NELNET INC

FORM 8-K
(Current report filing)

Filed 7/28/2006 For Period Ending 7/28/2006

Address	121 SOUTH 13TH ST STE 201
	LINCOLN, Nebraska 68508
Telephone	402-458-2370
CIK	0001258602
Industry	Consumer Financial Services
Sector	Financial
Fiscal Year	12/31

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported)
JULY 28, 2006

NELNET, INC.

(Exact name of registrant as specified in its charter)

NEBRASKA	001-31924	84-0748903
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

121 SOUTH 13TH STREET SUITE 201 LINCOLN, NEBRASKA	68508
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (402) 458-2370

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

[ ] Written communications pursuant to Rule 425 under the Securities Act

(17 CFR 230.425)

[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02. Results of Operations and Financial Condition.

On July 28, 2006, Nelnet, Inc. issued a press release with respect to its earnings for the quarter ended June 30, 2006, which is furnished as Exhibit 99.1 to this Current Report on Form 8-K. Additional information for the quarter, which is available on the Registrant's website at www.nelnet.net, is furnished as Exhibit 99.2.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: July 28, 2006

NELNET, INC.

By: /s/ TERRY J. HEIMES

Name: Terry J. Heimes

Title: Chief Financial Officer

EXHIBIT INDEX

Exhibit No.	Description
99.1	Press Release dated July 28, 2006 - "Adjusted base net income for the first six months up 21 percent to $0.82 per share"
99.2	Additional Information Available on the Registrant's Website

Exhibit 99.1

NELNET 121 South 13th Street, Suite 400 P 402 458 2370 www.nelnet.net
Lincoln, NE 68506 F 402 458 2344 NELNET CORPORATE SERVICES, INC.

Media Contact: Sheila Odom, 402.458.2329 Investor Contact: Cheryl Watson, 317.469.2064

For immediate release

ADJUSTED BASE NET INCOME FOR THE FIRST SIX MONTHS UP 21 PERCENT TO $0.82 PER SHARE

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

LINCOLN, Neb., July 28, 2006 - 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 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.

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

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	THREE MONTHS ENDED			SIX MONTHS ENDED	
	JUNE 30, 2006	MARCH 31, 2006	JUNE 30, 2005	JUNE 30, 2006	JUNE 30, 2005
	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(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	AS OF DECEMBER 31, 2005	AS OF JUNE 30, 2005
	(UNAUDITED)		(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%

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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.

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.

Exhibit 99.2

FOR RELEASE: 7/28/06
MEDIA CONTACT: Sheila Odom, 402.458.2329 INVESTOR CONTACT: Cheryl Watson, 317.469.2064

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.

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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:					
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Return on average equity	27.4%	32.4%	26.0%

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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.

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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)
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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%.

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	$22,404,492	100.0 %	$ 20,260,807	100.0 %	$ 15,661,315	100.0 %

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	(567,300)	(433,900)	(377,300)	(1,001,200)	(714,400)
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	424,620	53,838	2,497	478,458	34,185
Total channel acquisitions	1,959,896	1,722,998	1,442,339	3,682,894	2,898,044
Repayments, claims, capitalized interest, and other	(910,445)	(672,734)	(329,857)	(1,583,179)	(727,449)
Ending balance	$ 22,012,670	$ 20,963,219	$ 15,469,689	$ 22,012,670	$ 15,469,689

INTEREST RATE SENSITIVITY

The following table shows the Company's student loan assets currently earning at a fixed rate as of June 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	$ 571,959
> 9.0	9.04	6.40	411,563
9.5 floor yield	9.50	6.86	3,269,451
			$ 4,252,973

(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	WEIGHTED AVERAGE FIXED RATE PAID BY THE COMPANY
	(DOLLARS IN THOUSANDS)	
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	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
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 interest 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	$ 6,702	$ 4,744	$ (6,001)	$ 11,446	$ (16,087)

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	$ 19,820	$ 17,448	$ 37,268	$ 16,969	$ 18,159	$ 35,128	$ 14,038	$ 15,353	$ 29,391

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.