company implemented as a result of the legislative changes, the Company recorded an impairment charge of $39.4 million during the third quarter of 2007.

The Company also recorded an expense of $15.7 million during the third quarter of 2007 to increase the Company s allowance for loan losses related to the increase in risk share as a result of the elimination of the Exceptional Performer program.

In October 2005, the Company entered into an agreement to amend an existing contract with College Assist. College Assist is the Colorado state-designated guarantor of FFELP student loans. Under the agreement, the Company provides student loan servicing and guaranty operations and assumed the operational expenses and employment of certain College Assist employees. College Assist pays the Company a portion of the gross servicing and guaranty fees as consideration for the Company providing these services on behalf of College Assist. As a result of the passage of the College Cost Reduction Act, on October 2, 2007, the Department notified College Assist of its decision to formally terminate the Voluntary Flexible Agreement (VFA) between the Department and College Assist effective January 1, 2008. The termination of the VFA will decrease the Company s guaranty income by approximately $9 million annually.

Restructuring Charges

Legislative Impact

On September 6, 2007, the Company announced a strategic initiative to create efficiencies and lower costs in advance of the passage of the College Cost Reduction Act.

In anticipation of the federally driven cuts to the student loan programs, management initiated a variety of strategies to modify the Company s student loan business model, including lowering the cost of student loan acquisition, creating efficiencies in the Company s asset generation business, and decreasing operating expenses through a reduction in workforce and realignment of operating facilities. These strategies resulted in the net reduction of approximately 400 positions in the Company s overall workforce, including the elimination of approximately 500 positions and the creation of approximately 100 positions at the Company s larger facilities. In addition, the Company simplified its operating structure to leverage its larger facilities and technology by closing five small origination offices and downsizing its presence in Indianapolis. Implementation of the plan began immediately and was substantially completed during the fourth quarter of 2007. The Company estimates these restructuring activities will result in expense savings of as much as $25 million annually beginning in 2008. During the year ended December 31, 2007, the Company recorded restructuring charges of $20.3 million.

Capital Markets Impact

The Company has significant financing needs that it meets through the capital markets, including the debt and secondary markets. Since August 2007, these markets have experienced unprecedented disruptions, which are having an adverse impact on the Company s earnings and financial condition. On January 23, 2008, the Company announced a plan to further reduce operating expenses related to its student loan origination and related businesses by reducing marketing, sales, service, and related support costs through a reduction in workforce of approximately 300 positions and realignment of certain operating facilities as a result of the ongoing disruption in the credit markets. Since the Company cannot determine nor control the length of time or extent to which the capital markets remain disrupted, the

Company will reduce its direct and indirect costs related to its asset generation activities and be more selective in pursuing origination activity, in both the school and direct to consumer channels, for both private loans and FFELP loans. Accordingly, the Company has suspended Consolidation student loan originations and will continue to review the viability of continuing to originate and acquire student loans through its various channels. As a result of these items, the Company will experience a decrease in origination volume compared to historical periods.

The Company estimates that the total after-tax charge to earnings in 2008 associated with the restructuring plan will be approximately $17 million, consisting of approximately $4 million in severance costs, up to $2 million in contract termination costs, and approximately $11 million in non-cash charges related to the impairment of property and equipment, intangible assets, and goodwill. The Company anticipates that the after-tax charges to earnings will be incurred during the first two quarters of 2008, of which greater than 90% will be incurred in the first quarter.

As a result of this additional restructuring plan, the Company expects to reduce operating expenses by $15 million to $20 million (before tax) annually.

Disruptions in the Debt and Secondary Markets

The Company s primary market risk exposure arises from fluctuations in its borrowing and lending rates, the spread between which could be impacted by shifts in market interest rates. The Company has significant financing needs that it meets through the capital markets, including the debt and secondary markets. Since August 2007, these markets have experienced unprecedented disruptions, which have had an adverse impact on the Company s earnings and financial condition. Current conditions in the debt markets include reduced liquidity and increased credit risk premiums for most market participants. These conditions increased the Company s cost of debt during 2007 and reduced the Company s core student loan spread. If these markets continue to experience difficulties, the Company may be unable to securitize its student loans or to do so on favorable terms, including pricing. If the Company were unable to continue to securitize student loans on favorable terms, it could use alternative funding sources to fund increases in student loans to meet liquidity needs. If the Company was unable to find cost-effective and stable funding alternatives, its funding capabilities and liquidity would be negatively impacted and its cost of funds could increase, adversely affecting the Company s results of operations. In addition, the Company s ability to originate and acquire student loans would be limited or could be eliminated.

In accordance with generally accepted accounting principles, the Company reported net income of $32.9 million and $68.2 million for the years ended December 31, 2007 and 2006, respectively. The change in net income was driven primarily by the restructuring and legislative related charges, the change in the derivative market value, foreign currency, and put option adjustments, and reductions in interest income as a result of no longer receiving 9.5% special allowance payments in accordance with the Company s Settlement Agreement with the Department in January 2007.

RESULTS OF OPERATIONS

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

Acquisitions

Management believes the Company s business and asset acquisitions in recent years have enhanced the Company s position as a vertically-integrated industry leader and established a strong foundation for growth. Although the Company s assets, loan portfolios, and fee-based revenues increased through such transactions, a key aspect of each transaction is its impact on the Company s prospective organic growth and the development of its integrated platform of services. Management believes these acquisitions allow the Company to expand the products and services offered to educational and financial institutions and students and families throughout the education and education finance process. In addition, these acquisitions diversify the Company s asset generation streams and/or diversify revenue by offering other products and services that are not dependent on government programs, which management believes will reduce the Company s exposure to legislative and political risk. The Company also expects to reduce costs from these acquisitions through economies of scale and by integrating certain support services. In addition, the Company expects to increase revenue from these acquisitions by offering multiple products and services to its customers. As a result of these recent acquisitions, the period-to-period comparability of the Company s results of operations may be difficult.

Net Interest Income

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

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

On most consolidation loans, the Company must pay a 1.05% per year rebate fee to the Department. Those consolidation loans that have variable interest rates based on the SAP formula earn an annual yield less than that of a Stafford loan. Those consolidation loans that have fixed interest rates less than the sum of 1.05% and the variable rate based on the SAP formula also earn an annual yield less than that of a Stafford loan. As a result, as consolidation loans matching these criteria become a larger portion of the Company s loan portfolio, there will be a lower yield on the Company s loan portfolio in the short term.

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

Reduced special allowance payments to for-profit lenders and not-for-profit lenders by 0.55 percentage points and 0.40 percentage points, respectively, for both Stafford and Consolidation loans disbursed on or after October 1, 2007;

Reduced special allowance payments to for-profit lenders and not-for-profit lenders by 0.85 percentage points and 0.70 percentage points, respectively, for PLUS loans disbursed on or after October 1, 2007;

Increased origination fees paid by lenders on all FFELP loan types, from 0.5 percent to 1.0 percent, for all loans first disbursed on or after October 1, 2007;

Eliminated all provisions relating to Exceptional Performer status, and the monetary benefit associated with it, effective October 1, 2007; and

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

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

Because the Company generates a significant portion of its earnings from its student loan spread, the interest rate sensitivity of the Company s balance sheet is very important to its operations. The current and future interest rate environment can and will affect the Company s interest earnings, net interest income, and net income. The effects of changing interest rate environments are further outlined in Item 7A, Quantitative and Qualitative Disclosures about Market Risk - Interest Rate Risk.

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

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

Provision for Loan Losses

Management estimates and establishes an allowance for loan losses through a provision charged to expense. Losses are charged against the allowance when management believes the collectibility of the loan principal is unlikely.

Recovery of amounts previously charged off is credited to the allowance for loan losses. Management maintains the allowance for federally insured and non-federally insured loans at a level believed to be adequate to provide for estimated probable credit losses inherent in the loan portfolio. This evaluation is inherently subjective because it requires estimates that may be susceptible to significant changes. The Company analyzes the allowance separately for its federally insured loans and its non-federally insured loans.

Management bases the allowance for the federally insured loan portfolio on periodic evaluations of the Company s loan portfolios, considering past experience, trends in student loan claims rejected for payment by guarantors, changes to federal student loan programs, current economic conditions, and other relevant factors. One of the changes to the Higher Education Act as a result of HERA s enactment in February 2006, was to lower the guaranty rates on FFELP loans, including a decrease in insurance and reinsurance on portfolios receiving the benefit of the Exceptional Performance designation by 1%, from 100% to 99% of principal and accrued interest (effective July 1, 2006), and a decrease in insurance and reinsurance on portfolios not subject to the Exceptional Performance designation by 1%, from 98% to 97% of principal and accrued interest (effective for all loans first disbursed on and after July 1, 2006). In February 2006, as a result of the change in these legislative provisions, the Company recorded an expense of $6.9 million to increase the Company s allowance for loan losses.

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

On September 27, 2007, the President signed into law the College Cost Reduction Act. Among other things, this legislation eliminated all provisions relating to Exceptional Performer status, and the monetary benefit associated with it, effective October 1, 2007. During the three month period ended September 30, 2007, the Company recorded an expense of $15.7 million to increase the Company s allowance for loan losses related to the increase in risk share as a result of the elimination of the Exceptional Performer program.

In June 2006, the Company submitted its application for Exceptional Performer redesignation to the Department to continue receiving reimbursements at the 99% level for the 12-month period from June 1, 2006 through May 31, 2007. By a letter dated September 28, 2007, the Department informed the Company that it was redesignated as an Exceptional Performer for the period from June 1, 2006 through May 31, 2008. As stated above, the College Cost Reduction Act eliminated the Exceptional Performer designation effective October 1, 2007. Accordingly, the majority of claims submitted on or after October 1, 2007 are subject to reimbursement at 97% or 98% of principal and accrued interest depending on disbursement date of the loan.

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

Other Income

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

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

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

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

Other income also includes the derivative market value and foreign currency adjustments and derivative net settlements from the Company s derivative instruments and Euro Notes as further discussed in Item 7A, Quantitative and Qualitative Disclosures about Market Risk. The change in the fair value of put options (issued as part of the consideration for certain business combinations) is also included in other income.

Operating Expenses

Operating expenses includes indirect costs incurred to generate and acquire student loans, costs incurred to manage and administer the Company s student loan portfolio and its financing transactions, costs incurred to service the

Company s student loan portfolio and the portfolios of third parties, costs incurred to provide tuition payment processing, campus commerce, enrollment, list management, software, and technical services to third parties, and other general and administrative expenses. Operating expenses also includes the depreciation and amortization of capital assets and intangible assets. For the year ended December 31, 2007, operating expenses also includes employee termination benefits, lease termination costs, and the write-down of property and equipment related to the Company s restructuring plan and impairment charges from the write-down of intangible assets and goodwill as a result of legislative changes.

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Year ended December 31, 2007 compared to year ended December 31, 2006

Net Interest Income

	Year ended		
	December 31, 2007	December 31, 2006	$ Change
Interest income:			
Loan interest	$ 1,667,057	1,455,715	211,342
Investment interest	80,219	93,918	(13,699)
Total interest income	1,747,276	1,549,633	197,643
Interest expense:			
Interest on bonds and notes payable	1,502,662	1,241,174	261,488
Net interest income	244,614	308,459	(63,845)
Provision for loan losses	28,178	15,308	12,870
Net interest income after provision for loan losses	$ 216,436	293,151	(76,715)

Net interest income for the year ended December 31, 2006 included $32.3 million of 9.5% special allowance payments. In accordance with the Company s Settlement Agreement with the Department in January 2007, the Company did not receive any 9.5% special allowance payments in 2007. Excluding the 9.5% special allowance payments, net interest income before the allowance for loan losses decreased $31.6 million. Interest expense increased $10.8 million for the year ended December 31, 2007 compared to the same period in 2006 as a result of additional issuances of unsecured debt used to fund operating activities of the Company. The remaining change in net interest income before the provision for loan losses is attributable to the growth in the Company s student loan portfolio offset by a decrease in core student loan spread as discussed in this Item 7 under Asset Generation and Management Operating Segment Results of Operations . The provision for loan losses increased for the year ended December 31, 2007 compared to 2006 as a result of the Company recognizing $15.7 million in expense for provision for loan losses as a result of the elimination of the Exceptional Performer program. During the year ended December 31, 2006, the Company recognized $6.9 million in expense for provision for loan losses as a result of HERA s enactment in February 2006.

Other Income

	Year ended		
	December 31, 2007	December 31, 2006	$ Change
Loan and guaranty servicing income	$ 128,069	121,593	6,476
Other fee-based income	160,888	102,318	58,570
Software services income	22,669	15,890	6,779
Other income	19,209	23,365	(4,156)
Derivative market value, foreign currency, and put option adjustments	26,806	(31,075)	57,881
Derivative settlements, net	18,677	23,432	(4,755)

Total other income	$ 376,318	255,523	120,795

Loan and guaranty servicing income increased due to an increase in guaranty servicing income which was offset by a decrease in FFELP loan servicing income.

Other fee-based income increased due to business acquisitions, an increase in the number of managed tuition payment plans, an increase in campus commerce and related clients, and an increase in lead generation sales due to additional customers.

Software services income increased as a result of new customers, additional projects for existing customers, and increased fees.

Other income decreased as a result of a decrease in gains on the sales of student loan assets of $13.0 million, offset by a gain on the sale of an entity accounted for under the equity method of $3.9 million in September 2007. The remaining change is a result of income earned on certain investment activities.

The change in derivative market value, foreign currency, and put option adjustments was caused by a change in the fair value of the Company s derivative portfolio and foreign currency rate fluctuations which are further discussed in Item 7A, Quantitative and Qualitative Disclosures about Market Risk.

The change in derivative settlements is discussed in Item 7A, Quantitative and Qualitative Disclosures about Market Risk.

Operating Expenses

		Year ended December 31, 2006	Impact of acquisitions	Impact of restructuring and impairment charges	Net change after impact of acquisitions and restructuring and impairment charges	Year ended December 31, 2007
Salaries and benefits	$	214,676	13,562	6,315	2,078	236,631
Other expenses		185,053	27,112	3,916	2,967	219,048
Amortization of intangible assets		25,062	5,364			30,426
Impairment expense		21,488		28,016		49,504
Total operating expenses	$	446,279	46,038	38,247	5,045	535,609

Excluding recent acquisitions and restructuring and impairment charges, operating expenses increased $5.0 million as a result of a $7.2 million increase in the first quarter of 2007, a $0.2 million decrease in the second quarter of 2007, a $2.3 million decrease in the third quarter of 2007, and a $0.3 million increase in the fourth quarter of 2007. The increase in the first quarter of 2007 was a result of (i) increased costs to develop systems to support a larger organizational structure and (ii) organic growth of the organization. The Company s costs to develop its corporate structure include projects such as recruitment, development, and retention of intellectual capital, technology enhancements to support a larger, more diversified customer and employee base, and increased emphasis on marketing services and products and developing the Company s brand. The decreases in the second and third quarters of 2007 are a result of the Company capitalizing on the operating leverage of its business structure and strategies.

Income Taxes

The Company s effective tax rate was 38.0% for the year ended December 31, 2007 compared to 35.4% for the same period in 2006. The effective tax rate increased due to certain enacted state tax law changes and an increase in expense recognized by the Company during 2007 compared to 2006 related to its outstanding put options which are not deductible for tax purposes. Management expects the Company s effective income tax rate to increase in future periods as a result of the various state tax law changes.

The Company adopted the provisions of Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* (FIN 48) as discussed in note 16 in the notes to the consolidated financial statements included in this Report. The adoption of FIN 48 could increase the volatility of the Company s effective tax rate because FIN 48 requires that any change in judgment or change in measurement of a tax position taken in a prior period be recognized as a discrete event in the period in which it occurs. Additional information on the Company s results of operations is included with the discussion of the Company s operating segments in this Item 7 under Operating Segments .

Year ended December 31, 2006 compared to year ended December 31, 2005
Net Interest Income

	Year ended December 31, 2006	December 31, 2005	$ Change
Interest income:			
Loan interest	$ 1,455,715	904,949	550,766
Investment Interest	93,918	44,161	49,757
Total interest income	1,549,633	949,110	600,523
Interest expense:			
Interest on bonds and notes payable	1,241,174	620,111	621,063
Net interest income	308,459	328,999	(20,540)
Provision for loan losses	15,308	7,030	8,278
Net interest income after provision for loan losses	$ 293,151	321,969	(28,818)

Net interest income for the years ended December 31, 2006 and 2005 included $32.3 million and $94.7 million of 9.5% special allowance payments. Excluding the 9.5% special allowance payments, net interest income before the allowance for loan losses increased $41.8 million. The remaining change in net interest income before the provision for loan losses is attributable to the growth in the Company s student loan portfolio, offset by a decrease in core student loan spread and an increase in interest expense as a result of additional issuances of unsecured debt as discussed in this Item 7 under Asset Generation and Management Operating Segment Results of Operations. The provision for loan losses increased as a result of the Company recognizing $6.9 million in expense for provision for loan losses as a result of HERA s enactment in February 2006.

Other Income

	Year ended December 31, 2006	December 31, 2005	$ Change
Loan and guaranty servicing income	$ 121,593	93,332	28,261
Other fee-based income	102,318	35,641	66,677
Software services income	15,890	9,169	6,721
Other income	23,365	7,659	15,706
Derivative market value, foreign currency, and put option adjustments	(31,075)	96,227	(127,302)
Derivative settlements, net	23,432	(17,008)	40,440
Total other income	$ 255,523	225,020	30,503

Loan and guaranty servicing income increased due to growth from acquisitions offset by a decrease in FFELP loan servicing income.

Other fee-based income increased largely due to recent acquisitions. In addition, the Company experienced an increase in borrower late fee income related to loan portfolio growth, an increase in the number of managed tuition payment plans, and an increase in list sales volume.

Software services income increased due to the acquisition of 5280 Solutions, LLC (5280).

Other income increased as a result of the gains on the sales of student loan assets.

The change in derivative market value, foreign currency, and put option adjustments was caused by a change in the fair value of the Company s derivative portfolio and foreign currency rate fluctuations which are further discussed in Item 7A, Quantitative and Qualitative Disclosures about Market Risk.

The change in derivative settlements is discussed in Item 7A, Quantitative and Qualitative Disclosures about Market Risk.

Operating expenses

		Year ended December 31, 2005	Impact of acquisitions	Impact of impairment charges	Net change after impact of acquisitions and impairment charges	Year ended December 31, 2006
Salaries and benefits	$	142,132	60,222		12,322	214,676
Other expenses		117,448	65,709		1,896	185,053
Amortization of intangible assets		8,151	16,911			25,062
Impairment expense				21,488		21,488
Total operating expenses	$	267,731	142,842	21,488	14,218	446,279

Excluding the impact of acquisitions and impairment charges, operating expenses increased $14.2 million, or 5.3%. This increase was a result of (i) increased costs to develop systems to support a larger organizational structure and (ii) organic growth of the organization, specifically that of the Company s school-based marketing efforts. The Company s costs to develop its corporate structure include projects such as recruitment, development, and retention of intellectual capital and technology enhancements to support a larger, more diversified customer and employee base.

Income Taxes

The Company s effective tax rate remained relatively consistent from 2005 to 2006, decreasing from 36.0% to 35.4%. During 2006, the Company s effective tax rate would have been negatively affected due to a put option adjustment, but was offset by a favorable rate adjustment from the resolution of various federal and state tax positions.

Financial Condition as of December 31, 2007 compared to December 31, 2006

	As of December 31,		Change	
	2007	2006	Dollars	Percent
Assets:				
Student loans receivable, net	$ 26,736,122	23,789,552	2,946,570	12.4%
Cash, cash equivalents, and investments	1,120,838	1,773,751	(652,913)	(36.8)
Goodwill	164,695	191,420	(26,725)	(14.0)
Intangible assets, net	112,830	161,588	(48,758)	(30.2)
Fair value of derivative instruments	222,471	146,099	76,372	52.3
Assets of discontinued operations		27,309	(27,309)	(100.0)
Other assets	805,827	707,154	98,673	14.0
Total assets	$ 29,162,783	26,796,873	2,365,910	8.8%
Liabilities:				
Bonds and notes payable	$ 28,115,829	25,562,119	2,553,710	10.0%
Fair value of derivative instruments	5,885	27,973	(22,088)	(79.0)
Other liabilities	432,190	534,931	(102,741)	(19.2)
Total liabilities	28,553,904	26,125,023	2,428,881	9.3

Shareholders equity	608,879	671,850	(62,971)	(9.4)
Total liabilities and shareholders equity	$ 29,162,783	$ 26,796,873	$ 2,365,910	8.8%

The Company s total assets increased during 2007 primarily due to an increase in student loans receivable and related assets. The Company originated or acquired $5.2 billion in student loans which was offset by repayments and loan sales. The Company financed the increase of student loans through the issuance of bonds and notes payable. Total equity increased $32.9 million as a result of net income for the year ended December 31, 2007, offset by the repurchase of 3.4 million shares of the Company s Class A common stock for $82.1 million. The acquisition of Packers Service Group, Inc. (Packers) as discussed in note 12 to the consolidated financial statements included in this Report resulted in a $12.5 million decrease in equity. In addition, the Company paid a $0.07 dividend on its Class A and Class B common stock in each quarter of 2007 which reduced equity by $13.8 million.

OPERATING SEGMENTS

The Company has five operating segments as defined in SFAS No. 131 as follows: Asset Generation and Management, Student Loan and Guaranty Servicing, Tuition Payment Processing and Campus Commerce, Enrollment Services and List Management, and Software and Technical Services. The Company s operating segments are defined by the products and services they offer or the types of customers they serve, and they reflect the manner in which financial information is currently evaluated by management. The accounting policies of the Company s operating segments are the same as those described in note 3 in the notes to the consolidated financial statements included in this Report. Intersegment revenues are charged by a segment to another segment that provides the product or service. Intersegment revenues and expenses are included within each segment consistent with the income statement presentation provided to management. Changes in management structure or allocation methodologies and procedures may result in changes in reported segment financial information.

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

In May 2007, the Company sold EDULINX, a Canadian student loan service provider and subsidiary of the Company. As a result of this transaction, the results of operations for EDULINX are reported as discontinued operations for all periods presented. The operating results of EDULINX were included in the Student Loan and Guaranty Servicing operating segment. The Company presents base net income excluding discontinued operations since the operations and cash flows of EDULINX have been eliminated from the ongoing operations of the Company. Therefore, the results of operations for the Student Loan and Guaranty Servicing segment exclude the operating results of EDULINX for all periods presented. See note 2 in the notes to the consolidated financial statements included in this Report for additional information concerning EDULINX s detailed operating results that have been segregated from continuing operations and reported as discontinued operations.

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

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

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Segment Results and Reconciliations to GAAP

	Year ended December 31, 2007									
	Asset Generation and Management	Student Loan and Guaranty Servicing	Tuition Payment Processing and Campus Commerce	Enrollment Services and List Management	Software and Technical Services	Total Segments	Corporate Activity and Overhead	Eliminations and Reclassifications	"Base net income" Adjustments to GAAP Results	GAAP Results o Operatio
al interest ome	$ 1,730,882	5,459	3,809	347	18	1,740,515	7,485	(3,737)	3,013	1,747,2
erest ense	1,465,883		7	7		1,465,897	40,502	(3,737)		1,502,6
interest ome	264,999	5,459	3,802	340	18	274,618	(33,017)		3,013	244,6
s provision loan losses	28,178					28,178				28,1
interest ome after vision for n losses	236,821	5,459	3,802	340	18	246,440	(33,017)		3,013	216,4
er income:										
n and ranty vicing ome	294	127,775				128,069				128,0
er based ome	13,387		42,682	103,311		159,380	1,508			160,8
tware vices ome				594	22,075	22,669				22,6
er income	8,030		84			8,114	11,095			19,2
rsegment enue		74,687	688	891	15,683	91,949	9,040	(100,989)		
ivative ket value, eign ency, and option ustments									26,806	26,8
ivative lements,	6,628					6,628	12,049			18,6

al other ome	28,339	202,462	43,454	104,796	37,758	416,809	33,692	(100,989)	26,806	376,3
erating enses:										
aries and efits	23,101	85,462	20,426	33,480	23,959	186,428	49,839	(1,747)	2,111	236,6
tructure ense										
erance and tract nination ts	2,406	1,840		929	58	5,233	4,998	(10,231)		
pairment ense	28,291			11,401		39,692	9,812			49,5
er enses	29,205	36,618	8,901	60,445	2,995	138,164	77,915	2,969	30,426	249,4
rsegment enses	74,714	10,552	364	335	775	86,740	5,240	(91,980)		
al rating enses	157,717	134,472	29,691	106,590	27,787	456,257	147,804	(100,989)	32,537	535,6
ome s) before ome taxes	107,443	73,449	17,565	(1,454)	9,989	206,992	(147,129)		(2,718)	57,1
ome tax ense nefit) (a)	40,828	27,910	6,675	(553)	3,796	78,656	(57,285)		345	21,7
income s) from tinuing rations	66,615	45,539	10,890	(901)	6,193	128,336	(89,844)		(3,063)	35,4
ome s) from continued rations, net ax									(2,575)	(2,5
income s)	$ 66,615	45,539	10,890	(901)	6,193	128,336	(89,844)		(5,638)	32,8
al assets	$ 28,696,640	206,008	119,084	121,202	21,186	29,164,120	48,147	(49,484)		29,162,7

ar ended cember 31, 7:						
er Tax erating rgin - luding ructure ense, pairment ense, and vision for n losses ted to the s of eptional former	34.0%	22.5%	23.0%	6.4%	16.5%	24.0%
ar ended cember 31, 6:						
er Tax erating rgin - luding pairment ense	34.5%	20.8%	19.7%	11.6%	15.1%	26.8%
ar ended cember 31, 5:						
er Tax erating rgin	40.2%	21.6%	18.4%	29.7%	28.1%	33.7%

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

Year ended December 31, 2006

	Asset Generation and Management	Student Loan and Guaranty Servicing	Tuition Payment Processing and Campus Commerce	Enrollment Services and List Management	Software and Technical Services	Total Segments	Corporate Activity and Overhead	Eliminations and Reclassifications	"Base net income" Adjustments to GAAP Results	GAAP Results of Operations
Total interest income	$ 1,534,423	8,957	4,029	531	105	1,548,045	4,446	(2,858)		1,549,633
Interest expense	1,215,529		8			1,215,537	28,495	(2,858)		1,241,174
Net interest income	318,894	8,957	4,021	531	105	332,508	(24,049)			308,459
Less provision for loan losses	15,308					15,308				15,308
Net interest income after provision for loan losses	303,586	8,957	4,021	531	105	317,200	(24,049)			293,151
Other income:										
Loan and guaranty servicing income		121,593				121,593				121,593
Other fee-based income	11,867		35,090	55,361		102,318				102,318
Software services income	238	5		157	15,490	15,890				15,890
Other income	19,966	97				20,063	3,302			23,365
Intersegment revenue		63,545	503	1,000	17,877	82,925	662	(83,587)		
Derivative market value, foreign currency, and put option adjustments									(31,075)	(31,075)

Derivative settlements, net		18,381					18,381	5,051			23,432
Total other income		50,452	185,240	35,593	56,518	33,367	361,170	9,015	(83,587)	(31,075)	255,523
Operating expenses:											
Salaries and benefits		53,036	83,988	17,607	15,510	22,063	192,204	32,979	(12,254)	1,747	214,676
Impairment expense		21,687					21,687	(199)			21,488
Other expenses		51,085	32,419	8,371	30,854	3,238	125,967	59,086		25,062	210,115
Intersegment expenses		52,857	12,577	1,025	17		66,476	4,857	(71,333)		
Total operating expenses		178,665	128,984	27,003	46,381	25,301	406,334	96,723	(83,587)	26,809	446,279
Income (loss) before income taxes		175,373	65,213	12,611	10,668	8,171	272,036	(111,757)		(57,884)	102,395
Income tax expense (benefit) (a)		66,642	24,780	4,791	4,054	3,105	103,372	(46,902)		(20,233)	36,237
Net income (loss) before minority interest		108,731	40,433	7,820	6,614	5,066	168,664	(64,855)		(37,651)	66,158
Minority interest in subsidiary income				(242)			(242)				(242)
Net income (loss) from continuing operations		108,731	40,433	7,578	6,614	5,066	168,422	(64,855)		(37,651)	65,916
Income from discontinued operations, net of tax										2,239	2,239
Net income (loss)	$	108,731	40,433	7,578	6,614	5,066	168,422	(64,855)		(35,412)	68,155

Total assets	$ 26,174,592	398,939	177,105	152,962	29,359	26,932,957	37,268	(200,661)	27,309	26,796,873

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

Year ended December 31, 2005

	Asset Generation and Management	Student Loan and Guaranty Servicing	Tuition Payment Processing and Campus Commerce	Enrollment Services and List Management	Software and Technical Services	Total Segments	Corporate Activity and Overhead	Eliminations and Reclassifications	"Base net income" Adjustments to GAAP Results	GAAP Results of Operations
Total interest income	$ 940,390	4,580	1,384	165	21	946,540	2,615	(45)		949,110
Interest expense	609,863					609,863	10,293	(45)		620,111
Net interest income	330,527	4,580	1,384	165	21	336,677	(7,678)			328,999
Less provision for loan losses	7,030					7,030				7,030
Net interest income after provision for loan losses	323,497	4,580	1,384	165	21	329,647	(7,678)			321,969
Other income (expense):										
Loan and guaranty servicing income		93,332				93,332				93,332
Other fee-based income	9,053		14,239	12,349		35,641				35,641
Software services income	127				9,042	9,169				9,169
Other income	3,596	14				3,610	4,049			7,659
Intersegment revenue		42,798		139	5,848	48,785	408	(49,193)		
Derivative market value, foreign currency, and put option									96,227	96,227

adjustments										
Derivative settlements, net	(17,008)					(17,008)				(17,008)
Total other income (expense)	(4,232)	136,144	14,239	12,488	14,890	173,529	4,457	(49,193)	96,227	225,020
Operating expenses:										
Salaries and benefits	39,482	62,204	7,065	3,081	7,197	119,029	33,555	(10,452)		142,132
Other expenses	39,659	24,269	3,815	3,512	968	72,223	45,225		8,151	125,599
Intersegment expenses	33,070	5,196	99		(8)	38,357	384	(38,741)		
Total operating expenses	112,211	91,669	10,979	6,593	8,157	229,609	79,164	(49,193)	8,151	267,731
Income (loss) before income taxes	207,054	49,055	4,644	6,060	6,754	273,567	(82,385)		88,076	279,258
Income tax expense (benefit) (a)	78,680	18,641	1,765	2,302	2,567	103,955	(36,701)		33,327	100,581
Net income (loss) before minority interest	128,374	30,414	2,879	3,758	4,187	169,612	(45,684)		54,749	178,677
Minority interest in subsidiary income			(603)			(603)				(603)
Net income (loss) from continuing operations	128,374	30,414	2,276	3,758	4,187	169,009	(45,684)		54,749	178,074
Income from discontinued operations, net of tax									3,048	3,048
Net income (loss)	$ 128,374	30,414	2,276	3,758	4,187	169,009	(45,684)		57,797	181,122

Total assets	$ 22,327,023	473,538	90,794	41,649	23,178	22,956,182	58,173	(248,081)	32,419	22,798,693

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

Non-GAAP Performance Measures

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

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

Limitations of Base Net Income

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

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

The adjustments required to reconcile from the Company s base net income measure to its GAAP results of operations relate to differing treatments for derivatives, foreign currency transaction adjustments, discontinued operations, and certain other items that management does not consider in evaluating the Company s operating results. The following table reflects adjustments associated with these areas by operating segment and Corporate Activity and Overhead for the years ended December 31, 2007, 2006, and 2005:

	Asset Generation and Management	Student Loan and Guaranty Servicing	Tuition Payment Processing and Campus Commerce	Enrollment Services and List Management	Software and Technical Services	Corporate Activity and Overhead	Total
			Year ended December 31, 2007				
Derivative market value, foreign currency, and put option adjustments	$ (24,224)					(2,582)	(26,806)
Amortization of intangible assets	5,634	5,094	5,815	12,692	1,191		30,426
Compensation related to business combinations						2,111	2,111
Variable-rate floor income	(3,013)						(3,013)
Income (loss) from discontinued operations, net of tax		2,575					2,575
Net tax effect (a)	8,209	(1,936)	(2,209)	(4,823)	(452)	1,556	345
Total adjustments to GAAP	$ (13,394)	5,733	3,606	7,869	739	1,085	5,638
			Year ended December 31, 2006				
Derivative market value, foreign currency, and put option adjustments	$ 5,483					25,592	31,075

Amortization of intangible assets	7,617	5,641	5,968	4,573	1,263		25,062
Compensation related to business combinations						1,747	1,747
Variable-rate floor income							
Income (loss) from discontinued operations, net of tax		(2,239)					(2,239)
Net tax effect (a)	(4,978)	(2,143)	(2,268)	(1,738)	(480)	(8,626)	(20,233)
Total adjustments to GAAP	$ 8,122	1,259	3,700	2,835	783	18,713	35,412
			Year ended December 31, 2005				
Derivative market value, foreign currency, and put option adjustments	$ (95,854)					(373)	(96,227)
Amortization of intangible assets	1,840	1,082	2,350	2,032	847		8,151
Compensation related to business combinations							
Variable-rate floor income							
Income (loss) from discontinued operations, net of tax		(3,048)					(3,048)
Net tax effect (a)	35,726	(412)	(893)	(772)	(322)		33,327
Total adjustments to GAAP	$ (58,288)	(2,378)	1,457	1,260	525	(373)	(57,797)

(a) Tax effect computed at 38%. The change in the value of the put option (included in Corporate Activity and Overhead) is not tax effected as this is not deductible for income tax purposes.

Differences between GAAP and Base Net Income"

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

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

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

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

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

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

base net income excludes this expense because the Company believes such charges do not drive its operating performance on a long-term basis and can affect the period-to-period comparability of the results of operations. If the Company did not enter into the employment agreements in connection with the acquisition, the amount paid to these former shareholders of the acquired entity would have been recorded by the Company as additional consideration of the acquired entity, thus, not having an effect on the Company s results of operations.

***Variable-rate floor income*:** 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 from its base net income since its timing and amount (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.

Variable-rate floor income is calculated by the Company on a statutory basis. As a result of the disruptions in the debt and secondary capital markets beginning in August 2007, the benefit of variable-rate floor income has not been realized by the Company due to the widening of the spread between short term interest rate indices and the Company s actual cost of funds. The Company entered into interest rate swaps with effective dates beginning in January 2008 to hedge a portion of the variable-rate floor income. Settlements on these derivatives will be presented as part of the Company s statutory calculation of variable-rate floor income.

Discontinued operations: In May 2007, the Company sold EDULINX. As a result of this transaction, the results of operations for EDULINX are reported as discontinued operations for all periods presented. The Company presents base net income excluding discontinued operations since the operations and cash flows of EDULINX have been eliminated from the ongoing operations of the Company.

ASSET GENERATION AND MANAGEMENT OPERATING SEGMENT RESULTS OF OPERATIONS

The Asset Generation and Management segment includes the acquisition, management, and ownership of the Company s student loan assets. Revenues are primarily generated from net interest income on the student loan assets. The Company generates student loan assets through direct origination or through acquisitions. The student loan assets are held in a series of education lending subsidiaries designed specifically for this purpose.

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

Student Loan Portfolio

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

	As of December 31, 2007		As of December 31, 2006		As of December 31, 2005	
	Dollars	**Percent**	**Dollars**	**Percent**	**Dollars**	**Percent**
Federally insured:						
Stafford	$ 6,725,910	25.2%	$ 5,724,586	24.1%	$ 6,434,655	31.8%
PLUS/SLS	429,941	1.6	365,112	1.5	376,042	1.8
Consolidation	18,898,547	70.7	17,127,623	72.0	13,005,378	64.2
Non-federally insured	274,815	1.0	197,147	0.8	96,880	0.5
Total	26,329,213	98.5	23,414,468	98.4	19,912,955	98.3
Unamortized premiums and deferred origination costs	452,501	1.7	401,087	1.7	361,242	1.8

Allowance for loan losses:						
Allowance federally insured	(24,534)	(0.1)	(7,601)		(98)	
Allowance non-federally insured	(21,058)	(0.1)	(18,402)	(0.1)	(13,292)	(0.1)
Net	$ 26,736,122	100.0%	$ 23,789,552	100.0%	$ 20,260,807	100.0%

The impact of the College Cost Reduction Act reduces the yield on FFELP student loans originated on or after October 1, 2007. As of December 31, 2007, the Company has $0.4 billion of loans originated on or after October 1, 2007.

The Company s net student loan assets have increased $2.9 billion, or 12.4%, to $26.7 billion as of December 31, 2007 compared to $23.8 billion as of December 31, 2006. The Company s net student loan assets increased $3.5 billion, or 17.4%, from $20.3 billion as of December 31, 2005 to $23.8 billion as of December 31, 2006.

Origination and Acquisition

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

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

	Year ended December 31,		
	2007	**2006**	**2005**
Beginning balance	$ 23,414,468	19,912,955	13,299,094
Direct channel:			
Consolidation loan originations	3,096,754	5,299,820	4,037,366
Less consolidation of existing portfolio	(1,602,835)	(2,643,880)	(1,966,000)
Net consolidation loan originations	1,493,919	2,655,940	2,071,366
Stafford/PLUS loan originations	1,086,398	1,035,695	720,545
Branding partner channel (a) (b)	662,629	720,641	657,720
Forward flow channel	1,105,145	1,600,990	1,153,125
Other channels (b)	804,019	682,852	796,886
Total channel acquisitions	5,152,110	6,696,118	5,399,642
Repayments, claims, capitalized interest, participations, and other	(1,321,055)	(1,332,086)	(1,002,260)
Consolidation loans lost to external parties	(800,978)	(1,114,040)	(855,000)
Loans acquired in portfolio and business acquisitions			3,071,479
Loans sold	(115,332)	(748,479)	
Ending balance	$ 26,329,213	23,414,468	19,912,955

(a) Included in the branding partner channel are private loan originations of $110.5 million, $55.7 million, and $13.4 million for the years ended December 31, 2007, 2006, and

2005, respectively.

(b) Included in other channels for the year ended December 31, 2006 is $190.1 million of acquisitions that were previously presented as branding partner channel acquisitions. This reclassification was made for comparative purposes due to the nature of the transactions.

During 2006 and 2007, the Company originated $5.3 billion and $3.1 billion of consolidation loans, respectively. With the changes in legislation and impact of capital markets, the Company has suspended consolidation loan originations in January 2008.

The other channels for the year ended December 31, 2005 includes $630.8 million of student loans purchased from Union Bank and Trust (Union Bank), an entity under common control with the Company. The acquisition of these loans was made by the Company as part of an agreement with Union Bank entered into in February 2005. As part of this agreement, Union Bank also committed to transfer to the Company substantially all of the remaining balance of Union Bank s origination rights in guaranteed student loans. As such, beginning in the second quarter of 2005, all loans originated by Union Bank on behalf of the Company are presented in the table above as direct channel originations.

Loans acquired in portfolio and business acquisitions for the year ended December 31, 2005 includes $2.2 billion and $0.9 billion of student loans purchased in October 2005 from Chela Education Funding, Inc. (Chela) and LoanSTAR Funding Group, Inc. (LoanSTAR), respectively.

Nova Southeastern University (Nova), a school-as-lender customer, elected not to renew their existing contract with the Company, which expired in December 2006. Total loans acquired from Nova were $44.6 million, $275.6 million, and $299.3 million for the years ended December 31, 2007, 2006, and 2005, respectively. Loans acquired from Nova are included in the forward flow channel in the above table.

As part of the Company s asset management strategy, the Company periodically sells student loan portfolios to third parties. During the years ended December 31, 2007 and 2006, the Company sold $115.3 million and $748.5 million (par value), respectively, of student loans resulting in the recognition of gains of $3.6 million and $16.1 million, respectively. There were no loans sold during the year ended December 31, 2005.

Legislative and Credit Market Impact to Student Loan Originations and Acquisitions

The College Cost Reduction Act has resulted in a reduction in the yields on student loans and, accordingly, a reduction in the amount of the premium the Company is able to pay lenders under its forward flow commitments and branding partner arrangements. As a result, the Company has been working with its forward flow and branding partner clients to renegotiate the premiums payable under its agreements. There can be no assurance that the Company will be successful in renegotiating the premiums under these agreements and, accordingly, the Company may be required to terminate commitments which are not economically reasonable. As a result, the Company will experience a decrease in its forward flow and branding partner loan volume. The Company has also had to terminate its affinity and referral programs and accordingly will experience a decrease in loan volume as a result.

The Company s primary funding needs are those required to finance its student loan portfolio and satisfy its cash requirements for new student loan originations and acquisitions. The Company relies upon secured financing vehicles as its most significant source of funding for student loans. Current conditions in the debt markets include reduced liquidity and increased credit risk premiums for most market participants. These conditions have increased the cost and reduced the availability of debt in the capital markets. As a result, a prolonged period of market illiquidity will affect the Company s loan acquisition and origination volumes. As previously discussed, as a result of the disruptions in the capital markets, the Company plans to be more selective in pursuing origination activity in both the direct-to-consumer and campus based channels. In addition to suspending consolidation loan originations, the Company is also evaluating the economic and market feasibility of continuing its asset generation and acquisition activities in the same manner and scale as historical periods.

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:

	Year ended December 31,		
	2007	**2006**	**2005**
Balance at beginning of period	$ 26,003	13,390	7,272
Provision for loan losses:			
Federally insured loans	23,158	9,268	280
Non-federally insured loans	5,020	6,040	6,750
Total provision for loan losses	28,178	15,308	7,030
Charge-offs, net of recoveries:			
Federally insured loans	(6,225)	(1,765)	(299)
Non-federally insured loans	(1,193)	(930)	(613)
Net charge-offs	(7,418)	(2,695)	(912)
Sale of non-federally insured loans	(1,171)		
Balance at end of period	$ 45,592	26,003	13,390
Allocation of the allowance for loan losses:			
Federally insured loans	$ 24,534	7,601	98
Non-federally insured loans	21,058	18,402	13,292

Total allowance for loan losses	$ 45,592	26,003	13,390
Net loan charge-offs as a percentage of average student loans	0.030%	0.012%	0.006%
Total allowance as a percentage of average student loans	0.181%	0.120%	0.085%
Total allowance as a percentage of ending balance of student loans	0.173%	0.111%	0.067%
Non-federally insured allowance as a percentage of the ending balance of non-federally insured loans	7.663%	9.334%	13.720%
Average student loans	$ 25,143,059	21,696,466	15,716,388
Ending balance of student loans	26,329,213	23,414,468	19,912,955
Ending balance of non-federally insured loans	274,815	197,147	96,880

In 2006, the Company recognized a $6.9 million provision on its federally insured portfolio as a result of HERA which was enacted into law on February 8, 2006. See note 3 in the accompanying consolidated financial statements included in this Report for additional information related to HERA. In 2007, the Company recorded an expense of $15.7 million to increase the Company s allowance for loan losses related to the increase in risk share as a result of the elimination of the Exceptional Performer program.

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 December 31, 2007		As of December 31, 2006	
	Dollars	Percent	Dollars	Percent
Federally Insured Loans:				
Loans in-school/grace/deferment(1)	$ 7,115,505		$ 6,271,558	
Loans in forebearance(2)	3,015,456		2,318,184	
Loans in repayment status:				
Loans current	13,937,702	87.5%	12,944,768	88.5%
Loans delinquent 31-60 days(3)	682,956	4.3	623,439	4.3
Loans delinquent 61-90 days(3)	353,303	2.2	299,413	2.0
Loans delinquent 91 days or greater(4)	949,476	6.0	759,959	5.2
Total loans in repayment	15,923,437	100.0%	14,627,579	100.0%
Total federally insured loans	$ 26,054,398		$ 23,217,321	
Non-Federally Insured Loans:				
Loans in-school/grace/deferment(1)	$ 111,946		$ 83,973	
Loans in forebearance(2)	12,895		6,113	
Loans in repayment status:				
Loans current	142,851	95.3%	101,084	94.4%
Loans delinquent 31-60 days(3)	3,450	2.3	2,681	2.5
Loans delinquent 61-90 days(3)	1,247	0.8	1,233	1.2
Loans delinquent 91 days or greater(4)	2,426	1.6	2,063	1.9
Total loans in repayment	149,974	100.0%	107,061	100.0%
Total non-federally insured loans	$ 274,815		$ 197,147	

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

exam preparation for law students.

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

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

(4) Loans delinquent 91 days or greater include loans in claim status, which are loans which 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:

	Year ended December 31,		
	2007	**2006**	**2005**
Student loan yield (a)	7.76%	7.85%	6.90%
Consolidation rebate fees	(0.77)	(0.72)	(0.65)
Premium and deferred origination costs amortization (b)	(0.36)	(0.39)	(0.49)
Student loan net yield	6.63	6.74	5.76
Student loan cost of funds (c)	(5.49)	(5.12)	(3.75)
Student loan spread	1.14	1.62	2.01
Variable-rate floor income (d)	(0.01)		
Special allowance yield adjustments, net of settlements on derivatives (e)		(0.20)	(0.50)
Core student loan spread	1.13%	1.42%	1.51%
Average balance of student loans	$ 25,143,059	21,696,466	15,716,388
Average balance of debt outstanding	26,599,361	23,379,258	16,759,511

(a) The student loan yield for the year ended December 31, 2006 does not include the $2.8 million charge to write off accounts receivable from the Department related to third quarter 2006 9.5% special allowance payments that will not be received under the Company s previously disclosed Settlement Agreement with the Department. The $2.8 million relates to loans earning 9.5% special allowance payments that were not subject to the OIG audit.

(b) Premium and deferred origination costs amortization for the year ended December 31, 2006 excludes premium amortization related to the Company s portfolio of 9.5% loans purchased in October 2005 as part of a business combination.

(c) The student loan cost of funds includes the effects of net settlement costs on the Company s derivative instruments (excluding the $2.0 million settlement related to the derivative instrument entered into in connection with the issuance of the junior subordinated hybrid securities for the year ended December 31, 2006 and the net settlements of $12.1 million and $7.0 million for the years ended

December 31, 2007 and December 31, 2006, respectively, on those derivatives no longer hedging student loan assets).

(d) Variable-rate floor income is calculated by the Company on a statutory basis. As a result of the disruptions in the debt and secondary capital markets which began in August 2007, the benefit of variable-rate floor income has not been realized by the Company due to the widening of the spread between short term interest rate indices and the Company s actual cost of funds. The Company entered into interest rate swaps with effective dates beginning in January 2008 to hedge a portion of the variable-rate floor income. Settlements on these derivatives will be presented as part of the Company s statutory calculation of variable-rate floor income.

(e) The special allowance yield adjustment represents the impact on net spread had certain 9.5% loans earned at statutorily defined rates under a taxable financing. The special allowance yield adjustment includes net settlements on derivative instruments that were used to hedge this loan portfolio earning the excess yield. On January 19, 2007, the Company entered into a Settlement Agreement with the Department to resolve the audit by the OIG of the Company s portfolio of student loans receiving 9.5% special allowance payments. Under the terms of the

Agreement, all 9.5% special allowance payments were eliminated for periods on and after July 1, 2006. The Company had been deferring recognition of 9.5% special allowance payments related to those loans subject to the OIG audit effective July 1, 2006 pending satisfactory resolution of this issue.

The compression of the Company s core student loan spread during the year ended December 31, 2007 compared to 2006 and 2005 has been primarily due to (i) the increase in the cost of debt as a result of the disruptions in the debt and secondary capital markets; (ii) an increase in lower yielding consolidation loans and an increase in the consolidation rebate fees; and (iii) the elimination of 9.5% special allowance payments on non-special allowance yield adjustment student loans as a result of the Settlement Agreement with the Department. Additional compression during the year ended December 31, 2007 compared to the year ended December 31, 2006 was due to the mismatch in the reset frequency between the Company s floating rate assets and floating rate liabilities. The Company s core student loan spread benefited in the rising interest rate environment for the first six months in 2006 because the Company s cost of funds reset periodically on a discrete basis, in advance, while the Company s student loans received a yield based on the average daily interest rate over the period. As interest rates remained relatively flat or decreased during 2007, as compared to the same period in 2006, the Company did not benefit from the rate reset discrepancy of its assets and liabilities contributing to the compression. During 2007, the Company entered into basis swaps in which the Company receives three-month LIBOR set discretely in advance and pays a daily weighted average three-month LIBOR less a spread as defined in the individual agreements. The Company entered into these derivative instruments to better match the interest rate characteristics on its student loan assets and the debt funding such assets. The Company expects the impact of these derivatives will diminish the effects of these rate reset discrepancies in future periods.

As a result of the passage of the College Cost Reduction Act, the yield on FFELP loans originated after October 1, 2007 was reduced. The core student loan spread on these loans for the fourth quarter of 2007 was approximately 30 to 40 basis points.

As noted in Item 7A, Quantitative and Qualitative Disclosures about Market Risk , the Company has a portfolio of student loans that are earning interest at a fixed borrower rate which exceeds the statutorily defined variable lender rate creating fixed rate floor income which is included in its core student loan spread. The majority of these loans are consolidation loans that earn the greater of the borrower rate or 2.64% above the average commercial paper rate during the calendar quarter. When excluding fixed rate floor income, the Company s core student loan spread was 1.09%, 1.28%, and 1.23% for the years ended December 31, 2007, 2006, and 2005, respectively.

Year ended December 31, 2007 compared to year ended December 31, 2006

	Year ended December 31, 2007	December 31, 2006	$ Change
Net interest income after the provision for loan losses	$ 236,821	303,586	(66,765)
Loan and guaranty servicing income	294		294
Other fee-based income	13,387	11,867	1,520
Software services income		238	(238)
Other income	8,030	19,966	(11,936)
Derivative settlements, net	6,628	18,381	(11,753)
Total other income	28,339	50,452	(22,113)
Salaries and benefits	23,101	53,036	(29,935)
Restructure expense severance and contract termination costs	2,406		2,406
Impairment expense	28,291	21,687	6,604
Other expenses	29,205	51,085	(21,880)
Intersegment expenses	74,714	52,857	21,857
Total operating expenses	157,717	178,665	(20,948)
Base net income before income taxes	107,443	175,373	(67,930)
Income tax expense	40,828	66,642	(25,814)
Base net income	$ 66,615	108,731	(42,116)
After Tax Operating Margin	25.1%	30.7%	
After Tax Operating Margin - excluding restructure expense, impairment expense, and provision for loan losses related to the loss of Exceptional Performer	34.0%	34.5%	

Net interest income after the provision for loan losses

	Year ended December 31,		Change	
	2007	2006	Dollars	Percent
Loan interest	$ 1,948,751	1,699,859	248,892	14.6%
Consolidation rebate fees	(193,687)	(156,751)	(36,936)	(23.6)
Amortization of loan premiums and deferred origination costs	(91,020)	(87,393)	(3,627)	(4.2)
Total loan interest	1,664,044	1,455,715	208,329	14.3
Investment interest	66,838	78,708	(11,870)	(15.1)

Total interest income	1,730,882	1,534,423	196,459	12.8
Interest on bonds and notes payable	1,462,679	1,213,446	249,233	20.5
Intercompany interest	3,204	2,083	1,121	53.8
Provision for loan losses	28,178	15,308	12,870	84.1
Net interest income after provision for loan losses	$ 236,821	303,586	(66,765)	(22.0)

Loan interest for the year ended December 31, 2006 included $32.3 million of 9.5% special allowance payments. The Company received no 9.5% special allowance payments for the year ended December 31, 2007 as a result of the Settlement Agreement with the Department.

The average student loan portfolio increased $3.4 billion, or 15.9%, for the year ended December 31, 2007 compared to the same period in 2006. Student loan yield, excluding 9.5% special allowance payments, increased to 7.75% in 2007 from 7.69% in 2006. The increase in student loan yield is the result of a higher interest rate environment and is offset by an increase in the percentage of lower yielding consolidation loans to the total portfolio. Loan interest income, excluding the 9.5% special allowance payments, increased $281.2 million as a result of these factors.

Consolidation rebate fees increased due to the $3.4 billion, or 22.9%, increase in the average consolidation loan portfolio.

The amortization of loan premiums and deferred origination costs increased $3.6 million, or 4.2%, as a result of loan portfolio growth. In December 2006, the Company wrote off $21.7 million of premiums on loans earning 9.5% special allowance payments as a result of the Settlement Agreement with the Department. For the year ended December 31, 2006, the Company recognized $8.5 million of premium amortization related to these loans. The remaining decrease in amortization was the result of certain premiums and loan costs that became fully amortized in 2006.

Investment interest decreased as a result of an overall decrease in cash held in 2007 as compared to 2006. During the second and third quarter of 2006, proceeds from the issuance of a debt transaction were held as cash until the loans were available for securitization. As a result, the Company earned investment interest on this cash until it was used to fund student loans.

Interest expense increased due to the $3.2 billion, or 13.8%, increase in average debt for the year ended December 31, 2007 compared to the same period in 2006. In addition, the Company s cost of funds (excluding net derivative settlements) increased to 5.51% for the year ended December 31, 2007 compared to 5.20% for the same period a year ago. Interest expense was impacted in 2007 by credit market disruptions as further discussed in this Report.

The provision for loan losses increased because the Company recognized a $15.7 million provision in the third quarter of 2007 on its federally insured portfolio as a result of the College Cost Reduction Act, offset by a $6.9 million provision the Company recognized in the first quarter of 2006 on its federally insured portfolio as a result of HERA which was enacted into law on February 8, 2006.

Other fee-based income. Borrower late fees increased $0.9 million for the year ended December 31, 2007 compared to 2006 as a result of the increase in the average student loan portfolio. In addition, income from providing investment advisory services and services to third parties through the Company s licensed broker dealer increased in 2007 compared to 2006.

Other income. Other income decreased $11.9 million for the year ended December 31, 2007 compared to 2006 as a result of a decrease in the gain on sale of loans.

Operating expenses. Excluding the restructure expense of $2.4 million and the impairment expense of $28.3 million and $21.7 million for the years ended December 31, 2007 and 2006, respectively, operating expenses decreased $30.0 million, or 19.1%, for the year ended December 31, 2007 compared to 2006. The Company has reduced its cost to service loans by converting loan volume acquired during certain 2005 acquisitions from third party servicers to the Company s servicing platform. These reductions were offset by an increase in the cost to service loans as a result of loan growth.

Year ended December 31, 2006 compared to year ended December 31, 2005

	Year ended December 31, 2006	December 31, 2005	$ Change
Net interest income after the provision for loan losses	$ 303,586	323,497	(19,911)
Other fee-based income	11,867	9,053	2,814
Software services income	238	127	111
Other income	19,966	3,596	16,370
Derivative settlements, net	18,381	(17,008)	35,389
Total other income (expense)	50,452	(4,232)	54,684
Salaries and benefits	53,036	39,482	13,554
Impairment expense	21,687		21,687
Other expenses	51,085	39,659	11,426
Intersegment expenses	52,857	33,070	19,787
Total operating expenses	178,665	112,211	66,454
Base net income before income taxes	175,373	207,054	(31,681)
Income tax expense	66,642	78,680	(12,038)
Base net income	$ 108,731	128,374	(19,643)
After Tax Operating Margin	30.7%	40.2%	
After Tax Operating Margin - excluding impairment expense	34.5%	40.2%	

Net interest income after the provision for loan losses

	Year ended December 31,		Change	
	2006	2005	Dollars	Percent
Loan interest	$ 1,699,859	1,084,178	615,681	56.8%
Consolidation rebate fees	(156,751)	(102,699)	(54,052)	(52.6)
Amortization of loan premiums and deferred origination costs	(87,393)	(76,530)	(10,863)	(14.2)
Total loan interest	1,455,715	904,949	550,766	60.9
Investment interest	78,708	35,441	43,267	122.1
Total interest income	1,534,423	940,390	594,033	63.2
Interest on bonds and notes payable	1,213,446	609,830	603,616	99.0
Intercompany interest	2,083	33	2,050	6,212.1
Provision for loan losses	15,308	7,030	8,278	117.8

Net interest income after provision for loan losses	$	303,586	323,497	(19,911)	(6.2)

Loan interest for the years ended December 31, 2006 and 2005, included $32.3 million and $94.7 million, respectively, of 9.5% special allowance payments. The decrease in 9.5% special allowance payments is a result of the Settlement Agreement with the Department, an increase in interest rates, which decreases the excess special allowance payments over the statutorily defined rates under a taxable financing, and a decrease in the portfolio of loans earning the 9.5% special allowance payments.

The average student loan portfolio increased $6.0 billion, or 38.0%, for the year ended December 31, 2006 compared to 2005. Student loan yield, excluding the 9.5% special allowance payments, increased to 7.69% in 2006 from 6.30% in 2005. The increase in student loan yield is a result of a rising interest rate environment and is offset by an increase in the percentage of lower yielding consolidation loans to the total portfolio. Loan interest income, excluding the 9.5% special allowance payments, increased $678.1 million as a result of these factors.

Consolidation rebate fees increased due to the $5.0 billion, or 51.7%, increase in the average consolidation loan portfolio.

Amortization of loan premiums and deferred origination costs increased as a result of the growth in the student loan portfolio and business combinations.

- Investment interest has increased as a result of an increase in cash, cash equivalents, and investments from student loan growth and business combinations, and as a result of the rising interest rate environment.
- Interest expense increased $603.6 million due to the $6.6 billion, or 39.5%, increase in average debt for the year ended December 31, 2006 compared to 2005. In addition, the Company s cost of funds (excluding net derivative settlements) increased to 5.20% for the year ended December 31, 2006 up from 3.64% for the same period a year ago.
- The provision for loan losses increased because the Company recognized a $6.9 million provision in 2006 on its federally insured portfolio as a result of HERA which was enacted into law on February 8, 2006.

Other fee-based income. Borrower late fees increased $2.1 million as the result of the increase in the average student loan portfolio. The Company is able to leverage its capital market expertise by providing services to third parties through licensed broker dealer and investment advisory services. Income from these activities increased $0.7 million in 2006 compared to 2005.

Other income. Other income increased $16.4 million for the year ended December 31, 2006 compared to 2005. During 2006, the Company recognized $15.9 million in gains on the sale of loans. Historically, the Company had not sold a material amount of loan assets and thus there is no similar activity for the year ended December 31, 2005. The majority of loans sold were loans not serviced by the Company that management believed had an increased risk of consolidation loss.

Salaries and benefits. Salaries and benefits in this segment are primarily related to the generation of assets through various channels including sales and marketing support as well as portfolio and debt management activities. Salaries and benefits increased $13.6 million, or 34.3%, for the year ended December 31, 2006 compared to 2005. The Company s average loan portfolio increased $6.0 billion, or 38.0%, in 2006 compared to 2005. The Company s efforts to increase its loan portfolio resulted in increased salaries and benefits expense.

Other expenses. During 2006, the Company recognized a $21.7 million impairment charge related to 9.5% loan asset premiums that were impaired as a result of the Company s Settlement Agreement with the Department. The increase in other expenses excluding the impairment charge was $11.4 million, or 28.7%, which is driven by the increase in the Company s loan portfolio and increased sales and marketing efforts to grow the Company s loan portfolio and includes the following items:

- Servicing fees expense increased $4.4 million for the year ended December 31, 2006 compared to 2005 as a result of the acquisition of the Chela portfolio of loans which were not serviced by the Company.
- Advertising and marketing expenses increased $2.8 million as a result of the increased sales and marketing efforts.
- Trustee and other debt related fees increased $1.8 million, or approximately 19%, related to the $6.6 billion, or 39.5%, increase in average debt outstanding. The Company s trustee and other debt-related fees did not increase at the same rate as the increase in average debt outstanding due to a reduction in fee rates paid by the Company.

STUDENT LOAN AND GUARANTY SERVICING OPERATING SEGMENT RESULTS OF OPERATIONS

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

The Company performs origination and servicing activities for FFEL Program loans for itself as well as third-party clients. The Company also leverages its size and scale to provide origination and servicing activities for non-federally insured loans. Effective November 1, 2005, the Company increased its servicing activities for non-federally insured loans through the purchase of the remaining 50% interest in FirstMark Services, LLC (FirstMark). The Company owned 50% of this entity and accounted for it under the equity method of accounting prior to the transaction.

FirstMark specializes in originating and servicing education loans funded outside the federal student loan programs. This acquisition was accounted for under purchase accounting and the results of operations have been included in the consolidated financial statements from the date of acquisition.

In October 2005, the Company entered into an agreement to amend an existing contract with College Assist. Under the agreement, the Company provides student loan servicing and guaranty operations and assumed the operational expenses and employment of certain College Assist employees. College Assist pays the Company a portion of the gross servicing and guaranty fees as consideration for the Company providing these services on behalf of College Assist. As a result of the passage of the College Cost Reduction Act, on October 2, 2007, the Department notified College Assist of its decision to formally terminate the Voluntary Flexible Agreement (VFA) between the Department and College Assist effective January 1, 2008. The termination of the VFA will decrease the Company s guaranty income by approximately $9 million annually.

Student Loan Servicing Volumes

	As of December 31,			
	2007		2006	
	Dollar	Percent	Dollar	Percent
	(dollars in millions)			
Company	$ 25,640	75.8%	$ 21,869	71.5%
Third Party	8,177	24.2	8,725	28.5
Total	$ 33,817	100.0%	$ 30,594	100.0%

Year ended December 31, 2007 compared to year ended December 31, 2006

	Year ended		
	December 31, 2007	December 31, 2006	$ Change
Net interest income after the provision for loan losses	$ 5,459	8,957	(3,498)
Loan and guaranty servicing income	127,775	121,593	6,182
Software services income		5	(5)
Other income		97	(97)
Intersegment revenue	74,687	63,545	11,142
Total other income	202,462	185,240	17,222
Salaries and benefits	85,462	83,988	1,474
Restructure expense severance and contract termination costs	1,840		1,840
Other expenses	36,618	32,419	4,199
Intersegment expenses	10,552	12,577	(2,025)
Total operating expenses	134,472	128,984	5,488
Base net income before income taxes	73,449	65,213	8,236
Income tax expense	27,910	24,780	3,130
Base net income	$ 45,539	40,433	5,106

After Tax Operating Margin	21.9%	20.8%
After Tax Operating Margin - excluding restructure expense	22.5%	20.8%

Net interest income after the provision for loan losses. Investment income decreased as a result of an overall decrease in cash held in 2007 compared to 2006.

Loan and guaranty servicing income. Loan and guaranty servicing income for the year ended December 31, 2007 compared to 2006 increased as follows:

	Year ended December 31,			
	2007	2006	$ Change	% Change
Origination and servicing of FFEL Program loans	$ 55,376	66,374	(10,998)	(16.6)%
Origination and servicing of non-federally insured student loans	10,297	9,672	625	6.5
Servicing and support outsourcing for guaranty agencies	62,102	45,547	16,555	36.3
Loan and guaranty servicing income to external parties	$ 127,775	121,593	6,182	5.1%

FFELP loan servicing income decreased as a result of a decrease in the volume of loans serviced. In addition, as a result of the legislative developments, several of the Company s lender partner servicing contracts were priced at lower rates in order to retain clients. Servicing and support outsourcing for guaranty agencies increased as a result of an increase in the volume of guaranteed loans serviced as well as an increase in collections due to utilizing an outside collection agency. As discussed previously, the termination of the VFA between the Department and College Assist, effective January 1, 2008, will have a negative impact on the Company s guaranty income in 2008.

Operating expenses. Total operating expenses increased $5.5 million as a result of an increase in costs associated with servicing a larger portfolio of guaranteed loans offset by a decrease in costs as a result of outsourcing guaranty collections to an outside agency. During 2007, the Company began to see improvements in the operating margin as a result of (i) reducing certain fixed costs; (ii) achieving operating leverage; and (iii) realizing operational benefits from integration activities. These integration activities included servicing platform and certain system conversions which have increased operating costs over the prior two years.

Year ended December 31, 2006 compared to year ended December 31, 2005

	Year ended		
	December 31, 2006	December 31, 2005	$ Change
Net interest income after the provision for loan losses	$ 8,957	4,580	4,377
Loan and guaranty servicing income	121,593	93,332	28,261
Software services income	5		5
Other income	97	14	83
Intersegment revenue	63,545	42,798	20,747
Total other income	185,240	136,144	49,096
Salaries and benefits	83,988	62,204	21,784
Other expenses	32,419	24,269	8,150
Intersegment expenses	12,577	5,196	7,381
Total operating expenses	128,984	91,669	37,315

Base net income before income taxes	65,213	49,055	16,158
Income tax expense	24,780	18,641	6,139
Base net income	$ 40,433	30,414	10,019
After Tax Operating Margin	20.8%	21.6%	

Loan and guaranty servicing income. Loan and guaranty servicing income increased $28.3 million for the year ended December 31, 2006 compared to the year ended December 31, 2005 as follows:

	Year ended December 31,			
	2006	**2005**	**$ Change**	**% Change**
Origination and servicing of FFEL Program loans	$ 66,374	70,432	(4,058)	(5.8)%
Origination and servicing of non-federally insured student loans	9,672	1,382	8,290	599.9
Servicing and support outsourcing for guaranty agencies	45,547	21,518	24,029	111.7
Loan and guaranty servicing income to external parties	$ 121,593	93,332	28,261	30.3%

FFELP loan servicing income decreased as a result of the Company acquiring loans from third party lenders that were serviced by the Company prior to the acquisition of such loans. This decrease is offset by added guaranty and non-federally insured student loan servicing volume as a result of the acquisitions of LoanSTAR, College Assist, Chela, and Firstmark.

Operating expenses. Total operating expenses increased $18.4 million as a result of the acquisition of private loan servicing operations and expanded guaranty servicing operations agreement with College Assist during the fourth quarter of 2005. Operating expenses after adjusting for the impact of acquisitions increased $18.9 million, or 20.6%. This increase is attributable to an increased investment in technology to generate operating efficiencies, integration costs from the acquisitions of LoanSTAR and Chela, and a 13.4% increase in the Company s loan servicing volume from December 31, 2005 to December 31, 2006.

TUITION PAYMENT PROCESSING AND CAMPUS COMMERCE OPERATING SEGMENT RESULTS OF OPERATIONS

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

Effective June 1, 2005, the Company purchased 80% of the capital stock of FACTS. FACTS provides actively managed tuition payment solutions, online payment processing, detailed information reporting, and data integration services to K-12 and higher educational institutions, families, and students. In addition, FACTS provides financial needs analysis for students applying for aid in private and parochial K-12 schools. This acquisition was accounted for under purchase accounting and the results of operations have been included in the consolidated financial statements from the effective date of acquisition. Effective January 31, 2006, the Company purchased the remaining 20% interest in FACTS.

Effective January 31, 2006, the Company purchased the remaining 50% interest in infiNET. The Company owned 50% of this entity and accounted for it under the equity method of accounting prior to the transaction. As a result of this acquisition, the Company provides customer-focused electronic transactions, information sharing, and account and bill presentment to colleges and universities. This acquisition was accounted for under purchase accounting and the results of operations have been included in the consolidated financial statements from the effective date of acquisition.

Year ended December 31, 2007 compared to year ended December 31, 2006

	Year ended		
	December 31, 2007	December 31, 2006	$ Change
Net interest income after the provision for loan losses	$ 3,802	4,021	(219)
Other fee-based income	42,682	35,090	7,592
Other income	84		84
Intersegment revenue	688	503	185
Total other income	43,454	35,593	7,861
Salaries and benefits	20,426	17,607	2,819
Other expenses	8,901	8,371	530
Intersegment expenses	364	1,025	(661)
Total operating expenses	29,691	27,003	2,688
Base net income before income taxes	17,565	12,611	4,954
Income tax expense	6,675	4,791	1,884
Base net income before minority interest	10,890	7,820	3,070
Minority interest		(242)	242
Base net income	$ 10,890	7,578	3,312
After Tax Operating Margin	23.0%	19.7%	

Other fee-based income. Other fee-based income increased for the year ended December 31, 2007 compared to 2006 as a result of an increase in the number of managed tuition payment plans as well as an increase in campus commerce clients. In addition, for the year ended December 31, 2007, approximately $0.7 million of the increase in other fee-based income is due to the timing of the acquisition of infiNET.

Operating expenses. The increase in operating expenses was the result of the increase in the number of managed tuition payment plans and the increase in campus commerce sales. In addition, the Company continues to invest in and support technology related projects. The timing of the acquisition of infiNET also resulted in a $0.5 million increase in operating expenses for the year ended December 31, 2007.

Year ended December 31, 2006 compared to year ended December 31, 2005

	Year ended		
	December 31, 2006	December 31, 2005	$ Change
Net interest income after the provision for loan losses	$ 4,021	1,384	2,637

Other fee-based income	35,090	14,239	20,851
Intersegment revenue	503		503
Total other income	35,593	14,239	21,354
Salaries and benefits	17,607	7,065	10,542
Other expenses	8,371	3,815	4,556
Intersegment expenses	1,025	99	926
Total operating expenses	27,003	10,979	16,024
Base net income before income taxes	12,611	4,644	7,967
Income tax expense	4,791	1,765	3,026
Base net income before minority interest	7,820	2,879	4,941
Minority interest	(242)	(603)	361
Base net income	$ 7,578	2,276	5,302
After Tax Operating Margin	19.7%	18.4%	

Other fee-based income. Other fee-based income increased $18.7 million for the year ended December 31, 2006 compared to 2005 as a result of the acquisition of tuition payment processing and campus commerce operations. In addition, for the year ended December 31, 2006, approximately $2.1 million of the increase in other fee-based income is due to an increase in the number of managed tuition payment plans.

Operating expenses. Operating expenses increased $15.6 million due to the timing of acquisitions. The remaining increase is the result of the increase in the number of managed tuition payment plans.

ENROLLMENT SERVICES AND LIST MANAGEMENT OPERATING SEGMENT RESULTS OF OPERATIONS

The Company s Enrollment Services and List Management segment provides a wide range of direct marketing products and services to help schools and businesses reach the middle school, high school, college bound high school, college, and young adult market places. In addition, this segment offers products and services that are focused on helping (i) students plan and prepare for life after high school and (ii) colleges recruit and retain students.

Effective February 28, 2005, the Company acquired 100% of the capital stock of Student Marketing Group, Inc. (SMG), a full service direct marketing agency, and 100% of the membership interests of National Honor Roll, LLC (NHR), a company which provides publications and scholarships for middle and high school students achieving exceptional academic success.

On June 30, 2006, the Company purchased 100% of the membership interests of CUnet, LLC (CUnet). CUnet provides campus locations and online schools with performance-based educational marketing, web-based marketing, lead generation, and vendor and lead management services to enhance their brands and improve student recruitment and retention.

On July 27, 2006, the Company purchased certain assets and assumed certain liabilities (hereafter referred to as Peterson s) from Thomson Learning Inc. Peterson s provides a comprehensive suite of education and career-related solutions in the areas of education search, test preparation, admissions, financial aid information (including scholarship search), and career assistance. Peterson s delivers these services through a variety of media including print (i.e. books) and online. Peterson s reaches millions of consumers annually with its publications and online information about colleges and universities, career schools, graduate programs, distance learning, executive training, private secondary schools, summer opportunities, study abroad, financial aid, test preparation, and career exploration resources.

Management believes the Company s Enrollment Services and List Management operating segment enhances the Company s position as a vertically-integrated industry leader with a strong foundation for growth. The Company has focused on growing and organically developing its product and service offerings as well as enhancing them through various acquisitions. A key aspect of each transaction is its impact on the Company s prospective organic growth and the development of its integrated platform of services.

The above acquisitions were accounted for under purchase accounting and the results of operations have been included in the consolidated financial statements from the date of acquisition.

Year ended December 31, 2007 compared to year ended December 31, 2006

	Year ended December 31, 2007	December 31, 2006	$ Change
Net interest income after the provision for loan losses	$ 340	531	(191)
Other fee-based income	103,311	55,361	47,950
Software services income	594	157	437
Intersegment revenue	891	1,000	(109)
Total other income	104,796	56,518	48,278
Salaries and benefits	33,480	15,510	17,970
Restructure expense severance and and contract termination costs	929		929
Impairment expense	11,401		11,401
Other expenses	60,445	30,854	29,591
Intersegment expenses	335	17	318
Total operating expenses	106,590	46,381	60,209
Base net income (loss) before income taxes	(1,454)	10,668	(12,122)
Income tax expense (benefit)	(553)	4,054	(4,607)
Base net income (loss)	$ (901)	6,614	(7,515)
After Tax Operating Margin	(0.9%)	11.6%	
After Tax Operating Margin - excluding restructure expense and impairment expense	6.4%	11.6%	

Other fee-based income. Other fee-based income increased primarily as the result of acquisitions. The 2006 acquisitions of CUnet and Peterson s resulted in a $39.8 million increase in other-fee based revenues. The remaining increase of $8.2 million is a result of an increase in lead generation sales due to additional customers.

Operating expenses. Total operating expenses increased $60.2 million for the year ended December 31, 2007 compared to 2006. Included in operating expenses is an impairment charge of $11.4 million recognized by the Company in the third quarter as a result of the passage of the College Cost Reduction Act, and certain restructuring charges of $0.9 million taken during the third and fourth quarters. See notes 4 and 5 in the notes to the consolidated financial statements included in this Report for additional information concerning the impairment and restructuring charges. Operating expenses increased $40.2 million as a result of the acquisitions of CUnet and Peterson s. The remaining increase in operating expense, excluding the impairment and restructuring charges, is $7.7 million and is a result of further developing resources and products for the Company s customers in this segment and increases in costs to support the increase in revenue.

Year ended December 31, 2006 compared to year ended December 31, 2005

	Year ended December 31, 2006	December 31, 2005	$ Change
Net interest income after the provision for loan losses	$ 531	165	366
Other fee-based income	55,361	12,349	43,012
Software services income	157		157
Intersegment revenue	1,000	139	861
Total other income	56,518	12,488	44,030
Salaries and benefits	15,510	3,081	12,429
Other expenses	30,854	3,512	27,342
Intersegment expenses	17		17
Total operating expenses	46,381	6,593	39,788
Base net income before income taxes	10,668	6,060	4,608
Income tax expense	4,054	2,302	1,752
Base net income	$ 6,614	3,758	2,856
After Tax Operating Margin	11.6%	29.7%	

Other fee-based income. Other fee-based income increased primarily as the result of acquisitions. The 2006 acquisitions of CUnet and Peterson s resulted in a $34.9 million increase in other fee-based revenues. SMG and NHR were acquired effective February 28, 2005 and, as a result, other fee-based income includes twelve months of income for 2006 compared to ten months of income in 2005. This resulted in a $5.7 million increase to other fee-based revenues. The Company experienced an increase of $2.6 million as a result of a volume increase in list sales volume. Finally, the Company decreased its merchandise revenue sales efforts targeted at certain customers with a lower profit margin which resulted in a decrease of $0.2 million in other fee-based income.

Operating expenses. Total operating expenses increased $39.8 million for the year ended December 31, 2006 compared to 2005. Operating expenses increased $33.7 million as a result of the acquisitions of CUnet and Peterson s. The Company increased its investment in its college planning center which resulted in a $1.9 million increase in operating expenses. The remaining $4.2 million increase in operating expenses was the result of the timing of the acquisitions of SMG and NHR which resulted in twelve months of expense for 2006 compared to ten months in 2005 and due to increased list sales volume.

SOFTWARE AND TECHNICAL SERVICES OPERATING SEGMENT RESULTS OF OPERATIONS

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

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

Effective November 1, 2005, the Company purchased the remaining 50% interest in 5280 Solutions, LLC (5280). The Company owned 50% of this entity and accounted for it under the equity method of accounting prior to the transaction. 5280 provides information technology products and services, with core areas of business in student loan software solutions for schools, lenders, and guarantors; technical consulting services; and enterprise content management. This acquisition was accounted for under purchase accounting and the results of operations have been included in the consolidated financial statements from the date of acquisition.

Year ended December 31, 2007 compared to year ended December 31, 2006

	Year ended		
	December 31, 2007	December 31, 2006	$ Change
Net interest income after the provision for loan losses	$ 18	105	(87)
Software services income	22,075	15,490	6,585
Intersegment revenue	15,683	17,877	(2,194)
Total other income	37,758	33,367	4,391
Salaries and benefits	23,959	22,063	1,896
Restructure expense severance and contract termination costs	58		58
Other expenses	2,995	3,238	(243)
Intersegment expenses	775		775
Total operating expenses	27,787	25,301	2,486
Base net income before income taxes	9,989	8,171	1,818
Income tax expense	3,796	3,105	691
Base net income	$ 6,193	5,066	1,127
After Tax Operating Margin	16.4%	15.1%	
After Tax Operating Margin - excluding restructure expense	16.5%	15.1%	

Software services income. Software services income increased $6.6 million for the year ended December 31, 2007 compared to 2006 as a result of new customers, additional projects for existing customers, and increased fees.

Operating expenses. The increase in operating expenses was driven by additional costs associated with salaries and benefits to support the additional income.

Year ended December 31, 2006 compared to year ended December 31, 2005

	Year ended		
	December 31, 2006	December 31, 2005	$ Change
Net interest income after the provision for loan losses	$ 105	21	84
Software services income	15,490	9,042	6,448
Intersegment revenue	17,877	5,848	12,029

Total other income	33,367	14,890	18,477
Salaries and benefits	22,063	7,197	14,866
Other expenses	3,238	968	2,270
Intersegment expenses		(8)	8
Total operating expenses	25,301	8,157	17,144
Base net income before income taxes	8,171	6,754	1,417
Income tax expense	3,105	2,567	538
Base net income	$ 5,066	4,187	879
After Tax Operating Margin	15.1%	28.1%	

Software services income. Software services income increased $8.3 million for the year ended December 31, 2006 compared to 2005 as a result of the acquisition of 5280 in November 2005. This increase was offset by a $1.9 million decrease in maintenance and enhancement fee revenues on the Company s existing operations.

Operating expenses. Operating expenses increased as a result of the acquisition of 5280 in November 2005.

LIQUIDITY AND CAPITAL RESOURCES

The Company utilizes operating cash flow, operating lines of credit, and secured financing transactions to fund operations and student loan and business acquisitions. The Company has also used its common stock to partially fund certain business acquisitions. In addition, the Company has a universal shelf registration statement with the SEC which allows the Company to sell up to $750.0 million of securities that may consist of common stock, preferred stock, unsecured debt securities, warrants, stock purchase contracts, and stock purchase units. The terms of any securities are established at the time of the offering.

The Company has significant financing needs that it meets through the capital markets, including the debt and secondary markets. These markets are currently experiencing unprecedented disruptions, which are having an adverse impact on the Company s earnings and financial condition, particularly in the short term.

Current conditions in the debt markets include reduced liquidity and increased credit risk premiums for most market participants. These conditions can increase the cost and reduce the availability of debt in the capital markets. The Company attempts to mitigate the impact of debt market disruptions by obtaining adequate committed and uncommitted facilities from a variety of reliable sources. There can be no assurance, however, that the Company will be successful in these efforts, that such facilities will be adequate, or that the cost of debt will allow the Company to operate at profitable levels. Since the Company is dependent on the availability of credit to finance its operations, disruptions in the debt markets or a reduction in the Company s credit ratings could have an adverse impact on the Company s earnings and financial condition, particularly in the short term.

While management believes the Company has a strong capital base and adequate liquidity and the Company has capacity to grow its student loan portfolio, the Company s ability to acquire and hold student loans is not unlimited. As a result, a prolonged period of market illiquidity may affect the Company s loan acquisition volumes and could have an adverse impact on the Company s future earnings and financial condition.

Since the Company cannot determine nor control the length of time or extent to which the capital markets remain disrupted, it will reduce its direct and indirect costs related to its asset generation activities and be more selective in pursuing origination activity, in both the school and direct to consumer channels, for both private loans and FFELP loans. Accordingly, the Company has suspended consolidation student loan originations and will continue to review the viability of continuing to originate and acquire student loans through its various channels. As a result of these items, the Company will experience a decrease in origination volume compared to historical periods. The decrease in origination volume will reduce the Company s financing needs from historical periods.

The following table summarizes the Company s bonds and notes outstanding as of December 31, 2007:

			Interest rate	
		Percent		
	Carrying	**of**	**range on**	
	amount	**total**	**carrying amount**	**Final maturity**
Variable-rate bonds and notes (a):				
Bond and notes based on indices	$ 17,508,810	62.3%	4.73% - 5.78%	09/25/12 - 06/25/41
Bond and notes based on auction or remarketing	2,905,295	10.3	2.96% - 7.25%	11/01/09 - 07/01/43
Total variable-rate bonds and notes	20,414,105	72.6		
Commerical paper FFELP facility	6,629,109	23.5	5.22% - 5.98%	05/09/10
Commerical paper private loan facility	226,250	0.8	5.58%	01/25/09
Fixed-rate bonds and notes (a)	214,476	0.8	5.20% - 6.68%	11/01/09 - 05/01/29
Unsecured fixed-rate debt	475,000	1.7	5.13% and 7.40%	06/01/10 and 09/29/36
Unsecured line of credit	80,000	0.3	5.40% - 5.53%	05/08/12
Other borrowings	76,889	0.3	4.65% - 5.20%	09/28/08 - 11/01/15

Total	$ 28,115,829	100.0%

(a) Issued in securitization transactions.

Secured Financing Transactions

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

Loan warehouse facilities

Student loan warehousing allows the Company to buy and manage student loans prior to transferring them into more permanent financing arrangements. The Company uses its warehouse facilities to pool student loans in order to maximize loan portfolio characteristics for efficient financing and to properly time market conditions for movement of the loans. Because transferring those loans to a long-term securitization includes certain fixed administrative costs, the Company has historically sought to maximize economies of scale by executing large transactions.

The Company relies upon three conduit warehouse loan financing vehicles to support its funding needs on a short-term basis: a multi-seller bank provided conduit with $8.9 billion of committed funding for FFELP loans, a private loan warehouse with $250.0 million in authorized financing for non-federally insured student loans, and a single-seller extendible commercial paper conduit authorized to fund up to $5.0 billion in FFELP loans.

The multi-year committed facility for FFELP loans, which terminates in May 2010, is supported by 364-day liquidity which is up for renewal in May 2008. In order to continue funding new originations, the Company s liquidity must be renewed. If not renewed, the Company will be unable to fund new originations in the facility. If the Company is able to renew its liquidity on this line, it will come at an increased cost compared to historical periods. If the Company is not able to renew the liquidity on this facility or renew the facility at a price acceptable to the Company, it becomes a term facility with a maturity date of May 2010. The Company s cost of financing on the term facility would be slightly higher than its current cost of funds as a warehouse facility. If the Company s warehouse facility becomes a term facility, the Company will need to use or secure alternate financing to fund new FFELP student loan originations or acquisitions.

As of December 31, 2007, $6.6 billion was outstanding under this facility and $2.3 billion was available for future use. There can be no assurance the Company will be able to maintain this conduit facility, find alternative funding, or increase the commitment level of such facility, if necessary. While the Company s bank-supported conduit facilities have historically been renewed for successive terms, there can be no assurance that this will continue in the future.

The FFELP warehouse facility has a provision requiring the Company to refinance or remove on an annual basis 75% of the pledged collateral. In accordance with this provision, the Company anticipates refinancing or removing $1 billion to $2 billion of FFELP loans from this facility by May 2008.

The terms and conditions of the Company s warehouse facility for FFELP loans provide for advance rates related to financed loans subject to a valuation formula based on current market conditions. Dislocation in the credit markets including disruptions in the current capital markets can and will cause short-term volatility in the loan valuation formulas. Severe volatility and dislocation in the credit markets, although temporary, could cause the valuation assigned to its student loan portfolio financed by the applicable line to be less than par. Should a significant change in the valuation of subject loans result in a reduction in advance rate and require equity support greater than what the Company can or is willing to provide, the warehouse line could be subject to termination. While the Company does not believe the loan valuation formula is reflective of the fair market value of its loans, it is subject to compliance with provisions of the warehouse documents. As of February 28, 2008, the Company has $163.6 million utilized as equity funding support based on provisions of this agreement of which all has been required to be posted since December 31, 2007 as a result of adverse credit market conditions.

The private loan warehouse facility is an uncommitted facility that is offered to the Company by one banking partner, which terminates in January 2009. As of December 31, 2007, $226.3 million was outstanding under this facility and $23.7 million was available for future use. The Company guarantees the performance of the assets in the private loan warehouse facility. This facility provides for advance rates on subject collateral which require certain levels of equity enhancement support. As of February 28, 2008, the Company has $30.5 million utilized as equity funding support based on provisions of this agreement of which all has been required to be posted since December 31, 2007 as a result of adverse credit market conditions. There can be no assurance that the Company will be able to maintain this conduit facility, find alternative funding, increase the size of the facility, or make adequate equity contributions, if necessary. While the Company s bank supported facilities have historically been renewed for successive terms, there can be no assurance that this will continue in the future.

In August 2006, the Company established a $5.0 billion extendible commercial paper warehouse program for FFELP loans under which it can issue one or more short-term extendable secured liquidity notes (the Secured Liquidity

Notes). Each Secured Liquidity Note will be issued at a discount or an interest-bearing basis having an expected maturity of between 1 and 307 days (each, an Expected Maturity) and a final maturity of 90 days following the Expected Maturity. The Secured Liquidity Notes issued as interest-bearing notes may be issued with fixed interest rates or with interest rates that fluctuate based upon a one-month LIBOR rate, a three-month LIBOR rate, a commercial paper rate, or a federal funds rate. The Secured Liquidity Notes are not redeemable by the Company nor subject to voluntary prepayment prior to the Expected Maturity date. The Secured Liquidity Notes are secured by FFELP loans purchased in connection with the program. As of December 31, 2007, the Company has no Secured Liquidity Notes outstanding under this warehouse program. During the third and fourth quarters of 2007, as a result of the disruption of the credit markets, there was no market for the issuance of new Secured Liquidity Notes and management believes it is unlikely a market will exist in the future.

Asset-backed securitizations

Of the $28.1 billion of debt outstanding as of December 31, 2007, $20.6 billion was issued under term asset-backed securitizations. Depending on market conditions, the Company anticipates continuing to access the asset-backed securities market. As a result of the disruptions in the credit markets, the Company may not be able to issue asset-backed financings at rates historically achieved by the Company, at levels equal to or less than other financing agreements, or at levels otherwise considered beneficial to the Company. Accordingly, the Company s operational and financial results may be negatively impacted. Securities issued in the securitization transactions are generally priced based upon a spread to LIBOR or set under an auction or remarketing procedure.

LIBOR based notes

As of December 31, 2007, the Company had $17.5 billion of notes issued under asset-backed securitizations that primarily reprice at a fixed spread to 3 month LIBOR and are structured to match the maturity of the funded assets. These notes fund student loans that are primarily set based on a spread to 3 month commercial paper. The 3 month LIBOR and 3 month commercial paper indexes have rate movements that are highly correlated over a long period of time. Assuming this high correlation is not disrupted by capital market disruptions or other factors and the prepayments and default rates on the student loans included in these asset-backed securitizations meet management s expectations and estimates, the Company expects future cash flows to the Company for net spread, servicing, and administration from these facilities will be in excess of $1.2 billion.

Auction or remarketing based notes

The interest rates on certain of the Company s asset-backed securities are set and periodically reset via a dutch auction (Auction Rate Securities) or through a remarketing utilizing broker-dealers and remarketing agents (Variable Rate Demand Notes). The Company is currently sponsor on approximately $2.0 billion of Auction Rate Securities and $0.9 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. Recently, as part of the ongoing credit market crisis, several auction rate securities from various issuers have failed to receive sufficient order interest from potential investors to clear successfully, resulting in failed auction status. Since February 8, 2008, the Company s Auction Rate Securities have failed in this manner. Under normal conditions, banks have historically stepped in when investor demand is weak. However, as of recently, banks have been allowing these auctions to fail.

As a result of a failed auction, the Auction Rate Securities will generally pay interest to the holder at a maximum rate as defined by the governing documents or indenture. While these rates will vary slightly by class of security, they will generally be based on a spread to Libor or Treasury Securities and will approximate the current one month LIBOR rate plus 75 to 150 basis points. These maximum rates are subject to increase if the credit ratings on the bonds are downgraded.

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

For Variable Rate Demand Notes, the remarketing agents set the price, which is then offered to investors. If there are insufficient potential bid orders to purchase all of the notes offered for sale, the Company could be subject to interest costs substantially above the anticipated and historical rates paid on these types of securities. The maximum rate for Variable Rate Demand Notes is based on a spread to certain indexes as defined in the underlying documents with the highest to the Company being Prime plus 200 basis points. Certain of the Variable Rate Demand Notes are secured by financial guaranty insurance policies issued by Municipal Bond Investors Assurance (MBIA). The Variable Rate Demand Notes insured by MBIA are currently experiencing reduced investor demand and certain of these securities have been put to the liquidity provider, Lloyds TSB Bank, at a cost ranging from Federal Funds plus 150 basis points to LIBOR plus 175 basis points.

Operating Lines of Credit

The Company uses its line of credit agreements primarily for general operating purposes, to fund certain asset and business acquisitions, and to repurchase stock under the Company s stock repurchase program. The Company maintains a $750.0 million unsecured line of credit supported by various banking entities. At December 31, 2007, $80.0 million was outstanding under this line and $670.0 million was available for future uses. The $750.0 million line of credit terminates in May 2012. Upon termination in 2012, there can be no assurance that the Company will be able to maintain this line of credit, find alternative funding, or increase the amount outstanding under the line, if necessary. As discussed previously, the Company may need to fund certain loans or provide equity funding support related to advance rates on its warehouse facilities. As of February 28, 2008, the Company has contributed $194.1 million in equity funding support to these facilities. The Company has funded these contributions primarily by advances on its operating line of credit. As of February 28, 2008, the Company has $340 million outstanding under this line of credit and $410 million available for future uses. As summarized below, the Company has approximately $112 million of unrestricted cash and liquid investments as of December 31, 2007.

On January 24, 2007, the Company established a $475.0 million unsecured commercial paper program and in May 2007 increased the amount authorized for issuance under the program to $725.0 million. Under the program, the Company may issue commercial paper for general corporate purposes. The maturities of the notes issued under this program will vary, but may not exceed 397 days from the date of issue. Notes issued under this program will bear interest at rates that will vary based on market conditions at the time of issuance. As of December 31, 2007, there were no borrowings outstanding on this line and $725.0 million of remaining authorization. The Company does not expect to be able to issue unsecured commercial paper in the near future at a cost effective level relative to the Company s unsecured line of credit.

Universal Shelf Offerings

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

On September 27, 2006 the Company consummated a debt offering under its universal shelf consisting of $200.0 million aggregate principal amount of Junior Subordinated Hybrid Securities (Hybrid Securities). The Hybrid Securities are unsecured obligations of the Company. The interest rate on the Hybrid Securities from the date they were issued through the optional redemption date, September 28, 2011, is 7.40%, payable semi-annually. Beginning September 29, 2011 through September 29, 2036, the scheduled maturity date , the interest rate on the Hybrid Securities will be equal to three-month LIBOR plus 3.375%, payable quarterly. The principal amount of the Hybrid Securities will become due on the scheduled maturity date only to the extent that the Company has received proceeds from the sale of certain qualifying capital securities prior to such date (as defined in the Hybrid Securities prospectus). If any amount is not paid on the scheduled maturity date, it will remain outstanding and bear interest at a floating rate as defined in the prospectus, payable monthly. On September 15, 2061, the Company must pay any remaining principal and interest on the Hybrid Securities in full whether or not the Company has sold qualifying capital securities. At the Company s option, the Hybrid Securities are redeemable in whole at any time or in part from time to time at the redemption price described in the prospectus supplement.

The proceeds from these unsecured debt offerings were or will be used by the Company to fund general business operations, certain asset and business acquisitions, and the repurchase of stock under the Company s stock repurchase plan. As of December 31, 2007, the Company has $275.0 million remaining under its universal shelf.

Sources of Liquidity

The following table details the Company s primary sources of liquidity and the available capacity at December 31, 2007:

Sources of primary liquidity: (a)	
Unrestricted cash and liquid investments (b)	$ 111,746
Unencumbered student loan assets	133,362
Unused unsecured line of credit	670,000
Asset-backed commercial paper borrowing capacity private loans (c)	23,750
Asset-backed commercial paper borrowing capacity FFELP (d)	2,320,891
Total sources of primary liquidity	$ 3,259,749

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

$5.0 billion authorized for future issuance under the extendible commercial paper warehouse program. During the third and fourth quarters of 2007, as a result of the disruption of the credit markets, there was no market for the issuance of this debt and management believes it is unlikely a market will exist in the future.

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

(c) The Company s private loan warehouse facility expires on January 25, 2009.

(d) The Company s FFELP loan warehouse facility expires on May 9, 2010. However, the liquidity of this facility must be renewed annually in order to continue to fund new originations.

Liquidity is up for renewal in May 2008. Moreover, as stated previously, there are other liquidity provisions in the facility that require a percentage of the loans financed under the agreement to be sold out of the facility on an annual basis.

Contractual Obligations

The Company is committed under noncancelable operating leases for certain office and warehouse space and equipment. The Company s contractual obligations as of December 31, 2007 were as follows:

		Less than			More than
	Total	1 year	1 to 3 years	3 to 5 years	5 years
Bonds and notes payable	$ 28,115,829	7,020,002	353,739	55,296	20,686,792
Operating lease obligations	48,218	9,360	18,242	12,540	8,076
Other	15,287	14,267	1,020		
Total	$ 28,179,334	7,043,629	373,001	67,836	20,694,868

The Company had an $8.9 million reserve as of December 31, 2007 for uncertain income tax positions related to the January 1, 2007 adoption of FIN 48. This obligation is not included in the above table as the timing and resolution of the income tax positions cannot be reasonably estimated at this time.

The Company s bonds and notes payable due in less than one year includes $6.6 billion of bonds and notes outstanding related to the Company s FFELP warehouse facility. Although the maturity for this facility is May 2010, the liquidity must be renewed annually. As such, the Company presents the obligation due based on the liquidity renewal date. Historically, the Company has been able to renew its commercial paper conduit programs, including the underlying liquidity agreements.

The Company has commitments with its branding partners and forward flow lenders which obligate the Company to purchase loans originated under specific criteria, although the branding partners and forward flow lenders are typically not obligated to provide the Company with a minimum amount of loans. Branding partners are those entities from whom the Company acquires student loans and provides marketing and origination services. Forward flow lenders are those entities from whom the Company acquires student loans and provides origination services. These commitments generally run for periods ranging from one to five years and are generally renewable. Commitments to purchase loans under these arrangements are not included in the table above.

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

LoanSTAR As part of the agreement for the acquisition of the capital stock of LoanSTAR from the Greater Texas Foundation (Texas Foundation), the Company agreed to sell student loans in an aggregate amount sufficient to permit the Texas Foundation to maintain a portfolio of loans equal to no less than $200 million through October 2010. The sales price for such loans is the fair value mutually agreed upon between the Company and the Texas Foundation. To satisfy this obligation, the Company sells loans to the Texas Foundation on a quarterly basis.

SMG/NHR In January 2008, the Company paid $18.0 million (of which $6.8 million was accrued as of December 31, 2007) of contingent consideration related to the acquisitions of SMG and NHR. This payment was recorded as additional purchase price and satisfies all of the Company s obligations related to the contingencies per the terms of the agreement. The $6.8 million accrual as of December 31, 2007 is included in other in the above table.

infiNET Stock price guarantee of $104.8375 per share on 95,380 shares of Class A Common Stock (less the greater of $41.9335 or the gross sales price such seller obtains from a sale of the shares occurring subsequent to February 28, 2011 as defined in the agreement) issued as part of the original purchase price. The obligation to pay this guaranteed stock price is due February 28, 2011 and is not included in the table above. Based upon the closing sale price of the Company s Class A Common Stock as of December 31, 2007 of $12.71 per share, the Company s obligation under this stock price guarantee would have been $6.0 million (($104.8375 $41.9335) x 95,380 shares). Any cash paid by the Company in consideration of satisfying the guaranteed value of stock issued for this acquisition would be recorded by the Company as a reduction to additional paid-in capital.

5280 258,760 shares of Class A Common Stock issued as part of the original purchase price is subject to a put option arrangement whereby during the 30-day period ending November 8, 2008, the holders may require the Company to repurchase all or part of the shares at a price of $37.10 per share. The value of this put option as of December 31, 2007 was $6.1 million and is included in other in the above table.

Additional information concerning the Company s obligations related to the above acquisitions can be found in note 7 in the accompanying consolidated financial statements included in this Report.

Dividends

During each quarter in 2007, the Company paid a cash dividend of $0.07 per share on the Company s Class A and Class B Common Stock. The Company did not pay cash dividends on either class of its Common Stock in 2006. The Company s Board of Directors approved a 2008 first quarter cash dividend of $0.07 per share on the Company s Class A and Class B Common Stock to be paid on March 15, 2008 to shareholders of record as of March 1, 2008. The Company will continue to evaluate its quarterly dividend policy of which the payment is subject to future earnings, capital requirements, financial condition, and other factors.

Capital Covenant

On September 27, 2006, in connection with the closing of the Hybrid Securities offering, the Company entered into a Replacement Capital Covenant (the Covenant), whereby the Company agreed for the benefit of persons that buy, hold, or sell a specified covered series of the Company s long-term indebtedness ranking senior to the Hybrid Securities that the Hybrid Securities will not be repaid, redeemed or repurchased by the Company on or before September 15, 2051, unless the principal amount repaid or the applicable redemption or repurchase price does not exceed a maximum amount determined by reference to the aggregate amount of net cash proceeds the Company has received from the sale of common stock, rights to acquire common stock, mandatorily convertible preferred stock , debt exchangeable into equity, and qualifying capital securities since the later of (x) the date 180 days prior to the delivery of notice of such repayment or redemption or the date of such repurchase and (y) to the extent the Hybrid Securities are outstanding after the scheduled maturity date, the most recent date, if any, on which a notice of repayment or redemption was delivered in respect of, or on which the Company repurchased, any Hybrid Securities.

As of the date of this Report, the 5.125% Senior Notes due 2010 is the only series of long-term indebtedness for borrowed money that is covered debt with respect to the Covenant.

The Company also has certain facilities that include minimum equity/net-worth covenants.

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 this Report, includes a summary of the significant accounting policies and methods used in the preparation of the consolidated financial statements.

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

Allowance for Loan Losses

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

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

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

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

Revenue Recognition

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

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

The Company assesses collectibility of revenues and our 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 our services, revenue is recognized upon the receipt of cash.

Purchase Price Accounting Related to Business and Certain Asset Acquisitions

The Company has completed several business and asset acquisitions which have generated significant amounts of goodwill and intangible assets and related amortization. The values assigned to goodwill and intangibles, as well as their related useful lives, are subject to judgment and estimation by the Company. Goodwill and intangibles related to acquisitions are determined and based on purchase price allocations. Valuation of intangible assets is generally based on the estimated cash flows related to those assets, while the initial value assigned to goodwill is the residual of the purchase price over the fair value of all identifiable assets acquired and liabilities assumed. Thereafter, the value of goodwill cannot be greater than the excess of fair value of the Company s reportable unit over the fair value of the identifiable assets and liabilities, based on an annual impairment test. Useful lives are determined based on the expected future period of the benefit of the asset, the assessment of which considers various characteristics of the asset, including historical cash flows. Due to the number of estimates involved related to the allocation of purchase price and determining the appropriate useful lives of intangible assets, management has identified purchase price accounting as a critical accounting policy.

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.

RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of SFAS No. 157 are effective as of the beginning of the first fiscal year that begins after November 15, 2007 (January 1, 2008 for the Company) and is to be applied prospectively. In February 2008, the FASB issued Staff Positions No. 157-1 and No. 157-2 which partially defer the effective date of SFAS No. 157 for one year for certain nonfinancial assets and liabilities and remove certain leasing transactions from its scope. The Company is currently evaluating the impacts and disclosures of this standard, but would not expect SFAS No. 157 to have a material impact on the Company s consolidated result of operations or financial condition.

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

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

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

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

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

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

	As of December 31, 2007		As of December 31, 2006	
	Dollars	Percent	Dollars	Percent
Fixed-rate loan assets	$ 1,136,544	4.3%	$ 787,378	3.4%
Variable-rate loan assets	25,192,669	95.7	22,627,090	96.6
Total	$ 26,329,213	100.0%	$ 23,414,468	100.0%
Fixed-rate debt instruments	$ 689,476	2.5%	$ 878,431	3.4%
Variable-rate debt instruments	27,426,353	97.5	24,683,688	96.6
Total	$ 28,115,829	100.0%	$ 25,562,119	100.0%

FFELP student loans generally earn interest at the higher of a floating rate based on the Special Allowance Payment or SAP formula set by the Department and the borrower rate, which is fixed over a period of time. The SAP formula is based on an applicable index plus a fixed spread that is dependant upon when the loan was originated, the loan s repayment status, and funding sources for the loan. The Company generally finances its student loan portfolio with variable-rate debt. In low and/or declining interest rate environments, when the fixed borrower rate is higher than the rate produced by the SAP formula, the Company s student loans earn at a fixed rate while the interest on the variable-rate debt continues to decline. In these interest rate environments, the Company earns additional spread income that it refers to as fixed rate floor income. For the years ended December 31, 2007 and 2006, loan interest income includes approximately $10 million and $30 million of fixed rate floor income.

Depending on the type of the student loan and when it was originated, the borrower rate is either fixed to term or is reset to market rate each July 1. As a result, for loans where the borrower rate is fixed to term, the Company earns floor income for an extended period of time, which the Company refers to as fixed rate floor income, and for those loans where the borrower rate is reset annually on July 1, the Company earns floor income to the next reset date, which the Company refers to as variable-rate floor income. In accordance with new legislation enacted in 2006, lenders are required to rebate floor income and variable-rate floor income to the Department for all new FFELP loans 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 the special allowance payment formula. In higher interest rate environments, where the interest rate rises above the borrower rate and fixed-rate loans effectively become variable rate loans, the impact of the rate fluctuations is reduced.

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

The following table shows the Company s student loan assets that are earning fixed rate floor income as of December 31, 2007:

Fixed interest rate range	Borrower/ lender weighted average yield	Estimated variable conversion rate (a)		Balance of assets earning fixed-rate floor income as of December 31, 2007 (b)
7.5 7.99%	7.75%	5.11%	$	202,673
8.0 8.99%	8.15	5.51		560,024
> 9.0%	9.04	6.40		373,847
			$	1,136,544

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

(b) As of December 31, 2007, the Company had $214.5 of fixed rate debt that was used by the Company to hedge fixed-rate student loan assets. The weighted average interest rate paid by the Company on this debt as of December 31, 2007 was 6.18%.

Subsequent to December 31, 2007, there has been a decrease in short-term interest rates. As a result of these decreases, the following student loan assets are currently earning fixed rate floor income in addition to those presented above:

Fixed interest rate range		Borrower/ lender weighted average yield	Estimated variable conversion rate	Balance of assets earning fixed-rate floor income as of December 31, 2007	
6.0	6.49%	6.19%	3.55%	$	441,741
6.5	6.99%	6.70	4.06	$	397,948
7.0	7.49%	7.25	4.61		182,476
				$	1,022,165

In December 2007 and January 2008, the Company entered into the following interest rate derivatives to hedge fixed-rate student loan assets.

Maturity	Notional Amount	Weighted average fixed rate paid by the Company (a)
2009	$ 500,000(b)	4.08%
2010	700,000(b)	3.44
2011	500,000(c)	3.57
2012	250,000(d)	3.86
	$ 1,950,000	3.69%

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

(b) Derivative(s) have an effective start date in the first quarter 2008.

(c) $250.0 million notional amount of derivative(s) have an effective start date in the first quarter of 2008 and 2010, respectively.

(d) Derivative(s) have an effective start date in the first quarter 2009.

As of December 31, 2007, the Company had $0.9 billion of student loan assets that were earning variable-rate floor income. The majority of these loans were originated prior to January 1, 2000. As such, the Company was earning loan interest income on these loans based on the Treasury-bill index. As of December 31, 2007, the weighted-average variable-rate floor strike rate on this portfolio was 4.77%. The Company was funding this portfolio primarily with variable-rate debt not indexed to Treasury-bill. Because of the recent credit market disruptions, the spread between Treasury-bill and LIBOR indexes widened which resulted in an increase in funding costs on this loan portfolio. The increase in funding costs related to this portfolio offset the positive impact of the variable-rate floor income earned during 2007.

Subsequent to December 31, 2007, short-term interest rates have continued to decline. As a result of this decline, the Company began to earn variable-rate floor income on $3.5 billion of additional student loan assets. The Company is earning loan interest income on these loans based on the commercial paper index. On a weighted-average basis, this portfolio earns variable-rate floor income to the extent that the commercial paper rate falls below approximately 4.9%.

In December 2007 and January 2008, the Company entered into interest rate derivatives with a notional amount of $2.0 billion and a weighted average fixed rate paid by the Company of 4.18% to hedge a portion of its student loans earning variable-rate floor income. These derivatives have an effective date subsequent to December 31, 2007 and the maturity date is June 30, 2008.

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, particularly in rising interest rate markets. 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 student loan assets and related funding arranged by underlying indices as of December 31, 2007:

Index (f)	Frequency of Variable Resets	Assets	Debt outstanding that funded student loan assets (a)
3 month H15 financial commercial paper (b)	Daily	$ 24,584,820	
3 month Treasury bill	Varies	1,469,578	
Private student loans		274,815	
3 month LIBOR (c) (d)	Quarterly		17,508,810
Auction-rate or remarketing	Varies		2,905,295
Asset-backed commercial paper	Varies		6,855,359
Fixed rate			214,476
Other (e)		1,154,277	
		$ 27,483,490	27,483,940

(a) During 2007, the Company entered into basis swaps in which the Company receives three-month LIBOR set discretely in advance and pays a daily weighted average three-month LIBOR less a spread as defined in the individual agreements. The Company entered into these derivative instruments to better match the interest rate characteristics on its student loan assets and the debt funding such assets. The following table summarizes these derivatives as of December 31, 2007:

	Notional Amount				
Maturity	Effective date in second quarter 2007	Effective date in third quarter 2007	Effective date in second quarter 2008	Effective date in third quarter 2008	Total
2008	$ 2,000,000	2,000,000			4,000,000
2009	2,000,000	4,000,000			6,000,000
2010	500,000	3,000,000	2,000,000	1,000,000	6,500,000
2011	1,350,000	2,700,000			4,050,000
2012	500,000	1,000,000	800,000	1,600,000	3,900,000
	$ 6,350,000	12,700,000	2,800,000	2,600,000	24,450,000

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

(c) The Company has 950.0 million of Euro-denominated notes that reprice on the EURIBOR index. The Company has entered into derivative instruments (cross-currency interest rate swaps) that convert the EURIBOR index to 3 month LIBOR. As a result, these notes are reflected in the 3 month LIBOR category in the above table. See Foreign Currency Exchange Risk.

(d) On May 1, 2006, the Company entered into three, ten-year basis swaps with notional values of $500.0 million each in which the Company receives three-month LIBOR and pays one-month LIBOR less a spread as defined in the agreements. The effective dates of these agreements were November 25, 2006, December 25, 2006, and January 25, 2007. In January 2008, the Company partially unwound $250.0 million of each of these derivatives.

(e) Assets include restricted cash and investments, pre-funding on certain debt transactions, and other assets.

(f) Historically, the movement of the various interest rate indices received on the

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

Financial Statement Impact of Derivative Instruments

The Company accounts for its derivative instruments in accordance with SFAS No. 133. SFAS No. 133 requires that changes in the fair value of derivative instruments be recognized currently in earnings unless specific hedge accounting criteria as specified by SFAS No. 133 are met. Management has structured all of the Company s derivative transactions with the intent that each is economically effective. However, the Company s derivative instruments do not qualify for hedge accounting under SFAS No. 133; consequently, the change in fair value of these derivative instruments is included in the Company s operating results. Changes or shifts in the forward yield curve and fluctuations in currency rates can significantly impact the valuation of the Company s derivatives. Accordingly, changes or shifts to the forward yield curve and fluctuations in currency rates will impact the financial position and results of operations of the Company. The change in fair value of the Company s derivatives are included in derivative market value, foreign currency, and put option adjustments and derivative settlements, net in the Company s consolidated statements of operations and resulted in income of $139.1 million, $43.9 million, and $95.9 million for the years ended December 31, 2007, 2006, and 2005, respectively.

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

		Year ended December 31,		
		2007	**2006**	**2005**
Interest rate swaps loan portfolio	$	4,753	12,993	(1,129)
Basis swaps loan portfolio		8,535		
Interest rate swaps other (a)		12,050	7,044	
Special allowance yield adjustment derivatives (a)			19,794	(15,879)
Cross-currency interest rate swaps		(6,661)	(14,406)	
Other (b)			(1,993)	
Derivative settlements, net	$	18,677	23,432	(17,008)

(a) During the 4th quarter 2006, in consideration of not receiving 9.5% special allowance payments on a prospective basis, the Company entered into a series of off-setting interest rate swaps that mirrored the $2.45 billion in pre-existing interest rate swaps that the

Company had utilized to hedge its loan portfolio receiving 9.5% special allowance payments against increases in interest rates.

During the 2nd quarter 2007, the Company entered into a series of off-setting interest rate swaps that mirrored the remaining interest rate swaps utilized to hedge the Company s student loan portfolio against increases in interest rates.

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

net proceeds of
$50.8 million.

Settlements on the 9.5% special allowance derivatives prior to entering into the off-setting derivatives discussed above were classified in the special allowance yield adjustment derivatives line item through September 30, 2006.

(b) During 2006, the Company issued junior subordinated hybrid securities and entered into a derivative instrument to economically lock into a fixed interest rate prior to the actual pricing of the transaction. Upon pricing of these notes, the Company terminated this derivative instrument. The consideration paid by the Company to terminate this derivative was $2.0 million.

Sensitivity Analysis

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

	Year ended December 31, 2007					
	Change from decrease of 100 basis points		Change from increase of 100 basis points		Change from increase of 200 basis points	
	Dollar	Percent	Dollar	Percent	Dollar	Percent
Effect on earnings:			(dollars in thousands)			
Increase in pre-tax net income before impact of derivative settlements	$ 2,020	3.5%	6,828	11.9%	15,975	28.0%
Impact of derivative settlements						
Increase in net income before taxes	$ 2,020	3.5%	6,828	11.9%	15,975	28.0%
Increase in basic and diluted earning per share	$ 0.03		0.09		0.20	

	Year ended December 31, 2006					
	Change from decrease of 100 basis points		Change from increase of 100 basis points		Change from increase of 200 basis points	
	Dollar	Percent	Dollar	Percent	Dollar	Percent
Effect on earnings:			(dollars in thousands)			
Increase in pre-tax net income before impact of derivative settlements	$ 9,695	9.1%	25,841	24.1%	56,351	52.7%
Impact of derivative settlements	(12,875)	(12.1)	12,875	12.1	25,750	24.1
Increase (decrease) in net income before taxes	$ (3,180)	(3.0)%	38,716	36.2%	82,101	76.8%
Increase (decrease) in basic and diluted earning per share	$ (0.04)		0.46		0.98	

	Year ended December 31, 2005					
	Change from decrease of 100 basis points		Change from increase of 100 basis points		Change from increase of 200 basis points	
	Dollar	Percent	Dollar	Percent	Dollar	Percent
Effect on earnings:			(dollars in thousands)			
Increase (decrease) in pre-tax net income before	$ 41,974	14.8%	(9,310)	(3.3)%	(10,004)	(3.5)%

impact of derivative settlements						
Impact of derivative settlements	(37,959)	(13.4)	37,959	13.4	75,919	26.7
Increase in net income before taxes	$ 4,015	1.4%	28,649	10.1%	65,915	23.2%
Increase in basic and diluted earning per share	$ 0.05		0.34		0.78	

Foreign Currency Exchange Risk

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

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

For the year ended December 31, 2007, the Company recorded an expense of $108.7 million as a result of re-measurement of the Euro Notes and income of $125.5 million for the increase in the fair value of the related derivative instrument. For the year ended December 31, 2006, the Company recorded expense of $70.4 million as a result of the re-measurement of the Euro Notes and income of $66.2 million for the change in the fair value of the related derivative instrument. Both of these amounts are included in derivative market value, foreign currency, and put option adjustments and derivative settlements, net on the Company s consolidated statements of operations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Reference is made to the consolidated financial statements listed under the heading (a) 1. Consolidated Financial Statements of Item 15 of this Report, which consolidated financial statements are incorporated into this Report by reference in response to this Item 8.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. 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.

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

Changes in Internal Control over Financial Reporting

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

Management s Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) for the Company. The Company s internal control system was designed to provide reasonable assurance to the Company s management and board of directors regarding the preparation and fair presentation of published financial statements in accordance with U.S. generally accepted accounting principles. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management maintains a comprehensive system of controls intended to ensure that transactions are executed in accordance with management s authorization, assets are safeguarded, and financial records are reliable. Management also takes steps to ensure that information and communication flows are effective and to monitor performance, including performance of internal control procedures.

Management assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2007 based on the criteria for effective internal control described in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management believes that, as of December 31, 2007, the Company s internal control over financial reporting is effective.

The effectiveness of the Company s internal control over financial reporting as of December 31, 2007 has been audited by KPMG LLP, the Company s independent registered public accounting firm, as stated in their report included herein, which expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting as of December 31, 2007.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Nelnet, Inc.:

We have audited Nelnet, Inc. s internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Nelnet, Inc. s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Nelnet, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Nelnet, Inc. and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of income, shareholders equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2007, and our report dated February 28, 2008 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP
Lincoln, Nebraska
February 28, 2008

ITEM 9B. OTHER INFORMATION

During the fourth quarter of 2007, no information was required to be disclosed in a report on Form 8-K, but not reported.

PART III.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

The information as to the directors, executive officers, corporate governance, and Section 16(a) beneficial ownership reporting compliance of the Company set forth under the captions PROPOSAL 1 ELECTION OF DIRECTORS Nominees, EXECUTIVE OFFICERS, CORPORATE GOVERNANCE, and SECURITY OWNERSH OF DIRECTORS, EXECUTIVE OFFICERS, AND PRINCIPAL SHAREHOLDERS Section 16(a) Beneficial Ownership Reporting Compliance in the Proxy Statement to be filed on Schedule 14A with the SEC, no later than 120 days after the end of the Company s fiscal year, relating to the Company s Annual Meeting of Shareholders scheduled to be held on May 22, 2008 (the Proxy Statement) is incorporated into this Report by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information set forth under the captions CORPORATE GOVERNANCE and EXECUTIVE COMPENSATION in the Proxy Statement is incorporated into this Report by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information set forth under the caption SECURITY OWNERSHIP OF DIRECTORS, EXECUTIVE OFFICERS, AND PRINCIPAL SHAREHOLDERS Stock Ownership in the Proxy Statement is incorporated into this Report by reference. There are no arrangements known to the Company, the operation of which may at a subsequent date result in a change in the control of the Company.

The following table summarizes, as of December 31, 2007, information about compensation plans under which equity securities are authorized for issuance.

Equity Compensation Plan Information

Plan category	Number of shares to be issued upon exercise of outstanding options, warrants, and rights (a)	Weighted-average exercise price of outstanding options, warrants, and rights (b)	Number of shares remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by shareholders	0	$ 0	3,065,206
Equity compensation plans not approved by shareholders	0	$ 0	0
Total	0	$ 0	3,065,206[1]

[1]

Includes 1,374,339, 28,778, 801,185, and 860,904 shares of Class A Common Stock remaining available for future issuance under the Nelnet, Inc. Restricted Stock Plan, Nelnet, Inc. Directors Stock Compensation Plan, Nelnet, Inc. Employee Share Purchase Plan, and Nelnet, Inc. Employee Stock Purchase Loan Plan, respectively.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information set forth under the captions CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, CORPORATE GOVERNANCE Board Composition and Director Independence, and CORPORATE GOVERNANCE Board Committees in the Proxy Statement is incorporated into this Report by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information set forth under the caption PROPOSAL 2 APPOINTMENT OF INDEPENDENT AUDITOR Independent Accounting Fees and Services in the Proxy Statement is incorporated into this Report by reference.

PART IV.

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. Consolidated Financial Statements

The following consolidated financial statements of Nelnet, Inc. and its subsidiaries and the Report of Independent Registered Public Accounting Firm thereon are included in Item 8 above:

	Page
Report of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets as of December 31, 2007 and 2006	F-3
Consolidated Statements of Income for the years ended December 31, 2007, 2006, and 2005	F-4
Consolidated Statements of Shareholders Equity and Comprehensive Income for the years ended December 31, 2007, 2006, and 2005	F-5
Consolidated Statements of Cash Flows for the years ended December 31, 2007, 2006, and 2005	F-6
Notes to Consolidated Financial Statements	F-7

2. Financial Statement Schedules

All schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

3. Exhibits

The exhibits listed in the accompanying index to exhibits are filed or incorporated by reference as part of this Report.

4. Appendix

Appendix A Description of the Federal Family Education Loan Program