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

The following supplemental information should be read in connection with the second-quarter 2006 earnings press release of Nelnet, Inc. (the "Company"), dated July 28, 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			Six months ended	
	June 30, 2006 (unaudited)	March 31, 2006 (unaudited)	June 30, 2005 (unaudited)	June 30, 2006 (unaudited)	June 30, 2005 (unaudited)
	(dollars in thousands, except share data)				
Interest income:					
Loan interest, excluding variable-rate floor income	\$ 383,867	\$ 347,522	\$ 223,691	\$ 731,389	\$ 423,798
Amortization of loan premiums and deferred origination costs	(21,125)	(21,862)	(16,547)	(42,987)	(32,329)
Investment interest	24,314	19,541	8,150	43,855	15,152
Total interest income	387,056	345,201	215,294	732,257	406,621
Interest expense:					
Interest on bonds and notes payable	300,844	258,949	133,277	559,793	237,802
Net interest income	86,212	86,252	82,017	172,464	168,819
Less provision for loan losses	2,190	9,618	2,124	11,808	4,155
Net interest income after provision for loan losses	84,022	76,634	79,893	160,656	164,664
Other income (expense):					
Loan and guarantee servicing income	44,042	47,074	34,678	91,116	71,854
Other fee-based income	16,074	18,155	9,027	34,229	12,383
Software services income	4,018	3,409	2,602	7,427	4,808
Other income	3,154	1,455	1,524	4,609	2,924
Derivative market value and foreign currency adjustments	28,865	39,795	(51,372)	68,660	8,918
Derivative settlements, net	6,702	4,744	(6,001)	11,446	(16,087)
Total other income (expense)	102,855	114,632	(9,542)	217,487	84,800
Operating expenses:					
Salaries and benefits	62,207	57,684	39,977	119,891	79,304
Other expenses	45,904	44,930	32,343	90,834	63,231
Amortization of intangible assets	6,161	5,633	1,559	11,794	2,732
Total operating expenses	114,272	108,247	73,879	222,519	145,267
Income (loss) before income taxes	72,605	83,019	(3,528)	155,624	104,197
Income tax expense (benefit)	26,852	30,711	(1,755)	57,563	37,883
Net income (loss) before minority interest	45,753	52,308	(1,773)	98,061	66,314
Minority interest in net earnings of subsidiaries	-	(242)	-	(242)	-
Net income (loss)	\$ 45,753	\$ 52,066	\$ (1,773)	\$ 97,819	\$ 66,314
Earnings (loss) per share, basic and diluted	\$ 0.84	\$ 0.96	\$ (0.03)	\$ 1.80	\$ 1.23
Weighted average shares outstanding	54,297,230	54,241,341	53,712,048	54,269,440	53,697,390

Condensed Consolidated Balance Sheets and Financial Data

	As of June 30, 2006 <u>(unaudited)</u>	As of December 31, 2005 <u>(unaudited)</u>	As of June 30, 2005 <u>(unaudited)</u>
	(dollars in thousands)		
Assets:			
Student loans receivable, net	\$ 22,404,492	\$ 20,260,807	\$ 15,661,315
Cash, cash equivalents, and investments	1,974,310	1,645,797	1,110,109
Goodwill	128,236	99,535	65,839
Intangible assets, net	159,918	153,117	34,357
Other assets	<u>874,107</u>	<u>639,366</u>	<u>437,283</u>
Total assets	<u>\$ 25,541,063</u>	<u>\$ 22,798,622</u>	<u>\$ 17,308,903</u>
Liabilities:			
Bonds and notes payable	\$ 24,327,855	\$ 21,673,620	\$ 16,580,078
Other liabilities	<u>461,019</u>	<u>474,884</u>	<u>205,155</u>
Total liabilities	<u>24,788,874</u>	<u>22,148,504</u>	<u>16,785,233</u>
Minority interest in subsidiaries	-	626	-
Shareholders' equity	<u>752,189</u>	<u>649,492</u>	<u>523,670</u>
Total liabilities and shareholders' equity	<u>\$ 25,541,063</u>	<u>\$ 22,798,622</u>	<u>\$ 17,308,903</u>
Return on average total assets	0.81%	1.00%	0.82%
Return on average equity	27.4%	32.4%	26.0%

Non-GAAP Performance Measures

We prepare 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, we provide base net income as additional information regarding our 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			Six months ended	
	June 30, 2006	March 31, 2006	June 30, 2005	June 30, 2006	June 30, 2005
	(dollars in thousands, except share data)				
GAAP net income (loss) (a)	\$ 45,753	\$ 52,066	\$ (1,773)	\$ 97,819	\$ 66,314
Base adjustments:					
Derivative market value and foreign currency adjustments	(28,865)	(39,795)	51,372	(68,660)	(8,918)
Amortization of intangible assets	6,161	5,633	1,559	11,794	2,732
Variable-rate floor income	-	-	-	-	-
Total base adjustments before income taxes	(22,704)	(34,162)	52,931	(56,866)	(6,186)
Net tax effect (b)	8,628	12,981	(20,114)	21,609	2,351
Total base adjustments	(14,076)	(21,181)	32,817	(35,257)	(3,835)
Base net income (a)	31,677	30,885	31,044	62,562	62,479
Adjustments to base net income:					
Special allowance yield adjustment	(10,550)	(13,910)	(25,919)	(24,460)	(55,661)
Derivative settlements, net	(7,721)	(4,164)	5,454	(11,885)	14,317
Total adjustments to base net income before income taxes	(18,271)	(18,074)	(20,465)	(36,345)	(41,344)
Net tax effect (b)	6,943	6,868	7,777	13,811	15,711
Total adjustments to base net income	(11,328)	(11,206)	(12,688)	(22,534)	(25,633)
Adjusted base net income (a)	\$ <u>20,349</u>	\$ <u>19,679</u>	\$ <u>18,356</u>	\$ <u>40,028</u>	\$ <u>36,846</u>
Earnings (loss) per share, basic and diluted:					
GAAP net income (loss) (a)	\$ 0.84	\$ 0.96	\$ (0.03)	\$ 1.80	\$ 1.23
Total base adjustments	(0.26)	(0.39)	0.61	(0.65)	(0.07)
Base net income (a)	0.58	0.57	0.58	1.15	1.16
Total adjustments to base net income	(0.21)	(0.21)	(0.24)	(0.41)	(0.48)
Adjusted base net income (a)	\$ <u>0.37</u>	\$ <u>0.36</u>	\$ <u>0.34</u>	\$ <u>0.74</u>	\$ <u>0.68</u>

(a) Includes expense of \$6.9 million (\$4.3 million after tax) for the three months ended March 31, 2006 and six months ended June 30, 2006 to increase the Company's allowance for loan losses due to a provision in the Deficit Reduction Act that increased risk sharing for student loan holders by one percent on FFELP loans. Excluding this one-time expense, GAAP net income, base net income, and adjusted base net income would have been \$1.04 per share, \$0.65 per share, and \$0.44 per share, respectively, for the three months ended March 31, 2006 and \$1.88 per share, \$1.23 per share, and \$0.82 per share, respectively, for the six months ended June 30, 2006.

(b) Tax effect computed at 38%.

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

Derivative market value and foreign currency adjustments: Base net income excludes the periodic unrealized gains and losses caused by the change in market value on those derivatives in which the Company does not qualify for hedge accounting. The Company maintains an overall interest rate risk management strategy that incorporates the use of derivative instruments to reduce the economic effect of interest rate volatility. 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.

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

Amortization of intangible assets: We exclude amortization of acquired intangibles in our base net income.

Variable-rate floor income: Loans that reset annually on July 1 can generate excess spread income as compared to the rate based on the special allowance payment formula in declining interest rate environments. We refer 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 our loan portfolio:

	As of June 30, 2006		As of December 31, 2005		As of June 30, 2005	
	Dollars	Percent of total	Dollars	Percent of total	Dollars	Percent of total
	(dollars in thousands)					
Federally insured:						
Stafford	\$ 6,891,180	30.8 %	\$ 6,434,655	31.8 %	\$ 5,815,389	37.1 %
PLUS/SLS	430,409	1.9	376,042	1.8	325,158	2.1
Consolidation	14,521,608	64.7	13,005,378	64.2	9,231,437	59.0
Non-federally insured	169,473	0.8	96,880	0.5	97,705	0.6
Total	22,012,670	98.2	19,912,955	98.3	15,469,689	98.8
Unamortized premiums and deferred origination costs	416,002	1.9	361,242	1.8	202,315	1.3
Allowance for loan losses:						
Allowance - federally insured	(7,001)	0.0	(98)	0.0	(99)	0.0
Allowance - non-federally insured	(17,179)	(0.1)	(13,292)	(0.1)	(10,590)	(0.1)
Net	\$ <u>22,404,492</u>	<u>100.0 %</u>	\$ <u>20,260,807</u>	<u>100.0 %</u>	\$ <u>15,661,315</u>	<u>100.0 %</u>

The following table sets forth the loans originated or acquired through each of our channels:

	Three months ended			Six months ended	
	June 30, 2006	March 31, 2006	June 30, 2005	June 30, 2006	June 30, 2005
	(dollars in thousands)				
Beginning balance	\$ 20,963,219	\$ 19,912,955	\$ 14,357,207	\$ 19,912,955	\$ 13,299,094
Direct channel:					
Consolidation loan originations	1,045,094	1,024,835	781,580	2,069,929	1,526,670
Less consolidation of existing portfolio	<u>(567,300)</u>	<u>(433,900)</u>	<u>(377,300)</u>	<u>(1,001,200)</u>	<u>(714,400)</u>
Net consolidation loan originations	477,794	590,935	404,280	1,068,729	812,270
Stafford/PLUS loan originations	151,017	306,148	172,599	457,165	327,622
Branding partner channel	326,764	420,265	409,013	747,029	1,082,854
Forward flow channel	579,701	351,812	453,950	931,513	641,113
Other channels	<u>424,620</u>	<u>53,838</u>	<u>2,497</u>	<u>478,458</u>	<u>34,185</u>
Total channel acquisitions	1,959,896	1,722,998	1,442,339	3,682,894	2,898,044
Repayments, claims, capitalized interest, and other	<u>(910,445)</u>	<u>(672,734)</u>	<u>(329,857)</u>	<u>(1,583,179)</u>	<u>(727,449)</u>
Ending balance	\$ <u>22,012,670</u>	\$ <u>20,963,219</u>	\$ <u>15,469,689</u>	\$ <u>22,012,670</u>	\$ <u>15,469,689</u>

Interest Rate Sensitivity

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

<u>Fixed interest rate range</u>	<u>Borrower/ lender weighted average yield</u>	<u>Estimated variable conversion rate (a)</u>	<u>Balance of fixed rate assets (dollars in thousands)</u>
8.0 - 9.0 %	8.15	5.51	\$ 571,959
> 9.0	9.04	6.40	411,563
9.5 floor yield	9.50	6.86	<u>3,269,451</u>
			<u>\$ 4,252,973</u>

(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 \$4.3 billion held by the Company at June 30, 2006, includes \$2.5 billion of loans purchased prior to September 30, 2004 with proceeds of tax-exempt obligations originally issued prior to October 1, 1993 and then subsequently funded with the proceeds of taxable obligations, without retiring the tax-exempt obligations. 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 June 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 (a)	3.16 %
2007	118,750	3.35
2008	293,750	3.78
2009	193,750	4.01
2010	1,137,500	4.25
2011	-	-
2012	275,000	4.31
2013	525,000	4.36
Total	\$ 2,793,750	4.07 %

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

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

Maturity	Notional values (dollars in thousands)	Weighted average fixed rate paid by the Company
2007	\$ 393,750	3.45 %
2008	168,750	3.72
2009	118,750	4.01
Total	\$ 681,250 (a)	3.61 %

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

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

Derivative Settlements

The following table summarizes the components of derivative settlements.

	Three months ended			Six months ended	
	June 30, 2006	March 31, 2006	June 30, 2005	June 30, 2006	June 30, 2005
	(dollars in thousands)				
Special allowance yield adjustment derivatives	\$ 7,721	\$ 4,164	\$ (5,454)	\$ 11,885	\$ (14,317)
Other fixed-rate and basis swap derivatives	2,797	1,732	(547)	4,529	(1,770)
Foreign currency swap derivatives	(3,816)	(1,152)	-	(4,968)	-
Derivative settlements, net	<u>\$ 6,702</u>	<u>\$ 4,744</u>	<u>\$ (6,001)</u>	<u>\$ 11,446</u>	<u>\$ (16,087)</u>

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 June 30, 2006			As of December 31, 2005			As of June 30, 2005		
	Company	Third party	Total	Company	Third party	Total	Company	Third party	Total
	(dollars in millions)								
FFELP and private loans	\$ 19,820	\$ 8,856	\$ 28,676	\$ 16,969	\$ 10,020	\$ 26,989	\$ 14,038	\$ 8,319	\$ 22,357
Canadian loans (in U.S. \$)	-	8,592	8,592	-	8,139	8,139	-	7,034	7,034
Total	<u>\$ 19,820</u>	<u>\$ 17,448</u>	<u>\$ 37,268</u>	<u>\$ 16,969</u>	<u>\$ 18,159</u>	<u>\$ 35,128</u>	<u>\$ 14,038</u>	<u>\$ 15,353</u>	<u>\$ 29,391</u>

Student Loan Spread

The following table analyzes the student loan spread on our 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			Six months ended	
	June 30, 2006	March 31, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Student loan yield	7.93 %	7.68 %	6.64 %	7.82 %	6.60 %
Consolidation rebate fees	(0.70)	(0.71)	(0.63)	(0.71)	(0.64)
Premium and deferred origination costs amortization	(0.40)	(0.44)	(0.44)	(0.42)	(0.45)
Student loan net yield	6.83	6.53	5.57	6.69	5.51
Student loan cost of funds (a)	(5.00)	(4.63)	(3.52)	(4.83)	(3.35)
Student loan spread	1.83	1.90	2.05	1.86	2.16
Special allowance yield adjustments, net of settlements on derivatives (b)	(0.34)	(0.36)	(0.55)	(0.35)	(0.58)
Core student loan spread	1.49 %	1.54 %	1.50 %	1.51 %	1.58 %
Average balance of student loans (in thousands)	\$ 21,289,877	\$ 20,237,068	\$ 14,927,290	\$ 20,763,472	\$ 14,334,826
Average balance of debt outstanding (in thousands)	23,126,198	21,796,549	15,746,521	22,465,046	15,214,821

- (a) The student loan cost of funds includes the effects of the net settlement costs on the Company's derivative instruments.
- (b) The special allowance yield adjustments represent the impact on net spread had loans earned at statutorily defined rates under a taxable financing. The special allowance yield adjustments include net settlements on derivative instruments that were used to hedge this loan portfolio earning the excess yield.