

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)
May 8, 2018

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

Nebraska	001-31924	84-0748903
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)
121 South 13th Street, Suite 100 Lincoln, Nebraska		68508
(Address of principal executive offices)		(Zip Code)

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

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

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Item 2.02 Results of Operations and Financial Condition.

On May 8, 2018, Nelnet, Inc. (the "Company") issued a press release with respect to its financial results for the quarter ended March 31, 2018. 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 March 31, 2018, which was made available on the Company's website at www.nelnetinvestors.com on May 8, 2018 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.

Certain statements contained in the exhibits furnished with this report may be considered forward looking in nature and are subject to various risks, uncertainties, and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, the Company's actual results may vary materially from those anticipated, estimated, or expected. Among the key risks and uncertainties that may have a direct bearing on the Company's future operating results, performance, or financial condition expressed or implied by the forward-looking statements are the matters discussed in the Risk Factors section of the Company's Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC on February 27, 2018. Although the Company may from time to time voluntarily update its prior forward-looking statements, it disclaims any commitment to do so except as required by securities laws.

Item 9.01 Financial Statements and Exhibits.

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

Exhibit No.	Description
99.1	Press release dated May 8, 2018 - "Nelnet Reports First Quarter 2018 Results"
99.2	Supplemental Financial Information for the Quarter Ended March 31, 2018

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: May 8, 2018

NELNET, INC.

By: /s/ JAMES D. KRUGER
Name: James D. Kruger
Title: Chief Financial Officer

Nelnet Reports First Quarter 2018 Results

- **GAAP net income \$2.78 per share, \$1.67 per share excluding adjustments**
- **Completed Great Lakes acquisition**
- **Loan acquisitions of \$2.44 billion, including post-quarter acquisitions**

LINCOLN, Neb., May 8, 2018 - Nelnet (NYSE: NNI) today reported GAAP net income of \$113.9 million , or \$2.78 per share, for the first quarter of 2018, compared with GAAP net income of \$50.0 million, or \$1.18 per share, for the same period a year ago.

Net income, excluding derivative market value and foreign currency transaction adjustments, was \$68.3 million , or \$1.67 per share, for the first quarter of 2018, compared with \$52.2 million , or \$1.23 per share, for the same period in 2017. For additional information on these non-GAAP metrics, including reconciliations to GAAP net income, see "Non-GAAP Performance Measures" below.

Several factors increased GAAP net income for the three months ended March 31, 2018, as compared with the same period in 2017:

- The company's effective tax rate decreased to 24.0 percent from 36.5 percent due to the Tax Cuts and Jobs Act, effective January 1, 2018;
- The contribution to net income from the acquisition of Great Lakes on February 7, 2018;
- Gains recognized by the company from real estate and other investment activities; and
- Larger gains due to changes in the fair values of derivative instruments that do not qualify for hedge accounting.

These factors were partially offset by the increase in expenses for the continued build-out of the company's ALLO fiber communications network in Lincoln, Nebraska.

"This quarter comes with mixed emotions. We mourned the passing of one of our founders this last month," said Jeff Noordhoek, chief executive officer of Nelnet. "Steve "Butter" Butterfield was our current vice chairman and served as co-CEO until 2007. He was a close friend and mentor to us all. In his role as vice chairman and a major shareholder, Steve would get excited when we reported earnings. I can imagine that Butter is smiling from heaven over this quarter's earnings."

Nelnet operates four primary business segments, earning interest income on student loans in its Asset Generation and Management segment, and fee-based revenue in its Loan Servicing and Systems, Education Technology, Services, and Payment Processing (formally known as Tuition Payment Processing and Campus Commerce), and Communications segments.

Asset Generation and Management

For the first quarter of 2018, Nelnet reported net interest income of \$67.3 million , compared with \$76.9 million for the same period a year ago. The company maintains an overall risk management strategy that incorporates the use of derivative instruments to reduce the economic effect of interest rate volatility. Derivative settlements for each applicable period should be evaluated with the company's net interest income. The company recognized income from derivative settlements of \$6.8 million during the first quarter of 2018, compared to an expense from derivative settlements of \$1.4 million for the same period in 2017.

The company's average balance of loans decreased to \$21.9 billion for the first quarter of 2018, compared with \$24.8 billion for the same period in 2017. Core loan spread increased to 1.29 percent for the quarter ended March 31, 2018, compared with 1.23 percent for the same period in 2017.

Year to date, through May 8, 2018, the company has purchased \$2.44 billion in federally insured student loans, including \$584.6 million during the three months ended March 31, 2018.

Loan Servicing and Systems

On February 7, 2018, the company completed its acquisition of Great Lakes Educational Loan Services, Inc. ("Great Lakes") from Great Lakes Higher Education Corporation. The company paid \$150.0 million in cash for 100 percent of the stock of Great Lakes. Beginning February 7, 2018, the operating results of Great Lakes are included in the company's Loan Servicing and Systems segment.

Revenue from the Loan Servicing and Systems segment was \$100.1 million for the first quarter of 2018, including \$43.5 million of revenue contributed by Great Lakes, compared with \$54.2 million for the same period in 2017. In February 2018, Great Lakes recognized revenue of \$4.6 million (\$3.5 million after tax, or \$0.09 per share) in deconversion fees related to a private education loan servicing customer leaving its servicing platform.

As of March 31, 2018, the company was servicing \$470.8 billion in government-owned, Federal Family Education Loan (FFEL) Program, private education, and consumer loans, including \$255.1 billion as a result of the acquisition of Great Lakes.

Nelnet Servicing, LLC (Nelnet Servicing) and Great Lakes are two of the organizations that have student loan servicing contracts awarded by the U.S. Department of Education (Department) to provide servicing for loans owned by the Department. As of March 31, 2018, Nelnet Servicing was servicing \$176.6 billion of student loans for 5.8 million borrowers under its contract, and Great Lakes was servicing \$242.1 billion of student loans for 7.5 million borrowers under its contract. These contracts are currently scheduled to expire on June 19, 2019.

On February 20, 2018, the Department's Office of Federal Student Aid released information regarding the new federal student loan servicing procurement process. The contract solicitation process is divided into two phases. The company responded to Phase One on April 17, 2018.

Education Technology, Services, and Payment Processing

For the first quarter of 2018, revenue from the Education Technology, Services, and Payment Processing segment was \$60.2 million, an increase of \$4.2 million, or 7 percent, from the same period in 2017, which prior period revenues were restated, without any impact on prior period net income, in connection with the implementation of a new revenue recognition accounting standard effective January 1, 2018. The increase in revenue was primarily driven by growth in managed tuition payment plans, campus commerce customer transactions and payments volume, and new school customers.

This segment is subject to seasonal fluctuations. Based on the timing of when revenue is recognized and when expenses are incurred, revenue and operating margin are higher in the first quarter as compared to the remainder of the year.

Communications

Revenue from ALLO Communications was \$9.2 million for the first quarter of 2018, compared with \$ 5.1 million for the same period in 2017. The number of households served as of March 31, 2018, was 23,541, an increase of 13,017, or more than 100 percent, from the number of households served as of March 31, 2017.

For the first quarter of 2018, ALLO recognized a net loss of \$7.0 million, compared with a net loss of \$2.8 million for the same period in 2017. The company anticipates this operating segment will be dilutive to consolidated earnings as it continues to build its network in Lincoln, Nebraska and other communities, due to large upfront capital expenditures and associated depreciation and upfront customer acquisition costs. ALLO's management uses earnings (loss) before interest, income taxes, depreciation, and amortization (EBITDA) to eliminate certain non-cash and non-operating items in order to consistently measure performance from period to period. For the first quarter of 2018, ALLO had negative EBITDA of \$1.8 million, compared with negative EBITDA of \$1.7 million for the same period in 2017. For additional information on this non-GAAP metric, including a reconciliation to ALLO's GAAP net loss, see "Non-GAAP Performance Measures" below.

ALLO incurred capital expenditures of \$17.9 million in the first quarter of 2018. The company currently anticipates total network expenditures for the remainder of 2018 will be approximately \$65 million; however, the amount of capital expenditures could change based on customer demand for ALLO's services. The number of residential households passed, which represents the estimated number of single residence homes, apartments, and condominiums that ALLO already serves, and those in which ALLO has the capacity to connect to its network distribution system without further material extensions to the transmission lines (but have not been connected), increased to 84,475 as of March 31, 2018, compared with 71,426 as of December 31, 2017.

Other Income

Other income for the three months ended March 31, 2018 included unrealized gains of \$6.7 million (\$5.1 million after tax, or \$0.12 per share) related to the change in fair value of certain equity securities, and a realized gain of \$1.7 million (\$1.3 million after tax, or \$0.03 per share) related to the sale of a real estate investment.

Liquidity and Capital Activities

For the first quarter of 2018, the company generated \$58.0 million in net cash from operating activities. In addition, as of March 31, 2018, the company had a total of \$151.4 million in cash and cash equivalents and available-for-sale investments, consisting primarily of student loan asset-backed securities. The company also has a \$350.0 million unsecured line of credit that has a maturity date of December 12, 2021. As of March 31, 2018 and May 8, 2018, \$150.0 million and \$190.0 million, respectively, were outstanding on the line of credit and \$200.0 million and \$160.0 million, respectively, were available for future use.

During the three months ended March 31, 2018, the company repurchased a total of 222,174 shares of Class A common stock for \$11.4 million (\$51.39 per share). The majority of these repurchases were made pursuant to a trading plan adopted by the company in accordance with Rule 10b5-1 under the Securities Exchange Act of 1934.

The company paid cash dividends of \$6.5 million, or \$0.16 per share, during the first quarter of 2018.

The company intends to use its liquidity position to capitalize on market opportunities, including: FFEL Program, private education, and consumer loan acquisitions; strategic acquisitions and investments; expansion of ALLO's communications network; and capital management initiatives, including stock repurchases, debt repurchases, and dividend distributions. The timing and size of these opportunities will vary and will have a direct impact on the company's cash and investment balances.

Board of Directors Declares Second Quarter Dividend

The Nelnet Board of Directors declared a second quarter cash dividend on the company's outstanding shares of Class A common stock and Class B common stock of \$0.16 per share. The dividend will be paid on June 15, 2018 to shareholders of record at the close of business on June 1, 2018.

Non-GAAP Performance Measures

The company prepares its financial statements and presents its financial results in accordance with GAAP. However, it also provides additional non-GAAP financial information related to specific items management believes to be important in the evaluation of its operating results and performance. A reconciliation of the company's GAAP net income to net income, excluding derivative market value and foreign currency transaction adjustments, and a discussion of why the company believes providing this additional information is useful to investors, is provided below.

	Three months ended March 31,	
	2018	2017
	(dollars in thousands, except share data)	
GAAP net income attributable to Nelnet, Inc.	\$ 113,925	50,026
Realized and unrealized derivative market value adjustments	(60,033)	(1,238)
Unrealized foreign currency transaction adjustments	—	4,690
Net tax effect	14,408	(1,312)
Net income, excluding derivative market value and foreign currency transaction adjustments	\$ 68,300	52,166
Earnings per share:		
GAAP net income attributable to Nelnet, Inc.	\$ 2.78	1.18
Realized and unrealized derivative market value adjustments	(1.46)	(0.03)
Unrealized foreign currency transaction adjustments	—	0.11
Net tax effect	0.35	(0.03)
Net income, excluding derivative market value and foreign currency transaction adjustments	\$ 1.67	1.23

"Derivative market value and foreign currency transaction adjustments" include (i) both the realized portion of gains and losses (corresponding to variation margin received or paid on derivative instruments that are settled daily at a central clearinghouse) and the unrealized portion of gains and losses that are caused by changes in fair values of derivatives that do not qualify for "hedge treatment" under GAAP; and (ii) the unrealized foreign currency transaction gains or losses caused by the re-measurement of the

company's Euro-denominated bonds to U.S. dollars. In October 2017, the company remarketed its Euro-denominated bonds to denominate those bonds in U.S. dollars. "Derivative market value and foreign currency transaction adjustments" does not include "derivative settlements" that represent the cash paid or received during the current period to settle with derivative instrument counterparties the economic effect of the company's derivative instruments based on their contractual terms. The tax effects in the preceding table are calculated by multiplying the realized and unrealized derivative market value adjustments and unrealized foreign currency transaction adjustments by the applicable statutory income tax rate.

The company believes these point-in-time estimates of asset and liability values related to its derivative instruments and Euro-denominated bonds that are or were subject to interest and currency rate fluctuations are or were subject to volatility, primarily due to timing and market factors beyond the control of management, and affect the period-to-period comparability of the results of operations. Accordingly, the company's management utilizes operating results excluding these items for comparability purposes when making decisions regarding the company's performance and in presentations with credit rating agencies, lenders, and investors. Consequently, the company reports this non-GAAP information because the company believes that it provides additional information regarding operational and performance indicators that are closely assessed by management. There is no comprehensive, authoritative guidance for the presentation of such non-GAAP information, which is only meant to supplement GAAP results by providing additional information that management utilizes to assess performance.

A reconciliation of ALLO's GAAP net loss to earnings (loss) before net interest expense, income taxes, depreciation, and amortization (EBITDA), is provided below.

	Three months ended March 31,	
	2018	2017
	(dollars in thousands)	
Net loss	\$ (7,040)	(2,821)
Net interest expense	2,508	711
Income tax benefit	(2,223)	(1,730)
Depreciation and amortization	4,921	2,135
Earnings (loss) before interest, income taxes, depreciation, and amortization (EBITDA)	\$ (1,834)	(1,705)

EBITDA is a supplemental non-GAAP performance measure that is frequently used in capital-intensive industries such as telecommunications. ALLO's management uses EBITDA to compare ALLO's performance to that of its competitors and to eliminate certain non-cash and non-operating items in order to consistently measure performance from period to period. EBITDA excludes interest and income taxes because these items are associated with a company's particular capitalization and tax structures. EBITDA also excludes depreciation and amortization expense because these non-cash expenses primarily reflect the impact of historical capital investments, as opposed to the cash impacts of capital expenditures made in recent periods, which may be evaluated through cash flow measures. The company reports EBITDA for ALLO because the company believes that it provides useful additional information for investors regarding a key metric used by management to assess ALLO's performance. There are limitations to using EBITDA as a performance measure, including the difficulty associated with comparing companies that use similar performance measures whose calculations may differ from ALLO's calculations. In addition, EBITDA should not be considered a substitute for other measures of financial performance, such as net income or any other performance measures derived in accordance with GAAP.

Forward-Looking and Cautionary Statements

This press release contains forward-looking statements within the meaning of federal securities laws. The words "anticipate," "continue," "expect," "future," "intend," "scheduled," "will," and similar expressions, as well as statements in future tense, are intended to identify forward-looking statements. 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, but are not limited to: risks related to the company's student loan portfolio, such as interest rate basis and repricing risk and changes in levels of student loan repayment or default rates; the use of derivatives to manage exposure to interest rate fluctuations; the uncertain nature of the expected benefits from the acquisition of Great Lakes on February 7, 2018 and the ability to successfully integrate technology, shared services, and other activities and successfully maintain and increase allocated volumes of student loans serviced under existing and any future servicing contracts with the Department; risks to the company related to the Department's initiative to procure new contracts for federal student loan servicing, including the risk that the company on a post-Great Lakes acquisition basis may not be awarded a contract; risks related to the development by the company and Great Lakes of a new student loan

servicing platform, including risks as to whether the expected benefits from the new platform will be realized; the uncertain nature of expected benefits from FFEL Program, private education, and consumer loan purchases and initiatives to purchase additional FFEL Program, private education, and consumer loans; financing and liquidity risks, including risks of changes in the securitization and other financing markets for student loans; risks and uncertainties from changes in the educational credit and services marketplace resulting from changes in applicable laws, regulations, and government programs and budgets, such as the expected decline over time in FFEL Program loan interest income and fee-based revenues due to the discontinuation of FFEL Program loan originations in 2010 and the resulting initiatives by the company to adjust to a post-FFEL Program environment; the uncertain nature of the expected benefits from the acquisition of ALLO on December 31, 2015, and the ability to successfully integrate its communications operations and successfully expand its fiber network in existing service areas and additional communities and manage related construction risks; risks and uncertainties related to initiatives to pursue additional strategic investments and acquisitions, including investments and acquisitions that are intended to diversify the company both within and outside of its historical core education-related businesses; 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 first quarter ended March 31, 2018. All forward-looking statements in this release are as of the date of this release. Although the company may voluntarily update or revise its forward-looking statements from time to time 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.

Consolidated Statements of Income
(Dollars in thousands, except share data)
(unaudited)

	Three months ended		
	March 31, 2018	December 31, 2017	March 31, 2017
Interest income:			
Loan interest	\$ 197,723	193,556	181,207
Investment interest	5,134	3,080	2,617
Total interest income	202,857	196,636	183,824
Interest expense:			
Interest on bonds and notes payable	135,550	123,401	106,899
Net interest income	67,307	73,235	76,925
Less provision for loan losses	4,000	3,750	1,000
Net interest income after provision for loan losses	63,307	69,485	75,925
Other income:			
Loan servicing and systems revenue	100,141	55,921	54,229
Education technology, services, and payment processing revenue	60,221	43,326	56,024
Communications revenue	9,189	8,122	5,106
Other income	18,198	7,952	12,632
Gain (loss) from debt repurchases, net	359	(2,635)	4,980
Derivative market value and foreign currency transaction adjustments and derivative settlements, net	66,799	7,014	(4,830)
Total other income	254,907	119,700	128,141
Cost of services:			
Cost to provide education technology, services, and payment processing services	13,683	11,223	12,790
Cost to provide communications services	3,717	3,160	1,954
Total cost of services	17,400	14,383	14,744
Operating expenses:			
Salaries and benefits	96,643	81,201	71,863
Depreciation and amortization	18,457	11,854	8,598
Loan servicing fees	3,136	3,064	6,025
Other expenses	33,417	38,455	26,161
Total operating expenses	151,653	134,574	112,647
Income before income taxes	149,161	40,228	76,675
Income tax (expense) benefit	(35,976)	5,486	(28,755)
Net income	113,185	45,714	47,920
Net loss attributable to noncontrolling interests	740	2,386	2,106
Net income attributable to Nelnet, Inc.	\$ 113,925	48,100	50,026
Earnings per common share:			
Net income attributable to Nelnet, Inc. shareholders - basic and diluted	\$ 2.78	1.17	1.18
Weighted average common shares outstanding - basic and diluted	40,950,528	41,012,731	42,291,857

Condensed Consolidated Balance Sheets
(Dollars in thousands)
(unaudited)

	As of March 31, 2018	As of December 31, 2017	As of March 31, 2017
Assets:			
Loans receivable, net	\$ 21,562,030	21,814,507	24,003,386
Cash, cash equivalents, investments, and notes receivable	327,712	307,290	381,978
Restricted cash	855,986	875,314	881,334
Goodwill and intangible assets, net	265,648	177,186	192,746
Other assets	887,026	790,138	681,776
Total assets	<u>\$ 23,898,402</u>	<u>23,964,435</u>	<u>26,141,220</u>
Liabilities:			
Bonds and notes payable	\$ 21,227,349	21,356,573	23,594,516
Other liabilities	425,827	442,475	419,037
Total liabilities	<u>21,653,176</u>	<u>21,799,048</u>	<u>24,013,553</u>
Equity:			
Total Nelnet, Inc. shareholders' equity	2,235,753	2,149,529	2,108,187
Noncontrolling interests	9,473	15,858	19,480
Total equity	<u>2,245,226</u>	<u>2,165,387</u>	<u>2,127,667</u>
Total liabilities and equity	<u>\$ 23,898,402</u>	<u>23,964,435</u>	<u>26,141,220</u>

Contacts:

Media, Ben Kiser, 402.458.3024, or Investors, Phil Morgan, 402.458.3038, both of Nelnet, Inc .

For Release: May 8, 2018

Investor Contact: Phil Morgan, 402.458.3038

Nelnet, Inc. supplemental financial information for the first quarter 2018
(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 first quarter 2018 earnings, dated May 8, 2018, and the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018.

Forward-looking and cautionary statements

This supplemental financial information 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," "scheduled," "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 analyses 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 of the Company's Annual Report on Form 10-K for the year ended December 31, 2017 (the "2017 Annual Report"), and include such risks and uncertainties as:

- loan portfolio risks such as interest rate basis and repricing risk resulting from the fact that the interest rate characteristics of the 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"), risks related to the use of derivatives to manage exposure to interest rate fluctuations, uncertainties regarding the expected benefits from purchased securitized and unsecuritized FFELP, private education, and consumer loans and initiatives to purchase additional FFELP, private education, and consumer loans, and risks from changes in levels of loan prepayment or default rates;
- financing and liquidity risks, including risks of changes in the general interest rate environment and in the securitization and other financing markets for loans, including adverse changes resulting from slower than expected payments on student loans in FFELP securitization trusts, which may increase the costs or limit the availability of financings necessary to purchase, refinance, or continue to hold student loans;
- risks from changes in the educational credit and services markets resulting from changes in applicable laws, regulations, and government programs and budgets, such as the expected decline over time in FFELP loan interest income and fee-based revenues due to the discontinuation of new FFELP loan originations in 2010 and potential government initiatives or legislative proposals to consolidate existing FFELP loans to the Federal Direct Loan Program or otherwise allow FFELP loans to be refinanced with Federal Direct Loan Program loans;
- the uncertain nature of the expected benefits from the acquisition of Great Lakes Educational Loan Services, Inc. ("Great Lakes") on February 7, 2018 and the ability to successfully integrate technology, shared services, and other activities and successfully maintain and increase allocated volumes of student loans serviced under existing and any future servicing contracts with the U.S. Department of Education (the "Department"), which current contract between the Company and the Department accounted for 21 percent of the Company's revenue in 2017, risks to the Company related to the Department's initiative to procure new contracts for federal student loan servicing, including the risk that the Company on a post-Great Lakes acquisition basis may not be awarded a contract, risks related to the development by the Company and Great Lakes of a new student loan servicing platform, including risks as to whether the expected benefits from the new platform will be realized, and risks related to the Company's ability to comply with agreements with third-party customers for the servicing of FFELP, Federal Direct Loan Program, and private education and consumer loans;
- risks related to a breach of or failure in the Company's operational or information systems or infrastructure, or those of third-party vendors, including cybersecurity risks related to the potential disclosure of confidential student loan borrower and other customer information;
- uncertainties inherent in forecasting future cash flows from student loan assets and related asset-backed securitizations;
- the uncertain nature of the expected benefits from the acquisition of ALLO Communications LLC on December 31, 2015 and the ability to integrate its communications operations and successfully expand its fiber network in existing service areas and additional communities and manage related construction risks;
- risks and uncertainties related to initiatives to pursue additional strategic investments and acquisitions, including investments and acquisitions that are intended to diversify the Company both within and outside of its historical core education-related businesses; and
- risks and uncertainties associated with litigation matters and with maintaining compliance with the extensive regulatory requirements applicable to the Company's businesses, reputational and other risks, including the risk of increased regulatory costs, resulting from the recent politicization of student loan servicing, 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.

Consolidated Statements of Income
(Dollars in thousands, except share data)
(unaudited)

	Three months ended		
	March 31, 2018	December 31, 2017	March 31, 2017
Interest income:			
Loan interest	\$ 197,723	193,556	181,207
Investment interest	5,134	3,080	2,617
Total interest income	202,857	196,636	183,824
Interest expense:			
Interest on bonds and notes payable	135,550	123,401	106,899
Net interest income	67,307	73,235	76,925
Less provision for loan losses	4,000	3,750	1,000
Net interest income after provision for loan losses	63,307	69,485	75,925
Other income:			
Loan servicing and systems revenue	100,141	55,921	54,229
Education technology, services, and payment processing revenue	60,221	43,326	56,024
Communications revenue	9,189	8,122	5,106
Other income	18,198	7,952	12,632
Gain (loss) from debt repurchases, net	359	(2,635)	4,980
Derivative settlements, net	6,766	2,982	(1,378)
Derivative market value and foreign currency transaction adjustments	60,033	4,032	(3,452)
Total other income	254,907	119,700	128,141
Cost of services:			
Cost to provide education technology, services, and payment processing services	13,683	11,223	12,790
Cost to provide communications services	3,717	3,160	1,954
Total cost of services	17,400	14,383	14,744
Operating expenses:			
Salaries and benefits	96,643	81,201	71,863
Depreciation and amortization	18,457	11,854	8,598
Loan servicing fees	3,136	3,064	6,025
Other expenses	33,417	38,455	26,161
Total operating expenses	151,653	134,574	112,647
Income before income taxes	149,161	40,228	76,675
Income tax (expense) benefit	(35,976)	5,486	(28,755)
Net income	113,185	45,714	47,920
Net loss attributable to noncontrolling interests	740	2,386	2,106
Net income attributable to Nelnet, Inc.	\$ 113,925	48,100	50,026
Earnings per common share:			
Net income attributable to Nelnet, Inc. shareholders - basic and diluted	\$ 2.78	1.17	1.18
Weighted average common shares outstanding - basic and diluted	40,950,528	41,012,731	42,291,857

Condensed Consolidated Balance Sheets
(Dollars in thousands)
(unaudited)

	As of March 31, 2018	As of December 31, 2017	As of March 31, 2017
Assets:			
Loans receivable, net	\$ 21,562,030	21,814,507	24,003,386
Cash, cash equivalents, investments, and notes receivable	327,712	307,290	381,978
Restricted cash	855,986	875,314	881,334
Goodwill and intangible assets, net	265,648	177,186	192,746
Other assets	887,026	790,138	681,776
Total assets	<u>\$ 23,898,402</u>	<u>23,964,435</u>	<u>26,141,220</u>
Liabilities:			
Bonds and notes payable	\$ 21,227,349	21,356,573	23,594,516
Other liabilities	425,827	442,475	419,037
Total liabilities	<u>21,653,176</u>	<u>21,799,048</u>	<u>24,013,553</u>
Equity:			
Total Nelnet, Inc. shareholders' equity	2,235,753	2,149,529	2,108,187
Noncontrolling interests	9,473	15,858	19,480
Total equity	<u>2,245,226</u>	<u>2,165,387</u>	<u>2,127,667</u>
Total liabilities and equity	<u>\$ 23,898,402</u>	<u>23,964,435</u>	<u>26,141,220</u>

Overview

The Company is a diverse company with a focus on delivering education-related products and services and student loan asset management. The largest operating businesses engage in student loan servicing; education technology, services, and payment processing; and communications. A significant portion of the Company's revenue is net interest income earned on a portfolio of federally insured student loans. The Company also makes investments to further diversify the Company both within and outside of its historical core education-related businesses, including, but not limited to, investments in real estate and start-up ventures.

GAAP Net Income and Non-GAAP Net Income, Excluding Adjustments

The Company prepares its financial statements and presents its financial results in accordance with GAAP. However, it also provides additional non-GAAP financial information related to specific items management believes to be important in the evaluation of its operating results and performance. A reconciliation of the Company's GAAP net income to net income, excluding derivative market value and foreign currency transaction adjustments, and a discussion of why the Company believes providing this additional information is useful to investors, is provided below.

	Three months ended		
	March 31, 2018	December 31, 2017	March 31, 2017
GAAP net income attributable to Nelnet, Inc.	\$ 113,925	48,100	50,026
Realized and unrealized derivative market value adjustments	(60,033)	(3,997)	(1,238)
Unrealized foreign currency transaction adjustments	—	(35)	4,690
Net tax effect (a)	14,408	1,532	(1,312)
Net income, excluding derivative market value and foreign currency transaction adjustments (b)	<u>\$ 68,300</u>	<u>45,600</u>	<u>52,166</u>
Earnings per share:			
GAAP net income attributable to Nelnet, Inc.	\$ 2.78	1.17	1.18
Realized and unrealized derivative market value adjustments	(1.46)	(0.10)	(0.03)
Unrealized foreign currency transaction adjustments	—	—	0.11
Net tax effect (a)	0.35	0.04	(0.03)
Net income, excluding derivative market value and foreign currency transaction adjustments (b)	<u>\$ 1.67</u>	<u>1.11</u>	<u>1.23</u>

- (a) The tax effects are calculated by multiplying the realized and unrealized derivative market value adjustments and unrealized foreign currency transaction adjustments by the applicable statutory income tax rate.
- (b) "Derivative market value and foreign currency transaction adjustments" include (i) both the realized portion of gains and losses (corresponding to variation margin received or paid on derivative instruments that are settled daily at a central clearinghouse) and the unrealized portion of gains and losses that are caused by changes in fair values of derivatives which do not qualify for "hedge treatment" under GAAP; and (ii) the unrealized foreign currency transaction gains or losses caused by the re-measurement of the Company's Euro-denominated bonds to U.S. dollars. "Derivative market value and foreign currency transaction adjustments" does not include "derivative settlements" that represent the cash paid or received during the current period to settle with derivative instrument counterparties the economic effect of the Company's derivative instruments based on their contractual terms.

The accounting for derivatives requires that changes in the fair value of derivative instruments be recognized currently in earnings, with no fair value adjustment of the hedged item, unless specific hedge accounting criteria is met. Management has structured all of the Company's derivative transactions with the intent that each is economically effective; however, the Company's derivative instruments do not qualify for hedge accounting. As a result, the change in fair value of derivative instruments is reported in current period earnings with no consideration for the corresponding change in fair value of the hedged item. Under GAAP, the cumulative net realized and unrealized gain or loss caused by changes in fair values of derivatives in which the Company plans to hold to maturity will equal zero over the life of the contract. However, the net realized and unrealized gain or loss during any given reporting period fluctuates significantly from period to period. In addition, the Company has incurred unrealized foreign currency transaction adjustments for periodic fluctuations in currency exchange rates between the U.S. dollar and Euro in connection with its student loan asset-backed Euro-denominated bonds with an interest rate based on a spread to the EURIBOR index. The principal and accrued interest on these bonds were remeasured at each reporting period and recorded in the Company's consolidated balance sheet in U.S. dollars based on the foreign currency exchange rate on that date.

The Company believes these point-in-time estimates of asset and liability values related to its derivative instruments and Euro-denominated bonds that are or were subject to interest and currency rate fluctuations are or were subject to volatility mostly due to timing and market factors beyond the control of management, and affect the period-to-period comparability of the results of operations. Accordingly, the Company's management utilizes operating results excluding these items for comparability purposes when making decisions regarding the Company's performance and in presentations with credit rating agencies, lenders, and investors. Consequently, the Company reports this non-GAAP information because the Company believes that it provides additional information regarding operational and performance indicators that are closely assessed by management. There is no comprehensive, authoritative guidance for the presentation of such non-GAAP information, which is only meant to supplement GAAP results by providing additional information that management utilizes to assess performance.

On October 25, 2017, the Company completed a remarketing of the Company's bonds that were prior to that date denominated in Euros, to denominate those bonds in U.S. dollars and reset the interest rate to be based on the 3-month LIBOR index. The Company also terminated a cross-currency interest rate swap associated with those bonds. As a result, foreign currency transaction adjustments will not be incurred with respect to those bonds after October 25, 2017.

Several factors increased GAAP net income for the three months ended March 31, 2018, as compared with the same period in 2017:

- The Company's effective tax rate decreased to 24.0 percent from 36.5 percent due to the Tax Cuts and Jobs Act, effective January 1, 2018;
- The contribution to net income from the acquisition of Great Lakes on February 7, 2018;
- Gains recognized by the Company from real estate and other investment activities; and
- Larger gains due to changes in the fair values of derivative instruments that do not qualify for hedge accounting

These factors were partially offset by the increase in expenses for the continued build-out of the Company's ALLO fiber communications network in Lincoln, Nebraska.

Operating Results

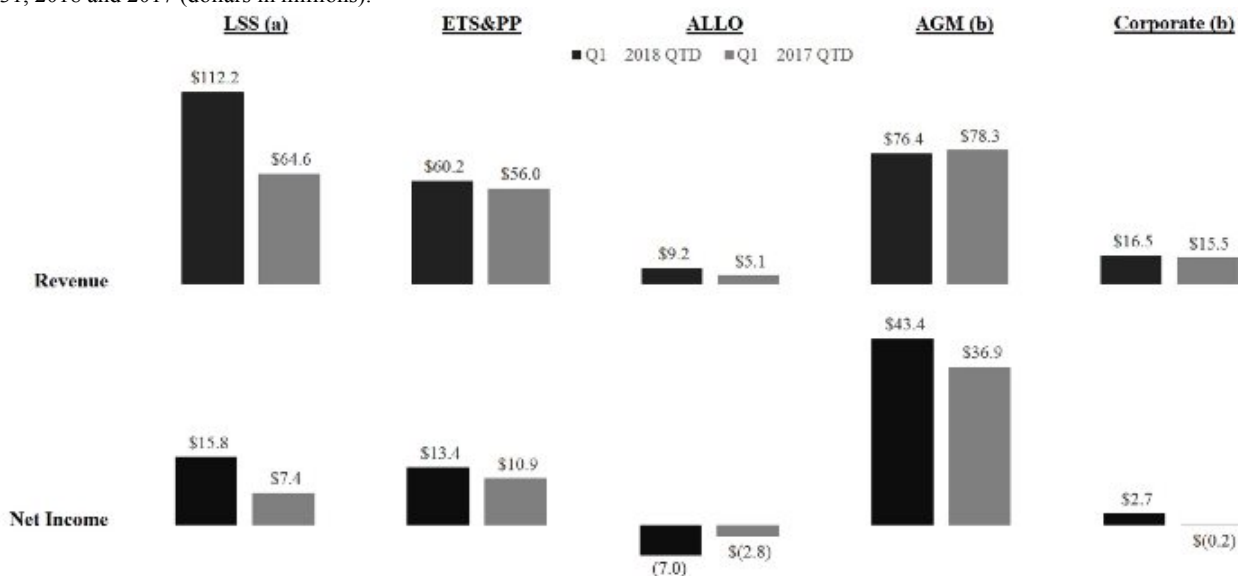
The Company earns net interest income on its loan portfolio, consisting primarily of FFELP loans, in its Asset Generation and Management ("AGM") operating segment. This segment is expected to generate a stable net interest margin and significant amounts of cash as the FFELP portfolio amortizes. As of March 31, 2018, the Company had a \$21.6 billion loan portfolio that management anticipates will amortize over the next approximately 20 years and has a weighted average remaining life of 7.5 years. The Company actively works to maximize the amount and timing of cash flows generated by its FFELP portfolio and seeks to acquire additional loan assets to leverage its servicing scale and expertise to generate incremental earnings and cash flow. However, due to the continued amortization of the Company's FFELP loan portfolio and anticipated increases in interest rates, the Company's net income generated by the AGM segment will continue to decrease. The Company currently believes that in the short-term it will most likely not be able to invest the excess cash generated from the FFELP loan portfolio into assets that immediately generate the rates of return historically realized from that portfolio.

In addition, the Company earns fee-based revenue through the following reportable operating segments:

- Loan Servicing and Systems ("LSS") - referred to as Nelnet Diversified Solutions ("NDS")
- Education Technology, Services, and Payment Processing ("ETS&PP") - referred to as Nelnet Business Solutions ("NBS")
- Communications - referred to as ALLO Communications ("ALLO")

Other business activities and operating segments that are not reportable are combined and included in Corporate and Other Activities ("Corporate"). Corporate and Other Activities also includes income earned on certain investments and interest expense incurred on unsecured debt transactions.

The information below provides the operating results for each reportable operating segment and Corporate and Other Activities for the three months ended March 31, 2018 and 2017 (dollars in millions).



(a) Revenue includes intersegment revenue earned by LSS as a result of servicing loans for AGM.

(b) Total revenue includes "net interest income" and "total other income" from the Company's segment statements of income, excluding the impact from changes in fair values of derivatives and foreign currency transaction adjustments. Net income excludes changes in fair values of derivatives and foreign currency transaction adjustments, net of tax. For information regarding the exclusion of the impact from changes in fair values of derivatives and foreign currency transaction adjustments, see "GAAP Net Income and Non-GAAP Net Income, Excluding Adjustments" above.

Certain events and transactions from 2018, which have impacted or will impact the operating results of the Company and its operating segments are discussed below.

Impact from the Tax Cuts and Jobs Act

- The Tax Cuts and Jobs Act, signed into law on December 22, 2017, and effective January 1, 2018, lowered the Company's effective tax rate to 24 percent for the three months ended March 31, 2018, compared to 36.5 percent for the same period in 2017. The Company currently expects its effective tax rate will be approximately 24 percent for the remainder of 2018.

Loan Servicing and Systems

- On February 7, 2018, the Company paid \$150.0 million in cash for 100 percent of the stock of Great Lakes. The Great Lakes assets acquired and liabilities assumed were recorded by the Company at their respective fair values at the date of acquisition, and Great Lakes' operating results from the date of acquisition forward are included in the Company's consolidated operating results.

Results of operations for the three months ended March 31, 2018 include revenues of \$43.5 million and net income of \$11.9 million attributed to Great Lakes since its acquisition. These operating results include \$4.6 million (pre-tax) of deconversion revenue related to a private education loan customer deconverting from the Great Lakes platform subsequent to the acquisition of Great Lakes.

- Nelnet Servicing, LLC ("Nelnet Servicing"), a subsidiary of the Company, and Great Lakes are two companies that have student loan servicing contracts awarded by the Department in June 2009 to provide servicing for loans owned by the Department. As of March 31, 2018, Nelnet Servicing was servicing \$176.6 billion of student loans for 5.8 million borrowers under its contract, and Great Lakes was servicing \$242.1 billion of student loans for 7.5 million borrowers under its contract. These contracts are currently scheduled to expire on June 16, 2019.

Going forward, Great Lakes and Nelnet Servicing will continue to service their respective government-owned portfolios on behalf of the Department, while maintaining their distinct brands, independent servicing operations, and teams. Likewise, each entity will continue to compete for new student loan volume under its respective existing contract with the Department. The Company will integrate technology, as well as shared services and other activities, to become more efficient and effective in meeting borrower needs.

The Company and Great Lakes have also been working together for almost two years to develop a new, state-of-the-art servicing system for government-owned student loans through their GreatNet joint venture. The efficiencies gained by leveraging a single platform for government-owned loans supporting millions more borrowers will give the Company and Great Lakes opportunities to invest in strategies to further enhance borrower experiences.

- On February 20, 2018, the Department's Office of Federal Student Aid ("FSA") released information regarding a new contract procurement process to service all student loans owned by the Department. The contract solicitation process is divided into two phases. The contract solicitation requests responses from interested vendors for nine components, including:
 - Component A: Enterprise-wide digital platform and related middleware
 - Component B: Enterprise-wide contact center platform, customer relationship management (CRM), and related middleware
 - Component C: Solution 3.0 (core processing, related middleware, and rules engine)
 - Component D: Solution 2.0 (core processing, related middleware, and rules engine)
 - Component E: Solution 3.0 business process operations
 - Component F: Solution 2.0 business process operations
 - Component G: Enterprise-wide data management platform
 - Component H: Enterprise-wide identity and access management (IAM)
 - Component I: Cybersecurity and data protection

The solicitation indicates Component C (Solution 3.0) is anticipated to be tailored for new customers and Component D (Solution 2.0) is anticipated to serve as the primary environment for FSA's existing customers. After Solution 3.0 is deployed, FSA will determine the best distribution of loans between Solution 2.0 and Solution 3.0. In addition, more than one business process solution may be selected for Components E and F.

Vendors may provide a response for an individual, multiple, or all components. The Company responded to Phase One on April 17, 2018.

- As of March 31, 2018, the Company (including Great Lakes) was servicing \$470.8 billion in FFELP, government owned, and private education and consumer loans, as compared with \$211.4 billion of loans serviced by the Company as of December 31, 2017.

Education Technology, Services, and Payment Processing

- During the first quarter of 2018, the Company changed the name of its Tuition Payment Processing and Campus Commerce operating segment to Education Technology, Services, and Payment Processing to better describe the evolution of services this operating segment provides.
- In May 2014, the FASB issued a new standard related to revenue recognition. The Company adopted the standard effective January 1, 2018, using the full retrospective method, which required it to restate each prior reporting period presented. The most significant impact of the standard relates to identifying the Company's Education Technology, Services, and Payment Processing operating segment as the principal in its payment services transactions. As a result of this change, the Company will present the payment services revenue gross with the direct costs to provide these services presented separately.
- This segment is subject to seasonal fluctuations. Based on the timing of when revenue is recognized and when expenses are incurred, revenue and operating margin are higher in the first quarter as compared to the remainder of the year.

Communications

- In the fourth quarter of 2017, ALLO announced plans to expand its network to make services available in Hastings, Nebraska and Fort Morgan, Colorado. This will expand total households in ALLO's current markets from 137,500 to

over 152,000. In December 2017, the Fort Morgan city council approved a 40-year agreement with ALLO for ALLO to provide broadband service over a fiber network that the city will build and own, and ALLO will lease and operate to provide services to subscribers. ALLO plans to continue expansion to additional communities in Nebraska and Colorado over the next several years.

- For the three months ended March 31, 2018, ALLO incurred capital expenditures of \$17.9 million. The Company currently anticipates total network expenditures for the remainder of 2018 (April 1, 2018 to December 31, 2018) will be approximately \$65.0 million; however, the amount of capital expenditures could change based on the customer demand for ALLO's services.
- The Company currently anticipates ALLO's operating results will be dilutive to the Company's consolidated earnings as it continues to build its network in Lincoln, Nebraska, and other communities, due to large upfront capital expenditures and associated depreciation and upfront customer acquisition costs.

Asset Generation and Management

- During the three months ended March 31, 2018, the Company purchased \$607.9 million in loans, including \$584.6 million of federally insured student loans.
- The Company's average balance of loans decreased to \$21.9 billion for the first quarter of 2018, compared with \$24.8 billion for the same period in 2017. Core loan spread increased to 1.29 percent for the quarter ended March 31, 2018, compared with 1.23 percent for the same period in 2017. The Company began to purchase consumer loans in the second quarter of 2017. Consumer loans are currently funded by the Company using operating cash, until they can be funded in a secured financing transaction. As such, consumer loans do not have a cost of funds (debt) associated with them. Core loan spread, excluding consumer loans, would have been 1.25 percent for the three months ended March 31, 2018.

Corporate and Other Activities

- Operating results for the three months ended March 31, 2018 include unrealized net gains of \$6.7 million (pre-tax) related to the change in fair value of certain equity securities and a realized gain of \$1.7 million (pre-tax) related to the sale of a real estate investment.

Liquidity and Capital Resources

- As of March 31, 2018, the Company had cash and cash equivalents of \$69.3 million. In addition, the Company had a portfolio of available-for-sale investments, consisting primarily of student loan asset-backed securities, with a fair value of \$82.1 million as of March 31, 2018.
- For the three months ended March 31, 2018, the Company generated \$58.0 million in net cash from operating activities.
- The majority of the Company's portfolio of student loans is funded in asset-backed securitizations that will generate significant earnings and cash flow over the life of these transactions. As of March 31, 2018, the Company currently expects future undiscounted cash flows from its securitization portfolio to be approximately \$1.96 billion, of which approximately \$1.34 billion will be generated over the next approximately five years.
- During the three months ended March 31, 2018, the Company repurchased a total of 222,174 shares of Class A common stock for \$11.4 million (\$51.39 per share).
- During the three months ended March 31, 2018, the Company paid cash dividends of \$6.5 million (\$0.16 per share). In addition, the Company's Board of Directors has declared a second quarter 2018 cash dividend on the Company's outstanding shares of Class A and Class B common stock of \$0.16 per share. The second quarter cash dividend will be paid on June 15, 2018 to shareholders of record at the close of business on June 1, 2018.
- The Company intends to use its liquidity position to capitalize on market opportunities, including FFELP and private education and consumer loan acquisitions; strategic acquisitions and investments; expansion of ALLO's telecommunications network; and capital management initiatives, including stock repurchases, debt repurchases, and dividend distributions. The timing and size of these opportunities will vary and will have a direct impact on the Company's cash and investment balances.

Recent Events

- On April 25, 2018, the Company acquired \$1.5 billion of unsecuritized federally insured student loans from a third-party. The Company will earn interest income on these loans from the effective date of the transaction, April 1, 2018. In addition, from April 1, 2018 through May 8, 2018 (the filing date of this report), the Company acquired \$351.3 million of additional unsecuritized federally insured student loans from third-parties.

Subsequent to March 31, 2018, in anticipation of these loan acquisitions, the Company increased the capacity on both of its FFELP warehouse facilities to a total of \$2.3 billion. In addition to the FFELP warehouse facilities, the Company used operating cash and the Company's unsecured line of credit to fund these loan acquisitions.

As of May 8, 2018, there was \$190.0 million outstanding on the Company's \$350.0 million unsecured line of credit and \$160.0 million was available for future use; in addition there was \$2.1 billion outstanding on the FFELP warehouse facilities and \$0.2 billion was available for future use.

Segment Reporting

The following tables include the results of each of the Company's operating segments reconciled to the consolidated financial statements.

	Three months ended March 31, 2018						
	Loan Servicing and Systems	Education Technology, Services, and Payment Processing	Communications	Asset Generation and Management	Corporate and Other Activities	Eliminations	Total
Total interest income	\$ 257	665	1	200,334	4,751	(3,150)	202,857
Interest expense	—	—	2,509	134,233	1,958	(3,150)	135,550
Net interest income	257	665	(2,508)	66,101	2,793	—	67,307
Less provision for loan losses	—	—	—	4,000	—	—	4,000
Net interest income (loss) after provision for loan losses	257	665	(2,508)	62,101	2,793	—	63,307
Other income:							
Loan servicing and systems revenue	100,141	—	—	—	—	—	100,141
Intersegment servicing revenue	10,771	—	—	—	—	(10,771)	—
Education technology, services, and payment processing revenue	—	60,221	—	—	—	—	60,221
Communications revenue	—	—	9,189	—	—	—	9,189
Other income	1,292	—	—	2,992	13,914	—	18,198
Gain from debt repurchases	—	—	—	359	—	—	359
Derivative settlements, net	—	—	—	6,926	(160)	—	6,766
Derivative market value and foreign currency transaction adjustments, net	—	—	—	58,571	1,462	—	60,033
Total other income	112,204	60,221	9,189	68,848	15,216	(10,771)	254,907
Cost of services:							
Cost to provide education technology, services, and payment processing services	—	13,683	—	—	—	—	13,683
Cost to provide communications services	—	—	3,717	—	—	—	3,717
Total cost of services	—	13,683	3,717	—	—	—	17,400
Operating expenses:							
Salaries and benefits	58,537	19,067	4,063	382	14,594	—	96,643
Depreciation and amortization	6,069	3,341	4,921	—	4,126	—	18,457
Loan servicing fees	—	—	—	3,136	—	—	3,136
Other expenses	14,463	4,624	2,638	848	10,845	—	33,417
Intersegment expenses, net	13,356	2,567	605	10,865	(16,622)	(10,771)	—
Total operating expenses	92,425	29,599	12,227	15,231	12,943	(10,771)	151,653
Income (loss) before income taxes	20,036	17,604	(9,263)	115,718	5,066	—	149,161
Income tax (expense) benefit (a)	(5,003)	(4,225)	2,223	(27,773)	(1,199)	—	(35,976)
Net income (loss)	15,033	13,379	(7,040)	87,945	3,867	—	113,185
Net loss (income) attributable to noncontrolling interests	808	—	—	—	(68)	—	740
Net income (loss) attributable to Nelnet, Inc.	\$ 15,841	13,379	(7,040)	87,945	3,799	—	113,925

Three months ended December 31, 2017

	Loan Servicing and Systems	Education Technology, Services, and Payment Processing	Communications	Asset Generation and Management	Corporate and Other Activities	Eliminations	Total
Total interest income	\$ 152	8	1	195,560	3,617	(2,702)	196,636
Interest expense	3	—	2,059	123,358	683	(2,702)	123,401
Net interest income	149	8	(2,058)	72,202	2,934	—	73,235
Less provision for loan losses	—	—	—	3,750	—	—	3,750
Net interest income (loss) after provision for loan losses	149	8	(2,058)	68,452	2,934	—	69,485
Other income:							
Loan servicing and systems revenue	55,921	—	—	—	—	—	55,921
Intersegment servicing revenue	10,835	—	—	—	—	(10,835)	—
Education technology, services, and payment processing revenue	—	43,326	—	—	—	—	43,326
Communications revenue	—	—	8,122	—	—	—	8,122
Other income	—	—	—	4,273	3,680	—	7,952
Gain (loss) from debt repurchases, net	—	—	—	(2,664)	29	—	(2,635)
Derivative settlements, net	—	—	—	3,169	(188)	—	2,982
Derivative market value and foreign currency transaction adjustments, net	—	—	—	3,763	269	—	4,032
Total other income	66,756	43,326	8,122	8,541	3,790	(10,835)	119,700
Cost of services:							
Cost to provide education technology, services, and payment processing services	—	11,223	—	—	—	—	11,223
Cost to provide communications services	—	—	3,160	—	—	—	3,160
Total cost of services	—	11,223	3,160	—	—	—	14,383
Operating expenses:							
Salaries and benefits	39,324	18,515	4,458	393	18,511	—	81,201
Depreciation and amortization	1,220	2,371	3,955	—	4,308	—	11,854
Loan servicing fees	—	—	—	3,064	—	—	3,064
Other expenses	10,793	4,712	2,652	1,412	18,886	—	38,455
Intersegment expenses, net	8,374	2,650	629	11,716	(12,534)	(10,835)	—
Total operating expenses	59,711	28,248	11,694	16,585	29,171	(10,835)	134,574
Income (loss) before income taxes	7,194	3,863	(8,790)	60,408	(22,447)	—	40,228
Income tax (expense) benefit	(3,718)	(1,468)	3,341	(22,955)	30,286	—	5,486
Net income (loss)	3,476	2,395	(5,449)	37,453	7,839	—	45,714
Net loss (income) attributable to noncontrolling interests	2,591	—	—	—	(205)	—	2,386
Net income (loss) attributable to Nelnet, Inc.	<u>\$ 6,067</u>	<u>2,395</u>	<u>(5,449)</u>	<u>37,453</u>	<u>7,634</u>	<u>—</u>	<u>48,100</u>

Three months ended March 31, 2017

	Loan Servicing and Systems	Education Technology, Services, and Payment Processing	Communications	Asset Generation and Management	Corporate and Other Activities	Eliminations	Total
Total interest income	\$ 94	2	1	182,326	2,761	(1,359)	183,824
Interest expense	—	—	712	106,751	795	(1,359)	106,899
Net interest income	94	2	(711)	75,575	1,966	—	76,925
Less provision for loan losses	—	—	—	1,000	—	—	1,000
Net interest income (loss) after provision for loan losses	94	2	(711)	74,575	1,966	—	75,925
Other income:							
Loan servicing and systems revenue	54,229	—	—	—	—	—	54,229
Intersegment servicing revenue	10,323	—	—	—	—	(10,323)	—
Education technology, services, and payment processing revenue	—	56,024	—	—	—	—	56,024
Communications revenue	—	—	5,106	—	—	—	5,106
Other income	—	—	—	3,342	9,290	—	12,632
Gain from debt repurchases	—	—	—	540	4,440	—	4,980
Derivative settlements, net	—	—	—	(1,173)	(205)	—	(1,378)
Derivative market value and foreign currency transaction adjustments, net	—	—	—	(3,410)	(42)	—	(3,452)
Total other income	64,552	56,024	5,106	(701)	13,483	(10,323)	128,141
Cost of services:							
Cost to provide education technology, services, and payment processing services	—	12,790	—	—	—	—	12,790
Cost to provide communications services	—	—	1,954	—	—	—	1,954
Total cost of services	—	12,790	1,954	—	—	—	14,744
Operating expenses:							
Salaries and benefits	37,992	16,652	2,979	400	13,839	—	71,863
Depreciation and amortization	549	2,391	2,135	—	3,523	—	8,598
Loan servicing fees	—	—	—	6,025	—	—	6,025
Other expenses	9,136	4,609	1,372	991	10,054	—	26,161
Intersegment expenses, net	7,398	2,075	506	10,412	(10,068)	(10,323)	—
Total operating expenses	55,075	25,727	6,992	17,828	17,348	(10,323)	112,647
Income (loss) before income taxes	9,571	17,509	(4,551)	56,046	(1,899)	—	76,675
Income tax (expense) benefit	(4,555)	(6,653)	1,730	(21,297)	2,021	—	(28,755)
Net income (loss)	5,016	10,856	(2,821)	34,749	122	—	47,920
Net loss (income) attributable to noncontrolling interests	2,415	—	—	—	(309)	—	2,106
Net income (loss) attributable to Nelnet, Inc.	\$ 7,431	10,856	(2,821)	34,749	(187)	—	50,026

Net Interest Income, Net of Settlements on Derivatives

The following table summarizes the components of "net interest income" and "derivative settlements, net."

Derivative settlements represent the cash paid or received during the current period to settle with derivative instrument counterparties the economic effect of the Company's derivative instruments based on their contractual terms. Derivative accounting requires that net settlements with respect to derivatives that do not qualify for "hedge treatment" under GAAP be recorded in a separate income statement line item below net interest income. The Company maintains an overall risk management strategy that incorporates the use of derivative instruments to reduce the economic effect of interest rate volatility. As such, management believes derivative settlements for each applicable period should be evaluated with the Company's net interest income as presented in the table below. Net interest income (net of settlements on derivatives) is a non-GAAP financial measure, and the Company reports this non-GAAP information because the Company believes that it provides additional information regarding operational and performance indicators that are closely assessed by management. There is no comprehensive, authoritative guidance for the presentation of such non-GAAP information, which is only meant to supplement GAAP results by providing additional information that management utilizes to assess performance. See "Derivative Settlements" included in this supplement for the net settlement activity recognized by the Company for each type of derivative for the periods presented in the table below.

	Three months ended		
	March 31, 2018	December 31, 2017	March 31, 2017
Variable loan interest margin	\$ 46,884	48,788	42,975
Settlements on associated derivatives (a)	(1,664)	(1,791)	(1,053)
Variable loan interest margin, net of settlements on derivatives	45,220	46,997	41,922
Fixed rate floor income	17,247	22,053	32,132
Settlements on associated derivatives (b)	8,590	4,961	(120)
Fixed rate floor income, net of settlements on derivatives	25,837	27,014	32,012
Investment interest	5,134	3,080	2,617
Corporate debt interest expense	(1,958)	(686)	(799)
Non-portfolio related derivative settlements (c)	(160)	(188)	(205)
Net interest income (net of settlements on derivatives)	\$ 74,073	76,217	75,547

(a) Includes the net settlements paid/received related to the Company's 1:3 basis swaps and cross-currency interest rate swap.

(b) Includes the net settlements paid/received related to the Company's floor income interest rate swaps.

(c) Includes the net settlements paid/received related to the Company's hybrid debt hedges.

Student Loan Servicing Volumes (dollars in millions)



Company owned	\$16,962	\$16,352	\$15,789	\$18,403	\$17,827	\$17,866
% of total	8.7%	8.2%	7.9%	8.9%	8.4%	3.8%
Number of servicing borrowers:						
Government servicing:	5,972,619	5,924,099	5,849,283	5,906,404	5,877,414	5,819,286
FFELP servicing:	1,312,192	1,263,785	1,218,706	1,317,552	1,420,311	1,399,280
Private education and consumer loan servicing:	355,096	389,010	454,182	478,150	502,114	508,750
Total:	7,639,907	7,576,894	7,522,171	7,702,106	7,799,839	7,727,316
Number of remote hosted borrowers:						
	2,230,019	2,305,991	2,317,151	2,714,588	2,812,713	6,207,747

Communications Financial and Operating Data

Certain financial and operating data for ALLO is summarized in the tables below.

	Three months ended		
	March 31, 2018	December 31, 2017	March 31, 2017
Residential revenue	\$ 6,747	5,844	3,351
Business revenue	2,381	2,219	1,696
Other revenue	61	59	59
Total revenue	\$ 9,189	8,122	5,106
Net (loss) income	\$ (7,040)	(5,449)	(2,821)
EBITDA (a)	(1,834)	(2,777)	(1,705)
Capital expenditures	17,899	36,672	16,669
Revenue contribution:			
Internet	51.1%	48.4%	43.1%
Television	30.3	30.8	31.8
Telephone	18.4	19.3	24.7
Other	0.2	1.5	0.4
	100.0%	100.0%	100.0%

	As of March 31, 2018	As of December 31, 2017	As of September 30, 2017	As of June 30, 2017	As of March 31, 2017	As of December 31, 2016
Residential customer information:						
Households served	23,541	20,428	16,394	12,460	10,524	9,814
Households passed (b)	84,475	71,426	54,815	45,880	34,925	30,962
Total households in current markets	137,500	137,500	137,500	137,500	137,500	137,500
Total households in current markets and new markets announced (c)	152,840	152,626	137,500	137,500	137,500	137,500

- (a) Earnings (loss) before interest, income taxes, depreciation, and amortization ("EBITDA") is a supplemental non-GAAP performance measure that is frequently used in capital-intensive industries such as telecommunications. ALLO's management uses EBITDA to compare ALLO's performance to that of its competitors and to eliminate certain non-cash and non-operating items in order to consistently measure performance from period to period. EBITDA excludes interest and income taxes because these items are associated with a company's particular capitalization and tax structures. EBITDA also excludes depreciation and amortization expense because these non-cash expenses primarily reflect the impact of historical capital investments, as opposed to the cash impacts of capital expenditures made in recent periods, which may be evaluated through cash flow measures. The Company reports EBITDA for ALLO because the Company believes that it provides useful additional information for investors regarding a key metric used by management to assess ALLO's performance. There are limitations to using EBITDA as a performance measure, including the difficulty associated with comparing companies that use similar performance measures whose calculations may differ from ALLO's calculations. In addition, EBITDA should not be considered a substitute for other measures of financial performance, such as net income or any other performance measures derived in accordance with GAAP. A reconciliation of EBITDA from ALLO's net loss under GAAP is presented in the following table:

	Three months ended		
	March 31, 2018	December 31, 2017	March 31, 2017
Net loss	\$ (7,040)	(5,449)	(2,821)
Net interest expense	2,508	2,058	711
Income tax benefit	(2,223)	(3,341)	(1,730)
Depreciation and amortization	4,921	3,955	2,135
Earnings (loss) before interest, income taxes, depreciation, and amortization (EBITDA)	\$ (1,834)	(2,777)	(1,705)

- (b) Represents the number of single residence homes, apartments, and condominiums that ALLO already serves and those in which ALLO has the capacity to connect to its network distribution system without further material extensions to the transmission lines, but have not been connected.
- (c) During the fourth quarter of 2017, ALLO announced plans to expand its network to make services available in Hastings, Nebraska and Fort Morgan, Colorado. ALLO plans to expand to additional communities in Nebraska and Colorado over the next several years.

Other Income

The following table summarizes the components of "other income."

	Three months ended		
	March 31, 2018	December 31, 2017	March 31, 2017
Realized and unrealized gains on investments, net	\$ 9,081	(671)	324
Borrower late fee income	2,983	2,506	3,319
Investment advisory fees	1,593	1,062	3,516
Management fee revenue	1,161	—	—
Peterson's revenue	—	3,290	2,836
Other	3,380	1,765	2,637
Other income	\$ 18,198	7,952	12,632

Derivative Settlements

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

	Three months ended		
	March 31, 2018	December 31, 2017	March 31, 2017
1:3 basis swaps	\$ (1,664)	(1,233)	698
Interest rate swaps - floor income hedges	8,590	4,961	(120)
Interest rate swaps - hybrid debt hedges	(160)	(188)	(205)
Cross-currency interest rate swap	—	(558)	(1,751)
Total derivative settlements - income (expense)	\$ 6,766	2,982	(1,378)

Derivative Market Value and Foreign Currency Transaction Adjustments

"Derivative market value and foreign currency transaction adjustments" include (i) the realized and unrealized gains and losses that are caused by changes in fair values of derivatives which do not qualify for "hedge treatment" under GAAP; and (ii) the unrealized foreign currency transaction gains or losses caused by the re-measurement of the Company's Euro-denominated bonds to U.S. dollars. On October 25, 2017, the Company completed a remarketing of the Company's bonds that were prior to that date denominated in Euros, to denominate those bonds in U.S. dollars and reset the interest rate to be based on the 3-month LIBOR index. The Company also terminated a cross-currency interest rate swap associated with those bonds. As a result, foreign currency transaction adjustments will not be incurred with respect to those bonds after October 25, 2017.

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

	Three months ended		
	March 31, 2018	December 31, 2017	March 31, 2017
Change in fair value of derivatives - income (expense)	\$ 60,033	3,997	1,238
Foreign currency transaction adjustment - income (expense)	—	35	(4,690)
Derivative market value and foreign currency transaction adjustments - income (expense)	\$ 60,033	4,032	(3,452)

Loans Receivable

Loans receivable consisted of the following:

	As of		
	March 31, 2018	December 31, 2017	March 31, 2017
Federally insured student loans:			
Stafford and other	\$ 4,363,159	4,418,881	4,927,541
Consolidation	17,098,389	17,302,725	19,012,552
Total	21,461,548	21,721,606	23,940,093
Private education loans	194,310	212,160	256,816
Consumer loans	77,855	62,111	—
	21,733,713	21,995,877	24,196,909
Loan discount, net of unamortized loan premiums and deferred origination costs	(103,542)	(113,695)	(126,421)
Non-accretable discount	(12,847)	(13,085)	(16,576)
Allowance for loan losses:			
Federally insured loans	(38,374)	(38,706)	(36,687)
Private education loans	(12,255)	(12,629)	(13,839)
Consumer loans	(4,665)	(3,255)	—
	\$ 21,562,030	21,814,507	24,003,386

Loan Activity

The following table sets forth the activity of loans:

	Three months ended March 31,	
	2018	2017
Beginning balance	\$ 21,995,877	25,103,643
Loan acquisitions:		
Federally insured student loans	584,586	51,731
Private education loans	—	443
Consumer loans	23,354	—
Total loan acquisitions	607,940	52,174
Repayments, claims, capitalized interest, and other	(622,284)	(647,915)
Consolidation loans lost to external parties	(247,820)	(310,993)
Ending balance	\$ 21,733,713	24,196,909

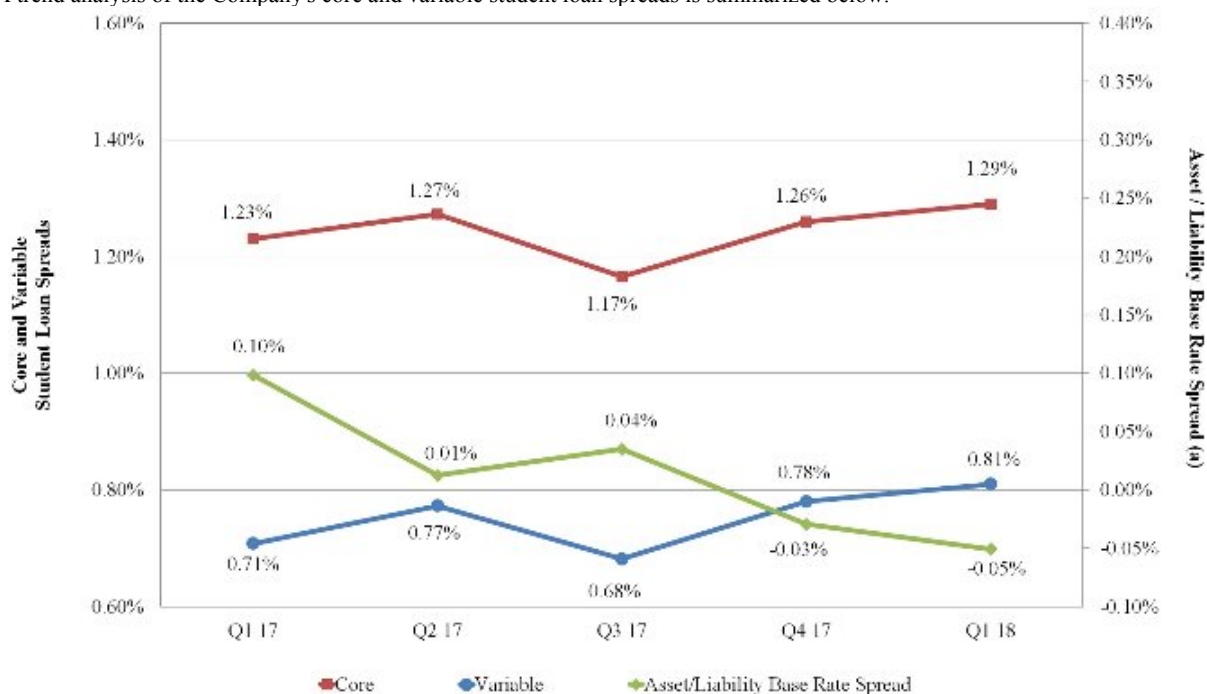
Loan Spread Analysis

The following table analyzes the loan spread on the Company's portfolio of loans, which represents the spread between the yield earned on loan assets and the costs of the liabilities and derivative instruments used to fund the assets.

	Three months ended		
	March 31, 2018	December 31, 2017	March 31, 2017
Variable loan yield, gross (a)	4.15 %	3.80 %	3.24 %
Consolidation rebate fees	(0.85)	(0.85)	(0.84)
Discount accretion, net of premium and deferred origination costs amortization	0.07	0.07	0.07
Variable loan yield, net	3.37	3.02	2.47
Loan cost of funds - interest expense	(2.53)	(2.21)	(1.74)
Loan cost of funds - derivative settlements (b) (c)	(0.03)	(0.03)	(0.02)
Variable loan spread	0.81	0.78	0.71
Fixed rate floor income, gross	0.32	0.39	0.52
Fixed rate floor income - derivative settlements (b) (d)	0.16	0.09	—
Fixed rate floor income, net of settlements on derivatives	0.48	0.48	0.52
Core loan spread	1.29 %	1.26 %	1.23 %
Average balance of loans	\$ 21,871,501	22,397,323	24,755,452
Average balance of debt outstanding	21,449,449	21,952,133	24,541,736

- (a) For the three months ended March 31, 2018, variable loan yield (gross) includes interest income earned on consumer loans. For the three months ended March 31, 2018, the average balance of consumer loans was \$67.1 million and the weighted average coupon rate on such loans was 17.60%. The Company began to purchase consumer loans in the second quarter of 2017, thus, consumer loans had no impact to spread during the first quarter of 2017. Consumer loans are currently funded by the Company using operating cash, until they can be funded in a secured financing transaction. As such, consumer loans do not have a cost of funds (debt) associated with them. Core loan spread, excluding consumer loans, would have been 1.25% for the three months ended March 31, 2018.
- (b) Derivative settlements represent the cash paid or received during the current period to settle with derivative instrument counterparties the economic effect of the Company's derivative instruments based on their contractual terms. Derivative accounting requires that net settlements with respect to derivatives that do not qualify for "hedge treatment" under GAAP be recorded in a separate income statement line item below net interest income. The Company maintains an overall risk management strategy that incorporates the use of derivative instruments to reduce the economic effect of interest rate volatility. As such, management believes derivative settlements for each applicable period should be evaluated with the Company's net interest income (loan spread) as presented in this table. The Company reports this non-GAAP information because it believes that it provides additional information regarding operational and performance indicators that are closely assessed by management. There is no comprehensive, authoritative guidance for the presentation of such non-GAAP information, which is only meant to supplement GAAP results by providing additional information that management utilizes to assess performance. See "Derivative Settlements" included in this supplement for the net settlement activity recognized by the Company for each type of derivative for the periods presented in this table.
- (c) Derivative settlements include the net settlements paid/received related to the Company's 1:3 basis swaps and cross-currency interest rate swap.
- (d) Derivative settlements include the net settlements paid/received related to the Company's floor income interest rate swaps.

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



- (a) The interest earned on a large portion of the Company's FFELP student loan assets is indexed to the one-month LIBOR rate. The Company funds a 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 rate by quarter.

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

	Three months ended		
	March 31, 2018	December 31, 2017	March 31, 2017
Fixed rate floor income, gross	\$ 17,247	22,053	32,132
Derivative settlements (a)	8,590	4,961	(120)
Fixed rate floor income, net	\$ 25,837	27,014	32,012
Fixed rate floor income contribution to spread, net	0.48%	0.48%	0.52%

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

Fixed Rate Floor Income

The following table shows the Company's federally insured student loan assets that were earning fixed rate floor income as of March 31, 2018 .

Fixed interest rate range	Borrower/lender weighted average yield	Estimated variable conversion rate (a)	Loan balance
4.0 - 4.49%	4.37%	1.73%	\$ 192,739
4.5 - 4.99%	4.72%	2.08%	794,520
5.0 - 5.49%	5.22%	2.58%	528,806
5.5 - 5.99%	5.67%	3.03%	361,646
6.0 - 6.49%	6.19%	3.55%	414,041
6.5 - 6.99%	6.70%	4.06%	398,619
7.0 - 7.49%	7.17%	4.53%	142,270
7.5 - 7.99%	7.71%	5.07%	242,499
8.0 - 8.99%	8.18%	5.54%	553,788
> 9.0%	9.05%	6.41%	195,478
			<u>\$ 3,824,406</u>

- (a) The estimated variable conversion rate is the estimated short-term interest rate at which loans would convert to a variable rate. As of March 31, 2018 , the weighted average estimated variable conversion rate was 3.59% and the short-term interest rate was 168 basis points.

The following table summarizes the outstanding derivative instruments as of March 31, 2018 used by the Company to economically hedge loans earning fixed rate floor income.

Maturity	Notional amount	Weighted average fixed rate paid by the Company (a)
2018	\$ 1,250,000	1.08%
2019	3,250,000	0.97
2020	1,500,000	1.01
2023	750,000	2.28
2024	300,000	2.28
2025	100,000	2.32
2027	50,000	2.32
2028	100,000	3.03
	<u>\$ 7,300,000</u>	<u>1.24%</u>

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