



## Nelnet Reports Substantial Growth in Net Income and Student Loan Assets

LINCOLN, Neb., Nov 5, 2004 /PRNewswire-FirstCall via COMTEX/ -- Nelnet, Inc. (NYSE: NNI) today announced that base net income for the first nine months of 2004 was \$130.1 million, or \$2.43 per share, compared with \$18.3 million, or \$0.41 per share, in the prior year. For the first nine months of 2004, net income was \$102.0 million, or \$1.90 per share, compared with net income of \$16.8 million, or \$0.37 per share, for the same period a year ago.

Net income excluding derivative market value adjustments, amortization of intangible assets, and variable-rate floor income items, which the company defines as base net income, was \$34.0 million, or \$0.63 per share, for the third quarter of 2004 compared with \$3.8 million, or \$0.08 per share, in the prior year. Net income including these items was \$7.6 million, or \$0.14 per share for the third quarter of 2004, compared with a net loss of \$1.1 million, or \$0.03 per share, for the same period a year ago. A description of base net income and a reconciliation of GAAP net income to base net income are included later in the release.

"As we review the quarter, two things in particular stand out," said Steve Butterfield, Nelnet Vice Chairman and Co-CEO. "Net income and student loan assets were both up substantially, clearly demonstrating the strength of our core business."

Net student loan assets at September 30, 2004 were \$12.8 billion, up 27 percent, or \$2.7 billion, from \$10.1 billion the year before. Since the beginning of 2004, Nelnet's net student loan assets increased 22 percent, or \$2.3 billion.

"We continue to be excited about Nelnet's organic student loan asset growth," Butterfield said. "This is a key driver of future earnings and is the result of the success of our indirect and direct marketing strategies. Combined, our origination channels -- direct to consumer, brand, and forward flow -- have grown in line with our expectations."

"Our strong performance in the third quarter reflects the strength of our business and our focus on business-as-usual," Butterfield said. "In addition, last week we announced an agreement to acquire EDULINX Canada Corporation, the largest servicer of government sponsored student loans in Canada. While EDULINX is expected to make a positive, though not material, contribution to net income in 2005, it adds volume to our servicing and fee-based business and opens new market opportunities."

Nelnet prepares financial statements in accordance with generally accepted accounting principles ("GAAP"). In addition to evaluating the company's GAAP-based financial information, management and analysts also evaluate the company on certain non-GAAP performance measures that are referred to as base income adjustments. While base net income is not a substitute for reported results under GAAP, Nelnet provides this information as additional information regarding our financial results.

Nelnet's base net income is a non-GAAP financial measure and may not be comparable to similarly titled measures reported by other companies. Nelnet's base net income presentation does not represent another comprehensive basis of accounting.

The derivative market value adjustment on the company's consolidated statements of income represents unrealized losses in the fair value of derivative instruments of \$39.2 million year-to-date 2004 and \$40.2 million for the third quarter of 2004. While derivative gains or losses do not impact the base income of the company as they fluctuate, they will continue to be reflected in our operating results.

Amortization expense related to intangible assets amounted to \$6.4 million and \$2.3 million for the nine months and quarter ended September 30, 2004, respectively. In 2003, such amortization expense for the corresponding periods was \$10.0 million and \$2.8 million.

Net interest income includes variable-rate floor income, or floor income generated by the annual reset of borrower rates on July 1, of \$348,000 for the nine months ended September 30, 2004 compared to \$12.7 million for the same period a year ago. No variable-rate floor income was earned in the third quarters of 2004 and 2003.

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

Three months ended		Nine months ended	
September 30,		September 30,	
2004	2003	2004	2003

(unaudited)  
(dollars in thousands,  
except share data)

GAAP net income (loss)	\$7,637	\$ (1,133)	\$102,011	\$16,771
Base adjustments:				
Impact of derivative market value adjustments	40,183	5,131	39,209	5,131
Amortization of intangible assets	2,275	2,785	6,432	9,981
Impact of variable-rate floor income	--	--	(348)	(12,700)
Total base adjustments before income taxes	42,458	7,916	45,293	2,412
Net tax effect (a)	(16,134)	(3,008)	(17,211)	(917)
Total base adjustments	26,324	4,908	28,082	1,495
Base net income	\$33,961	\$3,775	\$130,093	\$18,266
Base earnings per share, basic and diluted	\$0.63	\$0.08	\$2.43	\$0.41

(a) Tax effect computed at 38%.

Nelnet will host a conference call to discuss this earnings release at 11:00 a.m. (Eastern) today. To access the call live, participants in the United States and Canada should dial 800.289.0493 and international callers should dial 913.981.5510 at least 15 minutes prior to the call. A live audio Web cast of the call will also be available at [www.nelnetinvestors.net](http://www.nelnetinvestors.net) under the conference calls and Web casts menu. A replay of the conference call will be available between 2:00 p.m. (Eastern) today and 11:59 p.m. (Eastern) November 12. To access the replay via telephone within the United States and Canada, callers should dial 888.203.1112. International callers should dial 719.457.0820. All callers accessing the replay will need to use the confirmation code 996876. A replay of the audio Web cast will also be available at [www.nelnetinvestors.net](http://www.nelnetinvestors.net).

Supplemental financial information to this earnings release is available online at <http://www.nelnetinvestors.net/releases.cfm?reltype=Financial>.

Nelnet is one of the leading education finance companies in the United States and is focused on providing quality student loan products and services to students and schools nationwide. With over \$14 billion in total assets, Nelnet originates in excess of \$3 billion for itself and its service partners annually, and its servicing software is used by approximately 35 clients, including Nelnet, to service nearly \$50 billion in student loans. Nelnet ranks among the nation's leaders in terms of total student loan assets.

Nelnet offers a broad range of student loan and financial services and technology-based products, including student loan origination and lending, guarantee servicing, and a suite of software solutions. Our products are designed to simplify the student loan process by automating financial aid delivery, loan processing, and funds disbursement. Our services help to facilitate and streamline education finance for all involved in the industry, including student and parent borrowers, lenders, financial aid officers, guaranty agencies, governmental agencies, servicers, and the capital markets.

Additional information is available at [www.nelnet.net](http://www.nelnet.net).

Information contained in this press release, 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 Nelnet's operating results, performance, or financial condition are changes in terms of student loans and the educational credit marketplace, 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.

(code #: nnif)

Condensed Consolidated Statements of Income

Three months ended  
September 30,

Nine months ended  
September 30,

	2004	2003	2004	2003
			(unaudited)	
	(dollars in thousands, except share data)			
Interest income:				
Loan interest, excluding variable rate floor income	\$171,427	\$104,998	\$519,059	\$304,989
Variable rate floor income	--	--	348	12,700
Amortization of loan premiums	(18,395)	(19,424)	(53,249)	(49,760)
Investment interest	4,918	2,716	11,750	11,984
Total interest income	157,950	88,290	477,908	279,913
Interest expense:				
Interest on bonds and notes payable	68,545	47,309	169,940	151,484
Net interest income	89,405	40,981	307,968	128,429
Less provision (recovery) for loan losses				
	2,300	4,015	(1,006)	8,875
Net interest income after provision (recovery) for loan losses	87,105	36,966	308,974	119,554
Other income (expense):				
Loan servicing and other fee income	24,167	27,087	72,388	77,324
Software services and other income	8,391	4,565	18,998	13,676
Derivative market value adjustments	(40,183)	(5,131)	(39,209)	(5,131)
Derivative settlements, net	(16,031)	(524)	(19,389)	(524)
Total other income (expense)	(23,656)	25,997	32,788	85,345
Operating expenses:				
Salaries and benefits	25,060	35,901	101,865	92,749
Other expenses	24,167	23,583	72,613	72,109
Amortization of intangible assets	2,275	2,785	6,432	9,981
Total operating expenses	51,502	62,269	180,910	174,839
Income before income taxes	11,947	694	160,852	30,060
Income tax expense	4,310	1,827	58,841	13,289
Net income (loss)	\$7,637	\$(1,133)	\$102,011	\$16,771
Earnings (loss) per share, basic and diluted	\$0.14	\$(0.03)	\$1.90	\$0.37
Weighted average shares outstanding	53,648,788	45,038,488	53,644,056	45,019,823

	As of September 30, 2004 (unaudited)	As of December 31, 2003	As of September 30, 2003 (unaudited)
(dollars in thousands)			
Assets			
Student loans receivable, net	\$12,793,704	\$10,455,442	\$10,059,920
Cash, cash equivalents, and investments	933,271	1,155,215	774,667
Other assets	387,821	321,529	318,410
Total assets	\$14,114,796	\$11,932,186	\$11,152,997
Liabilities and shareholders' equity			
Liabilities:			
Bonds and notes payable	\$13,526,343	\$11,366,458	\$10,892,347
Other liabilities	179,838	260,239	129,428
Total liabilities	13,706,181	11,626,697	11,021,775
Shareholders' equity	408,615	305,489	131,222
Total liabilities and shareholders' equity	\$14,114,796	\$11,932,186	\$11,152,997
Average student loans	\$11,282,561	\$9,451,035	\$8,891,773
Return on average total assets	1.04%	0.25%	0.21%
Return on average equity	38.3%	19.4%	18.3%

**SOURCE Nelnet, Inc.**

Media, Sheila Odom, +1-402-458-2329, or Investors, Cheryl  
Watson, +1-317-469-2064, both of Nelnet, Inc.

<http://www.nelnetinvestors.net/releases.cfm?reltype=Financial>

Copyright (C) 2004 PR Newswire. All rights reserved.

News Provided by COMTEX