NELNET INC
Form 10-Q
August 09, 2007

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

FORM 10-Q

(MARK ONE)
|X| QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2007

OR

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

FOR THE TRANSITION PERIOD FROM ___________TO ______________.

COMMISSION FILE NUMBER 001-31924

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.
Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ]

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

As of July 31, 2007, there were 37,958,775 and 11,495,377 shares of Class A Common Stock and Class B Common Stock, par value $0.01 per share, outstanding, respectively.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NELNET, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)

	AS OF JUNE 30, 2007 (UNAUDITED)	AS OF DECEMBER 31, 2006
ASSETS:		
Student loans receivable (net of allowance for loan losses of $27,140 and $26,003, respectively)	$26,174,958	23,789,552
Cash and cash equivalents:		
Cash and cash equivalents - not held at a related party	28,336	34,963
Cash and cash equivalents - held at a related party	77,670	67,380
Total cash and cash equivalents	106,006	102,343
Restricted cash	1,109,370	1,388,719
Restricted investments	107,226	129,132
Restricted cash - due to customers	44,655	153,557
Accrued interest receivable	584,819	503,365
Accounts receivable, net	56,053	49,227
Goodwill	191,256	191,420
Intangible assets, net	146,542	161,588
Property and equipment, net	68,441	62,285
Assets of discontinued operations	--	27,309
Other assets	91,722	92,277
Fair value of derivative instruments	192,326	146,099

Total assets	$28,873,374	26,796,873
LIABILITIES:		
Bonds and notes payable	$27,791,146	25,562,119
Accrued interest payable	118,666	120,211
Liabilities of discontinued operations	--	7,732
Other liabilities	264,169	253,431
Due to customers	44,655	153,557
Fair value of derivative instruments	43,560	27,973
Total liabilities	28,262,196	26,125,023
SHAREHOLDERS' EQUITY:		
Preferred stock, $0.01 par value. Authorized 50,000,000 shares; no shares issued or outstanding	--	--
Common stock:		
Class A, $0.01 par value. Authorized 600,000,000 shares; issued and outstanding 37,661,381 shares as of June 30, 2007 and 39,035,169 shares as of December 31, 2006	377	390
Class B, $0.01 par value. Authorized 60,000,000 shares; issued and outstanding 11,495,377 shares as of June 30, 2007 and 13,505,812 shares as of December 31, 2006	115	135
Additional paid-in capital	98,702	182,846
Retained earnings	518,910	496,341
Unearned compensation	(4,229)	(5,168)
Employee notes receivable	(2,697)	(2,825)
Accumulated other comprehensive income, net of taxes	--	131
Total shareholders' equity	611,178	671,850
COMMITMENTS AND CONTINGENCIES		
Total liabilities and shareholders' equity	$28,873,374	26,796,873

See accompanying notes to consolidated financial statements.

NELNET, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)
(UNAUDITED)

	THREE MONTHS ENDED JUNE 30,		
	2007	2006	2
INTEREST INCOME:			
Loan interest	$ 417,086	362,742	
Investment interest	18,783	24,249	
Total interest income	435,869	386,991	
INTEREST EXPENSE:			
Interest on bonds and notes payable	367,893	300,844	

Net interest income	67,976	86,147	
Less provision for loan losses	2,535	2,190	
Net interest income after provision for loan losses	65,441	83,957	
OTHER INCOME:			
Loan and guarantee servicing income	31,610	28,926	
Other fee-based income	38,262	16,074	
Software services income	5,848	4,018	
Other income	2,937	2,906	
Derivative market value, foreign currency, and put option adjustments and derivative settlements, net	10,743	35,782	
Total other income	89,400	87,706	
OPERATING EXPENSES:			
Salaries and benefits	59,761	54,753	
Other operating expenses:			
Depreciation and amortization	10,647	9,218	
Advertising and marketing	15,456	5,100	
Professional and other services	10,514	5,552	
Occupancy and communications	5,032	4,908	
Postage and distribution	5,624	6,127	
Trustee and other debt related fees	2,785	2,935	
Other	10,827	12,697	
Total other operating expenses	60,885	46,537	
Total operating expenses	120,646	101,290	
Income before income taxes and minority interest	34,195	70,373	
Income tax expense	13,306	26,038	
Income before minority interest	20,889	44,335	
Minority interest in subsidiary income	--	--	
Income from continuing operations	20,889	44,335	
Income (loss) from discontinued operations, net of tax	(6,135)	1,418	
Net income	$ 14,754	45,753	
Earnings per share, basic and diluted			
Income from continuing operations	$ 0.42	0.81	
Income (loss) from discontinued operations	(0.12)	0.03	
Net income	$ 0.30	0.84	
Weighted average shares outstanding, basic and diluted	49,452,960	54,297,230	50,

See accompanying notes to consolidated financial statements.

NELNET, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INC
(Dollars in thousands, except share data)
(unaudited)

	PREFERRED STOCK SHARES	COMMON STOCK SHARES CLASS A	COMMON STOCK SHARES CLASS B	PREFERRED STOCK
Balance as of March 31, 2006	--	40,428,988	13,942,954	$ --
Comprehensive income:				
Net income	--	--	--	--
Other comprehensive income related to foreign currency translation	--	--	--	--
Total comprehensive income				
Issuance of common stock, net of forfeitures	--	18,693	--	--
Compensation expense for stock based awards	--	--	--	--
Repurchase of common stock	--	(328,700)	--	--
Loan to employee for purchase of common stock	--	--	--	--
Balance as of June 30, 2006	--	40,118,981	13,942,954	$ --
Balance as of March 31, 2007	--	38,097,623	11,495,377	$ --
Comprehensive income:				
Net income	--	--	--	--
Other comprehensive income:				
Foreign currency translation	--	--	--	--
Non-pension postretirement benefit plan	--	--	--	--
Total comprehensive income				
Cash dividend on Class A and Class B common stock - $0.07 per share	--	--	--	--
Issuance of common stock, net of forfeitures	--	39,182	--	--
Compensation expense for stock based awards	--	--	--	--
Repurchase of common stock	--	(998)	--	--
Acquisition of enterprise under common control	--	(474,426)	--	--
Payments received on employee stock notes receivable	--	--	--	--
Balance as of June 30, 2007	--	37,661,381	11,495,377	$ --
Balance as of December 31, 2005	--	40,040,841	13,962,954	$ --
Comprehensive income:				
Net income	--	--	--	--
Other comprehensive income related to foreign currency translation	--	--	--	--
Total comprehensive income				
Issuance of common stock, net of forfeitures	--	386,840	--	--
Compensation expense for stock based awards	--	--	--	--
Repurchase of common stock	--	(328,700)	--	--
Conversion of common stock	--	20,000	(20,000)	--
Loan to employee for purchase of common stock	--	--	--	--

Balance as of June 30, 2006	--	40,118,981	13,942,954	$ --
Balance as of December 31, 2006	--	39,035,169	13,505,812	$ --
Comprehensive income:				
Net income	--	--	--	--
Other comprehensive income:				
Foreign currency translation	--	--	--	--
Non-pension postretirement benefit plan	--	--	--	--
Total comprehensive income				
Cash dividend on Class A and Class B common stock - $0.14 per share	--	--	--	--
Adjustment to adopt provisions of FASB Interpretation No. 48	--	--	--	--
Issuance of common stock, net of forfeitures	--	152,273	--	--
Compensation expense for stock based awards	--	--	--	--
Repurchase of common stock	--	(3,062,070)	--	--
Conversion of common stock	--	2,010,435	(2,010,435)	--
Acquisition of enterprise under common control	--	(474,426)	--	--
Payments received on employee stock notes receivable	--	--	--	--
Balance as of June 30, 2007	--	37,661,381	11,495,377	$ --

See accompanying notes to consolidated financial statements.

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

	RETAINED EARNINGS	UNEARNED COMPEN-SATION	EMPLOYEE NOTES RECEIVABLE	ACCUMULATED OTHER COMPREHENSIVE INCOME
Balance as of March 31, 2006	480,252	(5,700)	--	389
Comprehensive income:				
Net income	45,753	--	--	--
Other comprehensive income related to foreign currency translation	--	--	--	917
Total comprehensive income				
Issuance of common stock, net of forfeitures	--	--	--	--
Compensation expense for stock based awards	--	545	--	--
Repurchase of common stock	--	--	--	--
Loan to employee for purchase of common stock	--	--	(501)	--
Balance as of June 30, 2006	526,005	(5,155)	(501)	1,306
Balance as of March 31, 2007	507,596	(4,909)	(2,701)	382
Comprehensive income:				
Net income	14,754	--	--	--
Other comprehensive income:				
Foreign currency translation	--	--	--	(574)

Non-pension postretirement benefit plan	--	--	--	192
Total comprehensive income				
Cash dividend on Class A and Class B common stock - $0.07 per share	(3,440)	--	--	--
Issuance of common stock, net of forfeitures	--	(92)	--	--
Compensation expense for stock based awards	--	772	--	--
Repurchase of common stock	--	--	--	--
Acquisition of enterprise under common control	--	--	--	--
Payments received on employee stock notes receivable	--	--	4	--
Balance as of June 30, 2007	518,910	(4,229)	(2,697)	--
Balance as of December 31, 2005	428,186	(86)	--	420
Comprehensive income:				
Net income	97,819	--	--	--
Other comprehensive income related to foreign currency translation	--	--	--	886
Total comprehensive income				
Issuance of common stock, net of forfeitures	--	(5,980)	--	--
Compensation expense for stock based awards	--	911	--	--
Repurchase of common stock	--	--	--	--
Conversion of common stock	--	--	--	--
Loan to employee for purchase of common stock	--	--	(501)	--
Balance as of June 30, 2006	526,005	(5,155)	(501)	1,306
Balance as of December 31, 2006	496,341	(5,168)	(2,825)	131
Comprehensive income:				
Net income	29,534	--	--	--
Other comprehensive income:				
Foreign currency translation	--	--	--	(322)
Non-pension postretirement benefit plan	--	--	--	191
Total comprehensive income				
Cash dividend on Class A and Class B common stock - $0.14 per share	(6,904)	--	--	--
Adjustment to adopt provisions of FASB Interpretation No. 48	(61)	--	--	--
Issuance of common stock, net of forfeitures	--	(591)	--	--
Compensation expense for stock based awards	--	1,530	--	--
Repurchase of common stock	--	--	--	--
Conversion of common stock	--	--	--	--
Acquisition of enterprise under common control	--	--	--	--
Payments received on employee stock notes receivable	--	--	128	--
Balance as of June 30, 2007	518,910	(4,229)	(2,697)	--

See accompanying notes to consolidated financial statements.

NELNET, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(DOLLARS IN THOUSANDS)
(UNAUDITED)

	SIX MONTHS ENDED JUNE	
	2007	2006
Net income	$ 29,534	97,81
Income (loss) from discontinued operations	(3,325)	2,57
Income from continuing operations	32,859	95,24
Adjustments to reconcile income from continuing operations to net cash provided by operating activities, net of business acquisistions		
Depreciation and amortization, including loan premiums and deferred origination costs	150,465	65,67
Derivative market value adjustment	(20,374)	(106,68
Foreign currency transaction adjustment	24,974	38,05
Change in value of put options issued in business acquisitions	1,983	28
Proceeds from the sale of floor contracts	--	8,58
Payments to terminate floor contracts	(8,100)	-
Gain on termination of floor contracts	(2,058)	-
Loss on sale of business	9,041	-
Gain on sale of student loans	(2,286)	(1,88
Non-cash compensation expense	2,591	1,07
Deferred income tax expense	(921)	27,25
Provision for loan losses	5,288	11,80
Other non-cash items	(848)	53
Increase in accrued interest receivable	(81,421)	(98,48
Increase in accounts receivable	(6,698)	(34
Decrease in other assets	6,491	13,31
(Decrease) increase in accrued interest payable	(1,545)	19,19
Increase in other liabilities	5,667	36,18
Net cash flows from operating activities - continuing operations	115,108	109,80
Net cash flows from operating activities - discontinued operations	(4,467)	52
Net cash provided by operating activities	110,641	110,33
Cash flows from investing activities, net of business acquisitions:		
Originations, purchases, and consolidations of student loans, including loan premiums and deferred origination costs	(3,389,420)	(3,397,07
Purchases of student loans, including loan premiums, from a related party	(191,003)	(389,26
Net proceeds from student loan repayments, claims, capitalized interest, and other	1,060,117	1,400,22
Proceeds from sale of student loans	88,205	189,51
Purchases of property and equipment, net	(13,830)	(9,38
Decrease (increase) in restricted cash	279,349	(449,23
Purchases of restricted investments	(239,691)	(401,95
Proceeds from maturities of restricted investments	261,597	416,26
Distribution from equity method investment	434	
Business acquisitions, net of cash acquired	2,211	(60,27
Proceeds from sale of business, net of cash sold	7,551	
Net cash flows from investing activities - continuing operations	(2,134,480)	(2,701,17
Net cash flows from investing activities - discontinued operations	(294)	(5,14

Net cash used in investing activities	(2,134,774)	(2,706,32
Cash flows from financing activities:		
Payments on bonds and notes payable	(1,435,054)	(1,552,43
Proceeds from issuance of bonds and notes payable	3,601,480	4,097,65
(Payments) proceeds from issuance of notes payable due to a related party, net	(55,715)	71,08
Payments of debt issuance costs	(5,899)	(10,38
Dividends paid	(6,904)	-
Proceeds from issuance of common stock	951	83
Repurchases of common stock	(75,482)	(12,65
Payments received on employee stock notes receivable	128	-
Loan to employee for purchase of common stock	--	(50
Net cash flows from financing activities - continuing operations	2,023,505	2,593,60
Net cash flows from financing activities - discontinued operations	--	-
Net cash provided by financing activities	2,023,505	2,593,60
Effect of exchange rate fluctuations on cash	548	22
Net decrease in cash and cash equivalents	(80)	(2,17
Cash and cash equivalents, beginning of period	106,086	103,65
Cash and cash equivalents, end of period	$ 106,006	101,47
Supplemental disclosures of cash flow information:		
Interest paid	$ 630,175	529,26
Income taxes paid, net of refunds	$ 12,130	35,19

See accompanying notes to consolidated financial statements.

NELNET, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(INFORMATION AS OF JUNE 30, 2007 AND FOR THE THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2007 AND 2006 IS UNAUDITED)
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS, UNLESS OTHERWISE NOTED)

1. BASIS OF FINANCIAL REPORTING

The accompanying unaudited consolidated financial statements of Nelnet, Inc. and subsidiaries (the "Company") as of June 30, 2007 and for the three and six months ended June 30, 2007 and 2006 have been prepared on the same basis as the audited consolidated financial statements for the year ended December 31, 2006 and, in the opinion of the Company's management, the unaudited consolidated financial statements reflect all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of results of operations for the interim periods presented. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Operating results for the three and six months ended June 30, 2007 are not necessarily indicative of the results for the year ending December 31, 2007. The unaudited consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2006. Certain amounts from 2006 have been reclassified to conform to the current period presentation.

2. DISCONTINUED OPERATIONS

On May 25, 2007, the Company sold EDULINX Canada Corporation ("EDULINX"), a Canadian student loan service provider and subsidiary of the Company, for initial proceeds of $19.0 million, including the impact of a preliminary working capital adjustment. The Company recognized a net loss of $9.0 million related to the transaction. The initial proceeds and the related loss on disposal exclude up to $2.5 million of contingent consideration that, if earned based on EDULINX meeting certain performance measures as defined in an existing servicing agreement between EDULINX and the Government of Canada, will be payable to the Company in the second quarter 2008. If the Company receives this incentive payment of up to $2.5 million, these additional proceeds will be recognized by the Company as a gain in the period when such cash is received.

As a result of this transaction, the results of operations for EDULINX are reported as discontinued operations in the accompanying consolidated statements of income for all periods presented. The segment results in note 11 also reflect the reclassification of EDULINX to discontinued operations. The operating results of EDULINX were included in the Student Loan and Guaranty Servicing operating segment.

The components of the income (loss) from discontinued operations are presented below.

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Operating income of discontinued operations	$ 4,864	2,232	9,278	4,053
Income tax on operations	(1,958)	(814)	(3,562)	(1,483)
Loss on disposal	(8,151)	--	(8,151)	--
Income tax on disposal	(890)	--	(890)	--
Income (loss) from discontinued operations, net of tax	$ (6,135)	1,418	(3,325)	2,570

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The following operations related to EDULINX have been segregated from continuing operations and reported as discontinued operations through the date of disposition. Interest expense was not allocated to EDULINX and, therefore, all of the Company's interest expense is included within continuing operations.

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Net interest income	$ 53	65	124	129
Other income	12,480	15,149	31,511	31,933
Operating expenses	(7,669)	(12,982)	(22,357)	(28,009)

Income before income taxes	4,864	2,232	9,278	4,053
Income tax expense	1,958	814	3,562	1,483
Operating income of discontinued operations, net of tax	$ 2,906	1,418	5,716	2,570

The assets and liabilities of EDULINX are classified as assets and liabilities of discontinued operations within the Company's consolidated balance sheet for all periods prior to the sale of EDULINX. Assets and liabilities of discontinued operations as of December 31, 2006 are summarized below.

Cash	$ 3,743
Accounts receivable, net	15,632
Property and equipment, net	5,639
Intangible assets, net	1,406
Other assets	889
Assets of discontinued operations	$ 27,309
Other liabilities	$ 7,732
Liabilities of discontinued operations	$ 7,732

3. RECENT DEVELOPMENTS

DEPARTMENT OF EDUCATION SETTLEMENT

In June 2005, the Office of Inspector General of the U.S. Department of Education (the "OIG") commenced an audit of the portion of the Company's student loan portfolio receiving special allowance payments at a minimum 9.5% interest rate based on provisions of the Higher Education Act and regulations and guidance of the U.S. Department of Education (the "Department") and related interpretations. On September 29, 2006, the Company received a final audit report from the OIG where the OIG found that an increase in the amount of 9.5% special allowance payments received by the Company was based on what the OIG deemed to be ineligible loans.

On January 19, 2007, the Company entered into a Settlement Agreement with the Department to resolve the OIG audit of the Company's portfolio of student loans receiving 9.5% special allowance payments. Under the terms of the Settlement Agreement, the Company is permitted to retain the 9.5% special allowance payments that it received from the Department prior to July 1, 2006. In addition, the Settlement Agreement eliminates all 9.5% special allowance payments with respect to the Company's portfolios of student loans for periods on and after July 1, 2006.

The Company disagrees with the OIG audit report, and continues to believe that it billed for the 9.5% special allowance payments in accordance with applicable laws, regulations, and the Department's previous guidance. As a part of the Settlement Agreement, the Company and the Department acknowledge a dispute exists related to guidance previously issued by the Department and the application of the existing laws and regulations related to the Company receiving certain 9.5% special allowance payments, and that the Settlement Agreement is based in part on the parties' desire to avoid costly litigation regarding that dispute. The new guidance provided to the Company in the Settlement Agreement eliminates all 9.5% special allowance payments for the

Company. These loans will continue to receive special allowance payments using other applicable special allowance formulas.

INDUSTRY INQUIRIES AND INVESTIGATIONS

Since January 2007, a number of state attorneys general 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. The general focus of the inquiries or investigations to date has primarily 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 New York Attorney General, 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 New York Attorney General to adopt the New York Attorney General's Code of Conduct, which is substantially similar to the Nelnet Student Loan Code of Conduct, but which 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. One million dollars of the national fund contribution will come from the money the Company committed to helping educate students and families in connection with the Company's agreement with the Nebraska Attorney General.

While the Company cannot predict the ultimate outcome of any other inquiry or investigation, 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 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 has selected 47 schools and 27 lenders for review. Specifically, the Department is reviewing the Company's practices in connection with the 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 is cooperating with the Department of Education's 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.

LEGISLATION RELATED TO THE HIGHER EDUCATION ACT

Recently the U.S. House of Representatives passed the College Cost Reduction Act of 2007 and the U.S. Senate passed the Higher Education Access Act of 2007. Both of these bills contain provisions with significant implications for participants in the FFEL Program. Among other things, these bills include the following provisions:

- reducing special allowance payments to lenders;
- reducing default insurance rates and elimination of the Exceptional Performer program;
- increasing lender origination fees;
- increasing annual and aggregate loan limits for certain Stafford loans; and
- reducing interest rates for subsidized Stafford loans.

Neither the College Cost Reduction Act of 2007 nor the Higher Education Access Act of 2007 has been enacted into law. The impact of these bills is difficult to predict; however, if the proposed federal government spending cuts and increased fees for FFEL Program participants are enacted, the Company's revenues would be negatively impacted. See Part I, Item II, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Results of Operations - Recent Developments - Legislation Related to the Higher Education Act."

In addition to the College Cost Reduction Act of 2007 and the Higher Education Access Act of 2007, 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 prior to 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 bills has 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.

4. STUDENT LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Student loans receivable consist of the following:

	As of June 30, 2007	As of December 31, 2006

Federally insured loans	$25,510,977	23,217,321
Non-federally insured loans	235,023	197,147
	25,746,000	23,414,468
Unamortized loan premiums and deferred origination costs	456,098	401,087
Allowance for loan losses - federally insured loans	(8,194)	(7,601)
Allowance for loan losses - non-federally insured loans	(18,946)	(18,402)
	$26,174,958	23,789,552
Non-federally insured allowance as a percentage of ending balance of non-federally insured loans	8.06%	9.33%
Total allowance as a percentage of ending balance of total loans	0.11%	0.11%

Management has begun to estimate the impact to the Company's operating results based on the legislative changes discussed in note 3. At the time the legislation becomes final, the Company will recognize a provision for loan losses related to the increase in risk share due to the anticipated elimination of the Exceptional Performer program. Assuming the elimination of the Exceptional Performer program and a default insurance rate of 97 percent, based on the balance of federally insured loans outstanding as of June 30, 2007, this provision is expected to be approximately $17 to $18 million.

LOAN SALES

As part of the Company's asset management strategy, the Company periodically sells student loan portfolios to third parties. During the three and six months ended June 30, 2007 the Company sold $34.4 million and $86.0 million (par value), respectively, of student loans resulting in the recognition of a gain of $1.0 million and $2.8 million, respectively. The gain on the sale of the student loans is included in "other income" on the consolidated statements of income.

5. BUSINESS ACQUISITIONS

The Company has positioned itself for growth by building a strong foundation through business and certain asset acquisitions. Although the Company's assets, loan portfolios, net interest income, and fee-based revenues increase 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. The acquisitions described below expand the Company's products and services offered to education 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 legislation and political risk. The Company also expects to reduce costs from theses 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.

During 2006, the Company (i) purchased the remaining 20% of the stock of FACTS Management Co. ("FACTS"), (ii) purchased the remaining 50% of the stock of infiNET Integrated Solutions, Inc. ("infiNET"), (iii) purchased 100% of the membership interests of CUnet, LLC ("CUnet"), and (iv) purchased certain assets and assumed certain liabilities (hereafter referred to as "Peterson's") from Thompson Learning Inc. These acquisitions were accounted for by the Company under purchase accounting and are described in footnote 4 in the Company's consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006. The Company finalized the purchase price allocation of infiNET and CUnet during 2007 which is presented below. The Company is in the process valuing certain intangible assets of Peterson's; thus, the allocation of the purchase price for Peterson's is subject to refinement.

INFINET INTEGRATED SOLUTIONS, INC.

On April 20, 2004, the Company purchased 50% of the stock of infiNET for $4.9 million. On February 17, 2006, the Company purchased the remaining 50% of the stock of infiNET. infiNET provides software for customer-focused electronic transactions, information sharing, and electronic account and bill presentment for colleges and universities. Consideration for the purchase of the remaining 50% of the stock of infiNET 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 prior sale of the shares. In connection with the acquisition, the Company entered into employment agreements with two of the infiNET sellers, in which the guaranteed value related to the shares of Class A common stock issued is dependent on their continued employment with the Company. Accordingly, the guaranteed value associated with the shares of Class A common stock of $5.7 million issued to these employees was recorded as unearned compensation in the accompanying consolidated balance sheet and will be recognized by the Company as compensation expense over the three-year term of the employment agreements. The total purchase price recorded by the Company to acquire the remaining interest in infiNET was $13.8 million, which represents the $9.5 million in cash and $4.3 million attributable to the guaranteed value of the shares of Class A common stock issued to the infiNET shareholders other than the two shareholders who entered into employment agreements with the Company. 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.

Prior to purchasing the remaining 50% of the common stock of infiNET, the Company accounted for this investment under the equity method. The purchase of the remaining 50% of the stock of infiNET was accounted for under purchase accounting and the results of operations have been included in the consolidated financial statements from January 31, 2006, the effective date of the acquisition.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition for the remaining 50% of the stock of infiNET.

Cash and cash equivalents	$ 3,266
Restricted cash - due to customers	16,343
Accounts receivable	558
Intangible assets	4,172
Property and equipment	134
Other assets	576

Excess cost over fair value of net assets acquired (goodwill)	12,474
Due to customers	(16,343)
Other liabilities	(2,334)
Previously recorded investment in equity interest	(5,047)
	$ 13,799

As of the date of acquisition, the $4.2 million of acquired intangible assets had a weighted average useful life of approximately seven years. The intangible assets that made up this amount included non-competition agreements of $2.0 million (5-year useful life), customer relationships of $1.6 million (10-year useful life), computer software of $0.4 million (5-year useful life), and trade names of $0.2 million (3-year useful life). All intangible assets are amortized using a straight-line amortization method with the exception of customer relationships. The customer relationships intangible asset is amortized over the period of projected revenues and expenses (cash flows) attributable to this asset as of the date of acquisition. Because of customer attrition, the estimated annual cash flows related to customer relationships diminish as time extends from the date of acquisition. As such, the Company uses an accelerated amortization method that reflects the pattern in which the estimated economic benefits of this acquired asset is used by the Company.

The $12.5 million of goodwill was assigned to the Tuition Payment Processing and Campus Commerce operating segment and is not expected to be deductible for tax purposes.

CUNET, LLC

On June 30, 2006, the Company purchased 100% of the membership interests of CUnet. The initial consideration paid by the Company was $40.1 million in cash, including $0.1 million of direct acquisition costs. CUnet provides campus locations and online schools with performance-based educational marketing, web-based marketing, lead generation, and vendor management services to enhance their brands and improve student recruitment and retention.

In addition to the initial purchase price, additional payments are to be paid by the Company based on the operating results of CUnet. The contingent consideration is based on the aggregate cumulative net income before taxes (excluding any amortization of intangibles from the purchase price allocation) of CUnet earned for the period from July 1, 2006 through June 30, 2009 ("Cumulative Net Income"), provided, however, that the contingent consideration may not exceed $80.0 million. The Company will calculate the Cumulative Net Income as of each June 30, 2007, June 30, 2008, and June 30, 2009 (individually, the "Calculation Period"). In partial satisfaction of the contingent consideration, the Company will issue shares of Class A common stock subsequent to each Calculation Period, provided, however, that the market value of the shares issued shall not exceed $5.0 million in any one year, unless the Company elects at its option to make a distribution in a higher amount. No later than June 30, 2010, 10% of the remaining contingent consideration will be paid in cash, and the balance of 90% of the contingent consideration will be paid in cash no later than December 31, 2010. The cash portion of the contingent consideration to be paid in December 2010 will be reduced by the market value as of December 15, 2010 of any shares previously issued as contingent consideration. The Company will record the contingency payments when the applicable contingency is resolved and the additional consideration is issued or issuable or the outcome of the contingency is determinable beyond a reasonable doubt. In connection with the acquisition, the Company entered into employment agreements with certain sellers, in which the contingency payments are related to their continued employment with the Company. Accordingly, when these contingency payments are paid, they will be recognized by the Company as compensation expense over the remaining term of the employment agreements.

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 the acquisition.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

Accounts receivable	$ 5,154
Intangible assets	14,962
Property and equipment	360
Other assets	520
Excess cost over fair value of net assets acquired (goodwill)	23,910
Other liabilities	(4,818)
	$40,088

As of the date of acquisition, the $15.0 million of acquired intangible assets had a weighted-average useful life of approximately seven years. The intangible assets that made up this amount included customer relationships of $10.4 million (8-year useful life), non-competition agreements of $2.6 million (5-year useful life), trade names of $1.7 million (4-year useful life), and computer software of $0.3 million (3-year useful life). All intangible assets are amortized using a straight-line amortization method with the exception of customer relationships. The customer relationships intangible asset is amortized over the period of projected revenues and expenses (cash flows) attributable to this asset as of the date of acquisition. Because of customer attrition, the estimated annual cash flows related to customer relationships diminish as time extends from the date of acquisition. As such, the Company uses an accelerated amortization method that reflects the pattern in which the estimated economic benefits of this acquired asset is used by the Company.

The $23.9 million of goodwill was assigned to the Enrollment Services and List Management operating segment and is expected to be deductible for tax purposes.

PETERSON'S

On July 27, 2006, the Company purchased certain assets and assumed certain liabilities from Thomson Learning Inc. The initial consideration paid by the Company was $38.6 million in cash. The final purchase price of Peterson's was subject to certain purchase price adjustments as defined in the purchase price agreement. During the first quarter of 2007, the purchase price for Peterson's was finalized per the terms of the purchase agreement and the Company received a $2.2 million working capital settlement. As such, the total consideration paid by the Company for Peterson's was $36.4 million. Peterson's provides a comprehensive suite of education and career-related solutions in the areas of education search, test preparation, admissions, financial aid information, and career assistance. Peterson's provides its customers with 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. This acquisition was accounted for as a business combination under purchase accounting and the results of operations have been included in the consolidated financial statements from the date of the acquisition.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition. The Company is in the process of valuing certain intangible assets; thus, the allocation of the purchase price is subject to refinement.

Accounts receivable	$ 7,055
Intangible assets	3,714
Property and equipment	2,341
Other assets	2,375
Excess cost over fair value of net assets acquired (goodwill)	35,114
Other liabilities	(14,173)
	$ 36,426

As of the date of acquisition, the intangible assets consist of database content and computer software of $1.9 million and $1.8 million, respectively, and are being amortized using a straight-line amortization method over their estimated useful life of three years.

The $35.1 million of goodwill was assigned to the Enrollment Services and List Management operating segment and is expected to be deductible for tax purposes.

PRO FORMA INFORMATION

The following pro forma information presents the combined results of the Company as though the 2006 acquisitions of FACTS (20%), infiNET, CUnet, and Peterson's occurred as of the beginning of each reporting period. The pro forma information does not necessarily reflect the results of operations if the acquisitions had been in effect at the beginning of the period or that may be attained in the future. In addition, the pro forma information reflects the results of operations based on the Company's preliminary allocation of purchase price (where applicable).

	Three months ended June 30,		Six mont
	2007	2006	2007
Net interest income	$ 67,976	86,156	135,96
Other income (expense) (a)	89,400	103,819	164,63
Net income from continuing operations	20,889	43,084	32,85
Net income	14,754	44,502	29,53
Weighted average shares outstanding, basic and diluted	49,452,960	54,297,230	50,213,34
Earnings per share, basic and diluted:			
Income from continuing operations	$ 0.42	0.79	0.6
Net Income	0.30	0.82	0.5

(a) Other income (expense) includes derivative market value, foreign currency, and put option adjustments and net derivative settlements.

6. INTANGIBLE ASSETS AND GOODWILL

Intangible assets consist of the following:

	Weighted average remaining useful life as of June 30, 2007	As o June 200
Amortizable intangible assets:		
Customer relationships (net of accumulated amortization of $15,335 and $10,483, respectively)	123	$ 63
Covenants not to compete (net of accumulated amortization of $13,255 and $9,559, respectively)	52	31
Loan origination rights (net of accumulated amortization of $9,409 and $7,238, respectively)	63	25
Student lists (net of accumulated amortization of $4,782 and $3,757, respectively)	20	3
Computer software (net of accumulated amortization of $2,112 and $1,354, respectively)	13	2
Trade names (net of accumulated amortization of $594 and $327, respectively)	34	1
Other (net of accumulated amortization of $632 and $348, respectively)	36	1
Total - amortizable intangible assets	87 months	129
Unamortizable intangible assets - trade names		17
		$ 146

The Company recorded amortization expense on its intangible assets of $6.5 million and $5.8 million for the three months ended June 30, 2007 and 2006, respectively, and $13.1 million and $11.1 million for the six months ended June 30, 2007 and 2006, respectively. The Company will continue to amortize intangible assets over their remaining useful lives. As disclosed in note 5, the Company is in the process of valuing certain intangible assets; however, as of June 30, 2007, the Company estimates it will record amortization expense as follows:

2007	$ 13,319
2008	25,836
2009	22,240
2010	18,257
2011	12,910
2012 and thereafter	36,881
	$129,443

The change in the carrying amount of goodwill by operating segment was as follows:

Tuition

	Asset Generation and Management	Student Loan and Guaranty Servicing	Payment Processing and Campus Commerce	Enrollment Services and List Management	So Tec Se
Balance as of December 31, 2006	$ 42,550	--	57,858	82,416	
Goodwill from prior period acquisition allocated during the period	--	--	228	(434)	
Balance as of March 31, 2007	$ 42,550	--	58,086	81,982	
Goodwill from prior period acquisition allocated during the period	--	--	--	42	
Balance as of June 30, 2007	$ 42,550	--	58,086	82,024	

7. BONDS AND NOTES PAYABLE

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

	As of June 30, 2007		
	Carrying amount	Interest rate range	Final maturity
Variable-rate bonds and notes (a):			
Bonds and notes based on indices	$ 18,025,310	3.75% - 6.06%	05/01/11 - 05/0
Bonds and notes based on auction	2,261,395	3.07% - 5.40%	11/01/09 - 07/0
Total variable-rate bonds and notes	20,286,705		
Commercial paper and other	6,444,656	5.32% - 5.60%	10/17/07 - 05/0
Fixed-rate bonds and notes (a)	219,617	5.20% - 6.68%	11/01/09 - 05/0
Unsecured fixed rate debt	475,000	5.13% - 7.40%	06/01/10 - 09/2
Unsecured line of credit	307,710	5.39% - 5.50%	05/08/12
Other borrowings	57,458	5.10% - 5.80%	06/28/08 - 11/0
	$ 27,791,146		

(a) Issued in securitization transactions

	As of December 31, 2006		
	Carrying amount	Interest rate range	Final maturity
Variable-rate bonds and notes (a):			
Bonds and notes based on indices	$ 16,622,385	3.63% - 6.08%	02/26/07 - 05/0
Bonds and notes based on auction	2,671,370	3.63% - 5.45%	11/01/09 - 07/0
Total variable-rate bonds and notes	19,293,755		
Commercial paper and other	5,173,723	5.26% - 5.62%	05/11/07 - 10/1

Fixed-rate bonds and notes (a)	403,431	5.20% - 6.68%	11/01/09 - 05/0
Unsecured fixed rate debt	475,000	5.13% - 7.40%	06/01/10 - 09/2
Unsecured line of credit	103,000	5.69% - 8.25%	08/19/10
Other borrowings	113,210	5.10% - 5.78%	06/29/07 - 11/0
	$ 25,562,119		

(a) Issued in securitization transactions

On May 16, 2007 the Company consummated a debt offering of student loan asset-backed notes of $2.4 billion with a final maturity date of 2037. Notes issued in this transaction carry interest rates based on a spread to LIBOR or auction rates.

As of June 30, 2007, the Company had a loan warehousing capacity of $3.8 billion, of which $3.1 billion was outstanding, through bank supported commercial paper conduit programs. The Company had $0.7 billion in warehouse capacity available under its warehouse facilities as of June 30, 2007.

In August 2006, the Company established a $5.0 billion loan warehouse program under which it can issue one or more short-term extendable secured liquidity notes (the "Secured Liquidity Notes"). The Secured Liquidity Notes are secured by Federal Family Education Loan Program ("FFELP" or "FFEL Program") loans purchased in connection with the program. As of June 30, 2007, the Company had $3.4 billion of Secured Liquidity Notes outstanding and an additional $1.6 billion authorized for future issuance under this warehouse program.

On August 19, 2005, the Company entered into a credit agreement for a $500.0 million unsecured line of credit. On May 8, 2007, the Company amended this agreement to increase the line of credit to $750.0 million. As of June 30, 2007, there were no borrowings outstanding on this line. The amended agreement terminates in May 2012.

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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 June 30, 2007, there was $307.7 million of notes outstanding under this program and $417.3 million authorized for future issuance.

As of June 30, 2007 and December 31, 2006, bonds and notes payable includes $52.4 million and $108.1 million of notes due, respectively, to Union Bank and Trust, an entity under common control with the Company. The Company has used the proceeds from these notes to invest in student loan assets via a participation agreement.

Notes issued in February 2006 and May 2006 included (euro)420.5 million and (euro)352.7 million (500.0 million and 450.0 million in U.S. dollars, respectively) with variable interest rates initially based on a spread to EURIBOR (the "Euro Notes"). The increase in the principal amount of Euro Notes as a result of the fluctuation of the foreign currency exchange rate of $11.3 million and $25.0 million for the three and six months ended June 30, 2007, respectively, and $27.6 million and $38.1 million for the three and six months ended June 30, 2006, respectively, is included in the "derivative market value, foreign currency, and put option adjustments and derivative settlements, net" in the consolidated statements of income. Concurrently with the issuance of the Euro Notes, the Company entered into cross-currency interest rate swaps which are further discussed in note 8.

8. DERIVATIVE FINANCIAL INSTRUMENTS

The Company maintains an overall risk management strategy that incorporates the use of derivative instruments to reduce the economic effect of interest rate volatility and fluctuations in foreign currency exchange rates. Derivative instruments used as part of the Company's risk management strategy include interest rate swaps, basis swaps, interest rate floor contracts, and cross-currency interest rate swaps.

INTEREST RATE SWAPS

The Company has historically used interest rate swaps to hedge fixed-rate student loan assets. As previously disclosed, the Company reached 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, the Company will no longer receive 9.5% special allowance payments. In December 2006, in consideration of not receiving the 9.5% special allowance payments on a prospective basis, the Company entered into a series of off-setting interest rate swaps that mirror 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 was to lock in a series of future income streams on underlying trades through their respective maturity dates. The following table summarizes these derivatives as of June 30, 2007:

Maturity	Notional Amount	Weighted average fixed rate paid by the Company	Notional Amount	Weighted average fixed rate received by the Company
2007	$ 512,500	3.42 %	$ 512,500	5.25 %
2008	462,500	3.76	462,500	5.34
2009	312,500	4.01	312,500	5.37
2010	1,137,500	4.25	1,137,500	4.75
2011	--	--	--	--
2012	275,000	4.31	275,000	4.76
2013	525,000	4.36	525,000	4.80
	$3,225,000	4.05 %	$ 3,225,000	4.98 %

In August 2007, the Company terminated all interest rate swaps summarized above for net proceeds of $50.8 million.

BASIS SWAPS

On May 1, 2006, the Company entered into three, 10-year basis swaps with notional amounts 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.

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 June 30, 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	To
2008	$ 2,000,000	2,000,000	--	--	4,0
2009	2,000,000	4,000,000	--	--	6,0
2010	500,000	3,000,000	2,000,000	1,000,000	6,5
2011	1,350,000	2,700,000	--	--	4,0
2012	500,000	1,000,000	800,000	1,600,000	3,9
	$ 6,350,000	12,700,000	2,800,000	2,600,000	24,4

INTEREST RATE FLOOR CONTRACTS

In June 2006, the Company entered into interest rate floor contracts in which the Company received an upfront fee of $8.6 million. These contracts were structured to monetize on an upfront basis the potential floor income associated with certain consolidation loans. On January 30, 2007, the Company paid $8.1 million to terminate these interest rate floor contracts which resulted in the recognition of a $2.1 million gain that is included in other income on the consolidated statement of income.

CROSS-CURRENCY INTEREST RATE SWAPS

The Company entered into derivative instruments in 2006 as a result of the issuance of the Euro Notes as discussed in note 7. Under the terms of these derivative instrument agreements, the Company receives from a counterparty a spread to the EURIBOR index based on a notional amount of (euro)420.5 million and (euro)352.7 million, respectively, and pays a spread to the LIBOR index based on a notional amount 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 these notes.

ACCOUNTING FOR DERIVATIVE FINANCIAL INSTRUMENTS

The Company accounts for derivative instruments under Statement of Financial Accounting Standards ("SFAS") No. 133, ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES ("SFAS No. 133"), which requires that every derivative instrument be recorded on the balance sheet as either an asset or liability measured at its fair value. Management has structured all of the Company's derivative transactions with the intent that each is economically effective; however, the Company's derivative instruments do not qualify for hedge accounting under SFAS No. 133. As a result, the change in fair value of derivative instruments is recorded in the consolidated statements of income at each reporting date.

The following table summarizes the net fair value of the Company's derivative portfolio:

	As of June 30, 2007	As of December 31,2006
Interest rate swaps	$ 52,248	61,468
Basis swaps	3,181	591
Interest rate floor contracts	--	(10,158)
Cross-currency interest rate swaps	93,337	66,225
Net fair value	$148,766	118,126

The change in the fair value of the Company's derivative portfolio included in "derivative market value, foreign currency, and put option adjustments and derivative settlements, net" on the Company's consolidated statements of income resulted in a gain of $16.7 million and $20.4 million for the three and six months ended June 30, 2007, respectively, and a gain of $56.4 million and $106.7 million for the three and six months ended June 30, 2006, respectively.

The following table summarizes the net derivative settlements that are included in the "derivative market value, foreign currency, and put option adjustments and derivative settlements, net" on the consolidated statements of income:

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Interest rate swaps	$ 7,576	10,715	15,074	16,925
Basis swaps	58	(197)	119	(511)
Cross-currency interest rate swaps	(2,438)	(3,816)	(5,757)	(4,968)
Derivative settlements, net	$ 5,196	6,702	9,436	11,446

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9. SHAREHOLDERS' EQUITY

RELATED PARTY TRANSACTIONS

On May 31, 2007, the Company entered into an agreement with Packers Service Group, Inc. ("Packers"), under which the Company agreed to acquire Packers in exchange for the issuance of 10,594,178 shares of the Company's Class A common stock to the shareholders of Packers.

Packers was owned by 30 individual shareholders, the most significant of whom included Michael S. Dunlap, an executive officer, member of the Board of Directors, and a substantial shareholder of the Company, and Angela L. Muhleisen, a substantial shareholder of the Company and a sister of Mr. Dunlap.

Packers was primarily a holding company, whose principal asset was an investment in 11,068,604 shares of the Company's Class A Common Stock. Upon acquisition, these shares are not included in total shares outstanding for accounting purposes. Packers also owned all of the outstanding capital stock of First National Life Insurance Company ("First National Life"), which writes credit life and credit accident and health insurance policies. First National Life's net assets as of May 31, 2007 were $1.6 million. In addition, Packers had outstanding debt of $14.1 million, which the Company assumed.

The Company accounted for this transaction as exchanges of assets or equity instruments between enterprises under common control and, accordingly, recorded the assets acquired and liabilities assumed from this transaction at Packer's historical carrying values. This transaction resulted in a $12.5 million decrease to the Company's consolidated shareholders' equity and a decrease of 474,426 shares of the Company's Class A common stock outstanding.

RESTRICTED STOCK PLAN

In order to facilitate increased equity ownership by Company employees, on July 23, 2007, the Company issued approximately 522,000 shares of Class A common stock or common stock units under the Company's Restricted Stock Plan. Under the terms for such awards, the shares will vest on a pro rata basis over a period of 10 years based on the award recipient's continued employment with the Company. Upon issuance, the value of these shares will be included as unearned compensation within shareholders' equity. The Company will recognize compensation expense related to these awards over the 10-year vesting period.

PUT OPTION SETTLEMENT

On July 19, 2007, the Company paid $15.9 million to redeem 238,237 shares of the Company's Class A common stock that were subject to put option agreements exercisable in February 2010 at $83.95 per share. These shares were issued by the Company in February 2006 in consideration for the purchase of the remaining 20% interest of FACTS. The 238,237 shares of Class A common stock purchased by the Company were retired resulting in a $5.4 million decrease to the Company's consolidated shareholders' equity.

CONVERSION OF CLASS B COMMON STOCK

In February 2007, a principal shareholder gifted 10,435 shares of Class B common stock to a charitable organization. Per the articles of incorporation, these shares were voluntarily converted to Class A shares upon transfer. Also in February 2007, in anticipation of selling shares to the Company under the Company's stock repurchase program in a private transaction, a principal shareholder voluntarily converted 2,000,000 shares of Class B common stock to shares of Class A common stock.

STOCK REPURCHASE PROGRAM

In February 2007, the Company's Board of Directors increased the number of shares the Company is authorized to repurchase under a stock repurchase program from five million to 10 million shares of the Company's Class A common stock. The program has an expiration date of May 24, 2008. During the six months ended June 30, 2007, the Company repurchased 3,062,070 shares of Class A common stock, including 2,725,000 shares repurchased from certain members of management of the Company, for $75.5 million (average price of $24.66 per share) under this authority.

10. INCOME TAXES

On January 1, 2007, 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"), which clarifies the accounting for uncertainty in income tax positions. This interpretation requires the Company to recognize in the consolidated financial statements only those tax positions determined to be more likely than not of being sustained upon examination, based on the technical merits of the positions. Upon adoption, the Company recognized approximately $61,000 of tax liabilities for positions that were previously recognized, of which the Company accounted for as a reduction to retained earnings. Additionally, the adoption of FIN 48 resulted in the recognition of additional tax reserves for positions where there is uncertainty about the timing or character of such deductibility. These additional reserves were largely offset by increased deferred tax assets.

After considering the impact of adopting FIN 48, the Company had a $10.8 million reserve for uncertain income tax positions as of January 1, 2007. Approximately $8.3 million of this, if recognized, would favorably affect the effective tax rate. Movement in the reserve balance during the six months ended June 30, 2007 was not material. The Company currently anticipates such uncertain income tax positions will decrease by $3.6 million prior to June 30, 2008 as a result of a lapse of applicable statute of limitations; however, actual developments in this area could differ from those currently expected. Approximately $1.0 million of this, if recognized, would favorably affect the Company's effective tax rate.

The Company's policy is to recognize interest and penalties accrued on uncertain tax positions as part of interest expense and other expense, respectively. As of January 1, 2007, approximately $1.5 million in accrued interest and penalties was included in other liabilities. The impact of timing differences and tax attributes are considered when calculating interest and penalty accruals associated with the unrecognized tax benefits. The change in the accrual for interest and penalties for the six months ended June 30, 2007 was an increase of approximately $543,000.

The Company and its subsidiaries file a consolidated federal income tax return in the U.S. and the Company or one of its subsidiaries files income tax returns in various state, local, and foreign jurisdictions. With few exceptions, the Company is not subject to federal or foreign income tax examinations for taxable years prior to 2003, or state and local examinations prior to 2002.

As a U.S. corporation, Nelnet, Inc. and its subsidiaries are subject to U.S. taxation, currently, on all foreign pretax earnings earned by a foreign branch. Pretax earnings of a foreign subsidiary or affiliate are subject to U.S. taxation when effectively repatriated. The Company repatriated $5.1 million in 2007 in connection with the sale of EDULINX. The Company recognized $0.9 million of additional income tax expense during the second quarter 2007 related to this repatriation. This expense is included in the loss on disposal of EDULINX within discontinued operations. As of June 30, 2007, the Company had $0.7 million of foreign tax credits available to offset future U.S. federal income taxes. Under current tax law, the 10-year carryforward period for the foreign tax credits will expire in 2017. An adjustment was made to these foreign tax credits via a valuation allowance. The valuation allowance was required due to the Company's assessment that these deferred tax assets did not meet the more-likely-than-not recognition criteria of SFAS No. 109, ACCOUNTING FOR INCOME TAXES.

11. SEGMENT REPORTING

The Company has five operating segments as defined in SFAS No. 131, DISCLOSURES ABOUT SEGMENTS OF 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. During 2006, the Company changed the structure of its internal organization in a manner that caused the composition of its operating segments to change. As a result, the presentation of segment financial information for the three and six months ended June 30, 2006, has been restated to conform to the current operating segment presentation. The accounting policies of the Company's operating segments are the same as those described in the summary of significant accounting policies included in the Company's consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006. 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 based on "base net income." Accordingly, information regarding the Company's operating segments is provided based on "base net income." The Company's "base net income" is not a defined term within 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 for additional information concerning EDULINX' detailed operating results that have been segregated from continuing operations and reported as discontinued operations.

ASSET GENERATION AND MANAGEMENT

In the Company's Asset Generation and Management segment, the Company generates primarily federally guaranteed student loans through direct origination or through acquisitions. The student loan assets are held in a series of education lending subsidiaries designed specifically for this purpose. Revenues are primarily generated from net interest income on the student loan assets. Earnings and earnings growth are directly affected by the size of the Company's 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 paid to the federal government. The Company generates the majority 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 previously described. While the spread may vary due to fluctuations in interest rates, 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 AND GUARANTY SERVICING

The Student Loan and Guaranty Servicing segment provides for the servicing of the Company's student loan portfolios and the portfolios of third parties and servicing provided to guaranty agencies. The servicing activities include application processing, underwriting, disbursement of funds, 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 following are the primary product and service offerings the Company offers as part of its Student Loan and Guaranty Servicing segment:

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

TUITION PAYMENT PROCESSING AND CAMPUS COMMERCE

The Tuition Payment Processing and Campus Commerce segment provides actively managed tuition payment solutions, online payment processing, detailed information reporting, and data integration services to K-12 and post-secondary educational institutions, families, and students. In addition, this segment provides financial needs analysis for students applying for aid in private and parochial K-12 schools. This segment also provides customer-focused electronic transactions, information sharing, and account and bill presentment to educational institutions.

ENROLLMENT SERVICES AND LIST MANAGEMENT

The 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.

SOFTWARE AND TECHNICAL SERVICES

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

SEGMENT OPERATING RESULTS - "BASE NET INCOME"

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

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

SEGMENT RESULTS AND RECONCILIATIONS TO GAAP

	Three months ended June 30, 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	Corpora Activit and Overhea
Total interest income	$ 433,404	1,181	670	93	--	435,348	5
Interest expense	358,341	--	2	2	--	358,345	9,5
Net interest income	75,063	1,181	668	91	--	77,003	(9,0
Less provision for loan losses	2,535	--	--	--	--	2,535	
Net interest income after provision for loan losses	72,528	1,181	668	91	--	74,468	(9,0
Other income (expense):							
Loan and guarantee servicing income	118	31,492	--	--	--	31,610	
Other fee-based income	3,674	--	9,405	24,923	--	38,002	2
Software services income	--	--	--	157	5,691	5,848	
Other income	1,115	5	25	--	--	1,145	1,7
Intersegment revenue	--	20,120	188	178	4,389	24,875	4,1
Derivative market value, foreign currency, and put option adjustment	--	--	--	--	--	--	
Derivative settlements, net	(461)	--	--	--	--	(461)	5,6
Total other income (expense)	4,446	51,617	9,618	25,258	10,080	101,019	11,8
Operating expenses:							
Salaries and benefits	7,167	22,023	5,082	9,022	5,857	49,151	12,2
Other expenses	7,246	8,404	2,333	14,589	751	33,323	21,0
Intersegment expenses	22,034	3,750	25	29	403	26,241	5
Total operating expenses	36,447	34,177	7,440	23,640	7,011	108,715	33,9
Income (loss) before income taxes	40,527	18,621	2,846	1,709	3,069	66,772	(31,1
Income tax expense (benefit) (a)	15,400	7,076	1,082	649	1,167	25,374	(11,5
Net income (loss)							

from continuing operations	25,127	11,545	1,764	1,060	1,902	41,398	(19,6
Income (loss) from discontinued operations, net of tax	--	--	--	--	--	--	
Net income	$ 25,127	11,545	1,764	1,060	1,902	41,398	(19,6

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

Three months ended June 30, 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	Corpora Activit and Overhea
Total interest income	$ 384,295	1,625	705	129	25	386,779	450
Interest expense	295,260	--	1	--	--	295,261	5,821
Net interest income	89,035	1,625	704	129	25	91,518	(5,371
Less provision for loan losses	2,190	--	--	--	--	2,190	--
Net interest income after provision for loan losses	86,845	1,625	704	129	25	89,328	(5,371
Other income (expense):							
Loan and guarantee servicing income	--	28,926	--	--	--	28,926	--
Other fee-based income	3,035	--	7,019	6,020	--	16,074	--
Software services income	65	1	--	34	3,918	4,018	--
Other income	2,161	40	--	--	--	2,201	705
Intersegment revenue	--	15,671	228	13	4,465	20,377	155
Derivative market value, foreign currency, and put option adjustments	--	--	--	--	--	--	--
Derivative settlements, net	6,702	--	--	--	--	6,702	--
Total other income (expense)	11,963	44,638	7,247	6,067	8,383	78,298	860
Operating expenses:							
Salaries and benefits	13,638	22,237	4,847	1,934	5,257	47,913	8,629
Other expenses	14,956	7,065	2,208	1,310	713	26,252	14,468
Intersegment expenses	13,270	2,500	--	--	--	15,770	2,496

Total operating expenses	41,864	31,802	7,055	3,244	5,970	89,935	25,593
Income (loss) before income taxes	56,944	14,461	896	2,952	2,438	77,691	(30,104
Income tax expense (benefit) (a)	21,639	5,495	340	1,122	926	29,522	(12,048
Net income (loss) from continuing operations	35,305	8,966	556	1,830	1,512	48,169	(18,056
Income (loss) from discontinued operations, net of tax	--	--	--	--	--	--	--
Net income	$35,305	8,966	556	1,830	1,512	48,169	(18,056

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

Six months ended June 30, 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	Corpora Activit and Overhea
Total interest income	$ 847,894	3,425	1,680	180	18	853,197	4,355
Interest expense	699,999	--	7	4	--	700,010	21,582
Net interest income	147,895	3,425	1,673	176	18	153,187	(17,227
Less provision for loan losses	5,288	--	--	--	--	5,288	--
Net interest income after provision for loan losses	142,607	3,425	1,673	176	18	147,899	(17,227
Other income (expense):							
Loan and guarantee servicing income	118	61,958	--	--	--	62,076	--
Other fee-based income	6,985	--	21,176	49,870	--	78,031	260
Software services income	--	--	--	287	11,309	11,596	--
Other income	5,944	11	28	--	--	5,983	3,833
Intersegment revenue	--	36,584	340	928	8,221	46,073	6,116
Derivative market value, foreign currency, and put option adjustments	--	--	--	--	--	--	--
Derivative settlements, net	(885)	--	--	--	--	(885)	10,321

Total other income (expense)	12,162	98,553	21,544	51,085	19,530	202,874	20,530
Operating expenses:							
Salaries and benefits	14,446	45,027	10,000	18,391	12,332	100,196	24,978
Other expenses	15,511	17,654	4,493	29,148	1,535	68,341	38,940
Intersegment expenses	38,670	7,068	399	185	403	46,725	802
Total operating expenses	68,627	69,749	14,892	47,724	14,270	215,262	64,720
Income (loss) before income taxes	86,142	32,229	8,325	3,537	5,278	135,511	(61,417
Income tax expense (benefit) (a)	32,734	12,247	3,164	1,344	2,006	51,495	(23,826
Net income (loss) from continuing operations	53,408	19,982	5,161	2,193	3,272	84,016	(37,591
Income (loss) from discontinued operations, net of tax	--	--	--	--	--	--	--
Net income	$ 53,408	19,982	5,161	2,193	3,272	84,016	(37,591

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

Six months ended June 30, 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	Corpora Activit and Overhea
Total interest income	$ 726,271	3,434	1,587	212	43	731,547	985
Interest expense	549,093	--	2	--	--	549,095	11,102
Net interest income	177,178	3,434	1,585	212	43	182,452	(10,117
Less provision for loan losses	11,808	--	--	--	--	11,808	--
Net interest income after provision for loan losses	165,370	3,434	1,585	212	43	170,644	(10,117
Other income (expense):							
Loan and guarantee servicing income	--	59,216	--	--	--	59,216	--
Other fee-based income	5,934	--	16,673	11,622	--	34,229	--
Software services income	115	1	--	40	7,271	7,427	--
Other income	3,803	61	--	--	--	3,864	1,029

Intersegment revenue	--	30,184	228	765	8,385	39,562	196
Derivative market value, foreign currency, and put option adjustments	--	--	--	--	--	--	--
Derivative settlements, net	11,446	--	--	--	--	11,446	--
Total other income (expense)	21,298	89,462	16,901	12,427	15,656	155,744	1,225
Operating expenses:							
Salaries and benefits	25,409	42,106	8,802	3,112	9,973	89,402	18,812
Other expenses	27,001	15,611	4,256	2,703	1,448	51,019	28,124
Intersegment expenses	26,146	5,657	--	--	--	31,803	3,198
Total operating expenses	78,556	63,374	13,058	5,815	11,421	172,224	50,134
Income (loss) before income taxes	108,112	29,522	5,428	6,824	4,278	154,164	(59,026)
Income tax expense (benefit) (a)	41,083	11,218	2,062	2,593	1,625	58,581	(24,053)
Net income (loss) before minority interest	67,029	18,304	3,366	4,231	2,653	95,583	(34,973
Minority interest in subsidiary income	--	--	(242)	--	--	(242)	--
Net income (loss) from continuing operations	67,029	18,304	3,124	4,231	2,653	95,341	(34,973
Income (loss) from discontinued operations, net of tax	--	--	--	--	--	--	--
Net income (loss)	$ 67,029	18,304	3,124	4,231	2,653	95,341	(34,973

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

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

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

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 tables reflect adjustments associated with these areas by operating segment and Corporate Activity and Overhead for the three and six months ended June 30, 2007 and 2006:

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	Three months ended Jun			
	Asset Generation and Management	Student Loan and Guaranty Servicing	Tuition Payment Processing and Campus Commerce	Enrollment Services and List Management
Derivative market value, foreign currency, and put option adjustments (1)	$ 6,002	--	--	--
Amortization of intangible assets (2)	1,840	1,350	1,469	1,545
Non-cash stock based compensation related to business combinations (3)	--	--	--	--
Income (loss) from discontinued operations, net of tax (4)	--	6,135	--	--
Net tax effect (5)	(2,980)	(513)	(558)	(587)
Total adjustments to GAAP	$ 4,862	6,972	911	958

	Three months ended June			
	Asset Generation and Management	Student Loan and Guaranty Servicing	Tuition Payment Processing and Campus Commerce	Enrollment Services and List Management
Derivative market value, foreign currency, and put option adjustments (1)	$ (28,865)	--	--	--
Amortization of intangible assets (2)	2,229	1,165	1,693	610
Non-cash stock based compensation related to business combinations (3)	--	--	--	--
Income (loss) from discontinued operations, net of tax (4)	--	(1,418)	--	--
Net tax effect (5)	10,122	(455)	(643)	(232)
Total adjustments to GAAP	$ (16,514)	(708)	1,050	378

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Six months ended June 30				
Asset Generation	Student Loan and	Tuition Payment Processing	Enrollment Services and	S

	and Management	Guaranty Servicing	and Campus Commerce	List Management	T S
Derivative market value, foreign currency, and put option adjustments (1)	$ 12,216	--	--	--	
Amortization of intangible assets (2)	3,825	2,394	2,938	3,355	
Non-cash stock based compensation related to business combinations (3)	--	--	--	--	
Income (loss) from discontinued operations, net of tax (4)	--	3,325	--	--	
Net tax effect (5)	(6,096)	(910)	(1,116)	(1,275)	
Total adjustments to GAAP	$ 9,945	4,809	1,822	2,080	

	Six months ended Jun				
	Asset Generation and Management	Student Loan and Guaranty Servicing	Tuition Payment Processing and Campus Commerce	Enrollment Services and List Management	S T S
Derivative market value, foreign currency, and put option adjustments (1)	$ (68,660)	--	--	--	
Amortization of intangible assets (2)	4,456	2,331	2,868	1,220	
Non-cash stock based compensation related to business combinations (3)	--	--	--	--	
Income (loss) from discontinued operations, net of tax (4)	--	(2,570)	--	--	
Net tax effect (5)	24,398	(899)	(1,089)	(464)	
Total adjustments to GAAP	$ (39,806)	(1,138)	1,779	756	

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

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

(3) Non-cash stock based compensation related to business combinations: As discussed in note 5, the Company has structured certain business combinations in which the stock consideration paid has been dependent on the sellers' continued employment with the Company. As such, the value of the consideration paid is recognized as compensation expense by the Company over the term of the applicable employment agreement. "Base net income" excludes this expense.

(4) 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.

(5) 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.

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

(MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS IS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2007 AND 2006. ALL DOLLARS ARE IN THOUSANDS, EXCEPT PER SHARE AMOUNTS, UNLESS OTHERWISE NOTED).

The following discussion and analysis provides information that the Company's management believes is relevant to an assessment and understanding of the consolidated results of operations and financial condition of the Company. The discussion should be read in conjunction with the Company's consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

FORWARD-LOOKING AND CAUTIONARY STATEMENTS

This report contains forward-looking statements and information 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 "expect" 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 Quarterly Report on Form 10-Q and the Company's Annual Report on Form 10-K for the year ended December 31, 2006 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, special allowance payments, and costs of yields on student loans under the Federal Family Education Loan Program ("FFELP" or "FFEL Program") 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. In addition, a larger than expected increase in third party consolidations of the Company's FFELP loans could materially adversely affect the Company's results of operations. 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; changes in prepayment rates, guaranty rates, loan floor rates, and credit spreads; and the uncertain nature of the expected benefits from acquisitions and the ability to successfully integrate operations. The reader should not place undue reliance on forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. Additionally, financial projections may not prove to be accurate and may vary materially. The Company is not obligated to publicly release any revisions to forward-looking statements to reflect events after the date of this Quarterly Report on Form 10-Q or unforeseen events. Although the Company may from time to time voluntarily update its prior forward-looking statements, it disclaims any commitment to do so except as required by securities laws.

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 pre-college, in-college, and post-college products and services to its customers.

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 education finance and service operations.

During the three and six months ended June 30, 2007, the Company had solid asset growth, continued to diversify its revenue streams, increased fee-based revenue, and deployed capital by repurchasing shares of the Company's stock and paying its first quarterly dividends.

- Student loan assets increased by $2.4 billion, or 10.0%, as of June 30, 2007 compared to December 31, 2006.

- Fee-based revenue for the three and six months ended June 30, 2007 was 53% of total revenues, compared to 36% and 37% of total revenues for the three and six months ended June 30, 2006, respectively.

- The Company repurchased 3.1 million shares of its Class A common stock, including 2.7 million from certain members of management, for $75.5 million during the six months ended June 30, 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 and June 15, 2007.

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 $9.0 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.

Net income reported based on generally accepted accounting principles for the three and six months ended June 30, 2007 was $14.8 million and $29.5 million compared to $45.8 million and $97.8 million for the same periods in 2006. The change in net income was driven primarily by the change in the derivative market value, foreign currency, and put option adjustments, not receiving 9.5% special allowance payments in accordance with the Company's Settlement Agreement with the Department in January 2007, and the loss recognized by the Company related to the sale of EDULINX.

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 legislation 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 and the Company's rapid organic growth, 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 income. The amortization of debt issuance costs is included in interest expense on the Company's statements of income.

The Company's portfolio of FFELP loans originated prior to April 1, 2006 earns interest at the higher of a variable rate based on the special allowance payment (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. However, due to the extended terms of consolidation loans, the Company expects to earn the yield on these loans for a longer duration, making them beneficial to the Company in the long 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. The impact of the legislation is discussed in this Item 2 under "Recent Developments - Legislation Related to the Higher Education Act".

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

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

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

PROVISION FOR LOAN LOSSES

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

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 guarantee 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 ($4.3 million after tax) 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 receives 99% reimbursement (100% reimbursement prior to July 1, 2006) on all eligible FFELP default claims submitted for reimbursement. Only FFELP loans that are 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, are eligible for the 99% reimbursement. As of June 30, 2007, 99.9% of the Company's federally insured loans were serviced by providers designated as Exceptional Performers. If the Company or a third party servicer were to lose its Exceptional Performer designation, either by a legislative discontinuance of the program or the Company or third party servicer not meeting the required servicing standards or failing to get re-designated during the annual application process, loans serviced by the Company or such third party would become subject to the 3% risk sharing for all claims submitted after loss of the designation (2% risk sharing effective for all loans disbursed prior to July 1, 2006).

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. As of the date of this Report, the Department has not notified the Company of its redesignation. Until the Department confirms or denies the Company's application for renewal, the Company continues to receive the benefit of the Exceptional Performer designation. It is the opinion of the Company's management, based on information currently known, that there is no reason to believe the Company's application will be rejected. If the Department rejected the Company's application for Exceptional Performer status, the Company would have to establish a provision for loan losses related to the risk sharing on those loans that the Company services internally.

Current legislation will have a significant impact on the Company's provision for loan losses and should be considered when reviewing the Company's results of operations. The impact of the legislation is discussed in this Item 2 under "Recent Developments - Legislation Related to the Higher Education Act".

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 3, "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.

RECENT DEVELOPMENTS

DISCONTINUED OPERATIONS

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 $9.0 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.

SETTLEMENT AGREEMENT - DEPARTMENT OF EDUCATION

In June 2005, the Office of Inspector General of the U.S. Department of Education (the "OIG") commenced an audit of the portion of the Company's student loan portfolio receiving special allowance payments at a minimum 9.5% interest rate based on provisions of the Higher Education Act and regulations and guidance of the Department and related interpretations. On September 29, 2006, the Company received a final audit report from the OIG where the OIG found that an increase in the amount of 9.5% special allowance payments received by the Company was based on what the OIG deemed to be ineligible loans.

On January 19, 2007, the Company entered into a Settlement Agreement with the Department to resolve the OIG audit of the Company's portfolio of student loans receiving 9.5% special allowance payments. Under the terms of the Settlement Agreement, the Company is permitted to retain the 9.5% special allowance payments that it received from the Department prior to July 1, 2006. In addition, the Settlement Agreement eliminates all 9.5% special allowance payments with respect to the Company's portfolios of student loans for periods on and after July 1, 2006.

The Company disagrees with the OIG audit report, and continues to believe that it billed for the 9.5% special allowance payments in accordance with applicable laws, regulations, and the Department's previous guidance. As a part of the

Settlement Agreement, the Company and the Department acknowledge a dispute exists related to guidance previously issued by the Department and the application of the existing laws and regulations related to the Company receiving certain 9.5% special allowance payments, and that the Settlement Agreement is based in part on the parties' desire to avoid costly litigation regarding that dispute. The new guidance provided to the Company in the Settlement Agreement eliminates all future 9.5% special allowance payments for the Company. These loans will continue to receive special allowance payments using other applicable special allowance formulas.

The Company believes the prospective loss of the 9.5% special allowance payments will not have a material adverse affect on the Company's operations. In addition, the Company does not expect the Settlement Agreement to have any material adverse effect on the outstanding debt obligations issued by the Company's education lending subsidiaries in the securitization of student loan assets. The Settlement Agreement resolves all issues between the Company and the Department that arise out of or relate to the contents of the OIG audit report and the Department's review of the issues raised therein. The Settlement Agreement does not preclude any other government agency from reviewing the issues raised in the OIG audit report.

INDUSTRY INQUIRIES AND INVESTIGATIONS

Since January 2007, a number of state attorneys general 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. The general focus of the inquiries or investigations to date has primarily 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 New York Attorney General, 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 New York Attorney General to adopt the New York Attorney General's Code of Conduct, which is substantially similar to the Nelnet Student Loan Code of Conduct, but which 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. One million dollars of the national fund contribution will come from the money the Company committed to helping educate students and families in connection with the Company's agreement with the Nebraska Attorney General.

While the Company cannot predict the ultimate outcome of any other inquiry or investigation, the Company believes its activites 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 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 has selected 47 schools and 27 lenders for review. Specifically, the Department is reviewing the Company's practices in connection with the 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 is cooperating with the Department of Education's 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.

LEGISLATION RELATED TO THE HIGHER EDUCATION ACT

Recently the U.S. House of Representatives passed the College Cost Reduction Act of 2007 and the U.S. Senate passed the Higher Education Access Act of 2007. Both of these bills contain provisions with significant implications for participants in the FFEL Program. Among other things, these bills include the following provisions:

- reducing special allowance payments to lenders;
- reducing default insurance rates and elimination of the Exceptional Performer program;
- increasing lender origination fees;
- increasing annual and aggregate loan limits for certain Stafford loans; and
- reducing interest rates for subsidized Stafford loans.

Neither the College Cost Reduction Act of 2007 nor the Higher Education Access Act of 2007 has been enacted into law. The impact of these bills is difficult to predict; however, if the proposed federal government spending cuts and increased fees for FFEL Program participants are enacted, the Company's revenues would be negatively impacted.

Management is estimating the impact of legislative changes to the Company's operations based on information in the bills passed by Congress. Management believes that the legislative changes will be effective October 1, 2007, or the beginning of the next federal fiscal year. Management estimates that the annual yield, including additional charges related to an increase in risk sharing, on loans originated by the Company after the effective date will decrease 65 to 75 basis points compared to loans originated prior to the effective date of the legislative changes. As a result, management is evaluating a variety of strategies to modify its student loan business model including, but not limited to, reducing or eliminating borrower benefits, reducing student loan acquisitions costs, capitalizing on economies of scale, and reducing operating expenses.

Management will evaluate the carrying amount of goodwill and intangible assets assigned to its Asset Generation and Management operating segment as a result of the changes in the student loan business environment. Intangible assets such as loan origination rights, trade names, and covenants not to compete, goodwill, and certain other assets will likely be impaired based on the legislative changes and the student loan business model modifications the Company may implement as a result of the legislative changes.

At the time the legislation becomes final, the Company will also recognize a provision for loan losses related to the increase in risk share due to the anticipated elimination of the Exceptional Performer program. Assuming the elimination of the Exceptional Performer program and a default insurance rate of 97 percent, based on the balance of federally insured loans outstanding as of June 30, 2007, this provision is expected to be approximately $17 to $18 million.

In addition to the College Cost Reduction Act of 2007 and the Higher Education Access Act of 2007, 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 prior to 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 bills has 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.

THREE AND SIX MONTHS ENDED JUNE 30, 2007 COMPARED TO THE THREE AND SIX MONTHS ENDED JUNE 30, 2006

NET INTEREST INCOME

	Three months ended June 30,			Six months ended Jun		
	2007	2006	$ Change	2007	2006	$
Interest income:						
Loan interest	$ 417,086	362,742	54,344	814,140	688,402	
Investment interest	18,783	24,249	(5,466)	40,208	43,726	
Total interest income	435,869	386,991	48,878	854,348	732,128	
Interest expense:						
Interest on bonds and notes payable	367,893	300,844	67,049	718,388	559,793	
Net interest income	67,976	86,147	(18,171)	135,960	172,335	
Provision for loan losses	2,535	2,190	345	5,288	11,808	
Net interest income after						

provision for loan losses	$ 65,441	83,957	(18,516)	130,672	160,527

Net interest income for the three and six months ended June 30, 2006 included $13.9 million and $32.3 million, respectively, of 9.5% special allowance payments. In accordance with the Company's Settlement Agreement with the Department in January 2007, there were no 9.5% special allowance payments in 2007. Excluding the 9.5% special allowance payments, net interest income before the allowance for loan losses decreased $4.3 million and $4.1 million, respectively. Interest expense increased $3.6 million and $9.8 million, respectively, 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 student loan yield as discussed below in this Item 2 under "Asset Generation and Management Operating Segment - Results of Operations". The provision for loan losses decreased for the six months ended June 30, 2007 compared to 2006 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

	Three months ended June 30,			Six months ended	
	2007	2006	$ Change	2007	2006
Loan and guaranty servicing income	$ 31,610	28,926	2,684	62,076	59,216
Other fee-based income	38,262	16,074	22,188	78,291	34,229
Software services income	5,848	4,018	1,830	11,596	7,427
Other income	2,937	2,906	31	9,816	4,893
Derivative market value, foreign currency, and put option adjustments	5,547	29,080	(23,533)	(6,583)	68,343
Derivative settlements, net	5,196	6,702	(1,506)	9,436	11,446
Total other income	$ 89,400	87,706	1,694	164,632	185,554

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- o 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.

- o Other fee-based income increased largely due to business acquisitions and an increase in the number of managed tuition payment plans.

- o Software services income has increased as a result of new customers and increased usage fees for existing customers.

- o Other income for the six months ended June 30, 2007 compared to the same period in 2006 increased as a result of a gain on the termination of the Company's interest rate floor contracts in January 2007 and income earned on certain investment activities.

- o 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 3, "Quantitative and Qualitative Disclosures about Market Risk."

OPERATING EXPENSES

	Three months ended June 30, 2006	Impact of acquisitions	Net change after acquistions	Three months ended June 30, 2007
Salaries and benefits	$ 54,753	6,130	(1,122)	59,761
Other expenses	40,720	12,787	887	54,394
Amortization of intangible assets	5,817	935	(261)	6,491
Total operating expenses	$ 101,290	19,852	(496)	120,646

Operating expenses for the three months ended June 30, 2007 increased $19.9 million as a result of recent acquisitions. Excluding recent acquisitions, operating expenses decreased slightly when compared to the same period in 2006.

	Six months ended June 30, 2006	Impact of acquisitions	Net change after acquistions	Six months ended June 30, 2007
Salaries and benefits	$ 104,252	12,241	4,972	121,465
Other expenses	79,143	26,107	2,031	107,281
Amortization of intangible assets	11,115	2,320	(306)	13,129
Total operating expenses	$ 194,510	40,668	6,697	241,875

Operating expenses for the six months ended June 30, 2007 increased $40.7 million as a result of recent acquisitions. Excluding recent acquisitions, operating expenses increased $6.7 million. This increase occurred in the first three months of 2007 compared to 2006 and 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.

INCOME TAXES

The Company's effective tax rate was 38.9% and 38.5% for the three and six months ended June 30, 2007, respectively, compared to 37.0% for the same periods in 2006. The effective tax rate increased due to the increased expense recognized by the Company during 2007 compared to 2006 related to its outstanding put options which are not deductible for tax purposes and also due to certain enacted 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 10 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 2 under "Operating Segments".

FINANCIAL CONDITION AS OF JUNE 30, 2007 COMPARED TO DECEMBER 31, 2006

	As of June 30, 2007	As of December 31 2006	Change Dollars	Change Percent
Assets:				
Student loans receivable, net	$26,174,958	23,789,552	2,385,406	10.0 %
Cash, cash equivalents, and investments	1,367,257	1,773,751	(406,494)	(22.9)
Goodwill	191,256	191,420	(164)	(0.1)
Intangible assets, net	146,542	161,588	(15,046)	(9.3)
Fair value of derivative instruments	192,326	146,099	46,227	31.6
Assets of discontinued operations	--	27,309	(27,309)	(100.0)
Other assets	801,035	707,154	93,881	13.3
Total assets	$28,873,374	26,796,873	2,076,501	7.7 %
Liabilities:				
Bonds and notes payable	$27,791,146	25,562,119	2,229,027	8.7 %
Fair value of derivative instruments	43,560	27,973	15,587	55.7
Other liabilities	427,490	534,931	(107,441)	(20.1)
Total liabilities	28,262,196	26,125,023	2,137,173	8.2
Shareholders' equity	611,178	671,850	(60,672)	(9.0)
Total liabilities and shareholders' equity	$28,873,374	26,796,873	2,076,501	7.7 %

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 $3.5 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 $29.5 million as a result of net income for the six months ended June 30, 2007 but was offset by the repurchase of 3.1 million shares of the Company's Class A common stock for $75.5 million. The acquisition of Packers as discussed in note 9 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 the first and second quarters of 2007 which reduced equity by $6.9 million.

OPERATING SEGMENTS

The Company has five operating segments as defined in SFAS No. 131, DISCLOSURES ABOUT SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION ("SFAS No. 131"), as follows: 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. During 2006, the Company changed the structure of its internal organization in a manner that caused the composition of its operating segments to change. As a result, the presentation of segment financial information for the three and six months ended June 30, 2006, has been restated to conform to the current operating segment presentation. The accounting policies of the Company's operating segments are the same as those described in the summary of significant accounting policies included in the Company's consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006. 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 based on "base net income." Accordingly, information regarding the Company's operating segments is provided based on "base net income." The Company's "base net income" is not a defined term within 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.

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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' 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.

SEGMENT RESULTS AND RECONCILIATIONS TO GAAP

Three months ended June 30, 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	Corpora Activit and Overhea
Total interest income	$ 433,404	1,181	670	93	--	435,348	5
Interest expense	358,341	--	2	2	--	358,345	9,5
Net interest income	75,063	1,181	668	91	--	77,003	(9,0
Less provision for loan losses	2,535	--	--	--	--	2,535	
Net interest income after provision for loan losses	72,528	1,181	668	91	--	74,468	(9,0
Other income (expense):							
Loan and guarantee servicing income	118	31,492	--	--	--	31,610	
Other fee-based income	3,674	--	9,405	24,923	--	38,002	2
Software services income	--	--	--	157	5,691	5,848	
Other income	1,115	5	25	--	--	1,145	1,7
Intersegment revenue	--	20,120	188	178	4,389	24,875	4,1
Derivative market value, foreign currency, and put option adjustment	--	--	--	--	--	--	
Derivative settlements, net	(461)	--	--	--	--	(461)	5,6
Total other income (expense)	4,446	51,617	9,618	25,258	10,080	101,019	11,8
Operating expenses:							
Salaries and benefits	7,167	22,023	5,082	9,022	5,857	49,151	12,2
Other expenses	7,246	8,404	2,333	14,589	751	33,323	21,0
Intersegment expenses	22,034	3,750	25	29	403	26,241	5
Total operating expenses	36,447	34,177	7,440	23,640	7,011	108,715	33,9

Income (loss) before income taxes	40,527	18,621	2,846	1,709	3,069	66,772	(31,1
Income tax expense (benefit) (a)	15,400	7,076	1,082	649	1,167	25,374	(11,5
Net income (loss) from continuing operations	25,127	11,545	1,764	1,060	1,902	41,398	(19,6
Income (loss) from discontinued operations, net of tax	--	--	--	--	--	--	
Net income	$ 25,127	11,545	1,764	1,060	1,902	41,398	(19,6

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

Three months ended June 30, 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	Corpora Activit and Overhea
Total interest income	$ 384,295	1,625	705	129	25	386,779	450
Interest expense	295,260	--	1	--	--	295,261	5,821
Net interest income	89,035	1,625	704	129	25	91,518	(5,371
Less provision for loan losses	2,190	--	--	--	--	2,190	--
Net interest income after provision for loan losses	86,845	1,625	704	129	25	89,328	(5,371
Other income (expense):							
Loan and guarantee servicing income	--	28,926	--	--	--	28,926	--
Other fee-based income	3,035	--	7,019	6,020	--	16,074	--
Software services income	65	1	--	34	3,918	4,018	--
Other income	2,161	40	--	--	--	2,201	705
Intersegment revenue	--	15,671	228	13	4,465	20,377	155
Derivative market value, foreign currency, and put option adjustments	--	--	--	--	--	--	--
Derivative settlements, net	6,702	--	--	--	--	6,702	--
Total other income							

(expense)	11,963	44,638	7,247	6,067	8,383	78,298	860
Operating expenses:							
Salaries and benefits	13,638	22,237	4,847	1,934	5,257	47,913	8,629
Other expenses	14,956	7,065	2,208	1,310	713	26,252	14,468
Intersegment expenses	13,270	2,500	--	--	--	15,770	2,496
Total operating expenses	41,864	31,802	7,055	3,244	5,970	89,935	25,593
Income (loss) before income taxes	56,944	14,461	896	2,952	2,438	77,691	(30,104
Income tax expense (benefit) (a)	21,639	5,495	340	1,122	926	29,522	(12,048
Net income (loss) from continuing operations	35,305	8,966	556	1,830	1,512	48,169	(18,056
Income (loss) from discontinued operations, net of tax	--	--	--	--	--	--	--
Net income	$35,305	8,966	556	1,830	1,512	48,169	(18,056

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

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Six months ended June 30, 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	Corpora Activit and Overhea
Total interest income	$ 847,894	3,425	1,680	180	18	853,197	4,355
Interest expense	699,999	--	7	4	--	700,010	21,582
Net interest income	147,895	3,425	1,673	176	18	153,187	(17,227
Less provision for loan losses	5,288	--	--	--	--	5,288	--
Net interest income after provision for loan losses	142,607	3,425	1,673	176	18	147,899	(17,227
Other income (expense):							
Loan and guarantee servicing income	118	61,958	--	--	--	62,076	--
Other fee-based income	6,985	--	21,176	49,870	--	78,031	260
Software services income	--	--	--	287	11,309	11,596	--

Other income	5,944	11	28	--	--	5,983	3,833
Intersegment revenue	--	36,584	340	928	8,221	46,073	6,116
Derivative market value, foreign currency, and put option adjustments	--	--	--	--	--	--	--
Derivative settlements, net	(885)	--	--	--	--	(885)	10,321
Total other income (expense)	12,162	98,553	21,544	51,085	19,530	202,874	20,530
Operating expenses:							
Salaries and benefits	14,446	45,027	10,000	18,391	12,332	100,196	24,978
Other expenses	15,511	17,654	4,493	29,148	1,535	68,341	38,940
Intersegment expenses	38,670	7,068	399	185	403	46,725	802
Total operating expenses	68,627	69,749	14,892	47,724	14,270	215,262	64,720
Income (loss) before income taxes	86,142	32,229	8,325	3,537	5,278	135,511	(61,417
Income tax expense (benefit) (a)	32,734	12,247	3,164	1,344	2,006	51,495	(23,826
Net income (loss) from continuing operations	53,408	19,982	5,161	2,193	3,272	84,016	(37,591
Income (loss) from discontinued operations, net of tax	--	--	--	--	--	--	--
Net income	$ 53,408	19,982	5,161	2,193	3,272	84,016	(37,591

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

	Six months ended June 30, 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	Corpora Activit and Overhea
Total interest income	$ 726,271	3,434	1,587	212	43	731,547	985
Interest expense	549,093	--	2	--	--	549,095	11,102
Net interest income	177,178	3,434	1,585	212	43	182,452	(10,117
Less provision for loan losses	11,808	--	--	--	--	11,808	--
Net interest income after provision for loan losses	165,370	3,434	1,585	212	43	170,644	(10,117

Other income (expense):							
Loan and guarantee servicing income	--	59,216	--	--	--	59,216	--
Other fee-based income	5,934	--	16,673	11,622	--	34,229	--
Software services income	115	1	--	40	7,271	7,427	--
Other income	3,803	61	--	--	--	3,864	1,029
Intersegment revenue	--	30,184	228	765	8,385	39,562	196
Derivative market value, foreign currency, and put option adjustments	--	--	--	--	--	--	--
Derivative settlements, net	11,446	--	--	--	--	11,446	--
Total other income (expense)	21,298	89,462	16,901	12,427	15,656	155,744	1,225
Operating expenses:							
Salaries and benefits	25,409	42,106	8,802	3,112	9,973	89,402	18,812
Other expenses	27,001	15,611	4,256	2,703	1,448	51,019	28,124
Intersegment expenses	26,146	5,657	--	--	--	31,803	3,198
Total operating expenses	78,556	63,374	13,058	5,815	11,421	172,224	50,134
Income (loss) before income taxes	108,112	29,522	5,428	6,824	4,278	154,164	(59,026)
Income tax expense (benefit) (a)	41,083	11,218	2,062	2,593	1,625	58,581	(24,053)
Net income (loss) before minority interest	67,029	18,304	3,366	4,231	2,653	95,583	(34,973
Minority interest in subsidiary income	--	--	(242)	--	--	(242)	--
Net income (loss) from continuing operations	67,029	18,304	3,124	4,231	2,653	95,341	(34,973
Income (loss) from discontinued operations, net of tax	--	--	--	--	--	--	--
Net income (loss)	$ 67,029	18,304	3,124	4,231	2,653	95,341	(34,973

(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 three and six months ended June 30, 2007 and 2006:

	Three months ended June 30,				
	Asset Generation and Management	Student Loan and Guaranty Servicing	Tuition Payment Processing and Campus Commerce	Enrollment Services and List Management	T

Derivative market value, foreign currency, and put option adjustments	$ 6,002	--	--	--
Amortization of intangible assets	1,840	1,350	1,469	1,545
Non-cash stock based compensation related to business combinations	--	--	--	--
Income (loss) from discontinued operations, net of tax	--	6,135	--	--
Net tax effect (a)	(2,980)	(513)	(558)	(587)
Total adjustments to GAAP	$ 4,862	6,972	911	958

	Three months ended June 30,			
	Asset Generation and Management	Student Loan and Guaranty Servicing	Tuition Payment Processing and Campus Commerce	Enrollment Services and List Management
Derivative market value, foreign currency, and put option adjustments	$ (28,865)	--	--	--
Amortization of intangible assets	2,229	1,165	1,693	610
Non-cash stock based compensation related to business combinations	--	--	--	--
Income (loss) from discontinued operations, net of tax	--	(1,418)	--	--
Net tax effect (a)	10,122	(455)	(643)	(232)
Total adjustments to GAAP	$ (16,514)	(708)	1,050	378

(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.

	Six months ended June 30			
	Asset Generation and Management	Student Loan and Guaranty Servicing	Tuition Payment Processing and Campus Commerce	Enrollment Services and List Management
Derivative market value, foreign currency, and put option adjustments	$ 12,216	--	--	--
Amortization of intangible assets	3,825	2,394	2,938	3,355
Non-cash stock based compensation related to business combinations	--	--	--	--
Income (loss) from discontinued operations, net of tax	--	3,325	--	--
Net tax effect (a)	(6,096)	(910)	(1,116)	(1,275)

Total adjustments to GAAP	$ 9,945	4,809	1,822	2,080

	Six months ended June 30			
	Asset Generation and Management	Student Loan and Guaranty Servicing	Tuition Payment Processing and Campus Commerce	Enrollment Services and List Management
Derivative market value, foreign currency, and put option adjustments	$ (68,660)	--	--	--
Amortization of intangible assets	4,456	2,331	2,868	1,220
Non-cash stock based compensation related to business combinations	--	--	--	--
Income (loss) from discontinued operations, net of tax	--	(2,570)	--	--
Net tax effect (a)	24,398	(899)	(1,089)	(464)
Total adjustments to GAAP	$ (39,806)	(1,138)	1,779	756

(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.

NON-CASH STOCK BASED COMPENSATION RELATED TO BUSINESS COMBINATIONS: The Company has structured certain business combinations in which the stock 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.

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.

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STUDENT LOAN PORTFOLIO

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

	As of June 30, 2007		As of December 31, 2006	
	Dollars	Percent	Dollars	Percent
Federally insured:				
Stafford	$ 6,630,133	25.3 %	$ 5,724,586	24.1 %

PLUS/SLS	426,540	1.6	365,112	1.5
Consolidation	18,454,304	70.6	17,127,623	72.0
Non-federally insured	235,023	0.9	197,147	0.8
Total	25,746,000	98.4	23,414,468	98.4
Unamortized premiums and deferred origination costs	456,098	1.7	401,087	1.7
Allowance for loan losses:				
Allowance - federally insured	(8,194)	(0.0)	(7,601)	(0.0)
Allowance - non-federally insured	(18,946)	(0.1)	(18,402)	(0.1)
Net	$ 26,174,958	100.0 %	$ 23,789,552	100.0 %

The Company's net student loan assets have increased $2.4 billion, or 10.0%, to $26.2 billion as of June 30, 2007 compared 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 table below sets forth the activity of loans originated or acquired through each of the Company's channels:

	Three months ended June 30,		Six months ended June	
	2007	2006	2007	2006
Beginning balance	$ 24,617,030	20,963,219	23,414,468	19,912
Direct channel:				
Consolidation loan originations	836,711	1,045,094	1,900,949	2,069
Less consolidation of existing portfolio	(438,993)	(567,300)	(912,788)	(1,001
Net consolidation loan originations	397,718	477,794	988,161	1,068
Stafford/PLUS loan originations	141,882	151,017	496,709	457
Branding partner channel (a) (b)	255,703	326,764	457,993	556
Forward flow channel	392,174	579,701	768,115	931
Other channels (b)	560,796	424,620	766,714	668
Total channel acquisitions	1,748,273	1,959,896	3,477,692	3,682
Repayments, claims, capitalized interest, and other	(397,556)	(453,866)	(633,363)	(819
Consolidation loans lost to external parties	(187,350)	(310,800)	(426,754)	(581
Loans sold	(34,397)	(145,779)	(86,043)	(182

Ending balance	$ 25,746,000	22,012,670	25,746,000	22,012

(a) Included in the branding partner channel are private loan originations of $17.8 million and $62.1 million for the three and six months ended June 30, 2007, respectively, and $10.6 million and $21.1 million for the three and six months ended June 30, 2006, respectively.

(b) Included in other channels for the six months ended June 30, 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.

The Company has extensive and growing relationships with many large financial and educational institutions that are active in the education finance industry. Loss of a relationship with an institution from which the Company directly or indirectly acquires a significant volume of student loans could result in an adverse effect on the volume derived from its various channels.

Nova Southeastern University ("Nova"), a school-as-lender customer, has elected not to renew their existing contract with the Company, which expired in December 2006. Total loans acquired from Nova were $19.8 million and $31.0 million for the three and six months ended June 30, 2007, respectively, and $121.7 million and $161.8 million for the three and six months ended June 30, 2006, respectively, and $275.6 million for the year ended December 31, 2006. 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 three and six months ended June 30, 2007 and 2006, the Company sold $34.4 million (par value) and $86.0 million (par value), and $145.8 (par value) and $183.0 (par value), respectively, of student loans resulting in the recognition of gains of $1.0 million and $2.8 million, and $1.4 million and $1.9 million, respectively.

ACTIVITY IN THE ALLOWANCE FOR LOAN LOSSES

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

	Three months ended June 30,	
	2007	2006
Balance at beginning of period	$ 26,224	22,225
Provision for loan losses:		
Federally insured loans	1,665	200
Non-federally insured loans	870	1,990
Total provision for loan losses	2,535	2,190
Charge-offs, net of recoveries:		
Federally insured loans	(1,330)	(274)
Non-federally insured loans	(289)	39

Net charge-offs	(1,619)	(235)
Sale of non-federally insured loans	--	--
Balance at end of period	$ 27,140	24,180
Allocation of the allowance for loan losses:		
Federally insured loans	$ 8,194	7,001
Non-federally insured loans	18,946	17,179
Total allowance for loan losses	$ 27,140	24,180
Net loan charge-offs as a percentage of average student loans	0.026 %	0.004 %
Total allowance as a percentage of average student loans	0.110 %	0.114 %
Total allowance as a percentage of ending balance of student loans	0.105 %	0.110 %
Non-federally insured allowance as a percentage of the ending balance of non-federally insured loans	8.061 %	10.137 %
Average student loans	$24,687,280	21,289,877
Ending balance of student loans	25,746,000	22,012,670
Ending balance of non-federally insured loans	235,023	169,473

During the three months ended March 31, 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.

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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 June 30, 2007		As of December 31, 200	
	Dollars	Percent	Dollars	Percen
Federally Insured Loans:				
Loans in-school/grace/deferment(1)	$ 7,180,850		$ 6,271,558	
Loans in forebearance(2)	2,800,659		2,318,184	
Loans in repayment status:				
Loans current	13,642,086	87.9 %	12,944,768	88.
Loans delinquent 31-60 days(3)	605,957	3.9	623,439	4.
Loans delinquent 61-90 days(3)	373,980	2.4	299,413	2.
Loans delinquent 91 days or greater(4)	907,445	5.8	759,959	5.
Total loans in repayment	15,529,468	100.0 %	14,627,579	100.
Total federally insured loans	$ 25,510,977		$ 23,217,321	
Non-Federally Insured Loans:				
Loans in-school/grace/deferment(1)	$ 113,449		$ 83,973	
Loans in forebearance(2)	7,820		6,113	
Loans in repayment status:				
Loans current	107,413	94.5 %	101,084	94.
Loans delinquent 31-60 days(3)	2,979	2.6	2,681	2.
Loans delinquent 61-90 days(3)	1,509	1.3	1,233	1.
Loans delinquent 91 days or greater(4)	1,853	1.6	2,063	1.

Total loans in repayment	113,754	100.0 %	107,061	100.
Total non-federally insured loans	$ 235,023		$ 197,147	

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(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:

	Three months ended June 30,		Six months ended Jun	
	2007	2006	2007	20
Student loan yield	7.93 %	7.93 %	7.90 %	
Consolidation rebate fees	(0.78)	(0.70)	(0.78)	
Premium and deferred origination costs amortization	(0.37)	(0.40)	(0.36)	
Student loan net yield	6.78	6.83	6.76	
Student loan cost of funds (a)	(5.50)	(5.00)	(5.48)	
Student loan spread	1.28	1.83	1.28	
Special allowance yield adjustment, net of settlements on derivatives (b)	--	(0.34)	--	
Core student loan spread	1.28 %	1.49 %	1.28 %	
Average balance of student loans	$ 24,687,280	$ 21,289,877	$ 24,266,048	$ 20,7
Average balance of debt outstanding	26,158,525	23,126,198	25,770,551	22,4

(a) The student loan cost of funds includes the effects of net settlement costs on the Company's derivative instruments used to hedge the Company's student loan portfolio.

(b) 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 has been primarily due to (i) an increase in lower yielding consolidation loans and an increase in the consolidation rebate fees; (ii) 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; and (iii) 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 three and six months ended June 30, 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 during the three and six months ended June 30, 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.

As noted in Item 3, "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 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 floor income, the Company's core student loan spread was 1.23% for both the three and six months ended June 30, 2007, and 1.34% for the same periods in 2006.

THREE AND SIX MONTHS ENDED JUNE 30, 2007 COMPARED TO THE THREE AND SIX MONTHS ENDED JUNE 30, 2006

	Three months ended June 30,			Six months ended Jun		
	2007	2006	$ Change	2007	2006	$
Net interest income after the provision for loan losses	$72,528	86,845	(14,317)	142,607	165,370	(
Loan and guarantee servicing income	118	--	118	118	--	
Other fee-based income	3,674	3,035	639	6,985	5,934	
Software services income	--	65	(65)	--	115	

Other income	1,115	2,161	(1,046)	5,944	3,803	
Derivative settlements, net	(461)	6,702	(7,163)	(885)	11,446	(
Total other income	4,446	11,963	(7,517)	12,162	21,298	
Salaries and benefits	7,167	13,638	(6,471)	14,446	25,409	(
Other expenses	7,246	14,956	(7,710)	15,511	27,001	(
Intersegment expenses	22,034	13,270	8,764	38,670	26,146	
Total operating expenses	36,447	41,864	(5,417)	68,627	78,556	
"Base net income" before income taxes	40,527	56,944	(16,417)	86,142	108,112	(
Income tax expense	15,400	21,639	(6,239)	32,734	41,083	
"Base net income"	$25,127	35,305	(10,178)	53,408	67,029	(
After Tax Operating Margin	32.6%	35.7%		34.5%	35.9%	

NET INTEREST INCOME AFTER THE PROVISION FOR LOAN LOSSES.

	Three months ended June 30,		Change	
	2007	2006	Dollars	Percent
Loan interest	$ 487,465	421,201	66,264	15.73 %
Consolidation rebate fees	(47,745)	(37,335)	(10,410)	(27.88)
Amortization of loan premiums and deferred origination costs	(22,634)	(21,124)	(1,510)	(7.15)
Total loan interest	417,086	362,742	54,344	14.98
Investment interest	16,318	21,553	(5,235)	(24.29)
Total interest income	433,404	384,295	49,109	12.78
Interest on bonds and notes payable	358,308	295,219	63,089	21.37
Intercompany interest	33	41	(8)	(19.51)
Provision for loan losses	2,535	2,190	345	15.75
Net interest income after provision for loan losses	$ 72,528	86,845	(14,317)	(16.49)%

- Loan interest for the three months ended June 30, 2006 included $13.9 million of 9.5% special allowance payments. The Company received no 9.5% special allowance payments for the three months ended June 30, 2007 as a result of the Settlement Agreement with the Department.

- The average student loan portfolio increased $3.4 billion, or 16.0%, for the three months ended June 30, 2007 compared to the same period in 2006. Student loan yield, excluding 9.5% special allowance payments, increased to 7.93% in 2007 from 7.67% 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 $80.1 million as a result of these factors.

- Consolidation rebate fees increased due to the $3.9 billion, or 27.1%, increase in the consolidation loan portfolio.

- The amortization of loan premiums and deferred origination costs increased $4.8 million, or 22.7%, 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 three months ended June 30, 2006, the Company recognized $1.7 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 income has decreased as a result of an overall decrease in cash held in 2007 as compared to 2006. During the second quarter 2006, proceeds from the issuance of a debt transaction were held as cash until 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 $63.1 million due to the $3.0 billion, or 13.1%, increase in average debt for the three months ended June 30, 2007 compared to the same period in 2006. In addition, the Company's cost of funds (excluding net derivative settlements) increased to 5.49% for the three months ended June 30, 2007 compared to 5.12% for the same period a year ago.

	Six months ended June 30,		Change	
	2007	2006	Dollars	Percent
Loan interest	$ 951,998	804,269	147,729	18.37 %
Consolidation rebate fees	(94,165)	(72,881)	(21,284)	(29.20)
Amortization of loan premiums and deferred origination costs	(43,693)	(42,986)	(707)	(1.64)
Total loan interest	814,140	688,402	125,738	18.27
Investment interest	33,754	37,869	(4,115)	(10.87)
Total interest income	847,894	726,271	121,623	16.75
Interest on bonds and notes payable	696,795	549,006	147,789	26.92
Intercompany interest	3,204	87	3,117	3,582.76
Provision for loan losses	5,288	11,808	(6,520)	(55.22)
Net interest income after provision for loan losses	$ 142,607	165,370	(22,763)	(13.76)%

- Loan interest for the six months ended June 30, 2006 included $32.3 million of 9.5% special allowance payments. The Company received no 9.5%

special allowance payments for the six months ended June 30, 2007 as a result of the Settlement Agreement with the Department.

- The average student loan portfolio increased $3.5 billion, or 16.9%, for the six months ended June 30, 2007 compared to the same period in 2006. Student loan yield, excluding 9.5% special allowance payments, increased to 7.90% in 2007 from 7.50% 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 $180.0 million as a result of these factors.

- Consolidation rebate fees increased due to the $3.9 billion, or 27.1%, increase in the consolidation loan portfolio.

- The amortization of loan premiums and deferred origination costs increased $8.8 million, or 18.8%, 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 six months ended June 30, 2006, the Company recognized $3.5 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 income has decreased as a result of an overall decrease in cash held in 2007 as compared to 2006. During the second quarter 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 $150.9 million due to the $3.3 billion, or 14.7%, increase in average debt for the six months ended June 30, 2007 compared to the same period in 2006. In addition, the Company's cost of funds (excluding net derivative settlements) increased to 5.48% for the six months ended June 30, 2007 compared to 4.93% for the same period a year ago.

- The provision for loan losses decreased because the Company recognized a $6.9 million provision 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 $0.3 million and $0.8 million for the three and six months ended June 30, 2007 compared to 2006, respectively, as a result of the increase in the average student loan portfolio.

OTHER INCOME. Other income for the three months ended June 30, 2007 compared to 2006 decreased $1.0 million as a result of a decrease in the gain on sale of loans. For the six months ended June 30, 2007 compared to 2006, other income has increased $2.1 million as a result of a gain on the termination of the Company's interest rate floor contracts in January 2007.

OPERATING EXPENSES. Operating expenses decreased $5.4 million, or 12.9%, and $9.9 million, or 12.6%, for the three and six months ended June 30, 2007 compared to 2006, respectively. 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 resulting in approximately $1.3 million and $3.2 million in savings for the three and six months ended June 30, 2007, respectively. In addition, the Company has leveraged its marketing efforts such that these operations benefit multiple operating segments in the current period. In previous periods these efforts were focused on primarily asset generation which resulted in higher costs for this operating segment.

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.

STUDENT LOAN SERVICING VOLUMES

The Company performs servicing activities for its own portfolio and third parties. The following table summarizes the Company's loan servicing volumes for FFELP and private loans (dollars in millions).

	As of June 30, 2007		As of June 30, 2006	
	Dollar	Percent	Dollar	Percent
Company	$ 24,429	5.6 %	$ 19,820	69.1 %
Third Party	7,884	24.4	8,856	30.9
	$ 32,313	100.0 %	$ 28,676	100.0 %

THREE AND SIX MONTHS ENDED JUNE 30, 2007 COMPARED TO THE THREE AND SIX MONTHS ENDED JUNE 30, 2006

	Three months ended June 30,			Six months ended J	
	2007	2006	$ Change	2007	2006
Net interest income after the provision for loan losses	$ 1,181	1,625	(444)	3,425	3,434
Loan and guaranty servicing income	31,492	28,926	2,566	61,958	59,216
Software services income	--	1	(1)	--	1
Other income	5	40	(35)	11	61
Intersegment revenue	20,120	15,671	4,449	36,584	30,184
Total other income	51,617	44,638	6,979	98,553	89,462
Salaries and benefits	22,023	22,237	(214)	45,027	42,106
Other expenses	8,404	7,065	1,339	17,654	15,611
Intersegment expenses	3,750	2,500	1,250	7,068	5,657
Total operating expenses	34,177	31,802	2,375	69,749	63,374

"Base net income" before income taxes	18,621	14,461	4,160	32,229	29,522
Income tax expense	7,076	5,495	1,581	12,247	11,218
"Base net income"	$ 11,545	8,966	2,579	19,982	18,304
After Tax Operating Margin	21.9%	19.4%		19.6%	19.7%

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LOAN AND GUARANTY SERVICING INCOME. Loan and guaranty servicing income for the three and six months ended June 30, 2007 increased from the same periods in 2006 as follows:

	Three months ended June 30,				Six months	
	2007	2006	$ Change	% Change	2007	2006
Origination and servicing of FFEL Program loans	$ 13,774	15,981	(2,207)	(13.8)%	$ 27,904	33,068
Origination and servicing of of non-federally insured student loans	2,335	2,296	39	1.7	4,656	4,480
Servicing and support outsourcing for guaranty agencies	15,383	10,649	4,734	44.5	29,398	21,668
Loan and guaranty servicing income to external parties	$ 31,492	28,926	2,566	8.9 %	$ 61,958	59,216

FFELP loan servicing income has decreased as a result of a decrease in the volume of loans serviced. Guaranty servicing income has increased as a result of an increase in the volume of guaranteed loans serviced.

OPERATING EXPENSES. For the three months ended June 30, 2007 compared to 2006, the increase in operating expenses is the result of an increase in costs to service a larger portfolio of guaranteed loans. In addition, for the six months ended June 30, 2007 compared to 2006, operating expenses increased to due to additional costs to integrate and reorganize entities acquired over the prior two years.

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 post-secondary 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 Management Co. ("FACTS"). FACTS provides actively managed tuition payment solutions, online payment processing, detailed information reporting, and data integration services to 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 Integrated Solutions, Inc. ("infiNET"). The Company owned 50% of this entity and accounted for it under the equity method of accounting prior to the transaction. infiNET 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.

THREE AND SIX MONTHS ENDED JUNE 30, 2007 COMPARED TO THE THREE AND SIX MONTHS ENDED JUNE 30, 2006

	Three months ended June 30,			Six months e	
	2007	2006	$ Change	2007	200
Net interest income after the provision for loan losses	$ 668	704	(36)	1,673	1
Other fee-based income	9,405	7,019	2,386	21,176	16
Other income	25	--	25	28	
Intersegment revenue	188	228	(40)	340	
Total other income	9,618	7,247	2,371	21,544	16
Salaries and benefits	5,082	4,847	235	10,000	8
Other expenses	2,333	2,208	125	4,493	4
Intersegment expenses	25	--	25	399	
Total operating expenses	7,440	7,055	385	14,892	13
"Base net income" before income taxes	2,846	896	1,950	8,325	5
Income tax expense	1,082	340	742	3,164	2
"Base net income" before minority interest	1,764	556	1,208	5,161	3
Minority interest	--	--	--	--	
"Base net income"	$ 1,764	556	1,208	5,161	3
After Tax Operating Margin	17.1%	7.0%		22.2%	1

Other fee-based income increased for the three and six months ended June 30, 2007 compared to 2006 as a result of an increase in the number of managed tuition payment plans. In addition, for the six months ended June 30, 2007, $0.7

million of the increase in other fee-based income is due to the timing of the acquisition of infiNET. The increase in operating expenses was also the result of the increase in the number of managed tuition payment plans. The timing of the acquisition of infiNET resulted in a $0.5 million increase in operating expenses for the six months ended June 30, 2007.

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.

Management believes the Company's Enrollment Services and List Management operating segment will enhance 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. On June 30, 2006, the Company purchased 100% of the membership interests of CUnet. On July 27, 2006, the Company purchased certain assets and assumed certain liabilities (hereafter referred to as "Peterson's") from Thomson Learning Inc. These 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.

THREE AND SIX MONTHS ENDED JUNE 30, 2007 COMPARED TO THE THREE AND SIX MONTHS ENDED JUNE 30, 2006

	Three months ended June 30,			Six months en	
	2007	2006	$ Change	2007	200
Net interest income after the provision for loan losses	$ 91	129	(38)	176	
Other fee-based income	24,923	6,020	18,903	49,870	11,
Software services income	157	34	123	287	
Intersegment revenue	178	13	165	928	
Total other income	25,258	6,067	19,191	51,085	12,
Salaries and benefits	9,022	1,934	7,088	18,391	3,
Other expenses	14,589	1,310	13,279	29,148	2,
Intersegment expenses	29	--	29	185	
Total operating expenses	23,640	3,244	20,396	47,724	5,
"Base net income" before income taxes	1,709	2,952	(1,243)	3,537	6,
Income tax expense	649	1,122	(473)	1,344	2,
"Base net income"	$ 1,060	1,830	(770)	2,193	4,
After Tax Operating Margin	4.2%	29.5%		4.3%	33

Other fee-based income and total operating expenses increased $18.2 million and $18.9 million for the three months ended June 30, 2007 compared to 2006 as a result of the acquisition of Petersons and CUnet. For the six months ended June 30, 2007 compared to 2006, other fee-based income and total operating expenses increased $37.4 million and $37.9 million as a result of the timing of these acquisitions.

Other fee-based income for the three months ended June 30, 2007 compared to 2006 also increased $0.8 million due to an increase in merchandise revenue. For the six months ended June 30, 2007 compared to 2006, there was a $1.0 million increase in list income.

The increase in operating expenses, excluding the impact of acquisitions, was $1.5 million and $4.0 million for the three and six months ended June 30, 2007 compared to the same periods in 2006. These increases were the result of further developing resources and products for the Company's customers in this segment.

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.

THREE AND SIX MONTHS ENDED JUNE 30, 2007 COMPARED TO THE THREE AND SIX MONTHS ENDED JUNE 30, 2006

	Three months ended June 30,			Six months ended Ju	
	2007	2006	$ Change	2007	2006
Net interest income after the provision for loan losses	$ --	25	(25)	18	43
Software services income	5,691	3,918	1,773	11,309	7,271
Intersegment revenue	4,389	4,465	(76)	8,221	8,385
Total other income	10,080	8,383	1,697	19,530	15,656
Salaries and benefits	5,857	5,257	600	12,332	9,973
Other expenses	751	713	38	1,535	1,448
Intersegment expenses	403	--	403	403	--
Total operating expenses	7,011	5,970	1,041	14,270	11,421
"Base net income" before income taxes	3,069	2,438	631	5,278	4,278
Income tax expense	1,167	926	241	2,006	1,625
"Base net income"	$ 1,902	1,512	390	3,272	2,653
After Tax Operating Margin	18.9%	18.0%		16.7%	16.9%

Software services income increased $1.8 million and $4.0 million for the three and six months ended June 30, 2007 compared to the same periods in 2006 as a result of new customers and increased usage fees for existing customers. The increase in operating expenses was driven by additional salaries and benefits costs to support the additional income.

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 Securities and Exchange Commission ("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 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.

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. As of June 30, 2007 the Company had outstanding a $750.0 million unsecured line of credit with no outstanding borrowings. The agreement terminates in May 2012.

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 June 30, 2007, there was $307.7 million of notes outstanding under this program and $417.3 million authorized for future issuance.

SECURED FINANCING TRANSACTIONS

The Company relies upon secured financing vehicles as its most significant source of funding for student loans on a long-term basis. 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. Generally, loans that best fit long-term financing vehicles are selected to be transferred into long-term securitizations. Because transferring those loans to a long-term securitization includes certain fixed administrative costs, the Company maximizes its economies of scale by executing large transactions.

In August 2006, the Company established a $5.0 billion loan warehouse program through its wholly-owned subsidiary, Nelnet Student Asset Funding Extendible CP, LLC ("Nelnet SAFE"), under which Nelnet SAFE may 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 June 30, 2007, the Company had $3.3 billion of Secured Liquidity Notes outstanding and an additional $1.7 billion authorized for future issuance under this warehouse program.

The Company also utilizes bank supported commercial paper conduit programs for loan warehousing. The Company had a loan warehousing capacity of $3.8 billion as of June 30, 2007, of which $3.1 billion was outstanding and $0.7 billion was available for future use, under these programs. The conduit programs terminate at various times beginning in 2007 through 2010. In addition, they must be renewed annually by underlying liquidity providers. Historically, the Company has been able to renew its commercial paper conduit programs, including the underlying liquidity agreements, and therefore the Company does not believe the renewal of these contracts presents a significant risk to its liquidity.

Management believes the Company's warehouse facilities allow for expansion of liquidity and capacity for student loan growth and should provide adequate liquidity to fund the Company's student loan operations for the foreseeable future.

ASSET-BACKED SECURITIZATIONS

Of the $27.8 billion of debt outstanding as of June 30, 2007, $20.5 billion was issued under asset-backed securitizations. Depending on market conditions, the Company anticipates continuing to access the asset-backed securities market. Securities issued in the securitization transactions are generally priced based upon a spread to LIBOR or set under an auction procedure. During 2006, the Company completed asset-backed securities transactions that included certain notes issued with initial spreads to the 3-month EURIBOR. The interest rate on student loans being financed is generally set based upon a spread to commercial paper or U.S. Treasury bills.

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 June 30, 2007, the Company has $275.0 million remaining under its universal shelf.

The following table summarizes the Company's bonds and notes outstanding as of June 30, 2007:

	Carrying amount	Percent of total	Interest rate range on carrying amount	Fina
Variable-rate bonds and notes (a):				
Bond and notes based on indices	$ 16,979,962	61.1 %	3.75% - 6.06%	05/01/
Bonds and notes based on EURIBOR	1,045,348	3.8	4.09% - 4.19%	08/25/
Bond and notes based on auction	2,261,395	8.1	3.07% - 5.40%	11/01/
Total variable-rate bonds and notes	20,286,705	73.0		
Commerical paper and other	6,444,656	23.2	5.32% - 5.60%	10/17/
Fixed-rate bonds and notes (a)	219,617	0.8	5.20% - 6.68%	11/01/
Unsecured fixed-rate debt	475,000	1.7	5.13% - 7.40%	06/01/
Unsecured line of credit	307,710	1.1	5.39% - 5.50%	0
Other borrowings	57,458	0.2	5.10% - 5.80%	06/28/
Total	$ 27,791,146	100.0 %		

(a) Issued in securitization transactions.

The Company is committed under non-cancelable operating leases for certain office and warehouse space and equipment. The Company's contractual obligations as of June 30, 2007 were as follows:

	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Bonds and notes payable	$ 27,791,146	6,509,009	353,847	360,128	20,568,162
Operating lease obligations	40,123	9,891	16,080	9,250	4,902
Other	24,165	8,201	15,964	--	--
Total	$ 27,855,434	6,527,101	385,891	369,378	20,573,064

The Company had an $11.2 million reserve as of June 30, 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 include $6.4 billion under its loan warehouse facilities. Historically, the Company has been able to renew its commercial paper conduit programs, including the underlying liquidity agreements, and therefore the Company does not believe the renewal of these contracts presents a significant risk to its liquidity.

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 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.

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- SMG/NHR - Contingent payments of $4.0 million to $24.0 million payable in annual installments through April 2008 based on the operating results of SMG and NHR. As of June 30, 2007, the Company has made payments of $6.0 million related to this contingency and has accrued an additional $6.9 which is included in the table above.

- infiNET - Stock price guarantee of $104.8375 per share on 95,380 shares of Class A Common Stock 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.

- FACTS - 238,237 shares of Class A Common Stock issued as part of the original purchase price was subject to a put option arrangement whereby during the 30-day period beginning February 28, 2010, the holders of such shares could require the Company to repurchase all or part of the shares at a price of $83.95 per share. The value of this put option as of June 30, 2007 was $11.9 million and is included in "other" in the above table. On July 19, 2007, the Company paid $15.9 million to redeem the 238,237 shares that were subject to this put option agreement.

- CUnet - Contingent payments not to exceed $80.0 million due in annual installments through December 2010 based on the aggregate cumulative net income before taxes of CUnet. In partial satisfaction of the contingent consideration, the Company will issue shares of Class A Common Stock. These contingency payments are not included in the table above.

- 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 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 this put option as of June 30, 2007 was $3.0 million and is included in "other" in the above table.

DIVIDENDS

During each of the first two quarters of 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 intends to continue making a quarterly dividend payment in the future.

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 2 of the consolidated financial statements, which are included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006, 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, student loan income, and purchase price accounting related to business and certain asset acquisitions.

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.

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. 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.

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 repayment 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.

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.

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. As of the filing of this Report, management believes that SFAS No. 157 will not have a material effect on the financial position and results of operations of the Company.

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 entities to choose to measure many financial instruments at fair value. 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. This Statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted. Retrospective application to fiscal years preceding the effective date (or early adoption date) is prohibited. Management is currently evaluating SFAS No. 159 to assess its impact on the Company's financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

INTEREST RATE RISK

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

The Company's portfolio of FFELP loans originated prior to April 1, 2006 earns interest at the higher of a variable rate based on the special allowance payment (SAP) formula set by the Department 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 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.

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

	As of June 30, 2007		As of December 31, 2006	
	Dollars	Percent	Dollars	Percent
Fixed-rate loan assets	$ 756,037	2.9 %	$ 787,378	3.4 %
Variable-rate loan assets	24,989,963	97.1	22,627,090	96.6
Total	$ 25,746,000	100.0 %	$ 23,414,468	100.0 %
Fixed-rate debt instruments	$ 694,617	2.5 %	$ 878,431	3.4 %
Variable-rate debt instruments	27,096,529	97.5	24,683,688	96.6
Total	$ 27,791,146	100.0 %	$ 25,562,119	100.0 %

The following table shows the Company's student loan assets currently earning at a fixed rate as of June 30, 2007:

Fixed interest rate range	Borrower/ lender weighted average yield	Estimated variable conversion rate (a)	Current balance of fixed rate assets (b)
8.0 - 9.0%	8.23%	5.59%	$ 362,152
> 9.0%	9.05	6.41	393,885
			$ 756,037

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

(b) As of June 30, 2007, the Company had $219.6 million 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 June 30, 2007 was 6.18%.

Historically, the Company has followed a policy of funding the majority of its student loan portfolio with variable-rate debt. In a low interest rate environment, the FFELP loan portfolio yields excess income primarily due to the reduction in interest rates on the variable-rate liabilities that fund student loans at a fixed borrower rate and also due to consolidation loans earning interest at a fixed rate to the borrower. This excess income is referred to as "floor income." Therefore, absent utilizing derivative instruments, in a low interest rate environment, a rise in interest rates will have an adverse effect on earnings. For the three and six months ended June 30, 2007, loan interest income includes approximately $2.7 million and $6.2 million of floor income, respectively. In higher interest rate environments, where the interest rate rises above the borrower rate and the fixed-rate loans become variable rate and are effectively matched with variable-rate debt, the impact of rate fluctuations is substantially reduced.

The Company attempts to match the interest rate characteristics of pools of loan assets with debt instruments of substantially similar characteristics, particularly in rising interest rate environments. 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 and the Company's outlook as to current and future market conditions. Based on those factors, the Company will periodically use derivative instruments as part of its overall risk management strategy to manage risk arising from its fixed-rate and variable-rate financial instruments. Derivative instruments used as part of the Company's interest rate risk management strategy include interest rate swaps, basis swaps, interest rate floor contracts, and cross-currency interest rate swaps.

INTEREST RATE SWAPS

As discussed under Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operation", 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 the 9.5% special allowance payments. Under the terms of the Agreement, the Company will no longer receive 9.5% special allowance payments.

In consideration of not receiving the 9.5% special allowance payments on a prospective basis, in December 2006 the Company entered into a series of off-setting interest rate swaps that mirror 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 was to lock in a series of future income streams on underlying trades through their respective maturity dates. The following table summarizes these derivatives as of June 30, 2007:

Maturity	Notional Amount	Weighted average fixed rate paid by the Company	Notional Amount	Weighted average fixed rate received by the Company
2007	$ 512,500	3.42 %	$ 512,500	5.25 %
2008	462,500	3.76	462,500	5.34
2009	312,500	4.01	312,500	5.37
2010	1,137,500	4.25	1,137,500	4.75
2011	--	--	--	--
2012	275,000	4.31	275,000	4.76
2013	525,000	4.36	525,000	4.80
	$ 3,225,000	4.05 %	$ 3,225,000	4.98 %

In August 2007, the Company terminated all interest rate swaps summarized above for net proceeds of $50.8 million.

BASIS SWAPS

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.

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 theses derivatives 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 June 30, 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	Tota
2008	$ 2,000,000	2,000,000	--	--	4,000,
2009	2,000,000	4,000,000	--	--	6,000,
2010	500,000	3,000,000	2,000,000	1,000,000	6,500,
2011	1,350,000	2,700,000	--	--	4,050,
2012	500,000	1,000,000	800,000	1,600,000	3,900,
	$ 6,350,000	12,700,000	2,800,000	2,600,000	24,450,

INTEREST RATE FLOOR CONTRACTS

In June 2006, the Company entered into interest rate floor contracts in which the Company received an upfront fee of $8.6 million. These contracts were structured to monetize on an upfront basis the potential floor income associated with certain consolidation loans. On January 30, 2007, the Company paid $8.1 million to terminate these contracts and recognized a gain of $2.1 million.

CROSS-CURRENCY INTEREST RATE SWAPS

See "Foreign Currency Exchange Risk".

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 income and resulted in a gain of $16.7 million and $20.3 million for the three and six months ended June 30, 2007, respectively, and a gain of $56.4 million and $106.7 million for the three and six months ended June 30, 2006, 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 income:

	Three months ended June 30,		Six mont ended June
	2007	2006	2007
Interest rate and basis swap derivatives- loan portfolio	$ 1,977	2,797	4,872
Interest rate swap derivatives- other (a)	5,657	--	10,321
Special allowance yield adjustment derivatives (a)	--	7,721	--
Cross-currency interest rate swaps	(2,438)	(3,816)	(5,757)
Derivative settlements, net	$ 5,196	6,702	9,436

(a) Derivative settlements for interest rate swaps "other" include settlements on the portfolio of derivatives that the Company had used to hedge 9.5% special allowance payments and the portfolio of off-setting interest rate swaps the Company entered into during the fourth quarter 2006. The new derivatives mirror the 9.5% special allowance payment derivatives. Settlements on the 9.5% special allowance derivatives were classified as special allowance yield adjustment derivatives through September 30, 2006.

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.

	Three months ended			
	Change from decrease of 100 basis points		Change from increas basis points	
	Dollar	Percent	Dollar	Pe
Effect on earnings:				
Increase in pre-tax net income before impact of derivative settlements	$ 6,519	21.1 %	$ 535	
Impact of derivative settlements	(1,932)	(6.3)	1,932	
Increase in net income before taxes	$ 4,587	14.8 %	$ 2,467	

Increase in basic and diluted earning per share	$ 0.06		$ 0.03	

	Three months ended Ju			
	Change from decrease of 100 basis points		Change from increase basis points	
	Dollar	Percent	Dollar	Per
Effect on earnings:				
Increase (decrease) in pre-tax net income before impact of derivative settlements	$ 8,743	12.0 %	$ (7,103)	
Impact of derivative settlements	(9,567)	(13.2)	9,567	
(Decrease) increase in net income before taxes	$ (824)	(1.2) %	$ 2,464	
(Decrease) increase in basic and diluted earning per share	$ (0.01)		$ 0.03	

	Six months ended Ju			
	Change from decrease of 100 basis points		Change from increas basis points	
	Dollar	Percent	Dollar	Pe
Effect on earnings:				
Increase in pre-tax net income before impact of derivative settlements	$ 10,733	19.7 %	$ 3,558	
Impact of derivative settlements	(3,843)	(7.1)	3,843	
Increase in net income before taxes	$ 6,890	12.6 %	$ 7,401	
Increase in basic and diluted earning per share	$ 0.08		$ 0.09	

	Six months ended June			
	Change from decrease of 100 basis points		Change from increas basis points	
	Dollar	Percent	Dollar	Per
Effect on earnings:				
Increase (decrease) in pre-tax net income before impact of derivative settlements	$ 16,408	10.5 %	$ (13,389)	
Impact of derivative settlements	(19,030)	(12.2)	19,030	
(Decrease) increase in net income before taxes	$ (2,622)	(1.7)%	$ 5,641	
(Decrease) increase in basic and diluted earning per share	$ (0.03)		$ 0.07	

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 (euro)420.5 million and (euro)352.7 million and pays a spread to the LIBOR index based on notional amounts of $500.0 million and $450.0 million, respectively. In addition, under the terms of these agreements, all principal payments on the Euro Notes will effectively be paid at the exchange rate in effect as of the issuance of the notes. The Company did not qualify these derivative instruments as hedges under SFAS No. 133; consequently, the change in fair value is included in the Company's operating results.

For the three and six months ended June 30, 2007, the Company recorded an expense of $11.3 million and $25.0 million, respectively, as a result of re-measurement of the Euro Notes and income of $15.8 million and $27.0 million, respectively, for the increase in the fair value of the related derivative instrument. For the three and six months ended June 30, 2006, the Company recorded an expense of $27.6 million and $38.1 million, respectively, as a result of the re-measurement of the Euro Notes and income of $28.5 million and $36.2 million, respectively, for the increase 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 statement of income.

ITEM 4. CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES

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

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

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

GENERAL

The Company is subject to various claims, lawsuits, and proceedings that arise in the normal course of business. These matters principally consist of claims by 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.

NEW YORK STATE ATTORNEY GENERAL REQUEST FOR INFORMATION

On January 11, 2007 the Company received a letter from the New York Attorney General requesting certain information and documents from the Company in connection with the New York Attorney General's investigation into preferred lender list activities. Since that time other state attorneys general and the U.S. Senate Committee on Health, Education, Labor, and Pensions have announced or reportedly have initiated broad inquiries or investigations of the activities of various participants in the student loan industry, including activities which may involve perceived conflicts of interest. Such inquiries or investigations, including the investigation by the New York Attorney General, are discussed immediately below.

INDUSTRY INVESTIGATIONS

Since January 2007, a number of state attorneys general 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. The general focus of the inquiries or investigations to date has primarily 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 New York Attorney General, 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 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 New York Attorney General to adopt the New York Attorney General's Code of Conduct, which is substantially similar to the Nelnet Student Loan Code of Conduct, but which 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. One million dollars of the national fund contribution will come from the money the Company committed to helping educate students and families in connection with the Company's agreement with the Nebraska Attorney General.

While the Company cannot predict the ultimate outcome of any other inquiry or investigation, 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 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 has selected 47 schools and 27 lenders for review. Specifically, the Department is reviewing the Company's practices in connection with the 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 is cooperating with the Department of Education's 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 MATTER

In connection with the settlement with the Department of Education, 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 the provisions of the Higher Education Act and the rules and regulations adopted by the Department of Education thereunder.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors described in Nelnet's Annual Report on Form 10-K for the year ended December 31, 2006 in response to Item 1A of Part I of such Form 10-K except as set forth 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 of Education, 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 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.

Recently the U.S. House of Representatives passed the College Cost Reduction Act of 2007 and the U.S. Senate passed the Higher Education Access Act of 2007. Both of these bills contain provisions with significant implications for participants in the FFEL Program. Among other things, these bills include the following provisions:

- reducing special allowance payments to lenders;
- reducing default insurance rates and elimination of the Exceptional Performer program;
- increasing lender origination fees;
- increasing annual and aggregate loan limits for certain Stafford loans; and
- reducing interest rates for subsidized Stafford loans.

Neither the College Cost Reduction Act of 2007 nor the Higher Education Access Act of 2007 has been enacted into law. The impact of these bills is difficult to predict; however, if the proposed federal government spending cuts and increased fees for FFEL Program participants are enacted, the Company's revenues would be negatively impacted.

In addition to the College Cost Reduction Act of 2007 and the Higher Education Access Act of 2007, 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 prior to 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 bills has 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.

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 October 31, 2007 (as a result of the Second 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 FDL and FFEL Programs, or additional lender risk sharing. See Part I, Item II, "Results of Operations - Recent Developments - Proposed Legislation Related to the Higher Education Act."

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. Changes to privacy and direct mail legislation could also negatively impact the Company, in particular the Company's lead generation activities. Changes in such legislation could restrict the Company's ability to collect information for its lead generation activities and its ability to use the information it collects. In addition, changes to privacy and direct mail legislation could cause the Company to incur expenses related to implementation of any required changes to the Company's compliance programs.

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 inducement provisions of the Higher Education Act, and the Department of Education has proposed new inducement regulations. As a result, the Company has modified, or intends to modify, its business practices to comply with the inducement provisions as ultimately enacted or adopted, including the termination of the Company's affinity relationships. Changes to the Company's business practices in order to comply with the new inducement provisions may negatively impact the Company's business.

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 has selected 47 schools and 27 lenders for review. Specifically, the Department is reviewing the Company's practices in connection with the 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 is cooperating with the Department of Education's review.

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.

The Company recently 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.

THE COMPANY IS SUBJECT TO VARIOUS MARKET RISKS WHICH MAY HAVE AN ADVERSE IMPACT UPON ITS BUSINESS AND OPERATIONS AND MAY HAVE A NEGATIVE EFFECT ON THE COMPANY'S PROFITABILITY.

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 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 basis 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. 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.

FUTURE LOSSES DUE TO DEFAULTS ON LOANS HELD BY THE COMPANY PRESENT CREDIT RISK WHICH COULD ADVERSELY AFFECT THE COMPANY'S EARNINGS.

As of June 30, 2007, more than 99% of the Company's student loan portfolio was comprised of federally insured loans. These loans currently benefit from a federal guaranty of their principal balance and accrued interest. As a result of the Company's Exceptional Performer designation, the Company received 99% reimbursement on all eligible FFELP default claims submitted for reimbursement during the applicable designation period. The Company is entitled to receive this benefit as long as (i) the Exceptional Performer program is not eliminated as currently anticipated as a result of recent legislation; and (ii) the Company and/or its service providers continue to meet the required servicing standards published by the Department. Compliance with such standards is assessed on a quarterly basis. In addition, service providers must apply for re-designation as an Exceptional Performer with the Department on an annual basis.

In June 2006, the Company submitted its application for Exceptional Performer re-designation to the Department to continue receiving reimbursements at the 99% level for the 12-month period from June 1, 2006 through May 31, 2007. As of the date of this Report, the Department has not notified the Company of its redesignation. Until the Department confirms or denies the Company's application for renewal, the Company continues to receive the benefit of the Exceptional Performer designation. It is the opinion of the Company's management, based on information currently known, that there is no reason to believe the Company's application will be rejected; however, legislation has been proposed which would eliminate the Exceptional Performer program. If the Department rejected the Company's application for Exceptional Performer status, the Company would have to establish a provision for loan losses related to the risk sharing on those loans that the Company services internally. If the Exceptional Performer program is eliminated, the Company would have to establish a provision for loan losses related to the risk sharing on those FFELP loans that are serviced by servicers designated as Exceptional Performers (including those that the Company services internally). Based on the balance of federally insured loans outstanding as of June 30, 2007, this provision would be approximately $17 to $18 million.

THE VOLUME OF AVAILABLE STUDENT LOANS MAY DECREASE IN THE FUTURE AND MAY ADVERSELY AFFECT THE COMPANY'S INCOME.

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, the risk that a school may enter the FDL Program, or the risk that a school may begin making student loans itself. The Company acquires student loans through forward flow commitments with other student loan lenders, but each of these commitments has a finite term. Legislation has been proposed which would have the effect of reducing the amount of the premium the Company will be able to pay lenders under its forward flow commitments. As a result, the Company will need to renegotiate the premiums payable under its existing forward flow agreements. There can be no assurance that the Company will be able to renegotiate the premiums under the forward flow commitments and, accordingly, may be required to terminate commitments which are not economic. As a result, the Company may experience a decrease in its forward flow 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 on terms that are favorable to the Company, if at all, following their expiration.

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 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. See Part II, Item 1 - "Legal Proceedings." 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.

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.

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

The following table summarizes the repurchases of Class A common stock during the second 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 numb of shares that yet be purchas under the pla or programs (
April 1 - April 30, 2007	463	$ 24.62	463	6,380,74
May 1 - May 31, 2007	305	25.42	305	6,457,52
June 1 - June 30, 2007	230	25.56	230	6,518,80
Total	998	$ 25.08	998	

(1) The total number of shares includes: (i) shares purchased pursuant to the 2006 Plan discussed in footnote (2) below; and (ii) shares repurchased pursuant to the 2006 ESLP discussed in footnote (3) below, of which there were none for the months of April, May, or June 2007. All shares of Class A common stock purchased pursuant to the 2006 Plan in April, May, and June were Class A common stock purchased from employees whose shares were originally acquired pursuant to the Company's matching provisions in the Company's 401(k) plan.

(2) On May 25, 2006, the Company publicly announced that its Board of Directors had authorized a stock repurchase program to buy back up to a total of five million shares of the Company's Class A common stock (the "2006 Plan"). The 2006 Plan has an expiration date of May 24, 2008 (not January 31, 2008 as indicated in the press release dated May 25, 2006 which announced the program). On February 7, 2007, the Company's Board of Directors increased the total shares the Company is allowed to buy back to 10 million.

(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 Approxi number shares th yet b purcha under the Plan and ESL
April 30, 2007	4,998,265	$ 37,175,000	$ 26.89	1,382,484	6,380
May 31, 2007	4,997,960	37,175,000	25.47	1,459,560	6,457
June 30, 2007	4,997,730	37,175,000	24.44	1,521,072	6,518

WORKING CAPITAL AND DIVIDEND RESTRICTIONS/LIMITATIONS

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

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

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

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

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

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

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

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

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

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

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

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

At the Company's annual meeting of shareholders held on May 24, 2007, the following proposals were approved by the margins indicated:

1. To elect seven directors to serve on the Company's Board of Directors for one-year terms or until their successors are elected and qualified. All directors seeking election were in attendance at the annual meeting.

	Number of Shares	
	Votes For	Votes Withheld
James P. Abel	110,664,343	642,645
Stephen F. Butterfield	110,990,114	316,874
Michael S. Dunlap	110,935,514	371,474
Thomas E. Henning	110,662,718	644,270
Brian J. O'Connor	110,661,003	645,985
Michael D. Reardon	110,662,522	644,466
James H. Van Horn	107,930,019	3,376,969

2. To ratify the appointment of KPMG LLP as independent auditors for 2007.

Number of Shares		
Votes For	Votes Against	Abstain
110,385,133	896,770	25,083

3. To approve the Executive Officers' Bonus Plan.

Number of Shares		
Votes For	Votes Against	Abstain
109,303,989	1,807,054	21,808

4. To approve an amendment to the Company's Articles of Incorporation to provide for majority voting in the election of Directors.

Number of Shares		
Votes For	Votes Against	Abstain
105,988,782	5,121,401	22,672

5. To approve the issuance of up to 11,068,604 shares of Class A common stock for the acquisition of Packers Service Group, Inc., whose principal asset is 11,068,604 shares of Class A common stock.

Number of Shares		
Votes For	Votes Against	Abstain
103,868,475	4,218,037	22,571

6. To approve an amendment to the Restricted Stock Plan to increase the authorized number of shares of Class A common stock that may be issued under the plan from a total of 1,000,000 shares to a total of 2,000,000 shares.

Number of Shares		
Votes For	Votes Against	Abstain
107,507,578	567,814	33,692

ITEM 6. EXHIBITS

2.1 Agreement and Plan of Merger dated as of May 31, 2007 among Nelnet, Inc., Nelnet Academic Services, LLC and Packers Service Group, Inc., filed as Exhibit 2.1 to the registrant's Current Report on Form 8-K filed on June 6, 2007 and incorporated herein by reference.

3.1* Articles of Amendment to Second Amended and Restated Articles of Incorporation of Nelnet, Inc.

4.1 Indenture of Trust by and between Nelnet Student Loan Trust 2007-1 and Zions First National Bank, dated as of May 1, 2007, filed as Exhibit 4.1 to Nelnet Student Loan Trust 2007-1's Current Report on Form 8-K filed on May 24, 2007 and incorporated herein by reference.

4.2* First Supplemental Indenture dated as of July 1, 2007 between Nelnet Student Loan Trust 2004-4 and Zions First National Bank, as Trustee.

10.1+ Nelnet, Inc. Restricted Stock Plan, as amended through May 24, 2007, filed as Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on May 31, 2007 and incorporated herein by reference.

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

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

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

* Filed herewith
** Furnished herewith
\+ Indicates a compensatory plan or arrangement.

SIGNATURES

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

NELNET, INC.

Date: August 9, 2007

By: /S/ MICHAEL S. DUNLAP

Name: Michael S. Dunlap
Title: Chairman and Chief Executive Officer

By: /S/ TERRY J. HEIMES

Name: Terry J. Heimes
Title: Chief Financial Officer