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Information Required of Brokers and Dealers  
Pursuant to Section 17 of the Securities Exchange Act of 1934  
and Rule 17a-5 Thereunder

ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III

SEC FILE NO.  
8-52501

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3/9

REPORT FOR THE PERIOD BEGINNING January 1, 2006 AND ENDING December 31, 2006  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

Nelnet Capital, L.L.C

ADDRESS OF PRINCIPAL PLACE OF BUSINESS:  
(Do not use P.O. Box No.)

121 South 13<sup>th</sup> Street

Lincoln

(City)

Nebraska

(State)

68508

(Zip Code)

PROCESSED

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THOMSON  
FINANCIAL

Official Use Only  
FIRM ID. NO.

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Chad Melcher

(402) 323-1194

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*  
(Name - if individual, state last, first, middle name)

KPMG LLP

233 South 13<sup>th</sup> Street, Suite 1600  
(ADDRESS) Number and Street

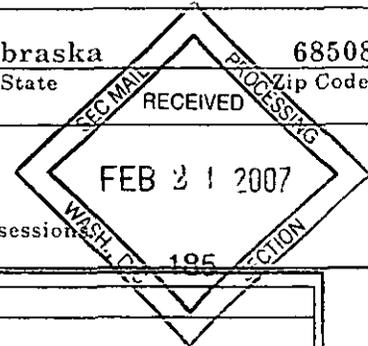
Lincoln  
City

Nebraska  
State

68508  
Zip Code

CHECK ONE:

- Certified Public Accountant
- Public Accountant
- Accountant not resident in United States or any of its possessions



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\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

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OATH OR AFFIRMATION

I, Chad B. Melcher, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statements and supporting schedules pertaining to the firm of Netnet Capital, L.L.C. as of December 31, 2006, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer [EXCEPT AS FOLLOWS:].

*[Signature]*  
Name  
Title Chad B. Melcher  
FINOP & Managing Director

*[Signature]*  
Notary Public



This report \*\* contains (check all applicable boxes):

- (a) Facing Page
- (b) Statement of Financial Condition
- (c) Statement of Income
- (d) Statement of Cash Flows
- (e) Statement of Changes in Stockholder's Equity of Partners' or Sole Proprietor's Capital
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors N/A - Company has no such liabilities.
- (g) Computation of Net Capital
- (h) Computation for Determination of Reserve Requirement Pursuant to Rule 15c3-3 N/A
- (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3
- (j) A Reconciliation, including appropriate explanation, of the computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A Rule 15c3-3 N/A
- Schedule of Segregation Requirements and Funds in Segregation Pursuant to Commodity Exchange Act N/A
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation N/A - These are not consolidated financial statements.
- (l) An Oath or Affirmation
- (m) A Copy of the SIPC Supplemental Report N/A
- (n) A Report describing any material inadequacies found to exist or found to have existed since the date of the previous audit N/A
- (o) Independent Auditors' Report on Internal Accounting Control Required by SEC Rule 17a-5

\*\* For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3)



**KPMG LLP**  
Suite 1501  
Two Central Park Plaza  
Omaha, NE 68102

Suite 1600  
233 South 13th Street  
Lincoln, NE 68508-2041

## **Independent Auditors' Report**

The Members  
Nelnet Capital, L.L.C. and Subsidiary:

We have audited the accompanying consolidated statements of financial condition of Nelnet Capital, L.L.C. and subsidiary (the Company) as of December 31, 2006 and 2005, and the related consolidated statements of income, members' equity, and cash flows for the years then ended, that you are filing pursuant to rule 17a-5 under the Securities Exchange Act of 1934. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Nelnet Capital, L.L.C. and subsidiary as of December 31, 2006 and 2005, and the results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information contained in the schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

**KPMG LLP**

Lincoln, Nebraska  
February 10, 2007

**NELNET CAPITAL, L.L.C. AND SUBSIDIARY**

Consolidated Statements of Financial Condition

December 31, 2006 and 2005

<b>Assets</b>	<b>2006</b>	<b>2005</b>
Cash and cash equivalents	\$ 6,778,287	6,158,194
Cash and cash equivalents – held at related party	572,330	846,349
Restricted cash—required balance accounts	103,808	103,887
Prepaid expenses and other receivables	904,696	265,283
Furniture and equipment, at cost, less accumulated depreciation of \$3,204 in 2006 and \$2,622 in 2005	1,071	1,653
Total assets	<u>\$ 8,360,192</u>	<u>7,375,366</u>
<b>Liabilities and Members' Equity</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 458,194	477,626
Member's equity:		
Contributed capital	550,000	550,000
Retained earnings	7,351,998	6,347,740
Total members' equity	7,901,998	6,897,740
Commitments		
Total liabilities and members' equity	<u>\$ 8,360,192</u>	<u>7,375,366</u>

See accompanying notes to consolidated financial statements.

**NELNET CAPITAL, L.L.C. AND SUBSIDIARY**

Consolidated Statements of Income

Years ended December 31, 2006 and 2005

	2006	2005
<b>Revenues:</b>		
Co-manager fee income	\$ —	1,338,746
Commissions, net of commissions incurred of \$1,848,427 in 2006 and \$1,673,411 in 2005	776,346	944,404
Placement fee income	1,722,919	923,225
Investment advisory fees	209,508	348,779
Interest income	393,878	176,753
Underwriting fees	1,319,454	100,000
Other revenue	20,040	4,213
Total revenues	4,442,145	3,836,120
<b>Expenses:</b>		
Employee compensation and benefits	—	723,864
Management fees	1,029,488	—
General and administration	560,714	612,097
Professional services	59,284	56,417
Consulting fees	44,000	47,900
Interest expense	101,083	33,082
Licenses and registration	29,284	14,612
Communications, occupancy, and data processing	10,627	13,796
Total expenses	1,834,480	1,501,768
Net income	\$ 2,607,665	2,334,352

See accompanying notes to consolidated financial statements.

**NELNET CAPITAL, L.L.C. AND SUBSIDIARY**

Consolidated Statements of Members' Equity

Years ended December 31, 2006 and 2005

	<u>Contributed capital</u>	<u>Retained earnings</u>	<u>Members' equity</u>
Balance at December 31, 2004	\$ 550,000	4,163,388	4,713,388
Net income	—	2,334,352	2,334,352
Distributions to parent	—	(150,000)	(150,000)
Balance at December 31, 2005	550,000	6,347,740	6,897,740
Net income	—	2,607,665	2,607,665
Distributions to parent	—	(1,603,407)	(1,603,407)
Balance at December 31, 2006	<u>\$ 550,000</u>	<u>7,351,998</u>	<u>7,901,998</u>

See accompanying notes to consolidated financial statements.

**NELNET CAPITAL, L.L.C. AND SUBSIDIARY**

Consolidated Statements of Cash Flows

Years ended December 31, 2006 and 2005

	2006	2005
Cash flows from operating activities:		
Net income	\$ 2,607,665	2,334,352
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	582	1,554
Loss on sale of furniture and equipment	—	1,438
(Increase) decrease in operating assets:		
Prepaid expenses and other receivables	(639,413)	143,114
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(19,432)	127,636
Net cash provided by operating activities	1,949,402	2,608,094
Cash flows from investing activities:		
Restricted cash—required balance accounts	79	(803)
Proceeds from sale of furniture and equipment	—	3,516
Net cash provided by investing activities	79	2,713
Cash used in financing activities:		
Proceeds from short-term borrowings	21,000,000	10,000,000
Payments on short-term borrowings	(21,000,000)	(10,000,000)
Distributions to parent	(1,603,407)	(150,000)
Net cash used in financing activities	(1,603,407)	(150,000)
Net increase in cash and cash equivalents	346,074	2,460,807
Cash and cash equivalents at beginning of year	7,004,543	4,543,736
Cash and cash equivalents at end of year	\$ 7,350,617	7,004,543
Supplemental disclosure of cash flow information:		
Interest paid	\$ 101,083	33,082

See accompanying notes to consolidated financial statements.

## NELNET CAPITAL, L.L.C. AND SUBSIDIARY

### Notes to Consolidated Financial Statements

December 31, 2006 and 2005

#### (1) Organization and Nature of Business

Nelnet Capital, L.L.C. and subsidiary (the Company) is a broker-dealer registered under the Securities and Exchange Commission (the SEC) and is a member of the National Association of Securities Dealers (NASD). The registration is necessary for the Company to conduct its investment brokerage activities. The Company holds no customer accounts.

#### (2) Summary of Significant Accounting Policies

##### (a) *Securities Transactions*

Marketable securities are valued at quoted market value. The resulting difference between cost and market value is included in income. Realized gains and losses are determined using the specific-identification method.

##### (b) *Commissions*

Commissions and related clearing expenses are recorded on a trade-date basis as securities transactions occur.

##### (c) *Placement Fee Income*

Placement fee income is earned by investing bond and note proceeds on behalf of the issuer of the bonds or notes. Placement fee income is recognized at the time the bond and note proceeds are invested and the income is determinable.

##### (d) *Investment Advisory Fees*

Investment advisory fees are recognized as earned over the term of the contract.

##### (e) *Underwriting Fees*

Underwriting fees arise from security offerings in which the Company acts as an underwriter or agent. Underwriting fees are recognized at the time the underwriting is completed and the income is determinable.

##### (f) *Co-manager Fee Income*

The Company acts as co-manager on certain asset backed security transactions. Co-manager fees are recognized when earned.

##### (g) *Furniture and Equipment*

Furniture and equipment are stated at cost. Depreciation is provided using the straight-line method over the estimated useful life of the assets.

##### (h) *Consolidation*

Included in the consolidated financial statements is Shockley Financial Corp. (SFC), a wholly owned subsidiary of Nelnet Capital, L.L.C. SFC is not included in the Company's focus report.

## NELNET CAPITAL, L.L.C. AND SUBSIDIARY

### Notes to Consolidated Financial Statements

December 31, 2006 and 2005

**(i) Income Taxes**

In accordance with the limited liability company filing status, all income of Nelnet Capital, L.L.C. is taxable at the member's level. Due to the Company being a 100% subsidiary of Nelnet, Inc., it is considered a disregarded entity for income tax purposes and its taxable income will be reported by Nelnet, Inc.

SFC is a C Corporation and is subject to tax liability at the corporate level. SFC is a member of the Nelnet, Inc. and subsidiaries consolidated income tax group. There are currently no deferred income tax items related to this entity.

**(j) Statements of Cash Flows**

For purposes of the consolidated statements of cash flows, the Company has defined cash equivalents as highly liquid investments purchased with a maturity of three months or less.

**(k) Use of Estimates**

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities, reported amounts of revenues and expenses, and other disclosures. Actual results could differ from those estimates.

**(3) Related-Party Transactions**

Substantially all noninterest income is derived from transactions with parties related through common ownership. During 2006 and 2005, the Company paid related parties approximately \$36,000 each year, for payroll costs. Rent expense paid to related parties totaled approximately \$0 and \$3,000 in 2006 and 2005, respectively. Miscellaneous fees and commissions paid to related parties approximated \$158,000 and \$152,000 in 2006 and 2005, respectively. In addition, the Company had a receivable from related parties of approximately \$40,000 and \$33,000 and a payable to related parties of approximately \$106,000 and \$90,000 at December 31, 2006 and 2005, respectively.

As of December 31, 2006 and 2005, the Company had approximately \$572,000 and \$846,000 in cash held at a related party financial institution.

**(4) Regulatory Matters**

**(a) Focus Report**

The Company's members' equity, as reported in the consolidated financial statements, is equal to that reported in the schedule accompanying the consolidated financial statements and the Form X-17A-5, Parts II and IIA.

The Company's cash and cash equivalents, as reported in the consolidated financial statements, includes approximately \$6,760,000, which is invested in money market funds and asset backed securities. These are reported as other securities on the Company's Focus Report.

**NELNET CAPITAL, L.L.C. AND SUBSIDIARY**

Notes to Consolidated Financial Statements

December 31, 2006 and 2005

**(b) Net Capital Requirement**

The Company, as a registered broker-dealer, is subject to the SEC Uniform Net Capital rule (SEC rule 15c3-1). Because the Company holds no customer accounts, rule 15c3-1 requires the Company to maintain minimum net capital of \$250,000. At December 31, 2006, the Company had net capital, as defined and as adjusted, of \$6,798,772.

**(5) Notes Payable**

During 2006 and 2005, the Company entered into various temporary subordinate loans for a total of approximately \$21,000,000 and \$10,000,000, respectively with Nelnet, Inc, a related party. The Company was required to pay interest on the loans at the rate of thirty-day LIBOR plus 30 basis points. Interest paid during the years ended December 31, 2006 and 2005 totaled approximately \$101,000 and \$33,000, respectively. There were no outstanding borrowings at December 31, 2006.



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Omaha, NE 68102

Suite 1600  
233 South 13th Street  
Lincoln, NE 68508-2041

## **Independent Auditors' Report on Internal Accounting Control Required by Securities and Exchange Commission Rule 17a-5**

The Board of Directors  
Nelnet Capital, L.L.C. and Subsidiary:

In planning and performing our audit of the consolidated financial statements and supplemental schedule of Nelnet Capital, L.L.C. and subsidiary (the Company) for the year ended December 31, 2006, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements and not to provide assurance on internal control.

Also, as required by rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company including tests of such practices and procedures that we considered relevant to the objectives stated in rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in:

- (1) Making quarterly securities examinations, counts, verifications, and comparisons, and recordation of differences required by rule 17a-13.
- (2) Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control or the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including control activities for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2006 to meet the SEC's objectives.

This report is intended solely for the information and use of the board of directors, management, the SEC, and other regulatory agencies that rely on rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

Lincoln, Nebraska  
February 10, 2007

## NELNET CAPITAL, L.L.C. AND SUBSIDIARY

## Computation of Net Capital

December 31, 2006

Total members' equity (from consolidated statement of financial condition)	\$ 7,901,998
Deduct members' equity not allowable for net capital	
Total members' equity qualified for net capital	<u>7,901,998</u>
Deduct nonallowable assets:	
Prepaid expenses, other receivables, and other assets	1,072,651
Furniture and equipment, net	<u>1,071</u>
	<u>1,073,722</u>
Net capital before haircuts on securities positions	6,828,276
Haircuts on securities (computed pursuant to rule 15c3-1)	<u>29,504</u>
Net capital	<u>\$ 6,798,772</u>

**Computation of Basic Net Capital Requirement**

Minimum net capital required (6.67% of aggregate indebtedness)	\$ 19,355
Minimum dollar net capital requirement of reporting broker or dealer	250,000
Net capital requirement	250,000
Excess net capital	6,548,772
Excess net capital at 1000%	6,769,738

**Computation of Aggregate Indebtedness**

Total liabilities to be included in computation of aggregate indebtedness	\$ 290,337
Deduct adjustments based on deposits in Special Reserve Bank accounts (Rule 15c3-1(c)(1)(vii))	<u>—</u>
Total aggregate indebtedness	<u>\$ 290,337</u>
Ratio of aggregate indebtedness to net capital	4%

Nelnet Capital, L.L.C. and subsidiary claims exemption under rule 15c3-3(k)(1).

See accompanying independent auditors' report on internal accounting control required by Securities and Exchange Commission rule 17a-5.

*END*