

NELNET INC
Form DEF 14A
April 24, 2006

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 549**

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934

Filed by the Registrant [X]
Filed by a Party other than the Registrant []

Check the appropriate box:

- [] Preliminary Proxy Statement
 [] Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
 [X] Definitive Proxy Statement
 [] Definitive Additional Materials
 [] Soliciting Material Pursuant to §240.14a-12

NELNET, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- [X] No fee required
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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

April 24, 2006

Dear Shareholder:

On behalf of the Board of Directors, we are pleased to invite you to Nelnet, Inc.'s Annual Shareholders Meeting on Thursday, May 25, 2006 at the Embassy Suites hotel, 1040 P Street, Lincoln, Nebraska at 8:30 a.m., Central Time. The notice of the meeting and proxy statement on the following pages contain information about the meeting.

Your participation in the Annual Meeting is important. We hope that you will be able to attend the meeting and encourage you to read the enclosed materials. At the meeting, members of the Company's management team will discuss the Company's results of operations and business plans and will be available to answer your questions. Regardless of whether you plan to attend, we urge you to vote your proxy at your earliest convenience.

Thank you for your support of Nelnet, Inc.

Sincerely,

/s/ Michael S. Dunlap

Michael S. Dunlap
Chairman of the Board of Directors and Co-Chief Executive Officer

Nelnet, Inc.
121 South 13th Street, Suite 201, Lincoln, Nebraska 68508

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NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON MAY 25, 2006

April 24, 2006

TIME AND DATE	8:30 a.m., Central Time, on Thursday, May 25, 2006
PLACE	Embassy Suites Hotel 1040 P Street Lincoln, Nebraska 68508
ITEMS OF BUSINESS	At the Annual Meeting, shareholders will be asked to vote on the following items: (1) Elect the Board of Directors for a term of one year; (2) Ratify the appointment of KPMG LLP as independent auditors for 2006; (3) Approve the Company's Employee Stock Purchase Loan Plan; (4) Approve an amendment to the Company's articles of incorporation to increase the number of authorized shares of Class B common stock to allow for future stock splits; and, (5) Other business if properly introduced.
RECORD DATE	You can vote if you were a shareholder as of the close of business on March 27, 2006.
OTHER INFORMATION	Our 2005 Annual Report and annual report on Form 10-K, which are not part of the proxy soliciting materials, are enclosed.
PROXY VOTING	The Board of Directors solicits your proxy and asks you to vote your proxy at your earliest convenience to be sure your vote is received and counted. The Board of Directors encourages you to attend the meeting in person. Whether or not you plan to attend the meeting, we ask you to sign, date, and mail the enclosed proxy as promptly as possible in order to make sure that your shares will be voted in accordance with your wishes at the meeting. A self-addressed, postage-paid return envelope is enclosed for your convenience. If you attend the meeting, you may vote by proxy or you may revoke your proxy and cast your vote in person. We recommend you vote by proxy even if you plan to attend the meeting.

By Order of the Board of Directors,

/s/ Edward P. Martinez

Edward P. Martinez
Corporate Secretary

Nelnet, Inc.
2006 PROXY STATEMENT
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PROXY STATEMENT

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General Information

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of Nelnet, Inc. (the Company) for the 2006 Annual Meeting of Shareholders (the Annual Meeting) to be held on Thursday, May 25, 2006, at 8:30 a.m., Central Time, at the Embassy Suites hotel, 1040 P Street, Lincoln, Nebraska 68508. The Annual Meeting will be held for the purposes set forth in the notice of such Annual Meeting on the cover page hereof. The Company's 2005 Annual Report and annual report on Form 10-K (neither of which are part of the proxy soliciting materials), this Proxy Statement, and the form of Proxy are being mailed by the Company on or about April 24, 2006. Giving the Board of Directors your proxy means that you authorize representatives of the Board to vote your shares at the Annual Meeting in the manner you specify.

You may vote in person at the Annual Meeting or you may vote by proxy. We recommend that you vote by proxy even if you plan to attend the Annual Meeting. If your ownership is recorded directly, you will receive a proxy card. Voting instructions are included on the proxy card. If your share ownership is beneficial (that is, your shares are held in the name of a bank, broker, or other nominee, referred to as being held in street name), your broker will issue you a voting instruction form that you use to instruct them how to vote your shares. Your broker must follow your voting instructions. Although most brokers and nominees offer mail, telephone, and Internet voting, availability and specific procedures will depend on their voting arrangements.

Your vote is important. For this reason, the Board of Directors is requesting that you permit your common stock to be represented at the Annual Meeting by the individuals named on the enclosed proxy card. This Proxy Statement contains important information for you to consider when deciding how to vote on the matters brought before the Annual Meeting. Please read it carefully.

VOTING

Who Can Vote

You may vote if you owned Nelnet, Inc. Class A common stock, par value \$0.01 per share, or Class B common stock, par value \$0.01 per share, as of the close of business on March 27, 2006 (the record date). At the close of business on March 27, 2006, 40,412,941 and 13,942,954 shares of the Company's Class A and Class B common stock, respectively, were outstanding and eligible to vote. The Class A common stock is listed on the New York Stock Exchange, under the symbol NNI. The Class B common stock is not listed on any exchange or market. At the Annual Meeting, each Class A and Class B shareholder will be entitled to one and 10 vote(s), respectively, in person or by proxy, for each share of common stock owned of record at the close of business on March 27, 2006. The stock transfer books of the Company will not be closed. The Secretary of the Company will make a complete record of the shareholders entitled to vote at the Annual Meeting available for inspection by any shareholder from May 15, 2006 through the date of the Annual Meeting at its headquarters in Lincoln, Nebraska at any time during usual business hours. Such records will also be available for inspection at the Annual Meeting.

As a matter of policy, the Company keeps private all proxies, ballots, and voting tabulations that identify individual shareholders. Such documents are available for examination only by certain representatives associated with processing proxy cards and tabulating the vote. No vote of any shareholder is disclosed, except as may be necessary to meet legal requirements.

How You Vote

You have two voting options:

By mail by completing, signing, dating, and returning the enclosed proxy card; or

By attending the Annual Meeting and voting your shares in person.

Even if you plan to attend the Annual Meeting, we encourage you to vote your shares by proxy. If you choose to attend the meeting, please bring proof of identification for entrance to the Annual Meeting.

If your Nelnet, Inc. shares are held in street name, your broker will issue you a voting instruction form. If you want to vote Nelnet, Inc. shares that you hold in street name at the Annual Meeting, you must request a legal proxy from your bank, broker, or other nominee that is the record holder of your shares and present that proxy and proof of identification for entrance to the meeting.

What Items Require Your Vote

There are four proposals that will be presented for your consideration at the meeting:

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Electing nine directors for a term of one year;

Ratifying the appointment of KPMG LLP as the Company's independent auditors for 2006;

Approving the Company's Employee Stock Purchase Loan Plan; and

Approving an amendment to the Company's articles of incorporation to increase the number of authorized shares of Class B common stock to allow for future stock splits.

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Each of the proposals has been submitted on behalf of the Company's Board of Directors.

How You Can Change Your Vote

A shareholder whose ownership is recorded directly has the power to change or revoke a proxy prior to the final vote at the Annual Meeting by either giving written notice of revocation to the Corporate Secretary, submitting a new signed proxy card with a later date, or attending the Annual Meeting and voting in person. However, your attendance at the Annual Meeting will not automatically revoke your proxy; you must specifically revoke your proxy.

A shareholder whose shares are owned beneficially through a bank, broker, or other nominee must contact that entity to change or revoke a previously given proxy.

Quorum Needed To Hold the Meeting

In order to conduct the Annual Meeting, a majority of the Company's shares entitled to vote must be present in person or by proxy. This is called a quorum. If you return valid proxy instructions or vote in person at the Annual Meeting, you will be considered part of the quorum. Abstentions and broker non-votes will be counted as present and entitled to vote for purposes of determining a quorum. New York Stock Exchange rules allow banks, brokers, and other nominees to vote shares held by them for a customer on matters that the New York Stock Exchange determines to be routine, even though the bank, broker, or nominee has not received instructions from the customer. A broker non-vote occurs when a bank, broker, or other nominee has not received voting instructions from the customer and the bank, broker, or nominee cannot vote the shares because the matter is not considered routine under New York Stock Exchange rules.

Under New York Stock Exchange rules, the proposed amendment to the articles of incorporation to increase the authorized number of shares of Class B common stock and the proposed Employee Stock Purchase Loan Plan will not be considered to be routine matters, and banks, brokers, and other nominees who are members of the New York Stock Exchange will not be permitted to vote shares held by them for a customer on those proposals without instructions from the beneficial owner of the shares.

Counting Your Vote

If you provide specific voting instructions, your shares will be voted as instructed. If you hold shares in your name and sign and return a proxy card without giving specific voting instructions, your shares will be voted as recommended by our Board of Directors. If you hold your shares in your name and do not return valid proxy instructions or do not vote in person at the Annual Meeting, your shares will not be voted. If you hold your shares in the name of a bank, broker, or other nominee, and you do not give that nominee instruction on how you want your shares to be voted, the nominee has the authority to vote your shares on the election of directors and ratification of the appointment of KPMG LLP as independent auditors. However, as previously discussed, the nominee will not be permitted to vote your shares on the proposed amendment to the articles of incorporation or on the Employee Stock Purchase Loan Plan.

Giving the Board your proxy also means that you authorize their representatives to vote on any other matter presented at the Annual Meeting in such manner as they determine best. The Company does not know of any other matters to be presented at the Annual Meeting as of the date of this Proxy Statement.

What Vote is Needed

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Directors are elected by a plurality of the votes cast at the Annual Meeting. Plurality means that the nominees receiving the largest number of votes cast are elected as directors up to the maximum number of directors to be elected at the Annual Meeting. At our Annual Meeting, the maximum number of directors to be elected is nine. Shares not voted, whether marked **WITHHOLD AUTHORITY** on your proxy card or otherwise, will have no impact on the election of directors. Unless a properly executed proxy card is marked **WITHHOLD AUTHORITY** as to any or all nominees, the proxy given will be voted **FOR** each of the nominees for director.

With respect to the election of directors, shareholders of the Company, or their proxy if one is appointed, have cumulative voting rights under the laws of the State of Nebraska. That is, shareholders, or their proxy, may vote their shares for as many directors as are to be elected, or may cumulate such shares and give one nominee as many votes as the number of directors to be elected multiplied by the number of their shares, or may distribute votes on the same principle among as many nominees as they may desire. If a shareholder desires to vote cumulatively, he or she must vote in person or give his or her specific cumulative voting instructions to the designated proxy that the number of votes represented by his or her shares are to be cast for one or more designated nominees.

A majority of votes cast at the meeting is required to approve Proposal 2 (ratifying the appointment of KPMG LLP). Abstentions and broker non-votes will not be counted as votes cast for the proposal, however, they will be counted for purposes of determining whether there is a quorum (as discussed previously). Accordingly, an abstention or non-vote will have the effect of a negative vote.

With respect to Proposal 3 (approval of the Employee Stock Purchase Loan Plan), New York Stock Exchange rules provide that approval of the Plan requires the affirmative vote of a majority of the votes cast on the Plan, and that the total votes cast represent

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over 50% in interest of all shares entitled to vote on the Plan. Holders of shares of Class A common stock and holders of shares of Class B common stock will vote together on the Plan as a single class. Abstentions and broker non-votes are not affirmative votes and thus will have the same effect as a vote against approval of the Plan.

With respect to Proposal 4 (the amendment to the Company's articles of incorporation to increase the number of authorized shares of Class B common stock to allow for future stock splits), provisions of the Nebraska Business Corporation Act and the Company's articles of incorporation require that the amendment to the articles of incorporation to increase the number of authorized shares of Class B common stock be approved by the affirmative votes of the holders of a majority in voting power of the shares of Class A common stock and of the shares of Class B common stock entitled to vote thereon, with the holders of the shares of Class A common stock and the holders of the shares of Class B common stock voting as separate voting groups. Abstentions and broker non-votes are not affirmative votes and thus will have the same effect as a vote against the proposal.

Our Voting Recommendations

Our Board of Directors recommends that you vote:

FOR each of our nominees to the Board of Directors;

FOR ratification of the appointment of KPMG LLP as our independent auditors;

FOR approval of the Company's Employee Stock Purchase Loan Plan; and

FOR approval of an amendment to the Company's articles of incorporation to increase the number of authorized shares of Class B common stock to allow for future stock splits.

A proxy, when executed and not revoked, will be voted in accordance with the authorization contained therein. Unless a shareholder specifies otherwise, all shares represented will be voted in accordance with our Board of Directors' recommendations.

Voting Results

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The preliminary voting results will be announced at the Annual Meeting. The final voting results will be published in our quarterly report on Form 10-Q for the second quarter of fiscal year 2006.

Cost of This Proxy Solicitation

The Company will pay the cost of soliciting proxies, including the preparation, assembly, and mailing of material. Directors, officers, and regular employees of the Company may solicit proxies by telephone, electronic communications, or personal contact, for which they will not receive any additional compensation in respect of such solicitations. The Company will also reimburse brokerage firms and others for all reasonable expenses for forwarding proxy materials to beneficial owners of the Company's stock.

CORPORATE PERFORMANCE

The Company's 2005 Annual Report to shareholders and annual report on Form 10-K are included in the mailing with this Proxy Statement. We encourage you to read these items carefully.

The following graph compares the change in the cumulative total shareholder return on the Company's Class A common stock to that of the cumulative return of the Dow Jones U.S. Total Market Index and the Dow Jones U.S. Financial Services Index. The graph assumes that the value of an investment in the Company's Class A common stock and each index was \$100 on December 11, 2003 (the date of the Company's initial public offering of its Class A common stock), and that all dividends, if applicable, were reinvested. The performance shown in the graph represents past performance and should not be considered an indication of future performance.

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<u>Company/Index</u>	<u>12/11/2003</u>	<u>12/31/2003</u>	<u>12/31/2004</u>	<u>12/31/2005</u>
Nelnet, Inc.	\$ 100.00	\$ 102.75	\$ 123.53	\$ 186.61
Dow Jones U.S. Total Market Index	\$ 100.00	\$ 103.71	\$ 116.17	\$ 123.52

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Company/Index	12/11/2003	12/31/2003	12/31/2004	12/31/2005
Dow Jones U.S. Financial Services Index	\$ 100.00	\$ 103.63	\$ 118.41	\$ 128.33

PROPOSAL 1 - ELECTION OF DIRECTORS

Nominees

Shareholders are asked to elect nine directors to serve on the Board for a one-year term or until their successors are elected or appointed.

Upon the recommendation of the Nominating and Corporate Governance Committee of the Board, the Board has nominated each of the current directors for reelection.

The Board of Directors recommends that shareholders vote FOR the election of each nominee (named below) to the Board of Directors. Proxies will be so voted unless shareholders specifically withhold authority to vote for a nominee on their proxy card.

In the event that any nominee becomes unavailable for election for any reason, the shares represented by proxy will be voted for any substitute nominees designated by the Board, unless the proxy withholds authority to vote for all nominees. The Board of Directors knows of no reason why any of the persons nominated to be directors might be unable to serve if elected and each nominee has expressed an intention to serve if elected. There are no arrangements or understandings between any of the nominees and any other person pursuant to which any of the nominees was selected as a nominee.

Following are the names of the nine nominees to serve as director, together with: their ages, the year during which they were first elected a director of the Company, their principal occupation(s) during the past five years, and any other directorships they hold with publicly-held companies (if applicable).

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Name, Age, and Service as a Director	Principal Occupation(s) and Other Directorships
Michael S. Dunlap, 42 Director since January 1996	Chairman and Co-Chief Executive Officer, Nelnet, Inc. Chairman and Co-Chief Executive Officer, Nelnet, Inc., August 2003 present; President and sole Chief Executive Officer, December 2001 August 2003; Chairman of the Company's predecessor in interest, January 1996 December 2001 President and Director, Farmers & Merchants Investment Inc. (F&M), the parent of Union Bank and Trust Company (Union Bank), January 1995 present (F&M is an affiliate of the Company) Non-Executive Chairman, Union Bank, August 2003 present; Chief Executive Officer, January 2001 August 2003; Executive Vice President, January 1993 January 2001 (Union Bank is an affiliate of the Company)
Stephen F. Butterfield, 53 Director since January 1996	Vice-Chairman and Co-Chief Executive Officer, Nelnet, Inc. Co-Chief Executive Officer, Nelnet, Inc., August 2003 present; Vice-Chairman, March 2000 present; Vice-Chairman of the Company's predecessor in interest, January 1996 March 2000 President, Student Loan Acquisition Authority of Arizona, January 1989 February 2000
James P. Abel, 55 Director since August 2003	Chief Executive Officer, NEBCO, Inc. Chief Executive Officer, NEBCO, Inc., a company with interests in the manufacture of building materials, construction, insurance, mining, railroading, farming, and real estate, 2004 present; President and Chief Executive Officer, 1983 2004 Director, UNIFI Mutual Holding Company, Ameritas Holding Company, Ameritas Life Insurance Corp., and AMAL Corporation

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Name, Age, and Service as a Director	Principal Occupation(s) and Other Directorships
Don R. Bouc, 59 Director since March 2000	President Emeritus, Nelnet, Inc. President Emeritus, Nelnet, Inc., January 2005 – present; President, March 2000 – January 2005 President, National Education Loan Network, Inc., a subsidiary of Nelnet, Inc., May 1997 – March 2001
Thomas E. Henning, 53 Director since August 2003	President and Chief Executive Officer, Assurity Security Group, Inc. and its subsidiaries, Security Financial Life Insurance Company and Assurity Life Insurance Company President and Chief Executive Officer, Assurity Security Group, Inc. and its subsidiaries, Security Financial Life Insurance Company and Assurity Life Insurance Company, 1990 – present Director, Pine Lake Advisors, a subsidiary of Security Financial Life Insurance Company
Arturo R. Moreno, 59 Director since August 2003	Chief Executive Officer, Angels Baseball LP Chief Executive Officer, Angels Baseball LP, a sports management company, May 2003 – present President, Chief Operating Officer, and Director, Outdoor Systems, Inc., an outdoor advertising organization, 1984 – 1999
Brian J. O Connor, 50 Director since August 2003	Senior Vice-President, Hutchinson, Shockey, Erley & Co. Senior Vice-President, Hutchinson, Shockey, Erley & Co., which underwrites and trades securities for various local governments, 1997 – present
Michael D. Reardon, 53 Director since December 2003	Chairman, HyperFlo LLC Chief Executive Officer, Provision Communications, LLC Chairman, HyperFlo, LLC, a manufacturer of precision cleaning equipment, 1997 – present Chief Executive Officer, Provision Communications, LLC, a telecommunications company, January 2004 – present
James H. Van Horn, 53 Director since March 2001	President and Chief Executive Officer, InTuition Development Holdings, LLC President and Chief Executive Officer, InTuition Development Holdings, LLC, a records administration company, June 2003 – present (InTuition Development Holdings, LLC is not affiliated with Nelnet, Inc.) Executive Director, Nelnet, Inc., October 2002 – May 2003; Senior Vice-President, March 2000 – October 2002 President, InTuition, Inc., 1998 – May 2003 (Nelnet, Inc. purchased InTuition, Inc. in June 2000)

CORPORATE GOVERNANCE

Code of Business Conduct and Ethics for Directors, Officers, and Employees

The Company has a written code of business conduct and ethics. The Company's existing code of conduct applies to all of the Company's directors, officers, and employees, including the Company's Co-Chief Executive Officers and Chief Financial Officer, and is designed to promote ethical and legal conduct. Among other items, the guidelines address the ethical handling of actual or potential conflicts of interest, compliance with laws, accurate financial reporting, and procedures for promoting compliance with, and reporting violations of, the code. This code is available on the Company's Web site at www.nelnetinvestors.net under Corporate Governance.

Board Composition and Director Independence

The Board of Directors is composed of a majority of independent directors as defined by the rules of the New York Stock Exchange. A director does not qualify as an independent Director unless the Board has determined pursuant to applicable legal and regulatory requirements that such Director has no material relationship with the Company (either directly or as a partner, shareholder, or officer of an organization that has a

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relationship with the Company). The Nominating and Corporate Governance Committee reviews compliance with the definition of independent Director annually.

In 2005, the Board evaluated commercial, consulting, charitable, familial, and other relationships with each of its directors and entities with respect to which they are an executive officer, partner, member, and/or significant shareholder. As part of this evaluation, the Board noted that none of the Directors received any consulting, advisory, or other compensatory fees from the Company (other than for services as a Director) or is a partner, member, or principal of an entity that provided accounting, consulting, legal, investment banking, financial, or other advisory services to the Company. Based on this independence review and evaluation, and on other facts and circumstances the Board deemed relevant, the Board, in its business judgment, determined that all of the Company's directors and nominees are independent, with the exception of Messrs. Dunlap, Butterfield, and Bouc, who are all current employees of the Company, and Mr. Van Horn, who is a former employee of the Company. Mr. Van Horn has not been employed by the Company since May 15, 2003. The Board has determined that Mr. Van Horn will be considered an independent director, as defined by the rules of the New York Stock Exchange, upon the expiration of the three-year employment cooling off period under New York Stock Exchange rules on May 15, 2006.

Our independent directors are responsible for reviewing and approving all new transactions, and any material amendments or modifications to existing transactions, between the Company and Union Bank or any other affiliated party. See CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Governance Guidelines of the Board

The Board's governance is guided by the Company's Corporate Governance Guidelines. The Board's current guidelines are available at the Company's Web site at www.nelnetinvestors.net under Corporate Governance. Among other matters, the guidelines include the following:

A majority of the members of the Board must be independent directors.

All directors stand for re-election every year.

The Board undertakes an annual self-review.

The Board and each Board Committee has the authority to engage independent or outside counsel, accountants, or other advisors, as it determines to be necessary or appropriate. All related fees and costs of such advisors are paid by the Company.

Board members have open communication with all members of management and counsel.

Non-Employee Directors meet in executive session, without the presence of management. Mr. Reardon, who is chairman of the Nominating and Corporate Governance Committee, presides at these executive sessions. Anyone who has concern about the Company may communicate that concern directly to these Non-Employee Directors. Such communication may be mailed to the Corporate Secretary at 121 South 13th Street, Suite 201, Lincoln, Nebraska 68508. All such communications will be forwarded to the appropriate Non-Employee Directors for their review. The Non-Employee Directors may take any action deemed appropriate or necessary, including the retention of independent or outside counsel, accountants, or other advisors, with respect to any such communication addressed to them. No adverse action will be taken against any individual making any such communication to the Non-Employee Directors.

Board Committees

The Board uses committees to assist it in the performance of its duties. The standing committees of the Board are the Audit Committee, Compensation Committee, Nominating and Corporate Governance Committee, and Executive Committee. Each committee, other than the Executive Committee, is composed entirely of independent directors. The purposes of the Audit Committee, Compensation Committee, and Nominating and Corporate Governance committee and their current members are set forth below.

Audit Committee - The Audit Committee operates pursuant to a formal written charter, approved by the Board, which sets forth the committee's functions and responsibilities. The Audit Committee Charter is posted on the Company's Web site at www.nelnetinvestors.net under Corporate Governance - Committees.

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The Audit Committee is composed of Messrs. Henning, O Connor, and Reardon. The Committee held 11 meetings in 2005. Each member of the Audit Committee is (1) independent in accordance with the rules and regulations of the New York Stock Exchange and the rules and regulations of the Securities and Exchange Commission and (2) sufficiently financially literate to enable him to discharge the responsibilities of an Audit Committee member. Mr. Henning has accounting and related financial management expertise and serves as the committee's audit committee financial expert, as defined in the applicable rules and regulations of the Securities and Exchange Commission.

The Audit Committee provides assistance to the Board of Directors in its oversight of the integrity of the Company's financial statements, the Company's system of internal controls, the Company's risk management, the qualifications and independence of the Company's independent auditor, the performance of the Company's internal and independent auditors, and the Company's compliance with other regulatory and legal requirements. The Audit Committee discusses with management and the independent auditor the Company's annual audited financial statements, including the Company's disclosures made under Management's Discussion and Analysis of Financial Condition and Results of Operations in its filings with the Securities and Exchange Commission, and recommends to the Board of Directors whether such audited financial statements should be included in the Company's annual report on Form 10-K. The Audit Committee also selects the independent auditors for the next year and presents such selection to the shareholders for ratification.

Compensation Committee-The Compensation Committee operates pursuant to a formal written charter, approved by the Board, which sets forth the committee's functions and responsibilities. The Compensation Committee Charter is posted on the Company's Web site at www.nelnetinvestors.net under Corporate Governance - Committees.

The Compensation Committee is composed of Messrs. Abel, Moreno, and Reardon. The Committee held five meetings in 2005. The members of the Compensation Committee are (1) independent as determined in accordance with the rules and regulations of the New York Stock Exchange, (2) Non-Employee Directors as defined in Rule 16b-3 promulgated under Section 16 of the Securities Exchange Act of 1934, and (3) Outside Directors within the meaning of Section 162(m) of the Internal Revenue Code of 1986. The Compensation Committee oversees the Company's compensation and benefit policies. The Company's compensation policies are designed with the goal of maximizing shareholder value over the long term. The Compensation Committee believes that this goal is best realized by utilizing a compensation program which serves to attract and retain superior executive talent by providing management with performance-based incentives and closely aligning the financial interests of management with those of the Company's shareholders. The Company's compensation program combines two components: base salary and performance payments. The level of compensation is based on numerous factors, including achievement of results and financial objectives established by the Compensation Committee and the Board of Directors. Salary and performance payments are reviewed regularly for competitiveness and are determined in large part by reference to compensation levels for comparable positions at comparable companies.

Nominating and Corporate Governance Committee-The Nominating and Corporate Governance Committee operates pursuant to a formal written charter, approved by the Board, which sets forth the committee's functions and responsibilities. The Nominating and Corporate Governance Committee Charter is posted on the Company's Web site at www.nelnetinvestors.net under Corporate Governance - Committees.

The Nominating and Corporate Governance Committee is composed of Messrs. Henning, O Connor, and Reardon. The Committee held five meetings in 2005. The members of the Nominating and Corporate Governance Committee are independent as determined in accordance with the rules and regulations of the New York Stock Exchange. The Nominating and Corporate Governance Committee is responsible for identifying and recommending qualified nominees to serve on the Company's Board of Directors, identifying members of the Board to serve on each Board committee, overseeing the evaluation by the Board of itself and its committees, identifying individuals to serve as officers of the Company and recommending such individuals to the Board, as well as developing and overseeing the Company's internal corporate governance processes. The Company's Corporate Governance Guidelines establish criteria for specific qualities and skills to be considered by the Nominating and Corporate Governance Committee as necessary for the Company's directors to possess. This criteria includes, among other items, independence, diversity, integrity, understanding the Company's corporate philosophy, valid business or professional knowledge, proven record of accomplishment with excellent organizations, ability to challenge and stimulate management, and willingness to commit time and energy. The Nominating and Corporate Governance Committee has been given the responsibility to take all reasonable steps to identify and evaluate nominees for director and has adopted a policy requiring it to consider written proposals for director nominees received from shareholders of the Company. No such proposals were received during 2005 from a beneficial owner of more than 5% of Nelnet's stock (other than current management). There is no difference in the manner in which the committee evaluates director nominees based on whether the nominee is recommended by a shareholder. All of the nominees identified in the Company's proxy card are up for re-election and have been recommended by the Committee.

When seeking candidates for director, the Nominating and Corporate Governance Committee solicits suggestions from incumbent directors, management, shareholders, and others. The Committee has authority under its charter to retain a search firm for this purpose. If the Committee believes a candidate would be a valuable addition to the Board of Directors, it recommends his or her candidacy to the full Board of Directors.

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The Company's By-Laws include provisions setting forth the specific conditions under which persons may be nominated by shareholders as directors at an annual meeting of shareholders. The provisions include the condition that nominee proposals from shareholders must be in writing and that shareholders comply with the time-frame requirements described under OTHER SHAREHOLDER MATTERS - Shareholder Proposals for 2007 Annual Meeting for shareholder proposals not included in the Company's Proxy Statement. A copy of such provisions is available upon written request to: Nelnet, Inc., 121 South 13th Street, Suite 201, Lincoln, Nebraska 68508, Attention: Corporate Secretary. The Corporate By-Laws are also posted on the Company's Web site at www.nelnetinvestors.net under Corporate Governance - Corporate Documents.

Executive Committee - The Executive Committee is composed of Messrs. Dunlap, Butterfield, Bouc, and O Connor. The Executive Committee, established by the Board of Directors, exercises all of the powers of the full Board in the management of the business and affairs of the Company, subject only to limitations as the Board of Directors may impose from time to time, or as limited by applicable law. There were no meetings of the Executive Committee in 2005.

Meetings of the Board

The Board of Directors held five meetings in 2005. All directors attended at least 75% of the meetings of the Board and committees on which they serve, except for Mr. Moreno, who was not able to do so due to business and other conflicts.

Compensation of Directors

Non-Employee Directors receive an annual retainer of \$50,000. The Company also pays an additional annual retainer of \$10,000 to those Non-Employee Directors who serve on each of the Audit Committee, the Compensation Committee, the Nominating and Corporate Governance Committee, or the Executive Committee, as applicable. Beginning in 2006, the chairman of the Audit Committee will be paid an additional \$10,000 annual retainer fee. Non-Employee Directors also earn a fee of \$1,000 for each Board meeting attended and \$1,000 for each committee meeting attended. Directors who are employees of the Company do not receive any consideration for participation in Board meetings or committee meetings.

Prior to the Company's December 2003 initial public offering of its Class A common stock, the Board of Directors adopted, and the shareholders approved, a share-based compensation plan for Non-Employee Directors pursuant to which Non-Employee Directors can elect to receive their annual retainer fees in the form of cash or the Company's Class A common stock. Up to 100,000 shares may be issued under the plan, subject to antidilution adjustments in the event of certain changes in the Company's capital structure. If a Non-Employee Director elects to receive Class A common stock, the number of shares of Class A common stock that will be awarded will be equal to the amount of the annual retainer fee otherwise payable in cash divided by 85% of the fair market value of a share of Class A common stock on the date the fee is payable. Non-Employee Directors who choose to receive Class A common stock may also elect to defer receipt of the Class A common stock until termination of their service on the Board of Directors. Any dividends paid in respect of deferred shares during the deferral period will also be deferred in the form of additional shares and paid out at termination from the Board of Directors. For 2005, each of the Non-Employee Directors elected to receive their annual retainer fees in the form of the Company's Class A common stock per the provisions of this plan.

This plan may be amended or terminated by the Board of Directors at any time, but no amendment or termination will adversely affect a Non-Employee Director's rights with respect to previously deferred shares without the consent of the Non-Employee Director.

EXECUTIVE OFFICERS

Under the Company's By-Laws, each executive officer holds office for a term of one year or until their successor is elected and qualified. The executive officers of the Company are elected by the Board of Directors at its annual meeting immediately following the annual meeting of shareholders.

The following sets forth the executive officers of the Company, their names, their ages, their positions with the Company, and if different, their business experience during the last five years.

See PROPOSAL 1-ELECTION OF DIRECTORS-Nominees for biographical information regarding Messrs. Dunlap and Butterfield.

Name and Age

Position and Business Experience

David A. Bottegal, 49

Chief Executive Officer, Nelnet Education Services, a division of Nelnet, Inc., January 2006 - present
Executive Director, Nelnet, Inc., October 2002 - present; Chief Marketing Officer, October 2002 - January 2006
Senior Vice President, National Education Loan Network, Inc., a subsidiary of Nelnet, Inc., September 2001 - October 2002
Vice President of Sales and Marketing, Sallie Mae, Inc., 1998 - 2001

<u>Name and Age</u>	<u>Position and Business Experience</u>
Raymond J. Ciarvella, 49	Executive Director and Chief Technology Officer, Nelnet, Inc., May 2003 – present; Executive Director, March 2000 - May 2003; Chief Operating Officer, September 1993 – March 2000
Todd M. Eicher, 36	Chief Mergers and Acquisitions Officer, Nelnet, Inc., May 2005 – present; Executive Director, May 2003 – present; Senior Vice President, July 1997 – May 2003
Matthew D. Hall, 46	Chief Operating Officer, Nelnet Education Services, a division of Nelnet, Inc., January 2006 – present Executive Director, Nelnet, Inc., October 2002 – present Senior Vice President, National Education Loan Network, Inc., a subsidiary of Nelnet, Inc., 1992 – October 2002
Terry J. Heimes, 41	Executive Director and Chief Financial Officer, Nelnet, Inc., March 2001 – present Executive Vice President, National Education Loan Network, Inc., a subsidiary of Nelnet, Inc., March 2001 – October 2002; Vice President of Finance, October 1998 – March 2001
Edward P. Martinez, 52	Executive Director, Chief Legal Officer, and Corporate Secretary, Nelnet, Inc., August 2003 – present; General Counsel, April 1989 – present
Jeffrey R. Noordhoek, 40	President, Nelnet, Inc., January 2006 - present; Executive Director and Capital Markets Officer, October 2002 – January 2006; Vice President, January 1996 – March 2001 Senior Vice President, National Education Loan Network, Inc., a subsidiary of Nelnet, Inc., March 2001 – October 2002
Evan J. Roth, 44	Executive Director and Chief Learning Officer, Nelnet, Inc., October 2005 – present; Managing Director of Organizational Development, October 2004 – October 2005; Managing Director of Loan Services, April 2003 – October 2004 Controller, Latin America, JD Edwards, an international software company, June 2001 – April 2003 General Manager and Chief Financial Officer, ASG – Safari Solutions, an international business intelligence software and services provider, August 1994 – June 2001
Cheryl E. Watson, 45	Executive Director and Chief Communications Officer, Nelnet, Inc., September 2004 – present; Executive Director, October 2002 – September 2004 Executive Vice President, National Education Loan Network, Inc., a subsidiary of Nelnet, Inc., April 2002 – October 2002 Vice President and Treasurer, Sallie Mae, Inc., August 2000 – June 2001 President and Chief Financial Officer, USA Group Secondary Market Services, Inc., January 2000 – June 2001; various manager and officer positions, May 1988 – December 2000

EXECUTIVE COMPENSATION

Summary Compensation Table

The following table sets forth summary information relating to the fiscal years ended December 31, 2005, 2004, and 2003, with respect to the compensation paid and bonuses granted for services rendered to the Company's Co-Chief Executive Officers as well as each of the Company's other four most highly compensated executive officers during the year ended December 31, 2005 (collectively, the Named Executive Officers). Salaries and bonuses are paid at the discretion of the Board of Directors.

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Name and principal position	Year	Annual compensation (a)			All other compensation (\$ (d))
		Salary (\$)	Bonus (\$ (b))	Other (\$ (c))	
Michael S. Dunlap	2005	500,559	1,142,300		8,940
Co-Chief Executive Officer	2004	323,456(e)			