



Nelnet Reports First-Quarter 2008 Results

LINCOLN, Neb., May 12, 2008 /PRNewswire-FirstCall via COMTEX News Network/ -- Nelnet, Inc. (NYSE: NNI) today reported a GAAP net loss for the first quarter of 2008 of \$69.8 million, or \$1.42 per share, compared with GAAP net income of \$14.8 million, or \$0.29 per share, for the first quarter of 2007. The GAAP net loss included restructuring related charges of \$26.3 million, a loss related to the sale of loans and loans held for sale of \$47.5 million, and unrealized losses related to derivative market value, foreign currency, and put option adjustments of \$57.4 million.

Base net income excluding discontinued operations, restructuring related charges, and the loss on the sale of loans and reduction in fair value of loans held for sale for the first quarter of 2008 was \$15.3 million, or \$0.31 per share, compared with base net income of \$24.7 million, or \$0.48 per share, in the first quarter of 2007. The company defines base net income as GAAP net income excluding derivative market value, foreign currency, and put option adjustments, amortization of intangible assets, compensation related to business combinations, and variable-rate floor income.

"Our results in the first quarter reflect the further deterioration of the financial markets and environment for student loans," said Mike Dunlap, Chairman and Chief Executive Officer of Nelnet. "Fortunately, we have made the strategic transformation from a student loan company to an education services company in recent years to diversify and increase our fee-based revenue and reduce our reliance on net interest income. We are pleased with the performance of our fee-based businesses and the success of our diversification strategy.

"In this difficult financial environment, we have been proactive in our decisions to manage operating expenses and ensure liquidity. We will continue to assess the financial markets and political situation, and will make the changes necessary to maintain our financial strength and position the company for long-term success."

Fee-based Revenue

In the first quarter of 2008, fee-based revenue represented 83 percent of Nelnet's total revenue. This is an increase from the first quarter of 2007 when fee-based revenue represented 53 percent of total revenue.

Fee-based revenue for the first quarter of 2008 was \$78.8 million compared with \$76.2 million in the first quarter of 2007. During the first quarter, a decrease in loan and guarantee servicing income was offset by an increase in other fee-based income generated primarily by the Tuition Payment Processing and Campus Commerce operating segment and the Enrollment Services and List Management operating segment.

In the first quarter of 2008, loan and guarantee servicing income was \$26.1 million, down from \$30.5 million in the first quarter of 2007.

Other fee-based income increased to \$45.9 million for the first quarter of 2008, up from \$40.0 million in the same period a year ago. Within other fee-based income, Tuition Payment Processing and Campus Commerce revenue increased by \$2.1 million, or 17 percent, to \$13.8 million for the first quarter of 2008 and Enrollment Services and List Management revenue increased by \$2.3 million, or 9 percent, to \$27.2 million for the quarter.

Operating Expenses

Operating expenses were \$128.8 million in the first quarter of 2008 compared with \$121.2 million for the same period a year ago. However, excluding restructuring and impairment charges, operating expenses were \$102.5 million for the first quarter of 2008, a decrease of \$18.7 million, or 15.4 percent, from the same period a year ago.

Net Interest Margin and Student Loan Assets

Due to the capital market disruption as well as the legislative cuts to the Federal Family Education Loan (FFEL) Program which decreased the margin on loans originated after October 1, 2007, the company experienced a reduction in core student loan spread and related net interest income. The company reported core student loan spread of 0.73 percent for the first quarter of 2008 compared with 1.29 percent in the same period of 2007 and 0.93 percent for the fourth quarter of 2007. As a result,

Nelnet reported net interest income for the first quarter of 2008 of \$16.5 million compared with \$68.0 million for the first quarter of 2007.

From December 31, 2007, net student loan assets decreased by \$414.8 million to \$26.3 billion at March 31, 2008. In the first quarter of 2008, Nelnet sold an \$857.8 million (par value) portfolio of FFEL Program student loans at a discount to par resulting in the recognition of a loss of \$30.4 million. Another portfolio, including \$428.6 million (par value) of FFEL Program student loans, was sold at a discount to par on April 8, 2008. This portfolio is presented as "held for sale" on the March 31, 2008 balance sheet and is valued at the lower of cost or fair value. Nelnet recognized a loss of \$17.1 million during the first quarter of 2008 as a result of marking these loans to fair value.

Non-GAAP Performance Measures

A description of base net income and a reconciliation of GAAP net income to base net income can be found in supplemental financial information to this earnings release online at <http://www.nelnetinvestors.com/releases.cfm?reltype=Financial>.

Nelnet will host a conference call to discuss this earnings release and provide a business update in conjunction with the company's annual meeting of shareholders on May 22, 2008. The conference call will begin at 10:30 a.m. (Eastern). To access the call live, participants in the United States and Canada should dial 877.604.9669 and international callers should dial 719.325.4860 at least 15 minutes prior to the call. A live audio Web cast of the call will also be available at <http://www.nelnetinvestors.com> under the conference calls and Web casts menu. A replay of the conference call will be available between 1:30 p.m. (Eastern) on May 22, 2008 and 11:59 p.m. (Eastern) May 30, 2008. To access the replay via telephone within the United States and Canada, callers should dial 888.203.1112. International callers should dial 719.457.0820. All callers accessing the replay will need to use the confirmation code 9440399. A replay of the audio Web cast will also be available at <http://www.nelnetinvestors.com>.

This press release contains forward-looking statements and information based on management's current expectations as of the date of this document. When used in this press release, the words "anticipate," "believe," "estimate," "intend," and "expect" and similar expressions are intended to identify forward-looking statements. These forward-looking statements are subject to risks, uncertainties, assumptions, and other factors that may cause the actual results to be materially different from those reflected in such forward-looking statements. These factors include, among others, the risks and uncertainties set forth in "Risk Factors" and elsewhere in the company's Quarterly Report on Form 10-Q and the company's Annual Report on Form 10-K for the year ended December 31, 2007, changes in the terms of student loans and the educational credit marketplace arising from the implementation of, or changes in, applicable laws and regulations, which may reduce the volume, average term, special allowance payments, and costs of yields on student loans under the FFEL Program or result in loans being originated or refinanced under non-FFEL programs or may affect the terms upon which banks and others agree to sell FFEL Program loans to the company. In addition, a larger than expected increase in third party consolidations of the company's FFELP loans could materially adversely affect the company's results of operations. The company could also be affected by changes in the demand for educational financing or in financing preferences of lenders, educational institutions, students, and their families; 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 initiate, purchase, or carry education loans; losses from loan defaults; changes in prepayment rates, guaranty rates, loan floor rates, and credit spreads; the uncertain nature of the expected benefits from acquisitions and the ability to successfully integrate operations; and the uncertain nature of estimated expenses that may be incurred and cost savings that may result from the company's strategic restructuring initiatives. The reader should not place undue reliance on forward-looking statements, which speak only as of the date of this press release. Additionally, financial projections may not prove to be accurate and may vary materially. The company is not obligated to publicly release any revisions to forward-looking statements to reflect events after the date of this press release. 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.

Condensed Consolidated Statements of Operations

	Three months ended		
	March 31, 2008 (unaudited) (dollars in thousands, except share data)	December 31, 2007 (unaudited)	March 31, 2007 (unaudited)
Interest income:			
Loan interest	\$336,572	437,128	418,113
Variable-rate floor income	18,818	2,416	-
Amortization of loan premiums and deferred origination costs	(25,404)	(23,878)	(21,059)

Investment interest	11,680	18,988	21,425
Total interest income	341,666	434,654	418,479
Interest expense:			
Interest on bonds and notes payable	325,141	390,399	350,495
Net interest income	16,525	44,255	67,984
Less provision for loan losses	5,000	4,550	2,753
Net interest income after provision for loan losses	11,525	39,705	65,231
Other income:			
Loan and guaranty servicing income	26,113	32,953	30,466
Other fee-based income	45,913	44,572	40,029
Software services income	6,752	5,647	5,748
Other income	1,429	1,873	6,879
Loss on sale of loans and reduction in fair value related to loans held for sale (47,493)		-	-
Derivative market value, foreign currency, and put option adjustments	(57,361)	14,940	(12,130)
Derivative settlements, net	40,763	11,577	4,240
Total other income	16,116	111,562	75,232
Operating expenses:			
Salaries and benefits	53,843	54,621	61,704
Other expenses	49,600	59,256	52,887
Amortization of intangible assets	6,560	6,412	6,638
Impairment expense	18,834	-	-
Total operating expenses	128,837	120,289	121,229
Income (loss) before income taxes	(101,196)	30,978	19,234
Income tax expense (benefit)	(31,371)	11,810	7,264
Income (loss) from continuing operations	(69,825)	19,168	11,970
Income (loss) from discontinued operations, net of tax	-	(159)	2,810
Net income (loss)	\$(69,825)	19,009	14,780
Earnings (loss) per share, basic and diluted:			
Income (loss) from continuing operations	\$(1.42)	0.39	0.23
Income (loss) from discontinued operations, net of tax	-	-	0.06
Net income (loss)	\$(1.42)	0.39	0.29
Weighted average shares outstanding	49,051,745	49,047,048	50,982,187

Condensed Consolidated Balance Sheets and Financial Data

	As of March 31, 2008 (unaudited)	As of December 31, 2007	As of March 31, 2007 (unaudited)
(dollars in thousands)			
Assets:			
Student loans receivable, net	\$26,321,345	26,736,122	25,013,045
Student loans receivable - held for sale	423,651	--	--
Cash, cash equivalents, and investments	1,968,764	1,120,838	1,332,060
Goodwill	175,178	164,695	191,214
Intangible assets, net	92,897	112,830	153,039
Other assets	1,037,981	1,028,298	917,434
Total assets	\$30,019,816	29,162,783	27,606,792
Liabilities:			
Bonds and notes payable	\$29,129,133	28,115,829	26,537,482
Other liabilities	352,576	438,075	458,192
Total liabilities	29,481,709	28,553,904	26,995,674
Shareholders' equity	538,107	608,879	611,118
Total liabilities and shareholders' equity	\$30,019,816	29,162,783	27,606,792
Shareholders' equity to total assets	1.79%	2.09%	2.21%

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