

NELNET

**Moderator: Cheryl Watson
February 9, 2007
10:00 a.m. CT**

Operator: Good day everyone and welcome to Nelnet's 2006 fourth quarter conference call. Today's call is being recorded and broadcast live over the Internet.

At this time, Miss Cheryl Watson, Nelnet's Chief Communications Officer, will begin with opening remarks. Please go ahead, ma'am.

Cheryl Watson: Thank you, Operator, and thank you everyone for joining us today. Nelnet's fourth quarter earnings release and financial supplement have been posted to the investor relations Website at www.nelnet.net.

On today's call, Mike Dunlap, Co-Chief Executive Officer and Chairman, will provide an update on Nelnet's results of operations and Terry Heimes, Chief Financial Officer, will report on our financial results. Also with us are Steve Butterfield, Co-Chief Executive Officer and Vice Chairman; and Jeff Noordhoek, President, who will be available for the Q&A session.

Before we begin the formal remarks, I would like to read the Safe Harbor Statement. We would like to remind you that there will be forward looking statements made during today's call. The forward looking statements may differ materially from actual results and are subject to certain

risks and uncertainties that are detailed in the earnings release and in our filings with the SEC. The company does not intend to update any forward looking statements made during the call.

During the course of this call, we will refer to two non-GAAP financial measures which the company defines as base net income and adjusted base net income. Please refer to our earnings release or to our Website for the reconciliation of GAAP net income to base and adjusted base net income.

After Mike and Terry have concluded their formal remarks, we will open up the call for questions.

I would now like to turn the call over to Mike Dunlap.

Mike Dunlap: Thank you, Cheryl. Good morning everyone. Thank you for joining us today to talk about 2006 and the events of the fourth quarter.

Our goal is to deliver sustainable, long term value to shareholders. There are four key elements to help us get there, grow high quality student loan assets, diversify our revenue streams, increase fee based income and deploy our capital efficiently. I'm pleased to say that we delivered on each of these elements in 2006 despite facing some considerable challenges.

Consider the following, the growth of our earning assets and the performance of our various asset generation channels has been impressive. Our assets increased 17 percent since last year. Total channel acquisitions were \$6.7 billion, an increase of \$1.3 billion or 24 percent year over year with our direct to consumer consolidation channel growing to \$5.3 billion generating net new consolidation loans of \$1.5 billion. Fee based revenues represented 59 percent of our total revenues in the fourth quarter and 50 percent for the year compared to 42 and 37 percent for the same periods last year. Fee based revenues topped \$308 million for the year, an increase of nearly 57 percent.

We are instituting a quarterly cash dividend and we are increasing the number of shares we can buy back. We think our stock is undervalued and will be looking to use excess capital to repurchase shares. We have a solid long term record, as well. From the time we went public three years ago, our adjusted base net income, excluding the impact of the Department of Education agreement in EDULINX has increased from \$1.02 in 2004 to \$1.76 this year. In the same timeframe, student loan assets have grown from \$10 billion to almost \$24 billion today, a compound annual growth rate over 20 percent.

And finally, with the acquisitions we've made this past year, we've expanded our product and service offerings to our school customers and their students. We've continued to invest in technology and process solutions. We are focused on increasing the operating level by bringing these acquisitions together into an integrated customer experience.

As we continue to diversify our revenue streams, we become more flexible, less susceptible to political risk, and able to adapt to changes in our industry. The President's proposed budget and other proposed legislation changes are case in point. I will discuss this in more detail, but I want to stress that with change comes opportunity. We are confident that our increasingly diverse business model will allow us to adapt to any changes that may occur.

We had an exciting year and a very solid fourth quarter. For the fourth quarter, our base net income was 18 cents per share. Excluding the items related to EDULINX and our agreement with the Department of Education, our base net income for the quarter was 48 cents per share. Before I expand on the 2006 results and the strength of our core fundamentals that will carry us into 2007, I want to discuss a couple of significant items.

We are very pleased to have reached an agreement with the Department of Education. The resolution puts this issue behind us. The Department has issued new guidance to Nelnet and the

rest of the industry which will impact billings on a prospective basis. Terry will discuss this in more detail later in our discussion. Regarding EDULINX, we continue to evaluate our options in the Canadian market. We have received an extension of the existing contract with the Canadian government through March of 2008. It's worth noting that even though this contract was not renewed, we expect to make in excess of a 20 percent return on this investment.

Finally, I wanted to discuss the political headwinds the education finance industry is facing today. The Federal Family Education Loan Program has become the lightning rod in a charged political environment and unfortunately, the rhetoric is focused not on the value provided to schools and students or the program's achievements over time, but on flawed budget scoring models. We are very much in favor of expanding access and increasing the opportunities for students and education seeking families to achieve their educational goals and dreams.

We believe we've positioned Nelnet to be instrumental in helping schools, students, and families as we move into the future. I firmly believe that the Federal Family Education Loan Program is the best way to leverage taxpayer dollars to benefit the maximum amount of people in the most efficient manner and open up access to students. I am speaking about both the scope, meaning the number of students and families that can benefit, as well as the fiscal results of providing these opportunities.

Nelnet and other industry participants have increased access for students by providing educational institutions the tools to control the future cost of education by investing billions of dollars on financial loan products, delivery systems, and technology solutions.

I want to discuss three key points about potential legislation that could effect our industry. First, with respect to the President's budget, we saw similar initiatives last year that were not adopted. Second, any legislation if enacted as proposed would generally only affect new loan originations. And third and most important, with change comes opportunity.

We anticipate that rational minds will prevail and that any legislation enacted would be in the best long term interest of students, families, and schools. We believe these rational minds will consider the negative impact that some of the proposed changes would have on access, as well as innovation and investment within the private sector.

Ultimately, this could harm the very constituency legislators say they are trying to protect. If these recent proposals were enacted, because they would only apply to new loan originations, we expect roughly 20 percent of our loans or the new loan originations would be impacted during the first year. Therefore, the full impact on spread would be phased in over a number of years as our portfolio turns over.

Our business model gives us flexibility to capitalize on the diversification of revenues into fee based businesses which represented, as I said earlier, 50 percent of our 2006 revenues. We had solid performance this quarter despite some challenges. First, continued growth of our bottom line profits and continued improvements in the quality of our earnings. Excluding unusual fourth quarter activity, our 2006 adjusted base earnings increased more than 20 percent, marking the third consecutive year of growth in excess of 20 percent.

Second, the continued growth of our earning assets and the performance of our various asset generation channels has been impressive. Our assets increased 17 percent since last year. And finally, continued growth and diversification of our fee based revenues and development of our product offerings position us well for 2007 and beyond. Fee based revenues represented 59 percent of our total revenues in the fourth quarter and 50 percent for the year, as I said earlier.

Our asset growth was fueled by outstanding performance in our direct to consumer consolidation and school channels. We ended the year in line with our overall expectations for asset growth. We started to see the anticipated decline in consolidation volume this academic year that we are

working diligently to increase the retention of our existing portfolio with the elimination of the single holder rule, as well as increase our net new market share. Both of these objectives will play into our anticipated asset growth, which I will talk about when I discuss our 2007 expectations.

Within our school channel, we continued to grow our internal brand originations while expanding our overall branding and forward flow relationships. This diversification of channels is important to us as we focus on achieving consistent, sustainable growth. We were very pleased with our internal school channel originations which topped \$1 billion for the year for the first time, an increase of more than \$300 million compared to 2005.

As the demands on educational institutions grow and the desire to control the cost of education increases, schools and students will be looking for ways to reduce administrative burden and processing times, while increasing the efficiency of planning for, paying for and achieving their educational goals and dreams. Our business model and strategy is focused on meeting those needs. Our diverse fee generating product suite has been created to span the lifecycle of the student, as well as help schools better fill gaps and meet their needs. These products, which are offered by Nelnet Business and Enrollment Solutions, include enrollment management, tuition payment plans, payment processing, lead generation and direct marketing. Combined with our more traditional fee for service activities related to loan and guarantee servicing, they generated more than \$308 million of fee based revenue during 2006, nearly \$92 million in the fourth quarter alone. Revenues primarily from Nelnet Business and Enrollment Solutions nearly tripled, increasing \$67 million to \$102 million compared to last year.

For the quarter, this other fee based revenue was \$36.9 million, compared to \$12.8 million a year ago. These fee based products and service offerings are an important part of our strategic vision because, one, they allow us to meet the growing needs of our students and schools. Two, they are less dependent upon government sponsored programs and thus, carry less political and no

credit risk. Three, they allow us to continue to diversify our revenue streams and they will be an integral component of our long term goal of leveraging fee income into assets and assets into fee income.

The strength of our business strategy, the continued growth in fee generating assets, the continued diversification of our revenue streams and the performance of our entire associate base has positioned Nelnet as a leader in the educational planning and finance industry. The financial results have solidified our capital position and as we move into 2007, we are confident in our ability to continue our strong performance. We will continue to invest in our organic growth. We will look for acquisitions that are accretive to our product and service offerings and our long term sustainable cash flow and we will do it with the discipline of returning value to our shareholders.

Before I turn the call over to Terry for a more detailed discussion on the numbers, I want to reiterate. First, we're incredibly pleased with our asset growth, which is up 17 percent compared to last year. Our business plan and strategy of diversification is working. Fee based revenues increased 56 percent compared to last year and represented 50 percent of our total revenues in 2006. And we're very excited by the opportunities we see in terms of our continued growth and investment opportunities with our adjusted base net income up 20 percent, again, in 2006 and posed to increase mid teens to 20 percent in 2007.

Terry?

Terry Heimes: Thanks, Mike. I'll cover the financial information and operating results for 2006, as well as the fourth quarter. Before I discuss the detailed numbers, I want to highlight some events and information that should be considered in conjunction with my commentary and when reviewing our earnings supplement.

First, our loan assets have increased 17 percent for the year with consolidation loans now making up 72 percent of our total portfolio, thus reducing the risk of loss to third parties. Second, diversification remains strong with fee revenues increasing 58 percent to \$91.9 million for the quarter and 56 percent to \$308.8 million for the year. Fee based revenues represented 59 percent of total revenues for the quarter and 50 percent for the year. And finally, excluding the unusual activity related to EDULINX and the agreement with the Department of Education in the fourth quarter, our adjusted base net income for the year ended December 31st, 2006 grew by more than 20 percent for the third consecutive year.

Turning to the traditional earnings measures, our GAAP net income for 2006 was \$68.2 million or \$1.27 per share versus \$181.1 million or \$3.37 per share a year ago. For the fourth quarter, we had a GAAP loss of \$7.3 million or 14 cents per share as compared to net income of \$42.7 million or 79 cents per share a year ago. The change in GAAP earnings was driven by the change in our derivative market value, impairment charges incurred in the fourth quarter and the non-recognition of 9.5 percent floor earnings in accordance with our agreement with the Department of Education. Base net income was \$105.8 million or \$1.97 per share for the 2006 year and \$9.6 million or 18 cents per share for the current quarter. This compared to \$127.2 million or \$2.37 per share for 2005 and \$31.9 million or 59 cents per share for the fourth quarter of last year.

Since December of 2004, we have been disclosing the results of our operations excluding the excess special announced yield adjustment as our adjusted base net income. With our recent agreement related to this situation, we will now discuss our results in terms of base net income, but for comparative purposes, we will report adjusted base net income through 2007. The details of the Department of Education agreement and EDULINX have been disclosed in recent filings, but the impact on the fourth quarter base net income should be considered when reviewing the numbers. Namely, the non-renewal of the EDULINX contract with the Canadian government resulted in an impairment charge related to software and other intangibles of approximately \$9 million in the fourth quarter.

During the fourth quarter, we recognized approximately \$4.5 million in additional revenues related to performance measures under the extension agreements with the Canadian government. Similar provisions are included in the extension agreement which runs through March of 2008 which could result in \$5 to \$8 million of additional future revenue. Third, net of the impact of salaries and benefits related to bonuses and incentives, both on the impairment charges and additional revenues, the total impact on the fourth quarter of the unique items related to EDULINX was about five cents per share.

We incurred impairment charges and other charges totaling \$24.5 million related to our agreement with the Department of Education. \$21.7 million is reflected as an impairment charge in our statement of operations for the write down of premiums paid on loans acquired in 2005 that were previously eligible for the 9.5 percent floor rate. \$2.8 million is recorded as a reduction in interest income for the 9.5 percent special allowance interest accrual on loans not subject to the audit which was recognized in the third quarter. Net of the impact on salaries and benefits related to bonus and incentives, these charges reduced our base net income by about – by approximately 25 cents per share during the quarter. Based on the new guidance issued by the Department of Education, we do not anticipate having loans that qualify for the 9.5 percent special allowance rate in the future. We anticipate this will reduce 2007 earnings by \$8 to \$10 million or 10 to 12 cents per share.

In December, we were able to offset a pool of fixed rate derivatives hedging our portfolio previously earning 9.5 percent. The majority of these were excluded from our adjusted base net income. With additional derivatives, we locked in before tax net settlements of approximately \$15 million in 2007, approximately \$8.5 million in 2008 and we will continue to receive benefit throughout 2013.

In addition, as part of our overall asset management strategy, we sold certain loan portfolios which were either committed for sale under previous contracts or deemed to be at substantial risk of loss through consolidation during the fourth quarter. The sale of approximately \$200 million in loans resulted in a gain of approximately \$1.5 million after tax or three cents per share and is included in our statement of operations. Also during the fourth quarter, we recorded a tax benefit of approximately \$1.5 million with the resolution of certain outstanding tax positions. We do expect our 2007 effective tax rate to be between 37 percent and 38 percent.

Turning to the balance sheet and loan asset growth, our overall growth was very solid for 2006 at just over 17 percent, well within our expectations for the year. Our total annual channel growth was excellent, growing 24 percent compared to last year reaching nearly \$6.7 billion. We are excited by the diversification of our channels, but in particular, by the performance of our internal school and our direct to consumer channel. Consolidations are up 27 percent for the fourth quarter compared to last year and 28 percent for the year and our Stafford and PLUS originations are up 26 percent for the quarter and 44 percent for the year. For the calendar year, our total school channel loans, excluding spot purchases, increased \$1 billion from \$2.5 billion last year to more than \$3.5 billion in 2006.

We continue to be very pleased with our efforts in the consolidation area. During 2006, we originated nearly \$5.3 billion of consolidation loans, up from \$4 billion in 2005. We finished the year very strong, generated \$1.8 billion of consolidation loans in the fourth quarter, which resulted in more than \$900 million of new loans added to our books. Adjusting for loans we lost to competitors, we generated net new loans of more than \$600 million during the fourth quarter and a total of \$1.5 billion for the year.

More importantly, we only lost \$1.1 billion to third parties, despite the repeal of single holder rule. While we see an anticipated reduction in overall volume, we will maintain our focus and efforts

here, not only to protect our current and future Stafford and PLUS portfolio, but also expand our volume by adding new loans to our books.

The performance of our channels drove the 17 percent increase in loan volume. However, contracting margins, the non-recognition of 9.5 percent special allowance and the write-off of third quarter receivable that we previously discussed has caused our net interest income to drop year over year. Although down only six percent for the year, the fourth quarter dropped approximately \$27.4 million compared to last year. Excluding the impact of the 9.5 percent special allowance earnings for all periods, our net interest income increased about \$2.6 million for the quarter and \$49.8 million for the year or four percent and 21 percent respectively.

Our core student loan spread, excluding the impact of the agreement with the Department of Education, contracted three basis points to 131 basis points for the three months ended December 31st, 2006. The contraction was due to the elimination of the incremental 9.5 percent earnings previously included in the spread and reduced the amount of fixed rate floor income we earned during the quarter. We continue to expect spreads in the 120 to 130 basis point range as we move into 2007. During the third quarter, we noted our spread included about 14 basis points of floor income. With the elimination of all 9.5 percent floor loans and the related derivatives, our fourth quarter spread of 131 basis points includes only about nine to 10 basis points of floor income.

Nelnet's strategy has been and will continue to be to diversify our earnings through fee based revenue while growing our asset base to counter margin compression. Our fee based revenues comprised 50 percent of our total revenue during 2006 versus 37 percent for 2005. Our other fee based revenues generated primarily through Nelnet Business and Enrollment Solutions represented 17 percent of our total revenue, up from seven percent last year. While the majority of our fee based business lines have variable cost models, they are generating increasing operating leverage.

Operating expenses, excluding amortization of intangibles and the impairment charges, increased \$142 million during the year or 45 percent driven largely by acquisitions which accounted for roughly \$128 million of that increase. Excluding the impact of acquisitions for comparability purposes, our operating expenses increased about six percent compared to last year. Adjusting for the impact of impairment charges, total operating expenses increased approximately two percent compared to a normalized third quarter run rate adjusted for mid period acquisitions.

Our shareholders equity was \$672 million at year end with approximately 52.5 million shares outstanding. Our capital ratio was 2.5 percent, well above our target range of .8 percent to two percent. During 2006, we used capital generated by our operations to invest in organic growth opportunities, make strategic acquisitions, and repurchase 1.9 million shares or roughly 3.6 percent of our outstanding stock under our share repurchase program. We will continue to look to diversify, deploy and manage our capital to deliver long term sustainable shareholder value.

With that, I'll turn it over to Mike for closing comments.

Mike Dunlap: Thanks, Terry. We're very pleased and proud of our accomplishments in 2006.

20 percent growth in our earnings per share. 17 percent growth in assets and continued diversification of our revenues. We're also pleased to have resolved the dispute with the Department of Education.

More importantly, we are very excited about the prospects for 2007. As we look forward, we will be focusing on growing our fee based revenues, integrating our sales approach to leverage our fee based services into potential asset generation activities and vice versa, expanding our campus based asset generation channels to grow our market share and leveraging our direct to

consumer activities to retain our asset and continue to grow our portfolio through consolidation and generating positive operating leverage as we realize the benefits of synergies from our recent acquisitions.

Our 2007 expectations include, asset growth in the mid teens, base net income per share growth in the mid teens to 20 percent, adjusting 2006 for fourth quarter one-time activity. As Terry mentioned, we're in a very strong capital position. We will continue to use the capital we generate to focus on organic growth, make strategic acquisitions, and repurchase stock when opportunities present themselves in a manner supportive to our long term focus. To support this latter objective, our Board has authorized an additional five million shares in our current buyback program. Despite the recent political developments, we maintain our very positive outlook toward the education industry and are confident in our ability to continue to deliver superior returns.

Finally, I'd like to make a comment to my partner and friend, Steve Butterfield. With one child graduating from college, twins ready to send off to college, a two year old, and a new baby on the way, I'm proud of your focus on your priorities, but I am equally grateful for the fact that you have chosen to stay committed to me, this company, and our associates. I want to congratulate all of our associates on an outstanding year and we'll now take your questions.

Operator: Thank you. The question and answer session will be conducted electronically. If you would like to ask a question, please do so by pressing the star key followed by the digit one on your touch-tone telephone. If you are using a speakerphone, please ensure that your mute function is turned off to allow your signal to reach our equipment. Once again, please press star one at this time for any questions and we'll pause for just a moment to allow everyone a chance to signal. Once again, ladies and gentlemen, star one for any questions at this time.

We'll hear first from Carl Drake with SunTrust Robinson.

Carl Drake: Good morning.

Mike Dunlap: Morning, Carl.

Carl Drake: Mike, in terms of your guidance for 2007, the base net income which you would grow mid teens to 20 percent, is that the \$1.97?

Mike Dunlap: \$1.76.

Carl Drake: The \$1.76. OK. OK. And then, does your guidance include any share repurchases?

Mike Dunlap: Well, I think we announced that we're going to buy back in a privately – repurchase 2.7 million shares that would include that repurchase that we're going to – that we've already announced.

Carl Drake: OK. OK. Great. And then, in terms of the Bush plan, conceptually, I know this would be the worst case and this is not legislation, but if it were to pass, what could you do to offset in terms of expenses, efficiencies, reduction of benefits over time? Could you provide maybe some commentary on that to help offset some of the potential margin compression?

Mike Dunlap: I think there's two different ways you can look at this opportunity. One is how do we grow our revenue, another one is – are there synergies or efficiencies that we can bring to the table. We think that probably our first focus is going to be on the revenue generation side. We see lots of opportunities. Whenever there's any type of change, that creates opportunity for us to go out and look at how can we help our customers, our schools and our students be successful. And so, that's where the major part of our focus is going to be at. As far as the synergies and efficiencies that exist, we're going to continue to grow as a company and look for ways to do things and

continually improve on a go forward basis and be more efficient whether or not this legislation passes or not.

So as we go forward, we're going to continue to focus on opportunities as they come up and with respect to the efficiency side, we're going to continually look at ways to improve the company with or without this legislation. One question that people have asked us over time is, 'Well, what does that mean to borrow benefits?' And this legislation is too premature to really answer that question at this point in time and we will look at the situation as it unfolds and as we work with the Senate and to get this legislation completed and we will deal with that as things become clearer in the future.

Carl Drake: OK. In terms of the opportunity you spoke of, do you see any tier two players or any other players potentially exiting the market where that might provide some opportunity? Or how do you – is it too early to tell the opportunity there?

Mike Dunlap: I think whenever margins get tighter in any industry, that creates potential opportunity for consolidation and I don't think it will be any different here, but I do think that will create some opportunities for some of the players that don't have the skill or efficiency that we do or the diversification.

Carl Drake: And the pipeline for acquisitions, particularly in the fee based area, is there any commentary you can provide on the acquisition pipeline, given your capital position?

Mike Dunlap: Our capital position continues to be strong and we look for opportunities that are going to return long term cash flow, long term good returns for the business. We have always looked at, from a capital standpoint, our investment back in – first, our organic growth, secondly, strategic acquisitions and then, we're going to have a disciplined focus on creating shareholder value. And

right now, we think the stock is significantly undervalued and that stock repurchases are a great opportunity at this point in time.

Carl Drake: OK. Last question, Mike, in terms of the private loan market, is that an area where you might consider becoming more aggressive in? Perhaps either through a partnership or organically?

Mike Dunlap: Well, if you look at our track record on private loans, in 2004, we did roughly \$18 million, in 2005, a little over \$50 million and this last year, in '06, we did about \$118 million. So as far as the percentage of growth, we've got a pretty good track record and we're going to continue to focus on growing that piece of our business from a diversification standpoint as we have over the last three years.

Carl Drake: But not necessarily in a higher trend than where you've been? Or is this something where you might, given the legislative potential changes, accelerate that growth?

Mike Dunlap: The last year, we grew about 100 percent. This next year, I think it's probably going to be between 50 and 100 percent as we look at our plans in '07. We'll take advantage of the opportunities as they present themselves, but we're not going to change our risk profile overnight and say that we're going to go do \$1 billion in private loans in risky assets next year. That's not our plan.

Carl Drake: OK. Thank you.

Operator: Moving on, we'll take our next question from Matt Snowling with Friedman, Billings, Ramsey.

Matt Snowling: Yes, hi, good morning.

Mike Dunlap: Good morning.

Matt Snowling: I missed your comments on the call about EDULINX. I think you said you booked \$4.5 million in fees during the quarter, is that correct?

Terry Heimes: Yes.

Matt Snowling: And I guess I really missed what you said going forward and through the March 2008 wind down.

Terry Heimes: Well, the – we had recorded about \$4.5 million in incentive revenues that were related to that extension agreement. The extension agreement through March of 2008 also includes opportunities in the \$5 to \$8 million range.

Matt Snowling: These are total or just incentive revenue?

Terry Heimes: Incentive. Additional.

Matt Snowling: And the \$4.5 that you booked this quarter was incentive?

Terry Heimes: Yes.

Matt Snowling: OK. And then, what would be the total going forward?

Terry Heimes: EDULINX represented about 40 percent of our loan and guarantee servicing revenue for the quarter and for the year, it was about 35 percent.

Matt Snowling: OK. Got it. And switching gears here, I'm looking at your net settlements of around \$7 million during the quarter and looks like you put on the corresponding hedges or locked in those

gains. And by my math, am I correct in viewing that line dropping to about \$4 -- \$4.5 million?

Around \$4.5 million next quarter?

Mike Dunlap: For the year, it's going to – the net's going to be about \$15 million...

Terry Heimes: \$15 million...

Matt Snowling: But is that just for those ...

Terry Heimes: That \$15 million was just for the offset...

Matt Snowling: For the \$2.5 billion portfolio?

Terry Heimes: Well, of the \$2.5 billion portfolio of hedges, there is going to be some additional settlements that would roll through on the roughly \$800 million or \$1 billion that we have outstanding. So, that math is probably pretty close, Matt. I haven't done that ((inaudible))...

Matt Snowling: OK. OK. That's fine. I just wanted to double check. I'll circle back later. Thanks.

Mike Dunlap: Thank you.

Operator: We'll take our next question from Sameer Gohkale with KBW.

Sameer Gohkale: Thanks. Just a few questions here. On the share repurchase, the 2.7 million shares, is that going to occur over the next few days here? Is that the most likely? By the middle of the month?

Mike Dunlap: It's a privately negotiated transaction and we're not at liberty to say exactly when this transaction is going to take place. It will take place when we're not in a blackout window, which we're in right now.

Sameer Gohkale: OK. And then, you talked about the diversification and your fee based – of your fee based revenue stream and I think it was over half of your revenues for the quarter, but in terms of the EPS contribution or the net income contribution to base income, how should we think about that? And clearly, you're going to have some negative impact from the runoff of that servicing contract, but if you adjust for that, as well, and you look in to the future, how should we think about the ramp up in the earnings contribution?

Terry Heimes: I think the – when – this Terry, by the way. When we look at the contribution and I think the main thing that we're looking at is that our business model is working and we've delivered on what we're focused on. As it relates specifically to the fee based revenues, they represented about 50 percent of our total revenue for the year. They were probably between 25 and 35 percent of – in terms of contribution, probably more importantly is the other fee based revenues represented about 17 percent and we're continuing to grow that up from about seven percent a year ago. They probably contributed somewhere in the seven to 10 percent range. Our fee based businesses do have the opportunity to provide operating leverage. So we expect that although they have variable cost models, as the revenues grow, the expenses will not grow as fast. Probably the other major component there that we – when we look at our fee based revenues, specifically, the other fee based revenues that we've started to develop, they don't have the same political risks that maybe some of our earning assets do.

Sameer Gohkale: So if I'm understanding correctly, I mean in total your fee based – the part of your business that's not vulnerable to the legislative risk, that's roughly about 20 percent or so, when you take the blended of your other fee based income and then your – the 25 or 35 percent? I'm just a little unclear on that.

Terry Heimes: The fee based revenues represent 50 percent of our total revenues. They probably contributed in terms of income, 25 to 35 percent.

Sameer Gohkale: OK.

Terry Heimes: In terms of the other fee based revenues that we've really started to grow there, represented about 17 percent of our total revenues.

Sameer Gohkale: OK. That's helpful. And then, in terms of your excess capital, how much would you estimate you had in excess capital? I mean clearly, you've announced this the buyback and the dividends, but if you were to put a point estimate on how much you actually had in dollar terms at the end of the quarter or the end of the year, how much would you say that was? And have you talked to your – the rating agencies about their view on the legislative aspect? I mean if the President's budget is adopted, even though that looks like it might be a long shot, but if adopted as proposed, would their view of your ratings change in any way?

Mike Dunlap: To answer your first question, we have a very, very strong capital position. Today, it's at 2.5 percent. I think we said over time that our target is to be in that .8 to two percent range on our guaranteed student loan portfolio and eight to 10 percent on our private loan portfolio. We're going to do what's in the best long term interest of all of our investors, debt and equity. And so, as we balance that, our capital management strategy is to continue to retain our rating and we have talked to the rating agencies about our stock repurchase and other capital management activities to maintain that rating on a go forward basis.

Sameer Gohkale: OK. That's helpful. Thanks a lot, Mike, Terry.

Operator: ((inaudible)), we'll take our next question from David Hochstim with Bear Stearns.

David Hochstim: Yes. I'm just wondering if somebody could address the insider stock sales and the kind of decision for insiders to be selling stock when stock is so depressed and the company is increasing it's authorization to buy stock instead making acquisitions.

Mike Dunlap: We think it's a great opportunity for the company to buy into – buy back into the company. It's very, very shareholder friendly. There are some individuals that still have very significant positions that for personal reasons are wanting to diversify their portfolio to some degree. Steve Butterfield is the – is by far, the largest seller of shares and after this sale, he will still be the second largest shareholder outside of my family in the company and is very confident in the future of the company as I am and as the company is. We see this as a very, very shareholder friendly repurchase on a go forward basis.

And one other side comment is I'm not selling any shares.

David Hochstim: I noticed that and about the magnitude of the discount that's so shareholder friendly, can you give us a sense of that?

Mike Dunlap: It's a private transaction and I'm not at liberty to share with you the size of the discount. We looked at similar transactions and it would be in the range of other similar transactions that have happened over the years.

David Hochstim: OK. And then, just could you clarify again what you were saying before? I guess I understood you to say that at this point, share repurchases seem a lot more attractive from a return standpoint than acquisitions, but are there....

Mike Dunlap: It depends on the acquisition.

David Hochstim: OK.

Mike Dunlap: I mean there – I think I've said in the past there's always a half dozen to a dozen different opportunities that we're always looking at. But I think right now when we look at where we're at today, the stock looks incredibly attractive to us.

David Hochstim: OK. Thanks.

Operator: As a reminder, that is star one if you do have a question at this time. We'll hear next from Mark Sproule with Thomas Weisel Partners.

Mark Sproule: Thanks. Could you just refresh us, I guess, a little bit, if in a worst case scenario the President's budget were to pass, how long would it take for your portfolio to roll over into the new sort of – the new rebate incentive system?

Mike Dunlap: Well, every year, we add new loans to our portfolio to the tune of about \$4 billion and we have a \$24 billion portfolio. So you have loans that are paying off with the new loans that you're adding to your portfolio. So it would be somewhere between five and 10 years before the whole portfolio rolled over.

Mark Sproule: Got you. And then, when you talked a little bit about acquisitions before, is there a point at which – can we offset some of this decline by just adding on this significant amount of volume from other platforms and then, basically, make it as a volume offsetting the decline in the actual rebate levels? Or do you have to diversify – is the diversification the benefit as we go forward?

Mike Dunlap: There's opportunities to grow where we are going to create value. We definitely want to take advantage of those. We've seen some transactions lately at prices that, from our perspective, we don't want to grow for growth sake and just to grow the assets, it's got to create

real long term value for the company. And so, from that perspective, there could be opportunities. Some of the transactions we've seen lately don't appear to us to be creating long term shareholder value. The other thing that, from an investment standpoint, we're going to invest in our organic growth of our businesses and really put a lot of focus in growing our internal businesses that we have.

Mark Sproule: Got you. And if I could ask one thing on the fee side, one, how do you look at sort of the seasonality aspect? I imagine we'll see a little bit more of a smoothing than sort of the Q1, Q3 pops that we get from an origination standpoint. And then, should we start see a little bit more of that operating leverage that you sort of referenced before coming through as we go into '07? Thanks.

Terry Heimes: Yes. This is Terry. We will see increasing operating leverage as we move into '07. As it relates to seasonality, we will still have some seasonality in terms of our fee based businesses. A lot of our fee based businesses, for example the tuition payment plan business, has seasonality because it's tied to the school year. So it's going to have a very low second quarter in terms of total revenue. Some of our lead generation businesses are, again, tied to trying to generate activity for the school year, so you're going to have some cyclicity in those. And our loan and guarantee servicing, again, are going to have a – Q3 is going to be the highest, et cetera, in terms of seasonality.

So you will continue to see some seasonality even in our fee based revenues.

Mark Sproule: Got you. Thanks.

Operator: Take our next question from Ann Maysek with Deutsche Bank.

Ann Maysek: Asked and answered. Thank you.

Operator: ((inaudible)) , we'll hear from Robert Tracy with ((inaudible)).

Robert Tracy: The – it looks like there's some noise out there about expanding the preferred lending channel. If the – or excuse me the preferred lender list. If the preferred lender lists are expanded, whether from the colleges decide to do it or the DOE or the Attorney Generals decide to do that, is that going to be a net benefit? Or is that going to be a negative for you?

Mike Dunlap: If you look at most of the lender lists we're on, there's multiple choices on there. They're not just Nelnet lenders. From a strategic standpoint or from a strategy standpoint, we – in very rare cases are we the only lender or just Nelnet lenders is the only lender on a lender list. So from that perspective, that could be a net benefit to us where some of our competitors have got a number of lender lists that just have X lender – or lender related on that list, that could give us an opportunity to get on a lot of new lists. So I think it could be a net opportunity for us if that changes.

Robert Tracy: OK. So you see the opportunity more of you getting onto more lists as opposed to adding more competition that you're on a list right now?

Mike Dunlap: Yes. The other huge list that I think that everybody needs to take a look at is direct loans. Right now, most direct loan schools don't allow choice and if they really want to get serious about giving the kids choice and doing what's in the best interest of the students and the families, all of those direct loan schools need to provide choice also.

Robert Tracy: OK. And then, just one question, I want to make sure I understand very clearly on the \$2.7 million purchase of the management. You indicated it's a private transaction. Does that mean we will never know what the price is? Or will there be filings that will tell us exactly what the price is on those share buybacks?

Mike Dunlap: When those transactions happen, Form 4's will be filed and you'll see exactly what the price is at that point.

Robert Tracy: OK. Great. Thank you.

Operator: As a final reminder to our audience, that is star one if you do have a question at this time. Star one for questions. We'll hear next from Greg Regan with Avenue Capital.

Greg Regan: Hi. Thanks for taking the question. Just to expand on the fee business, can you talk about in a normalized environment what you expect the margins on the ((inaudible)) business to look like?

Mike Dunlap: I think at this point in time, it's too new in the acquisition of both those to be able to quantify all of the synergies that are going to be created and I think that's probably a good question for a year from now to give us an opportunity to see where all of that opportunity is at. But we're still identifying that on a go forward basis.

Terry Heimes: I think, Greg, what we are going to see is that we move into 2007 and as we start to identify those synergies, those businesses will create the operating leverage that we'd expect and provide opportunity to leverage those fee based businesses into asset generation opportunities and take our existing asset generation opportunities and bring those fee business opportunities in there. So we are going to see the opportunity of leverage, both from a product line, as well as from an operating leverage as we move into 2007.

Greg Regan: Fine. Right. OK. Thank you.

Operator: We'll take our next question from Jay Levy with MacKay Shields.

Jay Levy: Hey, Michael, how are you doing?

Mike Dunlap: Good.

Jay Levy: Thanks for the time. I hate to go back to the insider selling, but just doing a quick back of the envelope, it appears that you have something around 75 percent voting interest post repurchase, is that correct?

Mike Dunlap: Roughly.

Jay Levy: And your other family members, they have approximately 20 percent interest or something, is that correct?

Mike Dunlap: I think that might be a little bit high ...

Jay Levy: OK.

Mike Dunlap: But I don't have those numbers off the top of my head, to be honest with you.

Jay Levy: OK. I guess post these transactions, it's starting to look more and more like a private company. I just wanted to hear your thoughts on that, as well as if you would be willing to elaborate on the breadth of additional management members involved in the 700,000 share sales.

Mike Dunlap: There's a few other management members that are involved. Again, most of the management that's involved are still going to have some very significant stakes in the company

on a go forward basis and for personal reasons and diversification reasons, they made a decision to sell some of their shares.

With respect to the business, being publicly traded, we are focused on creating the best long term value for all of our investors and shareholders in the future and we think that from an investment standpoint, there are probably very few companies that have returned 20 percent the last three years and on a perspective basis, going to return in the mid teens -- 20 percent going forward in the future over a four year timeframe.

And so from a shareholder friendly standpoint, we think this has been a great investment and from my family's perspective, we think it's been a great investment and plan on be in it for a long time in the future.

Jay Levy: OK. All right. Thank you.

Operator: As a final reminder for today's conference if you would like to ask a question at this time, please do so by pressing star then one on your telephone keypad. We'll pause for just a moment.

And seeing no further questions, I would like to turn the conference back over to Mister Mike Dunlap for any closing remarks.

Mike Dunlap: I just was going to mention a couple of things, based on that last question. One of the major shareholders was -- I didn't point out, was Don Bouc is going to sell roughly a half a million shares and he's our President Emeritus that I think you people -- people are aware of. I just wanted to point that out to everybody.

I think the other thing, when we look at the political lightning rod this industry is in right now and look at what Federal Family Education Loan Program has done for schools and students over the last number of decades, I think that you have to look at the direct loan program and say, 'All right. Where is it sitting at today?' And I wanted to point out that if you look at the numbers, the direct loan program has \$105 billion in liabilities and \$89 billion in assets.

And for whatever the credit scoring or the budget scoring shows that they're going to make money in this program, let's look at the facts of what's happened in the last 10 years and they've lost \$16 to \$17 billion and I just wanted to point that out, that the Federal Family Education Loan Program and the public and private partnership we've had to provide access to students and help schools and students and education seeking families plan and pay for their education has been an outstanding program.

Thank you, everybody.

Operator: That does conclude today's conference. Thank you all, once again, for your participation and have a wonderful day.

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