NELNET INC
Form 10-Q
August 09, 2006

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

FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 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 July 31, 2006, there were 40,118,981 and 13,942,954 shares of Class A Common Stock and Class B Common Stock, par value $0.01 per share, outstanding, respectively.

NELNET, INC.
FORM 10-Q
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JUNE 30, 2006

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	AS OF JUNE 30, 2006 (UNAUDITED)	AS OF DECEMBER 31 2005
ASSETS:		
Student loans receivable (net of allowance for loan losses of $24,180 and $13,390, respectively)	$22,404,492	20,260,807
Cash and cash equivalents:		
Cash and cash equivalents - not held at a related party	51,695	49,863
Cash and cash equivalents - held at a related party	49,784	53,787
Total cash and cash equivalents	101,479	103,650
Restricted cash	1,677,800	1,228,570
Restricted investments	146,171	160,479
Restricted cash - due to customers	48,860	153,098
Accrued interest receivable	493,118	394,630
Accounts receivable, net	43,045	36,331
Goodwill	149,148	99,535
Intangible assets, net	177,483	153,117
Furniture, equipment, and leasehold improvements, net	44,459	36,750
Other assets	78,237	88,889
Fair value of derivative instruments, net	180,901	82,766

Total assets	$25,545,193	22,798,622
LIABILITIES:		
Bonds and notes payable	$24,327,855	21,673,620
Accrued interest payable	113,471	94,281
Other liabilities	183,200	137,572
Deferred income taxes	119,618	89,933
Due to customers	48,860	153,098
Total liabilities	24,793,004	22,148,504
Minority interest	--	626
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 40,118,981 shares as of June 30, 2006 and 40,040,841 shares as of December 31, 2005	401	400
Class B, $0.01 par value. Authorized 60,000,000 shares; issued and outstanding 13,942,954 shares as of June 30, 2006 and 13,962,954 shares as of December 31, 2005	139	140
Additional paid-in capital	229,994	220,432
Retained earnings	526,005	428,186
Unearned compensation	(5,155)	(86)
Employee note receivable	(501)	--
Accumulated other comprehensive income, net of taxes	1,306	420
Total shareholders' equity	752,189	649,492
COMMITMENTS AND CONTINGENCIES		
Total liabilities and shareholders' equity	$25,545,193	22,798,622

See accompanying notes to consolidated financial statements.

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

	THREE MONTHS ENDED JUNE 30,		SIX MONTH ENDED JUNE
	2006	2005	2006
INTEREST INCOME:			
Loan interest	$ 362,742	207,144	688,402
Investment interest	24,314	8,150	43,855
Total interest income	387,056	215,294	732,257
INTEREST EXPENSE:			
Interest on bonds and notes payable	300,844	133,277	559,793

Net interest income	86,212	82,017	172,464
Less provision for loan losses	2,190	2,124	11,808
Net interest income after provision for loan losses	84,022	79,893	160,656
OTHER INCOME (EXPENSE):			
Loan and guarantee servicing income	44,042	34,678	91,116
Other fee-based income	16,074	9,027	34,229
Software services income	4,018	2,602	7,427
Other income	3,154	1,524	4,609
Derivative market value and foreign currency adjustments	28,865	(51,372)	68,660
Derivative settlements, net	6,702	(6,001)	11,446
Total other income (expense)	102,855	(9,542)	217,487
OPERATING EXPENSES:			
Salaries and benefits	62,207	39,977	119,891
Other operating expenses:			
Depreciation and amortization	9,955	4,918	19,360
Trustee and other debt related fees	2,935	2,121	6,040
Occupancy and communications	6,081	4,344	11,907
Advertising and marketing	5,229	4,070	10,041
Professional services	6,651	4,576	14,467
Postage and distribution	6,449	5,079	12,299
Other	14,765	8,794	28,514
Total other operating expenses	52,065	33,902	102,628
Total operating expenses	114,272	73,879	222,519
Income (loss) before income taxes	72,605	(3,528)	155,624
Income tax expense (benefit)	26,852	(1,755)	57,563
Net income (loss) before minority interest	45,753	(1,773)	98,061
Minority interest in subsidiary income	--	--	(242)
Net income (loss)	$ 45,753	(1,773)	97,819
Earnings (loss) per share, basic and diluted	$ 0.84	(0.03)	1.80
Weighted average shares outstanding, basic and diluted	$ 54,297,230	53,712,048	54,269,440

See accompanying notes to consolidated financial statements.

NELNET, INC. AND SUBSIDIARIES

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

	PREFERRED STOCK SHARES	COMMON STOCK SHARES CLASS A	COMMON STOCK SHARES CLASS B	PREFERRED STOCK
Balance at March 31, 2005	--	39,727,864	13,983,454	$ --
Comprehensive income:				
Net loss	--	--	--	--
Other comprehensive loss:				
Cash flow hedge, net of tax	--	--	--	--
Foreign currency translation	--	--	--	--
Total comprehensive loss				
Issuance of common stock	--	14,829	--	--
Compensation expense for stock based awards	--	--	--	--
Conversion of common stock	--	20,500	(20,500)	--
Balance at June 30, 2005	--	39,763,193	13,962,954	$ --
Balance at March 31, 2006	--	40,428,988	13,942,954	$ --
Comprehensive income:				
Net income	--	--	--	--
Other comprehensive income related to foreign currency translation	--	--	--	--
Total comprehensive income				
Issuance of common stock	--	18,693	--	--
Compensation expense for stock based awards	--	--	--	--
Repurchase of common stock	--	(328,700)	--	--
Loan to employee for purchase of common stock	--	--	--	--
Balance at June 30, 2006	--	40,118,981	13,942,954	$ --
Balance at December 31, 2004	--	39,687,037	13,983,454	$ --
Comprehensive income:				
Net income	--	--	--	--
Other comprehensive income:				
Cash flow hedge, net of tax	--	--	--	--
Foreign currency translation	--	--	--	--
Total comprehensive income				
Issuance of common stock	--	55,656	--	--
Compensation expense for stock based awards	--	--	--	--
Conversion of common stock	--	20,500	(20,500)	--
Balance at June 30, 2005	--	39,763,193	13,962,954	$ --
Balance at December 31, 2005	--	40,040,841	13,962,954	$ --

Comprehensive income:				
Net income	--	--	--	--
Other comprehensive income related to foreign currency translation	--	--	--	--
Total comprehensive income				
Issuance of common stock	--	386,840	--	--
Compensation expense for stock based awards	--	--	--	--
Repurchase of common stock	--	(328,700)	--	--
Conversion of common stock	--	20,000	(20,000)	--
Loan to employee for purchase of common stock	--	--	--	--
Balance at June 30, 2006	--	40,118,981	13,942,954	$ --

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

	RETAINED EARNINGS	UNEARNED COMPEN- SATION	EMPLOYEE NOTE RECEIVABLE	ACCUMULATED OTHER COMPREHENSIV INCOME (LOSS
Balance at March 31, 2005	315,151	(64)	--	428
Comprehensive income:				
Net loss	(1,773)	--	--	--
Other comprehensive loss:				
Cash flow hedge, net of tax	--	--	--	(335)
Foreign currency translation	--	--	--	(235)
Total comprehensive loss				
Issuance of common stock	--	--	--	--
Compensation expense for stock based awards	--	11	--	--
Conversion of common stock	--	--	--	--
Balance at June 30, 2005	313,378	(53)	--	(142)
Balance at March 31, 2006	480,252	(5,700)	--	389
Comprehensive income:				
Net income	45,753	--	--	--
Other comprehensive income related to foreign currency translation	--	--	--	917
Total comprehensive income				
Issuance of common stock	--	--	--	--
Compensation expense for stock based awards	--	545	--	--
Repurchase of common stock	--	--	--	--
Loan to employee for purchase of common stock	--	--	(501)	--
Balance at June 30, 2006	526,005	(5,155)	(501)	1,306
Balance at December 31, 2004	247,064	(77)	--	736
Comprehensive income:				

Net income	66,314	--	--	--
Other comprehensive income:				
Cash flow hedge, net of tax	--	--	--	(440)
Foreign currency translation	--	--	--	(438)
Total comprehensive income				
Issuance of common stock	--	--	--	--
Compensation expense for stock based awards	--	24	--	--
Conversion of common stock	--	--	--	--
Balance at June 30, 2005	313,378	(53)	--	(142)
Balance at December 31, 2005	428,186	(86)	--	420
Comprehensive income:				
Net income	97,819	--	--	--
Other comprehensive income related to foreign currency translation	--	--	--	886
Total comprehensive income				
Issuance of common stock	--	(5,980)	--	--
Compensation expense for stock based awards	--	911	--	--
Repurchase of common stock	--	--	--	--
Conversion of common stock	--	--	--	--
Loan to employee for purchase of common stock	--	--	(501)	--
Balance at June 30, 2006	526,005	(5,155)	(501)	1,306

See accompanying notes to consolidated financial statements.

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

	SIX MONTHS ENDED JUNE 30,	
	2006	2005
Net income	$ 97,819	66,314
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	67,116	45,380
Derivative market value adjustment	(106,715)	(8,918)
Foreign currency transaction adjustment	38,055	--
Proceeds from sale of floor contracts	8,580	--
Gain on sale of student loans	(1,880)	--
Non-cash compensation expense	1,075	1,567
Change in value of put options issued in business acquisitions	284	--
Deferred income tax expense	26,895	6,751
Provision for loan losses	11,808	4,155

Other non-cash items	531	(251)
Increase in accrued interest receivable	(98,488)	(45,418)
Increase in accounts receivable	(606)	(953)
Decrease in other assets	12,357	1,993
Increase in accrued interest payable	19,190	26,584
Increase (decrease) in other liabilities	34,310	(24,308)
Net cash provided by operating activities	110,331	72,896
Cash flows from investing activities, net of business acquisitions:		
Originations, purchases, and consolidations of student loans, including loan premiums and deferred origination costs	(3,397,070)	(2,024,666)
Purchases of student loans, including loan premiums, from a related party	(389,266)	(939,175)
Net proceeds from student loan repayments, claims, capitalized interest, andother	1,400,224	727,449
Proceeds from sale of student loans	189,513	407
Purchases of furniture, equipment, and leasehold improvements, net	(14,533)	(10,314)
Increase in restricted cash	(449,230)	(105,132)
Purchases of restricted investments	(401,953)	(434,826)
Proceeds from maturities of restricted investments	416,261	572,828
Purchase of loan origination rights	--	(260)
Business acquisitions, net of cash acquired	(60,271)	(76,984)
Net cash used in investing activities	(2,706,325)	(2,290,673)
Cash flows from financing activities:		
Payments on bonds and notes payable	(1,552,432)	(1,412,830)
Proceeds from issuance of bonds and notes payable	4,097,658	3,692,295
Proceeds from issuance of notes payable due to a related party	71,081	--
Payments of debt issuance costs	(10,382)	(10,880)
Proceeds from issuance of common stock	831	492
Repurchases of common stock	(12,653)	--
Loan to employee for purchase of common	(501)	--
Net cash provided by financing activities	2,593,602	2,269,077
Effect of exchange rate fluctuations on cash	221	38
Net (decrease) increase in cash and cash equivalents	(2,171)	51,338
Cash and cash equivalents, beginning of period	103,650	39,989
Cash and cash equivalents, end of period	$ 101,479	91,327
Supplemental disclosures of cash flow information:		
Interest paid	$ 529,226	205,078
Income taxes paid, net of refunds	$ 35,192	35,478

Supplemental disclosures of noncash operating, investing, and financing activities regarding the Company's acquisitions are contained in notes 3 and 9.

See accompanying notes to consolidated financial statements.

NELNET, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(INFORMATION AS OF JUNE 30, 2006 AND FOR THE THREE AND SIX MONTHS ENDED JUNE 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 June 30, 2006 and for the three and six months ended June 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 six months ended June 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. STUDENT LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Student loans receivable consist of the following:

	AS OF JUNE 30, 2006	AS OF DECEMBER 31, 2005
Federally insured loans	$21,843,197	19,816,075
Non-federally insured loans	169,473	96,880
	22,012,670	19,912,955
Unamortized loan premiums and deferred origination costs	416,002	361,242
Allowance for loan losses - federally insured loans	(7,001)	(98)
Allowance for loan losses - non-federally insured loans	(17,179)	(13,292)
	$22,404,492	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 Federal Family Education Loan Program (the "FFEL Program" or "FFELP") of the U.S. Department of Education (the "Department") 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 or 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.

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 June 30, 2006, the balance of loans participated under this agreement was $44.8 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 three months ended June 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 June 30, 2006, the Company sold approximately $312.6 million (par value) of student loans to an unrelated party. Loans sold under this agreement were originated by Nova Southeastern University ("Nova"), a school-as-lender customer. Nova elected not to renew their existing contract with the Company, which will expire in December 2006. Though the Company has not historically sold loans in the ordinary course, the portfolio of loans sold were not serviced by the Company and as such were at a greater risk of being consolidated away from the Company by third parties.

3. ACQUISITIONS

Effective January 31, 2006, the Company purchased the remaining 50% of the stock of infiNET Integrated Solutions, Inc. ("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

Effective June 1, 2005, the Company purchased 80% of the capital stock of FACTS Management Co. ("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.

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

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 the three months ended June 30, 2006, the Company paid $1.2 million (net) to settle all obligations associated with the purchase of these entities.

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.

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 and FACTS (20%) 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 JUNE 30,		SIX MONTHS EN
	2006	2005	2006
Net interest income	$ 86,212	87,724	172,489
Other income (expense) (a)	102,855	1,716	217,791

Net income (loss)	45,753	(2,028)	97,835
Weighted average shares outstanding, basic and diluted	54,297,230	54,304,425	54,326,579
Earnings (loss) per share, basic and diluted	$ 0.84	(0.04)	1.80

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

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4. INTANGIBLE ASSETS AND GOODWILL

Intangible assets consist of the following:

	WEIGHTED AVERAGE REMAINING USEFUL LIFE AS OF JUNE 30, 2006	AS OF JUNE 30, 2006	DEC
Amortizable intangible assets:			
Covenants not to compete (net of accumulated amortization of $3,187 and $499, respectively)	57 months	$ 22,911	
Student lists (net of accumulated amortization of $2,732 and $1,708, respectively)	32 months	5,465	
Loan origination rights (net of accumulated amortization of $6,348 and $2,505, respectively)	74 months	45,851	
Customer relationships (net of accumulated amortization of $7,526 and $3,771, respectively)	133 months	77,442	
Computer software (net of accumulated amortization of $1,163 and $677, respectively)	37 months	1,692	
Trade names (net of accumulated amortization of $132 and $54, respectively)	55 months	1,499	
Total - amortizable intangible assets	98 months	154,860	
Unamortizable intangible assets - trade names		22,623	
		$177,483	

The Company recorded amortization expense on its intangible assets of $6.2 million and $1.6 million for the three months ended June 30, 2006 and 2005, respectively, and $11.8 million and $2.7 million for the six months ended June 30, 2006 and 2005, respectively. The Company will continue to amortize intangible assets over their remaining useful lives. As disclosed in note 3, the Company is in the process of obtaining third party valuations of certain intangible assets, however, as of June 30, 2006 the Company estimates it will record amortization expense as follows:

2006	$ 14,208
2007	26,404
2008	25,758
2009	22,620

2010	18,958
2011 and thereafter	46,912
	$ 154,860

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	PAYMENT MANAGEME SERVICE
Balance as of December 31, 2005	$ 35,356	3,060	11,059	17,150	32,91
Goodwill acquired during the period	--	--	--	--	32,85
Effect of foreign currency fluctuations	--	(4)	--	--	-
Balance as of March 31, 2006	$ 35,356	3,056	11,059	17,150	65,76
Goodwill acqired during the period	--	--	--	20,912	--
Goodwill from prior period acquisition allocated during the current period	413	--	--	--	(4,70
Effect of foreign currency fluctuations	--	142	--	--	-
Balance as of June 30, 2006	$ 35,769	3,198	11,059	38,062	61,06

5. BONDS AND NOTES PAYABLE

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 based on a spread to EURIBOR (the "Euro Notes").

As of March 31, 2006 and June 30, 2006, the Euro Notes were recorded on the Company's balance sheet at $510.5 million and $988.1 million, respectively, based on the foreign currency exchange rate as of the respective balance sheet dates. The increases in the principal amount of the Euro Notes of $27.6 million and $38.1 million as a result of the foreign currency exchange rate fluctuations are included in the derivative market value and foreign currency adjustments in the accompanying consolidated statements of operations for the three and six months ended June 30, 2006, respectively.

Concurrently with the issuances of the Euro Notes, the Company entered into foreign currency derivative instruments which are further discussed in note 6.

As of June 30, 2006, bonds and notes payable includes $71.8 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.

6. DERIVATIVE FINANCIAL INSTRUMENTS

The Company maintains an overall interest rate risk management strategy that incorporates the use of derivative instruments to reduce the economic effect of interest rate volatility. Derivative instruments 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 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.

INTEREST RATE SWAPS

The following table summarizes the Company's outstanding interest rate swaps as of June 30, 2006:

MATURITY	NOTIONAL AMOUNT	WEIGHTED AVERAGE FIXED RATE PAID BY THE COMPANY
2006 (a)	$ 612,500	2.99 %
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	$ 3,837,500	3.88 %

(a) Includes $362,500 of interest rate swaps that expired July 1, 2006 with a weighted average fixed rate of 2.88%.

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 has a basis swap with a notional amount of $500.0 million that matures 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

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
$ 51,296	2.760%
44,873	2.885%
38,174	3.010%
34,953	3.135%
47,420	3.260%
78,390	3.385%
51,300	3.510%
53,745	3.635%
46,842	3.760%
45,971	3.885%
41,076	4.010%
64,167	4.135%
24,044	4.460%
31,648	5.060%
37,103	5.510%
7,097	4.300%
21,968	4.550%
17,220	4.800%
62,466	5.550%
$799,753	

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 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.

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 5. 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.

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As of June 30, 2006, the net fair value of the Company's derivative portfolio was $180.9 million and the net change in the fair value of the Company's derivative portfolio for the three and six months ended June 30, 2006 was $56.4 million and $106.7 million, respectively.

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

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2006	2005	2006	2005
Interest rate swaps	$ 10,715	(5,208)	16,925	(14,005)
Basis swaps	(197)	(793)	(511)	(2,082)
Cross-currency interest rate swaps	(3,816)	--	(4,968)	--
Derivative settlements, net	$ 6,702	(6,001)	11,446	(16,087)

7. STOCKHOLDERS' EQUITY

CONVERSION OF COMMON STOCK

In February 2006, a principal shareholder gifted 20,000 Class B shares of common stock to certain charitable organizations. 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. On June 30, 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 months ended June 30, 2006, the Company repurchased and retired 328,700 Class A common shares for $12.6 million (average price of $38.46 per share) under this authority. Subsequent to June 30, 2006 (through August 8, 2006), the Company has repurchased an additional 674,300 shares for $21.1 million (average price of $31.24 per share) under this plan for a combined total of 1,003,000 shares repurchased by the Company through August 8, 2006.

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 2010 and bears interest equal to the three-month LIBOR rate plus 50 basis points (5.95% as of June 30, 2006). The balance of this loan totaled $0.5 million at June 30, 2006, and is reflected as a reduction to stockholders' equity on the consolidated balance sheet.

8. 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.

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The Asset Management segment includes the acquisition, management, and ownership of the 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 businesses reach the middle school, high school, college bound high school, college, and young adult market places. This segment also provides marketing services and college bound student lists to college and university admissions offices nationwide. 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 six months ended June 30, 2006, the Company recognized $15.1 million and $31.9 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 six months ended June 30, 2006, the Company recognized $11.6 million, or 26.5%, and $24.2 million, or 26.6%, 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.

Segment data is as follows:

	THREE MONTHS ENDED JUNE 30,					
	2006				2	
	ASSET MANAGEMENT	STUDENT LOAN AND GUARANTEE SERVICING	OTHER	TOTAL SEGMENTS	ASSET MANAGEMENT	STUDENT LOAN AND GUARANTEE SERVICING
Net interest income	$ 89,226	1,691	660	91,577	82,546	753
Other income (expense)	40,687	43,831	17,024	101,542	(55,015)	34,677
Intersegment revenues	--	34,298	4,705	39,003	--	26,830
Total revenue	129,913	79,820	22,389	232,122	27,531	62,260
Provision for loan losses	2,190	--	--	2,190	2,124	--
Depreciation and amortization	1,583	2,396	2,658	6,637	32	951
Net income (loss) before taxes	$ 86,220	13,659	4,086	103,965	(4,450)	19,406

	SIX MONTHS ENDED JUNE 30,					
	2006					
	ASSET MANAGEMENT	STUDENT LOAN AND GUARANTEE SERVICING	OTHER	TOTAL SEGMENTS	ASSET MANAGEMENT	STUDENT LOAN AND GUARANTEE SERVICING
Net interest income	$177,551	3,564	1,523	182,638	168,616	1,431
Other income (expense)	89,506	90,252	35,681	215,439	(2,586)	71,843
Intersegment revenues	--	67,703	9,377	77,080	--	52,932
Total revenue	267,057	161,519	46,581	475,157	166,030	126,206
Provision for loan losses	11,808	--	--	11,808	4,155	--
Depreciation and amortization	2,607	1,788	4,766	9,161	58	1,870
Net income before taxes	$173,738	32,591	12,517	218,846	103,223	38,068

	AS OF JUNE 30, 2006	AS OF DECEMBER 31, 2005
Segment total assets		
Asset management	$ 25,093,132	22,316,657
Student loan and guarantee servicing	476,442	505,958

Other	239,656	156,548
Total segments	$ 25,809,230	22,979,163

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

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS EN
	2006	2005	2006
Total segment revenues	$ 232,122	100,387	475,157
Elimination of intersegment revenues	(39,003)	(27,713)	(77,080)
Unsecured debt interest expense	(5,625)	--	(10,785)
Corporate activities' revenues, net	1,573	(199)	2,659
Total consolidated revenues	$ 189,067	72,475	389,951
Total net income before taxes of segments	$ 103,965	19,541	218,846
Corporate activities' expenses, net	(31,360)	(23,069)	(63,222)
Total consolidated net income (loss) before taxes	$ 72,605	(3,528)	155,624

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 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.

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	AS OF JUNE 30, 2006	AS OF DECEMBER 31, 2005
Total segment assets	$ 25,809,230	22,979,163
Elimination of intercompany assets	(332,604)	(247,982)
Corporate assets	68,567	67,441
Total consolidated assets	$ 25,545,193	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.

9. RECENT ACQUISITIONS

ACQUISITION OF CUNET

On June 30, 2006, the Company purchased 100% of the membership interests of CUnet, LLC ("CUnet"). The initial consideration paid by the Company on June 30, 2006 was $40.0 million in cash, which is included in other assets on the

accompanying consolidated balance sheet. 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 will be included in the consolidated financial statements from the effective date of the acquisition (July 1, 2006).

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

Cash and cash equivalents	$ --
Accounts receivable	5,033
Furniture, equipment, and leasehold improvements	223
Other assets	397
Intangible assets	17,565
Excess cost over fair value of net assets acquired	20,912
Other liabilities	(4,130)
	$ 40,000

ACQUISITION OF 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 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 will be accounted for as a business

combination under purchase accounting and the results of operations will be included in the consolidated financial statements from the effective date of the acquisition.

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

(MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS IS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 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. The Company could also be affected by changes in the demand for educational financing or in financing preferences of lenders, educational institutions, students, and their families; changes in the general interest rate environment and in the securitization markets for education loans, which may increase the costs or limit the availability of financings necessary to initiate, purchase, or carry education loans; losses from loan defaults; and changes in prepayment rates and credit spreads. 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 June 30, 2006:

	COMPANY	THIRD-PARTY	TOTAL
FFELP and private loans	$ 19,820	8,856	28,676
Canadian loans (in U.S. $)	--	8,592	8,592
Total	$ 19,820	17,448	37,268

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.

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- 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 businesses reach the middle school, high school, college bound high school, college, and young adult marketplaces. The Company also provides marketing services and college bound student lists to college and university admissions offices nationwide. In addition, the Company 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:

	THREE MONTHS ENDED JUNE 30,					
	2006			2005		
	ASSET MANAGEMENT	STUDENT LOAN AND GUARANTEE SERVICING	OTHER SEGMENTS	ASSET ANAGEMENT	STUDENT LOAN AND GUARANTEE SERVICING	OTHER SEGMENT
Segment revenues	67.3%	23.6%	9.1%	37.9%	48.8%	13.3%
Segment net income (loss) before taxes	82.9%	13.1%	4.0%	(22.8)%	99.3%	23.5%

	SIX MONTHS ENDED JUNE 30,					
	2006			2005		
	ASSET MANAGEMENT	STUDENT LOAN AND GUARANTEE SERVICING	OTHER SEGMENTS	ASSET ANAGEMENT	STUDENT LOAN AND GUARANTEE SERVICING	OTHER SEGMENT
Segment revenues	67.1%	23.6%	9.3%	65.8%	29.0%	5.2%
Segment net income before taxes	79.4%	14.9%	5.7%	69.8%	25.7%	4.5%

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 generally 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, which is fixed over a period of time. The SAP formula is based on an applicable index plus a fixed spread that is dependent upon when the loan was originated, the loan's repayment status, and funding sources for the loan.

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 $3.3 billion in loans held by the Company as of June 30, 2006 that are receiving 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. Since the $2.5 billion portfolio of student loans will decrease as borrowers make payments on these loans, the special allowance yield adjustment will decrease as compared to historical periods. In addition, if interest rates rise, floor income on this portfolio of loans will decrease, thereby reducing the special allowance yield adjustment.

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.

The Company's core spread on its portfolio of student loans has decreased from 1.58% to 1.51% for the six months ended June 30, 2005 and 2006, respectively. As discussed previously, this decrease is primarily due to an increase in lower yielding consolidation loans, an increase in the consolidation rebate fees, and rising interest rates which compress the margins on the Company's fixed-rate loans that are not hedged (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:

Portfolio and 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.

Loan and Guarantee Servicing and Processing

On October 31, 2005, the Company entered into an agreement to amend an existing contract with College Access Network ("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.

Tuition Management and Transaction Processing

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.

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List Management and Lead Generation

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.

RECENT ACQUISITIONS - EFFECT ON FUTURE OPERATING RESULTS

CUNET. 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.

CUnet is intended to be a strategic acquisition for the Company based on (i) increasing the Company's fee-based revenue, (ii) further developing an enrollment services business line, and (iii) increasing the Company's exposure to the on-line education and for-profit sectors. In addition to expanding the fee-based product offerings available to the Company's existing school client base, the Company believes it can leverage CUnet's existing and future customer base through the Company's counseling services within its college planning centers as well as financial loan products. Management also believes CUnet will

expand the product offerings available to the Company's campus marketing representatives.

The Company expects to recognize annual revenue of approximately $47-50 million and incur annual operating expenses of approximately $40-42 million (excluding any compensation charges related to contingency payments and amortization of intangible assets from purchase price accounting) from CUnet; however, these amounts are estimates and actual results could differ materially. Included in the terms of the CUnet purchase agreement, the Company is obligated to pay contingent consideration based on the operating results of CUnet for the period from July 1, 2006 through June 30, 2009. 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. If the contingent payments were not tied to employment of key management, the actual future payments would have been recorded as purchase price. Dependent upon the performance of CUnet and the timing of when the contingent payments are accrued, the amount required to be recognized as compensation expense in a given period may be greater than CUnet's net income for that period. As discussed in note 9 to the consolidated financial statements, the maximum amount of contingent consideration is $80 million. In order to achieve the maximum payout, CUnet's cumulative net income before tax from July 1, 2006 through June 30, 2009 would need to reach $70 million.

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. 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.

Peterson's is intended to be a strategic acquisition for the Company based on (i) increasing the Company's fee-based revenue, (ii) further developing an enrollment services business line, (iii) expanding career preparation services for students, (iv) increasing the Company's exposure to the 4-year school market, and (v) leveraging Peterson's customer base to other services offered by the Company (specifically its financial loan products).

The Company expects to recognize annual revenue of approximately $35-38 million and incur annual operating expenses (including cost of goods sold and excluding amortization of intangible assets from purchase price accounting) of $35-37 million from Peterson's; however, these amounts are estimates and actual results could differ materially. Upon acquiring Peterson's, the Company assumed certain obligations related to fulfilling services sold by Peterson's prior to the closing of the acquisition. The Company expects to incur costs during the remainder of 2006 to fulfill these obligations. Certain of these costs will be recognized as a liability during the purchase price allocation and not effect the operating results of the Company. However, the incremental costs to fulfill these obligations are expected to be greater than the amount recorded as a liability upon acquisition. In addition, the majority of Peterson's revenue is recognized over the period in which services are provided to customers and does not always correspond with when the Company will recognize the related expenses. Due to the incremental costs to fulfill assumed obligations as a result of this business combination and Peterson's revenue recognition model, the Company expects Peterson's operating expenses to be greater than revenue during 2006. Depending on the amount of costs incurred by the Company to fulfill purchased

obligations that can not be recorded as purchase price and the amount of costs incurred associated with revenue that will be deferred for accounting purposes, the Company could recognize a loss during 2006 of approximately $4-6 million; however, this amount is an estimate and actual results could differ materially. Cash provided by Peterson's operations is expected to be accretive to the Company's cash flow from the date of acquisition.

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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.

FFELP student loans originated prior to July 1, 2006 generally earn interest at the higher of a variable rate based on the special allowance payment (SAP) formula set by the Department and the borrower rate, which is fixed over a period of time. The SAP formula is based on an applicable index plus a fixed spread that is dependent upon when the loan was originated, the loan's repayment status, and funding sources for the loan. Depending on the type of student loan and when the loan was originated, the borrower rate is either fixed to term or is reset to a market rate each July 1.

On those FFELP loans originated prior to July 1, 2006 with fixed-term borrower rates, primarily consolidation loans, the Company earns interest at the greater of the borrower rate or a variable rate based on the SAP formula. Since the Company finances the majority of its student loan portfolio with variable-rate debt, the Company may earn excess spread on those loans with higher borrower interest rates for an extended period of time.

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.

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 June 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. The Department has 60 days to redesignate the Company as an Exceptional Performer or deny the Company's application. Until that time, 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 June 30, 2006, this provision would be approximately $12.5 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 academic publications, and the sale of lists. 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 publications and lists is recognized when the products are shipped.

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."

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

INTEREST INCOME. Interest income for the three months ended June 30, 2006 increased $171.8 million compared to the same period in 2005 as reflected in the following table and explained below.

	Three months ended June 30,		Change	
	2006	2005	Dollars	Percent
Loan interest, excluding special allowance yield adjustment	$ 410,652	221,210	189,442	85.6 %
Special allowance yield adjustment	10,550	25,919	(15,369)	(59.3)
Consolidation rebate fees	(37,335)	(23,438)	(13,897)	(59.3)
Amortization of loan premiums and deferred origination costs	(21,125)	(16,547)	(4,578)	(27.7)
Total loan interest	362,742	207,144	155,598	75.1
Investment interest	24,314	8,150	16,164	198.3
Total interest income	$ 387,056	215,294	171,762	79.8

- The average student loan portfolio increased $6.4 billion, or 42.6%, for the three months ended June 30, 2006 compared to 2005. When excluding the special allowance yield adjustment, the student loan yield increased to 7.75% in 2006 from 5.93% 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 $189.4 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 $15.4 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.

- Consolidation rebate fees increased due to the $5.3 billion increase in the consolidation loan portfolio to $14.5 billion at June 30, 2006 from $9.2 billion at June 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 acquisitions, and as a result of the rising interest rate environment.

INTEREST EXPENSE. Interest on bonds and notes payable for the three months ended June 30, 2006 increased $167.6 million compared to the same period in 2005 as reflected in the following table and explained below.

	Three months ended June 30,		Change	
	2006	2005	Dollars	Percent

Interest expense on debt funding loan assets	$ 295,219	131,999	163,220	123.7 %
Interest expense on debt funding operations	5,625	1,739	3,886	223.5
Other	--	(461)	461	100.0
Total interest expense	$ 300,844	133,277	167,567	125.7

- Average debt increased approximately $7.4 billion, or 46.9%, for the three months ended June 30, 2006 compared to 2005 and the Company's cost of funds increased to 5.12% for the three months ended June 30, 2006 up from 3.36% for the same period a year ago. Together these two factors resulted in a $163.2 million increase in interest expense related to debt used to fund the Company's loan assets.

- The Company issued $275 million of unsecured fixed-rate debt in May 2005 which resulted in an increase in the Company's operating interest expense of $2.2 million. Interest expense also increased approximately $1.7 million as a result of increased borrowings on the Company's operating line of credit.

LOAN AND GUARANTEE SERVICING INCOME. Loan and guarantee servicing income has increased $9.4 million for the three months ended June 30, 2006 compared to the same period in 2005. Several factors have contributed to this change as follows:

Three months ended June 30, 2005	$ 34,678
ACQUISITION-RELATED ACTIVITIES:	
Acquisition of private loan servicing operations (FirstMark)	2,296
Expansion of guarantee servicing operations related to amended agreement with CAN	6,341
EXISTING OPERATIONS:	
Increase in loan servicing revenue from Canadian operations (a)	2,073
Decrease in loan servicing revenue from U.S. operations (b)	(884)
Other	(462)
Three months ended June 30, 2006	$ 44,042

(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. The increase in this servicing volume is not included as an acquisition-related activity as these servicing portfolios have or will be integrated onto the Company's servicing platform.

OTHER FEE-BASED INCOME. Other fee-based income has increased $7.0 million for the three months ended June 30, 2006 compared to the three months ended June 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 June 30, 2005	$ 9,027
ACQUISITION-RELATED ACTIVITIES:	
Acquisition of payment management companies (FACTS, infiNET)	6,220
EXISTING OPERATIONS:	
Increased list sales volume due to customer demand	1,026
Increased borrower late fee income due to student loan portfolio growth	547
Decreased shipments related to merchandise revenue (a)	(1,210)
Other	464
Three months ended June 30, 2006	$ 16,074

(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 $1.4 million from $2.6 million for the three months ended June 30, 2005 to $4.0 million for the three months ended June 30, 2006. Software services income increased $2.3 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 customer demand.

OTHER INCOME. Other income increased $1.6 million from $1.5 million for the three months ended June 30, 2005 to $3.2 million for the three months ended June 30, 2006. Other income for the three months ended June 30, 2006 includes income of $1.1 million from the sale of loan assets to the Greater Texas Foundation as described in note 2 to the consolidated financial statements. In addition, the change in the fair value of put options issued in connection with the purchases of 5280 and FACTS resulted in income of $0.2 million for the three months ended June 30, 2006.

DERIVATIVE MARKET VALUE AND FOREIGN CURRENCY ADJUSTMENTS. The derivative market value and foreign currency adjustments includes the re-measurement of the Company's Euro Notes at June 30, 2006 and the change in the fair value of the Company's derivatives resulting from changes in interest rates and fluctuations in the forward yield curve and currency exchange rates. See Item 3, "Quantitative and Qualitative Disclosures about Market Risk" for more information on the derivative market value and foreign currency adjustments. The components of the derivative market value and foreign currency adjustments for the three months ended June 30, 2006 and 2005, respectively, are as follows:

	2006	2005
Interest rate swaps, basis swaps, and interest rate floor contracts	$ 27,921	(51,372)
Cross-currency interest rate swaps	28,516	--

Re-measurement of Euro Notes	(27,572)	--
Derivative market value and foreign currency adjustments	$ 28,865	(51,372)

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

	2006	2005
Interest rate swaps and basis swaps	$ 10,518	(6,001)
Cross-currency interest rate swaps	(3,816)	--
Derivative settlements, net	$ 6,702	(6,001)

OPERATING EXPENSES. Acquisitions that occurred during 2005 and 2006 were the primary cause of the increase in operating expenses. Operating expenses of the Company's recent acquisitions resulted in a $35.1 million increase in operating expenses for the three months ended June 30, 2006 compared to 2005. The table below summarizes the impact acquisitions had on operating expenses for the three months ended June 30, 2006 compared to 2005.

	THREE MONTHS ENDED JUNE 30, 2005	IMPACT OF ACQUISITIONS	NET CHANGE AFTER ACQUISITIONS	THREE MONTHS ENDED JUNE 30, 2006
Salaries and benefits	$ 39,977	16,979	5,251	62,207
Other expenses	32,343	13,131	430	45,904
Amortization of intangible assets	1,559	4,982	(380)	6,161
Total operating expenses	$ 73,879	35,092	5,301	114,272

The increase in operating expenses after adjusting for the impact of acquisitions was $5.3 million. This increase was a result of the following:

- Increased costs related to the Company's asset generation activities, specifically its consolidation loan portfolio, resulted in increased operating expenses of $2.8 million.

- The remaining increase of approximately $2.5 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 development and retention of intellectual capital and technology enhancements to support a larger, more diversified customer and employee base.

SIX MONTHS ENDED JUNE 30, 2006 COMPARED TO SIX MONTHS ENDED JUNE 30, 2005

INTEREST INCOME. Interest income for the six months ended June 30, 2006 increased $325.6 million compared to the same period in 2005 as reflected in the following table and explained below.

Six months ended June 30, Change

	2006	2005	Dollars	Percent
Loan interest, excluding special allowance yield adjustment	$ 779,810	413,355	366,455	88.7 %
Special allowance yield adjustment	24,460	55,661	(31,201)	(56.1)
Consolidation rebate fees	(72,881)	(45,218)	(27,663)	(61.2)
Amortization of loan premiums and deferred origination costs	(42,987)	(32,329)	(10,658)	(33.0)
Total loan interest	688,402	391,469	296,933	75.9
Investment interest	43,855	15,152	28,703	189.4
Total interest income	$ 732,257	406,621	325,636	80.1

- The average student loan portfolio increased $6.4 billion, or 44.9%, for the six months ended June 30, 2006 compared to 2005. When excluding the special allowance yield adjustment, the student loan yield increased to 7.59% in 2006 from 5.81% 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 $366.5 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 $31.2 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.

- Consolidation rebate fees increased due to the $5.3 billion increase in the consolidation loan portfolio to $14.5 billion at June 30, 2006 from $9.2 billion at June 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 acquisitions, and as a result of the rising interest rate environment.

INTEREST EXPENSE. Interest on bonds and notes payable for the six months ended June 30, 2006 increased $322.0 million compared to the same period in 2005 as reflected in the following table and explained below.

	Six months ended June 30,		Change	
	2006	2005	Dollars	Percent
Interest expense on debt funding loan assets	$ 549,008	236,524	312,484	132.1 %
Interest expense on debt funding operations	10,785	1,811	8,974	495.5

Other	--	(533)	533	100.0
Total interest expense	$ 559,793	237,802	321,991	135.4

- Average debt increased approximately $7.3 billion, or 47.7%, for the six months ended June 30, 2006 compared to 2005 and the Company's cost of funds increased to 4.93% for the six months ended June 30, 2006 up from 3.13% for the same period a year ago. Together these two factors resulted in a $312.5 million increase in interest expense related to debt used to fund the Company's loan assets.

- The Company issued $275 million of unsecured fixed-rate debt in May 2005 which resulted in an increase in the Company's operating interest expense of $5.8 million. Interest expense also increased approximately $3.1 million as a result of increased borrowings on the Company's operating line of credit.

LOAN AND GUARANTEE SERVICING INCOME. Loan and guarantee servicing income has increased $19.3 million for the six months ended June 30, 2006 compared to the same period in 2005. Several factors have contributed to this change as follows:

Six months ended June 30, 2005	$ 71,854
ACQUISITION-RELATED ACTIVITIES:	
Acquisition of private loan servicing operations (FirstMark)	4,479
Expansion of guarantee servicing operations related to amended agreement with CAN	13,383
EXISTING OPERATIONS:	
Increase in loan servicing revenue from Canadian operations (a)	3,423
Decrease in loan servicing revenue from U.S. operations (b)	(1,325)
Other	(698)
Six months ended June 30, 2006	$ 91,116

(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. The increase in this servicing volume is not included as an acquisition-related activity as these servicing portfolios have or will be integrated onto the Company's servicing platform.

OTHER FEE-BASED INCOME. Other fee-based income has increased $21.8 million for the six months ended June 30, 2006 compared to the six months ended June 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:

Six months ended June 30, 2005	$ 12,383
ACQUISITION-RELATED ACTIVITIES:	
Acquisition of payment management companies (FACTS, infiNET)	15,875
Acquisition of direct marketing operations (a)	4,422
EXISTING OPERATIONS:	
Increased borrower late fee income due to student loan portfolio growth	1,135
Other	414
Six months ended June 30, 2006	$ 34,229

(a) The Company's direct marketing operations were acquired in February 2005. As a result, the operating results for the six months ended June 30, 2006 include six months of operations versus four months in the same period in 2005. In addition, the Company experienced an increase in customer demand which resulted in increased income from the sale of lists. These two factors, when combined, resulted in a $4.4 million increase in other-fee based income.

SOFTWARE SERVICES INCOME. Software services income has increased $2.6 million from $4.8 million for the six months ended June 30, 2005 to $7.4 million for the six months ended June 30, 2006. Software services income increased $4.3 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 customer demand.

OTHER INCOME. Other income has increased $1.7 million from $2.9 million for the six months ended June 30, 2005 to $4.6 million for the six months ended June 30, 2006. Other income for the six months ended June 30, 2006 includes income of $1.9 million from the sale of certain loan assets. This income is offset by an expense of $0.3 million for the change in the fair value of put options issued in connection with the purchases of 5280 and FACTS for the six months ended June 30, 2006.

DERIVATIVE MARKET VALUE AND FOREIGN CURRENCY ADJUSTMENTS. The derivative market value and foreign currency adjustments include the re-measurement of the Company's Euro Notes at June 30, 2006 and the change in the fair value of the Company's derivatives resulting from changes in interest rates and fluctuations in the forward yield curve and currency exchange rates. See Item 3, "Quantitative and Qualitative Disclosures about Market Risk" for more information on the derivative market value and foreign currency adjustments. The components of the derivative market value and foreign currency adjustments for the six months ended June 30, 2006 and 2005, respectively, are as follows:

	2006	2005
Interest rate swaps, basis swaps, and interest rate floor contracts	$ 70,560	8,918
Cross-currency interest rate swaps	36,155	--
Re-measurement of Euro Notes	(38,055)	--
Derivative market value and foreign currency adjustments	$ 68,660	8,918

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

	2006	2005
Interest rate swaps and basis swaps	$ 16,414	(16,087)
Cross-currency interest rate swaps	(4,968)	--
Derivative settlements, net	$ 11,446	(16,087)

OPERATING EXPENSES. Acquisitions that occurred during 2005 and 2006 were the primary cause of the increase in operating expenses. Operating expenses of the Company's recent acquisitions resulted in a $69.3 million increase in operating expenses for the six months ended June 30, 2006 compared to 2005. The table below summarizes the impact acquisitions had on operating expenses for the six months ended June 30, 2006 compared to 2005.

	SIX MONTHS ENDED JUNE 30, 2005	IMPACT OF ACQUISITIONS	NET CHANGE AFTER ACQUISTIONS	SIX MONTHS ENDED JUNE 30, 2006
Salaries and benefits	$ 79,304	32,424	8,163	119,891
Other expenses	63,231	27,057	546	90,834
Amortization of intangible assets	2,732	9,849	(787)	11,794
Total operating expenses	$ 145,267	69,330	7,922	222,519

The increase in operating expenses after adjusting for the impact of acquisitions was $7.9 million. This increase was a result of the following:

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

- The remaining increase of approximately $4.2 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 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 JUNE 30,		SIX MONTHS ENDED JUNE 30	
	2006	2005	2006	2005
GAAP net income (loss) (a)	$ 45,753	(1,773)	97,819	66,314
Base adjustments:				
Derivative market value and foreign currency adjustments	(28,865)	51,372	(68,660)	(8,918
Amortization of intangible assets	6,161	1,559	11,794	2,732
Variable-rate floor income	--	--	--	--
Total base adjustments before income taxes	(22,704)	52,931	(56,866)	(6,186
Net tax effect (b)	8,628	(20,114)	21,609	2,351
Total base adjustments	(14,076)	32,817	(35,257)	(3,835
Base net income (a)	31,677	31,044	62,562	62,479
Adjustments to base net income:				
Special allowance yield adjustment	(10,550)	(25,919)	(24,460)	(55,661
Derivative settlements, net	(7,721)	5,454	(11,885)	14,317
Total adjustments to base net income before income taxes	(18,271)	(20,465)	(36,345)	(41,344
Net tax effect (b)	6,943	7,777	13,811	15,711
Total adjustments to base net income	(11,328)	(12,688)	(22,534)	(25,633
Adjusted base net income (a)	$ 20,349	18,356	40,028	36,846
Earnings (loss) per share, basic and diluted:				
GAAP net income (loss) (a)	$ 0.84	(0.03)	1.80	1.23
Total base adjustments	(0.26)	0.61	(0.65)	(0.07
Base net income (a)	0.58	0.58	1.15	1.16
Total adjustments to base net income	(0.21)	(0.24)	(0.41)	(0.48
Adjusted base net income (a)	$ 0.37	0.34	0.74	0.68

(a) Includes expense of $6.9 million ($4.3 million after tax) for the six months ended June 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 1% on FFELP loans. Excluding this expense, GAAP net income, base net income, and adjusted base net income would have been $1.88 per share, $1.23 per share, and $0.82 per share, respectively, for the six months ended June 30, 2006.

(b) Tax effect computed at 38%.

The Company's 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 AND FOREIGN CURRENCY 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. Derivative instruments that are primarily 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. 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.

In addition, base net income excludes the foreign currency transaction gain or loss caused by the re-measurement of the Company's Euro-denominated bonds to U.S. dollars.

AMORTIZATION OF INTANGIBLE ASSETS: The Company excludes amortization of acquired intangibles in its base net income.

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 six months ended June 30, 2006 and 2005.

FINANCIAL CONDITION

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

	AS OF JUNE 30, 2006	AS OF DECEMBER 31, 2005	CHANGE DOLLARS	CHANGE PERCENT
ASSETS:				
Student loans receivable, net	$ 22,404,492	20,260,807	2,143,685	10.6 %
Cash, cash equivalents, and investments	1,974,310	1,645,797	328,513	20.0
Goodwill	149,148	99,535	49,613	49.8
Intangible assets	177,483	153,117	24,366	15.9
Fair value of derivative instruments, net	180,901	82,766	98,135	118.6
Other assets	658,859	556,600	102,259	18.4
Total assets	$ 25,545,193	22,798,622	2,746,571	12.0

LIABILITIES:

Bonds and notes payable	$ 24,327,855	21,673,620	2,654,235	12.2 %
Other liabilities	465,149	474,884	(9,735)	(2.0)
Total liabilities	24,793,004	22,148,504	2,644,500	11.9
Minority interest	--	626	(626)	(100.0)
SHAREHOLDERS' EQUITY	752,189	649,492	102,697	15.8
Total liabilities and shareholders' equity	$ 25,545,193	22,798,622	2,746,571	12.0

Total assets increased primarily due to an increase in student loans receivable. The Company originated and acquired $3.7 billion of student loans during the six months ended June 30, 2006, offset by repayments and loan sales of approximately $1.6 billion. Fair value of derivative instruments experienced a net increase of $105.7 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 $7.6 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. Shareholders' equity increased as a result of net income of $97.8 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 328,700 shares of its Class A common stock for $12.7 million.

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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.

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.

The Company uses its line of credit agreements primarily for general operating purposes and to fund certain asset and business acquisitions. As of June 30, 2006 the Company had outstanding a $500.0 million unsecured line of credit which terminates on August 19, 2010. The Company had $120.0 million of outstanding borrowings and $380.0 million of available capacity under this facility as of June 30, 2006. In addition, EDULINX has a credit facility agreement with a Canadian financial institution for approximately $11.4 million ($12.7 million in Canadian dollars) that is cancelable by either party upon demand. The Company had no borrowings under the EDULINX facility as of June 30, 2006.

The Company's secured financing instruments include short-term student loan warehouse programs, variable-rate tax-exempt bonds, fixed-rate tax-exempt bonds, fixed-rate bonds, and various asset-backed securities. Of the $24.3 billion of debt outstanding as of June 30, 2006, $19.0 billion was issued under securitization transactions. 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 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 during 2006 and subsequent years. 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.

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. As of June 30, 2006, the Company had a loan warehousing capacity of $7.6 billion, of which $4.9 billion was outstanding and $2.7 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.

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.

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

	CARRYING AMOUNT	PERCENT OF TOTAL	INTEREST RATE RANGE OF CARRYING AMOUNT	FINAL MA
Variable-rate bonds and notes (a):				
Bond and notes based on indices (b)	$ 15,643,746	64.3 %	2.85% -6.16%	08/17/06
Bond and notes based on auction	2,874,870	11.8	3.40% -5.47%	11/01/09
Total variable-rate bonds and notes	18,518,616	76.1		
Commerical paper and other	4,874,958	20.1	5.08% -5.31%	01/19/07
Fixed-rate bonds and notes (a)	468,200	1.9	5.20% -6.68%	11/01/06
Unsecured fixed-rate debt	275,000	1.1	5.13%	06/01
Other borrowings	191,081	0.8	5.62% -5.92%	06/29/07 -
Total	$ 24,327,855	100.0 %		

(a) Issued in securitization transactions.
(b) Includes (euro)773.2 million Euro Notes re-measured to $988.1 million U.S. dollars as of June 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 June 30, 2006 were as follows:

	TOTAL	LESS THAN 1 YEAR	1 TO 3 YEARS	3 TO 5 YEARS	MORE THAN 5 YEARS
Bonds and notes payable	$ 24,327,855	3,877,751	157,122	1,776,204	18,516,778
Operating lease obligations	23,344	8,438	10,509	4,129	268
Other	16,874	1,950	6,957	7,967	--
Total	$ 24,368,073	3,888,139	174,588	1,788,300	18,517,046

On May 25, 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 will be $8.3 million, including the assumption of debt on the property. The Company paid $0.2 million and $0.4 million in rent for space in the building for the three and six month periods ended June 30, 2006, respectively. Rent for these two periods in 2005 was the same as 2006. The agreement is expected to close by November 15, 2006, after the receipt of any necessary regulatory approvals. Total operating lease obligations of $3.3 million related to this property is included in the table above.

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 June 30, 2006 was $7.6 million and is included in "other" in the above table (see (a) below).

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

- 5280 - 258,760 shares of Class A common stock issued as part of the original purchase price is subject to a put option arrangement whereby during the 30-day period ending November 30, 2008, the holders may require the Company to repurchase all or part of the shares at a price of $37.10 per share. The value of this put option as of June 30, 2006 was $1.0 million and is included in "other" in the above table (see (a) below).

  (a) As of July 31, 2006, the value of the FACTS and 5280 put options increased by $2.0 million and $0.9 million, respectively. The combined increase in value of $2.9 million is recognized as an expense in the Company's statement of operation.

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 3 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 JUNE 30, 2006		AS OF DECEMBER
	DOLLARS	PERCENT	DOLLARS
Federally insured:			
Stafford	$ 6,891,180	30.8 %	$ 6,434,655
PLUS/SLS	430,409	1.9	376,042
Consolidation	14,521,608	64.7	13,005,378
Non-federally insured	169,473	0.8	96,880

Total	22,012,670	98.2	19,912,955
Unamortized premiums and deferred origination costs	416,002	1.9	361,242
Allowance for loan losses:			
Allowance - federally insured	(7,001)	--	(98)
Allowance - non-federally insured	(17,179)	(0.1)	(13,292)
Net	$ 22,404,492	100.0 %	$ 20,260,807

ACTIVITY IN THE ALLOWANCE FOR LOAN LOSSES

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

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS EN
	2006	2005	2006
Balance at beginning of period	$ 22,225	8,852	13,390
Provision for loan losses:			
Federally insured loans	200	124	7,468
Non-federally insured loans	1,990	2,000	4,340
Total provision for loan losses	2,190	2,124	11,808
Charge-offs, net of recoveries:			
Federally insured loans	(274)	(124)	(565)
Non-federally insured loans	39	(163)	(453)
Net charge-offs	(235)	(287)	(1,018)
Balance at end of period	$ 24,180	10,689	24,180
Allocation of the allowance for loan losses:			
Federally insured loans	$ 7,001	99	7,001
Non-federally insured loans	17,179	10,590	17,179
Total allowance for loan losses	$ 24,180	10,689	24,180
Net loan charge-offs as a percentage of average student loans	0.004 %	0.008	0.010
Total allowance as a percentage of average student loanS	0.114	0.072	0.116
Total allowance as a percentage of ending balance of student loans	0.110	0.069	0.110
Non-federally insured allowance as a percentage of the ending balance of non-federally insured loans	10.137	10.839	10.137
Average student loans	$ 21,289,877	14,927,290	20,763,472
Ending balance of student loans	22,012,670	15,469,689	22,012,670
Ending balance of non-federally insured loans	169,473	97,705	169,473

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.

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

	AS OF JUNE 30, 2006		AS OF DECEMB
	DOLLARS	PERCENT	DOLLARS
Federally Insured Loans:			
Loans in-school/grace/deferment(1)	$ 6,556,148		$ 5,512,448
Loans in forebearance(2)	2,252,183		2,160,577
Loans in repayment status:			
Loans current	11,534,975	88.5 %	10,790,625
Loans delinquent 31-60 days(3)	500,663	3.8	526,044
Loans delinquent 61-90 days(3)	351,350	2.7	236,117
Loans delinquent 91 days or greater(4)	647,878	5.0	590,264
Total loans in repayment	13,034,866	100.0 %	12,143,050
Total federally insured loans	$ 21,843,197		$ 19,816,075
NON-FEDERALLY INSURED LOANS:			
Loans in-school/grace/deferment(1)	$ 80,935		$ 27,709
Loans in forebearance(2)	3,934		2,938
Loans in repayment status:			
Loans current	79,782	94.3 %	61,079
Loans delinquent 31-60 days(3)	2,400	2.8	2,059
Loans delinquent 61-90 days(3)	1,193	1.4	1,301
Loans delinquent 91 days or greater(4)	1,229	1.5	1,794
Total loans in repayment	84,604	100.0 %	66,233
Total non-federally insured loans	$ 169,473		$ 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.

(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 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 JUNE 30,		SIX MONTHS END
	2006	2005	2006
Beginning balance	$ 20,963,219	14,357,207	19,912,955
Direct channel:			
Consolidation loan originations	1,045,094	781,580	2,069,929
Less consolidation of existing portfolio	(567,300)	(377,300)	(1,001,200)
Net consolidation loan originations	477,794	404,280	1,068,729
Stafford/PLUS loan originations	151,017	172,599	457,165
Branding partner channel	326,764	409,013	747,029
Forward flow channel	579,701	453,950	931,513
Other channels	424,620	2,497	478,458
Total channel acquisitions	1,959,896	1,442,339	3,682,894
Repayments, claims, capitalized interest, and other	(453,866)	(195,457)	(819,024)
Consolidation loans lost to external parties	(310,800)	(134,400)	(581,200)
Loans sold	(145,779)	--	(182,955)
Ending balance	$ 22,012,670	15,469,689	22,012,670

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Included in the branding partner channel for the three and six months ended June 30, 2005 is $161.8 million and $630.8 million, respectively, 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 $424 million of loans in a spot purchase from an unrelated third party.

One of the Company's primary objectives is to focus on originations through the direct channel and acquisitions through the branding partner and forward flow channels. 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 $121.7 million and $127.4 million for the three months ended June 30, 2006 and 2005, respectively; $161.8 million and $163.8 million for the six months ended June 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.

Subsequent to June 30, 2006, the Company sold approximately $312.6 million (par value) of student loans to an unrelated party. Loans sold under this agreement were originated by Nova. The portfolio of loans sold were 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 three months ended June 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 JUNE 30,		SIX MONTHS ENDE	
	2006	2005	2006	
Student loan yield	7.93 %	6.64	7.82	
Consolidation rebate fees	(0.70)	(0.63)	(0.71)	
Premium and deferred origination costs amortization	(0.40)	(0.44)	(0.42)	
Student loan net yield	6.83	5.57	6.69	
Student loan cost of funds (a)	(5.00)	(3.52)	(4.83)	
Student loan spread	1.83	2.05	1.86	
Variable-rate floor income	--	--	--	
Special allowance yield adjustment, net of settlements on derivatives (b)	(0.34)	(0.55)	(0.35)	
Core student loan spread	1.49 %	1.50	1.51	
Average balance of student loans (in thousands)	$21,289,877	14,927,290	20,763,472	1
Average balance of debt outstanding (in thousands)	23,126,198	15,746,521	22,465,046	1

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

(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 six months ended June 30, 2006 compared to the three and six months ended June 30, 2005 has been primarily due to the following items:

- an increase in lower yielding consolidation loans;
- an increase in consolidation rebate fees due to the growth of the Company's consolidation loan portfolio; and
- rising interest rates which compressed the margins on the Company's fixed-rate loans that were not hedged.

As noted on page 37, the Company has a portfolio of $4.3 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 $1.8 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 six months ended June 30, 2006 included approximately 15 and 17 basis points, respectively, related to this floor income. When excluding floor income, the company's core student loan spread was 1.34% for both periods.

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 six months ended June 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 Financial Accounting Standards Board ("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.

The Company is currently evaluating this statement to assess its impact on the Company's financial statements.

On July 13, 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. Management is currently evaluating this statement to assess its impact on the Company's financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

INTEREST RATE RISK

The Company's primary market risk exposure arises from fluctuations in its

borrowing and lending rates, the spread between which could impact the Company due to shifts in market interest rates. Because the Company generates a significant portion of its earnings from its student loan spread, the interest sensitivity of the balance sheet is a key profitability driver. The majority of student loans held by the Company have variable-rate characteristics in certain interest rate environments. Some of the student loans include fixed-rate components depending upon the rate reset provisions, or, in the case of consolidation loans, are fixed at the weighted average interest rate of the underlying loans at the time of consolidation. The following table sets forth the Company's loan assets and debt instruments by rate characteristics:

	AS OF JUNE 30, 2006		AS OF DECEMBER 31, 2005	
	DOLLARS	PERCENT	DOLLARS	PERCENT
Fixed-rate loan assets	$ 4,252,973	19.3 %	$ 4,908,865	24.7 %
Variable-rate loan assets	17,759,697	80.7	15,004,090	75.3
Total	$ 22,012,670	100.0 %	$ 19,912,955	100.0 %
Fixed-rate debt instruments	$ 743,200	3.1 %	$ 794,086	3.7 %
Variable-rate debt instruments	23,584,655	96.9	20,879,534	96.3
Total	$ 24,327,855	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 June 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%	$ 571,959
> 9.0%	9.04	6.40	411,563
9.5 floor yield	9.50	6.86	3,269,451
			$ 4,252,973

(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 June 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 $1.8 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 six months ended June 30, 2006 includes approximately $5 million and $13 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 $4.3 billion held by the Company as of June 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 June 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 June 30, 2006, the fair market value of this derivative portfolio was approximately $132.1 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 (a)	$ 250,000	3.16 %
2007	118,750	3.35
2008	293,750	3.78
2009	193,750	4.01
2010	1,137,500	4.25
2011	--	--
2012	275,000	4.31
2013	525,000	4.36
Total	$ 2,793,750	4.07 %

(a) Excludes $243.75 million of interest rate swaps that expired on July 1, 2006.

The Company recognized $7.7 million and $11.9 million of net derivative settlements on the special allowance yield derivatives for the three and six months ended June 30, 2006, respectively.

The following table summarizes the outstanding derivative instruments as of June 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
Total (a)	$ 681,250	3.61 %

(a) Excludes $118.75 million of interest rate swaps that expired on July 1, 2006.

In addition to the interest rate swaps with notional values of $681.25 million summarized above, as of June 30, 2006, the Company had $468 million of fixed-rate debt (excluding the Company's fixed-rate unsecured debt of $275 million) that was used by the Company to hedge fixed-rate student loan assets.

The Company recognized $3.0 million and $5.0 million of net derivative settlements on the non-special allowance yield derivative interest rate swaps for the three and six months ended June 30, 2006, respectively.

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.

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In addition to the three basis swaps summarized above, the Company also has a basis swap with a notional amount of $500.0 million that matures 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.

During the three and six months ended June 30, 2006, the Company recognized a net loss of $0.2 million and $0.5 million, respectively, of net derivative settlements related to its basis swaps.

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
$ 51,296	2.760%
44,873	2.885%
38,174	3.010%
34,953	3.135%
47,420	3.260%
78,390	3.385%
51,300	3.510%
53,745	3.635%
46,842	3.760%
45,971	3.885%
41,076	4.010%
64,167	4.135%
24,044	4.460%
31,648	5.060%
37,103	5.510%
7,097	4.300%
21,968	4.550%
17,220	4.800%
62,466	5.550%
$ 799,753	

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".

The Company accounts for its derivative instruments in accordance with SFAS No. 133. SFAS No. 133 requires that changes in the fair value of derivative instruments be recognized currently in earnings unless specific hedge accounting criteria as specified by SFAS No. 133 are met. Management has structured all of the Company's derivative transactions with the intent that each is economically effective. However, the Company's derivative instruments do not qualify for hedge accounting under SFAS No. 133; consequently, the change in fair value of these derivative instruments is included in the Company's operating results. Changes or shifts in the forward yield curve and fluctuations in currency rates can significantly impact the valuation of the Company's derivatives. Accordingly, changes or shifts to the forward yield curve and fluctuations in currency rates will impact the financial position and results of operations of the Company. The change in fair value of the Company's derivatives which is included in derivative market value and foreign currency adjustments in the Company's statements of operations was $56.4 million and $106.7 million for the three and six months ended June 30, 2006, respectively.

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

	THREE MONTHS ENDED JUN		
	CHANGE FROM DECREASE OF 100 BASIS POINTS		CHANGE FROM 100 BASI
	Dollar	Percent	Dollar
Effect on earnings:			
Increase (decrease) in pre-tax net income before impact of derivative settlements	$ 8,743	12.0 %	$ (7,103)
Impact of derivative settlements	(9,567)	(13.2)	9,567
Increase (decrease) in net income before taxes	$ (824)	(1.2) %	$ 2,464
Increase (decrease) in basic and diluted earning per share	$ (0.01)		$ 0.03

	THREE MONTHS ENDED JUN		
	CHANGE FROM DECREASE OF 100 BASIS POINTS		CHANGE FRO 100 BAS
	Dollar	Percent	Dollar
Effect on earnings:			
Increase (decrease) in pre-tax net income before			

	Dollar	Percent	Dollar
impact of derivative settlements	$ 10,789	305.8 %	$ (9,745)
Impact of derivative settlements	(10,394)	(294.6)	10,394
Increase in net income before taxes	$ 395	11.2 %	649
Increase in basic and diluted earning per share	$ --		$ 0.01

	SIX MONTHS ENDED JUNE		
	CHANGE FROM DECREASE OF 100 BASIS POINTS		CHANGE FROM 100 BASI
	Dollar	Percent	Dollar
Effect on earnings:			
Increase (decrease) in pre-tax net income before impact of derivative settlements	$ 16,408	10.5 %	$ (13,389)
Impact of derivative settlements	(19,030)	(12.2)	19,030
Increase (decrease) in net income before taxes	$ (2,622)	(1.7) %	$ 5,641
Increase (decrease) in basic and diluted earning per share	$ (0.03)		$ 0.07

	SIX MONTHS ENDED JUNE		
	CHANGE FROM DECREASE OF 100 BASIS POINTS		CHANGE FROM 100 BASIS
	Dollar	Percent	Dollar
Effect on earnings:			
Increase (decrease) in pre-tax net income before impact of derivative settlements	$ 20,616	19.8 %	$ (18,765)
Impact of derivative settlements	(20,294)	(19.5)	20,294
Increase in net income before taxes	$ 322	0.3 %	1,529
Increase in basic and diluted earning per share	$ --		$ 0.02

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 and foreign currency adjustments in the Company's consolidated statements of operations.

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

For the three and six months ended June 30, 2006, the Company recorded an expense of $27.6 million and $38.1 million, respectively, as a result of re-measurement of the Euro Notes and income of $28.5 million and $36.2 million, respectively, for the increase in the fair value of the related derivative instrument. Both of these amounts are included in derivative market value and foreign currency adjustments on the Company's consolidated statement of income. In addition, net settlements on the foreign currency derivative instrument were an expense of $3.8 million and $5.0 million for the three and six months ended June 30, 2006, respectively.

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

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.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors described in the Company's Annual Report on Form 10-K for the year ended December 31, 2005 in response to Item 1A of Part I of such Form 10-K except as set forth below.

As has been previously disclosed, the Office of Inspector General of the Department of Education (the "OIG") has been conducting an audit of the Company's portfolio of student loans receiving 9.5% special allowance payments (the "9.5% Floor"). On August 9, 2006, the Company received from the OIG a copy of its draft audit report. The draft audit report recommends that, with respect to the loans in question, Nelnet be required to return overpayments the OIG contends were paid to Nelnet in connection with the 9.5% Floor and that Nelnet be instructed to exclude such loans from its claims in the future for payment under the 9.5% Floor. The Company has recorded approximately $322.6 million of pre-tax income related to the 9.5% special allowance as of June 30, 2006. The Company has 30 days to respond to the draft audit report, and any such response may be part of any final audit report submitted by the OIG to the Department of Education. The Department of Education may accept or reject any findings or recommendations contained in any final audit report issued by the OIG. While the Company cannot predict the final outcome of the audit or of any subsequent review by the Department of Education or of any court proceedings following any action by the Department of Education, the Company continues to believe it has billed for the special allowance payments in accordance with applicable laws, regulations and Department of Education guidance.

In addition, as a result of the Company's offerings of Euro-denominated notes completed in February and May 2006, the Company 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 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 would 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.

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

The following table summarizes the Company's repurchases of Class A common stock during the second quarter of 2006 pursuant to a stock repurchase program authorized on May 25, 2006 by the Company's Board of Directors. The program allows the Company to buy back up to a total of 5 million shares of its Class A common stock and 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).

PERIOD	TOTAL NUMBER OF SHARES PURCHASED	AVERAGE PRICE PAID PER SHARE	TOTAL NUMBER OF SHARES PURCHASED AS PART OF PUBLICLY ANNOUNCED PLANS OR PROGRAMS	MAXIMUM NUMBER OF SHARES THAT MAY YET BE PURCHASED UNDER THE PLANS OR PROGRAMS
May 25 - 31, 2006	56,400	$ 37.20	56,400	4,943,600
June 1 - 30, 2006 (1)	284,941	38.75	284,941	4,658,659
Total	341,341	$ 38.50	341,341	

(1) Includes 12,641 shares purchased under the Company's Employee Stock Purchase Loan Plan.

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

At the Company's annual meeting of shareholders held on May 25, 2006, the following proposals were approved by the margins indicated:

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1. To elect nine directors to serve on the Company's Board of Directors for one-year terms or until their successors are elected and qualified.

	NUMBER OF SHARES	
	VOTES FOR	VOTES WITHHELD
James P. Abel	172,939,826	146,939
Don R. Bouc	172,827,791	258,974
Stephen F. Butterfield	172,796,087	290,678
Michael S. Dunlap	172,795,326	291,439
Thomas E. Henning	172,995,544	91,221
Arturo R. Moreno	167,354,219	5,732,546
Brian J. O'Connor	172,991,294	95,471
Michael D. Reardon	172,940,021	146,744
James H. Van Horn	172,845,810	240,955

2. To ratify the appointment of KPMG LLP as independent auditors for 2006.

NUMBER OF SHARES

VOTES FOR	VOTES AGAINST	ABSTAIN
172,763,728	178,096	139,540

3. To approve the Employee Stock Purchase Loan Plan.

NUMBER OF SHARES		
VOTES FOR	VOTES AGAINST	ABSTAIN
169,206,971	479,014	71,044

4. To approve an amendment to the Company's Articles of Incorporation to increase the number of authorized shares of Class B common stock to allow for future stock splits.

NUMBER OF SHARES		
VOTES FOR (CLASS A)	VOTES AGAINST (CLASS A)	ABSTAIN (CLASS A)
26,093,531	4,165,996	67,272

NUMBER OF SHARES		
VOTES FOR (CLASS B)	VOTES AGAINST (CLASS B)	ABSTAIN (CLASS B)
13,942,954	--	--

ITEM 6. EXHIBITS

10.1* Amended Nelnet, Inc. Restricted Stock Plan.

10.2 Agreement of Purchase and Sale dated as of May 25, 2006 between Mad Dog Guest Ranch LLC and Nelnet, Inc., filed as Exhibit 10.1 to Nelnet, Inc.'s Current Report on Form 8-K filed on June 1, 2006 and incorporated herein by reference.

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: August 9, 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