



## **Nelnet Reports Net Student Loan Assets Up 51 Percent to More Than \$20 Billion in 2005**

### **- Student Loan Assets Increase 27 Percent, Excluding Acquisitions in 2005 - Net Consolidation Loan Originations of \$2.1 Billion for 2005**

LINCOLN, Neb., Jan 31, 2006 /PRNewswire-FirstCall via COMTEX News Network/ -- Nelnet, Inc. (NYSE: NNI) today reported GAAP net income for 2005 of \$181.1 million, or \$3.37 per share, compared with \$149.2 million, or \$2.78 per share, for 2004. GAAP net income for the fourth quarter of 2005 totaled \$42.7 million, or \$0.79 per share, compared with \$47.2 million, or \$0.88 per share, for the fourth quarter of 2004.

Base net income for 2005 was \$127.6 million, or \$2.37 per share, compared with \$161.8 million, or \$3.02 per share, in 2004. Base net income for the fourth quarter of 2005 totaled \$32.3 million, or \$0.60 per share, compared with \$31.7 million, or \$0.59 per share, in the fourth quarter of 2004.

Base net income as defined by Nelnet is GAAP net income excluding derivative market value adjustments, amortization of intangible assets, and variable-rate floor income. A description of base net income and reconciliation of GAAP net income to base net income is included in this release.

Base net income excluding certain special allowance yield adjustments and related derivative settlements for 2005 was \$1.46 per share, up from \$1.02 per share for 2004. Base net income excluding certain special allowance yield adjustments and related derivative settlements was \$0.39 per share for the fourth quarter of 2005 up from \$0.33 per share for the fourth quarter of 2004.

GAAP net income includes an unrealized gain in the fair-market value of derivative instruments of \$95.9 million for 2005 and \$21.6 million for the fourth quarter of 2005. Nelnet's derivatives do not qualify for hedge accounting under FASB 133. As such, the mark-to-market gains or losses of derivatives in each reporting period are included in the statement of operations, but removed from GAAP net income during the calculation of base net income.

Net student loan assets at December 31, 2005 were \$20.3 billion, up 51 percent, or \$6.8 billion, from \$13.5 billion at December 31, 2004. Excluding \$3.2 billion of student loans acquired through business and portfolio acquisitions in 2005, net student loan assets increased \$3.6 billion or 27 percent from December 31, 2004.

The company reported net consolidation loan originations of \$2.1 billion for 2005 and \$721.4 million for the fourth quarter of 2005. For 2005 and for the fourth-quarter 2005, Nelnet experienced a loss of \$855.0 million and \$356.5 million, respectively, of student loans through the consolidation of the company's portfolio by third parties.

"In 2005, Nelnet executed a strategy of delivering value to our customers, diversifying our revenue streams, and growing our student loan portfolio," said Steve Butterfield, Nelnet Vice Chairman and co-Chief Executive Officer. "We will use the success of this past year as the foundation for continued growth and diversification."

#### **Margin analysis**

Net interest income for 2005 was \$329.1 million compared with \$398.2 million for 2004. For the fourth quarter of 2005, Nelnet reported net interest income of \$81.3 million compared with \$90.2 million for the fourth quarter of 2004. Net interest income for 2005 includes a special allowance yield adjustment of \$94.7 million, down from \$203.5 million in the same period a year ago. The fourth-quarter 2005 net interest income includes a special allowance yield adjustment of \$17.2 million, down from \$35.6 million in the same period a year ago. Excluding the impact of the special allowance yield adjustments, net interest income for the fourth-quarter 2005 increased \$9.5 million, or 17 percent, compared to the same period a year ago.

The company reported core student loan spread of 1.51 percent for 2005 compared with 1.66 percent in 2004 and 1.44 percent for the fourth quarter of 2005 compared with 1.69 percent in 2004. The tightening was primarily attributable to an increase in short-term interest rates and an increase in the amount of lower-yield consolidation loans in the company's student loan portfolio that comprised approximately 64 percent of Nelnet's student loan portfolio at December 31, 2005.

#### **Other revenue**

Income from loan and guarantee servicing fees reached \$152.5 million for 2005, up from \$100.1 million in 2004. In the fourth quarter of 2005, income from loan and guarantee servicing grew to \$43.2 million from \$26.7 million in the fourth

quarter of 2004. The increase is attributable to the acquisition of EDULINX in December 2004 and the expanded outsourcing agreement with the College Access Network in October 2005, but is also partially offset by reductions in other third-party servicing-related revenue.

Other fee-based income increased to \$35.6 million for 2005 compared with \$7.0 million for 2004. For the fourth quarter of 2005, other fee-based income increased to \$12.8 million, up from \$1.7 million in the same period a year ago. The integration of Student Marketing Group and National Honor Roll, which were acquired in March 2005, and FACTS Management Co., eighty percent of which was acquired in June 2005, drove the increase.

#### Operating expenses

For 2005, the company reported operating expenses of \$322.3 million compared with \$242.8 million for 2004. Operating expenses increased to \$98.1 million in the fourth quarter of 2005 from \$61.8 million for the same period a year ago. The increase in operating expenses is primarily attributable to the integration of recent acquisitions. Excluding the impact of these acquisitions, operating expenses for the fourth quarter of 2005 increased approximately 3 percent compared with the prior quarter.

#### Reconciliation of GAAP net income to base net income

Nelnet 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 we refer to as base net income. While base net income is not a substitute for reported results under GAAP, Nelnet provides base net income as additional information regarding financial results.

Base net income, excluding certain special allowance yield adjustments and related hedging activity related to 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 net income and also reflects the earnings per share impact of the special allowance yield adjustments and related hedging activity related to the 9.5% portfolio.

	Three months ended		Year ended	
	December 31,		December 31,	
	2005	2004	2005	2004
	(dollars in thousands, except share data)			
GAAP net income	\$42,676	\$47,168	\$181,122	\$149,179
Base adjustments:				
Derivative market value adjustments	(21,554)	(27,291)	(95,854)	11,918
Amortization of intangible assets	4,828	2,336	9,479	8,768
Variable-rate floor income	--	--	--	(348)
Total base adjustments before income taxes	(16,726)	(24,955)	(86,375)	20,338
Net tax effect (a)	6,356	9,483	32,823	(7,728)
Total base adjustments	(10,370)	(15,472)	(53,552)	12,610
Base net income	32,306	31,696	127,570	161,789
Special allowance yield adjustments (b)	(11,352)	(13,402)	(48,841)	(106,842)
Base net income, excluding the special allowance yield adjustments (b)	\$20,954	\$18,294	\$78,729	\$54,947
Earnings per share, basic and diluted:				
GAAP net income	\$0.79	\$0.88	\$3.37	\$2.78
Total base adjustments	(0.19)	(0.29)	(1.00)	0.24

Base net income	0.60	0.59	2.37	3.02
Special allowance yield adjustments (b)	(0.21)	(0.26)	(0.91)	(2.00)
Base net income, excluding the special allowance yield adjustments (b)	\$0.39	\$0.33	\$1.46	\$1.02

(a) Tax effect computed at 38%.

(b) The special allowance yield adjustments are net of derivative settlements of \$(1.1) million and \$14.0 million for the three months ended December 31, 2005 and 2004 respectively, and \$15.9 million and \$31.2 million for the years ended December 31, 2005 and 2004 respectively, and the tax effect computed at 38%.

Nelnet will host a conference call to discuss this earnings release at 2:00 p.m. (Eastern) today. To access the call live, participants in the United States and Canada should dial 800.289.0572 and international callers should dial 913.981.5543 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 5:00 p.m. (Eastern) today and 11:59 p.m. (Eastern) February 3. 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 9344836. 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>.

#### Condensed Consolidated Statements of Income

	Three months ended December 31,		Year ended December 31,	
	2005	2004	2005	2004
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	(dollars in thousands, except share data)			
Interest income:				
Loan interest, excluding variable-rate floor income	\$309,890	\$185,977	\$981,479	\$705,036
Variable-rate floor income	--	--	--	348
Amortization of loan premiums and deferred origination costs	(24,160)	(17,121)	(76,530)	(70,370)
Investment interest	17,616	6,012	44,259	17,762
Total interest income	303,346	174,868	949,208	652,776
Interest expense:				
Interest on bonds and notes payable	222,066	84,670	620,111	254,610
Net interest income	81,280	90,198	329,097	398,166
Less provision (recovery) for loan losses	1,473	477	7,030	(529)
Net interest income after provision (recovery) for loan losses	79,807	89,721	322,067	398,695

Other income:				
Loan and guarantee servicing income	43,180	26,708	152,493	100,130
Other fee-based income	12,755	1,668	35,641	7,027
Software services income	2,410	2,530	9,169	8,051
Other income	2,650	2,237	8,032	9,321
Derivative market value adjustments	21,554	27,291	95,854	(11,918)
Derivative settlements, net	2,041	(14,751)	(17,008)	(34,140)
Total other income	84,590	45,683	284,181	78,471
Operating expenses:				
Salaries and benefits	49,117	31,802	172,732	133,667
Other expenses	44,156	27,703	140,092	100,316
Amortization of intangible assets	4,828	2,336	9,479	8,768
Total operating expenses	98,101	61,841	322,303	242,751
Income before income taxes	66,296	73,563	283,945	234,415
Income tax expense	23,246	26,395	102,220	85,236
Net income before minority interest	43,050	47,168	181,725	149,179
Minority interest in net earnings of subsidiaries	(374)	--	(603)	--
Net income	\$42,676	\$47,168	\$181,122	\$149,179
Earnings per share, basic and diluted	\$0.79	\$0.88	\$3.37	\$2.78
Weighted average shares outstanding	53,915,812	53,662,152	53,761,727	53,648,605

#### Condensed Consolidated Balance Sheets and Financial Data

	As of December 31,	
	2005	2004
	(unaudited)	
	(dollars in thousands)	
Assets:		
Student loans receivable, net	\$20,260,807	\$13,461,814
Cash, cash equivalents, and investments	1,645,797	1,302,954
Goodwill	99,535	8,522
Intangible assets, net	153,117	11,987
Other assets	639,366	374,728
Total assets	\$22,798,622	\$15,160,005
Liabilities:		
Bonds and notes payable	\$21,673,620	\$14,300,606
Other liabilities	474,884	403,224
Total liabilities	22,148,504	14,703,830
Minority interest in subsidiaries	626	--
Shareholders' equity	649,492	456,175
Total liabilities and		

shareholders' equity	\$22,798,622	\$15,160,005
Return on average total assets	1.00%	1.11%
Return on average equity	32.4%	39.7%

Nelnet is one of the leading education finance companies in the United States and is focused on providing quality products and services to students and schools nationwide. Nelnet ranks among the nation's leaders in terms of total net student loan assets with \$20.3 billion as of December 31, 2005. Headquartered in Lincoln, Nebraska, Nelnet originates, consolidates, securitizes, holds, and services student loans, principally loans originated under the Federal Family Education Loan Program of the U.S. Department of Education.

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.

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