NELNET INC
Form 10-Q/A
November 13, 2006

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

FORM 10-Q/A
AMENDMENT NO. 1

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2006

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 October 31, 2006, there were 38,959,471 and 13,525,812 shares of Class A Common Stock and Class B Common Stock, par value $0.01 per share, outstanding, respectively.

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q/A amends the Quarterly Report on Form 10-Q of Nelnet, Inc. (the "Company") for the three and nine month periods ended September 30, 2006, which was filed with the Securities and Exchange Commission (the "SEC") on November 9, 2006 (the "Original Report"). This amendment is being filed to correct the Company's loan servicing volumes table as of September 30, 2006 included in Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of Part I of this Quarterly Report. The loan servicing volumes table included in the Original Report inadvertently included amounts as of June 30, 2006 instead of September 30, 2006. In addition, Amendment No. 1 corrects a table heading and typographical error in note 9, "Segment Reporting" in Item 1, "Financial Statements" of Part I.

Pursuant to the rules of the SEC, Item 6 of Part II of the Original Report has been amended to contain currently dated certifications from the Company's Chief Executive Officers and Chief Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002.

This Form 10-Q/A amends only Items 1 and 2 of Part I and Item 6 of Part II of the Original Report to reflect the corrections explained above. The remaining Items contained within this Amendment No. 1 on Form 10-Q/A consist of all other Items contained in the Original Report. These remaining Items are not amended hereby, but are included for the convenience of the reader. Except for the forgoing amended information, this Form 10-Q/A continues to describe conditions as of the date of the Original Report, and the Company has not updated the disclosures contained herein to reflect events that occurred at a later date.

NELNET, INC.
FORM 10-Q
INDEX
SEPTEMBER 30, 2006

PART I. FINANCIAL INFORMATION

Item 1.	Financial Statements	2
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	18
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	41
Item 4.	Controls and Procedures	47

PART II. OTHER INFORMATION

Item 1.	Legal Proceedings	47
Item 1A.	Risk Factors	47
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	48
Item 6.	Exhibits	51

SIGNATURES 52

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	AS OF SEPTEMBER 30, 2006 (UNAUDITED)	AS OF DECEMBER 31, 2005
ASSETS:		
Student loans receivable (net of allowance for loan losses of $25,094 and $13,390, respectively)	$ 22,933,718	20,260,807
Cash and cash equivalents:		
Cash and cash equivalents - not held at a related party	59,857	49,863
Cash and cash equivalents - held at a related party	228,088	53,787
Total cash and cash equivalents	287,945	103,650
Restricted cash	1,309,172	1,228,570
Restricted investments	117,139	160,479
Restricted cash - due to customers	96,583	153,098
Accrued interest receivable	497,635	394,630
Accounts receivable, net	49,289	36,331
Goodwill	188,603	99,535
Intangible assets, net	169,824	153,117
Furniture, equipment, and leasehold improvements, net	57,842	36,750
Other assets	86,187	88,889
Fair value of derivative instruments, net	97,383	82,766
Total assets	$ 25,891,320	22,798,622
LIABILITIES:		
Bonds and notes payable	$ 24,690,245	21,673,620
Accrued interest payable	147,901	94,281
Other liabilities	275,330	227,505
Due to customers	96,583	153,098
Total liabilities	25,210,059	22,148,504
Minority interest	--	62
SHAREHOLDERS' EQUITY:		
Preferred stock, $0.01 par value. Authorized 50,000,000 shares; no shares issued or outstanding	--	-
Common stock:		
Class A, $0.01 par value. Authorized 600,000,000 shares; issued and outstanding 38,959,471 shares as of September 30, 2006 and 40,040,841 shares as of December 31, 2005	390	400
Class B, $0.01 par value. Authorized 60,000,000 shares; issued and outstanding 13,525,812 shares as of September 30, 2006 and 13,962,954 shares as of December 31, 2005	135	140
Additional paid-in capital	181,338	220,432
Retained earnings	503,651	428,186

Unearned compensation	(5,028)	(86
Employee note receivable	(500)	--
Accumulated other comprehensive income, net of taxes	1,275	420
Total shareholders' equity	681,261	649,492
COMMITMENTS AND CONTINGENCIES		
Total liabilities and shareholders' equity	$ 25,891,320	22,798,622

See accompanying notes to consolidated financial statements.

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

	THREE MONTHS ENDED SEPTEMBER 30,		NIN ENDED
	2006	2005	2006
INTEREST INCOME:			
Loan interest	$ 380,136	227,750	1,068,5
Investment interest	25,986	11,491	69,8
Total interest income	406,122	239,241	1,138,3
INTEREST EXPENSE:			
Interest on bonds and notes payable	333,766	160,243	893,5
Net interest income	72,356	78,998	244,8
Less provision for loan losses	1,700	1,402	13,5
Net interest income after provision for loan losses	70,656	77,596	231,3
OTHER INCOME (EXPENSE):			
Loan and guarantee servicing income	48,462	37,459	139,5
Other fee-based income	31,221	10,503	65,4
Software services income	4,399	1,951	11,8
Other income	13,617	2,458	18,5
Derivative market value, foreign currency, and put option adjustments	(79,941)	65,382	(11,5
Derivative settlements, net	4,973	(2,962)	16,4
Total other income	22,731	114,791	240,2
OPERATING EXPENSES:			
Salaries and benefits	65,383	44,311	185,2
Other operating expenses:			
Depreciation and amortization	10,904	5,515	30,2
Trustee and other debt related fees	3,048	1,945	9,0

Occupancy and communications	6,938	4,704	18,8
Advertising and marketing	14,872	4,112	24,9
Professional services	7,796	5,627	22,2
Postage and distribution	5,250	4,288	17,5
Other	14,651	8,433	43,1
Total other operating expenses	63,459	34,624	166,0
Total operating expenses	128,842	78,935	351,3
Income (loss) before income taxes	(35,455)	113,452	120,1
Income tax expense (benefit)	(13,101)	41,091	44,4
Net income (loss) before minority interest	(22,354)	72,361	75,7
Minority interest in subsidiary income	--	(229)	(2
Net income (loss)	$ (22,354)	72,132	75,4
Earnings (loss) per share, basic and diluted	$ (0.42)	1.34	1.
Weighted average shares outstanding, basic and diluted	53,348,466	53,734,218	53,959,0

See accompanying notes to consolidated financial statements.

3

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

	PREFERRED STOCK SHARES	COMMON STOCK SHARES CLASS A	COMMON STOCK SHARES CLASS B	PREFERRED STOCK	COMMON STOCK CLASS A	COMMON STOCK CLASS B
Balance at June, 2005	--	39,763,193	13,962,954	$ --	398	140
Comprehensive income:						
Net income	--	--	--	--	--	--
Other comprehensive income:						
Cash flow hedge, net of tax	--	--	--	--	--	--
Foreign currency translation	--	--	--	--	--	--
Total comprehensive income						
Issuance of common stock	--	10,571	--	--	--	--
Compensation expense for						

stock based awards	--	--	--	--	--	--
Balance at September 30, 2005	--	39,773,764	13,962,954	$ --	398	140
Balance at June 30, 2006	--	40,118,981	13,942,954	$ --	401	139
Comprehensive loss:						
Net loss	--	--	--	--	--	--
Other comprehensive income related to foreign currency translation	--	--	--	--	--	--
Total comprehensive loss						
Issuance of common stock	--	34,848	--	--	1	--
Compensation expense for stock based awards	--	--	--	--	--	--
Repurchase of common stock	--	(1,611,500)	--	--	(16)	--
Conversion of common stock	--	417,142	(417,142)	--	4	(4
Loan to employee for purchase of common stock	--	--	--	--	--	--
Balance at September 30, 2006	--	38,959,471	13,525,812	$ --	390	135
Balance at December 31, 2004	--	39,687,037	13,983,454	$ --	397	140
Comprehensive income:						
Net income	--	--	--	--	--	--
Other comprehensive income:						
Cash flow hedge, net of tax	--	--	--	--	--	--
Foreign currency translation	--	--	--	--	--	--
Total comprehensive income						
Issuance of common stock	--	66,227	--	--	1	--
Compensation expense for stock based awards	--	--	--	--	--	--
Conversion of common stock	--	20,500	(20,500)	--	--	--
Balance at September 30, 2005	--	39,773,764	13,962,954	$ --	398	140
Balance at December 31, 2005	--	40,040,841	13,962,954	$ --	400	14
Comprehensive income:						
Net income	--	--	--	--	--	-
Other comprehensive income related to foreign currency translation	--	--	--	--	--	-
Total comprehensive income						
Issuance of common stock	--	421,688	--	--	4	-
Compensation expense for stock based awards	--	--	--	--	--	-
Repurchase of common stock	--	(1,940,200)	--	--	(19)	-
Conversion of common stock	--	437,142	(437,142)	--	5	(
Loan to employee for purchase of common stock	--	--	--	--	--	-
Balance at September 30, 2006	--	38,959,471	13,525,812	$ --	390	13

ACCUMULATED

	UNEARNED COMPEN- SATION	EMPLOYEE NOTE RECEIVABLE	COMPRE- HENSIVE INCOME (LOSS)	TOTAL SHAREHOLDERS' EQUITY
Balance at June, 2005	(53)	--	(142)	523,670
Comprehensive income:				
Net income	--	--	--	72,132
Other comprehensive income:				
Cash flow hedge, net of tax	--	--	(296)	(296)
Foreign currency translation	--	--	928	928
Total comprehensive income				72,764
Issuance of common stock	(21)	--	--	371
Compensation expense for stock based awards	12	--	--	12
Balance at September 30, 2005	(62)	--	490	596,817
Balance at June 30, 2006	(5,155)	(501)	1,306	752,189
Comprehensive loss:				
Net loss	--	--	--	(22,354)
Other comprehensive income related to foreign currency translation	--	--	(31)	(31)
Total comprehensive loss				(22,385)
Issuance of common stock	(468)	--	--	596
Compensation expense for stock based awards	595	--	--	595
Repurchase of common stock	--	--	--	(49,735)
Conversion of common stock	--	--	--	--
Loan to employee for purchase of common stock	--	1	--	1
Balance at September 30, 2006	(5,028)	(500)	1,275	681,261
Balance at December 31, 2004	(77)	--	736	456,175
Comprehensive income:				
Net income	--	--	--	138,446
Other comprehensive income:				
Cash flow hedge, net of tax	--	--	(736)	(736)
Foreign currency translation	--	--	490	490
Total comprehensive income				138,200
Issuance of common stock	--	--	--	2,427
Compensation expense for stock based awards	15	--	--	15
Conversion of common stock	--	--	--	--
Balance at September 30, 2005	(62)	--	490	596,817
Balance at December 31, 2005	(86)	--	420	649,492
Comprehensive income:				
Net income	--	--	--	75,465
Other comprehensive				

income related to foreign currency translation	--	--	855	855
Total comprehensive income				76,320
Issuance of common stock	(6,448)	--	--	16,832
Compensation expense for stock based awards	1,506	--	--	1,506
Repurchase of common stock	--	--	--	(62,389)
Conversion of common stock	--	--	--	--
Loan to employee for purchase of common stock	--	(500)	--	(500)
Balance at September 30, 2006	(5,028)	(500)	1,275	681,261

See accompanying notes to consolidated financial statements.

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

	NINE MONTHS ENDED SEPTEMBER 30,	
	2006	2005
Net income	$ 75,465	138,4
Adjustments to reconcile net income to net cash provided by operating activities, net of business acquisitions:		
Depreciation and amortization, including loan premiums and deferred origination costs	105,811	72,9
Derivative market value adjustment	(23,198)	(74,3
Foreign currency transaction adjustment	30,942	
Change in value of put options issued in business acquisitions	3,821	
Proceeds from sale of floor contracts	8,580	
Gain on sale of student loans	(13,535)	
Non-cash compensation expense	1,850	1,7
Deferred income tax expense	25,667	36,3
Provision for loan losses	13,508	5,5
Other non-cash items	541	(8
Increase in accrued interest receivable	(103,005)	(64,6
Decrease in accounts receivable	147	3
Decrease (increase) in other assets	8,787	(2,4
Increase in accrued interest payable	53,620	34,3
Increase (decrease) in other liabilities	(10,354)	(6,8
Net cash provided by operating activities	178,647	140,7
Cash flows from investing activities, net of business acquisitions:		
Originations, purchases, and consolidations of student loans, including loan premiums and deferred origination costs	(4,910,997)	(3,050,8
Purchases of student loans, including loan premiums, from a related party	(498,771)	(1,022,7
Net proceeds from student loan repayments, claims, capitalized interest, and other	2,111,413	1,098,1

Proceeds from sale of student loans	560,916	
Purchases of furniture, equipment, and leasehold improvements, net	(26,199)	(14,1
Increase in restricted cash	(80,602)	(263,7
Purchases of restricted investments	(590,009)	(640,3
Proceeds from maturities of restricted investments	633,349	766,0
Purchase of loan origination rights	--	(2
Business acquisitions, net of cash acquired	(99,388)	(78,6
Distributions from equity method investments	--	6
Net cash used in investing activities	(2,900,288)	(3,205,8
Cash flows from financing activities:		
Payments on bonds and notes payable	(2,741,641)	(1,767,3
Proceeds from issuance of bonds and notes payable	5,649,381	4,885,4
Proceeds from issuance of notes payable due to a related party, net	74,292	
Payments of debt issuance costs	(14,770)	(16,1
Proceeds from issuance of common stock	1,247	7
Repurchases of common stock	(62,389)	
Loan to employee for purchase of common stock	(500)	
Net cash provided by financing activities	2,905,620	3,102,6
Effect of exchange rate fluctuations on cash	316	2
Net increase in cash and cash equivalents	184,295	37,7
Cash and cash equivalents, beginning of period	103,650	39,9
Cash and cash equivalents, end of period	$ 287,945	77,7
Supplemental disclosures of cash flow information:		
Interest paid	$ 818,317	354,0
Income taxes paid, net of refunds	$ 52,627	47,5

Supplemental disclosures of noncash operating, investing, and financing activities regarding the Company's acquisitions are contained in note 4.

See accompanying notes to consolidated financial statements.

5

NELNET, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(INFORMATION AS OF SEPTEMBER 30, 2006 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005 IS UNAUDITED)
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS, UNLESS OTHERWISE NOTED)

1. BASIS OF FINANCIAL REPORTING

The accompanying unaudited consolidated financial statements of Nelnet, Inc. and subsidiaries (the "Company") as of September 30, 2006 and for the three and nine months ended September 30, 2006 and 2005 have been prepared on the same basis as the audited consolidated financial statements for the year ended December 31, 2005 and, in the opinion of the Company's management, the unaudited consolidated financial statements reflect all adjustments, consisting of normal recurring

adjustments, necessary for a fair presentation of results of operations for the interim periods presented. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Operating results for the three and nine months ended September 30, 2006 are not necessarily indicative of the results for the year ending December 31, 2006. 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, 2005. Certain amounts from 2005 have been reclassified to conform to the current period presentation.

2. RECENT DEVELOPMENTS

Based on provisions of the Higher Education Act and regulations and guidance of the U.S. Department of Education (the "Department") and related interpretations, education lenders may receive special allowance payments from the Department which provide a minimum 9.5% interest rate (the "9.5% Floor") on loans currently financed or financed prior to September 30, 2004 with proceeds of tax-exempt obligations originally issued prior to October 1, 1993. A portion of the Company's Federal Family Education Loan Program (the "FFEL Program" or "FFELP") loan portfolio is comprised of loans financed prior to September 30, 2004 with tax-exempt obligations originally issued prior to October 1, 1993. Accordingly, the Company believes that it is entitled to receive special allowance payments on these loans equal to the 9.5% Floor. As of September 30, 2006, the Company had $3.1 billion of FFELP loans it has determined are eligible to receive special allowance payments at the 9.5% Floor rate. Of this portfolio, $2.5 billion in loans were financed prior to September 30, 2004 with proceeds of tax-exempt obligations originally issued prior to October 1, 1993 and then subsequently sold to taxable obligations, without retiring the tax-exempt obligations.

In May 2003, the Company sought confirmation from the Department regarding whether the Company was allowed to receive the special allowance payments based on the 9.5% Floor on loans being acquired with funds obtained from the proceeds of tax-exempt obligations originally issued prior to October 1, 1993 and then subsequently sold using proceeds of taxable obligations without retiring the tax-exempt obligations. In June 2004, after consideration of certain clarifying information received in connection with the guidance the Company had sought, and based on written and verbal communications with the Department, including written confirmation from the Department that the public could continue to rely on a Department guidance letter issued in March 1996, the Company concluded that the earnings process had been completed and recognized the previously deferred income of $124.3 million on this portfolio. Pending satisfactory resolution of this issue, the Company deferred recognition of that portion of the 9.5% Floor income generated by these loans which exceeded statutorily defined special allowance rates under a taxable financing.

In October 2004, Congress passed and President Bush signed into law the Taxpayer-Teacher Protection Act of 2004 (the "October 2004 Act"), which prospectively suspended eligibility for the 9.5% Floor on any loans sold to taxable obligations between September 30, 2004 and January 1, 2006. This suspension of eligibility for the 9.5% Floor was made permanent under the Deficit Reduction Act of 2005. The loans in the Company's student loan portfolio that have been sold to taxable obligations and are receiving special allowance payments under the 9.5% Floor were all sold to taxable obligations before September 30, 2004. In April 2004, the Company ceased adding to its portfolio of loans receiving special allowance payments subject to the 9.5% Floor financed with taxable debt, and thus the provisions of the October 2004 Act or the Deficit Reduction Act of 2005 do not have an effect upon the eligibility of such loans to receive the 9.5% Floor.

In June 2005, the Office of Inspector General of the Department of Education (the "OIG") commenced an audit of the portion of the Company's student loan portfolio receiving 9.5% Floor special allowance payments. In August 2006, the Company received a draft of the audit report, which the Company responded to on September 7, 2006, and on September 29, 2006, the Company received a copy of the final audit report from the OIG related to this audit.

6

The final audit report contains a finding by the OIG that an increase in the amount of 9.5% special allowance payments that have been received by the Company was based on what the OIG deemed to be ineligible loans. Such loans are deemed by the OIG to be ineligible for 9.5% special allowance payments due to interpretive issues related to the legal characterization of refinancing transfers of qualifying loans from a trust for tax-exempt financing obligations originally issued prior to October 1, 1993 to trusts for taxable obligations, and the extent to which sales of qualifying loans can result in qualification of additional loans. The audit report also contains a recommendation by the OIG that the Department require the Company to calculate and return what the OIG deems to be overpayments attributable to the deemed ineligible loans, and instruct the Company to exclude such loans from future claims for 9.5% special allowance payments. The Department may accept or reject the finding or recommendation of the OIG contained in the final audit report.

Through June 30, 2006, the Company recorded approximately $322.6 million of pre-tax income related to that portion of the 9.5% special allowance payments received which exceeds regular special allowance payments on the underlying loans at the otherwise applicable statutory rate. Management believes that, if the recommendation contained in the OIG's final audit report is implemented by the Department and upheld after any administrative or other legal proceedings, a significant portion of those payments would be disallowed and would need to be returned by the Company.

On October 6, 2006, the Company received a letter from the Department related to the OIG audit report. The Department's letter indicated that, effective July 1, 2006 until the issues raised in the OIG audit report are resolved, the Department will pay future regular special allowance payments on the underlying loans at the generally applicable statutory rate, and not the 9.5% special allowance rate. The letter also stated that if resolution of the audit upholds the propriety of the Company's billings for special allowance payments at the 9.5% minimum rate, the Department will pay the withheld amounts. As a result of receipt of this letter, the Company has determined to defer recognition of the 9.5% special allowance payments for which the Department has withheld payment pending satisfactory resolution of this issue. Income from the 9.5% special allowance payments withheld would have been $8.9 million for the three months ended September 30, 2006.

The Company disagrees with the OIG's final audit report, and continues to believe that the Company has billed for the 9.5% special allowance payments in accordance with applicable laws, regulations, and the Department's previous guidance. The Company intends to seek a satisfactory resolution of this matter with the Department, and examine other remedies if a satisfactory resolution cannot be reached with the Department; however, the Company cannot predict the final outcome of any subsequent review by the Department or of any administrative or other legal proceedings following any further action by the Department. If the Company is ultimately required to return deemed overpayments in connection with the 9.5% special allowance payment program, is no longer eligible to receive 9.5% special allowance payments, and/or incurs significant other costs, expenses or loss of revenues associated with an adverse final outcome of this matter, it may have a material adverse effect on the Company's financial condition and results of operations. However, it is the opinion of the

Company's management, based on information currently known, that it would not have a material adverse effect on the Company's ongoing business operations.

3. STUDENT LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Student loans receivable consist of the following:

	AS OF SEPTEMBER 30, 2006	AS OF DECEMBER 31, 2005
Federally insured loans	$22,354,199	19,816,075
Non-federally insured loans	180,462	96,880
	22,534,661	19,912,955
Unamortized loan premiums and deferred origination costs	424,151	361,242
Allowance for loan losses - federally insured loans	(7,517)	(98)
Allowance for loan losses - non-federally insured loans	(17,577)	(13,292)
	$22,933,718	20,260,807

On February 8, 2006, the Higher Education Reconciliation Act ("HERA") of 2005 was enacted into law. HERA effectively reauthorized the Title IV provisions of the FFEL Program through 2012. One of the provisions of HERA reduced guarantee rates on FFELP loans, including a decrease in insurance and reinsurance on portfolios receiving the benefit of 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 or after July 1, 2006). In February 2006, as a result of these changes, the Company recorded an expense of $6.9 million ($4.3 million after tax) to increase the Company's allowance for loan losses.

On March 1, 2006, the Company entered into an agreement to acquire participation interests in non-federally insured loans from First National Bank Northeast, a related party, at a price equal to the outstanding principal balance and accrued interest of such loans. The term of this agreement is for 364 days. As of September 30, 2006, the balance of loans participated under this agreement was $35.9 million, and is included in student loans receivable on the Company's balance sheet. A director, executive officer, and significant shareholder of the Company, Michael S. Dunlap, is a director and indirectly a significant shareholder of First National Bank Northeast.

As part of the agreement for the acquisition of the capital stock of LoanSTAR Funding Group, Inc. ("LoanSTAR") from the Greater Texas Foundation (the "Texas Foundation") completed in October 2005, 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 $200.0 million through October 2010. The sales price for such loans is the fair market value mutually agreed upon between the Company and the Texas Foundation. To satisfy this obligation, the Company will sell loans to the Texas Foundation on a quarterly basis. During the nine months ended September 30, 2006, the Company sold the Texas Foundation $120.8 million (par value) of student loans resulting in the recognition of a $1.1 million gain which is included in other income in the accompanying

consolidated statements of operations. Subsequent to September 30, 2006, the Company sold an additional $9.5 million (par value) of student loans to the Texas Foundation under this agreement.

During the three months ended September 30, 2006, the Company sold $353.2 million (par value) of student loans to an unrelated party resulting in the recognition of an $11.7 million gain which is included in other income in the accompanying consolidated statements of operations. Loans sold under this agreement were originated by Nova Southeastern University ("Nova"), a school-as-lender customer, and were not serviced by the Company and, as such, management believed these loans were at a greater risk of being consolidated away from the Company by third parties.

4. ACQUISITIONS

INFINET INTEGRATED SOLUTIONS, INC. ("INFINET")

Effective January 31, 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, universities, and healthcare organizations. Consideration for the purchase 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 guarantee 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 issued to these employees of $5.7 million 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.

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 the acquisition. Prior to purchasing the remaining 50% of the common stock of infiNET, the Company accounted for this investment under the equity method. As of December 31, 2005, other assets in the accompanying consolidated balance sheet included $5.0 million (including $3.3 million of excess cost) related to the infiNET investment.

The Company is in the process of obtaining third-party valuations of certain intangible assets; thus, the allocation of the purchase price is subject to refinement. The preliminary allocation of the purchase price for infiNET is shown below:

Cash and cash equivalents	$ 3,576
Restricted cash - due to customers	16,343
Accounts receivable	558
Furniture, equipment, and leasehold improvements	207

Other assets	583
Excess cost over fair value of net assets acquired	15,884
Due to customers	(16,343)
Other liabilities	(1,995)
Previously recorded investment in equity interest	(5,032)
	$ 13,781

8

FACTS MANAGEMENT CO. ("FACTS")

Effective June 1, 2005, the Company purchased 80% of the capital stock of FACTS for $56.1 million, including $0.1 million of direct acquisition costs. Effective January 31, 2006, the Company purchased the remaining 20% of the stock of FACTS. FACTS 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, FACTS provides financial needs analysis for students applying for aid in private and parochial K-12 schools. Consideration for the purchase of the remaining 20% of FACTS was $5.6 million in cash and 238,237 restricted shares of the Company's Class A common stock valued at $9.9 million. Under the terms of the purchase agreement, the 238,237 shares of Class A common stock issued in the acquisition are subject to put option arrangements whereby during the 30-day period beginning February 28, 2010 the holders of such shares can require the Company to repurchase all or part of the shares at a price of $83.95 per share. The put option in the alternative similarly applies to replacement shares of Class A common stock purchased by the holders from the proceeds of, and within 60 days of, a sale by the holders of the shares of Class A common stock issued in the acquisition back to the Company pursuant to provisions whereby during the 6-month period ending June 30, 2009 the Company may be required to repurchase the shares at the market trading price at that time. The exercisability of the put option is subject to acceleration and then termination in the event that during the 4-year period ending February 28, 2010 the market trading price of the Class A common stock is equal to or exceeds $83.95 per share. The value of the put option as of January 31, 2006 (the closing date of the acquisition on the remaining 20% of the stock of FACTS) was approximately $7.5 million and was recorded by the Company as additional purchase price. Accordingly, the total consideration recorded by the Company for the remaining 20% of the stock of FACTS was $23.0 million, which represents the $5.6 million in cash, the value of the Class A common stock of $9.9 million, and the value of the put option arrangements of $7.5 million. 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 the acquisition.

The allocation of the purchase price for FACTS is shown below:

	INITIAL 80%	REMAINING 20%	TOTAL
Cash and cash equivalents	$ 2,466	--	2,466
Restricted cash - due to customers	11,034	--	11,034
Accounts receivable	55	--	55
Intangible assets	36,438	8,374	44,812
Furniture, equipment, and leasehold improvements	321	--	321
Other assets	24	--	24
Excess cost over fair value of net assets acquired	28,689	16,487	45,176
Due to customers	(11,034)	--	(11,034)
Other liabilities	(11,901)	(2,699)	(14,600)

Minority interests' ownership in net assets acquired	(23)	--	(23)
Previously recorded minority interest	--	868	868
Total purchase price	$ 56,069	23,030	79,099

CUNET, LLC ("CUNET")

On June 30, 2006, the Company purchased 100% of the membership interests of CUnet. The initial consideration paid by the Company was $40.0 million in cash. 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 of the shares issued as of December 15, 2010.

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 effective date of the acquisition.

9

The Company is in the process of obtaining third-party valuations of certain intangible assets; thus, the allocation of the purchase price is subject to refinement. The preliminary allocation of the purchase price for CUnet is shown below:

Accounts receivable	$ 5,033
Furniture, equipment, and leasehold improvements	223
Other assets	397
Intangible assets	16,402
Excess cost over fair value of net assets acquired	22,075
Other liabilities	(4,130)
	$ 40,000

PETERSON'S

On July 27, 2006, the Company purchased certain assets and assumed certain liabilities (hereafter referred to as "Peterson's") from Thomson Learning Inc. for total consideration of $38.6 million in cash. The final purchase price of Peterson's is subject to change based on certain purchase price adjustments as defined in the purchase agreement. 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 reaches an estimated 105 million consumers annually with its publications and online information about colleges and universities, career schools, graduate programs, distance learning, executive training, private secondary schools, summer opportunities, study abroad, financial aid, test preparation, and career exploration resources. 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 effective date of the acquisition.

The Company is in the process of obtaining third-party valuations of certain intangible assets; thus, the allocation of the purchase price is subject to refinement. The preliminary allocation of the purchase price for Peterson's is shown below:

Accounts receivable	$ 7,055
Furniture, equipment, and leasehold improvements	6,055
Other assets	2,493
Excess cost over fair value of net assets acquired	37,081
Other liabilities	(14,047)
	$ 38,637

2005 ACQUISITIONS

On October 24, 2005, the Company purchased 100% of the capital stock of LoanSTAR and servicing assets from LoanSTAR Systems, Inc. for $168.5 million, including $0.2 million of direct acquisition costs. The final purchase price was subject to change based on certain purchase price adjustments as defined in the purchase agreement. During 2006, the Company paid $1.2 million (net) to settle all obligations associated with this acquisition.

The Company is in the process of obtaining third-party valuations of certain intangible assets related to the 2005 acquisitions of 5280 Solutions, Inc. ("5280"), FirstMark Services, LLC ("Firstmark"), and LoanSTAR. As a result, the allocation of purchase price is subject to refinement for these acquisitions.

PRO FORMA INFORMATION

The following pro forma information presents the combined results of the Company as though the 2005 acquisitions of Student Marketing Group, Inc., National Honor Roll, LLC, FACTS (80%), Foresite Solutions, Inc., LoanSTAR, 5280, and FirstMark and the 2006 acquisitions of infiNET, FACTS (20%), CUnet, and Peterson's occurred as of the beginning of each reporting period. Information about the Company's 2005 acquisitions is included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005. 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 SEPTEMBER 30, 2006	THREE MONTHS ENDED SEPTEMBER 30, 2005	NINE MONTHS ENDED SEPTEMBER 30, 2006	NINE MONTHS ENDED SEPTEMBER 30, 2005
Net interest income	$ 72,356	86,090	244,860	265,967
Other income (expense) (a)	25,570	136,043	275,651	271,072
Net income (loss)	(22,334)	73,639	75,507	139,174
Weighted average shares outstanding, basic and diluted	53,348,466	54,326,595	53,996,958	54,302,178
Earnings (loss) per share, basic and diluted	$ (0.42)	1.36	1.40	2.56

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

5. INTANGIBLE ASSETS AND GOODWILL

Intangible assets consist of the following:

	WEIGHTED AVERAGE REMAINING USEFUL LIFE AS OF SEPTEMBER 30, 2006	AS OF SEPTEMBER 30, 2006	AS OF DECEMBER 3 2005
Amortizable intangible assets:			
Customer relationships (net of accumulated amortization of $10,017 and $3,771, respectively)	126 months	$ 73,306	70,369
Loan origination rights (net of accumulated amortization of $8,268 and $2,505, respectively)	72 months	43,930	49,694
Covenants not to compete (net of accumulated amortization of $4,393 and $499, respectively)	55 months	20,975	3,874
Student lists (net of accumulated amortization of $3,245 and $1,708, respectively)	29 months	4,952	6,489
Trade names (net of accumulated amortization of $277 and $54, respectively)	47 months	2,254	767
Computer software (net of accumulated amortization of $1,423 and $677, respectively)	37 months	1,439	1,644
Total - amortizable intangible assets	94 months	146,856	132,837
Unamortizable intangible assets - trade names		22,968	20,280
		$ 169,824	153,117

The Company recorded amortization expense on its intangible assets of $6.5 million and $1.9 million for the three months ended September 30, 2006 and 2005, respectively, and $18.3 million and $4.7 million for the nine months ended September 30, 2006 and 2005, respectively. The Company will continue to amortize intangible assets over their remaining useful lives. As disclosed in note 4, the Company is in the process of obtaining third party valuations of certain intangible assets; however, as of September 30, 2006 the Company estimates it will record amortization expense as follows:

2006	$ 6,580
2007	26,023
2008	25,160
2009	22,650
2010	19,573
2011 and thereafter	46,870
	$146,856

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

	ASSET MANAGEMENT	STUDENT LOAN AND GUARANTEE SERVICING	SOFTWARE SERVICES	DIRECT MARKETING	PAYMEN MANAGEM SERVIC
Balance as of December 31, 2005	$ 35,356	3,060	11,059	17,150	32,
Goodwill acquired during the period	--	--	--	--	32,
Effect of foreign currency fluctuations	--	(4)	--	--	
Balance as of March 31, 2006	$ 35,356	3,056	11,059	17,150	65,
Goodwill acquired during the period	--	--	--	20,912	
Goodwill from prior period acquisition allocated during the current period	413	--	--	--	(4,
Effect of foreign currency fluctuations	--	142	--	--	
Balance as of June 30, 2006	$ 35,769	3,198	11,059	38,062	61,
Goodwill acquired during the period	--	--	--	37,081	
Goodwill from prior period acquisition allocated during the current period	777	--	--	1,163	
Effect of foreign currency fluctuations	--	(1)	--	--	
Balance as of September 30, 2006	$ 36,546	3,197	11,059	76,306	61,

6. BONDS AND NOTES PAYABLE

ASSET-BACKED SECURITIZATIONS

On February 21, 2006 and May 18, 2006, the Company consummated debt offerings of student loan asset-backed notes of $2.0 billion and $2.1 billion, respectively, with final maturity dates ranging from 2011 through 2039. Notes issued in these transactions included $3.1 billion with variable interest rates based on a spread to LIBOR and (euro)773.2 million (500.0 million and 450.0 million in U.S. dollars on February 21, 2006 and May 18, 2006, respectively) with variable interest rates initially based on a spread to EURIBOR (the "Euro Notes").

As of June 30, 2006 and September 30, 2006, the Euro Notes were recorded on the Company's balance sheet at $988.1 million and $980.9 million, respectively, based on the foreign currency exchange rate as of the respective balance sheet dates. The decrease in the principal amount of the Euro Notes of $7.2 million for the three months ended September 30, 2006, and increase in the principal

amount of Euro Notes of $30.9 million for the nine months ended September 30, 2006 as a result of the foreign currency exchange rate fluctuations are included in the derivative market value, foreign currency, and put option adjustments in the accompanying consolidated statements of operations. Concurrently with the issuances of the Euro Notes, the Company entered into cross-currency interest rate swaps which are further discussed in note 7.

SECURED LIQUIDITY NOTES

In August 2006, the Company established a $5.0 billion loan warehouse program under which it will 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 September 30, 2006, the Company has $1.3 billion of Secured Liquidity Notes outstanding and $3.7 billion of capacity remaining under this warehouse program.

CAPITAL EFFICIENT NOTES

On September 27, 2006 the Company consummated a debt offering of $200.0 million aggregate principal amount of Capital Efficient Notes ("CENts"). The CENts were offered under the Company's $750.0 million universal shelf registration statement filed with the Securities and Exchange Commission on April 13, 2005. The CENts are unsecured obligations of the Company.

The interest rate on the CENts from the date they were issued through September 28, 2011 is 7.40%, payable semi-annually. Beginning September 29, 2011 through September 29, 2036, the "scheduled maturity date", the interest rate on the CENts will be equal to three-month LIBOR plus 3.375%, payable quarterly. The principal amount of the CENts 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 CENts' 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 CENts in full whether or not the Company has sold qualifying capital securities.

At the Company's option, the CENts are redeemable (i) in whole or in part, at any time on or after September 29, 2011, at their principal amount plus accrued and unpaid interest, provided in the case of a redemption in part that the principal amount outstanding after such redemption is at least $50.0 million, or (ii) in whole, but not in part, prior to September 29, 2011, after certain events involving taxation (as described in the CENts prospectus).

OTHER

As of September 30, 2006, bonds and notes payable includes $74.3 million of notes due 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.

7. 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 following table summarizes the Company's outstanding interest rate swaps as of September 30, 2006:

MATURITY	NOTIONAL AMOUNT	WEIGHTED AVERAGE FIXED RATE PAID BY THE COMPANY
2006	$ 250,000	3.16 %
2007	512,500	3.42
2008	462,500	3.76
2009	312,500	4.01
2010	1,137,500	4.25
2011	--	--
2012	275,000	4.31
2013	525,000	4.36
Total	$ 3,475,000	3.98 %

BASIS SWAPS

On May 1, 2006, the Company entered into three ten-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 are November 25, 2006, December 25, 2006, and January 25, 2007.

In addition to the three basis swaps summarized above, the Company also had a basis swap with a notional amount of $500.0 million which matured in August 2006 in which the Company paid a floating interest rate based on the U.S. Treasury bill rate and received a floating interest rate based on the three-month LIBOR rate.

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 (see (a) below). Under the terms of these contracts, the Company is obligated to pay the counterparty floor income earned on a notional amount of underlying consolidation student loans over the life of the floor income contracts. Specifically, the Company agreed to pay the counterparty the difference, if positive, between the fixed borrower rate less the special allowance payment spread for consolidation loans and the three-month LIBOR rate plus a spread to better match the LIBOR floor strike rate to the underlying student loan asset on that notional amount, regardless of the actual balance of underlying student loans, over the life of the contracts. The contracts do not extend over the life of the underlying consolidation student loans.

The following provide the terms of these contracts:

AMORTIZING NOTIONAL AMOUNT	FLOOR STRIKE RATE
$ 50,354	2.760%
44,068	2.885%
37,499	3.010%
34,338	3.135%
46,550	3.260%
76,911	3.385%
50,379	3.510%
52,793	3.635%
46,012	3.760%
45,159	3.885%
40,352	4.010%
63,002	4.135%
24,044	4.460%
31,648	5.060%
37,103	5.510%
7,097	4.300%
21,969	4.550%
17,220	4.800%
62,466	5.550%
$ 788,964	

Those contracts with floor strike rates of 2.76%-4.135% and 4.460%-5.55% have an effective start date of June 30, 2006 and June 30, 2010, respectively. All contracts expire on June 30, 2016.

(a) FFELP student loans originated prior to April 1, 2006 generally earn interest at the greater of the borrower rate or a floating rate determined by reference to the average of the applicable floating rates (91-day Treasury bill rate or commercial paper rate) in a calendar quarter, plus a fixed spread that is dependent upon when the loan was originated, the loan's repayment status, and funding sources for the loan. If the resulting floating rate exceeds the borrower rate, the Department pays the difference directly to the Company. This payment is referred to as special allowance payments (SAP). The Company generally finances its student loan portfolio with floating rate debt. In low and/or declining interest rate environments, when the fixed borrower rate is higher than the rate produced by the SAP formula, student loans earn at a fixed rate while the interest on the floating rate debt continues to decline. In these interest rate environments, the Company earns additional spread income referred to as floor income.

CROSS-CURRENCY INTEREST RATE SWAPS

The Company entered into derivative instruments in February 2006 and May 2006 as a result of the issuance of the Euro Notes discussed in note 6. 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 operations at each reporting date.

As of September 30, 2006, the net fair value of the Company's derivative portfolio was $97.4 million and the net change in the fair value of the Company's derivative portfolio was an $83.5 million decrease and a $65.4 million increase for the three months ended September 30, 2006 and 2005, respectively, and increases of $23.2 million and $74.3 million for the nine months ended September 30, 2006 and 2005, respectively.

14

The following table summarizes the components included in derivative settlements on the consolidated statements of operations:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2006	2005	2006	2005
Interest rate swaps	$ 12,226	(972)	29,151	(3,053)
Basis swaps	(145)	(1,990)	(656)	(15,996)
Cross-currency interest rate swaps	(5,115)	--	(10,083)	--
Other (1)	(1,993)	--	(1,993)	--
Derivative settlements, net	$ 4,973	(2,962)	16,419	(19,049)

(1) In connection with the issuance of the CENts described in note 6, the Company entered into a derivative instrument to economically lock into a fixed interest rate of 7.65% prior to the actual pricing of the transaction. Upon pricing of the CENts, the Company terminated this derivative instrument. The consideration paid by the Company to terminate this derivative was $2.0 million, which is reflected as a derivative settlement in the accompanying consolidated statements of operations.

8. STOCKHOLDERS' EQUITY

CONVERSION OF CLASS B COMMON STOCK

In February and August 2006, principal shareholders gifted 20,000 and 17,142, respectively, Class B shares of common stock to certain charitable organizations. In September 2006, a principal shareholder sold 400,000 Class B shares of common stock to another principal shareholder in a private transaction. Per the articles of incorporation, these shares automatically

converted to Class A shares upon transfer.

INCREASE IN AUTHORIZED CLASS B COMMON STOCK

In May 2006, the Company's shareholders approved an amendment of the Company's Articles of Incorporation to increase the number of authorized shares of Class B common stock from 15 million shares to 60 million shares to allow for future stock splits.

DIRECTORS STOCK COMPENSATION PLAN

The Company has a compensation plan for non-employee directors pursuant to which non-employee directors can elect to receive their annual retainer fees in the form of cash or Class A common stock. Non-employee directors who choose to receive Class A common stock may also elect to defer receipt of the Class A common stock until termination of their service on the board of directors. In June 2006, the Company issued 8,133 shares of its Class A common stock to non-employee directors under this plan. The shares were issued to directors that elected to receive shares and did not defer receipt of the shares. In addition, 4,066 shares were issued to directors that elected to defer receipt of their shares. The Company's weighted average shares outstanding include 10,793 shares that were issued since inception of this plan, including the 4,066 shares issued in 2006, that will be issued to directors upon their termination from the board of directors.

STOCK REPURCHASE PROGRAM

In May 2006, the Company's board of directors authorized a stock repurchase program. The program allows the Company to buy back up to a total of 5 million shares of the Company's Class A common stock and has an expiration date of May 24, 2008. During the three and nine months ended September 30, 2006, the Company repurchased and retired 1,611,500 and 1,940,200 Class A common shares for $49.7 million and $62.4 million (average price of $30.82 and $32.12 per share), respectively, under this authority.

EMPLOYEE STOCK PURCHASE LOAN PLAN

In June 2006, the Company entered into a loan agreement with an employee pursuant to the Company's Employee Stock Purchase Loan Plan (the "Loan Plan"). The Loan Plan was approved by the Company's board of directors and shareholders at the annual shareholders meeting in May 2006. The loan was granted to enable the employee to purchase 12,641 shares of the Company's stock in the open market. The loan matures in June 2016 and bears interest equal to the three-month LIBOR rate plus 50 basis points. The balance of this loan totaled $0.5 million at September 30, 2006, and is reflected as a reduction to stockholders' equity on the consolidated balance sheet.

15

9. SEGMENT REPORTING

The Company has five operating segments as defined in SFAS No. 131, DISCLOSURES ABOUT SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION ("SFAS No. 131"), as follows: Asset Management, Student Loan and Guarantee Servicing, Software Services, Direct Marketing, and Payment Management Services. The Asset Management and Student Loan and Guarantee Servicing operating segments meet the quantitative thresholds identified in SFAS No. 131 as reportable segments and therefore the related financial data is presented below. The Software Services, Direct Marketing, and Payment Management Services operating segments do not meet the quantitative thresholds and therefore their financial data is combined and shown as "other" in the presentation below. The accounting policies of the

reportable segments are the same as those described in the summary of significant accounting policies in the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

The Asset 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. The Company's derivative market value and foreign currency adjustments are included in the Asset Management segment. Because the Company's derivatives do not qualify for hedge accounting under SFAS No. 133, the derivative market value adjustment can cause the percentage of revenue and net income before taxes to fluctuate from period to period between segments. Due to fluctuations in currency rates, foreign currency adjustments can also cause the percentage of revenue and net income before taxes to fluctuate from period to period between segments.

The Student Loan and Guarantee 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 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 guarantee servicing and servicing support activities include providing systems software, hardware and telecommunications support, borrower and loan updates, default aversion tracking services, claim processing services, and post-default collection services to guaranty agencies. In addition, under an agreement with College Access Network ("CAN"), a state-designated guaranty agency, the Company provides certain other guarantee operations.

The Software Services segment develops loan servicing software and also provides this software to third-party student loan holders and servicers. In addition, this segment provides information technology products and services, with core areas of business in student loan software solutions for schools, lenders, and guarantors; technical consulting services; and enterprise content management.

The Direct Marketing 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/or young adult market places. This segment also provides a suite of education and career-related solutions for families in the areas of education search, test preparation, admissions, financial aid information, and career assistance. In addition, this segment recognizes middle and high school students for exceptional academic success through its publications and scholarships.

The Payment Management Services segment 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, this segment provides customer-focused electronic transactions, information sharing, and account and bill presentment to colleges, universities, and healthcare organizations.

Substantially all of the Company's revenues are earned from customers in the United States except for revenue generated from servicing Canadian student loans at EDULINX. For the three and nine months ended September 30, 2006, the Company recognized $16.3 million and $48.2 million, respectively, from Canadian student loan servicing customers.

The business of servicing Canadian student loans by EDULINX is limited to a small group of servicing customers and the agreement with the largest of such customers is currently scheduled to expire in July 2007. For the three and nine months ended September 30, 2006, the Company recognized $13.1 million, or 27.1%, and $37.3 million, or 26.8%, respectively, of its loan and guarantee servicing income, from this customer. EDULINX cannot guarantee that it will obtain a renewal of this largest servicing agreement or that it will maintain its other servicing agreements and the termination of any such servicing agreements could result in an adverse effect on the Company.

Costs excluded from segment net income before taxes primarily consist of unallocated corporate expenses, net of miscellaneous revenues. Thus, net income before taxes of the segments includes only the costs that are directly attributable to the operations of the individual segment. Intersegment revenues are charged by a segment to another segment that provides the product or service. The amount of intersegment revenue is based on comparable fees charged in the market.

16

Segment data is as follows:

	THREE MONTHS ENDED SEPTEMBER 30,					
	2006				2	
	ASSET MANAGEMENT	STUDENT LOAN AND GUARANTEE SERVICING	OTHER	TOTAL SEGMENTS	ASSET MANAGEMENT	STUDENT LOAN AND GUARANTEE SERVICING
Net interest income	$ 75,044	2,519	1,088	78,651	80,363	1,275
Other income (expense)	(54,824)	48,079	33,030	26,285	64,800	37,455
Intersegment revenues	--	38,358	4,757	43,115	--	29,681
Total revenue	20,220	88,956	38,875	148,051	145,163	68,411
Provision for loan losses	1,700	--	--	1,700	1,402	--
Depreciation and amortization	1,583	2,400	3,540	7,523	32	1,153
Net income (loss) before taxes	(24,685)	18,721	4,469	(1,495)	112,823	22,432

	NINE MONTHS ENDED SEPTEMBER 30,					
	2006					
	ASSET MANAGEMENT	STUDENT LOAN AND GUARANTEE SERVICING	OTHER	TOTAL SEGMENTS	ASSET MANAGEMENT	STUDENT LOAN AND GUARANTEE SERVICING
Net interest income	$252,595	6,082	2,610	261,287	248,979	2,706
Other income (expense)	34,682	138,331	68,711	241,724	62,214	109,298
Intersegment revenues	--	106,061	14,135	120,196	--	82,613
Total revenue	287,277	250,474	85,456	623,207	311,193	194,617
Provision for loan losses	13,508	--	--	13,508	5,557	--

Depreciation and amortization	4,749	7,161	8,306	20,216	90	3,023
Net income before taxes	148,494	48,339	16,986	213,819	216,046	60,501

	AS OF SEPTEMBER 30, 2006	AS OF DECEMBER 31, 2005
Segment total assets:		
Asset management	$ 25,162,078	22,316,657
Student loan and guarantee servicing	736,804	505,958
Other	309,120	156,548
Total segments	$ 26,208,002	22,979,163

Reconciliation of segment data to the consolidated financial statements is as follows:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2006	2005	2006	2005
Total segment revenues	$ 148,051	225,102	623,207	532,684
Elimination of intersegment revenues	(43,115)	(30,397)	(120,196)	(85,514)
Unsecured debt interest expense	(6,597)	(3,696)	(17,382)	(5,595)
Put option adjustment	(3,536)	--	(3,821)	--
Corporate activities' revenues, net income before taxes	284	2,780	3,230	5,833
Total consolidated revenues	$ 95,087	193,789	485,038	447,408
Total net income before taxes of segments	$ (1,495)	138,201	213,819	286,104
Corporate activities' net income before taxes	(33,960)	(24,749)	(93,650)	(68,455)
Total consolidated net income (loss) before taxes	$ (35,455)	113,452	120,169	217,649

Net corporate revenues included in the previous table are from activities that are not related to the five identified operating segments. The net corporate expenses (included in corporate activities' net income before taxes) include expenses for marketing and other unallocated support services. The net corporate revenues and expenses are not associated with an ongoing business activity as defined by SFAS No. 131 and, therefore, have not been included within the operating segments.

17

	AS OF SEPTEMBER 30, 2006	AS OF DECEMBER 31, 2005
Total segment assets	$ 26,208,002	22,979,163
Elimination of intercompany assets	(390,436)	(247,982)

Corporate assets	73,754	67,441
Total consolidated assets	$ 25,891,320	22,798,622

The assets held at the corporate level are not identified with any of the operating segments. Accordingly, these assets are included in the reconciliation of segment assets to total consolidated assets. These assets consist primarily of cash, investments, furniture, equipment, leasehold improvements, and other assets.

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

(MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS IS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005. 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, 2005.

FORWARD-LOOKING AND CAUTIONARY STATEMENTS

This report contains forward-looking statements and information that are based on management's current expectations as of the date of this document. 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 changes in the terms of student loans and the educational credit marketplace arising from the implementation of, or changes in, applicable laws and regulations, which may reduce the volume, average term, and costs of yields on student loans under the 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 our FFELP loans could materially adversely affect our 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; and changes in prepayment rates, guaranty rates, loan floor rates, and credit spreads. 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, and the uncertain nature of the expected benefits from acquisitions and the ability to successfully integrate operations. Additionally, financial projections may not prove to be accurate and may vary materially. The 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 one of the leading education services and finance companies in the United States and is focused on providing quality products and services to students, families, and schools nationwide. The Company ranks among the nation's leaders in terms of total student loan assets originated, consolidated, held, and serviced, principally consisting of loans originated under the FFEL Program. 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.

The Company has five operating segments as defined in SFAS No. 131 as follows: Asset Management, Student Loan and Guarantee Servicing, Software Services, Direct Marketing, and Payment Management Services.

- ASSET MANAGEMENT. The Company owns a large portfolio of student loan assets through a series of education lending subsidiaries. The Company obtains loans through direct origination or through acquisition of loans.

- STUDENT LOAN AND GUARANTEE SERVICING. The Company services its student loan portfolio and the portfolios of third parties. Servicing activities include loan origination activities, application processing, borrower updates, payment processing, due diligence procedures, and claim processing. The Student Loan and Guarantee Servicing segment includes EDULINX, a Canadian subsidiary of the Company that services student loans in Canada. The following table summarizes the Company's loan servicing volumes as of September 30, 2006:

	COMPANY	THIRD-PARTY	TOTAL
FFELP and private loans	$ 20,772	9,097	29,869
Canadian loans (in U.S. $)	--	9,348	9,348
Total	$ 20,772	18,445	39,217

The Company also provides servicing support to guaranty agencies, which includes system software, hardware and telecommunications support, borrower and loan updates, default aversion tracking services, claim processing services, and post-default collection services. In addition, under an agreement with College Access Network ("CAN"), a state-designated guaranty agency, the Company provides certain other guarantee operations.

- SOFTWARE SERVICES. The Company uses internally developed loan servicing software and also provides this software to third-party student loan holders and servicers. In addition, the Company provides information technology products and services, with core areas of business in student loan software solutions for schools, lenders, and guarantors; technical consulting services; and enterprise content management.

- DIRECT MARKETING. The Company 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/or young adult market places. This segment also provides a suite of education and career-related solutions for families in the areas of education search, test preparation, admissions, financial aid information, and career assistance. In addition,

this segment recognizes middle and high school students for exceptional academic success through its publications and scholarships.

- PAYMENT MANAGEMENT SERVICES. 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, universities, and healthcare organizations.

The Company's Asset Management and Student Loan and Guarantee Servicing operations constitute reportable operating segments according to the provisions of SFAS No. 131. The Software Services, Direct Marketing, and Payment Management Services operations are operating segments that do not meet the quantitative thresholds, and, therefore, are combined and included as "Other segments." The following table shows the percentage of total segment revenue (excluding intersegment revenue) and net income before taxes for each of the Company's reportable segments:

	NINE MONTHS ENDED SEPTEMBER 30,					
	2006			2005		
	ASSET MANAGEMENT	STUDENT LOAN AND GUARANTEE SERVICING	OTHER SEGMENTS	ASSET MANAGEMENT	STUDENT LOAN AND GUARANTEE SERVICING	OTHER SEGMENTS
Segment revenues	57.1%	28.7%	14.2%	69.6%	25.0%	5.4%
Segment net income before taxes	69.4%	22.6%	8.0%	75.5%	21.1%	3.4%

The Company's derivative market value and foreign currency adjustments are included in the Asset Management segment. Because the Company's derivatives do not qualify for hedge accounting under SFAS No. 133, the derivative market value adjustment can cause the percentage of revenue and net income before taxes to fluctuate from period to period between segments. Due to fluctuations in currency rates, foreign currency adjustments can also cause the percentage of revenue and net income before taxes to fluctuate from period to period between segments.

SIGNIFICANT DRIVERS AND TRENDS

The Company's earnings and earnings growth are directly affected by the size of its portfolio of student loans, the interest rate characteristics of its portfolio, the costs associated with financing and managing its portfolio, and the costs associated with the origination and acquisition of the student loans in the portfolio. In addition to the impact of growth of the Company's student loan portfolio, the Company's results of operations and financial condition may be materially affected by, among other things, changes in:

- applicable laws and regulations that may affect the volume, terms, effective yields, or refinancing options of education loans;

- demand for education financing and competition within the student loan industry;

- the interest rate environment, funding spreads on the Company's financing programs, and access to capital markets; and
- prepayment rates on student loans, including prepayments relating to loan consolidations.

The Company's net interest income, or net interest earned on its student loan portfolio, is a significant source of the Company's income and is primarily impacted by the size of the portfolio and the net yield of the assets in the portfolio. 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 this portfolio of loans, when the borrower rate exceeds the variable rate based on the SAP formula, the Company must return the excess to the Department.

Interest income is also dependent upon the relative level of interest rates. The current and future interest rate environment can and will affect interest earnings, net interest income, and net income. The Company maintains an overall interest rate risk management strategy that incorporates the use of interest rate derivative instruments to reduce the economic effect of interest rate volatility. 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. The Company's management has structured all of its derivative instruments with the intent that each is economically effective. However, the Company's derivative instruments do not qualify for hedge accounting under SFAS No. 133 and thus the change in the market value on the derivative instruments is recognized in the consolidated statement of operations each reporting period. This mark-to-market adjustment may fluctuate from period to period and adversely impact earnings.

In addition, during 2006, the Company consummated certain debt offerings of student loan asset-backed notes denominated in Euros. Changes in currency rates between the U.S. and Euro dollars may fluctuate from period to period and adversely impact earnings when re-measuring the Company's Euro-denominated bonds to U.S. dollars.

Competition for the supply channel of education financing in the student loan industry has caused the cost of acquisition (or loan premiums) related to the Company's student loan assets to increase. In addition, the Company has seen significant increases in consolidation loan activity and consolidation loan volume within the industry. The increase in competition for consolidation loans has caused the Company to be aggressive in its measures to protect and secure its existing portfolio through consolidation efforts. The Company will amortize its premiums paid on the purchase of student loans over the average useful life of the assets. When the Company's loans are consolidated, the Company may accelerate recognition of unamortized premiums if the consolidated loan is considered a new loan. The increase in premiums paid on student loans due to the increase in entrants and competition within the industry, coupled with the Company's asset retention practices through consolidation efforts, have caused the Company's yields to be reduced in recent periods due to the amortization of premiums, consolidation rebate fees, and the lower yields on consolidation loans. If the percentage of consolidation loans continues to increase as a percentage of the Company's overall loan portfolio, the Company will continue to

experience an increase in consolidation rebate fees and amortization costs and reduced yields. See "-- Student Loan Portfolio--Student Loan Spread Analysis." Although the Company's short-term yields may be reduced if this trend continues, the Company will have been successful in protecting its assets and stabilizing its balance sheet for long-term growth. Conversely, a reduction in consolidation of the Company's own loans or the loans of third parties could positively impact the effect of amortization on the Company's student loan yield from period to period. Also, as the Company's portfolio of consolidation loans grows both in nominal dollars and as a percentage of the total portfolio, the impact of premium amortization as a percentage of student loan yield should decrease. However, due to increased competition in the student loan industry, this decrease may be offset by increased costs to acquire student loans through the Company's various student loan channels and through certain portfolio and business combinations.

The Company's student loan origination and lending activities could be significantly impacted by the repeal of the single holder rule. The single holder rule, which generally restricted a competitor from consolidating loans away from a holder that owns all of a student's loans, was abolished effective June 15, 2006. As a result, a substantial portion of the Company's non-consolidated portfolio could be at risk of being consolidated away by a competitor. On the other hand, the abolition of the rule has also opened up a portion of the rest of the market and provided the Company with the potential to gain market share. As of September 30, 2006, the Company's non-consolidation portfolio was 30.5% of its total portfolio. For the three and nine months ended September 30, 2006 the Company's net consolidation originations were $767.3 million and $1.8 billion, respectively, and the consolidation loans lost to external parties were $342.4 million and $923.6 million, respectively.

The Company's core spread on its portfolio of student loans has decreased from 1.54% to 1.45% for the nine months ended September 30, 2005 and 2006, respectively, and from 1.46% to 1.34% for the three months ended September 30, 2005 and 2006, respectively. This decrease is primarily due to (i) an increase in lower yielding consolidation loans and increase in the consolidation rebate fees; and (ii) the mismatch in the reset frequency between the Company's floating rate assets and floating rate liabilities. During the third quarter 2006, interest rates remained relatively flat as compared to the prior two years in which there was a rising interest rate environment. The Company's core student loan spread benefited in the rising interest rate environment because the Company's cost of funds reset quarterly on the discreet basis while the Company's student loans kept increasing in yield on an average daily basis. See "--Student Loan Portfolio--Student Loan Spread Analysis" for additional information on the Company's core student loan spread. As a result of margin compression on its student loan portfolio and

management's continued focus on growing and diversifying fee based revenue, business and asset acquisitions have remained a significant aspect of the Company's strategy.

BUSINESS AND ASSET ACQUISITIONS

Management believes the Company's business and asset acquisitions in recent years have enhanced its 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 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. Management believes these acquisitions allow the Company to expand the scope, number, and type of products and services delivered to customers and further diversify

revenue and asset generation streams.

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. A summary of 2005 and 2006 business and asset acquisitions by type of service offering follows:

Asset Management

On October 24, 2005, the Company purchased 100% of the capital stock of LoanSTAR Funding Group, Inc. ("LoanSTAR") and servicing assets from LoanSTAR Systems, Inc. LoanSTAR is a Texas-based secondary market and loan originator. This acquisition was accounted for under purchase accounting and the results of operations have been included in the consolidated financial statements from the date of acquisition.

On October 25, 2005, the Company purchased from Chela Education Financing, Inc. ("Chela") a portfolio of approximately $2.2 billion of student loans originated under the FFEL Program and the rights to the Chela brand. The Company also acquired certain servicing and origination assets.

Student Loan and Guarantee Servicing

On October 31, 2005, the Company entered into an agreement to amend an existing contract with CAN. CAN is the Colorado state-designated guarantor of FFELP student loans. Under the agreement, the Company provides student loan servicing and guarantee operations and assumed the operational expenses and employment of certain CAN employees. CAN pays the Company a portion of the gross servicing and guarantee fees as consideration for the Company providing these services on behalf of CAN. The agreement terminates November 1, 2015 and can be extended for an additional 10-year period upon mutual agreement.

Effective November 1, 2005, the Company purchased the remaining 50% interest in FirstMark Services, LLC ("FirstMark"). The Company owned 50% of this entity and accounted for it under the equity method of accounting prior to the transaction. FirstMark specializes in originating and servicing education loans funded outside the federal student loan programs. This acquisition was accounted for under purchase accounting and the results of operations have been included in the consolidated financial statements from the date of acquisition.

Software Services

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

Effective July 1, 2005, the Company purchased 100% of the capital stock of Foresite Solutions, Inc. ("Foresite"), a company which develops complementary Web-based software applications that improve the administration of financial aid offices and work-study programs at 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 date of acquisition.

Direct Marketing

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

On June 30, 2006, the Company purchased 100% of the membership interests of CUnet. 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.

On July 27, 2006, the Company purchased certain assets and assumed certain liabilities (hereafter referred to as "Peterson's") from Thomson Learning Inc. Peterson's provides a comprehensive suite of education and career-related solutions in the areas of education search, test preparation, admissions, financial aid information (including scholarship search), and career assistance. Peterson's delivers these services through a variety of media including print (i.e. books) and online. Peterson's reaches an estimated 105 million consumers annually with its publications and online information about colleges and universities, career schools, graduate programs, distance learning, executive training, private secondary schools, summer opportunities, study abroad, financial aid, test preparation, and career exploration resources.

Payment Management Services

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 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, universities, and healthcare organizations. This acquisition was accounted for under purchase accounting and the results of operations have been included in the consolidated financial statements from the date of acquisition.

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 statement of operations 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 statement of operations. The amortization of debt issuance costs is included in interest expense on the Company's statement of operations.

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

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.

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.

RECENT DEVELOPMENTS- SPECIAL ALLOWANCE YIELD ADJUSTMENT

Based upon provisions of the Higher Education Act, and related interpretations by the Department, loans financed prior to September 30, 2004 with tax-exempt obligations originally issued prior to October 1, 1993 are entitled to receive special allowance payments equal to a 9.5% minimum rate of return (the "9.5% Floor"). Of the $3.1 billion in loans held by the Company as of September 30, 2006 that the Company has determined are eligible to receive the 9.5% Floor,

approximately $2.5 billion in loans were purchased prior to September 30, 2004 with proceeds of tax-exempt obligations originally issued prior to October 1, 1993 and then subsequently funded with the proceeds of taxable obligations, without retiring the tax-exempt obligations. (This $2.5 billion portfolio excludes $0.2 billion of 9.5% Floor loans purchased from LoanSTAR that were also purchased prior to September 30, 2004 with proceeds of tax-exempt obligations originally issued prior to October 1, 1993 and then subsequently funded with taxable obligations.) Interest income that is generated from this $2.5 billion portfolio in excess of income based upon standard special allowance rates is referred to by the Company as the special allowance yield adjustment. In June 2005, the OIG commenced an audit of the portion of the Company's student loan portfolio receiving 9.5% Floor special allowance payments. On September 29, 2006, the Company received a copy of the final audit report from the OIG related

to this audit.

The final audit report contained a finding by the OIG that an increase in the amount of 9.5% special allowance payments that have been received by the Company was based on what the OIG deemed to be ineligible loans. Such loans are deemed by the OIG to be ineligible for 9.5% special allowance payments due to interpretive issues related to the legal characterization of refinancing transfers of qualifying loans from a trust for tax-exempt financing obligations originally issued prior to October 1, 1993 to trusts for taxable obligations, and the extent to which sales of qualifying loans can result in qualification of additional loans. The audit report also contains a recommendation by the OIG that the Department require the Company to calculate and return what the OIG deems to be overpayments attributable to the deemed ineligible loans, and instruct the Company to exclude such loans from future claims for 9.5% special allowance payments.

On October 6, 2006, the Company received a letter from the Department related to the audit report. The Department's letter indicated that, until the issues raised by the OIG audit report are resolved, the Department will pay future regular special allowance payments on the underlying loans at the generally applicable statutory rate, and not the 9.5% special allowance rate. The letter also stated that if resolution of the audit upholds the propriety of the Company's billings for special allowance payments at the 9.5% minimum rate, the Department will pay the withheld amounts. As a result of this letter, the Company deferred the special allowance yield adjustment earned for the three months ended September 30, 2006 of $8.9 million.

See note 2, "Recent Developments," in the accompanying financial statements for additional information related to the Company's 9.5% portfolio and the OIG audit.

PROVISION FOR LOAN LOSSES

The allowance for loan losses is estimated and established 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. 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. The Company analyzes the allowance separately for its federally insured loans and its non-federally insured loans.

The allowance for the federally insured loan portfolio is based on periodic evaluations of the Company's loan portfolios considering past experience, trends in student loan claims rejected for payment by guarantors, changes to federal student loan programs, current economic conditions, and other relevant factors. 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 100% reimbursement (99% reimbursement effective July 1, 2006) on all eligible FFELP default claims submitted for reimbursement during a 12-month period (June 1, 2005 through May 31, 2006). 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 100% reimbursement (99% reimbursement effective July 1, 2006). As of September 30, 2006, more than 99% 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 2% risk sharing for all claims submitted after loss of the designation (3% risk sharing effective for all loans first disbursed on and after July 1, 2006).

In June 2006, the Company submitted its application for Exceptional Performer redesignation to the Department. 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. Based on the balance of federally insured loans outstanding as of September 30, 2006, this provision would be approximately $13.8 million.

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 guarantee servicing income; fee-based income on borrower late fees, payment management activities, and direct marketing; and fees from providing software services.

LOAN AND GUARANTEE 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. Guarantee 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 primarily consists of borrower late fee income, providing payment management services, and the sale of academic publications, lists, leads, and online academic 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 academic publications, lists, leads, and online services is recognized when the products are shipped/delivered or over the term

of the subscription period.

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." In addition, the change in the fair value of put options (issued as part of the consideration for certain business combinations) is 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 direct marketing, payment management, and software services to third parties, and other general and administrative expenses. Operating expenses also includes the depreciation and amortization of capital assets and intangible assets.

RESULTS OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 2006 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2005

INTEREST INCOME. Interest income for the three months ended September 30, 2006 increased $166.9 million compared to the same period in 2005 as reflected in the following table and explained below.

	THREE MONTHS ENDED SEPTEMBER 30,		CHANGE	
	2006	2005	DOLLARS	PERCENT
Loan interest, excluding special allowance yield adjustment	$ 441,678	251,609	190,069	75.5 %
Special allowance yield adjustment	--	21,766	(21,766)	(100.0)
Consolidation rebate fees	(39,974)	(25,584)	(14,390)	(56.2)
Amortization of loan premiums and deferred origination costs	(21,568)	(20,041)	(1,527)	(7.6)
Total loan interest	380,136	227,750	152,386	66.9
Investment interest	25,986	11,491	14,495	126.1
Total interest income	$ 406,122	239,241	166,881	69.8

24

o The average student loan portfolio increased $6.5 billion, or 42%, for the three months ended September 30, 2006 compared to 2005. When excluding the special allowance yield adjustment, the student loan yield increased to 7.91% in 2006 from 6.39% in 2005. This increase in the student loan yield is a result of a rising interest rate environment and is offset by an increase in the percentage of lower yielding consolidation loans to the total portfolio. Loan interest income,

excluding the special allowance yield adjustment, increased $190.1 million as a result of these factors.

- The special allowance yield adjustment, which reflects interest income in excess of special allowance payments had loans earned at statutorily defined rates under a taxable financing, decreased $21.8 million. As discussed in note 2 to the financial statements in this Quarterly Report, the Company deferred recognition of the portion of the 9.5% special allowance payments currently being withheld by the Department during the three months ended September 30, 2006.

- Consolidation rebate fees increased due to the $5.5 billion increase in the consolidation loan portfolio to $15.7 billion at September 30, 2006 from $10.2 billion at September 30, 2005.

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

- Investment interest income has increased as a result of an increase in cash, cash equivalents, and investments from student loan growth and business combinations, and as a result of the rising interest rate environment.

INTEREST EXPENSE. Interest on bonds and notes payable for the three months ended September 30, 2006 increased $173.5 million compared to the same period in 2005 as reflected in the following table and explained below.

	THREE MONTHS ENDED SEPTEMBER 30,		CHANGE	
	2006	2005	DOLLARS	PERCENT
Interest expense on debt funding loan assets	$ 327,169	157,015	170,154	108.4 %
Interest expense on debt funding operations	6,597	3,653	2,944	80.6
Other	--	(425)	425	100.0
Total interest expense	$ 333,766	160,243	173,523	108.3

- Average debt increased approximately $7.3 billion, or 44%, for the three months ended September 30, 2006 compared to 2005 and the Company's cost of funds increased to 5.44% for the three months ended September 30, 2006 up from 3.76% for the same period a year ago. Together these two factors resulted in a $170.2 million increase in interest expense related to debt used to fund the Company's loan assets.

- Interest expense increased approximately $2.7 million as a result of increased borrowings on the Company's unsecured operating line of credit. The average outstanding balance on this credit facility was $161.3 million during the three months ended September 30, 2006. The Company had no borrowings on its unsecured operating line during the same period in 2005.

LOAN AND GUARANTEE SERVICING INCOME. Loan and guarantee servicing income has increased $11.0 million for the three months ended September 30, 2006 compared to the same period in 2005. Several factors have contributed to this change as follows:

Three months ended September 30, 2005	$ 37,459
Acquisition-related activities:	
Acquisition of private loan servicing operations (FirstMark)	2,748
Expansion of guarantee servicing operations related to amended agreement with CAN	6,992
Existing operations:	
Increase in loan servicing revenue from Canadian operations (a)	1,387
Decrease in loan servicing revenue from U.S. operations (b)	(350)
Other	226
Three months ended September 30, 2006	$ 48,462

(a) The increase in loan servicing revenue from Canadian operations is the result of an increase in the volume of loans serviced and an increase in certain servicing rates effective in April 2006.

(b) The decrease in loan servicing revenue from U.S. operations is the result of the Company acquiring loans from third party lenders that were serviced by the Company prior to the acquisition of such loans. This decrease is offset by servicing volume added as a result of the acquisitions of LoanSTAR, CAN, and Chela.

25

OTHER FEE-BASED INCOME. Other fee-based income has increased $20.7 million for the three months ended September 30, 2006 compared to the three months ended September 30, 2005. Other fee-based income consists primarily of income from the Company's payment management and direct marketing segments. Detail of the change in other fee-based income is as follows:

Three months ended September 30, 2005	$ 10,503
Acquisition-related activities:	
Acquisition of payment management company (infiNET)	1,513
Acquisition of direct marketing companies	
CUnet	11,556
Peterson's	5,230
Existing operations:	
Increased list sales due to customer demand	1,236
Increased payment management fees due to increased volume	869
Increased borrower late fee income due to student loan portfolio growth	524
Other	(210)
Three months ended September 30, 2006	$ 31,221

SOFTWARE SERVICES INCOME. Software services income has increased $2.4 million

from $2.0 million for the three months ended September 30, 2005 to $4.4 million for the three months ended September 30, 2006. Software services income increased $2.7 million as a result of the acquisition of 5280. Maintenance and enhancement fee revenues on the Company's existing operations decreased as a result of decreased specialty software consulting.

OTHER INCOME. Other income increased $11.1 million from $2.5 million for the three months ended September 30, 2005 to $13.6 million for the three months ended September 30, 2006. Other income for the three months ended September 30, 2006 includes income of $11.7 million from the sale of loan assets as described in note 3 to the financial statements in this Quarterly Report. In addition, income from equity method investments has decreased $0.6 million as the result of the Company's acquisition of the remaining 50% interests in infiNET, 5280, and Firstmark as discussed in this Quarterly Report under "Business and Asset Acquisitions." The revenues from these companies are now classified as discussed in the results of operations above.

DERIVATIVE MARKET VALUE, FOREIGN CURRENCY, AND PUT OPTION ADJUSTMENTS. The components of the derivative market value, foreign currency, and put option adjustments for the three months ended September 30, 2006 and 2005 are as follows:

	2006	2005
Interest rate swaps, basis swaps, and interest rate floor contracts (a)	$ (71,136)	65,382
Re-measurement of Euro Notes (b)	7,113	--
Cross-currency interest rate swaps (b)	(12,382)	--
Put option agreements (c)	(3,536)	--
Derivative market value, foreign currency, and put option adjustments	$ (79,941)	65,382

(a) The Company's derivative instruments do not qualify for hedge accounting under the provisions of SFAS No. 133. As such, the change in fair value each reporting period is recognized in the statement of operations.

(b) In February and May 2006, the Company consummated debt offerings of student loan asset-backed notes that included notes denominated in Euros with variable interest rates based on a spread to EURIBOR (the "Euro Notes"). The Company re-measures the Euro Notes to U.S. dollars at each balance sheet date and the change in value is recognized in the statement of operations. Concurrently with the issuances of the Euro Notes, the Company entered into cross-currency interest rate swaps. These derivative instruments do not qualify for hedge accounting and, accordingly, the change in fair value of these instruments is recognized in the statement of operations.

(c) In connection with the acquisitions of 5280 in December 2005 and FACTS in January 2006, the Company issued stock subject to put option arrangements whereby the holders of such shares can require the Company to repurchase the shares at a defined price. The Company records the put options at fair value at each balance sheet date and the change in value is recognized in the statement of operations.

DERIVATIVE SETTLEMENTS, NET. The components of derivative settlements for the three months ended September 30, 2006 and 2005 are as follows:

	2006	2005
Interest rate swaps and basis swaps	$ 12,081	(2,962)
Cross-currency interest rate swaps	(5,115)	--
Other (a)	(1,993)	--
Derivative settlements, net	$ 4,973	(2,962)

(a) In September 2006, the Company issued CENts as discussed in note 6 to the financial statements in this Quarterly Report. The Company entered into a derivative instrument to economically lock into a fixed interest rate of 7.65% prior to actual pricing of the transaction. Between entering into this derivative and pricing of the CENts, interest rates dropped, and as a result, the Company paid $2.0 million to terminate this derivative instrument. The fixed interest rate on the CENts is 7.40% through September 30, 2011.

OPERATING EXPENSES. Operating expenses increased $49.9 million from $78.9 million for the three months ended September 30, 2005 to $128.8 million in 2006. Operating expenses of the Company's acquisitions, in which there were no comparable operations during the three months ended September 30, 2005, resulted in $44.5 million of this increase which is summarized in the following table:

	THREE MONTHS ENDED SEPTEMBER 30, 2005	IMPACT OF ACQUISITIONS	NET CHANGE AFTER ACQUISITIONS	THREE MONTHS ENDED SEPTEMBER 30, 20
Salaries and benefits	$ 44,311	16,819	4,253	65,383
Other expenses	32,705	22,689	1,531	56,925
Amortization of intangible assets	1,919	4,970	(355)	6,534
Total operating expenses	$ 78,935	44,478	5,429	128,842

The increase in operating expenses after adjusting for the impact of acquisitions was $5.4 million. This increase was a result of i) increased costs to develop systems to support a larger organizational structure and ii) organic growth of the organization, specifically that of the Company's school based marketing efforts. The Company's costs to develop its corporate structure include projects such as recruitment, development, and retention of intellectual capital and technology enhancements to support a larger, more diversified customer and employee base.

NINE MONTHS ENDED SEPTEMBER 30, 2006 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2005

INTEREST INCOME. Interest income for the nine months ended September 30, 2006 increased $492.5 million compared to the same period in 2005 as reflected in the following table and explained below.

NINE MONTHS ENDED SEPTEMBER 30,		CHANGE	
2006	2005	DOLLARS	PERCENT

Loan interest, excluding special allowance yield adjustment	$ 1,221,488	664,965	556,523	83.7 %
Special allowance yield adjustment	24,460	77,427	(52,967)	(68.4)
Consolidation rebate fees	(112,855)	(70,803)	(42,052)	(59.4)
Amortization of loan premiums and deferred origination costs	(64,555)	(52,370)	(12,185)	(23.3)
Total loan interest	1,068,538	619,219	449,319	72.6
Investment interest	69,841	26,643	43,198	162.1
Total interest income	$ 1,138,379	645,862	492,517	76.3

o The average student loan portfolio increased $6.5 billion, or 44%, for the nine months ended September 30, 2006 compared to 2005. When excluding the special allowance yield adjustment, the student loan yield increased to 7.68% in 2006 from 6.02% in 2005. This increase in the student loan yield is a result of a rising interest rate environment and is offset by an increase in the percentage of lower yielding consolidation loans to the total portfolio. Loan interest income, excluding the special allowance yield adjustment, increased $556.5 million as a result of these factors.

27

o The special allowance yield adjustment, which reflects interest income in excess of special allowance payments had loans earned at statutorily defined rates under a taxable financing, decreased $53.0 million. This decrease is due to an increase in interest rates, which decreases the excess special allowance payments over the statutorily defined rates under a taxable financing, and a decrease in the portfolio of loans earning the special allowance yield adjustment. In addition, as discussed in note 2 to the financial statements in this Quarterly Report, the Company deferred recognition of the portion of the 9.5% special allowance payments currently being withheld by the Department during the three months ended September 30, 2006.

o Consolidation rebate fees increased due to the $5.5 billion increase in the consolidation loan portfolio to $15.7 billion at September 30, 2006 from $10.2 billion at September 30, 2005.

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

o Investment interest income has increased as a result of an increase in cash, cash equivalents, and investments from student loan growth and business combinations, and as a result of the rising interest rate environment.

INTEREST EXPENSE. Interest on bonds and notes payable for the nine months ended September 30, 2006 increased $495.5 million compared to the same period in 2005 as reflected in the following table and explained below.

	NINE MONTHS ENDED SEPTEMBER 30,		CHANGE	
	2006	2005	DOLLARS	PERCENT

Interest expense on debt funding loan assets	$876,177	393,539	482,638	122.6 %
Interest expense on debt funding operations	17,382	5,464	11,918	218.1
Other	--	(958)	958	100.0
Total interest expense	$893,559	398,045	495,514	124.5

- Average debt increased approximately $7.3 billion, or 47%, for the nine months ended September 30, 2006 compared to 2005 and the Company's cost of funds increased to 5.10% for the nine months ended September 30, 2006 up from 3.36% for the same period a year ago. Together these two factors resulted in a $482.6 million increase in interest expense related to debt used to fund the Company's loan assets.

- The Company issued $275.0 million of unsecured fixed-rate debt in May 2005 which resulted in an increase in the Company's interest expense of $5.8 million for the nine months ended September 30, 2006 compared to 2005. Interest expense also increased approximately $5.8 million as a result of increased borrowings on the Company's operating line of credit. The average outstanding balance on this credit facility was $137.7 million during the nine months ended September 30, 2006 as compared to $9.3 million in 2005.

LOAN AND GUARANTEE SERVICING INCOME. Loan and guarantee servicing income has increased $30.3 million for the nine months ended September 30, 2006 compared to the same period in 2005. Several factors have contributed to this change as follows:

Nine months ended September 30, 2005	$109,313
Acquisition-related activities:	
Acquisition of private loan servicing operations (FirstMark)	7,227
Expansion of guarantee servicing operations related to amended agreement with CAN	20,375
Existing operations:	
Increase in loan servicing revenue from Canadian operations (a)	4,810
Decrease in loan servicing revenue from U.S. operations (b)	(1,675)
Other	(472)
Nine months ended September 30, 2006	$139,578

(a) The increase in loan servicing revenue from Canadian operations is the result of an increase in the volume of loans serviced and an increase in certain servicing rates effective in April 2006.

(b) The decrease in loan servicing revenue from U.S. operations is the result of the Company acquiring loans from third party lenders that were serviced by the Company prior to the acquisition of such loans. This decrease is offset by servicing loan volume added as a result of the acquisitions of LoanSTAR, CAN, and Chela.

OTHER FEE-BASED INCOME. Other fee-based income has increased $42.6 million for the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005. Other fee-based income consists primarily of income from the

Company's payment management and direct marketing segments. Details of the change in other fee-based income are as follows:

Nine months ended September 30, 2005	$22,886
Acquisition-related activities:	
Acquisition of payment management companies:	
FACTS	14,143
infiNET	3,245
Acquisition of direct marketing companies:	
SMG	4,624
NHR	1,092
CUnet	11,556
Peterson's	5,230
Existing operations:	
Increased list sales due to customer demand	1,035
Increased payment management fees due to increased volume	869
Increased borrower late fee income due to student loan portfolio growth	1,659
Decreased merchandise revenue (a)	(1,349)
Other	460
Nine months ended September 30, 2006	$65,450

(a) The decrease in merchandise revenue is the result of decreased sales efforts targeted at certain customers with a low profit margin.

SOFTWARE SERVICES INCOME. Software services income has increased $5.0 million from $6.8 million for the nine months ended September 30, 2005 to $11.8 million for the nine months ended September 30, 2006. Software services income increased $7.0 million as a result of the acquisition of 5280. Maintenance and enhancement fee revenues on the Company's existing operations decreased as a result of decreased specialty software consulting.

OTHER INCOME. Other income has increased $13.1 million from $5.4 million for the nine months ended September 30, 2005 to $18.5 million for the nine months ended September 30, 2006. Other income for the nine months ended September 30, 2006 includes income of $13.5 million from the sale of certain loan assets as described in note 3 to the financial statements in this Quarterly Report. In addition, income from equity method investments has decreased $0.9 million as the result of the Company's acquisition of the remaining 50% interests in infiNET, 5280, and Firstmark as discussed in this Quarterly Report under "Business and Asset Acquisitions." The revenues from these companies are now classified as discussed in the results of operations above.

DERIVATIVE MARKET VALUE, FOREIGN CURRENCY, AND PUT OPTION ADJUSTMENTS. The components of the derivative market value, foreign currency, and put option adjustments for the nine months ended September 30, 2006 and 2005 are as follows:

	2006	2005

Interest rate swaps, basis swaps, and interest rate floor contracts (a)	(576)	74,300
Re-measurement of Euro Notes (b)	(30,942)	--
Cross-currency interest rate swaps (b)	23,774	--
Put option agreements (c)	(3,821)	--
Derivative market value, foreign currency, and put option adjustments	(11,565)	74,300

(a) The Company's derivative instruments do not qualify for hedge accounting under the provisions of SFAS No. 133. As such, the change in fair value each reporting period is recognized in the statement of operations.

(b) In February and May 2006, the Company consummated debt offerings of student loan asset-backed notes that included notes denominated in Euros with variable interest rates based on a spread to EURIBOR (the "Euro Notes"). The Company re-measures the Euro Notes to U.S. dollars at each balance sheet date and the change in value is recognized in the statement of operations. Concurrently with the issuances of the Euro Notes, the Company entered into cross-currency interest rate swaps. These derivative instruments do not qualify for hedge accounting and, accordingly, the change in fair value of these instruments is recognized in the statement of operations.

29

(c) In connection with the acquisitions of 5280 in December 2005 and FACTS in January 2006, the Company issued stock subject to put option arrangements whereby the holders of such shares can require the company to repurchase the shares at a defined price. The Company records the put options at fair value at each balance sheet date and the change in value is recognized in the statement of operations.

DERIVATIVE SETTLEMENTS, NET. The components of derivative settlements for the nine months ended September 30, 2006 and 2005 are as follows:

	2006	2005
Interest rate swaps and basis swaps	$ 28,495	(19,049)
Cross-currency interest rate swaps	(10,083)	--
Other (a)	(1,993)	--
Derivative settlements, net	$ 16,419	(19,049)

(a) In September 2006, the Company issued CENts as discussed in note 6 to the financial statements in this Quarterly Report. The Company entered into a derivative instrument to economically lock into a fixed interest rate of 7.65% prior to actual pricing of the transaction. Between entering into this derivative and pricing of the CENts, interest rates dropped, and as a result, the Company paid $2.0 million to terminate this derivative instrument. The fixed interest rate on the CENts is 7.40% through September 30, 2011.

OPERATING EXPENSES. Operating expenses increased $127.2 million from $224.2 million for the nine months ended September 30, 2005 to $351.4 million in 2006.

Operating expenses of the Company's acquisitions, in which there were no comparable operations during the nine months ended September 30, 2005, resulted in $113.8 million of this increase which is summarized in the following table:

	NINE MONTHS ENDED SEPTEMBER 30, 2005	IMPACT OF ACQUISITIONS	NET CHANGE AFTER ACQUISTIONS	NINE MONTHS ENDED SEPTEMBER 30, 2006
Salaries and benefits	$ 123,615	49,243	12,416	185,274
Other expenses	95,936	49,746	2,077	147,759
Amortization of intangible assets	4,651	14,819	(1,142)	18,328
Total operating expenses	$ 224,202	113,808	13,351	351,361

The increase in operating expenses after adjusting for the impact of acquisitions was $13.4 million. This increase was a result of the following:

- Increased costs related to the Company's asset generation activities, specifically its consolidation loan portfolio, during the first six months of 2006, resulted in increased operating expenses of approximately $3.7 million.

- The remaining increase of approximately $9.7 million is the result of i) increased costs to develop systems to support a larger organizational structure and ii) organic growth of the organization, specifically that of the Company's school based marketing efforts. The Company's costs to develop its corporate structure include projects such as recruitment, development, and retention of intellectual capital and technology enhancements to support a larger, more diversified customer and employee base.

NON-GAAP PERFORMANCE MEASURES

The Company prepares financial statements in accordance with generally accepted accounting principles ("GAAP"). In addition to evaluating the Company's GAAP-based financial information, management also evaluates the Company on certain non-GAAP performance measures that the Company refers to as base net income. While base net income is not a substitute for reported results under GAAP, the Company provides base net income as additional information regarding its financial results.

Adjusted base net income, which excludes the special allowance yield adjustment and related hedging activity on the Company's portfolio of student loans earning a minimum special allowance payment of 9.5%, is used by management to develop the Company's financial plans, track results, and establish corporate performance targets.

The following table provides a reconciliation of GAAP net income to base and adjusted base net income.

	THREE MONTHS ENDED	NINE MONTHS ENDED

	SEPTEMBER 30,		SEPTEMBER 30,	
	2006	2005	2006	2005
GAAP net income (loss) (a)	$ (22,354)	72,132	75,465	138,446
Base adjustments:				
Derivative market value, foreign currency, and put option adjustments	79,941	(65,382)	11,565	(74,300)
Amortization of intangible assets	6,534	1,919	18,328	4,651
Non-cash stock based compensation related to business combinations	476	--	1,271	--
Variable-rate floor income	--	--	--	--
Total base adjustments before income taxes	86,951	(63,463)	31,164	(69,649)
Net tax effect (c)	(31,698)	24,116	(10,391)	26,467
Total base adjustments	55,253	(39,347)	20,773	(43,182)
Base net income (a)	32,899	32,785	96,238	95,264
Adjustments to base net income:				
Special allowance yield adjustment (b)	--	(21,766)	(24,460)	(77,427)
Derivative settlements, net	(7,909)	2,644	(19,794)	16,961
Total adjustments to base net income before income taxes	(7,909)	(19,122)	(44,254)	(60,466)
Net tax effect (c)	3,006	7,266	16,817	22,977
Total adjustments to base net income	(4,903)	(11,856)	(27,437)	(37,489)
Adjusted base net income (a)	$ 27,996	20,929	68,801	57,775
Earnings (loss) per share, basic and diluted:				
GAAP net income (loss) (a)	$ (0.42)	1.34	1.40	2.58
Total base adjustments	1.04	(0.73)	0.38	(0.81)
Base net income (a)	0.62	0.61	1.78	1.77
Total adjustments to base net income	(0.10)	(0.22)	(0.50)	(0.70)
Adjusted base net income (a)	$ 0.52	0.39	1.28	1.07

(a) Includes expense of $6.9 million ($4.3 million or $0.08 per share after tax) for the nine months ended September 30, 2006 to increase the Company's allowance for loan losses due to a provision in the Deficit Reduction Act that increased risk sharing for student loan holders by one percent on FFELP loans. This expense was recognized by the Company in the first quarter 2006.

(b) As discussed in note 2 to the financial statements in this Quarterly Report, pending satisfactory resolution of the October 6, 2006 letter from the Department related to the audit report by the OIG regarding certain loans receiving the 9.5% special allowance payments, the Company has determined to defer recognition of the 9.5% special allowance payments which the Department is currently withholding

payment. Income from these 9.5% special allowance payments would have been $8.9 million ($5.5 million or $0.10 per share after tax) for the three months ended September 30, 2006.

(c) Tax effect computed at 38%. The change in the value of the put option is not tax effected as this is not deductible for income tax purposes.

Base net income is a non-GAAP financial measure and may not be comparable to similarly titled measures reported by other companies. The Company's base net income presentation does not represent another comprehensive basis of accounting. 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 caused by the change in market value on those derivatives in which the Company does not qualify for hedge accounting. 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. 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 and thus may adversely impact earnings.

31

Base net income also excludes the foreign currency transaction gain or loss caused by the re-measurement of the Company's Euro-denominated bonds to U.S. dollars and the change in the market value of put options issued by the Company for certain business acquisitions.

AMORTIZATION OF INTANGIBLE ASSETS: Base net income excludes the amortization of acquired intangibles.

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.

VARIABLE-RATE FLOOR INCOME: Loans that reset annually on July 1 can generate excess spread income as compared to the rate based on the special allowance payment formula in declining interest rate environments. The Company refers to this additional income as variable-rate floor income. There was no variable-rate floor income during the three and nine months ended September 30, 2006 and 2005.

FINANCIAL CONDITION

AS OF SEPTEMBER 30, 2006 COMPARED TO DECEMBER 31, 2005

	AS OF SEPTEMBER 30, 2006	AS OF DECEMBER 31, 2005	CHANGE	
			DOLLARS	PERCENT
ASSETS:				
Student loans receivable, net	$ 22,933,718	20,260,807	2,672,911	13.2 %

Cash, cash equivalents, and investments	1,810,839	1,645,797	165,042	10.0
Goodwill	188,603	99,535	89,068	89.5
Intangible assets	169,824	153,117	16,707	10.9
Fair value of derivative instruments, net	97,383	82,766	14,617	17.7
Other assets	690,953	556,600	134,353	24.1
Total assets	$ 25,891,320	22,798,622	3,092,698	13.6
LIABILITIES:				
Bonds and notes payable	$ 24,690,245	21,673,620	3,016,625	13.9
Other liabilities	519,814	474,884	44,930	9.5
Total liabilities	25,210,059	22,148,504	3,061,555	13.8
Minority interest	--	626	(626)	(100.0)
SHAREHOLDERS' EQUITY	681,261	649,492	31,769	4.9
Total liabilities and shareholders' equity	$ 25,891,320	22,798,622	3,092,698	13.6

Total assets increased primarily due to an increase in student loans receivable. The Company originated and acquired $5.4 billion of student loans during the nine months ended September 30, 2006, offset by repayments and loan sales of approximately $2.7 billion. Fair value of derivative instruments experienced a net increase of $23.2 million due to the change in the fair value of the Company's derivative instruments as a result of a change in the forward yield curve and currency fluctuations. In addition, the Company entered into certain interest rate floor contracts during 2006 which resulted in a $8.6 million decrease in the fair value of the Company's derivative instruments. Goodwill and intangible assets increased as a result of the 2006 acquisitions. Total liabilities increased primarily because of an increase in bonds and notes payable, resulting from additional borrowings to fund growth in student loans. Also, in September 2006, the Company issued $200.0 million of unsecured debt under its universal shelf registration statement. In addition, during 2006, the amount of borrowings under its unsecured line of credit increased $124.0 million, primarily to fund general operations, business acquisitions, and to repurchase stock. Shareholders' equity increased as a result of net income of $75.5 million and the issuance of common stock as consideration for the acquisitions of FACTS and infiNET in 2006. These increases were offset as a result of the Company repurchasing 1.9 million shares of its Class A common stock for $62.4 million.

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 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 September 30, 2006 the Company had outstanding a $500.0 million unsecured line of credit which terminates on August 19, 2010. The Company had $214.0 million of outstanding borrowings and $286.0 million of available capacity under this facility as of September 30, 2006. In addition, EDULINX has a credit facility agreement with a Canadian financial institution for approximately $11.3 million ($12.6 million in Canadian dollars) that is cancelable by either party upon demand. The Company had no borrowings under the EDULINX facility as of September 30, 2006.

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

In August 2006, the Company established a $5.0 billion loan warehouse program under which it will 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 September 30, 2006, the Company has $1.3 billion of Secured Liquidity Notes outstanding and $3.7 billion of capacity remaining under this warehouse program.

In addition to the Secured Liquidity Notes, the Company had a loan warehousing capacity of $6.5 billion as of September 30, 2006, of which $4.4 billion was outstanding and $2.1 billion was available for future use, through 364-day commercial paper conduit programs. These conduit programs mature in 2007 through 2009; however, 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.

As a result of establishing the Secured Liquidity Notes loan warehouse program, the Company had a total loan warehousing capacity of $11.5 billion as of September 30, 2006, an increase of $3.9 billion from $7.6 billion as of June 30, 2006. As of September 30, 2006, the Company had $5.7 billion outstanding under its loan warehouse programs and $5.8 billion was available for future use. 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.

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 large warehousing capacity 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.

ASSET-BACKED SECURITIZATIONS

Of the $24.7 billion of debt outstanding as of September 30, 2006, $18.3 billion was issued under asset-backed securitizations. On February 21, 2006, and May 18, 2006, the Company completed asset-backed securities transactions totaling $2.0 billion and $2.1 billion, respectively. These transactions included (euro)773.2 million of notes issued with initial spreads to the 3-month EURIBOR. This represents the Company's first asset-backed securities offerings with Euro denominated notes. 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. The interest rate on student loans being financed is generally set based upon a spread to commercial paper or U.S. Treasury bills.

33

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 its 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 Capital Efficient Notes ("CENts"). The CENts are unsecured obligations of the Company. The interest rate on the CENts from the date they were issued through September 28, 2011 is 7.40%, payable semi-annually. Beginning September 29, 2011 through September 29, 2036, the "scheduled maturity date", the interest rate on the CENts will be equal to three-month LIBOR plus 3.375%, payable quarterly. The principal amount of the CENts 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 CENts' 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 CENts in full whether or not the Company

has sold qualifying capital securities. At the Company's option, the CENts 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 September 30, 2006, the Company has $275.0 million remaining under its universal shelf.

The following table summarizes the Company's bonds and notes outstanding as of September 30, 2006:

	CARRYING AMOUNT	PERCENT OF TOTAL	INTEREST RATE RANGE ON CARRYING AMOUNT	F MAT
Variable-rate bonds and notes (a):				
Bond and notes based on indices (b)	$ 15,076,211	61.1 %	3.12% -6.19%	10/17/06
Bond and notes based on auction	2,770,020	11.2	3.58% -5.45%	11/01/09
Total variable-rate bonds and notes	17,846,231	72.3		
Commercial paper and other	5,636,576	22.8	4.77% -5.36%	01/05/07
Fixed-rate bonds and notes (a)	444,147	1.8	5.20% -6.68%	11/01/06
Unsecured fixed-rate debt	475,000	1.9	5.13% -7.40%	06/01/10
Other borrowings	288,291	1.2	5.69% -5.77%	06/29/07
Total	$ 24,690,245	100.0 %		

(a) Issued in securitization transactions.
(b) Includes (euro)773.2 million Euro Notes re-measured to $980.9 million U.S. dollars as of September 30, 2006.

The Company is committed under noncancelable operating leases for certain office and warehouse space and equipment. The Company's contractual obligations as of September 30, 2006 were as follows:

	TOTAL	LESS THAN 1 YEAR	1 TO 3 YEARS	3 TO 5 YEARS	MORE T 5 YEA
Bonds and notes payable	$ 24,690,245	5,524,094	733,745	601,269	17,831,
Operating lease obligations	27,272	9,153	12,352	4,741	1,
Other	20,411	1,950	8,021	10,440	
Total	$ 24,737,928	5,535,197	754,118	616,450	17,832,

On October 13, 2006, the Company entered into an agreement with Mad Dog Guest Ranch LLC, a Nebraska limited liability company, for the purchase by the Company of the building in Lincoln, Nebraska in which the Company's corporate headquarters are located. The purchase price for the property was $8.3 million, including the assumption of debt on the property. The above table excludes rent payments made in October of approximately $70,000 for space in the purchased building.

The Company has commitments with its branding partners and forward flow lenders which obligate the Company to purchase loans originated under specific criteria, although the branding partners and forward flow lenders are typically not obligated to provide the Company with a minimum amount of loans. Branding partners are those entities from whom the Company acquires student loans and provides marketing and origination services. Forward flow lenders are those entities from whom the Company acquires student loans and provides origination

services. These commitments generally run for periods ranging from one to five years and are generally renewable. Commitments to purchase loans under these arrangements are not included in the table above.

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

- LoanSTAR - Commitment to sell student loans to the Texas Foundation on a quarterly basis.

- EDULINX - Contingent payment of $6.3 million if EDULINX obtains an extension or renewal of a significant customer servicing contract. This contingency payment is due following the date on which such extension or renewal period of the servicing contract commences and is not included in the table above.

- SMG/NHR - Contingent payments of $4.0 million - $24.0 million payable in annual installments through April 2008 based on the operating results of SMG and NHR. The Company made an additional payment of $3.0 million under this agreement in 2006. Four million of the remaining contingent consideration is included in the table above.

- infiNET - Stock price guarantee of $104.8375 per share on 95,380 Class A common shares 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 is subject to a put option arrangement whereby during the 30-day period beginning February 28, 2010, the holders of such shares can 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 September 30, 2006 was $10.1 million and is included in "other" in the above table.

- 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 September 30, 2006 was $2.0 million and is included in "other" in the above table.

Additional information concerning the Company's obligations related to the above acquisitions can be found in the consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2005 and in note 4 to the financial statements included in this report.

STUDENT LOAN PORTFOLIO

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

	AS OF SEPTEMBER 30, 2006		AS OF DECEMBER 31, 2005	
	DOLLARS	PERCENT	DOLLARS	PERCENT
Federally insured:				
Stafford	$ 6,290,116	27.4 %	$ 6,434,655	31.8 %
PLUS/SLS	391,981	1.7	376,042	1.8
Consolidation	15,672,102	68.3	13,005,378	64.2
Non-federally insured	180,462	0.8	96,880	0.5
Total	22,534,661	98.2	19,912,955	98.3
Unamortized premiums and deferred origination costs	424,151	1.9	361,242	1.8
Allowance for loan losses:				
Allowance - federally insured	(7,517)	--	(98)	--
Allowance - non-federally insured	(17,577)	(0.1)	(13,292)	(0.1)
Net	$ 22,933,718	100.0 %	$ 20,260,807	100.0 %

35

ACTIVITY IN THE ALLOWANCE FOR LOAN LOSSES

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

	THREE MONTHS ENDED SEPTEMBER 30,		NIN S
	2006	2005	2006
Balance at beginning of period	$ 24,180	10,689	$ 13
Provision for loan losses:			
Federally insured loans	800	2	8
Non-federally insured loans	900	1,400	5
Total provision for loan losses	1,700	1,402	13
Charge-offs, net of recoveries:			
Federally insured loans	(284)	(3)	
Non-federally insured loans	(502)	(4)	
Net charge-offs	(786)	(7)	(1

Balance at end of period	$ 25,094	12,084	$ 25
Allocation of the allowance for loan losses:			
Federally insured loans	$ 7,517	98	$ 7
Non-federally insured loans	17,577	11,986	17
Total allowance for loan losses	$ 25,094	12,084	$ 25
Net loan charge-offs as a percentage of average student loans	0.014 %	-- %	0
Total allowance as a percentage of average student loans	0.113 %	0.077 %	0
Total allowance as a percentage of ending balance of student loans	0.111 %	0.075 %	0
Non-federally insured allowance as a percentage of the ending balance of non-federally insured loans	9.740 %	12.367 %	9
Average student loans	$ 22,170,118	15,628,420	21,268
Ending balance of student loans	22,534,661	16,185,721	22,534
Ending balance of non-federally insured loans	180,462	96,920	180

The Company recognized a $6.9 million provision on its federally insured portfolio during the three months ended March 31, 2006 as a result of HERA which was enacted into law on February 8, 2006. See note 3 to the financial statements in this Quarterly Report for additional information related to HERA.

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

	AS OF SEPTEMBER 30, 2006		AS OF DECEMBER 31, 2005	
	DOLLARS	PERCENT	DOLLARS	PERCENT
Federally Insured Loans:				
Loans in-school/grace/deferment(1)	$ 6,701,102		$ 5,512,448	
Loans in forebearance(2)	2,361,637		2,160,577	
Loans in repayment status:				
Loans current	11,757,297	88.5 %	10,790,625	88.9
Loans delinquent 31-60 days(3)	551,983	4.2	526,044	4.3
Loans delinquent 61-90 days(3)	275,896	2.1	236,117	1.9
Loans delinquent 91 days or greater(4)	706,284	5.2	590,264	4.9
Total loans in repayment	13,291,460	100.0 %	12,143,050	100.0
Total federally insured loans	$ 22,354,199		$ 19,816,075	
NON-FEDERALLY INSURED LOANS:				
Loans in-school/grace/deferment(1)	$ 88,000		$ 27,709	
Loans in forebearance(2)	4,112		2,938	
Loans in repayment status:				
Loans current	82,870	93.8 %	61,079	92.2
Loans delinquent 31-60 days(3)	2,474	2.8	2,059	3.1
Loans delinquent 61-90 days(3)	1,309	1.5	1,301	2.0
Loans delinquent 91 days or greater(4)	1,697	1.9	1,794	2.7
Total loans in repayment	88,350	100.0 %	66,233	100.0
Total non-federally insured loans	$ 180,462		$ 96,880	

==============   ==============

----

(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.

36

(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.

ORIGINATION AND ACQUISITION

The Company's student loan portfolio increases through various channels, including originations through the direct channel and acquisitions through the branding partner channel, the forward flow channel, and spot purchases. The table below sets forth the activity of loans originated or acquired through each of the Company's channels:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2006	2005	2006	2005
Beginning balance	$22,012,670	15,469,689	19,912,955	13,299,09
Direct channel:				
Consolidation loan originations	1,493,981	1,097,436	3,563,910	2,624,10
Less consolidation of existing portfolio	(726,700)	(559,700)	(1,727,900)	(1,274,10
Net consolidation loan originations	767,281	537,736	1,836,010	1,350,00
Stafford/PLUS loan originations	385,997	239,927	843,162	567,54
Branding partner channel	94,229	43,934	841,258	1,126,78
Forward flow channel	336,775	260,072	1,268,288	901,18
Other channels	2,070	5,015	480,528	39,20
Total channel acquisitions	1,586,352	1,086,684	5,269,246	3,984,72
Repayments, claims, capitalized interest, and other	(368,789)	(130,252)	(1,187,813)	(599,60
Consolidation loans lost to external parties	(342,400)	(240,400)	(923,600)	(498,50
Loans sold	(353,172)	--	(536,127)	-

Ending balance	$22,534,661	16,185,721	22,534,661	16,185,72

Included in the branding partner channel for the nine months ended September 30, 2005 is $630.8 million of student loans purchased from Union Bank and Trust ("Union Bank"), an entity under common control with the Company. The acquisition of these loans was made by the Company as part of an agreement with Union Bank entered into in February 2005. As part of this agreement, Union Bank also committed to transfer to the Company substantially all of the remaining balance of Union Bank's origination rights in guaranteed student loans. As such, beginning in the second quarter of 2005, all loans originated by Union Bank on behalf of the Company are presented in the table above as direct channel originations.

In June 2006, the Company acquired approximately $423.7 million of loans in a spot purchase from an unrelated third party.

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 will expire in December 2006. Total loans acquired from Nova were $74.9 million and $72.5 million for the three months ended September 30, 2006 and 2005, respectively; $236.7 million and $236.2 million for the nine months ended September 30, 2006 and 2005, respectively; and $299.3 million for the year ended December 31, 2005. Loans acquired from Nova are included in the forward flow channel in the above table.

During the three months ended September 30, 2006, the Company sold approximately $353.2 million (par value) of student loans to an unrelated party. Loans sold under this agreement were originated by Nova. The portfolio of loans sold was not serviced by the Company and as such were at a greater risk of being consolidated away from the Company by third parties.

As part of the agreement for the acquisition of the capital stock of LoanSTAR from the Texas Foundation completed in October 2005, 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 then $200.0 million through October 2010. The sales price for such loans is the fair market value mutually agreed upon between the Company and the Texas Foundation. To satisfy this obligation, the Company will sell loans to the Texas Foundation on a quarterly basis. During the nine months ended September 30, 2006, the Company sold the Texas Foundation $120.8 million (par value) of student loans which is reflected in loan sales in the above table.

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 SEPTEMBER 30,	NINE MONTHS E SEPTEMBER

	2006	2005	2006	
Student loan yield	7.91 %	6.94 %	7.84 %	
Consolidation rebate fees	(0.72)	(0.65)	(0.71)	
Premium and deferred origination costs amortization	(0.39)	(0.51)	(0.41)	
Student loan net yield	6.80	5.78	6.72	
Student loan cost of funds (a)	(5.32)	(3.83)	(4.99)	
Student loan spread	1.48	1.95	1.73	
Special allowance yield adjustment, net of settlements on derivatives (b)	(0.14)	(0.49)	(0.28)	
Core student loan spread	1.34 %	1.46 %	1.45 %	
Average balance of student loans (in thousands)	$22,170,118	15,628,420	21,268,972	14,
Average balance of debt outstanding (in thousands)	23,881,928	16,564,494	22,984,011	15,

(a) The student loan cost of funds includes the effects of the net settlement costs on the Company's derivative instruments (excluding the $2.0 million settlement related to the derivative instrument entered into in connection with the issuance of the CENts).

(b) The special allowance yield adjustments represent the impact on net spread had loans earned at statutorily defined rates under a taxable financing. The special allowance yield adjustments have been reduced by net settlements on derivative instruments that were used to hedge this loan portfolio earning the excess yield.

The compression of the Company's core student loan spread for the three and nine months ended September 30, 2006 compared to the three and nine months ended September 30, 2005 has been primarily due to (i) an increase in lower yielding consolidation loans and increase in the consolidation rebate fees; and (ii) the mismatch in the reset frequency between the Company's floating rate assets and floating rate liabilities. During the third quarter 2006, interest rates remained relatively flat as compared to the prior two years in which there was a rising interest rate environment. The Company's core student loan spread benefited in the rising interest rate environment because the Company's cost of funds reset quarterly on the discreet basis while the Company's student loans kept increasing in yield on an average daily basis.

As noted on page 41, the Company has a portfolio of $4.1 billion of student loans that are earning interest at a fixed borrower rate which exceeds the statutorily defined variable lender rate. This portfolio of loans includes the portfolio of approximately $2.5 billion of consolidation loans that have been previously financed with tax-exempt obligations, the impact of which has been adjusted for in the spread table as the special allowance yield adjustment. Thus, the Company has a portfolio of approximately $1.6 billion of loans earning at fixed rates above the statutorily defined variable lender rates 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. The Company estimates that its core student loan spread for the three and nine months ended September 30, 2006 included approximately 14 and 16 basis points, respectively, related to this floor income. When excluding floor income, the Company's core student loan spread was 1.20% and 1.29% for the three and nine

months ended September 30, 2006, respectively.

The following table presents the student loan spread for certain loan types originated by the Company in 2006. The student loan spreads shown below do not necessarily reflect the spread for all loans originated in 2006 or spreads that may be attained in the future. The purpose of this information is to illustrate what the Company expects to experience on spreads on the majority of new student loans most recently added to its portfolio. The following amounts could vary based on the cost of acquisition or origination, changes to borrower benefit programs and borrower qualification rates on such programs, constant repayment rates, and cost of funds.

	NEW STAFFORD LOANS - IN-SCHOOL STATUS		NEW STAFFORD LOANS - REPAYMENT STATUS		NEW CONSOLIDATION LOANS	
	LOW	HIGH	LOW	HIGH	LOW	HIGH
Student loan spread	1.00 %	1.10 %	1.50 %	1.60 %	1.20 %	1.30 %

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, 2005, 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.

The allowance for the federally insured loan portfolio is based on periodic evaluations of the Company's loan portfolios considering past experience, trends

in student loan claims rejected for payment by guarantors, changes to federal student loan programs, current economic conditions, and other relevant factors. Should any of these factors change, the estimates made by management would also change, which in turn would impact the level of the Company's future provision for loan losses.

On February 8, 2006, HERA was enacted into law. HERA effectively reauthorized the Title IV provisions of the FFEL Program through 2012. One of the provisions of HERA resulted in lower guarantee rates on FFELP loans, including a decrease in insurance and reinsurance on portfolios receiving the benefit of 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). As a result, during the three and nine months ended September 30, 2006, the Company applied the new provisions to its evaluation of the adequacy of the allowance for loan losses on its federally insured loan portfolio.

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 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 March 2006, the FASB issued SFAS No. 156, ACCOUNTING FOR SERVICING OF FINANCIAL ASSETS, which amends SFAS No. 140, ACCOUNTING FOR TRANSFERS AND SERVICING OF FINANCIAL ASSETS AND EXTINGUISHMENTS OF Liabilities. This statement will be effective for the first fiscal year beginning after September 15, 2006. This statement:

- Requires an entity to recognize a servicing asset or liability each time it undertakes an obligation to service a financial asset as the result of i) a transfer of the servicer's financial assets that meet the requirement for sale accounting; ii) a transfer of the servicer's financial assets to a qualifying special-purpose entity in a guaranteed mortgage securitization in which the transferor retains all of the resulting securities and classifies them as either available-for-sale or trading securities in accordance with SFAS No. 115, ACCOUNTING FOR CERTAIN INVESTMENTS IN DEBT AND EQUITY SECURITIES; or iii) an acquisition or assumption of an obligation to service a financial asset that does not relate to financial assets of the servicer or its consolidated affiliates.

- Requires all separately recognized servicing assets or liabilities to be initially measured at fair value, if practicable.

- Permits an entity to either i) amortize servicing assets or liabilities in proportion to and over the period of estimated net servicing income or loss and assess servicing assets or liabilities for impairment or increased obligation based on fair value at each reporting date (amortization method); or ii) measure servicing assets or liabilities at fair value at each reporting date and report changes in fair value in earnings in the period in which the changes occur (fair value measurement method). The method must be chosen for each separately recognized class of servicing asset or liability.

- At its initial adoption, permits a one-time reclassification of available-for-sale securities to trading securities by entities with recognized servicing rights, without calling into question the treatment

of other available-for-sale securities under SFAS No. 115, provided that the available-for-sale securities are identified in some manner as offsetting the entity's exposure to changes in fair value of servicing assets or liabilities that a servicer elects to subsequently measure at fair value.

- Requires separate presentation of servicing assets and liabilities subsequently measured at fair value in the statement of financial position and additional disclosures for all separately recognized servicing asset and liabilities.

In July 2006, the FASB released FASB Interpretation No. 48, ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES, AN INTERPRETATION OF FASB STATEMENT NO. 109 ("FIN 48"). FIN 48 clarifies the accounting and reporting for income taxes where interpretation of the tax law may be uncertain. FIN 48 prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of income tax uncertainties with respect to positions taken or expected to be taken in income tax returns. The Company will adopt FIN 48 on January 1, 2007.

In September 2006, the FASB issued SFAS No. 157, FAIR VALUE MEASUREMENTS. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of SFAS No. 157 are effective as of the beginning of the first fiscal year that begins after November 15, 2007.

In September 2006, the FASB issued SFAS No. 158, EMPLOYERS' ACCOUNTING FOR DEFINED BENEFIT PENSION AND OTHER POSTRETIREMENT PLANS-AN AMENDMENT OF FASB STATEMENTS NO. 87, 88, 106, AND 132(R). This Statement requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity. This Statement also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. The provisions of SFAS No. 158 are effective as of the end of the fiscal year ending after December 15, 2006.

In September 2006, the Securities and Exchange Commission published Staff Accounting Bulletin ("SAB") No. 108, CONSIDERING THE EFFECTS OF PRIOR YEAR MISSTATEMENTS WHEN QUANTIFYING MISSTATEMENTS IN CURRENT YEAR FINANCIAL STATEMENTS ("SAB No 108"). SAB No. 108 requires registrants to quantify misstatements using both the balance-sheet and income-statement approaches, with adjustment required if either method results in a material error. The provisions of SAB No. 108 are effective for annual financial statements for the first fiscal year ending after November 15, 2006.

Management is currently evaluating the above accounting pronouncements to assess their 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 SEPTEMBER 30, 2006		AS OF DECEMBER 31, 2005	
	DOLLARS	PERCENT	DOLLARS	PERCENT
Fixed-rate loan assets	$ 4,107,514	18.2 %	$ 4,908,865	24.7 %
Variable-rate loan assets	18,427,147	81.8	15,004,090	75.3
Total	$ 22,534,661	100.0 %	$ 19,912,955	100.0 %
Fixed-rate debt instruments	$ 919,147	3.7 %	$ 794,086	3.7 %
Variable-rate debt instruments	23,771,098	96.3	20,879,534	96.3
Total	$ 24,690,245	100.0 %	$ 21,673,620	100.0 %

The following table shows the Company's student loan assets currently earning at a fixed rate as of September 30, 2006:

FIXED INTEREST RATE RANGE	BORROWER/ LENDER WEIGHTED AVERAGE YIELD	ESTIMATED VARIABLE CONVERSION RATE (A)	CURRENT BALANCE OF FIXED RATE ASSETS
8.0 - 9.0%	8.15%	5.51%	$ 564,227
> 9.0%	9.04	6.40	402,641
9.5 floor yield	9.50	6.86	3,140,646
			$ 4,107,514

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

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. Therefore, absent utilizing derivative

instruments, in a low interest rate environment, a rise in interest rates will have an adverse effect on earnings. 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 majority of the Company's student loan assets earning a fixed rate as of September 30, 2006 are consolidation loans that earn the higher of the borrower rate or 2.64% over the average commercial paper rate in a calendar quarter. This portfolio of loans includes the portfolio of approximately $2.5 billion of consolidation loans that have been previously financed with tax-exempt obligations further discussed below. Thus, excluding the loans earning the special allowance yield adjustment, the Company has a portfolio of approximately $1.6 billion of loans earning at fixed rates above the statutorily defined variable lender rates creating floor income. Using the weighted average lender yield from the above table and the average applicable commercial paper rates, the Company's loan interest income for the three and nine months ended September 30, 2006 includes approximately $4 million and approximately $16 million of floor income.

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

The total fixed-rate student loan assets of $4.1 billion held by the Company as of September 30, 2006, includes $2.5 billion of loans purchased prior to September 30, 2004 with proceeds of tax-exempt obligations originally issued prior to October 1, 1993 and then subsequently funded with the proceeds of taxable obligations, without retiring the tax-exempt obligations. As discussed previously, interest income that is generated from this $2.5 billion portfolio in excess of income based upon standard special allowance rates is referred to by the Company as the special allowance yield adjustment. The following table summarizes the outstanding interest rate swaps used by the Company as of September 30, 2006 to hedge this $2.5 billion loan portfolio. These derivatives are referred to by the Company as the special allowance yield derivatives. As of September 30, 2006, the fair market value of this derivative portfolio was $61.3 million. Since the $2.5 billion portfolio of student loans will decrease as principal payments are made on these loans, the Company has structured the related derivatives to expire or "amortize" in a similar pattern.

MATURITY	NOTIONAL VALUES	WEIGHTED AVERAGE FIXED RATE PAID BY THE COMPANY

2006	$ 250,000	3.16 %
2007	118,750	3.35
2008	293,750	3.78
2009	193,750	4.01
2010	687,500	4.25
2011	--	0.00
2012	275,000	4.31
2013	525,000	4.36
Total	$2,343,750	4.04

As discussed in note 2 of the financial statements included in this Quarterly Report, pending satisfactory resolution of the October 6, 2006 letter from the Department related to the OIG's audit report regarding certain loans receiving 9.5% special allowance payments, the Company has determined to defer recognition of the 9.5% special allowance payments which the Department is currently withholding payment. The Company has maintained its portfolio of interest rate swaps (summarized in the previous table) used to hedge the portfolio of loans in which the Department is currently withholding the 9.5% special allowance payments pending satisfactory resolution of this issue.

The following table summarizes the outstanding derivative instruments as of September 30, 2006 used by the Company to hedge the remaining fixed-rate loan portfolio.

MATURITY	NOTIONAL VALUES	WEIGHTED AVERAGE FIXED RATE PAID BY THE COMPANY
2007	$ 393,750	3.45 %
2008	168,750	3.72
2009	118,750	4.01
2010	450,000	4.25
Total	$1,131,250	3.87

In addition to the interest rate swaps with notional values of $1.1 billion summarized above, as of September 30, 2006, the Company had $444.1 million of fixed-rate debt (excluding the Company's fixed-rate unsecured debt of $475 million) that was used by the Company to hedge fixed-rate student loan assets.

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 are November 25, 2006, December 25, 2006, and January 25, 2007.

In addition to the three basis swaps summarized above, the Company also had a basis swap with a notional amount of $500.0 million that matured in August 2006 in which the Company pays a floating interest rate based on the U.S. Treasury bill rate and receives a floating interest rate based on the three-month LIBOR rate.

INTEREST RATE FLOOR CONTRACTS

FFELP student loans originated prior to July 1, 2006 generally earn interest at the greater of the borrower rate or a floating rate determined by reference to the average of the applicable floating rates (91-day Treasury bill rate or commercial paper rate) in a calendar quarter, plus a fixed spread that is dependent upon when the loan was originated, the loan's repayment status, and funding sources for the loan. If the resulting floating rate exceeds the borrower rate, the Department pays the difference directly to the Company. This payment is referred to as special allowance payments (SAP). The Company generally finances its student loan portfolio with floating rate debt. In low and/or declining interest rate environments, when the fixed borrower rate is higher than the rate produced by the SAP formula, student loans earn at a fixed rate while the interest on the floating rate debt continues to decline. In these interest rate environments, the Company earns additional spread income referred to as floor income.

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. Under the terms of these contracts, the Company is obligated to pay the counterparty floor income earned on a notional amount of underlying consolidation student loans over the life of the floor income contracts. Specifically, the Company agreed to pay the counterparty the difference, if positive, between the fixed borrower rate less the special allowance payment spread for consolidation loans and the three-month LIBOR rate plus a spread to better match the LIBOR floor strike rate to the underlying student loan asset on that notional amount, regardless of the actual balance of underlying student loans, over the life of the contracts. The contracts do not extend over the life of the underlying consolidation student loans.

The following provide the terms of these contracts:

AMORTIZING NOTIONAL AMOUNT	FLOOR STRIKE RATE
(IN THOUSANDS)	
$ 50,354	2.760%
44,068	2.885%
37,499	3.010%
34,338	3.135%
46,550	3.260%
76,911	3.385%
50,379	3.510%
52,793	3.635%
46,012	3.760%
45,159	3.885%
40,352	4.010%
63,002	4.135%
24,044	4.460%
31,648	5.060%
37,103	5.510%
7,097	4.300%
21,969	4.550%
17,220	4.800%
62,466	5.550%
$ 788,964	

Note: Those contracts with floor strike rates of 2.76%-4.135% and 4.460%-5.55% have an effective start date of June 30, 2006 and June 30, 2010, respectively. All contracts expire on June 30, 2016.

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 interest rate swaps, basis swaps and floor contracts which is included in derivative market value, foreign currency, and put option adjustments in the Company's statements of operations was a loss of $71.1 million and $0.6 million for the three and nine months ended September 30, 2006, respectively.

The following summarizes the components included in derivative settlements on the consolidated statement of operations:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2006	2005	2006	2005
Special allowance yield adjustment derivatives	$ 7,909	(2,644)	19,794	(16,961)
Other interest rate swaps	4,317	1,672	9,357	13,908
Basis swaps	(145)	(1,990)	(656)	(15,996)
Cross-currency interest rate swaps	(5,115)	--	(10,083)	--
Other (1)	(1,993)	--	(1,993)	--
Derivative settlements, net	$ 4,973	(2,962)	16,419	(19,049)

(1) In connection with the issuance of the CENts described in note 6 to the financial statements in this Quarterly Report, the Company entered into a derivative instrument to economically lock into a fixed interest rate of 7.65% prior to the actual pricing of the transaction. Upon pricing of the CENts, the Company terminated this derivative instrument. The consideration paid by the Company to terminate this derivative was $2.0 million, which is reflected as a derivative settlement in the accompanying consolidated statements of operations.

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.

45

	THREE MONTHS ENDED SE		
	CHANGE FROM DECREASE OF 100 BASIS POINTS		CHANGE FROM OF 100 BASIS
	Dollar	Percent	Dollar
Effect on earnings:			
Increase (decrease) in pre-tax net income before impact of derivative settlements	$ 7,836	22.1 %	(490)
Impact of derivative settlements	(8,759)	(24.7)	8,759
Increase (decrease) in net income before taxes	$ (923)	(2.6) %	8,269
Increase (decrease) in basic and diluted earning per share	$ (0.01)		0.10

	THREE MONTHS ENDED SEP		
	CHANGE FROM DECREASE OF 100 BASIS POINTS		CHANGE FROM OF 100 BASIS
	Dollar	Percent	Dollar
Effect on earnings:			
Increase (decrease) in pre-tax net income before impact of derivative settlements	$ 14,264	12.6 %	(9,730)
Impact of derivative settlements	(9,134)	(8.1)	9,134
Increase (decrease) in net income before taxes	$ 5,130	4.5 %	(596)
Increase (decrease) in basic and diluted earning per share	$ 0.06		(0.01)

	NINE MONTHS ENDED SEPT		
	CHANGE FROM DECREASE OF 100 BASIS POINTS		CHANGE FROM OF 100 BASIS
	Dollar	Percent	Dollar
Effect on earnings:			

Increase in pre-tax net income before impact of derivative settlements	$ 31,837	26.5 %	5,228	
Impact of derivative settlements	(25,991)	(21.6)	25,991	
Increase in net income before taxes	$ 5,846	4.9 %	31,219	
Increase in basic and diluted earning per share	$ 0.07		0.36	

	NINE MONTHS ENDED SEP			
	CHANGE FROM DECREASE OF 100 BASIS POINTS		CHANGE FROM OF 100 BASIS	
	Dollar	Percent	Dollar	
Effect on earnings:				
Increase (decrease) in pre-tax net income before impact of derivative settlements	$ 58,620	26.9 %	(26,852)	
Impact of derivative settlements	(29,044)	(13.3)	29,044	
Increase in net income before taxes	$ 29,576	13.6 %	2,192	
Increase in basic and diluted earning per share	$ 0.35		0.03	

FOREIGN CURRENCY EXCHANGE RISK

The Company purchased EDULINX in December 2004. EDULINX is a Canadian corporation that engages in servicing Canadian student loans. As a result of this acquisition, the Company is exposed to market risk related to fluctuations in foreign currency exchange rates between the U.S. and Canadian dollars. The Company has not entered into any foreign currency derivative instruments to hedge this risk. However, the Company does not believe fluctuations in foreign currency exchange rates will have a significant effect on the financial position, results of operations, or cash flows of the Company.

On February 21, 2006, and May 18, 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 in the Company's consolidated statements of operations.

46

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 nine months ended September 30, 2006, the Company recorded income of $7.2 million and an expense of $30.9 million, respectively, as a result of re-measurement of the Euro Notes and expense of $12.4 million and income of $23.8 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 on the Company's consolidated statement of operations.

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 co-chief executive officers and the chief financial officer, 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 co-chief executive officers and chief financial officer 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.

REPORT BY THE OFFICE OF INSPECTOR GENERAL OF THE DEPARTMENT OF EDUCATION

On September 29, 2006, the Company received a copy of the final audit report from the OIG related to the OIG's audit of the Company's student loan portfolio receiving 9.5% Floor special allowance payments. The final audit report is discussed in note 2 to the financial statements and Item 1A of Part II of this report. Nelnet disagrees with the OIG's final audit report, and continues to believe that Nelnet has billed for the 9.5% special allowance payments in accordance with applicable laws, regulations, and the Department's previous guidance. Nelnet intends to seek a satisfactory resolution of this matter with the Department, and examine other remedies if a satisfactory resolution cannot be reached with the Department. However, Nelnet cannot predict the final outcome of any subsequent review by the Department or of any administrative or other legal proceedings following any further action by the Department.

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, 2005 in response to Item 1A of Part I of such Form 10-K except as set forth below.

THE FINAL AUDIT REPORT FROM THE OFFICE OF INSPECTOR GENERAL OF THE DEPARTMENT OF EDUCATION CONTAINS RECOMMENDATIONS THAT THE DEPARTMENT OF EDUCATION REQUIRE NELNET TO CALCULATE AND RETURN WHAT THE OIG DEEMS TO BE OVERPAYMENTS ATTRIBUTABLE TO DEEMED INELIGIBLE LOANS AND THAT THE DEPARTMENT INSTRUCT NELNET TO EXCLUDE SUCH LOANS FROM FUTURE CLAIMS FOR 9.5% SPECIAL ALLOWANCE PAYMENTS. IF NELNET IS REQUIRED TO RETURN THE ALLEGED OVERPAYMENTS OR IS PROHIBITED FROM BILLING FOR 9.5% SPECIAL ALLOWANCE PAYMENTS IN THE FUTURE, NELNET'S RESULTS OF OPERATIONS WOULD BE ADVERSELY AFFECTED.

In June 2005, the OIG commenced an audit of the portion of Nelnet's student loan portfolio receiving 9.5% Floor special allowance payments. Nelnet received a draft of the audit report in August 2006, which Nelnet responded to on September 7, 2006. On September 29, 2006, Nelnet received a copy of the final audit report from the OIG related to this audit. Nelnet intends to respond to the OIG's finding in the final audit report prior to November 19, 2006.

The final audit report contains a finding by the OIG that an increase in the amount of 9.5% special allowance payments that have been received by Nelnet was based on what the OIG deemed to be ineligible loans. Such loans are deemed by the OIG to be ineligible for 9.5% special allowance payments due to interpretive issues related to the legal characterization of refinancing transfers of qualifying loans from a trust for tax-exempt financing obligations originally issued prior to October 1, 1993 to trusts for taxable obligations, and the extent to which sales of qualifying loans can result in qualification of additional loans. The audit report also contains a recommendation by the OIG that the Department require Nelnet to calculate and return what the OIG deems to be overpayments attributable to the deemed ineligible loans, and instruct Nelnet to exclude such loans from future claims for 9.5% special allowance payments. The final audit report is publicly available through the Department's web site at www.ed.gov (information on the Department's web site is not incorporated by reference into this report and should not be considered part of this report). The Department may accept or reject the finding or recommendation of the OIG contained in the final audit report.

Through June 30, 2006, Nelnet recorded approximately $322.6 million of pre-tax income related to that portion of the 9.5% special allowance payments received which exceeds regular special allowance payments on the underlying loans at the otherwise applicable statutory rate. If the recommendation contained in the OIG's final audit report is implemented by the Department and upheld after any administrative or other legal proceedings, a significant portion of those payments would be disallowed and need to be returned by Nelnet.

On October 6, 2006, Nelnet received a letter from the Department related to the OIG audit report. The Department's letter indicated that, effective July 1, 2006 and until the issues raised in the OIG audit report are resolved, the Department will pay future regular special allowance payments on the underlying loans at the generally applicable statutory rate, and not the 9.5% special allowance rate. The letter also stated that if resolution of the audit upholds the propriety of Nelnet's billings for special allowance payments at the 9.5% minimum rate, the Department will pay the withheld amounts. Nelnet has determined to defer recognition of these 9.5% special allowance payments for which the Department is currently withholding payment. Income from these 9.5% special allowance payments would have been $8.9 million ($5.5 million or $0.10 per share after tax) for the three months ended September 30, 2006.

Nelnet cannot predict the final outcome of any subsequent review by the Department or of any administrative or other legal proceedings following any further action by the Department. If Nelnet is ultimately required to return deemed overpayments in connection with the 9.5% special allowance payment program, is no longer eligible to receive 9.5% special allowance payments, and/or incurs significant other costs, expenses, or loss of revenues associated with an adverse final outcome of this matter, it may have a material adverse effect on Nelnet's financial condition and results of operations.

NELNET IS SUBJECT TO FOREIGN CURRENCY EXCHANGE RISK IN CONNECTION WITH EURO-DENOMINATED NOTES ISSUED BY NELNET AND SUCH RISK COULD LEAD TO INCREASED COSTS.

As a result of Nelnet's offerings of Euro-denominated notes completed in February and May 2006, Nelnet is subject to increased foreign currency exchange risk as discussed under the caption "Foreign Currency Exchange Risk" in Item 3 of Part I of this report.

THE REPEAL OF THE SINGLE HOLDER RULE COULD LEAD TO INCREASED CONSOLIDATIONS BY COMPETITORS OF LOANS HELD BY NELNET, WHICH COULD REDUCE NELNET'S LOAN PORTFOLIO AND COULD RESULT IN NELNET NOT BEING ABLE TO RECOVER UP-FRONT COSTS ASSOCIATED WITH MAKING STUDENT LOANS UNDER THE FFEL PROGRAM.

Nelnet's student loan origination and lending activities could be significantly impacted by the repeal of the single holder rule. The single holder rule, which generally restricted a competitor from consolidating loans away from a holder that owns all of a student's loans, was abolished effective June 15, 2006. As a result, a substantial portion of Nelnet's non-consolidated loan portfolio is subject to the risk of being consolidated away by a competitor.

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

The following table summarizes the repurchases of Class A common stock during the third quarter of 2006 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)	MAXIMU OF SHAR YET BE UNDER OR PRO
July 1 - July 31, 2006	--	$ --	--	5
August 1 - August 31, 2006	1,093,400	30.73	1,093,400	4
September 1 - September 30, 2006	518,100	31.03	518,100	4
Total	1,611,500	$ 30.82	1,611,500	

(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 July, August, and September 2006.

(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). All of the shares repurchased by the Company during July, August, and September 2006 were repurchased under the 2006 Plan.

(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. No shares were purchased under the 2006 ESLP during July, August, or September 30, 2006.

(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.

MAXIMUM NUMBER OF SHARES	APPROXIMATE DOLLAR VALUE OF SHARES THAT MAY	CLOSING PRICE ON THE LAST TRADING DAY OF	(B/C) APPROXIMATE NUMBER OF SHARES THAT MAY	(A+ APPRO NUMB SHARES

AS OF	THAT MAY YET BE PURCHASED UNDER THE 2006 PLAN (A)	YET BE PURCHASED UNDER THE 2006 ESLP (B)	THE COMPANY'S CLASS A COMMON STOCK (C)	YET BE PURCHASED UNDER THE 2006 ESLP (D)	YET BE UNDER T PLAN A ES
July 31, 2006	4,671,300	$39,500,000	$30.67	1,287,903	5,95
August 31, 2006	3,577,900	39,500,000	29.75	1,327,731	4,90
September 30, 2006	3,059,800	39,500,000	30.74	1,284,971	4,34

WORKING CAPITAL AND DIVIDEND RESTRICTIONS/LIMITATIONS

The Company's credit facilities, including its revolving line of credit which is available through August of 2010, 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.

49

On September 27, 2006 the Company consummated a debt offering of $200.0 million aggregate principal amount of Capital Efficient Notes ("CENts"). So long as any CENts 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 CENts 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 CENts; 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 CENts.

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 CENts 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.

50

ITEM 6. EXHIBITS

3.1	Second Amended and Restated Articles of Incorporation of Nelnet, Inc., as amended (filed as Exhibit 3.1 to the registrant's Quarterly Report for the period ended September 30, 2006, filed on Form 10-Q and incorporated by reference herein)
4.1	Indenture dated as of September 27, 2006 between Nelnet, Inc. and Deutsche Bank Trust Company Americas (filed as Exhibit 4.1 to the registrant's Current Report on Form 8-K filed on September 28, 2006 and incorporated by reference herein)
4.2	Supplemental Indenture dated as of September 27, 2006 between Nelnet, Inc. and Deutsche Bank Trust Company Americas (filed as Exhibit 4.2 to the registrant's Current Report on Form 8-K filed on September 28, 2006 and incorporated by reference herein)
4.3	Form of CENt (filed as Exhibit 4.3 to the registrant's Current Report on Form 8-K filed on September 28, 2006 and incorporated by reference herein)
10.1	Replacement Capital Covenant of Nelnet, Inc. dated September 27, 2006 (filed as Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on September 28, 2006 and incorporated by reference herein)
10.2	Amendment to Agreement of Purchase and Sale dated as of September 25, 2006 between Mad Dog Guest Ranch LLC and Nelnet, Inc. (filed as Exhibit 10.2 to the registrant's Current Report on Form 8-K filed on October 16, 2006 and incorporated by reference herein)
10.3	Office Building Lease dated June 21, 1996 between Miller & Paine and Union Bank and Trust Company (filed as Exhibit 10.3 to the registrant's Current Report on Form 8-K filed on October 16, 2006 and incorporated by reference herein)
10.4	Amendment to Office Building Lease dated June 11, 1997 between Miller & Paine and Union Bank and Trust Company (filed as Exhibit 10.4 to the registrant's Current Report on Form 8-K filed on October 16, 2006 and incorporated by reference herein)
10.5	Lease Amendment Number Two dated February 8, 2001 between Miller & Paine and Union Bank and Trust Company (filed as Exhibit 10.5 to the registrant's Current Report on Form 8-K filed on October 16, 2006 and incorporated by reference herein)

10.6	Lease Amendment Number Three dated May 23, 2005 between Miller & Paine, LLC and Union Bank and Trust Company (filed as Exhibit 10.6 to the registrant's Current Report on Form 8-K filed on October 16, 2006 and incorporated by reference herein)
10.7	Lease Agreement dated May 20, 2005 between Miller & Paine, LLC and Union Bank and Trust Company (filed as Exhibit 10.7 to the registrant's Current Report on Form 8-K filed on October 16, 2006 and incorporated by reference herein)
10.8	Office Sublease dated April 30, 2001 between Union Bank and Trust Company and Nelnet, Inc. (filed as Exhibit 10.8 to the registrant's Current Report on Form 8-K filed on October 16, 2006 and incorporated by reference herein)
31.1*	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of Co-Chief Executive Officer Michael S. Dunlap.
31.2*	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of Co-Chief Executive Officer Stephen F. Butterfield.
31.3*	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of Chief Financial Officer Terry J. Heimes.
32.**	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith
** Furnished herewith

SIGNATURES

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

NELNET, INC.

Date: November 13, 2006

By: /s/ Michael S. Dunlap

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

By: /s/ Stephen F. Butterfield

Name: Stephen F. Butterfield
Title: Vice-Chairman and Co-Chief Executive Officer

By: /s/ Terry J. Heimes

Name: Terry J. Heimes
Title: Chief Financial Officer