



## **Nelnet Reports Adjusted Base Net Income for the First Six Months Up 21 percent to \$0.82 Per Share**

**\* Net student loan assets up \$1.1 billion to \$22.4 billion for second quarter \* Adjusted base net income for the second quarter \$0.37 per share \* Fee-based revenue represents 43 percent of total revenue**

LINCOLN, Neb., July 28, 2006 /PRNewswire-FirstCall via COMTEX News Network/ -- Nelnet, Inc. (NYSE: NNI) today reported GAAP net income for the first six months of 2006 of \$97.8 million, or \$1.80 per share, compared with \$66.3 million, or \$1.23 per share, for the first six months of 2005. Base net income for the first six months of 2006 was \$62.6 million, or \$1.15 per share, compared with \$62.5 million, or \$1.16 per share, for the first six months of 2005.

GAAP net income for the second-quarter 2006 was \$45.8 million, or \$0.84 per share, compared with a net loss of \$(1.8) million, or \$(0.03) per share, for the second-quarter 2005. Base net income for the second-quarter 2006 was \$31.7 million, or \$0.58 per share, compared with \$31.0 million, or \$0.58 per share, in the second-quarter 2005.

Adjusted base net income, which is base net income excluding certain special allowance yield adjustments and related derivative settlements, was \$0.74 per share for the first six months of 2006 and \$0.37 per share for the second quarter of 2006, compared with \$0.68 per share for the first six months of 2005 and \$0.34 per share for the second quarter of 2005. Excluding a legislative-driven expense of \$6.9 million, \$4.3 million after tax, for loan loss reserves in the first-quarter 2006 due to a provision in the Deficit Reduction Act of 2005 that increased risk sharing for student loan holders by one percent on Federal Family Education Loan Program loans, adjusted base net income for the first six months of 2006 was up 21 percent to \$0.82 per share compared with the same period a year ago.

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

GAAP net income includes an unrealized gain in the fair-market value of derivative instruments and foreign currency adjustments of \$68.7 million for the first six months of 2006 and \$28.9 million for the second quarter of 2006. 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 in the calculation of base net income. In addition, base net income excludes the foreign currency transaction gain caused by the re-measurement of the company's Euro-denominated bonds to U.S. dollars.

Since December 31, 2005, net student loan assets have increased 11 percent, or \$2.1 billion, from \$20.3 billion to \$22.4 billion at June 30, 2006. Since March 31, 2006, net student loan assets have increased 5 percent, or \$1.1 billion.

The company reported net consolidation loan originations of \$1.1 billion and \$477.8 million and a loss of \$581.2 million and \$310.8 million through the consolidation of the company's portfolio by third parties for the first six months of 2006 and the second quarter of 2006, respectively. This resulted in net new consolidation loan originations of \$487.5 million for the first six months of 2006 and \$167.0 million for the second quarter of 2006.

"We are pleased with our strong results for the quarter, in particular solid student loan growth, consolidation application activity that will primarily fund in the third and fourth quarters, and diversification of our revenue streams," said Steve Butterfield, Nelnet Vice Chairman and Co-Chief Executive Officer. "As expected, our results also reflect the seasonality of some of our fee-based businesses and the investment we made to bolster our direct-to-consumer marketing efforts. Quality student loan asset growth, combined with the diversification of revenues, will continue to be important to meeting our goal of long-term sustainable growth."

### Margin Analysis

Net interest income for the first six months of 2006 was \$172.5 million compared with \$168.8 million for the first six months of 2005. For the second quarter of 2006, Nelnet reported net interest income of \$86.2 million compared with \$82.0 million for the second quarter of 2005. Net interest income for the first six months of 2006 includes a special allowance yield adjustment of \$24.5 million, down from \$55.7 million for the first six months of 2005. The second-quarter 2006 net interest income includes a special allowance yield adjustment of \$10.6 million, down from \$25.9 million in the same period a year ago. Excluding the impact of the special allowance yield adjustment, net interest income for the second-quarter 2006 increased \$19.6 million, or

35 percent, compared to the same period a year ago.

The company reported core student loan spread of 1.51 percent for the first six months of 2006 compared with 1.58 percent in the same period in 2005. For the second quarter of 2006, Nelnet reported core student loan spread of 1.49 percent compared with 1.50 percent in the same period of 2005 and 1.54 percent for the first quarter of 2006.

#### Other Revenue

Fee-based revenue in the second quarter of 2006 represented 43 percent of Nelnet's total revenue for the quarter. This is an increase from the second quarter of 2005 when fee-based revenue represented 36 percent of total revenue.

Income from loan and guarantee servicing fees reached \$91.1 million for the first six months of 2006, up from \$71.9 million in the first six months of 2005. In the second quarter of 2006, loan and guarantee servicing income grew to \$44.0 million from \$34.7 million in the second quarter of 2005. This increase is attributable to the acquisition of Firstmark Services and the expansion of an outsourcing agreement with College Access Network both of which occurred during the fourth quarter of 2005.

Other fee-based income increased to \$34.2 million for the first six months of 2006 compared with \$12.4 million for the first six months of 2005. For the second quarter of 2006, other fee-based income increased to \$16.1 million, up from \$9.0 million in the same period a year ago. Other fee-based income includes Nelnet's list management, direct marketing, and tuition payment plan businesses.

#### Operating Expenses

For the first six months of 2006, the company reported operating expenses of \$222.5 million compared with \$145.3 million for the first six months of 2005. Operating expenses were \$114.3 million in the second quarter of 2006 compared with \$73.9 million for the same period a year ago. The increase in operating expenses is primarily attributable to recent acquisitions.

#### Non-GAAP performance measures

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.

Adjusted base net income, which excludes 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 percent, 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)	\$20,349	\$19,679	\$18,356	\$40,028	\$36,846

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)	\$0.37	\$0.36	\$0.34	\$0.74	\$0.68

(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%.

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 877.704.5382 and international callers should dial 913.312.1296 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) August 4. 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 7132804. 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 [www.nelnetinvestors.net/releases.cfm?relype=Financial](http://www.nelnetinvestors.net/releases.cfm?relype=Financial).

Condensed Consolidated Statements of Operations

Three months ended  
June 30,                      March 31,                      June 30,

	2006 (unaudited)	2006 (unaudited)	2005 (unaudited)
(dollars in thousands, except share data)			
Interest income:			
Loan interest, excluding variable-rate floor income	\$383,867	\$347,522	\$223,691
Amortization of loan premiums and deferred origination costs	(21,125)	(21,862)	(16,547)
Investment interest	24,314	19,541	8,150
Total interest income	387,056	345,201	215,294
Interest expense:			
Interest on bonds and notes payable	300,844	258,949	133,277
Net interest income	86,212	86,252	82,017
Less provision for loan losses	2,190	9,618	2,124
Net interest income after provision for loan losses	84,022	76,634	79,893
Other income (expense):			
Loan and guarantee servicing income	44,042	47,074	34,678
Other fee-based income	16,074	18,155	9,027
Software services income	4,018	3,409	2,602
Other income	3,154	1,455	1,524
Derivative market value and foreign currency adjustments	28,865	39,795	(51,372)
Derivative settlements, net	6,702	4,744	(6,001)
Total other income (expense)	102,855	114,632	(9,542)
Operating expenses:			
Salaries and benefits	62,207	57,684	39,977
Other expenses	45,904	44,930	32,343
Amortization of intangible assets	6,161	5,633	1,559
Total operating expenses	114,272	108,247	73,879
Income (loss) before income taxes			
	72,605	83,019	(3,528)
Income tax expense (benefit)	26,852	30,711	(1,755)
Net income (loss) before minority interest	45,753	52,308	(1,773)
Minority interest in net earnings of subsidiaries	--	(242)	--
Net income (loss)	\$45,753	\$52,066	\$(1,773)
Earnings (loss) per share, basic and diluted	\$0.84	\$0.96	\$(0.03)
Weighted average shares outstanding	54,297,230	54,241,341	53,712,048

Six months ended  
June 30      June 30,  
2006          2005  
(unaudited) (unaudited)  
(dollars in thousands, except share data)

Interest income:	
Loan interest, excluding variable-rate floor income	\$731,389      \$423,798
Amortization of loan premiums	

and deferred origination costs	(42,987)	(32,329)
Investment interest	43,855	15,152
Total interest income	732,257	406,621
Interest expense:		
Interest on bonds and notes payable	559,793	237,802
Net interest income	172,464	168,819
Less provision for loan losses	11,808	4,155
Net interest income after provision for loan losses	160,656	164,664
Other income (expense):		
Loan and guarantee servicing income	91,116	71,854
Other fee-based income	34,229	12,383
Software services income	7,427	4,808
Other income	4,609	2,924
Derivative market value and foreign currency adjustments	68,660	8,918
Derivative settlements, net	11,446	(16,087)
Total other income (expense)	217,487	84,800
Operating expenses:		
Salaries and benefits	119,891	79,304
Other expenses	90,834	63,231
Amortization of intangible assets	11,794	2,732
Total operating expenses	222,519	145,267
Income (loss) before income taxes	155,624	104,197
Income tax expense (benefit)	57,563	37,883
Net income (loss) before minority interest	98,061	66,314
Minority interest in net earnings of subsidiaries	(242)	--
Net income (loss)	\$97,819	\$66,314
Earnings (loss) per share, basic and diluted	\$1.80	\$1.23
Weighted average shares outstanding	54,269,440	53,697,390

#### Condensed Consolidated Balance Sheets and Financial Data

	As of June 30, 2006 (unaudited)	As of December 31, 2005	As of June 30, 2005 (unaudited)
(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	874,107	639,366	437,283
Total assets	\$25,541,063	\$22,798,622	\$17,308,903

Liabilities:			
Bonds and notes payable	\$24,327,855	\$21,673,620	\$16,580,078
Other liabilities	461,019	474,884	205,155
Total liabilities	24,788,874	22,148,504	16,785,233
Minority interest in subsidiaries	--	626	--
Shareholders' equity	752,189	649,492	523,670
Total liabilities and shareholders' equity	\$25,541,063	\$22,798,622	\$17,308,903
Return on average total assets	0.81%	1.00%	0.82%
Return on average equity	27.4%	32.4%	26.0%

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 \$22.4 billion as of June 30, 2006. 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. For more information see our filings with the Securities and Exchange Commission.

(code #: nnif)

SOURCE Nelnet, Inc.

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

<http://www.prnewswire.com>

Copyright (C) 2006 PR Newswire. All rights reserved.

News Provided by COMTEX