# 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)**
FEBRUARY 7, 2007

# 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<br>SUITE 201<br>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 February 9, 2007, Nelnet, Inc. issued a press release with respect to its earnings for the quarter ended December 31, 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.

**ITEM 5.02. DEPARTURE OF DIRECTORS OR CERTAIN OFFICERS; ELECTION OF DIRECTORS; APPOINTMENT OF CERTAIN OFFICERS; COMPENSATORY ARRANGEMENTS OF CERTAIN OFFICERS.**

On February 7, 2007, Stephen Butterfield announced to the Company that he will retire from his position as Co-CEO of the Company effective immediately after the Company's annual shareholder meeting (which is currently scheduled to be held May 24, 2007). Mr. Butterfield will remain as Vice-Chairman of the Board of Directors.

**ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS.**

(d) Exhibits. The following exhibits are filed or furnished as part of this report:

| Exhibit No. | Description |
|---|---|
| 99.1 | Press Release dated February 9, 2007 - "Nelnet reports year-end and fourth-quarter 2006 results" |
| 99.2 | Additional Information Available on the Registrant's Website |

## 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: February 9, 2007

**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 February 9, 2007 - "Nelnet reports year-end and fourth quarter 2006 results" |
| 99.2 | Additional Information Available on the Registrant's Website |

Exhibit 99.1

Media Contact: Ben Kiser, 402.458.3024
Investor Contact: Cheryl Watson, 317.469.2064

For immediate release

**NELNET REPORTS YEAR-END AND FOURTH-QUARTER 2006 RESULTS**

o NET STUDENT LOAN ASSETS INCREASED 17 PERCENT IN 2006
o FEE-BASED REVENUE 50 PERCENT OF TOTAL REVENUE FOR THE YEAR; 59 PERCENT FOR THE QUARTER
o QUARTERLY DIVIDEND PAYMENTS BEGIN IN MARCH
o STOCK REPURCHASE PROGRAM EXPANDED
o CO-CEO BUTTERFIELD TO RETIRE IN MAY

LINCOLN, Neb., Feb. 9, 2007 -- Nelnet, Inc. (NYSE: NNI) today reported GAAP net income for 2006 of $68.2 million, or $1.27 per share, compared with $181.1 million, or $3.37 per share, for 2005. Base net income for 2006 was $105.8 million, or $1.97 per share, compared with $127.2 million, or $2.37 per share, for 2005.

GAAP net loss for the fourth-quarter 2006 was $7.3 million, or $0.14 per share, compared with net income of $42.7 million, or $0.79 per share, for the fourth-quarter 2005. Base net income for the fourth-quarter 2006 was $9.6 million, or $0.18 per share, compared with $31.9 million, or $0.59 per share, in the fourth-quarter 2005. Excluding previously announced events related to EDULINX and our agreement with the Department of Education, GAAP net income and base net income for 2006 were $1.57 per share and $2.27 per share, respectively. For the fourth-quarter 2006, GAAP net income and base net income excluding these events were $0.16 per share and $0.48 per share, respectively.

"Our key elements of delivering sustainable, long-term value include: growing high-quality student loan assets, diversifying our revenue streams, increasing our fee-based income, and deploying capital efficiently," said Mike Dunlap, Chairman and Co-Chief Executive Officer of Nelnet. "I am pleased to say that we delivered on each of these elements this year, despite facing considerable challenges. Student loans grew by 17 percent, fee-based revenue increased to be 50 percent of our total revenue, and we are instituting a cash dividend and increasing the number of shares we can buy back.

"Our transformation into a world-class diversified education service company is advanced by the vast array of products and services we have put together to help education-seeking families and the institutions that serve them throughout the education life cycle."

**Fee-based Revenue**

Fee-based revenue for 2006 and the fourth-quarter of 2006 represented 50 percent and 59 percent of Nelnet's total revenue, respectively. This is an increase from 2005 and the fourth quarter of 2005 when fee-based revenue represented 37 percent and 42 percent of total revenue, respectively.

Income from loan and guarantee servicing fees reached $190.6 million for 2006, up from $152.5 million in 2005. In the fourth quarter of 2006, loan and guarantee servicing income grew to $51.0 million, up from $43.2 million in the fourth quarter of 2005.

Other fee-based income, generated primarily by Nelnet Business Solutions and Enrollment Services, increased to $102.3 million for 2006 compared with $35.6 million for 2005. For the fourth quarter of 2006, other fee-based income increased to $36.9 million, up from $12.8 million in the same period a year ago. Other income increased to $23.4 million for 2006 compared with $7.7 million a year ago. For the fourth-quarter 2006, other fee income increased to $4.9 million, up from $2.3 million in the fourth-quarter 2005.

**Student Loan Assets**

In 2006, net student loan assets increased by $3.5 billion, or 17 percent, to $23.8 billion at December 31, 2006. The company reported net new consolidation loan originations of $1.5 billion and $611.0 million and net consolidation loan originations of $2.7 billion and $918.6 million for 2006 and the fourth quarter of 2006, respectively.

**Margin Analysis**

Net interest income for 2006 was $308.7 million compared with $329.1 million for 2005. For the fourth quarter of 2006, Nelnet reported net interest income of $63.9 million compared with $81.3 million for the fourth quarter of 2005. Excluding the impact of the special allowance yield adjustment earned in 2005 and the first six months of 2006, the company's net interest income increased $49.8 million, or 21 percent, year over year.

The company reported core student loan spread of 1.42 percent for 2006 compared with 1.51 percent in 2005. For the fourth quarter of 2006, Nelnet reported core student loan spread of 1.31 percent compared with 1.44 percent in the same period of 2005 and 1.34 percent for the third quarter of 2006.

**Operating Expenses**

For 2006, the company reported operating expenses of $511.0 million compared with $322.3 million for 2005. Operating expenses were $159.6 million in the fourth quarter of 2006 compared with $98.1 million for the same period a year ago. The increase in operating expenses is primarily attributable to recent acquisitions.

Dividend policy

Nelnet is instituting a quarterly cash dividend and will issue a cash dividend for the first-quarter 2007 on its outstanding shares of Class A common stock and Class B common stock of $0.07 per share. The dividend will be paid on March 15, 2007 to shareholders of record at the close of business on March 1, 2007. Nelnet currently has approximately 52.5 million shares of common stock outstanding.

**Retirement of Co-Chief Executive Officer**

Nelnet announced that Steve Butterfield, Vice Chairman and Co-Chief Executive Officer, will retire as Co-Chief Executive Officer following the company's annual meeting of shareholders in May 2007. Mr. Butterfield will remain on the Board of Directors (Board) as Vice Chairman.

"Steve and I have worked side by side for more than 15 years to make educational dreams possible for so many people, and we've led the company as Co-CEOs since the public offering in 2003," said Mr. Dunlap. "We're fortunate that Steve will continue to serve as Vice Chairman and will stay active in supporting our marketing efforts and building client relationships."

"I am proud of the great company we have built at Nelnet," said Mr. Butterfield. "So much of what we have accomplished has been through the hard work of our associates. It has been my great privilege to work for them. Their dedication and professionalism gives me great confidence in the future of Nelnet."

As Mr. Butterfield transitions his role with Nelnet, he is planning to reduce his position in Nelnet stock. Therefore, the Board has approved a privately negotiated share repurchase of approximately 2.0 million shares of Class B common stock from Mr. Butterfield. After the repurchase, Mr. Butterfield will continue to be a major Nelnet shareholder, holding approximately 4.0 million shares of Class B common stock.

In addition, the Board approved the repurchase of approximately 700,000 shares of Class A common stock from certain members of management seeking to diversify their holdings. Mr. Dunlap is not participating in the share repurchase. The approximately 2.7 million shares of Class A and Class B common stock will be repurchased at a discount to market price.

The Board also approved an increase to 10 million the total number of shares of common stock authorized for repurchase under the company's existing stock repurchase program. Including the above, the company will have repurchased approximately 4.6 million shares out of the 10 million share authorization. The authorization provides the company the flexibility to repurchase shares from time to time in the future when it makes sense as a part of the company's capital management strategy.

Non-GAAP performance measures

A description of base net income and a reconciliation of GAAP net income to base net income can be found in supplemental financial information to this earnings release that is available online at www.nelnetinvestors.net/releases.cfm?reltype=Financial.

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 800.310.6649 and international callers should dial 719.457.2693 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 11:45 p.m. (Eastern) February 16, 2007. 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 7164392. A replay of the audio Web cast will also be available at www.nelnetinvestors.net.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

| | THREE MONTHS ENDED | | | YEAR ENDED | |
|---|---|---|---|---|---|
| | DECEMBER 31, 2006 | SEPTEMBER 30, 2006 | DECEMBER 31, 2005 | DECEMBER 31, 2006 | DECEMBER 31, 2005 |
| | (UNAUDITED) | (UNAUDITED) | (UNAUDITED) | (UNAUDITED) | |
| | (DOLLARS IN THOUSANDS, EXCEPT SHARE DATA) | | | | |
| Interest income: | | | | | |
| Loan interest | $ 410,015 | $ 401,704 | $ 309,890 | $ 1,543,108 | $ 981,479 |
| Amortization of loan premiums and deferred origination costs | (22,838) | (21,568) | (24,160) | (87,393) | (76,530) |
| Investment interest | 24,310 | 25,986 | 17,616 | 94,151 | 44,259 |
| Total interest income | 411,487 | 406,122 | 303,346 | 1,549,866 | 949,208 |
| Interest expense: | | | | | |
| Interest on bonds and notes payable | 347,615 | 333,766 | 222,066 | 1,241,174 | 620,111 |
| Net interest income | 63,872 | 72,356 | 81,280 | 308,692 | 329,097 |
| Less provision for loan losses | 1,800 | 1,700 | 1,473 | 15,308 | 7,030 |
| Net interest income after provision for loan losses | 62,072 | 70,656 | 79,807 | 293,384 | 322,067 |
| Other income (expense): | | | | | |
| Loan and guarantee servicing income | 50,985 | 48,462 | 43,180 | 190,563 | 152,493 |
| Other fee-based income | 36,868 | 31,221 | 12,755 | 102,318 | 35,641 |
| Software services income | 4,064 | 4,399 | 2,410 | 15,890 | 9,169 |
| Other income | 4,850 | 13,617 | 2,277 | 23,360 | 7,659 |
| Derivative market value, foreign currency, and put option adjustments | (19,510) | (79,941) | 21,927 | (31,075) | 96,227 |
| Derivative settlements, net | 7,013 | 4,973 | 2,041 | 23,432 | (17,008) |
| Total other income (expense) | 84,270 | 22,731 | 84,590 | 324,488 | 284,181 |
| Operating expenses: | | | | | |
| Salaries and benefits | 60,842 | 65,383 | 49,117 | 246,116 | 172,732 |
| Other expenses | 60,916 | 56,925 | 44,156 | 208,675 | 140,092 |
| Amortization of intangible assets | 6,794 | 6,534 | 4,828 | 25,122 | 9,479 |
| Impairment expense | 31,090 | - | - | 31,090 | - |
| Total operating expenses | 159,642 | 128,842 | 98,101 | 511,003 | 322,303 |
| Income (loss) before income taxes | (13,300) | (35,455) | 66,296 | 106,869 | 283,945 |
| Income tax expense (benefit) | (5,990) | (13,101) | 23,246 | 38,472 | 102,220 |
| Net income (loss) before minority interest | (7,310) | (22,354) | 43,050 | 68,397 | 181,725 |
| Minority interest in net earnings of subsidiaries | - | - | (374) | (242) | (603) |
| Net income (loss) | $ (7,310) | $ (22,354) | $ 42,676 | $ 68,155 | $ 181,122 |
| Earnings (loss) per share, basic and diluted | $ (0.14) | $ (0.42) | $ 0.79 | $ 1.27 | $ 3.37 |
| Weighted average shares outstanding | 52,506,936 | 53,348,466 | 53,915,812 | 53,593,056 | 53,761,727 |

**CONDENSED CONSOLIDATED BALANCE SHEETS AND FINANCIAL DATA**

**AS OF DECEMBER 31,**

| | 2006 (UNAUDITED) | 2005 |
|---|---|---|
| | (DOLLARS IN THOUSANDS) | |
| Assets: | | |
| Student loans receivable, net | $ 23,789,552 | $ 20,260,807 |
| Cash, cash equivalents, and investments | 1,777,494 | 1,645,797 |
| Goodwill | 191,420 | 99,535 |
| Intangible assets, net | 162,994 | 153,117 |
| Other assets | 875,413 | 639,437 |
| Total assets | $ 26,796,873 | $ 22,798,693 |
| Liabilities: | | |
| Bonds and notes payable | $ 25,562,119 | $ 21,673,620 |
| Other liabilities | 562,904 | 474,955 |
| Total liabilities | 26,125,023 | 22,148,575 |
| Minority interest in subsidiaries | - | 626 |
| Shareholders' equity | 671,850 | 649,492 |
| Total liabilities and shareholders' equity | $ 26,796,873 | $ 22,798,693 |
| Return on average total assets | 0.27% | 1.00% |
| Return on average equity | 9.6% | 32.4% |

For 28 years, Nelnet has been helping the education-seeking family plan for their education, pay for their education, and prepare for their careers. The company has invested hundreds of millions of dollars in products, services, and technology improvements for students and the educational institutions they attend. These services include live counseling to help families through all aspects of the financial aid process, benefits for borrowers, including tens of millions of dollars in fee reductions, and Nelnet sponsored scholarships. Nelnet serves students in 50 states, employs approximately 4,000 associates, and has $23.8 billion in net student loan assets.

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: 2/9/07**
**MEDIA CONTACT: Ben Kiser, 402.458.3024**
INVESTOR CONTACT: Cheryl Watson, 317.469.2064

**NELNET, INC. SUPPLEMENTAL FINANCIAL INFORMATION FOR THE FOURTH QUARTER 2006**

The following supplemental information should be read in connection with the fourth-quarter 2006 earnings press release of Nelnet, Inc. (the "Company"), dated February 9, 2007.

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 the Company's operating results, performance, or financial condition expressed or implied by the forward-looking statements 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 | | | YEAR ENDED | |
|---|---|---|---|---|---|
| | DECEMBER 31, 2006 | SEPTEMBER 30, 2006 | DECEMBER 31, 2005 | DECEMBER 31, 2006 | DECEMBER 31, 2005 |
| | (UNAUDITED) | (UNAUDITED) | (UNAUDITED) | (UNAUDITED) | |
| | (DOLLARS IN THOUSANDS, EXCEPT SHARE DATA) | | | | |
| Interest income: | | | | | |
| Loan interest | $ 410,015 | $ 401,704 | $ 309,890 | $ 1,543,108 | $ 981,479 |
| Amortization of loan premiums and deferred origination costs | (22,838) | (21,568) | (24,160) | (87,393) | (76,530) |
| Investment interest | 24,310 | 25,986 | 17,616 | 94,151 | 44,259 |
| Total interest income | 411,487 | 406,122 | 303,346 | 1,549,866 | 949,208 |
| Interest expense: | | | | | |
| Interest on bonds and notes payable | 347,615 | 333,766 | 222,066 | 1,241,174 | 620,111 |
| Net interest income | 63,872 | 72,356 | 81,280 | 308,692 | 329,097 |
| Less provision for loan losses | 1,800 | 1,700 | 1,473 | 15,308 | 7,030 |
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| Software services income | 4,064 | 4,399 | 2,410 | 15,890 | 9,169 |
| Other income | 4,850 | 13,617 | 2,277 | 23,360 | 7,659 |
| Derivative market value, foreign currency, and put option adjustments | (19,510) | (79,941) | 21,927 | (31,075) | 96,227 |
| Derivative settlements, net | 7,013 | 4,973 | 2,041 | 23,432 | (17,008) |
| Total other income (expense) | 84,270 | 22,731 | 84,590 | 324,488 | 284,181 |
| Operating expenses: | | | | | |
| Salaries and benefits | 60,842 | 65,383 | 49,117 | 246,116 | 172,732 |
| Other expenses | 60,916 | 56,925 | 44,156 | 208,675 | 140,092 |
| Amortization of intangible assets | 6,794 | 6,534 | 4,828 | 25,122 | 9,479 |
| Impairment expense | 31,090 | - | - | 31,090 | - |
| Total operating expenses | 159,642 | 128,842 | 98,101 | 511,003 | 322,303 |
| Income (loss) before income taxes | (13,300) | (35,455) | 66,296 | 106,869 | 283,945 |
| Income tax expense (benefit) | (5,990) | (13,101) | 23,246 | 38,472 | 102,220 |
| Net income (loss) before minority interest | (7,310) | (22,354) | 43,050 | 68,397 | 181,725 |
| Minority interest in net earnings of subsidiaries | - | - | (374) | (242) | (603) |
| Net income (loss) | $ (7,310) | $ (22,354) | $ 42,676 | $ 68,155 | $ 181,122 |
| Earnings (loss) per share, basic and diluted | $ (0.14) | $ (0.42) | $ 0.79 | $ 1.27 | $ 3.37 |
| Weighted average shares outstanding | 52,506,936 | 53,348,466 | 53,915,812 | 53,593,056 | 53,761,727 |

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**AS OF DECEMBER 31,**

| | 2006 (UNAUDITED) | 2005 |
|---|---|---|
| | (DOLLARS IN THOUSANDS) | |
| Assets: | | |
| Student loans receivable, net | $ 23,789,552 | $ 20,260,807 |
| Cash, cash equivalents, and investments | 1,777,494 | 1,645,797 |
| Goodwill | 191,420 | 99,535 |
| Intangible assets, net | 162,994 | 153,117 |
| Other assets | 875,413 | 639,437 |
| Total assets | $ 26,796,873 | $ 22,798,693 |
| Liabilities: | | |
| Bonds and notes payable | $ 25,562,119 | $ 21,673,620 |
| Other liabilities | 562,904 | 474,955 |
| Total liabilities | 26,125,023 | 22,148,575 |
| Minority interest in subsidiaries | - | 626 |
| Shareholders' equity | 671,850 | 649,492 |
| Total liabilities and shareholders' equity | $ 26,796,873 | $ 22,798,693 |
| Return on average total assets | 0.27% | 1.00% |
| Return on average equity | 9.6% | 32.4% |

**NON-GAAP PERFORMANCE MEASURES**

In accordance with the Rules and Regulations of the Securities and Exchange Commission ("SEC"), 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 a non-GAAP performance measure 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.

Base net income is the primary financial performance measure used by management to develop financial plans, allocate resources, track results, evaluate performance, establish corporate performance targets, and determine incentive compensation. The Company's board of directors utilizes base net income to set performance targets and evaluate management's performance. The Company also believes analysts, rating agencies, and creditors use base net income in their evaluation of the Company's results of operations. While base net income is not a substitute for reported results under GAAP, the Company utilizes base net income in operating its business because base net income permits management to make meaningful period-to-period comparisons by eliminating the temporary volatility in the Company's performance that arises from certain items that are primarily affected by factors beyond the control of management. Management believes base net income provides additional insight into the financial performance of the core business activities of the Company's operations.

The following table provides a reconciliation of GAAP net income (loss) to base and adjusted base net income.

| | THREE MONTHS ENDED | | | YEAR ENDED | |
|---|---|---|---|---|---|
| | DECEMBER 31, 2006 | SEPTEMBER 30, 2006 | DECEMBER 31, 2005 | DECEMBER 31, 2006 | DECEMBER 31, 2005 |
| | (DOLLARS IN THOUSANDS, EXCEPT SHARE DATA) | | | | |
| GAAP net income (loss) (a) | $ (7,310) | $ (22,354) | $ 42,676 | $ 68,155 | $ 181,122 |
| Base adjustments: | | | | | |
| Derivative market value, foreign currency, and put option adjustments | 19,510 | 79,941 | (21,927) | 31,075 | (96,227) |
| Amortization of intangible assets | 6,794 | 6,534 | 4,828 | 25,122 | 9,479 |
| Non-cash stock based compensation related to business combinations | 476 | 476 | - | 1,747 | - |
| Variable-rate floor income | - | - | - | - | - |
| Total base adjustments before income taxes | 26,780 | 86,951 | (17,099) | 57,944 | (86,748) |
| Net tax effect (c) | (9,865) | (31,698) | 6,356 | (20,256) | 32,823 |
| Total base adjustments | 16,915 | 55,253 | (10,743) | 37,688 | (53,925) |
| Base net income (a) | 9,605 | 32,899 | 31,933 | 105,843 | 127,197 |
| Adjustments to base net income: | | | | | |
| Special allowance yield adjustment (b) | - | - | (17,228) | (24,460) | (94,655) |
| Derivative settlements, net | - | (7,909) | (1,082) | (19,794) | 15,879 |
| Total adjustments to base net income before income taxes | - | (7,909) | (18,310) | (44,254) | (78,776) |
| Net tax effect (c) | - | 3,006 | 6,958 | 16,817 | 29,935 |
| Total adjustments to base net income | - | (4,903) | (11,352) | (27,437) | (48,841) |
| Adjusted base net income (a) | $ 9,605 | $ 27,996 | $ 20,581 | $ 78,406 | $ 78,356 |
| Earnings (loss) per share, basic and diluted: | | | | | |
| GAAP net income (loss) (a) | $ (0.14) | $ (0.42) | $ 0.79 | $ 1.27 | $ 3.37 |
| Total base adjustments | 0.32 | 1.04 | (0.20) | 0.70 | (1.00) |
| Base net income (a) | 0.18 | 0.62 | 0.59 | 1.97 | 2.37 |
| Total adjustments to base net income | - | (0.10) | (0.21) | (0.51) | (0.91) |
| Adjusted base net income (a) | $ 0.18 | $ 0.52 | $ 0.38 | $ 1.46 | $ 1.46 |

(a) Includes expense of $6.9 million ($4.3 million or $0.08 per share after tax) for the year ended December 31, 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, on January 19, 2007, the Company entered into a Settlement Agreement (the "Agreement") with the Department of Education (the "Department") to resolve the audit by the Department's Office of Inspector General (the "OIG") of the Company's portfolio of student loans receiving 9.5% special allowance payments. Under the terms of the Agreement, all 9.5% special allowance payments were eliminated for periods on and after July 1, 2006. The Company had been deferring recognition of 9.5% special allowance payments related to those loans subject to the OIG audit effective July 1, 2006 pending satisfactory resolution of this issue.

(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.

**LIMITATIONS OF BASE NET INCOME**

While GAAP provides a uniform, comprehensive basis of accounting, for the reasons discussed above, management believes that base net income is an important additional tool for providing a more complete understanding of the Company's results of operations. Nevertheless, base net income is subject to certain general and specific limitations that investors should carefully consider. For example, unlike financial statements prepared in accordance with GAAP, the Company's base net income presentation does not represent a comprehensive basis of accounting. In addition, the Company's base net income is not a defined term within GAAP and may not be comparable to similarly titled measures reported by other companies. Investors, therefore, may not be able to compare our Company's performance with that of other companies based upon base net income. Base net income results are only meant to supplement GAAP results by providing additional information regarding the operational and performance indicators that are most closely monitored and used by the Company's management and board of directors to assess performance and information which the Company believes is important to analysts, rating agencies, and creditors.

Other limitations of base net income arise from the specific adjustments that management makes to GAAP results to derive base net income results. These differences are described below.

**DIFFERENCES BETWEEN GAAP AND BASE NET INCOME**

Management's financial planning and evaluation of operating results does not take into account the following items because their volatility and/or inherent uncertainty affect the period-to-period comparability of the Company's results of operations. 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 that are caused by the change in fair value on derivatives in which the Company does not qualify for "hedge treatment" under GAAP. Statement of Financial Accounting Standards No.
133, ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES ("SFAS No. 133"), requires that changes in fair value of derivative instruments be recognized currently in earnings unless specific hedge accounting criteria, as specified by SFAS No. 133, are met. 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. Derivative instruments primarily used by the Company include interest rate swaps, basis swaps, interest rate floor contracts, and cross-currency interest rate swaps. Management has structured all of the Company's derivative transactions with the intent that each is economically effective. However, the Company does not qualify its derivatives for "hedge treatment" as defined by SFAS No. 133, and the stand-alone derivative must be marked-to-market in the income statement with no consideration for the corresponding change in fair value of the hedged item. Since the Company plans to hold all derivative instruments until their maturity, the Company believes these point-in-time estimates of asset and liability values that are subject to interest rate fluctuations make it difficult to evaluate the ongoing results of operations against its business plan and affect the period-to-period comparability of the results of operations. Included in base net income are the economic effects of the Company's derivative instruments, which includes any cash paid or received being recognized as an expense or revenue upon actual derivative settlements. These settlements are included in "Derivative settlements, net" on the Company's consolidated statements of operations.

Base net income excludes the foreign currency transaction gains or losses caused by the re-measurement of the Company's Euro-denominated bonds to U.S. dollars. In connection with the issuance of the Euro-denominated bonds, the Company has entered into cross-currency interest rate swaps. Under the terms of these agreements, the principal payments on the Euro-denominated notes will effectively be paid at the exchange rate in effect at the issuance date of the bonds. The cross-currency interest rate swaps also convert the floating rate paid on the Euro-denominated bonds' (EURIBOR index) to an index based on LIBOR. Included in base net income are the economic effects of any cash paid or received being recognized as an expense or revenue upon actual settlements of the cross-currency interest rate swaps. These settlements are included in "Derivative settlements, net" on the Company's consolidated statements of operations. However, the gains or losses caused by the re-measurement of the Euro-denominated bonds to U.S. dollars and the change in market value of the cross-currency interest rate swaps are excluded from base net income as the Company believes the point-in-time estimates of value that are subject to currency rate fluctuations related to these financial instruments make it difficult to evaluate the ongoing results of operations against the Company's business plan and affect the period-to-period comparability of the results of operations. The re-measurement of the Euro-denominated bonds correlates with the change in fair value of the cross-currency interest rate swaps. However, the Company will experience unrealized gains or losses related to the cross-currency interest rate swaps if the two underlying indices (and related forward curve) do not move in parallel.

Base net income also excludes the change in fair value of put options issued by the Company for certain business acquisitions. The put options are valued by the Company each reporting period using a Black-Scholes pricing model. Therefore, the fair value of these options is primarily affected by the strike price and term of the underlying option, the Company's current stock price, and the volatility of the Company's stock. The Company believes these point-in-time estimates of value that are subject to fluctuations make it difficult to evaluate the ongoing results of operations against the Company's business plans and affects the period-to-period comparability of the results of operations.

The gains and/or losses included in "Derivative market value, foreign currency, and put option adjustments" on the Company's consolidated statements of operations are primarily caused by interest rate and currency volatility, changes in the value of put options based on the inputs used in the Black-Scholes pricing model, as well as the volume and terms of put options and of derivatives not receiving hedge treatment. Base net income excludes these unrealized gains and losses and isolates the effect of interest rate, currency, and put option volatility on the fair value of such instruments during the period. Under GAAP, the effects of these factors on the fair value of the put options and the derivative instruments (but not the underlying hedged item) tend to show more volatility in the short term.

AMORTIZATION OF INTANGIBLE ASSETS: Base net income excludes the amortization of acquired intangibles, which arises primarily from the acquisition of definite life intangible assets in connection with the Company's acquisitions, since the Company feels that such charges do not drive the Company's operating performance on a long-term basis and can affect the period-to-period comparability of the results of operations.

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 because the Company believes such charges do not drive its operating performance on a long-term basis and can affect the period-to-period comparability of the results of operations. If the Company did not enter into the employment agreements in connection with the acquisition, the amount paid to these former shareholders of the acquired entity would have been recorded by the Company as additional consideration of the acquired entity, thus, not having an effect on the Company's results of operations.

VARIABLE-RATE FLOOR INCOME: Loans that reset annually on July 1 can generate excess spread income compared with 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. The Company excludes variable rate floor income from its base net income since its timing and amount (if any) is uncertain, it has been eliminated by legislation for all loans originated on and after April 1, 2006, and it is in excess of expected spreads. In addition, because variable rate floor income is subject to the underlying rate for the subject loans being reset annually on July 1, it is a factor beyond the Company's control which can affect the period-to-period comparability of results of operations. There was no variable-rate floor income in the periods presented.

SPECIAL ALLOWANCE YIELD ADJUSTMENT AND RELATED HEDGING ACTIVITY: The Company excludes the special allowance yield adjustments and the net settlements received or paid on those derivative instruments used to hedge the student loans earning the 9.5% special allowance payments. Pursuant to the settlement agreement entered into with the Department, effective July 1, 2006, the Company no longer receives 9.5% special allowance payments. Prior to this agreement, the Company excluded the special allowance yield adjustments from base net income because the Company expected 9.5% special allowance payments to decline over time due to the fact that in April 2004 it ceased adding loans receiving 9.5% special allowance payments to its portfolio.

**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 DECEMBER 31, | | | |
|---|---|---|---|---|
| | 2006 | | 2005 | |
| | DOLLARS | PERCENT OF TOTAL | DOLLARS | PERCENT OF TOTAL |
| | (DOLLARS IN THOUSANDS) | | | |
| Federally insured: | | | | |
| Stafford | $ 5,724,586 | 24.1 % | $ 6,434,655 | 31.8 % |
| PLUS/SLS | 365,112 | 1.5 | 376,042 | 1.8 |
| Consolidation | 17,127,623 | 72.0 | 13,005,378 | 64.2 |
| Non-federally insured | 197,147 | 0.8 | 96,880 | 0.5 |
| Total | 23,414,468 | 98.4 | 19,912,955 | 98.3 |
| Unamortized premiums and deferred origination costs | 401,087 | 1.7 | 361,242 | 1.8 |
| Allowance for loan losses: | | | | |
| Allowance - federally insured | (7,601) | 0.0 | (98) | 0.0 |
| Allowance - non-federally insured | (18,402) | (0.1) | (13,292) | (0.1) |
| Net | $ 23,789,552 | 100.0 % | $ 20,260,807 | 100.0 % |

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

| | THREE MONTHS ENDED | | | YEAR ENDED | |
|---|---|---|---|---|---|
| | DECEMBER 31, 2006 | SEPTEMBER 30, 2006 | DECEMBER 31, 2005 | DECEMBER 31, 2006 | DECEMBER 31, 2005 |
| | (DOLLARS IN THOUSANDS) | | | | |
| Beginning balance | $ 22,534,661 | $ 22,012,670 | $ 16,185,721 | $ 19,912,955 | $ 13,299,094 |
| Direct channel: | | | | | |
| Consolidation loan originations | 1,762,371 | 1,493,981 | 1,413,260 | 5,299,820 | 4,037,366 |
| Less consolidation of existing portfolio | (843,749) | (726,700) | (691,900) | (2,643,880) | (1,966,000) |
| Net consolidation loan originations | 918,622 | 767,281 | 721,360 | 2,655,940 | 2,071,366 |
| Stafford/PLUS loan originations | 192,533 | 385,997 | 152,996 | 1,035,695 | 720,545 |
| Branding partner channel (a) | 69,498 | 94,229 | 161,808 | 910,756 | 657,720 |
| Forward flow channel | 332,702 | 336,775 | 251,940 | 1,600,990 | 1,153,125 |
| Other channels (a) | 12,209 | 2,070 | 126,810 | 492,737 | 796,886 |
| Total channel acquisitions | 1,525,564 | 1,586,352 | 1,414,914 | 6,696,118 | 5,399,642 |
| Loans acquired in portfolio and business acquisitions | - | - | 3,071,479 | - | 3,071,479 |
| Repayments, claims, capitalized interest, and other | (125,756) | (368,789) | (402,659) | (1,332,086) | (1,002,260) |
| Consolidation loans lost to external parties | (307,649) | (342,400) | (356,500) | (1,114,040) | (855,000) |
| Loans sold (b) | (212,352) | (353,172) | - | (748,479) | - |
| Ending balance | $ 23,414,468 | $ 22,534,661 | $ 19,912,955 | $ 23,414,468 | $ 19,912,955 |

(a) Included in "Other channels" for the year ended December 31, 2005 is $630.8 million of student loans purchased from Union Bank and Trust ("Union Bank"), an entity under common control with the Company. The acquisition of these loans was made by the Company as part of an agreement with Union Bank entered into in February 2005. As part of this agreement, Union Bank also committed to transfer to the Company substantially all of the remaining balance of Union Bank's origination rights in guaranteed student loans. As such, beginning in the second quarter of 2005, all loans originated by Union Bank on behalf of the Company are presented in the table above as direct channel originations. The spot purchase of this loan portfolio has been reclassified from the branding partner channel from prior period presentations.

(b) During the three months and year ended December 31, 2006, the Company recorded gains of $2.4 million and $15.9 million, respectively, from the sale of loans.

**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 | | | YEAR ENDED | |
|---|---|---|---|---|---|
| | DECEMBER 31, 2006 | SEPTEMBER 30, 2006 | DECEMBER 31, 2005 | DECEMBER 31, 2006 | DECEMBER 31, 2005 |
| Student loan yield (a) | 7.88 % | 7.91 % | 7.30 % | 7.85 % | 6.90 % |
| Consolidation rebate fees | (0.76) | (0.72) | (0.68) | (0.72) | (0.65) |
| Premium and deferred origination costs amortization (b) | (0.33) | (0.39) | (0.52) | (0.39) | (0.49) |
| Student loan net yield | 6.79 | 6.80 | 6.10 | 6.74 | 5.76 |
| Student loan cost of funds (c) | (5.48) | (5.32) | (4.27) | (5.12) | (3.75) |
| Student loan spread | 1.31 | 1.48 | 1.83 | 1.62 | 2.01 |
| Special allowance yield adjustments, net of settlements on derivatives (d) | - | (0.14) | (0.39) | (0.20) | (0.50) |
| Core student loan spread (e) | 1.31 % | 1.34 % | 1.44 % | 1.42 % | 1.51 % |
| Average balance of student loans (in thousands) | $22,978,951 | $22,170,118 | $18,567,481 | $21,696,466 | $15,716,388 |
| Average balance of debt outstanding (in thousands) | 24,552,113 | 23,881,928 | 19,993,539 | 23,379,258 | 16,759,511 |

(a) The student loan yield for the three months and year ended December 31, 2006 does not include the $2.8 million charge to write off accounts receivable from the Department related to third quarter 9.5% special allowance payments that will not be received under the Company's previously disclosed Settlement Agreement with the Department. The $2.8 million relates to loans earning 9.5% special allowance payments that were not subject to the OIG audit.

(b) Premium and deferred origination costs amortization for the three months and year ended December 31, 2006 excludes premium amortization related to the Company's portfolio of 9.5% loans purchased in October 2005 as part of a business combination.

(c) 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 junior subordinated hybrid securities and the net settlements of $7.0 million for the three months ended December 31, 2006 on those derivatives no longer hedging student loan assets).

(d) 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. As previously disclosed, on January 19, 2007, the Company entered into a Settlement Agreement with the Department to resolve the audit by the OIG of the Company's portfolio of student loans receiving 9.5% special allowance payments. Under the terms of the Agreement, all 9.5% special allowance payments were eliminated for periods on and after July 1, 2006. The Company had been deferring recognition of 9.5% special allowance payments related to those loans subject to the OIG audit effective July 1, 2006 pending satisfactory resolution of this issue.

(e) The core student loan spread for the three months ended September 30, 2006 would have been 1.32% had the Company not included the 9.5% special allowance payments on those loans that were not subject to the OIG audit and the related premium amortization on those loans purchased in October 2005 as part of a business combination in the calculation of student loan spread.

**INTEREST RATE SENSITIVITY**

A portion of the Company's student loan assets earn a fixed rate. As a result, management uses fixed-rate debt and interest rate swaps to reduce the economic effect of interest rate volatility. The following table shows the Company's student loan assets currently earning at a fixed rate as of December 31, 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% | 8.23 | 5.59 | $ 377,489 |
| > 9.0 | 9.05 | 6.41 | 409,889 |
| | | | $ 787,378 |

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

The following table summarizes the outstanding derivative instruments as of December 31, 2006 used by the Company to hedge the fixed-rate loan portfolio.

| MATURITY | NOTIONAL VALUES | WEIGHTED AVERAGE FIXED RATE PAID BY THE COMPANY |
|---|---|---|
| | (DOLLARS IN THOUSANDS) | |
| 2006 (a) | $ 250,000 | 3.16 % |
| 2008 | 462,500 | 3.76 |
| 2009 | 312,500 | 4.01 |
| Total | $ 1,025,000 | 3.69 % |

(a) Expired on December 31, 2006.

In addition to the interest rate swaps with notional values of $1.0 billion summarized above, as of December 31, 2006, the Company had $403.4 million of fixed-rate debt (excluding the Company's fixed-rate unsecured debt of $475.0 million) that was used by the Company to hedge fixed-rate student loan assets.

As previously disclosed, on January 19, 2007, the Company reached a Settlement Agreement with the Department to resolve the audit by the OIG of the Company's portfolio of student loans receiving the 9.5% special allowance payments. Under the terms of the Agreement, all 9.5% special allowance payments will no longer be received by the Company.

In consideration of not receiving the 9.5% special allowance payments on a prospective basis, the Company entered into a series of off-setting interest rate swaps that mirror the $2.45 billion in pre-existing interest rate swaps that the Company had utilized to hedge its loan portfolio receiving 9.5% special allowance payments against increases in interest rates. The net effect of the new offsetting derivatives is to lock in a series of future income streams on underlying trades through their respective maturity dates. A summary of these derivatives is as follows (notional amounts in thousands):

| MATURITY | NOTIONAL AMOUNT | WEIGHTED AVERAGE FIXED RATE PAID BY THE COMPANY | NOTIONAL AMOUNT | WEIGHTED AVERAGE FIXED RATE RECEIVED BY THE COMPANY |
|---|---|---|---|---|
| 2007 | $ 512,500 | 3.42 % | $ 512,500 | 5.25 % (a) |
| 2010 | 1,137,500 | 4.25 | 1,137,500 | 4.75 |
| 2012 | 275,000 | 4.31 | 275,000 | 4.76 |
| 2013 | 525,000 | 4.36 | 525,000 | 4.80 |
| | $ 2,450,000 | 4.11 % | $ 2,450,000 | 4.87 % |

(a) The effective date of the 2007 derivatives in which the Company will receive a fixed rate is January 2, 2007.

**DERIVATIVE SETTLEMENTS**

The following table summarizes the components of derivative settlements.

| | THREE MONTHS ENDED | | | YEAR ENDED | |
|---|---|---|---|---|---|
| | DECEMBER 31, 2006 | SEPTEMBER 30, 2006 | DECEMBER 31, 2005 | DECEMBER 31, 2006 | DECEMBER 31, 2005 |
| | (DOLLARS IN THOUSANDS) | | | | |
| Interest rate and basis swap derivatives- loan portfolio | $ 4,291 | $ 4,172 | $ 959 | $ 12,992 | $ (1,129) |
| Interest rate swap derivatives- other (a) | 7,044 | - | - | 7,044 | - |
| Special allowance yield adjustment derivatives (a) | - | 7,909 | 1,082 | 19,794 | (15,879) |
| Cross currency interest rate swaps | (4,322) | (5,115) | - | (14,405) | - |
| Other (b) | - | (1,993) | - | (1,993) | - |
| Derivative settlements, net | $ 7,013 | $ 4,973 | $ 2,041 | $ 23,432 | $ (17,008) |

(a) Derivative settlements for interest rate swaps "other" include settlements on the portfolio of derivatives that the Company had used to hedge 9.5% special allowance payments and the portfolio of off-setting interest rate swaps the Company entered into during the fourth quarter 2006. The new derivatives mirror the 9.5% special allowance payment derivatives. Settlements on the 9.5% special allowance derivatives were classified in the special allowance yield adjustment derivatives line item through September 30, 2006.

(b) During 2006, the Company issued junior subordinated hybrid securities 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 these notes, 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 DECEMBER 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2006 | | | 2005 | | |
| | COMPANY | THIRD PARTY | TOTAL | COMPANY | THIRD PARTY | TOTAL |
| | (DOLLARS IN MILLIONS) | | | | | |
| FFELP and private loans | $ 21,869 | $ 8,725 | $ 30,594 | $ 16,969 | $ 10,020 | $ 26,989 |
| Canadian loans (in U.S. $) | - | 9,043 | 9,043 (a) | - | 8,139 | 8,139 |
| Total | $ 21,869 | $ 17,768 | $ 39,637 | $ 16,969 | $ 18,159 | $ 35,128 |

(a) As previously disclosed, EDULINX Canada Corporation, a subsidiary of Nelnet, TED] announced that the Government of Canada decided to award a competitive contract to provide services in support of the Canada and Integrated Student Loan Programs (CSLP) upon the expiration of the current EDULINX contract for such services to another service provider. The Government of Canada is EDULINX's largest customer. This contract is scheduled to expire on March 31, 2008. As a result of this decision, EDULINX will be required to transition the existing CSLP portfolio it services to the selected service provider. As of December 31, 2006, the Company serviced $7.7 billion of CSLP loans.