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Nelnet, Inc. supplemental financial information for the third quarter 2006

The following supplemental information should be read in connection with the third-quarter 2006 earnings press release of Nelnet, Inc. (the "Company"), dated October 27, 2006.

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 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. 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			Nine months ended	
	September 30, 2006 (unaudited)	June 30, 2006 (unaudited)	September 30, 2005 (unaudited)	September 30, 2006 (unaudited)	September 30, 2005 (unaudited)
	(dollars in thousands, except share data)				
Interest income:					
Loan interest	$ 401,704	$ 383,867	$ 247,791	$ 1,133,093	$ 671,589
Amortization of loan premiums and deferred origination costs	(21,568)	(21,125)	(20,041)	(64,555)	(52,370)
Investment interest	25,986	24,314	11,491	69,841	26,643
Total interest income	406,122	387,056	239,241	1,138,379	645,862
Interest expense:					
Interest on bonds and notes payable	333,766	300,844	160,243	893,559	398,045
Net interest income	72,356	86,212	78,998	244,820	247,817
Less provision for loan losses	1,700	2,190	1,402	13,508	5,557
Net interest income after provision for loan losses	70,656	84,022	77,596	231,312	242,260
Other income (expense):					
Loan and guarantee servicing income	48,462	44,042	37,459	139,578	109,313
Other fee-based income	31,221	16,074	10,503	65,450	22,886
Software services income	4,399	4,018	1,951	11,826	6,759
Other income	13,617	2,906	2,458	18,510	5,382
Derivative market value, foreign currency, and put option adjustments	(79,941)	29,113	65,382	(11,565)	74,300
Derivative settlements, net	4,973	6,702	(2,962)	16,419	(19,049)
Total other income (expense)	22,731	102,855	114,791	240,218	199,591
Operating expenses:					
Salaries and benefits	65,383	62,207	44,311	185,274	123,615
Other expenses	56,925	45,904	32,705	147,759	95,936
Amortization of intangible assets	6,534	6,161	1,919	18,328	4,651
Total operating expenses	128,842	114,272	78,935	351,361	224,202
Income (loss) before income taxes	(35,455)	72,605	113,452	120,169	217,649
Income tax expense (benefit)	(13,101)	26,852	41,091	44,462	78,974
Net income (loss) before minority interest	(22,354)	45,753	72,361	75,707	138,675
Minority interest in net earnings of subsidiaries	-	-	(229)	(242)	(229)
Net income (loss)	$ (22,354)	$ 45,753	$ 72,132	$ 75,465	$ 138,446
Earnings (loss) per share, basic and diluted	$ (0.42)	$ 0.84	$ 1.34	$ 1.40	$ 2.58
Weighted average shares outstanding	53,348,466	54,297,230	53,734,218	53,959,075	53,709,801

Condensed Consolidated Balance Sheets and Financial Data

	September 30, 2006 (unaudited)	December 31, 2005	September 30, 2005 (unaudited)
	(dollars in thousands)		
Assets:			
Student loans receivable, net	$ 22,933,718	$ 20,260,807	$ 16,379,293
Cash, cash equivalents, and investments	1,810,839	1,645,797	1,304,261
Goodwill	188,603	99,535	67,942
Intangible assets, net	169,824	153,117	34,644
Other assets	788,336	639,366	525,185
Total assets	$ 25,891,320	$ 22,798,622	$ 18,311,325
Liabilities:			
Bonds and notes payable	$ 24,690,245	$ 21,673,620	$ 17,418,652
Other liabilities	519,814	474,884	295,582
Total liabilities	25,210,059	22,148,504	17,714,234
Minority interest in subsidiaries	-	626	274
Shareholders' equity	681,261	649,492	596,817
Total liabilities and shareholders' equity	$ 25,891,320	$ 22,798,622	$ 18,311,325
Return on average total assets	0.41%	1.00%	1.10%
Return on average equity	14.1%	32.4%	34.9%

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 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.

Adjusted base net income, which excludes certain special allowance yield adjustments 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 (loss) to base and adjusted base net income.

	Three months ended			Nine months ended	
	September 30, 2006	June 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
	(dollars in thousands, except share data)				
GAAP net income (loss) (a)	$ (22,354)	$ 45,753	$ 72,132	$ 75,465	$ 138,446
Base adjustments:					
Derivative market value, foreign currency, and put option adjustments	79,941	(29,113)	(65,382)	11,565	(74,300)
Amortization of intangible assets	6,534	6,161	1,919	18,328	4,651
Non-cash stock based compensation related to business combinations	476	477	-	1,271	-
Variable-rate floor income	-	-	-	-	-
Total base adjustments before income taxes	86,951	(22,475)	(63,463)	31,164	(69,649)
Net tax effect (c)	(31,698)	8,446	24,116	(10,391)	26,467
Total base adjustments	55,253	(14,029)	(39,347)	20,773	(43,182)
Base net income (a)	32,899	31,724	32,785	96,238	95,264
Adjustments to base net income:					
Special allowance yield adjustment (b)	-	(10,550)	(21,766)	(24,460)	(77,427)
Derivative settlements, net	(7,909)	(7,721)	2,644	(19,794)	16,961
Total adjustments to base net income before income taxes	(7,909)	(18,271)	(19,122)	(44,254)	(60,466)
Net tax effect (c)	3,006	6,943	7,266	16,817	22,977
Total adjustments to base net income	(4,903)	(11,328)	(11,856)	(27,437)	(37,489)
Adjusted base net income (a)	$ 27,996	$ 20,396	$ 20,929	$ 68,801	$ 57,775
Earnings (loss) per share, basic and diluted:					
GAAP net income (loss) (a)	$ (0.42)	$ 0.84	$ 1.34	$ 1.40	$ 2.58
Total base adjustments	1.04	(0.25)	(0.73)	0.38	(0.81)
Base net income (a)	0.62	0.59	0.61	1.78	1.77
Total adjustments to base net income	(0.10)	(0.21)	(0.22)	(0.50)	(0.70)
Adjusted base net income (a)	$ 0.52	$ 0.38	$ 0.39	$ 1.28	$ 1.07

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

(b) As previously disclosed, pending satisfactory resolution of the October 6, 2006 letter from the Department of Education (the "Department") related to the audit report by the Department's Office of Inspector General regarding certain loans receiving 9.5% special allowance payments, the Company has determined to defer recognition of the 9.5% special allowance payments which the Department is currently withholding payment. Income from these 9.5% special allowance payments would have been $8.9 million ($5.5 million or $0.10 per share after tax) for the three months ended September 30, 2006.

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

Base net income is a non-GAAP financial measure and may not be comparable to similarly titled measures reported by other companies. The Company's base net income presentation does not represent another comprehensive basis of accounting. A more detailed discussion of the differences between GAAP and base net income follows.

Derivative market value, foreign currency, and put option adjustments: Base net income excludes the periodic unrealized gains and losses caused by the change in market value on those derivatives in which the Company does not qualify for hedge accounting. The Company maintains an overall interest rate risk management strategy that incorporates the use of derivative instruments to reduce the economic effect of interest rate volatility. Management has structured all of the Company's derivative transactions with the intent that each is economically effective. However, the Company's derivative instruments do not qualify for hedge accounting under Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and thus may adversely impact earnings.

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

Amortization of intangible assets: Base net income excludes the amortization of acquired intangibles.

Non-cash stock based compensation related to business combinations: The Company has structured certain business combinations in which the stock consideration paid has been dependent on the sellers' continued employment with the Company. As such, the value of the consideration paid is recognized as compensation expense by the Company over the term of the applicable employment agreement. Base net income excludes this expense.

Variable-rate floor income: Loans that reset annually on July 1 can generate excess spread income as compared to the rate based on the special allowance payment formula in declining interest rate environments. The Company refers to this additional income as variable-rate floor income. There was no variable-rate floor income in the periods presented.

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 September 30, 2006		As of December 31, 2005		As of September 30, 2005	
	Dollars	Percent of total	Dollars	Percent of total	Dollars	Percent of total
	(dollars in thousands)					
Federally insured:						
Stafford	$ 6,290,116	27.4 %	$ 6,434,655	31.8 %	$ 5,623,229	34.3 %
PLUS/SLS	391,981	1.7	376,042	1.8	294,888	1.8
Consolidation	15,672,102	68.3	13,005,378	64.2	10,170,684	62.1
Non-federally insured	180,462	0.8	96,880	0.5	96,920	0.6
Total	22,534,661	98.2	19,912,955	98.3	16,185,721	98.8
Unamortized premiums and deferred origination costs	424,151	1.9	361,242	1.8	205,656	1.3
Allowance for loan losses:						
Allowance - federally insured	(7,517)	0.0	(98)	0.0	(98)	0.0
Allowance - non-federally insured	(17,577)	(0.1)	(13,292)	(0.1)	(11,986)	(0.1)
Net	$ 22,933,718	100.0 %	$ 20,260,807	100.0 %	$ 16,379,293	100.0 %

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

	Three months ended			Nine months ended	
	September 30, 2006	June 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
	(dollars in thousands)				
Beginning balance	$ 22,012,670	$ 20,963,219	$ 15,469,689	$ 19,912,955	$ 13,299,094
Direct channel:					
Consolidation loan originations	1,493,981	1,045,094	1,097,436	3,563,910	2,624,106
Less consolidation of existing portfolio	(726,700)	(567,300)	(559,700)	(1,727,900)	(1,274,100)
Net consolidation loan originations	767,281	477,794	537,736	1,836,010	1,350,006
Stafford/PLUS loan originations	385,997	151,017	239,927	843,162	567,549
Branding partner channel	94,229	326,764	43,934	841,258	1,126,788
Forward flow channel	336,775	579,701	260,072	1,268,288	901,185
Other channels	2,070	424,620	5,015	480,528	39,200
Total channel acquisitions	1,586,352	1,959,896	1,086,684	5,269,246	3,984,728
Repayments, claims, capitalized interest, and other	(368,789)	(453,866)	(130,252)	(1,187,813)	(599,601)
Consolidation loans lost to external parties	(342,400)	(310,800)	(240,400)	(923,600)	(498,500)
Loans sold	(353,172)	(145,779)	-	(536,127)	-
Ending balance	$ 22,534,661	$ 22,012,670	$ 16,185,721	$ 22,534,661	$ 16,185,721

Interest Rate Sensitivity

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

Fixed interest rate range	Borrower/ lender weighted average yield	Estimated variable conversion rate (a)		Balance of fixed rate assets (dollars in thousands)
8.0 - 9.0 %	8.15	5.51	$	564,227
> 9.0	9.04	6.40		402,641
9.5 floor yield	9.50	6.86		3,140,646
			$	4,107,514

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

As a portion of the Company's student loan assets earn a fixed rate, management uses fixed-rate debt and interest rate swaps to reduce the economic effect of interest rate volatility. The total fixed-rate student loan assets of $4.1 billion held by the Company at September 30, 2006, includes $2.5 billion of loans purchased prior to September 30, 2004 with proceeds of tax-exempt obligations originally issued prior to October 1, 1993 and then subsequently sold utilizing proceeds of taxable obligations, without retiring the tax-exempt 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. The following table summarizes the derivative instruments used by the Company as of September 30, 2006 to hedge this $2.5 billion loan portfolio. 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 (dollars in thousands)	Weighted average fixed rate paid by the Company
2006	$	250,000	3.16 %
2007		118,750	3.35
2008		293,750	3.78
2009		193,750	4.01
2010		687,500	4.25
2011		-	-
2012		275,000	4.31
2013		525,000	4.36
Total	$	2,343,750	4.04 %

As previously disclosed, pending satisfactory resolution of the October 6, 2006 letter from the Department of Education (the "Department") related to the audit report by the Department's Office of Inspector General regarding certain loans receiving 9.5% special allowance payments, the Company has determined to defer recognition of the 9.5% special allowance payments which the Department is currently withholding payment. The Company has maintained its portfolio of interest rate swaps (summarized in the previous table) used to hedge the portfolio of loans in which the Department is currently withholding the 9.5% special allowance payments pending satisfactory resolution of this issue.

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

Maturity		Notional values	Weighted average fixed rate paid by the Company	
		(dollars in thousands)		
2007	$	393,750	3.45	%
2008		168,750	3.72	
2009		118,750	4.01	
2010		450,000	4.25	
Total	$	1,131,250	3.87	%

In addition to the interest rate swaps with notional values of $1.1 billion summarized above, as of September 30, 2006, the Company had $466.1 million of fixed-rate debt (excluding the Company's fixed-rate unsecured debt of $475 million) that was used by the Company to hedge fixed-rate student loan assets.

Derivative Settlements

The following table summarizes the components of derivative settlements.

	Three months ended			Nine months ended	
	September 30, 2006	June 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
			(dollars in thousands)		
Special allowance yield adjustment derivatives	$ 7,909	$ 7,721	$ (2,644)	$ 19,794	$ (16,961)
Other interest rate and basis swap derivatives	4,172	2,797	(318)	8,701	(2,088)
Cross currency interest rate swaps	(5,115)	(3,816)	-	(10,083)	-
Other (a)	(1,993)	-	-	(1,993)	-
Derivative settlements, net	$ 4,973	$ 6,702	$ (2,962)	$ 16,419	$ (19,049)

(a) During the three months ended September 30, 2006, the Company issued Capital Efficient Notes ("CENts") and entered into a derivative instrument to economically lock into a fixed interest rate prior to the actual pricing of the transaction. Upon pricing of the CENts, the Company terminated this derivative instrument. The consideration paid by the Company to terminate this derivative was $2.0 million.

Student Loan Servicing

The Company performs servicing activities for its own portfolio and third parties. The following table summarizes the Company's loan servicing volumes:

	As of September 30, 2006			As of December 31, 2005			As of September 30, 2005		
	Company	Third party	Total	Company	Third party	Total	Company	Third party	Total
					(dollars in millions)				
FFELP and private loans	$ 20,772	$ 9,097	$ 29,869	$ 16,969	$ 10,020	$ 26,989	$ 14,700	$ 8,458	$ 23,158
Canadian loans (in U.S. $)	-	9,348	9,348	-	8,139	8,139	-	8,118	8,118
Total	$ 20,772	$ 18,445	$ 39,217	$ 16,969	$ 18,159	$ 35,128	$ 14,700	$ 16,576	$ 31,276

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			Nine months ended	
	September 30, 2006	June 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
Student loan yield	7.91 %	7.93 %	6.94 %	7.84 %	6.72 %
Consolidation rebate fees	(0.72)	(0.70)	(0.65)	(0.71)	(0.64)
Premium and deferred origination costs amortization	(0.39)	(0.40)	(0.51)	(0.41)	(0.47)
Student loan net yield	6.80	6.83	5.78	6.72	5.61
Student loan cost of funds (a)	(5.32)	(5.00)	(3.83)	(4.99)	(3.52)
Student loan spread	1.48	1.83	1.95	1.73	2.09
Special allowance yield adjustments, net of settlements on derivatives (b)	(0.14)	(0.34)	(0.49)	(0.28)	(0.55)
Core student loan spread	1.34 %	1.49 %	1.46 %	1.45 %	1.54 %
Average balance of student loans (in thousands)	$ 22,170,118	$ 21,289,877	$ 15,628,420	$ 21,268,972	$ 14,766,024
Average balance of debt outstanding (in thousands)	23,881,928	23,126,198	16,564,494	22,984,011	15,669,656

(a) 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 CENts).

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