

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 8-K**

**CURRENT REPORT**

**Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported)  
**August 8, 2012**

**NELNET, INC.**  
(Exact name of registrant as specified in its charter)

<b>Nebraska</b> <hr/> (State or other jurisdiction of incorporation)	<b>001-31924</b> <hr/> (Commission File Number)	<b>84-0748903</b> <hr/> (I.R.S. Employer Identification No.)
<b>121 South 13th Street</b> <b>Suite 201</b> <b>Lincoln, Nebraska</b> <hr/> (Address of principal executive offices)		<b>68508</b> <hr/> (Zip Code)

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

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

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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## **Item 2.02 Results of Operations and Financial Condition.**

On August 8, 2012, Nelnet, Inc. (the “Company”) issued a press release with respect to its financial results for the quarter ended June 30, 2012. A copy of the press release is furnished as Exhibit 99.1 to this report. In addition, a copy of the supplemental financial information for the quarter ended June 30, 2012, which was made available on the Company's website at [www.nelnetinvestors.com](http://www.nelnetinvestors.com) on August 8, 2012 in connection with the press release, is furnished as Exhibit 99.2 to this report.

The above information and Exhibits 99.1 and 99.2 shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934 (the “Exchange Act”), nor shall such information and Exhibits be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Exchange Act, except as shall be expressly set forth by specific reference in such a filing. In addition, information on the Company's website is not incorporated by reference into this report and should not be considered part of this report.

## **Item 9.01 Financial Statements and Exhibits.**

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

<u>Exhibit No.</u>	<u>Description</u>
99.1	Press Release dated August 8, 2012 - “Nelnet Reports Second Quarter 2012 Results”
99.2	Supplemental Financial Information for the Quarter Ended June 30, 2012

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## SIGNATURES

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

Dated: August 8, 2012

NELNET, INC.

By: /s/ TERRY J. HEIMES

Name: Terry J. Heimes

Title: Chief Financial Officer

## Nelnet Reports Second Quarter 2012 Results

- **Net income \$1.13 per share for the quarter, excluding derivative market value adjustments**
- **Loan and Guaranty Servicing revenue increased 26 percent**
- **Tuition Payment Processing and Campus Commerce revenue increased 14 percent**

LINCOLN, Neb., August 8, 2012 /PRNewswire/ -- Nelnet (NYSE: NNI) today reported \$53.5 million, or \$1.13 per share, of net income, excluding derivative market value adjustments, for the second quarter of 2012, compared with \$47.5 million, or \$0.98 per share, for the same period a year ago.

GAAP net income for the second quarter of 2012 and 2011 was \$41.4 million, or \$0.87 per share, and \$37.1 million, or \$0.76 per share, respectively. Derivative market value adjustments were \$12.1 million, or \$0.26 per share after tax, for the second quarter of 2012, compared with \$10.4 million, or \$0.22 per share after tax, for the second quarter of 2011.

"In the second quarter of 2012, we reported strong results and showed progress toward achieving our core objectives," said Mike Dunlap, Nelnet Chairman and Chief Executive Officer. "We continue to focus on growing our fee-based and asset management businesses, driving diversification around our core businesses, and improving our customers' experiences."

Nelnet operates four primary business segments, earning interest income on student loans in its Asset Generation and Management operating segment and fee-based revenue in its Student Loan and Guaranty Servicing, Tuition Payment Processing and Campus Commerce, and Enrollment Services operating segments. In the second quarter of 2012, the company increased its total revenue to \$184.2 million, compared with \$175.6 million in the second quarter of 2011. Operating expenses for the second quarter of 2012 and 2011 were \$108.2 million and \$100.6 million, respectively.

### Student Loan and Guaranty Servicing

Revenue from the company's Student Loan and Guaranty Servicing segment increased 26 percent, or \$10.7 million, to \$52.4 million for the second quarter of 2012 from \$41.7 million for the second quarter of 2011. The increase in revenue is primarily the result of growth in servicing volume for the Department of Education (Department), remote hosting fees, and fee revenue from rehabilitated loans.

As of June 30, 2012, the company was servicing \$56.0 billion of loans for 3.1 million borrowers on behalf of the Department, compared with \$38.8 billion of loans for 2.7 million borrowers as of June 30, 2011. Revenue from this contract increased to \$16.1 million for the second quarter of 2012, up from \$11.9 million for the same period a year ago.

The Student Loan and Guaranty Servicing segment also includes revenue from monthly fees earned from third parties using Nelnet's new hosted servicing software solution to service Federal Direct Loan Program and Federal Family Education Loan Program loans. As of June 30, 2012, 7.9 million borrowers were hosted on the company's solution.

### Tuition Payment Processing and Campus Commerce

For the second quarter of 2012, revenue from the company's Tuition Payment Processing and Campus Commerce segment was \$16.8 million, an increase of \$2.0 million, or 14 percent, from the same period in 2011.

### Asset Management

As of June 30, 2012, net student loan assets were \$23.5 billion. Substantially all of Nelnet's federal student loans are financed for the life of the loan at rates the company currently believes will generate significant future cash flow of \$1.87 billion. On July 1, 2010, the company stopped originating federal student loans because legislation eliminated the Federal Family Education Loan Program. As a result, the company's student loan portfolio will run off over a period of several years.

Historically low interest rates are continuing to provide an opportunity for the company to generate substantial near-term value and cash flow from its student loan portfolio. For the second quarter of 2012, Nelnet reported net interest income of \$84.6 million, compared with \$88.7 million for the same period a year ago. Net interest income includes \$37.0 million and \$32.8 million of fixed rate floor income in the second quarters of 2012 and 2011, respectively.

### Board of Directors Approves Dividend

The Nelnet Board of Directors declared a third quarter cash dividend on the company's outstanding shares of Class A common stock and Class B common stock of \$0.10 per share. The dividend will be paid on September 15, 2012, to shareholders of record at the close of business on September 1, 2012. Nelnet currently has 35.8 million shares of Class A common stock and 11.5 million shares of Class B common stock outstanding.

### Non-GAAP Performance Measures

Information regarding the company's operating results has historically been provided using "base net income," which consisted of GAAP net income excluding the derivative market value and foreign currency adjustments, amortization of intangible assets, compensation related to business combinations, and variable rate floor income, net of settlements on derivatives. Due to the decrease in the number and dollar amount of differences between "base net income" and GAAP net income, the company has discontinued utilizing "base net income" when evaluating the

performance and profitability of the company and reporting its operating results.

The company will continue to provide additional information related to specific items management believes to be important in the

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evaluation of its financial position and performance, including specifically, but not limited to, the impact of the unrealized gains and losses resulting from the change in fair value of derivative instruments in which the company does not qualify for "hedge treatment" under GAAP, and the foreign currency transaction gains or losses resulting from the re-measurement of the company's Euro-denominated bonds to U.S. dollars. The company believes these point-in-time estimates of asset and liability values related to these financial instruments that are subject to interest and currency rate fluctuations affect the period-to-period comparability of the results of operations.

### **Forward-looking and Cautionary Statements**

This press release contains forward-looking statements within the meaning of federal securities laws. These statements are based on management's current expectations as of the date of this release and are subject to known and unknown risks and uncertainties that may cause actual results or performance to differ materially from those expressed or implied by the forward-looking statements. Such risks include, among others, risks related to the company's student loan portfolios such as interest rate basis and repricing risk and the use of derivatives to manage exposure to interest rate fluctuations; the company's funding requirements to satisfy asset financing needs; the company's ability to maintain and increase volumes under its loan servicing contract with the Department to service federally owned student loans; changes in the student loan and educational credit and services marketplace resulting from the implementation of or changes in applicable laws, regulations, and government programs; changes in the demand or preferences for educational financing and related services by educational institutions, students, and their families; uncertainties inherent in forecasting future cash flows from student loan assets and related asset-backed securitizations; and changes in general economic and credit market conditions. For more information, see the "Risk Factors" sections and other cautionary discussions of risks and uncertainties included in documents filed or furnished by the company with the Securities and Exchange Commission, including the cautionary information about forward-looking statements contained in the company's supplemental financial information for the second quarter ended June 30, 2012. All information in this release is as of the date of this release. Although the company may from time to time voluntarily update or revise its forward-looking statements to reflect actual results or changes in the company's expectations, the company disclaims any commitment to do so except as required by securities laws.

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**Condensed Consolidated Statements of Income (unaudited)**

(Dollars in thousands, except share data)

	Three months ended			Six months ended	
	June 30, 2012	March 31, 2012	June 30, 2011	June 30, 2012	June 30, 2011
<b>Interest Income:</b>					
Loan interest	\$ 151,675	154,118	146,827	305,793	294,174
Amortization/accretion of loan premiums/discounts and deferred origination costs, net	(687)	(1,060)	(7,893)	(1,747)	(17,882)
Investment interest	1,055	1,095	856	2,150	1,582
Total interest income	152,043	154,153	139,790	306,196	277,874
<b>Interest expense:</b>					
Interest on bonds and notes payable	67,476	69,297	51,054	136,773	103,361
Net interest income	84,567	84,856	88,736	169,423	174,513
Less provision for loan losses	7,000	6,000	5,250	13,000	9,000
Net interest income after provision for loan losses	77,567	78,856	83,486	156,423	165,513
<b>Other income (expense):</b>					
Loan and guaranty servicing revenue	52,391	49,488	41,735	101,879	82,148
Tuition payment processing and campus commerce revenue	16,834	21,913	14,761	38,747	34,130
Enrollment services revenue	29,710	31,664	32,315	61,374	66,183
Other income	8,800	10,954	6,826	19,754	13,318
Gain on sale of loans and debt repurchases	935	—	—	935	8,307
Derivative market value and foreign currency adjustments, net	(19,532)	(15,407)	(16,813)	(34,939)	(15,697)
Derivative settlements, net	(2,086)	227	(3,522)	(1,859)	(7,674)
Total other income	87,052	98,839	75,302	185,891	180,715
<b>Operating expenses:</b>					
Salaries and benefits	48,703	49,095	42,881	97,798	86,793
Cost to provide enrollment services	20,374	21,678	22,140	42,052	44,979
Depreciation and amortization	8,226	8,136	6,769	16,362	13,545
Other	30,908	32,263	28,767	63,171	54,872
Total operating expenses	108,211	111,172	100,557	219,383	200,189
Income before income taxes	56,408	66,523	58,231	122,931	146,039
Income tax expense	(14,878)	(23,230)	(21,106)	(38,108)	(54,034)
Net income	41,530	43,293	37,125	84,823	92,005
Net income attributable to noncontrolling interest	136	152	—	288	—
Net income attributable to Nelnet, Inc.	\$ 41,394	43,141	37,125	84,535	92,005
<b>Earnings per common share:</b>					
Net income attributable to Nelnet, Inc. shareholders - basic	\$ 0.87	0.91	0.76	1.78	1.90
Net income attributable to Nelnet, Inc. shareholders - diluted	\$ 0.87	0.91	0.76	1.78	1.89
<b>Weighted average common shares outstanding:</b>					
Basic	47,049,055	46,989,773	48,302,779	47,020,811	48,237,411
Diluted	47,292,147	47,184,079	48,488,046	47,240,659	48,425,886

**Condensed Consolidated Balance Sheets**

(Dollars in thousands)

	<b>As of</b> <b>June 30, 2012</b>	<b>As of</b> <b>December 31, 2011</b>	<b>As of</b> <b>June 30, 2011</b>
	<b>(unaudited)</b>		<b>(unaudited)</b>
<b>Assets:</b>			
Student loans receivable, net	\$ 23,501,382	24,297,876	23,228,778
Cash, cash equivalents, and investments	130,310	93,350	148,005
Restricted cash and investments	976,708	724,131	675,182
Goodwill	117,118	117,118	117,118
Intangible assets, net	19,006	28,374	37,564
Other assets	524,618	591,368	664,864
Total assets	<u>\$ 25,269,142</u>	<u>25,852,217</u>	<u>24,871,511</u>
<b>Liabilities:</b>			
Bonds and notes payable	\$ 23,836,250	24,434,540	23,605,413
Other liabilities	287,994	351,472	277,314
Total liabilities	<u>24,124,244</u>	<u>24,786,012</u>	<u>23,882,727</u>
<b>Equity:</b>			
Total Nelnet, Inc. shareholders' equity	1,144,605	1,066,205	988,784
Noncontrolling interest	293	—	—
Total equity	<u>1,144,898</u>	<u>1,066,205</u>	<u>988,784</u>
Total liabilities and equity	<u>\$ 25,269,142</u>	<u>25,852,217</u>	<u>24,871,511</u>

Contacts:

Media, Ben Kiser, +1-402-458-3024, or Investors, Phil Morgan, +1-402-458-3038, both of Nelnet, Inc .

**For Release:** August 8, 2012

**Media Contact:** Ben Kiser, 402.458.3024

**Investor Contact:** Phil Morgan, 402.458.3038

**Nelnet, Inc. supplemental financial information for the second quarter 2012**

**(All dollars are in thousands, except per share amounts, unless otherwise noted)**

The following information should be read in connection with Nelnet, Inc.'s (the "Company's") press release for second quarter 2012 earnings, dated August 8, 2012, and the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012.

This earnings supplement contains forward-looking statements and information that are based on management's current expectations as of the date of this document. Statements that are not historical facts, including statements about the Company's plans and expectations for future financial condition, results of operations or economic performance, or that address management's plans and objectives for future operations, and statements that assume or are dependent upon future events, are forward-looking statements. The words "may," "should," "could," "would," "predict," "potential," "continue," "expect," "anticipate," "future," "intend," "plan," "believe," "estimate," "assume," "forecast," "will," and similar expressions, as well as statements in future tense, are intended to identify forward-looking statements.

The forward-looking statements are based on assumptions and analysis made by management in light of management's experience and its perception of historical trends, current conditions, expected future developments, and other factors that management believes are appropriate under the circumstances. These statements are subject to known and unknown risks, uncertainties, assumptions, and other factors that may cause the actual results and performance to be materially different from any future results or performance expressed or implied by such forward-looking statements. These factors include, among others, the risks and uncertainties set forth in the "Risk Factors" section included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011 and subsequent Quarterly Reports on Form 10-Q, and include such risks and uncertainties as:

- risks related to the Company's student loan portfolio, such as interest rate basis and repricing risk resulting from the fact that the interest rate characteristics of the Company's student loan assets do not match the interest rate characteristics of the funding for those assets, the risk of loss of floor income on certain student loans originated under the Federal Family Education Loan Program (the "FFEL Program" or "FFELP") of the U.S. Department of Education (the "Department"), risks related to the use of derivatives to manage exposure to interest rate fluctuations, and potential losses from loan defaults, changes in prepayment rates, guaranty rates, loan floor rates, and credit spreads;
- risks related to the Company's funding requirements, including the Company's ability to maintain credit facilities or obtain new facilities, the ability of lenders under the Company's credit facilities to fulfill their lending commitments under these facilities, the Company's ability to satisfy debt obligations secured by student loan assets and related collateral, and changes in the general interest rate environment and in the securitization markets for education loans, which may increase the costs or limit the availability of financings necessary to purchase, refinance, or continue to carry education loans;
- risks from changes in the student loan and educational credit and services marketplace resulting from the implementation of, or changes in, applicable laws, regulations, and government programs, including the discontinuance of private sector student loan originations under the FFEL Program effective July 1, 2010, and new regulations effective July 1, 2011 that could affect enrollment at for-profit schools, the uncertain nature of the potential impact of the Department's loan consolidation initiative or similar consolidation programs, and the Company's ability to maintain or increase volumes under its loan servicing contract with the Department to service federally-owned student loans and to comply with servicing agreements with third-party customers for the service of loans under the Federal Direct Loan and FFEL Programs;
- risks from changes in the demand or preferences for educational financing and related services by educational institutions, students, and their families;
- uncertainties inherent in forecasting future cash flows from student loan assets and related asset-backed securitizations;
- risks associated with litigation, complex government regulations, changes in general economic conditions (which have recently led to higher rates of student loan defaults), changes in credit market conditions, and related party transactions; and
- uncertainties inherent in the estimates and assumptions about future events that management is required to make in the preparation of the Company's consolidated financial statements.

All forward-looking statements contained in this report are qualified by these cautionary statements and are made only as of the date of this document. Although the Company may from time to time voluntarily update or revise its prior forward-looking statements to reflect actual results or changes in the Company's expectations, the Company disclaims any commitment to do so except as required by securities laws.

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<b>Weighted average common shares outstanding:</b>					
Basic	47,049,055	46,989,773	48,302,779	47,020,811	48,237,411
Diluted	47,292,147	47,184,079	48,488,046	47,240,659	48,425,886

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Restricted cash and investments	976,708	724,131	675,182
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Intangible assets, net	19,006	28,374	37,564
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Other liabilities	287,994	351,472	277,314
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Noncontrolling interest	293	—	—
Total equity	<u>1,144,898</u>	<u>1,066,205</u>	<u>988,784</u>
Total liabilities and equity	<u>\$ 25,269,142</u>	<u>25,852,217</u>	<u>24,871,511</u>

## Overview

The Company is an education services company focused primarily on providing fee-based processing services and quality education-related products and services in four core areas: loan financing, loan servicing, payment processing, and enrollment services (education planning). These products and services help students and families plan, prepare, and pay for their education and make the administrative and financial processes more efficient for schools and financial organizations. In addition, the Company earns net interest income on a portfolio of federally insured student loans.

A summary of consolidated results and financial highlights as of and for the three and six months ended June 30, 2012 is summarized below.

- Continued strong earnings (net income of \$53.5 million , ( \$1.13 per share) and \$106.2 million (\$2.24 per share) for the three and six month periods ended June 30, 2012 , respectively, excluding derivative market value and foreign currency adjustments)(a)(e)
- An increase in book value per share to \$24.18 , or 18.7% , from June 30, 2011
- An increase in revenue from fee-based businesses to \$115.3 million, or 9.2%, for the second quarter of 2012 as compared to the same period in 2011 , and an increase to \$235.4 million, or 8.4%, for the six months ended June 30, 2012 compared to the same period in 2011
- Strong liquidity represented by \$161.3 million of net cash provided by operating activities during the first six months of 2012 and \$557.5 million of liquidity available for use as of June 30, 2012 (b)

The following tables set forth financial and other operating information of the Company.

	Three months ended			Six months ended	
	June 30, 2012	March 31, 2012	June 30, 2011	June 30, 2012	June 30, 2011
<b>Operating Data:</b>					
Core student loan spread	1.43 %	1.43 %	1.51 %	1.43 %	1.48 %
Net interest income	\$ 84,567	84,856	88,736	169,423	174,513
Fixed rate floor income, net of settlements on derivatives	36,984	38,092	32,801	75,076	64,483
Total revenue (c)(e)	184,151	193,102	175,601	377,253	361,925
Operating expenses	108,211	111,172	100,557	219,383	200,189
Net income	41,394	43,141	37,125	84,535	92,005
Net income, excluding derivative market value and foreign currency adjustments (a)(e)	53,504	52,693	47,549	106,197	101,737
Net income - per share	0.87	0.91	0.76	1.78	1.90
Net income, excluding derivative market value and foreign currency adjustments - per share (a)(e)	1.13	1.11	0.98	2.24	2.10
		As of	As of	As of	
		June 30, 2012	December 31, 2011	June 30, 2011	
<b>Balance Sheet Data:</b>					
Total assets		\$ 25,269,142	25,852,217	24,871,511	
Total equity		1,144,898	1,066,205	988,784	
Tangible equity (d)		1,008,774	920,713	834,102	
Book value per common share		24.18	22.62	20.37	
Tangible book value per common share (d)		21.31	19.53	17.18	
<b>Ratios:</b>					
Total equity to total assets		4.53%	4.12%	3.98%	

- (a) "Derivative market value and foreign currency adjustments" include (i) the unrealized gains and losses that are caused by the change in fair value on derivatives in which the Company does not qualify for "hedge treatment" under GAAP; and (ii) the foreign currency transaction gains or losses caused by the re-measurement of the Company's Euro-denominated bonds to U.S. dollars. The derivative market value and foreign currency adjustments, net of tax, was an expense of \$12.1 million ( \$0.26 per share), \$9.6 million (\$0.20 per share), and \$10.4 million ( \$0.22 per share) for the three months ended June 30, 2012 , March 31, 2012 , and June 30, 2011 , respectively, and an expense of \$21.7 million (\$0.46 per share) and \$9.7 million (\$0.20 per share) for the six months ended June 30, 2012 and 2011, respectively.
- (b) See "Sources of Liquidity Currently Available" included in this earnings supplement.
- (c) Total revenue includes "net interest income after provision for loan losses" and "total other income" from the Company's statements of income, excluding the impact from the change in fair value on derivatives and the foreign currency transaction adjustments of \$19.5 million , \$15.4 million, and \$16.8 million for the three months ended June 30, 2012 , March 31, 2012 , and June 30, 2011 , respectively, and \$34.9 million and \$15.7 million for the six months ended June 30, 2012 and 2011, respectively.
- (d) Tangible equity, a non-GAAP measure, equals "total equity" less "goodwill" and "intangible assets, net." Management believes presenting tangible equity and tangible book value per common share are useful measures of evaluating the strength of the Company's capital position. These measures may be calculated differently by other companies. Goodwill was \$117.1 million as of June 30, 2012, December 31, 2011, and June 30, 2011, and intangible assets, net, was \$19.0 million, \$28.4 million, and \$37.6 million as of June 30, 2012, December 31, 2011, and June 30, 2011, respectively.
- (e) The Company provides non-GAAP information that reflects specific items management believes to be important in the evaluation of its financial position and performance, including specifically, but not limited to, the impact of the unrealized gains and losses resulting from the change in fair value of derivative instruments in which the Company does not qualify for "hedge treatment" under GAAP, and the foreign currency transaction gains or losses resulting from the re-measurement of the Company's Euro-denominated bonds to U.S. dollars. The Company believes these point-in-time estimates of asset and liability values related to these financial instruments that are subject to interest and currency rate fluctuations affect the period-to-period comparability of the results of operations.

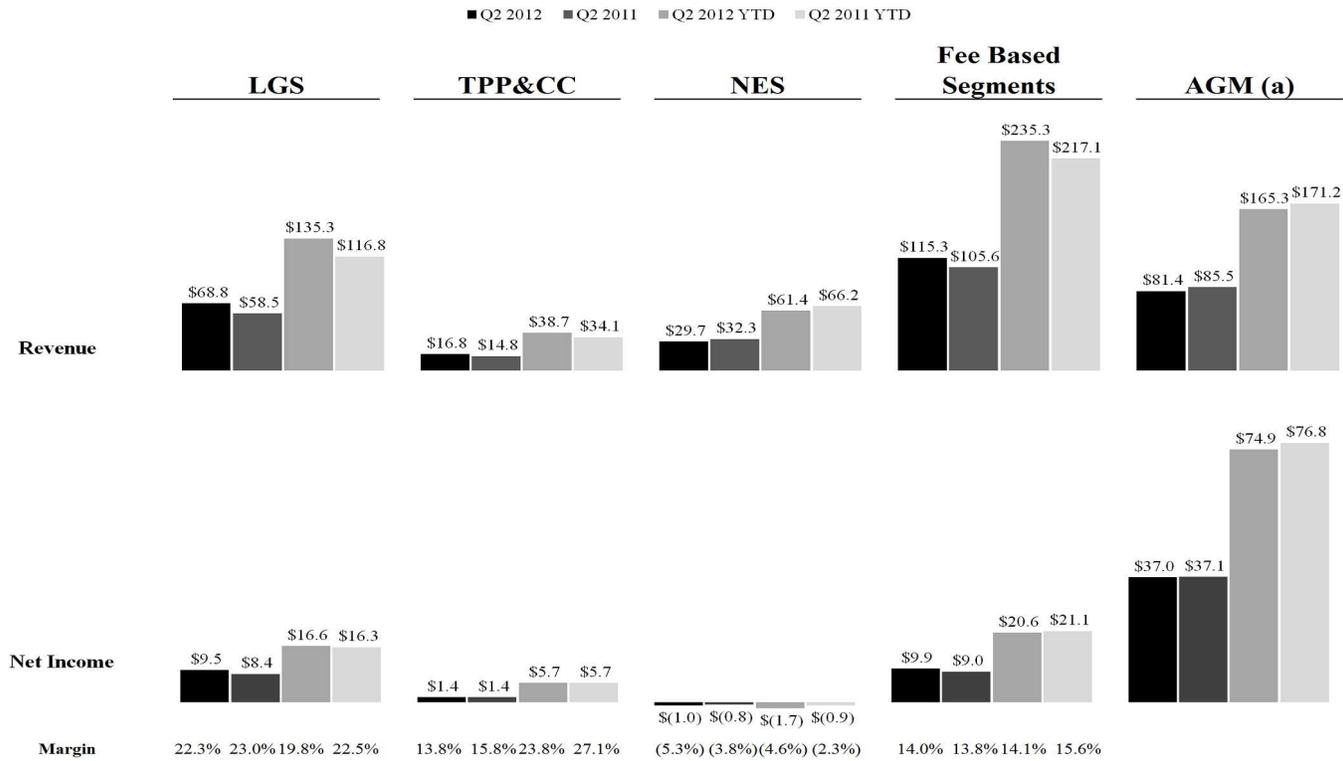


The Company earns fee-based revenue through the following operating segments:

- Student Loan and Guaranty Servicing ("LGS") - referred to as Nelnet Diversified Solutions ("NDS")
- Tuition Payment Processing and Campus Commerce ("TPP&CC") - referred to as Nelnet Business Solutions ("NBS")
- Enrollment Services ("NES") - commonly called Nelnet Enrollment Solutions ("NES")

In addition, the Company earns net interest income on its student loan portfolio in its Asset Generation and Management ("AGM") operating segment.

The information below provides the operating results for each reportable operating segment for the three and six months ended June 30, 2012 and 2011 .



(a) Total revenue includes "net interest income after provision for loan losses" and "total other income" from the Company's segment statements of income, excluding the impact from the change in fair value on derivatives and the foreign currency transaction adjustment, which were expenses of \$10.1 million and \$12.5 million for the three months ended June 30, 2012 and 2011 , respectively, and \$31.7 million and \$13.1 million for the six months ended June 30, 2012 and 2011, respectively. Net income excludes the change in fair value on derivatives and the foreign currency transaction adjustment, net of tax, which was \$6.2 million and \$7.8 million for the three months ended June 30, 2012 and 2011 , respectively, and \$19.6 million and \$8.1 million for the six months ended June 30, 2012 and 2011, respectively.

A summary of the results and financial highlights for each reportable operating segment for the three and six months ended June 30, 2012 and a summary of the Company's liquidity and capital resources follows.

### Student Loan and Guaranty Servicing

- An increase in government servicing revenue due to increased volume from the Department.
- An increase in guaranty servicing revenue due to an increase in rehabilitation collection revenue.
- An increase in software services revenue as a result of the Company beginning to provide hosted student loan servicing to a significant customer in October 2011.
- A decrease in operating margin due to the government servicing portfolio growing as a percentage of the Company's total servicing portfolio.
- An increase in operating expenses due to incurring additional costs related to the government servicing contract and the hosted servicing software product.
- Continued improvement on survey results related to the servicing contract with the Department, which will lead to a

larger allocation of loan volume to the Company during the fourth year of this contract.

### ***Tuition Payment Processing and Campus Commerce***

- An increase in revenue as a result of an increase in the number of managed tuition payment plans and campus commerce customers.
- A slight compression in margin due to an increase in amortization of intangible assets and continued investment in new products and services to meet customer needs and expand product and service offerings.

### ***Enrollment Services***

- Continued decrease in inquiry generation and inquiry management (agency) revenue due to the effects from regulatory uncertainty in the for-profit college industry, which has caused schools to decrease spending on marketing efforts.
- An increase in inquiry management (software) and digital marketing revenue due to an increase in client activity and the addition of new customers.

### ***Asset Generation and Management***

- The acquisition of \$563.3 million of FFELP student loans during the first six months of 2012.
- A decrease in variable student loan spread as a result of the widening between the index rate in which the Company earns on its student loans and the index rate paid to fund such loans.
- Continued recognition of significant fixed rate floor income due to historically low interest rates.

### ***Liquidity and Capital Resources***

- As of June 30, 2012, the Company had \$557.5 million of liquidity available for use.
- For the six months ended June 30, 2012, the Company generated \$161.3 million in net cash provided by operating activities.
- Forecasted future cash flows from the Company's FFELP student loan portfolio remain strong and are estimated to be \$1.87 billion as of June 30, 2012.
- On February 17, 2012, the Company entered into a new \$250.0 million unsecured line of credit that has a maturity date of February 17, 2016. In conjunction with entering into this new agreement, the outstanding balance on the previous \$750.0 million unsecured line of credit of \$64.4 million was paid off in full and that agreement was terminated.
- On April 12, 2012, the Company entered into a new \$50.0 million secured line of credit, which is collateralized by asset-backed security investments, and has a maturity date of April 11, 2014.
- The Company will continue to use its strong liquidity position to capitalize on market opportunities, including FFELP student loan acquisitions; strategic acquisitions and investments in its core business areas of loan financing, loan servicing, payment processing, and enrollment services (education planning); and capital management initiatives, including stock repurchases, debt repurchases, and dividend distributions.

### ***Income Taxes***

- The Company's effective tax rate was 26.4% and 31.0% for the three and six months ended June 30, 2012, respectively. During the second quarter of 2012, state tax laws were enacted that reduced the Company's income tax expense during the second quarter by \$4.6 million. The Company currently believes the effective tax rate for the last six months of 2012 will be 36% to 37%.

## Operating Segments

The Company earns fee-based revenue through its Student Loan and Guaranty Servicing, Tuition Payment Processing and Campus Commerce, and Enrollment Services operating segments. In addition, the Company earns net interest income on its student loan portfolio in its Asset Generation and Management operating segment. The Company's operating segments are defined by the products and services they offer and the types of customers they serve, and they reflect the manner in which financial information is currently evaluated by management.

The management reporting process measures the performance of the Company's operating segments based on the management structure of the Company as well as the methodology used by management to evaluate performance and allocate resources. Executive management (the "chief operating decision maker") evaluates the performance of the Company's operating segments based on their profitability. Prior to 2012, management measured the profitability of the Company's operating segments based on "base net income." The Company's "base net income" was not a defined term within U.S. generally accepted accounting principles ("GAAP") and was not necessarily comparable to similarly titled measures reported by other companies. However, "base net income," which consisted of GAAP net income excluding the derivative market value and foreign currency adjustments, amortization of intangible assets, compensation related to business combinations, and variable rate floor income, net of settlements on derivatives, was the primary financial performance measure used by management to develop the Company's financial plans, track results, and establish corporate performance targets and incentive compensation. Unlike financial accounting, there is no comprehensive, authoritative guidance for management reporting. Accordingly, information regarding the Company's operating segments was historically provided based on "base net income." Due to the decrease in the number and dollar amount of differences between "base net income" and GAAP net income, during the first quarter of 2012, executive management determined to discontinue utilizing "base net income" and began to evaluate the performance and profitability of the Company's operating segments based on financial results prepared in conformity with GAAP. As such, the Company has changed its operating segment income measurement from "base net income" to GAAP net income. Prior period segment operating results have been restated to conform to the current period presentation.

The accounting policies of the Company's operating segments are the same as those described in note 2 in the notes to the consolidated financial statements included in the Company's Annual Report filed on Form 10-K for the year ended December 31, 2011. Intersegment revenues are charged by a segment that provides a product or service to another segment. Intersegment revenues and expenses are included within each segment consistent with the income statement presentation provided to management. Changes in management structure or allocation methodologies and procedures may result in changes in reported segment financial information. The Company allocates certain corporate overhead expenses to the individual operating segments. These expenses include certain corporate activities related to executive management, human resources, accounting, legal, occupancy, and marketing. These costs are allocated to each operating segment based on estimated use of such activities and services. In addition, income taxes are allocated based on 38% of income (loss) before taxes for each individual operating segment. The difference between the consolidated income tax expense and the sum of taxes calculated for each operating segment is included in income taxes in Corporate Activity and Overhead.

The following describes the products and services of each operating segment. In addition, the tables below include the results of each of the Company's operating segments reconciled to the consolidated financial statements.

### *Fee-Based Operating Segments*

#### *Student Loan and Guaranty Servicing*

The following are the primary products and services the Company offers as part of its Student Loan and Guaranty Servicing segment:

- Servicing FFELP loans
- Origination and servicing of non-federally insured student loans
- Servicing federally-owned student loans for the Department of Education
- Servicing and support outsourcing for guaranty agencies
- Student loan servicing software and other information technology products and services

The Student Loan and Guaranty Servicing operating segment provides for the servicing of the Company's student loan portfolios and the portfolios of third parties. The loan servicing activities include loan origination activities, loan conversion activities, application processing, borrower updates, payment processing, due diligence procedures, funds management reconciliations, and claim processing. These activities are performed internally for the Company's portfolio in addition to generating external fee revenue when performed for third party clients.

In June 2009, the Department named the Company as one of four private sector companies awarded a servicing contract to service federally-owned student loans. In September 2009, the Company began servicing loans under this contract. The contract spans five years, with one five-year renewal at the option of the Department.

This operating segment also provides servicing activities for guaranty agencies. These activities include providing software and data center services, borrower and loan updates, default aversion tracking services, claim processing services, and managing third-party collection agencies.

This operating segment also provides student loan servicing software, which is used internally by the Company and licensed to third-party student loan holders and servicers. This software system has been adapted so that it can be offered as a hosted servicing software solution that can be used by third-parties to service various types of student loans, including Federal Direct Loan Program and FFEL Program loans. The Company earns a monthly fee from remote hosting customers for each unique borrower on the Company's platform. In addition, this operating segment provides information technology products and services, with core areas of business in educational loan software solutions, technical consulting services, and enterprise content management solutions.

#### *Tuition Payment Processing and Campus Commerce*

The Company's Tuition Payment Processing and Campus Commerce operating segment provides products and services to help students and families manage the payment of education costs at all levels (K-12 and higher education). It also provides innovative education-focused technologies, services, and support solutions to help schools with the everyday challenges of collecting and processing commerce data.

In the K-12 market, this operating segment offers actively managed tuition payment plans and billing services as well as assistance with financial needs assessment and donor management. This operating segment offers two principal products to the higher education market: actively managed tuition payment plans and campus commerce technologies and payment processing.

#### *Enrollment Services*

The Enrollment Services operating segment offers products and services that are focused on helping colleges recruit and retain students and helping students plan and prepare for life after high school and/or military service. The following are the primary products and services the Company offers as part of the Enrollment Services segment:

- Inquiry Generation - Inquiry generation services include delivering qualified inquiries or clicks to third-party customers, primarily for-profit schools.
- Inquiry Management (Agency) - Agency services include managing the marketing activities for third-party customers, primarily for-profit schools, in order to provide qualified inquiries or clicks.
- Inquiry Management (Software) - Software services include the licensing of software to third-party customers, primarily for-profit schools. This software is also used internally by the Company. The inquiry management software has been adapted so that it can be offered as a hosted software solution that can be used by third-parties to manage and obtain qualified inquiries or clicks.
- Digital Marketing - Digital marketing services include on-line information about colleges and universities and are sold primarily based on subscriptions. Digital marketing services also include editing services for admission essays.
- Content Solutions - Content solutions includes test preparation study guides, school directories and databases, career exploration guides, on-line courses, scholarship search and selection data, career planning, and on-line information about colleges and universities. Content solutions also includes providing list marketing services to help higher education institutions and businesses reach the middle school, high school, college bound high school, college, and young adult market places.

#### ***Asset Generation and Management Operating Segment***

The Asset Generation and Management operating segment includes the acquisition, management, and ownership of the Company's student loan assets, which has historically been the Company's largest product and service offering. The Company generates a substantial portion of its earnings from the spread, referred to as the Company's student loan spread, between the yield it receives on its student loan portfolio and the associated costs to finance such portfolio. The student loan assets are held in a series of education lending subsidiaries and associated securitization trusts designed specifically for this purpose. In addition to the student

loan spread earned on its portfolio, all costs and activity associated with managing the portfolio, such as servicing of the assets and debt maintenance are included in this segment.

As a result of legislation effective July 1, 2010, all new federal student loan originations are made by the Department through the Direct Loan Program and the Company no longer originates FFELP loans. This legislation does not alter or affect the terms and conditions of existing FFELP loans.

### Corporate Activity and Overhead

Corporate Activity and Overhead includes the following items:

- The operating results of WRCM, the Company's SEC-registered investment advisory subsidiary
- Income earned on certain investment activities
- Interest expense incurred on unsecured debt transactions
- Other product and service offerings that are not considered operating segments

Corporate Activities and Overhead also includes certain corporate activities and overhead functions related to executive management, human resources, accounting, legal, occupancy, and marketing. These costs are allocated to each operating segment based on estimated use of such activities and services

### Segment Results of Operations

	Three months ended June 30, 2012							
	Fee-Based			Total Fee-Based	Asset Generation and Management	Corporate Activity and Overhead	Eliminations	Total
	Student Loan and Guaranty Servicing	Tuition Payment Processing and Campus Commerce	Enrollment Services					
Total interest income	\$ 12	1	—	13	151,240	1,747	(957)	152,043
Interest expense	—	—	—	—	66,017	2,416	(957)	67,476
Net interest income	12	1	—	13	85,223	(669)	—	84,567
Less provision for loan losses	—	—	—	—	7,000	—	—	7,000
Net interest income after provision for loan losses	12	1	—	13	78,223	(669)	—	77,567
Other income (expense):								
Loan and guaranty servicing revenue	52,391	—	—	52,391	—	—	—	52,391
Intersegment servicing revenue	16,401	—	—	16,401	—	—	(16,401)	—
Tuition payment processing and campus commerce revenue	—	16,834	—	16,834	—	—	—	16,834
Enrollment services revenue	—	—	29,710	29,710	—	—	—	29,710
Other income	—	—	—	—	3,581	5,219	—	8,800
Gain on sale of loans and debt repurchases	—	—	—	—	935	—	—	935
Derivative market value and foreign currency adjustments	—	—	—	—	(10,053)	(9,479)	—	(19,532)
Derivative settlements, net	—	—	—	—	(1,339)	(747)	—	(2,086)
Total other income (expense)	68,792	16,834	29,710	115,336	(6,876)	(5,007)	(16,401)	87,052
Operating expenses:								
Salaries and benefits	28,905	8,575	6,161	43,641	542	4,520	—	48,703
Cost to provide enrollment services	—	—	20,374	20,374	—	—	—	20,374
Depreciation and amortization	4,525	1,731	1,617	7,873	—	353	—	8,226
Other	17,539	2,456	1,745	21,740	3,120	6,048	—	30,908
Intersegment expenses, net	1,185	1,330	976	3,491	16,635	(3,725)	(16,401)	—
Total operating expenses	52,154	14,092	30,873	97,119	20,297	7,196	(16,401)	108,211
Income (loss) before income taxes and corporate overhead allocation	16,650	2,743	(1,163)	18,230	51,050	(12,872)	—	56,408
Corporate overhead allocation	(1,275)	(425)	(425)	(2,125)	(1,400)	3,525	—	—
Income (loss) before income taxes	15,375	2,318	(1,588)	16,105	49,650	(9,347)	—	56,408
Income tax (expense) benefit	(5,843)	(881)	603	(6,121)	(18,866)	10,109	—	(14,878)
Net income (loss)	9,532	1,437	(985)	9,984	30,784	762	—	41,530
Net income attributable to noncontrolling interest	—	—	—	—	—	136	—	136

Nelnet, Inc.

\$

9,532

1,437

(985)

9,984

30,784

626

—

41,394

**Three months ended March 31, 2012**

	Fee-Based				Total Fee-Based	Asset Generation and Management	Corporate Activity and Overhead	Eliminations	Total
	Student Loan and Guaranty Servicing	Tuition Payment Processing and Campus Commerce	Enrollment Services						
Total interest income	\$ 20	4	—	24	153,512	1,588	(971)	154,153	
Interest expense	—	—	—	—	68,829	1,439	(971)	69,297	
Net interest income	20	4	—	24	84,683	149	—	84,856	
Less provision for loan losses	—	—	—	—	6,000	—	—	6,000	
Net interest income after provision for loan losses	20	4	—	24	78,683	149	—	78,856	
Other income (expense):									
Loan and guaranty servicing revenue	49,488	—	—	49,488	—	—	—	49,488	
Intersegment servicing revenue	16,954	—	—	16,954	—	—	(16,954)	—	
Tuition payment processing and campus commerce revenue	—	21,913	—	21,913	—	—	—	21,913	
Enrollment services revenue	—	—	31,664	31,664	—	—	—	31,664	
Other income	—	—	—	—	5,000	5,954	—	10,954	
Gain on sale of loans and debt repurchases	—	—	—	—	—	—	—	—	
Derivative market value and foreign currency adjustments, net	—	—	—	—	(21,604)	6,197	—	(15,407)	
Derivative settlements, net	—	—	—	—	227	—	—	227	
Total other income (expense)	66,442	21,913	31,664	120,019	(16,377)	12,151	(16,954)	98,839	
Operating expenses:									
Salaries and benefits	29,042	8,618	6,279	43,939	719	4,437	—	49,095	
Cost to provide enrollment services	—	—	21,678	21,678	—	—	—	21,678	
Depreciation and amortization	4,413	1,740	1,617	7,770	—	366	—	8,136	
Other	18,666	2,816	1,956	23,438	3,632	5,193	—	32,263	
Intersegment expenses, net	1,385	1,333	848	3,566	17,143	(3,755)	(16,954)	—	
Total operating expenses	53,506	14,507	32,378	100,391	21,494	6,241	(16,954)	111,172	
Income (loss) before income taxes and corporate overhead allocation	12,956	7,410	(714)	19,652	40,812	6,059	—	66,523	
Corporate overhead allocation	(1,503)	(501)	(501)	(2,505)	(1,392)	3,897	—	—	
Income (loss) before income taxes	11,453	6,909	(1,215)	17,147	39,420	9,956	—	66,523	
Income tax (expense) benefit	(4,352)	(2,625)	462	(6,515)	(14,979)	(1,736)	—	(23,230)	
Net income (loss)	7,101	4,284	(753)	10,632	24,441	8,220	—	43,293	
Net income attributable to noncontrolling interest	—	—	—	—	—	152	—	152	
Net income (loss) attributable to Nelnet, Inc.	\$ 7,101	4,284	(753)	10,632	24,441	8,068	—	43,141	

**Three months ended June 30, 2011**

	Fee-Based				Total Fee-Based	Asset Generation and Management	Corporate Activity and Overhead	Eliminations	Total
	Student Loan and Guaranty Servicing	Tuition Payment Processing and Campus Commerce	Enrollment Services						
Total interest income	\$ 12	2	—	14	139,284	1,147	(655)	139,790	
Interest expense	—	—	—	—	49,269	2,440	(655)	51,054	
Net interest income (loss)	12	2	—	14	90,015	(1,293)	—	88,736	
Less provision for loan losses	—	—	—	—	5,250	—	—	5,250	
Net interest income (loss) after provision for loan losses	12	2	—	14	84,765	(1,293)	—	83,486	
Other income (expense):									
Loan and guaranty servicing revenue	41,735	—	—	41,735	—	—	—	41,735	
Intersegment servicing revenue	16,793	—	—	16,793	—	—	(16,793)	—	
Tuition payment processing and campus commerce revenue	—	14,761	—	14,761	—	—	—	14,761	
Enrollment services revenue	—	—	32,315	32,315	—	—	—	32,315	
Other income	—	—	—	—	3,997	2,829	—	6,826	
Gain on sale of loans and debt repurchases	—	—	—	—	—	—	—	—	
Derivative market value and foreign currency adjustments, net	—	—	—	—	(12,531)	(4,282)	—	(16,813)	
Derivative settlements, net	—	—	—	—	(3,274)	(248)	—	(3,522)	
Total other income (expense)	58,528	14,761	32,315	105,604	(11,808)	(1,701)	(16,793)	75,302	
Operating expenses:									
Salaries and benefits	24,731	7,249	5,931	37,911	709	4,261	—	42,881	
Cost to provide enrollment services	—	—	22,140	22,140	—	—	—	22,140	
Depreciation and amortization	3,436	1,326	1,658	6,420	—	349	—	6,769	
Other	14,605	2,327	2,442	19,374	5,139	4,254	—	28,767	
Intersegment expenses, net	1,060	1,118	959	3,137	17,047	(3,391)	(16,793)	—	
Total operating expenses	43,832	12,020	33,130	88,982	22,895	5,473	(16,793)	100,557	
Income (loss) before income taxes and corporate overhead allocation	14,708	2,743	(815)	16,636	50,062	(8,467)	—	58,231	
Corporate overhead allocation	(1,233)	(411)	(411)	(2,055)	(2,054)	4,109	—	—	
Income (loss) before income taxes	13,475	2,332	(1,226)	14,581	48,008	(4,358)	—	58,231	
Income tax (expense) benefit	(5,119)	(886)	466	(5,539)	(18,650)	3,083	—	(21,106)	
Net income (loss)	8,356	1,446	(760)	9,042	29,358	(1,275)	—	37,125	
Net income attributable to noncontrolling interest	\$ —	—	—	—	—	—	—	—	
Net income (loss) attributable to Nelnet, Inc.	\$ 8,356	1,446	(760)	9,042	29,358	(1,275)	—	37,125	

**Six months ended June 30, 2012**

	Fee-Based				Asset Generation and Management	Corporate Activity and Overhead	Eliminations	Total
	Student Loan and Guaranty Servicing	Tuition Payment Processing and Campus Commerce	Enrollment Services	Total Fee- Based				
Total interest income	\$ 32	5	—	37	304,752	3,335	(1,928)	306,196
Interest expense	—	—	—	—	134,846	3,855	(1,928)	136,773
Net interest income	32	5	—	37	169,906	(520)	—	169,423
Less provision for loan losses	—	—	—	—	13,000	—	—	13,000
Net interest income after provision for loan losses	32	5	—	37	156,906	(520)	—	156,423
Other income (expense):								
Loan and guaranty servicing revenue	101,879	—	—	101,879	—	—	—	101,879
Intersegment servicing revenue	33,355	—	—	33,355	—	—	(33,355)	—
Tuition payment processing and campus commerce revenue	—	38,747	—	38,747	—	—	—	38,747
Enrollment services revenue	—	—	61,374	61,374	—	—	—	61,374
Other income	—	—	—	—	8,581	11,173	—	19,754
Gain on sale of loans and debt repurchases	—	—	—	—	935	—	—	935
Derivative market value and foreign currency adjustments, net	—	—	—	—	(31,657)	(3,282)	—	(34,939)
Derivative settlements, net	—	—	—	—	(1,112)	(747)	—	(1,859)
Total other income (expense)	135,234	38,747	61,374	235,355	(23,253)	7,144	(33,355)	185,891
Operating expenses:								
Salaries and benefits	57,947	17,193	12,440	87,580	1,261	8,957	—	97,798
Cost to provide enrollment services	—	—	42,052	42,052	—	—	—	42,052
Depreciation and amortization	8,938	3,471	3,234	15,643	—	719	—	16,362
Other	36,205	5,272	3,701	45,178	6,752	11,241	—	63,171
Intersegment expenses, net	2,570	2,663	1,824	7,057	33,778	(7,480)	(33,355)	—
Total operating expenses	105,660	28,599	63,251	197,510	41,791	13,437	(33,355)	219,383
Income (loss) before income taxes and corporate overhead allocation	29,606	10,153	(1,877)	37,882	91,862	(6,813)	—	122,931
Corporate overhead allocation	(2,778)	(926)	(926)	(4,630)	(2,792)	7,422	—	—
Income (loss) before income taxes	26,828	9,227	(2,803)	33,252	89,070	609	—	122,931
Income tax (expense) benefit	(10,195)	(3,506)	1,065	(12,636)	(33,845)	8,373	—	(38,108)
Net income (loss)	16,633	5,721	(1,738)	20,616	55,225	8,982	—	84,823
Net income attributable to noncontrolling interest	—	—	—	—	—	288	—	288
Net income (loss) attributable to Nelnet, Inc.	\$ 16,633	5,721	(1,738)	20,616	55,225	8,694	—	84,535

**Six months ended June 30, 2011**

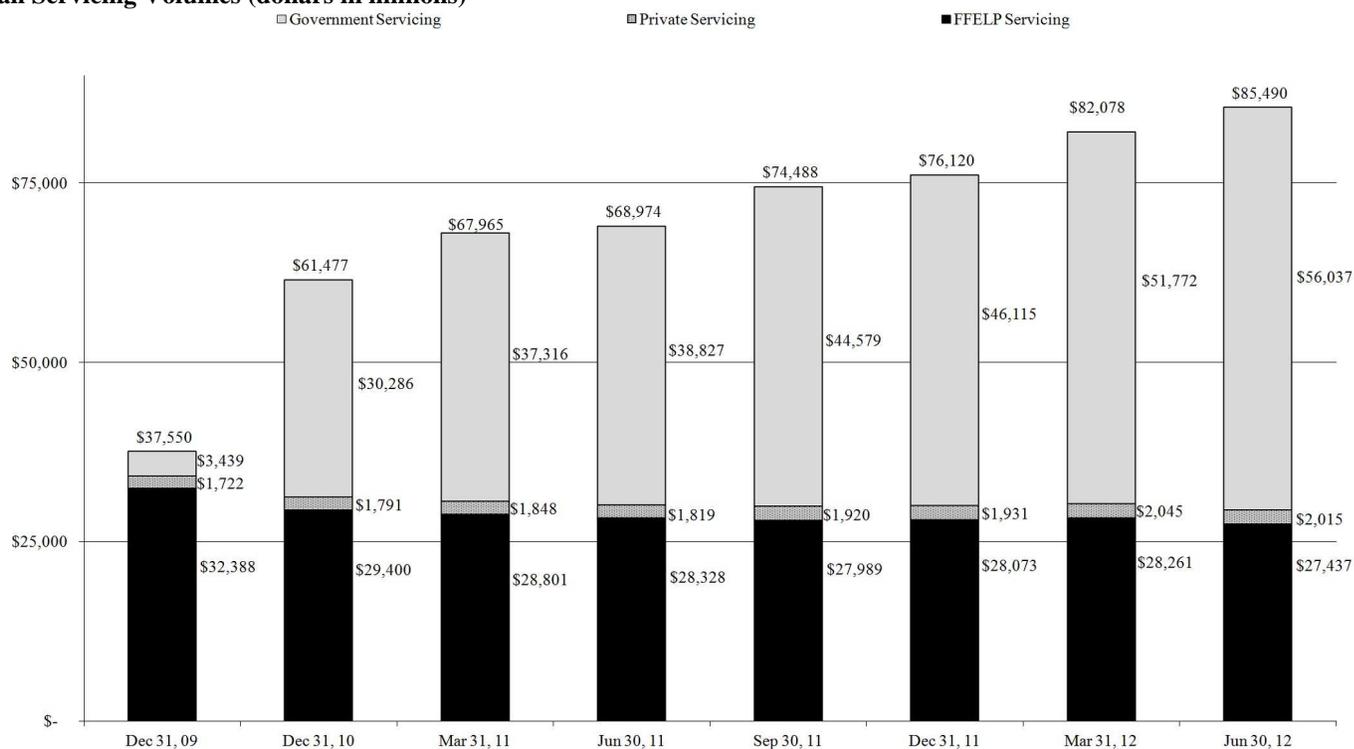
	Fee-Based				Asset Generation and Management	Corporate Activity and Overhead	Eliminations	Total
	Student Loan and Guaranty Servicing	Tuition Payment Processing and Campus Commerce	Enrollment Services	Total Fee- Based				
Total interest income	\$ 27	8	—	35	276,923	2,293	(1,377)	277,874
Interest expense	—	—	—	—	98,985	5,753	(1,377)	103,361
Net interest income	27	8	—	35	177,938	(3,460)	—	174,513
Less provision for loan losses	—	—	—	—	9,000	—	—	9,000
Net interest income after provision for loan losses	27	8	—	35	168,938	(3,460)	—	165,513
Other income (expense):								
Loan and guaranty servicing revenue	82,148	—	—	82,148	—	—	—	82,148
Intersegment servicing revenue	34,650	—	—	34,650	—	—	(34,650)	—
Tuition payment processing and campus commerce revenue	—	34,130	—	34,130	—	—	—	34,130
Enrollment services revenue	—	—	66,183	66,183	—	—	—	66,183
Other income	—	—	—	—	8,133	5,185	—	13,318
Gain on sale of loans and debt repurchases	—	—	—	—	1,400	6,907	—	8,307
Derivative market value and foreign currency adjustments, net	—	—	—	—	(13,120)	(2,577)	—	(15,697)
Derivative settlements, net	—	—	—	—	(7,312)	(362)	—	(7,674)
Total other income (expense)	116,798	34,130	66,183	217,111	(10,899)	9,153	(34,650)	180,715
Operating expenses:								
Salaries and benefits	50,119	14,401	12,188	76,708	1,487	8,598	—	86,793
Cost to provide enrollment services	—	—	44,979	44,979	—	—	—	44,979
Depreciation and amortization	6,842	2,660	3,349	12,851	—	694	—	13,545
Other	29,184	4,961	4,760	38,905	6,677	9,290	—	54,872
Intersegment expenses, net	2,429	2,211	1,777	6,417	35,194	(6,961)	(34,650)	—
Total operating expenses	88,574	24,233	67,053	179,860	43,358	11,621	(34,650)	200,189
Income (loss) before income taxes and corporate overhead allocation	28,251	9,905	(870)	37,286	114,681	(5,928)	—	146,039
Corporate overhead allocation	(1,986)	(662)	(662)	(3,310)	(3,309)	6,619	—	—
Income (loss) before income taxes	26,265	9,243	(1,532)	33,976	111,372	691	—	146,039
Income tax (expense) benefit	(9,979)	(3,512)	583	(12,908)	(42,728)	1,602	—	(54,034)
Net income (loss)	\$ 16,286	5,731	(949)	21,068	68,644	2,293	—	92,005
Net income attributable to noncontrolling interest	\$ —	—	—	—	—	—	—	—
Net income (loss) attributable to Nelnet, Inc.	\$ 16,286	5,731	(949)	21,068	68,644	2,293	—	92,005

**Net Interest Income After Provision for Loan Losses (Net of Settlements on Derivatives)**

The following table summarizes the components of “net interest income after provision for loan losses,” net of “derivative settlements, net” included in the attached condensed consolidated statements of income.

	Three months ended			Six months ended	
		March 31,			
	June 30, 2012	2012	June 30, 2011	June 30, 2012	June 30, 2011
Variable student loan interest margin, net of settlements on derivatives	\$ 47,606	47,335	54,244	94,941	106,888
Fixed rate floor income, net of settlements on derivatives	36,984	38,092	32,801	75,076	64,483
Investment interest	1,055	1,095	856	2,150	1,582
Non-portfolio related derivative settlements	(748)	—	(247)	(748)	(361)
Corporate debt interest expense	(2,416)	(1,439)	(2,440)	(3,855)	(5,753)
Provision for loan losses	(7,000)	(6,000)	(5,250)	(13,000)	(9,000)
Net interest income after provision for loan losses (net of settlements on derivatives)	\$ 75,481	79,083	79,964	154,564	157,839

## Student Loan Servicing Volumes (dollars in millions)



Company owned	\$23,139	\$23,727	\$23,249	\$22,757	\$22,503	\$22,650	\$22,277	\$21,926
% of total	61.6%	38.6%	34.2%	33.0%	30.2%	29.8%	27.1%	25.6%
Number of servicing borrowers:								
Government servicing:	441,913	2,804,502	2,814,142	2,666,183	2,966,706	3,036,534	3,096,026	3,137,583
FFELP servicing:	2,311,558	1,912,748	1,870,538	1,837,272	1,812,582	1,799,484	1,779,245	1,724,087
<b>Total:</b>	<b>2,753,471</b>	<b>4,717,250</b>	<b>4,684,680</b>	<b>4,503,455</b>	<b>4,779,288</b>	<b>4,836,018</b>	<b>4,875,271</b>	<b>4,861,670</b>
Number of remote hosted borrowers								
	684,996	545,456	529,682	514,538	579,600	9,566,296	8,645,463	7,909,300

## Derivative Market Value and Foreign Currency Adjustments

The following table summarizes the components of “derivative market value and foreign currency adjustments” included in the attached condensed consolidated statements of income.

	Three months ended			Six months ended	
	June 30, 2012	March 31, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Change in fair value of derivatives - income (expense)	\$ (78,758)	16,835	2,207	(61,923)	68,658
Foreign currency transaction adjustment - income (expense)	59,226	(32,242)	(19,020)	26,984	(84,355)
<b>Derivative market value and foreign currency adjustments - income (expense)</b>	<b>\$ (19,532)</b>	<b>(15,407)</b>	<b>(16,813)</b>	<b>(34,939)</b>	<b>(15,697)</b>

## Derivative Settlements, net

The following table summarizes the components of "derivative settlements, net" included in the attached condensed consolidated statements of income.

	Three months ended			Six months ended	
	June 30, 2012	March 31, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Settlements:					
1:3 basis swaps	\$ 1,169	1,381	373	2,551	581
T-Bill/LIBOR basis swaps	—	—	(64)	—	(194)
Interest rate swaps - floor income hedges	(3,505)	(3,137)	(6,345)	(6,642)	(12,563)
Interest rate swaps - hybrid debt hedges	(723)	—	(248)	(746)	(494)
Cross-currency interest rate swaps	1,055	2,109	2,770	3,163	4,880
Other	(82)	(126)	(8)	(185)	116
Total settlements - (expense) income	\$ (2,086)	227	(3,522)	(1,859)	(7,674)

## Student Loans Receivable

The tables below outline the components of the Company's student loan portfolio:

	As of June 30, 2012	As of December 31, 2011	As of June 30, 2011
Federally insured loans:			
Stafford and other	\$ 7,127,383	7,480,182	7,743,675
Consolidation	16,423,741	16,852,527	15,339,482
Total	23,551,124	24,332,709	23,083,157
Non-federally insured loans	31,471	26,916	30,655
	23,582,595	24,359,625	23,113,812
Unamortized loan discount/premiums and deferred origination costs, net	(31,556)	(13,267)	157,266
Allowance for loan losses – federally insured loans	(36,992)	(37,205)	(31,968)
Allowance for loan losses – non-federally insured loans	(12,665)	(11,277)	(10,332)
	\$ 23,501,382	24,297,876	23,228,778
Allowance for federally insured loans as a percentage of such loans	0.16%	0.15%	0.14%
Allowance for non-federally insured loans as a percentage of such loans	40.24%	41.90%	33.70%

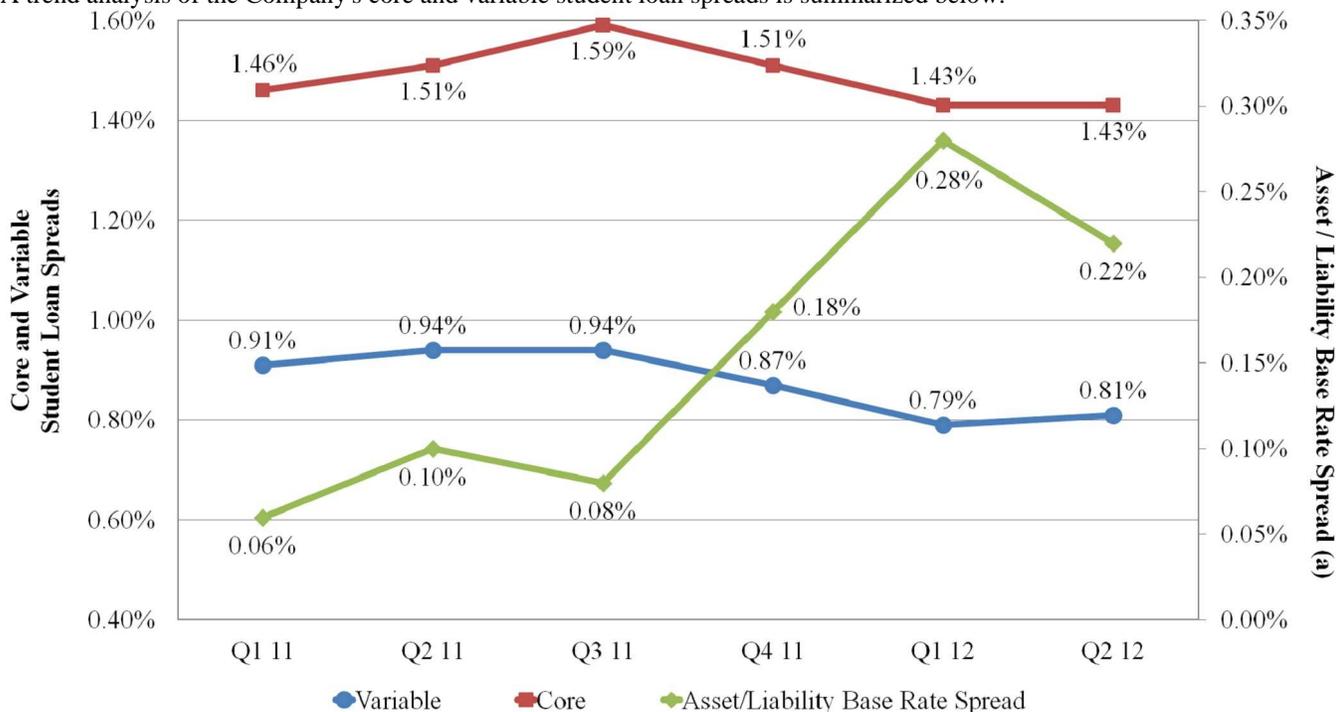
## Student Loan Spread

The following table analyzes the student loan spread on the Company's portfolio of student loans and represents the spread on assets earned in conjunction with the liabilities and derivative instruments used to fund the assets.

	Three months ended			Six months ended	
	June 30, 2012	March 31, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Variable student loan yield, gross	2.63 %	2.63 %	2.57 %	2.63 %	2.58 %
Consolidation rebate fees	(0.75)	(0.75)	(0.71)	(0.75)	(0.72)
Premium/discount and deferred origination costs amortization/accretion, net (a)	(0.01)	(0.02)	(0.14)	(0.02)	(0.15)
Variable student loan yield, net	1.87	1.86	1.72	1.86	1.71
Student loan cost of funds - interest expense	(0.98)	(1.02)	(0.83)	(1.00)	(0.83)
Student loan cost of funds - bonds and notes payable discount accretion (a)	(0.11)	(0.11)	—	(0.11)	—
Student loan cost of funds - derivative settlements	0.03	0.06	0.05	0.05	0.04
Variable student loan spread	0.81	0.79	0.94	0.80	0.92
Fixed rate floor income, net of settlements on derivatives	0.62	0.64	0.57	0.63	0.56
Core student loan spread	1.43 %	1.43 %	1.51 %	1.43 %	1.48 %
Average balance of student loans	\$ 23,863,104	24,118,892	23,293,870	23,990,998	23,440,060
Average balance of debt outstanding	23,953,317	24,236,068	23,510,072	24,094,693	23,680,897

- (a) On July 8, 2011, the Company purchased the residual interest in \$1.9 billion of consolidation loans and recorded the loans and related debt at fair value resulting in the recognition of a significant student loan discount and bonds and notes payable discount. These discounts are being accreted using the effective interest method over the lives of the underlying assets/liabilities.

A trend analysis of the Company's core and variable student loan spreads is summarized below.



- (a) Prior to April 1, 2012, the interest earned on the majority of the Company's FFELP student loan assets was indexed to the three-month commercial paper index. As allowed by recent legislation, effective April 1, 2012, the Company elected to change the index on which the Special Allowance Payments are

calculated for FFELP loans from the commercial paper rate to the one-month LIBOR rate. The Company funds the majority of its assets with three-month LIBOR indexed floating rate securities. The relationship between the indices in which the Company earns interest on its loans and funds such loans has a significant impact on student loan spread. This table (the right axis) shows the difference between the Company's liability base rate and the one-month LIBOR (Q2 2012) or commercial paper indices (Q1 2011 - Q1 2012) by quarter.

Variable student loan spread decreased during 2012 as compared to 2011 as a result of the widening of the Asset/Liability Base Rate Spread as reflected in the above table.

The primary difference between variable student loan spread and core student loan spread is fixed rate floor income, net of settlements on derivatives. A summary of fixed rate floor income and its contribution to core student spread follows:

	Three months ended			Six months ended	
	June 30, 2012	March 31, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Fixed rate floor income, gross	\$ 40,489	41,229	39,146	81,718	77,046
Derivative settlements (a)	(3,505)	(3,137)	(6,345)	(6,642)	(12,563)
Fixed rate floor income, net	\$ 36,984	38,092	32,801	75,076	64,483
Fixed rate floor income contribution to spread, net	0.62%	0.64%	0.57%	0.63%	0.56%

(a) Includes settlement payments on derivatives used to hedge student loans earning fixed rate floor income.

The high levels of fixed rate floor income earned during 2012 and 2011 are due to historically low interest rates. In addition, in July 2011, the Company purchased the residual interest in \$1.9 billion of consolidation loans which has increased the amount of fixed rate floor income earned by the Company. If interest rates remain low, the Company anticipates continuing to earn significant fixed rate floor income in future periods.

### Fixed Rate Floor Income

The following table shows the Company's student loan assets that are earning fixed rate floor income as of June 30, 2012 :

Fixed interest rate range	Borrower/lender weighted average yield	Estimated variable conversion rate (a)	Loan Balance
3.0 - 3.49%	3.20%	0.56%	\$ 1,934,663
3.5 - 3.99%	3.65%	1.01%	1,902,476
4.0 - 4.49%	4.20%	1.56%	1,455,221
4.5 - 4.99%	4.72%	2.08%	822,589
5.0 - 5.49%	5.24%	2.60%	553,100
5.5 - 5.99%	5.66%	3.02%	345,614
6.0 - 6.49%	6.18%	3.54%	395,515
6.5 - 6.99%	6.70%	4.06%	349,647
7.0 - 7.49%	7.17%	4.53%	139,208
7.5 - 7.99%	7.70%	5.06%	235,762
8.0 - 8.99%	8.17%	5.53%	522,505
> 9.0%	9.04%	6.40%	246,025
			\$ 8,902,325

(a) The estimated variable conversion rate is the estimated short-term interest rate at which loans would convert to a variable rate. As of June 30, 2012, the weighted average estimated variable conversion rate was 2.09%. As of June 30, 2012, the short-term interest rate was 25 basis points.

The following table summarizes the outstanding derivative instruments as of June 30, 2012 used by the Company to hedge loans earning fixed rate floor income.

<u>Maturity</u>	<u>Notional amount</u>	<u>Weighted average fixed rate paid by the Company (a)</u>
2013	\$ 2,150,000	0.85%
2014	750,000	0.85
2015 (b)	1,100,000	0.89
2016	750,000	0.85
2017	750,000	0.99
2020	50,000	3.23
	<u>\$ 5,550,000</u>	<u>0.90%</u>

(a) For all interest rate derivatives, the Company receives discrete three-month LIBOR.

(b) \$500 million of these derivatives have a forward effective start date in 2013.

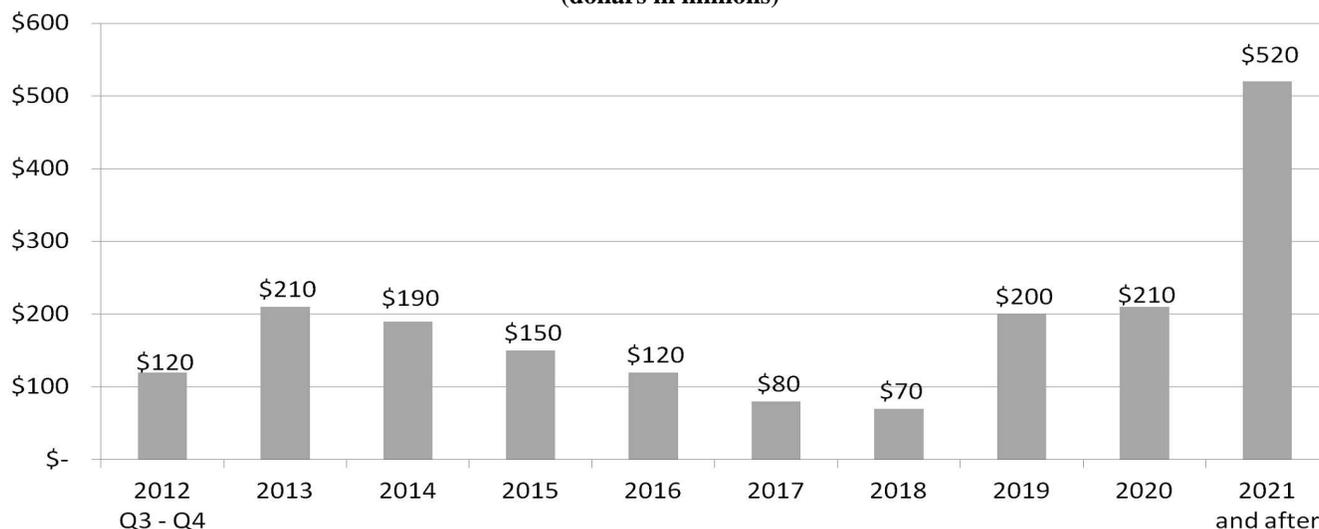
### Future Cash Flow from Portfolio

The majority of the Company's portfolio of student loans is funded in asset-backed securitizations that are structured to substantially match the maturity of the funded assets, thereby minimizing liquidity risk. In addition, due to (i) the difference between the yield the Company receives on the loans and cost of financing within these transactions, and (ii) the excess servicing and administration fees the Company earns from these transactions, the Company has created a portfolio that will generate earnings and significant cash flow over the life of these transactions.

As of June 30, 2012, based on cash flow models developed to reflect management's current estimate of, among other factors, prepayments, defaults, deferment, forbearance, and interest rates, the Company currently expects future undiscounted cash flows from its portfolio to be approximately \$1.87 billion as detailed below. The \$1.87 billion includes approximately \$378.5 million (as of June 30, 2012) of overcollateralization included in the asset-backed securitizations. These excess net asset positions are reflected variously in the following balances on the consolidated balance sheet: "student loans receivable," "restricted cash and investments," and "accrued interest receivable."

The forecasted cash flow presented below includes all loans currently funded in asset-backed securitizations. As of June 30, 2012, the Company had \$20.6 billion of loans included in asset-backed securitizations, which represented 87 percent of its total FFELP student loan portfolio. The forecasted cash flow does not include cash flows that the Company expects to receive related to loans funded through the Department of Education's Conduit Program and other warehouse facilities or loans acquired subsequent to June 30, 2012.

**FFELP Asset-backed Securitization Cash Flow Forecast (a)**  
**\$1.87 billion**  
**(dollars in millions)**



- (a) The Company uses various assumptions, including prepayments and future interest rates, when preparing its cash flow forecast. These assumptions are further discussed below.

Prepayments : The primary variable in establishing a life of loan estimate is the level and timing of prepayments. Prepayment rates equal the amount of loans that prepay annually as a percentage of the beginning of period balance, net of scheduled principal payments. A number of factors can affect estimated prepayment rates, including the level of consolidation activity and default rates. Should any of these factors change, management may revise its assumptions, which in turn would impact the projected future cash flow. The Company's cash flow forecast above assumes prepayment rates that are generally consistent with those utilized in the Company's recent asset-backed securities transactions. If management used a prepayment rate assumption two times greater than what was used to forecast the cash flow, the cash flow forecast would be reduced by approximately \$300 million to \$360 million .

Interest rates : The Company funds the majority of its student loans with three-month LIBOR ("LIBOR") indexed floating rate securities. Meanwhile, the interest earned on the Company's student loan assets are indexed primarily to a one-month LIBOR rate. The different interest rate characteristics of the Company's loan assets and liabilities funding these assets result in basis risk. The Company's cash flow forecast assumes three-month LIBOR will exceed one-month LIBOR by 12 basis points for the life of the portfolio, which approximates the historical relationship between these indices. If the forecast is computed assuming a spread of 24 basis points between three-month and one-month LIBOR for the life of the portfolio, the cash flow forecast would be reduced by approximately \$60 million to \$100 million .

The Company uses the current forward interest rate yield curve to forecast cash flows. A change in the forward interest rate curve would impact the future cash flows generated from the portfolio. An increase in future interest rates will reduce the amount of fixed rate floor income the Company is currently receiving. The Company attempts to mitigate the impact of a rise in short-term rates by hedging interest rate risks. As of June 30, 2012 , the net fair value of the Company's interest rate derivatives used to hedge loans earning fixed rate floor income was a liability of \$29.6 million .

### Sources of Liquidity Currently Available

As of June 30, 2012 , the Company had \$557.5 million of liquidity available for use (as summarized below). In addition, the Company generates a significant amount of cash from operations. The Company will continue to use its strong liquidity position to capitalize on market opportunities, including FFELP student loan acquisitions; strategic acquisitions and investments in its core business areas of loan financing, loan servicing, payment processing, and enrollment services (education planning); and capital management initiatives, including stock repurchases, debt repurchases, and dividend distributions.

The following table details the Company's sources of liquidity currently available:

	<b>As of June 30, 2012</b>	
<b>Sources of primary liquidity:</b>		
Cash and cash equivalents	\$	56,255
Investments		74,055
Unencumbered private student loan assets		23,171
Asset-backed security investments - Class B subordinated notes (a)		94,113
Asset-backed security investments (b)		69,944
Available balance on unsecured line of credit		240,000
<b>Total sources of primary liquidity</b>	<b>\$</b>	<b>557,538</b>

- (a) As part of the Company's issuance of asset-backed securitizations in 2008 and 2012, the Company purchased the Class B subordinated notes of \$76.5 million (par value) and \$17.6 million (par value), respectively. These notes are not included on the Company's consolidated balance sheet. Upon a sale of these notes to third parties, the Company would obtain cash proceeds equal to the market value of the notes on the date of such sale. The amount included in the table above is the par value of these subordinated notes and may not represent market value upon sale of the notes.
- (b) The Company has repurchased its own asset-backed securities (bonds and notes payable). For accounting purposes, these notes are effectively retired and are not included on the Company's consolidated balance sheet. However, as of June 30, 2012 , \$69.9 million of these securities are legally outstanding at the trust level and the Company could sell these notes to third parties or redeem the notes at par as cash is generated by the trust estate. Upon a sale to third parties, the Company would obtain cash proceeds equal to the market value of the notes on the date of such sale. The amount included in the table above is the par value of these notes and may not represent market value upon sale of the notes.