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Nelnet, Inc. supplemental financial information for the fourth quarter 2007

The following supplemental information should be read in connection with the fourth quarter 2007 earnings press release of Nelnet, Inc. (the "Company"), dated February 29, 2008.

Information contained in this earnings supplement, other than historical information, may be considered forward-looking in nature and is subject to various risks, uncertainties, and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, or expected. Among the key factors that may have a direct bearing on the Company's operating results, performance, or financial condition expressed or implied by the forward-looking statements are the uncertain nature of the estimated expenses that may be incurred and cost savings that may result from the Company's strategic initiatives, changes in terms of student loans and the educational credit marketplace, changes in legislation impacting the student loan market, changes in the demand for educational financing or in financing preferences of educational institutions, students and their families, or changes in the general interest rate environment and in the securitization markets for education loans. Certain prior year amounts have been reclassified to conform to the current period presentation. For more information see our filings with the Securities and Exchange Commission.

Condensed Consolidated Statements of Operations

		Three months ended			Year ended	
		December 31, 2007	September 30, 2007	December 31, 2006	December 31, 2007	December 31, 2006
		(unaudited)	(unaudited)	(unaudited)		
		(dollars in thousands, except share data)				
Interest income:						
Loan interest	$	437,128	460,103	410,015	1,755,064	1,543,108
Variable-rate floor income		2,416	597	-	3,013	-
Amortization of loan premiums and deferred origination costs		(23,878)	(23,449)	(22,838)	(91,020)	(87,393)
Investment interest		18,988	21,023	24,254	80,219	93,918
Total interest income		434,654	458,274	411,431	1,747,276	1,549,633
Interest expense:						
Interest on bonds and notes payable		390,399	393,875	347,615	1,502,662	1,241,174
Net interest income		44,255	64,399	63,816	244,614	308,459
Less provision for loan losses		4,550	18,340	1,800	28,178	15,308
Net interest income after provision for loan losses		39,705	46,059	62,016	216,436	293,151
Other income:						
Loan and guaranty servicing income		32,953	33,040	30,165	128,069	121,593
Other fee-based income		44,572	38,025	36,868	160,888	102,318
Software services income		5,647	5,426	4,064	22,669	15,890
Other income		1,873	7,520	4,894	19,209	23,365
Derivative market value, foreign currency, and put option adjustments		14,940	18,449	(19,510)	26,806	(31,075)
Derivative settlements, net		11,577	(2,336)	7,013	18,677	23,432
Total other income		111,562	100,124	63,494	376,318	255,523
Operating expenses:						
Salaries and benefits		54,621	60,545	53,290	236,631	214,676
Other expenses		59,256	52,511	54,945	219,048	185,053
Amortization of intangible assets		6,412	10,885	7,758	30,426	25,062
Impairment expense		-	49,504	21,488	49,504	21,488
Total operating expenses		120,289	173,445	137,481	535,609	446,279
Income (loss) before income taxes and minority interest		30,978	(27,262)	(11,971)	57,145	102,395
Income tax expense (benefit)		11,810	(10,664)	(6,099)	21,716	36,237
Income (loss) before minority interest		19,168	(16,598)	(5,872)	35,429	66,158
Minority interest in subsidiary income		-	-	-	-	(242)
Income (loss) from continuing operations		19,168	(16,598)	(5,872)	35,429	65,916
Income (loss) from discontinued operations, net of tax		(159)	909	(1,438)	(2,575)	2,239
Net income (loss)	$	19,009	(15,689)	(7,310)	32,854	68,155
Earnings (loss) per share, basic and diluted:						
Income (loss) from continuing operations	$	0.39	(0.34)	(0.11)	0.71	1.23
Income (loss) from discontinued operations, net of tax		-	0.02	(0.03)	(0.05)	0.04
Net income (loss)	$	0.39	(0.32)	(0.14)	0.66	1.27
Weighted average shares outstanding		49,047,048	49,018,091	52,506,936	49,618,107	53,593,056

Condensed Consolidated Balance Sheets and Financial Data

	As of December 31, 2007	As of September 30, 2007 (unaudited)	As of December 31, 2006
		(dollars in thousands)	
Assets:			
Student loans receivable, net	$ 26,736,122	26,596,123	23,789,552
Cash, cash equivalents, and investments	1,120,838	1,451,772	1,773,751
Goodwill	164,695	164,695	191,420
Intangible assets, net	112,830	119,242	161,588
Other assets	1,028,298	1,010,632	880,562
Total assets	$ 29,162,783	29,342,464	26,796,873
Liabilities:			
Bonds and notes payable	$ 28,115,829	28,234,147	25,562,119
Other liabilities	438,075	516,424	562,904
Total liabilities	28,553,904	28,750,571	26,125,023
Shareholders' equity	608,879	591,893	671,850
Total liabilities and shareholders' equity	$ 29,162,783	29,342,464	26,796,873
Return on average total assets	0.12%	0.07%	0.27%
Return on average equity	5.33%	2.99%	9.64%
Shareholders' equity to total assets	2.09%	2.02%	2.51%

Legislative Developments

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

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

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

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

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

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

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

Upon passage of the College Cost Reduction Act, management evaluated the carrying amount of goodwill and certain intangible assets. Based on the legislative changes and the student loan business model modifications the Company implemented as a result of the legislative changes (see "Restructuring Plans – Legislative Changes" below), the Company recorded an impairment charge of $39.4 million ($24.5 million after tax) during the third quarter of 2007. This charge is included in "impairment expense" on the Company's consolidated statements of operations.

During the third quarter of 2007, the Company also recorded an expense of $15.7 million ($9.7 million after tax) to increase the Company's allowance for loan losses related to the increase in risk share as a result of the elimination of the Exceptional Performer program.

Restructuring Plans

Legislative Impact

On September 6, 2007, the Company announced a strategic initiative to create efficiencies and lower costs in advance of the anticipated passage of federal legislation impacting the student loan programs in which the Company participates.

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

The charges to earnings associated with these strategic decisions were fully recognized during 2007 and totaled $20.3 million ($12.6 million after tax), consisting of $6.3 million ($3.9 million after tax) in severance costs, $3.9 million ($2.5 million after tax) in contract termination costs, and $10.1 million ($6.2 million after tax) in non-cash charges primarily related to the impairment of property and equipment.

During the three month periods ended September 30, 2007 and December 31, 2007, the Company recorded restructuring charges of $15.0 million ($9.3 million after tax) and $5.3 million ($3.3 million after tax), respectively. Selected information relating to the restructuring charge follows:

		Employee termination benefits		Lease terminations		Write-down of property and equipment		Total
				(dollars in thousands)				
Restructuring costs recognized during the three month period ended September 30, 2007	$	4,788	(a)	168	(b)	10,060	(c)	15,016
Write-down of assets to net realizable value		-		-		(10,060)		(10,060)
Cash payments		(2,542)		-		-		(2,542)
Restructuring accrual as of September 30, 2007		2,246		168		-		2,414
Restructuring costs recognized during the three month period ended December 31, 2007		1,527	(a)	3,748	(b)	-		5,275
Adjustment from initial estimate of charges		(134)		(16)		-		(150)
Cash payments		(2,446)		(218)		-		(2,664)
Restructuring accrual as of December 31, 2007	$	1,193		3,682		-		4,875

(a) Employee termination benefits are included in "salaries and benefits" on the consolidated statements of operations.

(b) Lease termination costs are included in "other expenses" on the consolidated statements of operations.

(c) Costs related to the write-down of property and equipment are included in "impairment expense" on the consolidated statements of operations.

Selected information relating to the restructuring charge by operating segment and Corporate Activity and Overhead follows:

Operating segment		Restructuring costs recognized during the three month period ended September 30, 2007	Write-down of assets to net realizable value	Cash payments	Restructuring accrual as of September 30, 2007
			(dollars in thousands)		
Asset Generation and Management	$	2,169	(248)	(1,428)	493
Student Loan and Guaranty Servicing		1,231	-	(389)	842
Tuition Payment Processing and Campus Commerce		-	-	-	-
Enrollment Services and List Management		737	-	(509)	228
Software and Technical Services		58	-	-	58
Corporate Activity and Overhead		10,821	(9,812)	(216)	793
	$	15,016	(10,060)	(2,542)	2,414

Operating segment		Restructuring accrual as of September 30, 2007	Restructuring costs recognized during the three month period ended December 31, 2007	Adjustment from initial estimate of charges	Cash payments	Restructuring accrual as of December 31, 2007
				(dollars in thousands)		
Asset Generation and Management	$	493	485	(25)	(575)	378
Student Loan and Guaranty Servicing		842	609	(95)	(887)	469
Tuition Payment Processing and Campus Commerce		-	-	-	-	-
Enrollment Services and List Management		228	192	-	(339)	81
Software and Technical Services		58	-	-	(58)	-
Corporate Activity and Overhead		793	3,989	(30)	(805)	3,947
	$	2,414	5,275	(150)	(2,664)	4,875

Capital Markets Impact

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

Management has developed a restructuring plan related to its asset generation and supporting businesses which reduces marketing, sales, service, and related support costs through a reduction in workforce of approximately 300 positions and realignment of certain operating facilities. Subject to completion of the necessary legal notices and requirements, implementation of the plan will begin immediately and is expected to be substantially complete during the second quarter of 2008.

The Company estimates that the total after-tax charge to earnings in 2008 associated with this restructuring plan will be approximately $17 million, consisting of approximately $4 million in severance costs, up to $2 million in contract termination costs, and approximately $11 million in non-cash charges related to the impairment of property and equipment, intangible assets, and goodwill.

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

Discontinued Operations

On May 25, 2007, the Company sold EDULINX Canada Corporation ("EDULINX"), a Canadian student loan service provider and subsidiary of the Company. As a result of this transaction, the results of operations for EDULINX are reported as discontinued operations in the accompanying consolidated statements of operations for all periods presented. The components of the income (loss) from discontinued operations are presented below:

		Three months ended			Year ended	
		December 31, 2007	September 30, 2007	December 31, 2006	December 31, 2007	December 31, 2006
		(dollars in thousands)				
Operating income (loss) of discontinued operations, net of tax	$	-	-	(1,438)	5,716	2,239
Gain (loss) on disposal, net of tax		(159)	909	-	(8,291)	-
Income (loss) from discontinued operations, net of tax	$	(159)	909	(1,438)	(2,575)	2,239

The following operations related to EDULINX have been segregated from continuing operations and reported as discontinued operations through the date of disposition.

		Three months ended			Year ended	
		December 31, 2007	September 30, 2007	December 31, 2006	December 31, 2007	December 31, 2006
		(dollars in thousands)				
Net interest income	$	-	-	56	124	232
Other income		-	-	20,776	31,511	68,966
Operating expenses		-	-	(12,559)	(22,357)	(55,122)
Impairment expense		-	-	(9,602)	-	(9,602)
Income (loss) before income taxes		-	-	(1,329)	9,278	4,474
Income tax expense		-	-	109	3,562	2,235
Operating income (loss) of discontinued operations, net of tax	$	-	-	(1,438)	5,716	2,239

Non-GAAP Performance Measures

In accordance with the rules and regulations of the Securities and Exchange Commission ("SEC"), the Company prepares financial statements in accordance with generally accepted accounting principles ("GAAP"). In addition to evaluating the Company's GAAP-based financial information, management also evaluates the Company on a non-GAAP performance measure referred 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.

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

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

		Three months ended			Year ended	
		December 31, 2007	September 30, 2007	December 31, 2006	December 31, 2007	December 31, 2006
		(dollars in thousands, except share data)				
GAAP net income (loss)	$	19,009	(15,689)	(7,310)	32,854	68,155
Base adjustments:						
Derivative market value, foreign currency, and put option adjustments		(14,940)	(18,449)	19,510	(26,806)	31,075
Amortization of intangible assets		6,412	10,885	7,758	30,426	25,062
Compensation related to business combinations		655	503	476	2,111	1,747
Variable-rate floor income		(2,416)	(597)	-	(3,013)	-
Total base adjustments before income taxes		(10,289)	(7,658)	27,744	2,718	57,884
Net tax effect (a)		4,474	2,971	(10,231)	346	(20,233)
Total base adjustments		(5,815)	(4,687)	17,513	3,064	37,651
Base net income (loss)		13,194	(20,376)	10,203	35,918	105,806
Discontinued operations		159	(909)	1,438	2,575	(2,239)
Base net income (loss), excluding discontinued operations		13,353	(21,285)	11,641	38,493	103,567
Adjustments to base net income (loss):						
Special allowance yield adjustment (b)		-	-	-	-	(24,460)
Derivative settlements, net		-	-	-	-	(19,794)
Total adjustments to base net income (loss) before income taxes		-	-	-	-	(44,254)
Net tax effect (a)		-	-	-	-	16,817
Total adjustments to base net income (loss)		-	-	-	-	(27,437)
Adjusted base net income (loss), excluding discontinued operations	$	13,353	(21,285)	11,641	38,493	76,130
Earnings (loss) per share, basic and diluted:						
GAAP net income (loss)	$	0.39	(0.32)	(0.14)	0.66	1.27
Total base adjustments		(0.12)	(0.10)	0.33	0.06	0.70
Base net income (loss)		0.27	(0.42)	0.19	0.72	1.97
Discontinued operations		-	(0.02)	0.03	0.06	(0.04)
Base net income (loss), excluding discontinued operations		0.27	(0.44)	0.22	0.78	1.93
Total adjustments to base net income (loss)		-	-	-	-	(0.51)
Adjusted base net income (loss), excluding discontinued operations	$	0.27	(0.44)	0.22	0.78	1.42

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

(b) On January 19, 2007, the Company entered into a Settlement Agreement (the “Agreement”) with the Department of Education (the “Department”) to resolve the audit by the Department’s Office of Inspector General (the “OIG”) of the Company’s portfolio of student loans receiving 9.5% special allowance payments. Under the terms of the Agreement, all 9.5% special allowance payments were eliminated for periods on and after July 1, 2006. The Company had been deferring recognition of 9.5% special allowance payments related to those loans subject to the OIG audit effective July 1, 2006 pending satisfactory resolution of this issue.

Limitations of Base Net Income

While GAAP provides a uniform, comprehensive basis of accounting, for the reasons discussed above, management believes base net income is an important additional tool for providing a more complete understanding of the Company's results of operations. Nevertheless, base net income is subject to certain general and specific limitations that investors should carefully consider. For example, unlike financial statements prepared in accordance with GAAP, the Company's base net income presentation does not represent a comprehensive basis of accounting. In addition, the Company's base net income is not a defined term within GAAP and may not be comparable to similarly titled measures reported by other companies. Investors, therefore, may not be able to compare the Company's performance with that of other companies based upon base net income. Base net income results are only meant to supplement GAAP results by providing additional information regarding the operational and performance indicators that are most closely monitored and used by the Company's management and board of directors to assess performance and information which the Company believes is important to analysts, rating agencies, and creditors.

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

Differences between GAAP and Base Net Income

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

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

Base net income excludes the foreign currency transaction gains or losses caused by the re-measurement of the Company's Euro-denominated bonds to U.S. dollars. In connection with the issuance of the Euro-denominated bonds, the Company has entered into cross-currency interest rate swaps. Under the terms of these agreements, the principal payments on the Euro-denominated notes will effectively be paid at the exchange rate in effect at the issuance date of the bonds. The cross-currency interest rate swaps also convert the floating rate paid on the Euro-denominated bonds' (EURIBOR index) to an index based on LIBOR. Included in base net income are the economic effects of any cash paid or received being recognized as an expense or revenue upon actual settlements of the cross-currency interest rate swaps. These settlements are included in "Derivative settlements, net" on the Company's consolidated statements of operations. However, the gains or losses caused by the re-measurement of the Euro-denominated bonds to U.S. dollars and the change in market value of the cross-currency interest rate swaps are excluded from base net income as the Company believes the point-in-time estimates of value that are subject to currency rate fluctuations related to these financial instruments make it difficult to evaluate the ongoing results of operations against the Company's business plan and affect the period-to-period comparability of the results of operations. The re-measurement of the Euro-denominated bonds correlates with the change in fair value of the cross-currency interest rate swaps. However, the Company will experience unrealized gains or losses related to the cross-currency interest rate swaps if the two underlying indices (and related forward curve) do not move in parallel.

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

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

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

Compensation related to business combinations: The Company has structured certain business combinations in which consideration paid has been dependent on the sellers' continued employment with the Company. As such, the value of the consideration paid is recognized as compensation expense by the Company over the term of the applicable employment agreement. Base net income excludes this expense because the Company believes such charges do not drive its operating performance on a long-term basis and can affect the period-to-period comparability of the results of operations. If the Company did not enter into the employment agreements in connection with the acquisition, the amount paid to these former shareholders of the acquired entity would have been recorded by the Company as additional consideration of the acquired entity, thus, not having an effect on the Company's results of operations.

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

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

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

Special allowance yield adjustment and related hedging activity: The Company excludes the special allowance yield adjustment and the net settlements received or paid on those derivative instruments used to hedge the student loans that were earning 9.5% special allowance payments. Pursuant to the settlement agreement entered into with the Department, effective July 1, 2006, the Company no longer receives 9.5% special allowance payments. Prior to this agreement, the Company excluded the special allowance yield adjustments from base net income because the Company expected 9.5% special allowance payments to decline over time due to the fact that in April 2004 it ceased adding loans receiving 9.5% special allowance payments to its portfolio.

Impact of Legislative and Restructuring Charges to Base Net Income

The following table summarizes the impact of the legislative and restructuring charges recognized by the Company during the third quarter of 2007 to the Company's non-GAAP performance measure referred to as base net income (see "Non-GAAP Performance Measures.") Additional detail related to the legislative and restructuring charges can be found under "Legislative Developments" and "Restructuring Plans – Legislative Changes" in this earnings supplement.

	Three months ended			Year ended	
	December 31, 2007	September 30, 2007	December 31, 2006	December 31, 2007	December 31, 2006
	(dollars in thousands, except share data)				
Adjusted base net income (loss), excluding discontinued operations	$ 13,353	(21,285)	11,641	38,493	76,130
Legislative charges, net of tax	-	34,197	-	34,197	-
Restructuring charges, net of tax	3,270	9,310	-	12,580	-
Adjusted base net income, excluding discontinued operations, legislative charges (net of tax), and restructuring charges (net of tax)	$ 16,623	22,222	11,641	85,270	76,130
Earnings (loss) per share, basic and diluted:					
Adjusted base net income (loss), excluding discontinued operations	$ 0.27	(0.44)	0.22	0.78	1.42
Legislative charges, net of tax	-	0.70	-	0.69	-
Restructuring charges, net of tax	0.07	0.19	-	0.25	-
Adjusted base net income, excluding discontinued operations, legislative charges (net of tax), and restructuring charges (net of tax)	$ 0.34	0.45	0.22	1.72	1.42

Operating Segments

The Company has five operating segments as defined in Statement of Financial Accounting Standards No. 131, *Disclosures about Segments of Enterprise and Related Information* ("SFAS No. 131") as follows: Asset Generation and Management, Student Loan and Guaranty Servicing, Tuition Payment Processing and Campus Commerce, Enrollment Services and List Management, and Software and Technical Services. The Company's operating segments are defined by the products and services they offer or the types of customers they serve, and they reflect the manner in which financial information is currently evaluated by management. The accounting policies of the Company's operating segments are the same as those described in the summary of significant accounting policies included in the Company's consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007. Intersegment revenues are charged by a segment to another segment that provides the product or service. Intersegment revenues and expenses are included within each segment consistent with the income statement presentation provided to management. Changes in management structure or allocation methodologies and procedures may result in changes in reported segment financial information.

The management reporting process measures the performance of the Company's operating segments based on the management structure of the Company as well as the methodology used by management to evaluate performance and allocate resources. Management, including the Company's chief operating decision maker, evaluates the performance of the Company's operating segments based on their profitability. Management measures the profitability of the Company's operating segments based on base net income. Accordingly, information regarding the Company's operating segments is provided based on base net income. While base net income is not a substitute for reported results under GAAP, the Company relies on base net income to manage each operating segment because it believes this measure provides additional information regarding the operational and performance indicators that are most closely assessed by management.

In May 2007, the Company sold EDULINX, a Canadian student loan service provider and subsidiary of the Company. As a result of this transaction, the results of operations for EDULINX are reported as discontinued operations for all periods presented. The operating results of EDULINX were included in the Student Loan and Guaranty Servicing operating segment. The Company presents base net income excluding discontinued operations since the operations and cash flows of EDULINX have been eliminated from the ongoing operations of the Company. Therefore, the results of operations for the Student Loan and Guaranty Servicing segment exclude the operating results of EDULINX for all periods presented.

Asset Generation and Management

In the Company's Asset Generation and Management segment, the Company generates primarily federally guaranteed student loans through direct origination or through acquisitions. The student loan assets are held in a series of education lending subsidiaries designed specifically for this purpose. Revenues are primarily generated from net interest income on the student loan assets. Earnings and earnings growth are directly affected by the size of the Company's portfolio of student loans, the interest rate characteristics of its portfolio, the costs associated with financing, servicing, and managing its portfolio, and the costs associated with origination and acquisition of the student loans in the portfolio, which includes, among other things, borrower benefits and rebate fees paid to the federal government. The Company generates the majority of its earnings from the spread, referred to as its student loan spread, between the yield it receives on its student loan portfolio and the costs previously described. While the spread may vary due to fluctuations in interest rates, the special allowance payments the Company receives from the federal government ensure the Company receives a minimum yield on its student loans, so long as certain requirements are met.

Student Loan and Guaranty Servicing

The Student Loan and Guaranty Servicing segment provides for the servicing of the Company's student loan portfolios and the portfolios of third parties and servicing provided to guaranty agencies. The servicing activities include application processing, underwriting, disbursement of funds, customer service, account maintenance, federal reporting and billing collections, payment processing, default aversion, claim filing, and recovery/collection services. These activities are performed internally for the Company's portfolio in addition to generating fee revenue when performed for third-party clients. The following are the primary product and service offerings the Company offers as part of its Student Loan and Guaranty Servicing segment:

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

Tuition Payment Processing and Campus Commerce

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

Enrollment Services and List Management

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

Software and Technical Services

The Software and Technical Services segment provides information technology products and full-service technical consulting, with core areas of business in educational loan software solutions, business intelligence, technical consulting services, and enterprise content management solutions.

Segment Operating Results

The tables below reflect base net income for each of the Company's operating segments. Reconciliation of the segment totals to the Company's operating results in accordance with GAAP is also included in the tables below.

	Three months ended December 31, 2007 (dollars in thousands)									
	Asset Generation and Management	Student Loan and Guaranty Servicing	Tuition Payment Processing and Campus Commerce	Enrollment Services and List Management	Software and Technical Services	Total Segments	Corporate Activity and Overhead	Eliminations and Reclassifications	"Base net income" Adjustments to GAAP Results	GAAP Results of Operations
Total interest income	$ 428,935	852	1,139	57	—	430,983	1,255	—	2,416	434,654
Interest expense	381,091	—	—	2	—	381,093	9,306	—	—	390,399
Net interest income	47,844	852	1,139	55	—	49,890	(8,051)	—	2,416	44,255
Less provision for loan losses	4,550	—	—	—	—	4,550	—	—	—	4,550
Net interest income after provision for loan losses	43,294	852	1,139	55	—	45,340	(8,051)	—	2,416	39,705
Other income:										
Loan and guaranty servicing income	6	32,947	—	—	—	32,953	—	—	—	32,953
Other fee-based income	2,876	—	11,190	29,970	—	44,036	536	—	—	44,572
Software services income	—	—	—	138	5,509	5,647	—	—	—	5,647
Other income	414	(11)	25	—	—	428	1,445	—	—	1,873
Intersegment revenue	—	15,866	180	—	2,657	18,703	1,432	(20,135)	—	—
Derivative market value, foreign currency, and put option adjustments	—	—	—	—	—	—	—	—	14,940	14,940
Derivative settlements, net	11,577	—	—	—	—	11,577	—	—	—	11,577
Total other income	14,873	48,802	11,395	30,108	8,166	113,344	3,413	(20,135)	14,940	111,562
Operating expenses:										
Salaries and benefits	2,501	18,474	5,114	6,994	5,090	38,173	15,170	623	655	54,621
Restructure expense - severance and contract termination costs	485	609	—	192	—	1,286	3,989	(5,275)	—	—
Other expenses	6,265	10,399	2,379	17,488	771	37,302	19,153	2,801	6,412	65,668
Intersegment expenses	15,120	1,871	(20)	83	225	17,279	1,005	(18,284)	—	—
Total operating expenses	24,371	31,353	7,473	24,757	6,086	94,040	39,317	(20,135)	7,067	120,289
Income (loss) before income taxes	33,796	18,301	5,061	5,406	2,080	64,644	(43,955)	—	10,289	30,978
Income tax expense (benefit) (a)	12,842	6,954	1,923	2,054	790	24,563	(17,226)	—	4,473	11,810
Net income (loss) from continuing operations	20,954	11,347	3,138	3,352	1,290	40,081	(26,729)	—	5,816	19,168
Income (loss) from discontinued operations, net of tax	—	—	—	—	—	—	—	—	(159)	(159)
Net income (loss)	$ 20,954	11,347	3,138	3,352	1,290	40,081	(26,729)	—	5,657	19,009
Three months ended December 31, 2007:										
After Tax Operating Margin - excluding restructure expense	36.5%	23.6%	25.0%	11.5%	15.8%	25.8%				
Three months ended December 31, 2006:										
After Tax Operating Margin - excluding impairment expense	27.8%	21.6%	21.4%	6.5%	10.3%	21.4%				

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

	Three months ended December 31, 2006 (dollars in thousands)									
	Asset Generation and Management	**Student Loan and Guaranty Servicing**	**Tuition Payment Processing and Campus Commerce**	**Enrollment Services and List Management**	**Software and Technical Services**	**Total Segments**	**Corporate Activity and Overhead**	**Eliminations and Reclassifications**	**"Base net income" Adjustments to GAAP Results**	**GAAP Results of Operations**
Total interest income	$ 406,138	3,052	1,344	175	38	410,747	2,963	(2,279)	—	411,431
Interest expense	339,270	—	3	—	—	339,273	10,621	(2,279)	—	347,615
Net interest income	66,868	3,052	1,341	175	38	71,474	(7,658)	—	—	63,816
Less provision for loan losses	1,800	—	—	—	—	1,800	—	—	—	1,800
Net interest income after provision for loan losses	65,068	3,052	1,341	175	38	69,674	(7,658)	—	—	62,016
Other income:										
Loan and guaranty servicing income	—	30,165	—	—	—	30,165	—	—	—	30,165
Other fee-based income	3,395	—	9,607	23,866	—	36,868	—	—	—	36,868
Software services income	56	4	—	65	3,939	4,064	—	—	—	4,064
Other income	3,246	29	—	—	—	3,275	1,619	—	—	4,894
Intersegment revenue	—	17,530	138	244	4,863	22,775	156	(22,931)	—	—
Derivative market value, foreign currency, and put option adjustments	—	—	—	—	—	—	—	—	(19,510)	(19,510)
Derivative settlements, net	(31)	—	—	—	—	(31)	7,044	—	—	7,013
Total other income	6,666	47,728	9,745	24,175	8,802	97,116	8,819	(22,931)	(19,510)	63,494
Operating expenses:										
Salaries and benefits	13,260	21,562	4,520	6,961	6,354	52,657	4,115	(3,958)	476	53,290
Impairment expense	21,687	—	—	—	—	21,687	(199)	—	—	21,488
Other expenses	12,457	8,313	2,214	14,807	1,024	38,815	16,130	—	7,758	62,703
Intersegment expenses	13,898	3,191	528	17	—	17,634	1,339	(18,973)	—	—
Total operating expenses	61,302	33,066	7,262	21,785	7,378	130,793	21,385	(22,931)	8,234	137,481
Income (loss) before income taxes	10,432	17,714	3,824	2,565	1,462	35,997	(20,224)	—	(27,744)	(11,971)
Income tax expense (benefit) (a)	3,964	6,731	1,453	975	556	13,679	(9,547)	—	(10,231)	(6,099)
Net income (loss) from continuing operations	6,468	10,983	2,371	1,590	906	22,318	(10,677)	—	(17,513)	(5,872)
Income (loss) from discontinued operations, net of tax	—	—	—	—	—	—	—	—	(1,438)	(1,438)
Net income (loss)	$ 6,468	10,983	2,371	1,590	906	22,318	(10,677)	—	(18,951)	(7,310)

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

Year ended December 31, 2007

(dollars in thousands)

	Asset Generation and Management	Student Loan and Guaranty Servicing	Tuition Payment Processing and Campus Commerce	Enrollment Services and List Management	Software and Technical Services	Total Segments	Corporate Activity and Overhead	Eliminations and Reclassifications	"Base net income" Adjustments to GAAP Results	GAAP Results of Operations
Total interest income	$ 1,730,882	5,459	3,809	347	18	1,740,515	7,485	(3,737)	3,013	1,747,276
Interest expense	1,465,883	—	7	7	—	1,465,897	40,502	(3,737)	—	1,502,662
Net interest income	264,999	5,459	3,802	340	18	274,618	(33,017)	—	3,013	244,614
Less provision for loan losses	28,178	—	—	—	—	28,178	—	—	—	28,178
Net interest income after provision for loan losses	236,821	5,459	3,802	340	18	246,440	(33,017)	—	3,013	216,436
Other income:										
Loan and guaranty servicing income	294	127,775	—	—	—	128,069	—	—	—	128,069
Other fee-based income	13,387	—	42,682	103,311	—	159,380	1,508	—	—	160,888
Software services income	—	—	—	594	22,075	22,669	—	—	—	22,669
Other income	8,030	—	84	—	—	8,114	11,095	—	—	19,209
Intersegment revenue	—	74,687	688	891	15,683	91,949	9,040	(100,989)	—	—
Derivative market value, foreign currency, and put option adjustments	—	—	—	—	—	—	—	—	26,806	26,806
Derivative settlements, net	6,628	—	—	—	—	6,628	12,049	—	—	18,677
Total other income	28,339	202,462	43,454	104,796	37,758	416,809	33,692	(100,989)	26,806	376,318
Operating expenses:										
Salaries and benefits	23,101	85,462	20,426	33,480	23,959	186,428	49,839	(1,747)	2,111	236,631
Restructure expense - severance and contract termination costs	2,406	1,840	—	929	58	5,233	4,998	(10,231)	—	—
Impairment expense	28,291	—	—	11,401	—	39,692	9,812	—	—	49,504
Other expenses	29,205	36,618	8,901	60,445	2,995	138,164	77,915	2,969	30,426	249,474
Intersegment expenses	74,714	10,552	364	335	775	86,740	5,240	(91,980)	—	—
Total operating expenses	157,717	134,472	29,691	106,590	27,787	456,257	147,804	(100,989)	32,537	535,609
Income (loss) before income taxes	107,443	73,449	17,565	(1,454)	9,989	206,992	(147,129)	—	(2,718)	57,145
Income tax expense (benefit) (a)	40,828	27,910	6,675	(553)	3,796	78,656	(57,285)	—	345	21,716
Net income (loss) from continuing operations	66,615	45,539	10,890	(901)	6,193	128,336	(89,844)	—	(3,063)	35,429
Income (loss) from discontinued operations, net of tax	—	—	—	—	—	—	—	—	(2,575)	(2,575)
Net income (loss)	$ 66,615	45,539	10,890	(901)	6,193	128,336	(89,844)	—	(5,638)	32,854

	Asset Generation and Management	Student Loan and Guaranty Servicing	Tuition Payment Processing and Campus Commerce	Enrollment Services and List Management	Software and Technical Services	Total Segments
Year ended December 31, 2007:						
After Tax Operating Margin - excluding restructure expense, impairment expense, and provision for loan losses related to the loss of Exceptional Performer	34.0%	22.5%	23.0%	6.4%	16.5%	24.0%
Year ended December 31, 2006:						
After Tax Operating Margin - excluding impairment expense	34.5%	20.8%	19.7%	11.6%	15.1%	26.8%

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

	Year ended December 31, 2006 (dollars in thousands)									
	Asset Generation and Management	Student Loan and Guaranty Servicing	Tuition Payment Processing and Campus Commerce	Enrollment Services and List Management	Software and Technical Services	Total Segments	Corporate Activity and Overhead	Eliminations and Reclassifications	"Base net income" Adjustments to GAAP Results	GAAP Results of Operations
Total interest income	$ 1,534,423	8,957	4,029	531	105	1,548,045	4,446	(2,858)	—	1,549,633
Interest expense	1,215,529	—	8	—	—	1,215,537	28,495	(2,858)	—	1,241,174
Net interest income	318,894	8,957	4,021	531	105	332,508	(24,049)	—	—	308,459
Less provision for loan losses	15,308	—	—	—	—	15,308	—	—	—	15,308
Net interest income after provision for loan losses	303,586	8,957	4,021	531	105	317,200	(24,049)	—	—	293,151
Other income:										
Loan and guaranty servicing income	—	121,593	—	—	—	121,593	—	—	—	121,593
Other fee-based income	11,867	—	35,090	55,361	—	102,318	—	—	—	102,318
Software services income	238	5	—	157	15,490	15,890	—	—	—	15,890
Other income	19,966	97	—	—	—	20,063	3,302	—	—	23,365
Intersegment revenue	—	63,545	503	1,000	17,877	82,925	662	(83,587)	—	—
Derivative market value, foreign currency, and put option adjustments	—	—	—	—	—	—	—	—	(31,075)	(31,075)
Derivative settlements, net	18,381	—	—	—	—	18,381	5,051	—	—	23,432
Total other income	50,452	185,240	35,593	56,518	33,367	361,170	9,015	(83,587)	(31,075)	255,523
Operating expenses:										
Salaries and benefits	53,036	83,988	17,607	15,510	22,063	192,204	32,979	(12,254)	1,747	214,676
Impairment expense	21,687	—	—	—	—	21,687	(199)	—	—	21,488
Other expenses	51,085	32,419	8,371	30,854	3,238	125,967	59,086	—	25,062	210,115
Intersegment expenses	52,857	12,577	1,025	17	—	66,476	4,857	(71,333)	—	—
Total operating expenses	178,665	128,984	27,003	46,381	25,301	406,334	96,723	(83,587)	26,809	446,279
Income (loss) before income taxes	175,373	65,213	12,611	10,668	8,171	272,036	(111,757)	—	(57,884)	102,395
Income tax expense (benefit) (a)	66,642	24,780	4,791	4,054	3,105	103,372	(46,902)	—	(20,233)	36,237
Net income (loss) before minority interest	108,731	40,433	7,820	6,614	5,066	168,664	(64,855)	—	(37,651)	66,158
Minority interest in subsidiary income	—	—	(242)	—	—	(242)	—	—	—	(242)
Net income (loss) from continuing operations	108,731	40,433	7,578	6,614	5,066	168,422	(64,855)	—	(37,651)	65,916
Income (loss) from discontinued operations, net of tax	—	—	—	—	—	—	—	—	2,239	2,239
Net income (loss)	$ 108,731	40,433	7,578	6,614	5,066	168,422	(64,855)	—	(35,412)	68,155

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

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

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

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

	Asset Generation and Management	Student Loan and Guaranty Servicing	Tuition Payment Processing and Campus Commerce	Enrollment Services and List Management	Software and Technical Services	Corporate Activity and Overhead	Total
	(dollars in thousands)						
	Three months ended December 31, 2007						
Derivative market value, foreign currency, and put option adjustments	$ (16,423)	—	—	—	—	1,483	(14,940)
Amortization of intangible assets	437	1,350	1,443	2,895	287	—	6,412
Compensation related to business combinations	—	—	—	—	—	655	655
Variable-rate floor income	(2,416)	—	—	—	—	—	(2,416)
Income (loss) from discontinued operations, net of tax	—	159	—	—	—	—	159
Net tax effect (a)	6,993	(513)	(548)	(1,100)	(109)	(250)	4,473
Total adjustments to GAAP	$ (11,409)	996	895	1,795	178	1,888	(5,657)
	Three months ended December 31, 2006						
Derivative market value, foreign currency, and put option adjustments	$ (2,261)	—	—	—	—	21,771	19,510
Amortization of intangible assets	933	2,272	1,795	1,855	903	—	7,758
Compensation related to business combinations	—	—	—	—	—	476	476
Variable-rate floor income	—	—	—	—	—	—	—
Income (loss) from discontinued operations, net of tax	—	1,438	—	—	—	—	1,438
Net tax effect (a)	504	(862)	(683)	(705)	(342)	(8,143)	(10,231)
Total adjustments to GAAP	$ (824)	2,848	1,112	1,150	561	14,104	18,951

	Year ended December 31, 2007						
Derivative market value, foreign currency, and put option adjustments	$ (24,224)	—	—	—	—	(2,582)	(26,806)
Amortization of intangible assets	5,634	5,094	5,815	12,692	1,191	—	30,426
Compensation related to business combinations	—	—	—	—	—	2,111	2,111
Variable-rate floor income	(3,013)	—	—	—	—	—	(3,013)
Income (loss) from discontinued operations, net of tax	—	2,575	—	—	—	—	2,575
Net tax effect (a)	8,209	(1,936)	(2,209)	(4,823)	(452)	1,556	345
Total adjustments to GAAP	$ (13,394)	5,733	3,606	7,869	739	1,085	5,638
	Year ended December 31, 2006						
Derivative market value, foreign currency, and put option adjustments	$ 5,483	—	—	—	—	25,592	31,075
Amortization of intangible assets	7,617	5,641	5,968	4,573	1,263	—	25,062
Compensation related to business combinations	—	—	—	—	—	1,747	1,747
Variable-rate floor income	—	—	—	—	—	—	—
Income (loss) from discontinued operations, net of tax	—	(2,239)	—	—	—	—	(2,239)
Net tax effect (a)	(4,978)	(2,143)	(2,268)	(1,738)	(480)	(8,626)	(20,233)
Total adjustments to GAAP	$ 8,122	1,259	3,700	2,835	783	18,713	35,412

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

Student Loans Receivable

Student loans receivable includes all student loans owned by or on behalf of the Company and includes the unamortized cost of acquisition or origination less an allowance for loan losses. The following table describes the components of the Company's loan portfolio:

	As of December 31, 2007		As of September 30, 2007		As of December 31, 2006	
	Dollars	Percent of total	Dollars	Percent of total	Dollars	Percent of total
			(dollars in thousands)			
Federally insured:						
Stafford	$ 6,725,910	25.2 %	$ 6,683,801	25.1 %	$ 5,724,586	24.1 %
PLUS/SLS	429,941	1.6	419,940	1.6	365,112	1.5
Consolidation	18,898,547	70.7	18,824,726	70.9	17,127,623	72.0
Non-federally insured	274,815	1.0	251,503	0.9	197,147	0.8
Total	26,329,213	98.5	26,179,970	98.5	23,414,468	98.4
Unamortized premiums and deferred origination costs	452,501	1.7	460,167	1.7	401,087	1.7
Allowance for loan losses:						
Allowance - federally insured	(24,534)	(0.1)	(23,907)	(0.1)	(7,601)	(0.0)
Allowance - non-federally insured	(21,058)	(0.1)	(20,107)	(0.1)	(18,402)	(0.1)
Net	$ 26,736,122	100.0 %	$ 26,596,123	100.0 %	$ 23,789,552	100.0 %

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

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

	Three months ended			Year ended	
	December 31, 2007	September 30, 2007	December 31, 2006	December 31, 2007	December 31, 2006
			(dollars in thousands)		
Beginning balance	$ 26,179,970	25,746,000	22,534,661	23,414,468	19,912,955
Direct channel:					
Consolidation loan originations	280,963	914,842	1,762,371	3,096,754	5,299,820
Less consolidation of existing portfolio	(152,509)	(537,539)	(843,749)	(1,602,835)	(2,643,880)
Net consolidation loan originations	128,454	377,303	918,622	1,493,919	2,655,940
Stafford/PLUS loan originations	162,949	426,740	192,533	1,086,398	1,035,695
Branding partner channel (a) (b)	79,416	125,220	69,498	662,629	720,641
Forward flow channel	158,803	178,226	332,702	1,105,145	1,600,990
Other channels (b)	12,932	24,373	12,209	804,019	682,852
Total channel acquisitions	542,554	1,131,862	1,525,564	5,152,110	6,696,118
Repayments, claims, capitalized interest, participations, and other	(208,178)	(479,512)	(125,756)	(1,321,055)	(1,332,086)
Consolidation loans lost to external parties	(173,505)	(200,719)	(307,649)	(800,978)	(1,114,040)
Loans sold	(11,628)	(17,661)	(212,352)	(115,332)	(748,479)
Ending balance	$ 26,329,213	26,179,970	23,414,468	26,329,213	23,414,468

(a) Included in the branding partner channel are private loan originations of $26.3 million, $22.1 million, and $19.7 million for the three months ended December 31, 2007, September 30, 2007, and December 31, 2006, respectively, and $110.5 million and $55.7 million for the year ended December 31, 2007 and 2006, respectively.

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

Student Loan Spread

The following table analyzes the student loan spread on the Company's portfolio of student loans. This table represents the spread on assets earned in conjunction with the liabilities used to fund the assets, including the effects of net derivative settlements.

	Three months ended			Year ended	
	December 31, 2007	September 30 2007	December 31, 2006	December 31, 2007	December 31, 2006
Student loan yield (a)	7.42 %	7.83 %	7.88 %	7.76 %	7.85 %
Consolidation rebate fees	(0.76)	(0.76)	(0.76)	(0.77)	(0.72)
Premium and deferred origination costs amortization (b)	(0.36)	(0.36)	(0.33)	(0.36)	(0.39)
Student loan net yield	6.30	6.71	6.79	6.63	6.74
Student loan cost of funds (c)	(5.33)	(5.65)	(5.48)	(5.49)	(5.12)
Student loan spread	0.97	1.06	1.31	1.14	1.62
Variable-rate floor income (d)	(0.04)	(0.01)	—	(0.01)	—
Special allowance yield adjustments, net of settlements on derivatives (e)	—	—	—	—	(0.20)
Core student loan spread	0.93 %	1.05 %	1.31 %	1.13 %	1.42 %
Average balance of student loans (in thousands)	$ 26,173,480	25,866,660	22,978,951	25,143,059	21,696,466
Average balance of debt outstanding (in thousands)	27,507,440	27,321,874	24,552,113	26,599,361	23,379,258

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

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

(c) The student loan cost of funds includes the effects of net settlement costs on the Company's derivative instruments (excluding the $2.0 million settlement related to the derivative instrument entered into in connection with the issuance of the junior subordinated hybrid securities for the year ended December 31, 2006 and the net settlements of $1.7 million and $7.0 million for the three months ended September 30, 2007 and December 31, 2006, respectively, and $12.1 million and $7.0 million for the years ended December 31, 2007 and December 31, 2006, respectively, on those derivatives no longer hedging student loan assets).

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

(e) 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 include net settlements on derivative instruments that were used to hedge this loan portfolio earning the excess yield. On January 19, 2007, the Company entered into a Settlement Agreement with the Department to resolve the audit by the OIG of the Company's portfolio of student loans receiving 9.5% special allowance payments. Under the terms of the Agreement, all 9.5% special allowance payments were eliminated for periods on and after July 1, 2006. The Company had been deferring recognition of 9.5% special allowance payments related to those loans subject to the OIG audit effective July 1, 2006 pending satisfactory resolution of this issue.