

NELNET INC  
Form 10-Q  
August 04, 2016

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2016

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to .

COMMISSION FILE NUMBER 001-31924

NELNET, INC.

(Exact name of registrant as specified in its charter)

NEBRASKA

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

84-0748903

121 SOUTH 13TH STREET

SUITE 100

LINCOLN, NEBRASKA

(Address of principal executive offices)

(402) 458-2370

(Registrant's telephone number, including area code)

68508

(Zip Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

Edgar Filing: NELNET INC - Form 10-Q

company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of July 31, 2016, there were 31,021,028 and 11,476,932 shares of Class A Common Stock and Class B Common Stock, par value \$0.01 per share, outstanding, respectively (excluding 11,317,364 shares of Class A Common Stock held by wholly owned subsidiaries).

---

NELNET, INC.  
FORM 10-Q  
INDEX  
June 30, 2016

PART I. FINANCIAL INFORMATION

Item 1. <u>Financial Statements</u>	<u>2</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>27</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>52</u>
Item 4. <u>Controls and Procedures</u>	<u>58</u>

PART II. OTHER INFORMATION

Item 1. <u>Legal Proceedings</u>	<u>58</u>
Item 1A. <u>Risk Factors</u>	<u>58</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>59</u>
Item 6. <u>Exhibits</u>	<u>60</u>

<u>Signatures</u>	<u>61</u>
-------------------	-----------

---

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

NELNET, INC. AND SUBSIDIARIES  
 CONSOLIDATED BALANCE SHEETS  
 (Dollars in thousands, except share data)  
 (unaudited)

	As of June 30, 2016	As of December 31, 2015
Assets:		
Student loans receivable (net of allowance for loan losses of \$48,753 and \$50,498, respectively)	\$26,539,604	28,324,552
Cash and cash equivalents:		
Cash and cash equivalents - not held at a related party	9,225	11,379
Cash and cash equivalents - held at a related party	50,028	52,150
Total cash and cash equivalents	59,253	63,529
Investments and notes receivable	285,996	303,681
Restricted cash and investments	964,799	832,624
Restricted cash - due to customers	132,018	144,771
Accrued interest receivable	380,140	383,825
Accounts receivable (net of allowance for doubtful accounts of \$1,498 and \$2,003, respectively)	41,964	51,345
Goodwill	147,312	146,000
Intangible assets, net	54,141	51,062
Property and equipment, net	96,079	80,482
Other assets	11,084	8,583
Fair value of derivative instruments	3,408	28,690
Total assets	\$28,715,798	30,419,144
Liabilities:		
Bonds and notes payable	\$26,399,686	28,105,921
Accrued interest payable	39,926	31,507
Other liabilities	136,181	169,906
Due to customers	132,018	144,771
Fair value of derivative instruments	101,771	74,881
Total liabilities	26,809,582	28,526,986
Commitments and contingencies		
Equity:		
Nelnet, Inc. shareholders' equity:		
Preferred stock, \$0.01 par value. Authorized 50,000,000 shares; no shares issued or outstanding	—	—
Common stock:		
Class A, \$0.01 par value. Authorized 600,000,000 shares; issued and outstanding 31,024,230 shares and 32,476,528 shares, respectively	310	325
Class B, convertible, \$0.01 par value. Authorized 60,000,000 shares; issued and outstanding 11,476,932 shares	115	115
Additional paid-in capital	4,601	—

Edgar Filing: NELNET INC - Form 10-Q

Retained earnings	1,894,551	1,881,708
Accumulated other comprehensive (loss) earnings	(2,277	) 2,284
Total Nelnet, Inc. shareholders' equity	1,897,300	1,884,432
Noncontrolling interests	8,916	7,726
Total equity	1,906,216	1,892,158
Total liabilities and equity	\$28,715,798	30,419,144

Supplemental information - assets and liabilities of consolidated variable interest entities:

Student loans receivable	\$26,735,698	28,499,180
Restricted cash and investments	851,389	814,294
Accrued interest receivable and other assets	380,230	384,230
Bonds and notes payable	(26,660,478	) (28,405,133 )
Other liabilities	(405,832	) (353,607 )
Fair value of derivative instruments, net	(44,602	) (64,080 )
Net assets of consolidated variable interest entities	\$856,405	874,884

See accompanying notes to consolidated financial statements.

NELNET, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except share data)

(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Interest income:				
Loan interest	\$184,067	175,835	374,055	347,779
Investment interest	2,185	1,887	4,214	4,092
Total interest income	186,252	177,722	378,269	351,871
Interest expense:				
Interest on bonds and notes payable	94,052	72,626	184,460	144,180
Net interest income	92,200	105,096	193,809	207,691
Less provision for loan losses	2,000	2,150	4,500	4,150
Net interest income after provision for loan losses	90,200	102,946	189,309	203,541
Other income:				
Loan and guaranty servicing revenue	54,402	63,833	106,732	121,644
Tuition payment processing, school information, and campus commerce revenue	30,483	27,686	69,140	62,366
Communications revenue	4,478	—	8,824	—
Enrollment services revenue	—	12,680	4,326	26,053
Other income	9,765	11,985	23,559	23,393
Gain on sale of loans and debt repurchases	—	1,515	101	4,390
Derivative market value and foreign currency adjustments and derivative settlements, net	(40,702)	6,502	(69,392)	3,424
Total other income	58,426	124,201	143,290	241,270
Operating expenses:				
Salaries and benefits	60,923	58,787	124,165	119,837
Depreciation and amortization	8,183	6,501	15,823	12,163
Loan servicing fees	7,216	7,420	14,144	15,036
Cost to provide communications services	1,681	—	3,384	—
Cost to provide enrollment services	—	10,395	3,623	21,194
Other expenses	29,409	32,725	57,783	62,826
Total operating expenses	107,412	115,828	218,922	231,056
Income before income taxes	41,214	111,319	113,677	213,755
Income tax expense	15,036	40,356	39,469	77,986
Net income	26,178	70,963	74,208	135,769
Net income attributable to noncontrolling interests	28	54	97	95
Net income attributable to Nelnet, Inc.	\$26,150	70,909	74,111	135,674
Earnings per common share:				
Net income attributable to Nelnet, Inc. shareholders - basic and diluted	\$0.61	1.54	1.73	2.94
Weighted average common shares outstanding - basic and diluted	42,635,700	45,946,415	42,861,896	46,127,207

See accompanying notes to consolidated financial statements.

NELNET, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(Dollars in thousands)  
(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Net income	\$26,178	70,963	74,208	135,769
Other comprehensive loss:				
Available-for-sale securities:				
Unrealized holding losses arising during period, net	(6,138 )	(436 )	(7,648 )	(649 )
Reclassification adjustment for losses (gains) recognized in net income, net	277	(2,093 )	409	(2,297 )
Income tax effect	2,168	940	2,678	1,094
Total other comprehensive loss	(3,693 )	(1,589 )	(4,561 )	(1,852 )
Comprehensive income	22,485	69,374	69,647	133,917
Comprehensive income attributable to noncontrolling interests	28	54	97	95
Comprehensive income attributable to Nelnet, Inc.	\$22,457	69,320	69,550	133,822

See accompanying notes to consolidated financial statements.

NELNET, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Dollars in thousands, except share data)  
(unaudited)

	Nelnet, Inc. Shareholders						Retained earnings	Accumulated other comprehensive (loss) earnings	Noncontrolling interests	Total equity
	Preferred stock Class A shares	Class B	Class A Preferred stock	Class B common stock	Class B common stock	Additional paid-in capital				
Balance as of March 31, 2015	-34,713,065	11,486,932	\$ -347	115	13,177	1,762,711	4,872	271	1,781,493	
Issuance of noncontrolling interests	—	—	—	—	—	—	—	19	19	
Net income	—	—	—	—	—	70,909	—	54	70,963	
Other comprehensive loss	—	—	—	—	—	—	(1,589 )	—	(1,589 )	
Distribution to noncontrolling interests	—	—	—	—	—	—	—	(44 )	(44 )	
Cash dividend on Class A and Class B common stock - \$0.10 per share	—	—	—	—	—	(4,559 )	—	—	(4,559 )	
Issuance of common stock, net of forfeitures	-9,616	—	—	—	945	—	—	—	945	
Compensation expense for stock based awards	—	—	—	—	1,353	—	—	—	1,353	
Repurchase of common stock	-(998,210 )	—	—	(10 )	(15,475 )	(27,604 )	—	—	(43,089 )	
Balance as of June 30, 2015	-33,724,471	11,486,932	\$ -337	115	—	1,801,457	3,283	300	1,805,492	
Balance as of March 31, 2016	-31,008,226	11,476,932	\$ -310	115	2,913	1,873,500	1,416	8,672	1,886,926	
Issuance of noncontrolling interests	—	—	—	—	—	—	—	338	338	
Net income	—	—	—	—	—	26,150	—	28	26,178	
Other comprehensive loss	—	—	—	—	—	—	(3,693 )	—	(3,693 )	
Distribution to noncontrolling interests	—	—	—	—	—	—	—	(122 )	(122 )	
Cash dividend on Class A and Class	—	—	—	—	—	(5,099 )	—	—	(5,099 )	



Edgar Filing: NELNET INC - Form 10-Q

B common stock - \$0.12 per share Issuance of common stock, net	-27,946	—	—	—	—	954	—	—	—	954
of forfeitures										
Compensation expense for stock based awards	—	—	—	—	—	1,133	—	—	—	1,133
Repurchase of common stock	-(11,942 )	—	—	—	—	(399 )	—	—	—	(399 )
Balance as of June 30, 2016	-31,024,230	11,476,932	\$ -310	115	4,601	1,894,551	(2,277 )	8,916		1,906,216
Balance as of December 31, 2014	-34,756,384	11,486,932	\$ -348	115	17,290	1,702,560	5,135	230		1,725,678
Issuance of noncontrolling interests	—	—	—	—	—	—	—	—	19	19
Net income	—	—	—	—	—	135,674	—	95		135,769
Other comprehensive loss	—	—	—	—	—	—	(1,852 )	—		(1,852 )
Distribution to noncontrolling interests	—	—	—	—	—	—	—	(44 )		(44 )
Cash dividends on Class A and Class B common stock - \$0.20 per share	—	—	—	—	—	(9,173 )	—	—		(9,173 )
Issuance of common stock, net	-142,095	—	—	1	—	3,411	—	—	—	3,412
of forfeitures										
Compensation expense for stock based awards	—	—	—	—	—	2,711	—	—	—	2,711
Repurchase of common stock	-(1,174,008 )	—	—	(12 )	—	(23,412 )	(27,604 )	—	—	(51,028 )
Balance as of June 30, 2015	-33,724,471	11,486,932	\$ -337	115	—	1,801,457	3,283	300		1,805,492
Balance as of December 31, 2015	-32,476,528	11,476,932	\$ -325	115	—	1,881,708	2,284	7,726		1,892,158
Issuance of noncontrolling interests	—	—	—	—	—	—	—	—	1,312	1,312
Net income	—	—	—	—	—	74,111	—	97		74,208
Other comprehensive loss	—	—	—	—	—	—	(4,561 )	—		(4,561 )
Distribution to noncontrolling	—	—	—	—	—	—	—	(219 )		(219 )

Edgar Filing: NELNET INC - Form 10-Q

interests										
Cash dividends on Class A and Class B common stock - \$0.24 per share	—	—	—	—	—	(10,192 )	—	—	(10,192 )	
Issuance of common stock, net of forfeitures	158,743	—	—	1	—	3,661	—	—	3,662	
Compensation expense for stock based awards	—	—	—	—	—	2,316	—	—	2,316	
Repurchase of common stock	(1,611,041 )	—	—	(16 )	—	(1,376 )	(51,076 )	—	(52,468 )	
Balance as of June 30, 2016	31,024,230	11,476,932	\$	310	115	4,601	1,894,551	(2,277 )	8,916	1,906,216

See accompanying notes to consolidated financial statements.

NELNET, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Dollars in thousands)  
(unaudited)

	Six months ended June 30,	
	2016	2015
Net income attributable to Nelnet, Inc.	\$74,111	135,674
Net income attributable to noncontrolling interests	97	95
Net income	74,208	135,769
Adjustments to reconcile net income to net cash provided by operating activities, net of acquisitions:		
Depreciation and amortization, including debt discounts and student loan premiums and deferred origination costs	62,298	60,191
Student loan discount accretion	(21,524 )	(21,506 )
Provision for loan losses	4,500	4,150
Derivative market value adjustment	48,649	19,457
Foreign currency transaction adjustment	8,712	(33,538 )
Proceeds from termination of derivative instruments	3,523	51,947
Payment to enter into interest rate caps	—	(585 )
Gain on sale of loans	—	(351 )
Gain from debt repurchases	(101 )	(4,039 )
Loss (gain) from sales of available-for-sale securities, net	409	(2,297 )
Payments for purchases of trading securities, net	(235 )	(11,697 )
Deferred income tax (benefit) expense	(20,260 )	3,119
Other	6,069	6,376
Decrease (increase) in accrued interest receivable	3,685	(743 )
Decrease (increase) in accounts receivable	9,462	(10,341 )
Increase in other assets	(2,579 )	(1,967 )
Increase in accrued interest payable	8,419	2,566
Decrease in other liabilities	(10,006 )	(4,526 )
Net cash provided by operating activities	175,229	191,985
Cash flows from investing activities, net of acquisitions:		
Purchases of student loans and student loan residual interests	(183,375 )	(1,637,650)
Net proceeds from student loan repayments, claims, capitalized interest, and other	1,927,319	1,953,437
Proceeds from sale of student loans	44,738	3,996
Purchases of available-for-sale securities	(51,735 )	(5,550 )
Proceeds from sales of available-for-sale securities	58,232	47,951
Purchases of investments and issuance of notes receivable	(10,222 )	(53,770 )
Proceeds from investments and notes receivable	5,360	8,824
Purchases of property and equipment, net	(29,577 )	(9,519 )
(Increase) decrease in restricted cash and investments, net	(131,325 )	16,532
Net cash provided by investing activities	1,629,415	324,251
Cash flows from financing activities:		
Payments on bonds and notes payable	(1,972,880)	(2,629,565)
Proceeds from issuance of bonds and notes payable	226,194	2,233,630
Payments of debt issuance costs	(1,084 )	(8,707 )
Dividends paid	(10,192 )	(9,173 )

Edgar Filing: NELNET INC - Form 10-Q

Repurchases of common stock	(52,468 )	(51,028 )
Proceeds from issuance of common stock	417	431
Issuance of noncontrolling interests	1,312	19
Distribution to noncontrolling interests	(219 )	(44 )
Net cash used in financing activities	(1,808,920)	(464,437 )
Net (decrease) increase in cash and cash equivalents	(4,276 )	51,799
Cash and cash equivalents, beginning of period	63,529	130,481
Cash and cash equivalents, end of period	\$59,253	182,280
Cash disbursements made for:		
Interest	\$142,446	108,436
Income taxes, net of refunds	\$55,988	67,211
Noncash activity:		
Investing activity - student loans and other assets acquired	\$—	517,845
Financing activity - borrowings and other liabilities assumed in acquisition of student loans	\$—	451,845

See accompanying notes to consolidated financial statements.

NELNET, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts, unless otherwise noted)

(unaudited)

1. Basis of Financial Reporting

The accompanying unaudited consolidated financial statements of Nelnet, Inc. and subsidiaries (the "Company") as of June 30, 2016 and for the three and six months ended June 30, 2016 and 2015 have been prepared on the same basis as the audited consolidated financial statements for the year ended December 31, 2015 and, in the opinion of the Company's management, the unaudited consolidated financial statements reflect all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of results of operations for the interim periods presented. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Operating results for the three and six months ended June 30, 2016 are not necessarily indicative of the results for the year ending December 31, 2016. The unaudited consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2015 (the "2015 Annual Report").

Reclassifications

Certain amounts previously reported within the Company's consolidated balance sheet and statements of income have been reclassified to conform to the current period presentation. These reclassifications are summarized below.

In April 2015, the Financial Accounting Standards Board ("FASB") issued accounting guidance regarding the presentation of debt issuance costs. The new guidance requires that entities present debt issuance costs related to a debt liability as a direct deduction from that liability on the balance sheet. This guidance became effective for the Company beginning January 1, 2016. As a result of this standard, the Company reclassified its debt issuance costs, which were previously included in "other assets" on the consolidated balance sheet, to "bonds and notes payable."

On February 1, 2016, the Company sold 100 percent of the membership interests in Sparkroom LLC, which includes the majority of the Company's inquiry management products and services within Nelnet Enrollment Solutions. The Company retained the digital marketing and content solution products and services under the brand name Peterson's within the Nelnet Enrollment Solutions business, which include test preparation study guides, school directories and databases, career exploration guides, on-line courses, scholarship search and selection data, career planning information and guides, and on-line information about colleges and universities. The Company reclassified the revenue and cost of goods sold attributable to the Peterson's products and services from "enrollment services revenue" and "cost to provide enrollment services" to "other income" and "other expenses," respectively, on the consolidated statements of income. After this reclassification, "enrollment services revenue" and "cost to provide enrollment services" include the operating results of the products and services sold as part of the Sparkroom disposition for all periods presented. These reclassifications had no effect on consolidated net income.

## 2. Student Loans Receivable and Allowance for Loan Losses

Student loans receivable consisted of the following:

	As of June 30, 2016	As of December 31, 2015
Federally insured loans:		
Stafford and other	\$5,629,034	6,202,064
Consolidation	20,837,356	22,086,043
Total	26,466,390	28,288,107
Private education loans	288,170	267,642
	26,754,560	28,555,749
Loan discount, net of unamortized loan premiums and deferred origination costs (a)	(166,203 )	(180,699 )
Allowance for loan losses – federally insured loans	(33,224 )	(35,490 )
Allowance for loan losses – private education loans	(15,529 )	(15,008 )
	\$26,539,604	28,324,552

As of June 30, 2016 and December 31, 2015, "loan discount, net of unamortized loan premiums and deferred (a) origination costs" included \$26.2 million and \$33.0 million, respectively, of non-accretable discount associated with purchased loans of \$10.1 billion and \$10.8 billion, respectively.

## Private Education Loans

In February 2015, the Company entered into an agreement with CommonBond, Inc. ("CommonBond"), a student lending company that provides private education loans to graduate students, under which the Company committed to purchase private education loans for a period of 18 months, with the maximum purchase obligation limited to \$200.0 million. As of June 30, 2016, the Company had purchased \$190.1 million in private education loans from CommonBond and has satisfied its commitment under this agreement.

## Activity in the Allowance for Loan Losses

The provision for loan losses represents the periodic expense of maintaining an allowance sufficient to absorb losses, net of recoveries, inherent in the portfolio of student loans. Activity in the allowance for loan losses is shown below.

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Balance at beginning of period	\$50,084	51,161	50,498	48,900
Provision for loan losses:				
Federally insured loans	2,000	2,000	4,000	4,000
Private education loans	—	150	500	150
Total provision for loan losses	2,000	2,150	4,500	4,150
Charge-offs:				
Federally insured loans	(3,217 )	(3,259 )	(6,266 )	(6,408 )
Private education loans	(514 )	(446 )	(915 )	(1,122 )
Total charge-offs	(3,731 )	(3,705 )	(7,181 )	(7,530 )
Recoveries - private education loans	250	238	526	492
Purchase (sale) of federally insured and private education loans, net	100	—	260	(230 )
Transfer from repurchase obligation related to private education loans repurchased, net	50	180	150	4,242
Balance at end of period	\$48,753	50,024	48,753	50,024
Allocation of the allowance for loan losses:				
Federally insured loans	\$33,224	36,762	33,224	36,762
Private education loans	15,529	13,262	15,529	13,262
Total allowance for loan losses	\$48,753	50,024	48,753	50,024

## Student Loan Status and Delinquencies

Delinquencies have the potential to adversely impact the Company's earnings through increased servicing and collection costs and account charge-offs. The table below shows the Company's loan delinquency amounts.

	As of June 30, 2016		As of December 31, 2015		As of June 30, 2015	
Federally insured loans:						
Loans in-school/grace/deferment	\$ 1,936,064		\$ 2,292,941		\$ 2,634,088	
Loans in forbearance	2,672,241		2,979,357		3,118,774	
Loans in repayment status:						
Loans current	18,957,457	86.7 %	19,447,541	84.4 %	19,055,994	85.2 %
Loans delinquent 31-60 days	828,885	3.8	1,028,396	4.5	950,055	4.2
Loans delinquent 61-90 days	482,379	2.2	566,953	2.5	612,657	2.7
Loans delinquent 91-120 days	320,213	1.5	415,747	1.8	355,636	1.6
Loans delinquent 121-270 days	918,788	4.2	1,166,940	5.1	1,051,843	4.7
Loans delinquent 271 days or greater	350,363	1.6	390,232	1.7	359,601	1.6
Total loans in repayment	21,858,085	100.0%	23,015,809	100.0%	22,385,786	100.0%
Total federally insured loans	\$26,466,390		\$28,288,107		\$28,138,648	
Private education loans:						
Loans in-school/grace/deferment	\$54,597		\$30,795		\$5,268	
Loans in forbearance	1,610		350		142	
Loans in repayment status:						
Loans current	225,585	97.2 %	228,464	96.7 %	161,355	95.0 %
Loans delinquent 31-60 days	1,361	0.6	1,771	0.7	1,407	0.8
Loans delinquent 61-90 days	929	0.4	1,283	0.5	1,647	1.0
Loans delinquent 91 days or greater	4,088	1.8	4,979	2.1	5,383	3.2
Total loans in repayment	231,963	100.0%	236,497	100.0%	169,792	100.0%
Total private education loans	\$288,170		\$267,642		\$175,202	



## 3. Bonds and Notes Payable

The following tables summarize the Company's outstanding debt obligations by type of instrument:

	As of June 30, 2016		
	Carrying amount	Interest rate range	Final maturity
Variable-rate bonds and notes issued in asset-backed securitizations:			
Bonds and notes based on indices	\$23,418,478	0.30% - 6.90%	8/26/19 - 8/26/52
Bonds and notes based on auction	1,158,415	1.26% - 2.21%	3/22/32 - 11/26/46
Total variable-rate bonds and notes	24,576,893		
FFELP warehouse facilities	1,811,708	0.46% - 0.80%	7/9/18 - 4/26/19
Private education loan warehouse facility	221,114	0.81%	4/28/17
Unsecured line of credit	105,000	1.94% - 1.95%	10/30/20
Unsecured debt - Junior Subordinated Hybrid Securities	57,184	4.01%	9/15/61
Other borrowings	93,355	1.97% - 3.38%	10/31/16 - 12/15/45
	26,865,254		
Discount on bonds and notes payable and debt issuance costs, net	(465,568 )		
Total	\$26,399,686		
	As of December 31, 2015		
	Carrying amount	Interest rate range	Final maturity
Variable-rate bonds and notes issued in asset-backed securitizations:			
Bonds and notes based on indices	\$25,155,336	0.05% - 6.90%	8/26/19 - 8/26/52
Bonds and notes based on auction	1,160,365	0.88% - 2.17%	3/22/32 - 11/26/46
Total variable-rate bonds and notes	26,315,701		
FFELP warehouse facilities	1,855,907	0.27% - 0.56%	4/29/18 - 12/14/18
Private education loan warehouse facility	181,184	0.57%	12/26/16
Unsecured line of credit	100,000	1.79% - 1.92%	10/30/20
Unsecured debt - Junior Subordinated Hybrid Securities	57,184	3.99%	9/15/61
Other borrowings	93,355	1.93% - 3.38%	10/31/16 - 12/15/45
	28,603,331		
Discount on bonds and notes payable and debt issuance costs, net	(497,410 )		
Total	\$28,105,921		

## FFELP Warehouse Facilities

The Company funds a portion of its FFELP loan acquisitions using its FFELP warehouse facilities. Student loan warehousing allows the Company to buy and manage student loans prior to transferring them into more permanent financing arrangements.

As of June 30, 2016, the Company had three FFELP warehouse facilities as summarized below.

	NFSLW-I (a)	NHELP-II	NHELP-III	Total
Maximum financing amount	\$875,000	500,000	750,000	2,125,000
Amount outstanding	844,087	455,049	512,572	1,811,708
Amount available	\$30,913	44,951	237,428	313,292
Expiration of liquidity provisions	July 8, 2016	December 16, 2016	April 28, 2017	
Final maturity date	July 9, 2018	December 14, 2018	April 26, 2019	
Maximum advance rates	92.0 - 98.0%	85.0 - 95.0%	92.2 - 95.0%	
Minimum advance rates	84.0 - 90.0%	85.0 - 95.0%	92.2 - 95.0%	
Advanced as equity support	\$36,663	38,051	30,694	105,408

On July 10, 2015, the Company amended the agreement for this warehouse facility to temporarily increase the maximum financing amount to \$875.0 million. The maximum financing amount was scheduled to decrease by \$125.0 million on March 31, 2016. On January 26, 2016, the Company amended the agreement for this warehouse (a) facility to extend the scheduled decrease of the maximum financing amount by \$125.0 million to July 8, 2016. On July 7, 2016, the Company amended the agreement for this warehouse facility to permanently set the maximum financing amount at \$875.0 million, and changed the expiration of liquidity provisions to July 10, 2018 and the final maturity date to September 7, 2018.

## Private Education Loan Warehouse Facility

On June 26, 2015, the Company entered into a \$275.0 million private education loan warehouse facility. As of June 30, 2016, there was \$221.1 million outstanding on the facility and \$53.9 million was available for future use. The facility has a static advance rate that requires initial equity for loan funding, but does not require increased equity based on market movements. The maximum advance rate on the entire facility is 88 percent and minimum advance rates, depending on loan characteristics and program type, ranged from 64 percent to 99 percent. As of June 30, 2016, \$32.0 million was advanced on the facility as equity support. The facility is supported by liquidity provisions, which had an original expiration date of June 24, 2016.

On April 1, 2016, the Company amended the agreement for this facility to change the expiration date for the liquidity provisions to October 28, 2016, and to change the final maturity date to April 28, 2017. In addition, the minimum advance rates, depending on loan characteristics and program type, were changed to a range from 61.75 percent to 95.00 percent, and the maximum advance rate on the entire facility remained at 88 percent. In the event the Company is unable to renew the liquidity provisions by the amended expiration date of October 28, 2016, the facility would become a term facility at a stepped-up cost, with no additional student loans being eligible for financing, and the Company would be required to refinance the existing loans in the facility by the facility's amended final maturity date of April 28, 2017.

## Unsecured Line of Credit

The Company has a \$350.0 million unsecured line of credit that has a maturity date of October 30, 2020. As of June 30, 2016, the unsecured line of credit had an outstanding balance of \$105.0 million and \$245.0 million was available for future use.

## 4. Derivative Financial Instruments

The Company uses derivative financial instruments primarily to manage interest rate risk and foreign currency exchange risk. Derivative instruments used as part of the Company's risk management strategy are further described in note 5 of the notes to consolidated financial statements included in the 2015 Annual Report. A tabular presentation of such derivatives outstanding as of June 30, 2016 and December 31, 2015 is presented below.

## Basis Swaps

The following table summarizes the Company's basis swaps outstanding as of June 30, 2016 and December 31, 2015 in which the Company receives three-month LIBOR set discretely in advance and pays one-month LIBOR plus or minus a spread as defined in the agreements (the "1:3 Basis Swaps").

	As of June 30, 2016	As of December 31, 2015
Maturity	Notional amount	Notional amount
2016	\$2,000,000	\$7,500,000
2028	125,000	—

The weighted average rate paid by the Company on the 1:3 Basis Swaps as of June 30, 2016 and December 31, 2015 was one-month LIBOR plus 9.3 basis points and 10.0 basis points, respectively.

## Interest Rate Swaps – Floor Income Hedges

The following table summarizes the outstanding derivative instruments used by the Company to economically hedge loans earning fixed rate floor income.

	As of June 30, 2016		As of December 31, 2015	
Maturity	Notional amount	Weighted average fixed rate paid by the Company (a)	Notional amount	Weighted average fixed rate paid by the Company (a)
2016	\$750,000	0.72 %	\$1,000,000	0.76 %
2017	1,000,000	0.97	2,100,000	0.84
2018	1,600,000	1.08	1,600,000	1.08
2019	3,250,000	0.97	500,000	1.12
2020	1,500,000	1.01	—	—
2025	100,000	2.32	100,000	2.32
2026	50,000	1.52	—	—
	\$8,250,000	0.99 %	\$5,300,000	0.95 %

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

On August 20, 2014, the Company paid \$9.1 million for an interest rate swap option to economically hedge loans earning fixed rate floor income. The interest rate swap option gives the Company the right, but not the obligation, to

enter into a \$250 million notional interest rate swap in which the Company would pay a fixed amount of 3.30% and receive discrete one-month LIBOR. If the interest rate swap option is exercised, the swap would become effective in 2019 and mature in 2024.

## Interest Rate Swaps – Unsecured Debt Hedges

The Company had the following derivatives outstanding as of June 30, 2016 and December 31, 2015 that are used to effectively convert the variable interest rate on a portion of the Junior Subordinated Hybrid Securities to a fixed rate of 7.66%.

Maturity	Notional amount	Weighted average fixed rate paid by the Company (a)
2036	\$25,000	4.28 %

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

## Interest Rate Caps

In June 2015, in conjunction with the entry into the \$275.0 million private education loan warehouse facility, the Company paid \$2.9 million for two interest rate cap contracts with a total notional amount of \$275.0 million. The first interest rate cap has a notional amount of \$125.0 million and a one-month LIBOR strike rate of 2.50%, and the second interest rate cap has a notional amount of \$150.0 million and a one-month LIBOR strike rate of 4.99%. In the event that the one-month LIBOR rate rises above the applicable strike rate, the Company would receive monthly payments related to the spread difference. Both interest rate cap contracts have a maturity date of July 15, 2020.

## Foreign Currency Exchange Risk

In 2006, the Company issued €352.7 million of student loan asset-backed Euro Notes (the "Euro Notes") with an interest rate based on a spread to the EURIBOR index. As a result of the Euro Notes, the Company is exposed to market risk related to fluctuations in foreign currency exchange rates between the U.S. dollar and Euro. The principal and accrued interest on these notes are re-measured 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 entered into a cross-currency interest rate swap in connection with the issuance of the Euro Notes. Under the terms of the cross-currency interest rate swap, the Company receives from the counterparty a spread to the EURIBOR index based on a notional amount of €352.7 million and pays a spread to the LIBOR index based on a notional amount of \$450.0 million. In addition, under the terms of this agreement, all principal payments on the Euro Notes will effectively be paid at the exchange rate in effect between the U.S. dollar and Euro as of the issuance of the notes.

The following table shows the income statement impact as a result of the re-measurement of the Euro Notes and the change in the fair value of the related derivative instrument.

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Re-measurement of Euro Notes	\$9,768	(14,671)	(8,712)	33,538
Change in fair value of cross-currency interest rate swap	(12,008)	13,933	20,693	(35,873)
Total impact to consolidated statements of income - income (expense) (a)	\$(2,240)	(738)	11,981	(2,335)

(a) The financial statement impact of the above items is included in "Derivative market value and foreign currency adjustments and derivative settlements, net" in the Company's consolidated statements of income. Management has structured the cross-currency interest rate swap to economically hedge the Euro Notes to effectively convert the Euro Notes to U.S. dollars and pay a spread on these notes based on the LIBOR index. However, the cross-currency interest rate swap does not qualify for hedge accounting. The re-measurement of the Euro-denominated bonds generally correlates with the change in the fair value of the corresponding cross-currency interest rate swap. However, the Company will experience unrealized gains and losses between these financial instruments due to the principal and accrued interest on the Euro Notes being re-measured to U.S. dollars at each reporting date based on the foreign currency exchange rate on that date, while the cross-currency interest rate swap is measured at fair value at each reporting date with the change in fair value recognized in the current period earnings.

## Consolidated Financial Statement Impact Related to Derivatives

The following table summarizes the fair value of the Company's derivatives as reflected in the consolidated balance sheets:

	Fair value of asset derivatives		Fair value of liability derivatives	
	As of June 30, 2016	As of December 31, 2015	As of June 30, 2016	As of December 31, 2015
1:3 basis swaps	\$623	724	127	410
Interest rate swaps - floor income hedges	27	21,408	42,791	1,175
Interest rate swap option - floor income hedge	986	3,257	—	—
Interest rate swaps - hybrid debt hedges	—	—	11,660	7,646
Interest rate caps	355	1,570	—	—
Cross-currency interest rate swap	—	—	44,957	65,650
Other	1,417	1,731	2,236	—
Total	\$3,408	28,690	101,771	74,881

During the six months ended June 30, 2016, the Company terminated a total notional amount of \$3.1 billion of fixed rate floor income hedges for gross proceeds of \$3.0 million, and a total notional amount of \$300.0 million of other basis swaps for gross proceeds of \$0.5 million. During the six months ended June 30, 2015, the Company terminated a total notional amount of \$5.5 billion of 1:3 Basis Swaps for gross proceeds of \$51.9 million.

## Offsetting of Derivative Assets/Liabilities

The Company records derivative instruments in the consolidated balance sheets on a gross basis as either an asset or liability measured at its fair value. Certain of the Company's derivative instruments are subject to right of offset provisions with counterparties. The following tables include the gross amounts related to the Company's derivative portfolio recognized in the consolidated balance sheets, reconciled to the net amount when excluding derivatives subject to enforceable master netting arrangements and cash collateral received/pledged:

Derivative assets	Gross amounts of recognized assets presented in the consolidated balance sheets	Gross amounts not offset in the consolidated balance sheets		Net asset (liability)
		Derivatives subject to enforceable master netting arrangement	Cash collateral pledged	
Balance as of June 30, 2016	\$ 3,408	(3,053)	—	355
Balance as of December 31, 2015	28,690	(851)	1,632	29,471



Gross amounts not offset  
in the consolidated  
balance sheets

Derivative liabilities	Gross amounts of recognized liabilities presented in the consolidated balance sheets	Derivatives subject to Cash collateral enforcement/ master netting arrangement	Cash collateral pledged/received,	Net asset (liability)
Balance as of June 30, 2016	\$ (101,771 )	3,053	90,170	(8,548 )
Balance as of December 31, 2015	(74,881 )	851	13,168	(60,862 )

The following table summarizes the effect of derivative instruments in the consolidated statements of income.

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
<b>Settlements:</b>				
1:3 basis swaps	\$743	123	414	389
Interest rate swaps - floor income hedges	(4,841 )	(5,019 )	(10,084 )	(10,034 )
Interest rate swaps - hybrid debt hedges	(231 )	(253 )	(463 )	(505 )
Cross-currency interest rate swap	(1,166 )	(293 )	(1,898 )	(507 )
Total settlements - expense	(5,495 )	(5,442 )	(12,031 )	(10,657 )
<b>Change in fair value:</b>				
1:3 basis swaps	(586 )	1,428	183	12,398
Interest rate swaps - floor income hedges	(27,276 )	7,534	(59,985 )	2,662
Interest rate swap option - floor income hedge	(856 )	1,381	(2,272 )	470
Interest rate swaps - hybrid debt hedges	(1,464 )	2,540	(4,014 )	1,087
Interest rate caps	(453 )	(201 )	(1,215 )	(201 )
Cross-currency interest rate swap	(12,008 )	13,933	20,693	(35,873 )
Other	(2,332 )	—	(2,039 )	—
Total change in fair value - (expense) income	(44,975 )	26,615	(48,649 )	(19,457 )
Re-measurement of Euro Notes (foreign currency transaction adjustment) - income (expense)	9,768	(14,671 )	(8,712 )	33,538
Derivative market value and foreign currency adjustments and derivative settlements, net - income (expense)	\$(40,702)	6,502	(69,392)	3,424

## 5. Investments and Notes Receivable

A summary of the Company's investments and notes receivable follows:

	As of June 30, 2016				As of December 31, 2015			
	Amortized cost	Gross unrealized gains	Gross unrealized losses (a)	Fair value	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
<b>Investments (at fair value):</b>								
<b>Available-for-sale investments:</b>								
Student loan asset-backed and other debt securities (b)	\$133,190	1,091	(6,432 )	127,849	139,970	3,402	(1,362 )	142,010
Equity securities	720	1,797	(69 )	2,448	846	1,686	(100 )	2,432
Total available-for-sale investments	\$133,910	2,888	(6,501 )	130,297	140,816	5,088	(1,462 )	144,442
<b>Trading investments:</b>								
Student loan asset-backed securities				5,867				6,045
Equity securities				5,318				4,905
Total trading investments				11,185				10,950
Total available-for-sale and trading investments				141,482				155,392
<b>Other Investments and Notes Receivable (not measured at fair value):</b>								
Venture capital and funds				65,778				63,323
Real estate				48,586				50,463
Notes receivable				17,206				18,473
Tax liens and affordable housing				12,944				16,030

Total investments and notes receivable	\$285,996	303,681
----------------------------------------	-----------	---------

(a) As of June 30, 2016, the Company considered the decline in market value of its available-for-sale investments to be temporary in nature and did not consider any of its investments other-than-temporarily impaired.

(b) As of June 30, 2016, the stated maturities of the majority of the Company's student loan asset-backed and other debt securities classified as available-for-sale were greater than 10 years.

## 6. Business Combination

### Allo Communications LLC ("Allo")

On December 31, 2015, the Company purchased 92.5 percent of the ownership interests of Allo for total cash consideration of \$46.25 million. On January 1, 2016, the Company sold a 1.0 percent ownership interest in Allo to a non-related third-party for \$0.5 million. The remaining 7.5 percent of the ownership interests of Allo is owned by members of Allo management, who have the opportunity to earn an additional 11.5 percent (up to 19 percent) of the total ownership interests based on the financial performance of Allo. The additional ownership interest that Allo management has the opportunity to earn are based on their continued employment with Allo. Accordingly, the value associated with the ownership interests issued to these employees of \$1.0 million will be recognized by Allo as compensation expense over the performance period.

Allo provides pure fiber optic service to homes and businesses for internet, television, and telephone services. The acquisition of Allo provides additional diversification of the Company's revenues and cash flows outside of education. In addition, the acquisition leverages the Company's existing infrastructure, customer service capabilities and call centers, and financial strength and liquidity for continued growth.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date. The fair values of the assets and liabilities related to Allo are subject to refinement as the Company completes its analysis relative to the fair values at the date of acquisition. During the first six months of 2016, the Company recognized certain adjustments to the provisional amounts recorded at December 31, 2015 that were needed to reflect new information obtained about facts and circumstances that existed as of the acquisition date. The net impact of these adjustments was an increase to goodwill, and the adjustments had no impact on operating results.

Cash and cash equivalents	\$334
Restricted cash and investments	850
Accounts receivable	1,935
Property and equipment	32,479
Other assets	371
Intangible assets	11,410
Excess cost over fair value of net assets acquired (goodwill)	21,112
Other liabilities	(4,587 )
Bonds and notes payable	(13,904 )
Net assets acquired	50,000
Minority interest	(3,750 )
Total consideration paid by the Company	\$46,250

The \$11.4 million of acquired intangible assets on the date of acquisition had a weighted-average useful life of approximately 12 years. The intangible assets that made up this amount included customer relationships of \$6.3 million (10-year useful life) and a trade name of \$5.1 million (15-year useful life).

The \$21.1 million of goodwill was assigned to the Communications operating segment and is expected to be deductible for tax purposes. The amount allocated to goodwill was primarily attributable to future customers to be generated through the continued expansion of Allo's services in rural markets.

The proforma impacts of the acquisition on the Company's historical results prior to the acquisition were not material.

Allo recognizes revenue when (i) persuasive evidence of an arrangement exists between Allo and the customer, (ii) delivery of the product to the customer has occurred or service has been provided to the customer, (iii) the price to the customer is fixed or determinable, and (iv) collectability of the sales price is reasonably assured. Revenues based on a flat fee, derived principally from internet, television, and telephone services are billed in advance and recognized in subsequent periods when the services are provided. Revenues for usage-based services, such as access charges billed to other telephone carriers for originating and terminating long-distance calls on Allo's network, are billed in arrears. Allo recognizes revenue from these services in the period the services are rendered rather than billed. Earned but unbilled usage-based services are recorded in accounts receivable.

## 7. Intangible Assets and Goodwill

Intangible assets consist of the following:

	Weighted average remaining useful life as of June 30, 2016 (months)	As of June 30, 2016	As of December 31, 2015
Amortizable intangible assets:			
Customer relationships (net of accumulated amortization of \$5,949 and \$4,028, respectively)	171	\$ 30,935	27,576
Computer software (net of accumulated amortization of \$6,820 and \$4,397, respectively)	31	12,128	11,601
Trade names (net of accumulated amortization of \$1,224 and \$795, respectively)	195	10,348	10,687
Content (net of accumulated amortization of \$1,350 and \$900, respectively)	6	450	900
Covenants not to compete (net of accumulated amortization of \$74 and \$56, respectively)	95	280	298
Total - amortizable intangible assets	143	\$ 54,141	51,062

The Company recorded amortization expense on its intangible assets of \$2.7 million and \$2.4 million during the three months ended June 30, 2016 and 2015, respectively, and \$5.2 million and \$4.8 million during the six months ended June 30, 2016 and 2015, respectively. The Company will continue to amortize intangible assets over their remaining useful lives. As of June 30, 2016, the Company estimates it will record amortization expense as follows:

2016 (July 1 - December 31)	\$ 6,328
2017	9,386
2018	8,605
2019	5,147
2020	4,231
2021 and thereafter	20,444
	\$ 54,141

The change in the carrying amount of goodwill by reportable operating segment was as follows:

	Student Loan and Guaranty Servicing	Tuition Payment Processing and Campus Commerce	Communications	Asset Generation and Management	Corporate and Other Activities	Total
Balance as of December 31, 2015	\$ 8,596	67,168	19,800	41,883	8,553	146,000
Allo purchase price adjustment	—	—	1,312	—	—	1,312
Balance as of March 31, 2016	8,596	67,168	21,112	41,883	8,553	147,312
Allo purchase price adjustment	—	—	—	—	—	—
Balance as of June 30, 2016	\$ 8,596	67,168	21,112	41,883	8,553	147,312

## 8. Property and Equipment

Property and equipment consisted of the following:

	Useful life	As of June 30, 2016	As of December 31, 2015
Non-communications:			
Computer equipment and software	1-5 years	\$95,113	89,093
Office furniture and equipment	3-7 years	12,576	12,638
Building and building improvements	5-39 years	12,244	12,239
Transportation equipment	4-10 years	3,868	3,868
Leasehold improvements	5-20 years	3,342	3,545
Land	—	827	700
Construction in progress	—	9,986	1,210
		137,956	123,293
Accumulated depreciation - non-communications		84,583	77,188
Non-communications, net property and equipment		53,373	46,105
Communications:			
Network plant and fiber	5-15 years	26,382	25,669
Central office	5-15 years	4,376	909
Customer located property	5-10 years	3,823	6,912
Transportation equipment	4-10 years	1,296	470
Computer equipment and software	1-5 years	752	74
Other	1-20 years	625	343
Land	—	70	—
Construction in progress	—	7,192	—
		44,516	34,377
Accumulated depreciation - communications		1,810	—
Communications, net property and equipment		42,706	34,377
Total property and equipment, net		\$96,079	80,482

Depreciation expense for the three months ended June 30, 2016 and 2015 related to property and equipment was \$5.4 million and \$4.1 million, respectively, and \$10.6 million and \$7.4 million during the six months ended June 30, 2016 and 2015, respectively.

## 9. Earnings per Common Share

Presented below is a summary of the components used to calculate basic and diluted earnings per share. The Company applies the two-class method in computing both basic and diluted earnings per share, which requires the calculation of separate earnings per share amounts for common stock and unvested share based awards. Unvested share-based awards that contain nonforfeitable rights to dividends are considered securities which participate in undistributed earnings with common stock.

	Three months ended June 30, 2016			2015		
	Common shareholders stock shareholders	Unvested restricted stock shareholders	Total	Common shareholders stock shareholders	Unvested restricted stock shareholders	Total
Numerator:						
Net income attributable to Nelnet, Inc.	\$25,879	271	26,150	70,146	763	70,909
Denominator:						
Weighted-average common shares outstanding - basic and diluted	42,193,769	41,931	42,635,700	45,451,888	494,527	45,946,415
Earnings per share - basic and diluted	\$0.61	0.61	0.61	1.54	1.54	1.54

	Six months ended June 30, 2016			2015		
	Common shareholders stock shareholders	Unvested restricted stock shareholders	Total	Common shareholders stock shareholders	Unvested restricted stock shareholders	Total
Numerator:						
Net income attributable to Nelnet, Inc.	\$73,334	777	74,111	134,227	1,447	135,674
Denominator:						
Weighted-average common shares outstanding - basic and diluted	42,412,287	49,609	42,861,896	45,635,155	492,052	46,127,207
Earnings per share - basic and diluted	\$1.73	1.73	1.73	2.94	2.94	2.94

Unvested restricted stock awards are the Company's only potential common shares and, accordingly, there were no awards that were antidilutive and not included in average shares outstanding for the diluted earnings per share calculation.



## 10. Segment Reporting

See note 14 of the notes to consolidated financial statements included in the 2015 Annual Report for a description of the Company's operating segments. The following tables include the results of each of the Company's operating segments reconciled to the consolidated financial statements.

Prior to January 1, 2016, the Company allocated certain corporate overhead expenses that are incurred within the Corporate and Other Activities segment to the other operating segments. These expenses included certain corporate activities related to executive management, internal audit, enterprise risk management, and other costs incurred by the Company due to corporate-wide initiatives. Effective January 1, 2016, internal reporting to executive management (the "chief operating decision maker") changed to eliminate the allocation of these expenses to the other segments. Management believes the change in its allocation methodology results in a better reflection of the operating results of each of the reportable segments as if they each operated as a standalone business entity, which also reflects how management evaluates the performance of the segments. Prior period segment operating results have been restated to conform to the current period presentation.

	Three months ended June 30, 2016						
	Student Loan and Guaranty Servicing	Tuition Payment Processing and Campus Commerce	Communications	Asset Generation and Management	Corporate and Other Activities	Eliminations	Total
Total interest income	\$22	3	—	184,966	2,064	(802 )	186,252
Interest expense	—	—	205	92,769	1,881	(802 )	94,052
Net interest income	22	3	(205 )	92,197	183	—	92,200
Less provision for loan losses	—	—	—	2,000	—	—	2,000
Net interest income (loss) after provision for loan losses	22	3	(205 )	90,197	183	—	90,200
Other income:							
Loan and guaranty servicing revenue	54,402	—	—	—	—	—	54,402
Intersegment servicing revenue	11,408	—	—	—	—	(11,408 )	—
Tuition payment processing, school information, and campus commerce revenue	—	30,483	—	—	—	—	30,483
Communications revenue	—	—	4,478	—	—	—	4,478
Enrollment services revenue	—	—	—	—	—	—	—
Other income	—	—	—	3,834	5,931	—	9,765
Gain on sale of loans and debt repurchases	—	—	—	—	—	—	—
Derivative market value and foreign currency adjustments, net	—	—	—	(31,411 )	(3,797 )	—	(35,207 )
Derivative settlements, net	—	—	—	(5,264 )	(231 )	—	(5,495 )
Total other income	65,810	30,483	4,478	(32,841 )	1,903	(11,408 )	58,426
Operating expenses:							
Salaries and benefits	31,380	15,444	1,377	499	12,222	—	60,923
Depreciation and amortization	445	2,511	1,378	—	3,848	—	8,183
Loan servicing fees	—	—	—	7,216	—	—	7,216
Cost to provide communication services	—	—	1,681	—	—	—	1,681

Edgar Filing: NELNET INC - Form 10-Q

Cost to provide enrollment services	—	—	—	—	—	—	—
Other expenses	11,380	4,815	813	1,481	10,920	—	29,409
Intersegment expenses, net	6,102	1,562	187	11,539	(7,981 )	(11,408 )	—
Total operating expenses	49,307	24,332	5,436	20,735	19,009	(11,408 )	107,412
Income (loss) before income taxes	16,525	6,154	(1,163 )	36,621	(16,923 )	—	41,214
Income tax (expense) benefit	(6,280 )	(2,338 )	442	(13,916 )	7,057	—	(15,036 )
Net income (loss)	10,245	3,816	(721 )	22,705	(9,866 )	—	26,178
Net income attributable to noncontrolling interests	—	—	—	—	28	—	28
Net income (loss) attributable to Nelnet, Inc.	\$10,245	3,816	(721 )	22,705	(9,894 )	—	26,150

21

---

	Three months ended June 30, 2015 (a)						
	Student	Tuition	Asset	Corporate			
	Loan and	Payment	Generation	and	Eliminations	Total	
	Guaranty	Processing	and	Other			
	and	and	Management	Activities			
	Servicing	Campus	and				
	Commerce						
Total interest income	\$ 13	1	176,279	1,814	(385	) 177,722	
Interest expense	—	—	71,441	1,570	(385	) 72,626	
Net interest income	13	1	104,838	244	—	105,096	
Less provision for loan losses	—	—	2,150	—	—	2,150	
Net interest income after provision for loan losses	13	1	102,688	244	—	102,946	
Other income:							
Loan and guaranty servicing revenue	63,833	—	—	—	—	63,833	
Intersegment servicing revenue	12,223	—	—	—	(12,223	) —	
Tuition payment processing, school information, and campus commerce revenue	—	27,686	—	—	—	27,686	
Enrollment services revenue	—	—	—	12,680	—	12,680	
Other income	—	—	3,950	8,035	—	11,985	
Gain on sale of loans and debt repurchases	—	—	1,041	474	—	1,515	
Derivative market value and foreign currency adjustments, net	—	—	9,404	2,540	—	11,944	
Derivative settlements, net	—	—	(5,189	) (253	) —	(5,442	)
Total other income	76,056	27,686	9,206	23,476	(12,223	) 124,201	
Operating expenses:							
Salaries and benefits	31,585	13,583	524	13,095	—	58,787	
Depreciation and amortization	527	2,195	—	3,779	—	6,501	
Loan servicing fees	—	—	7,420	—	—	7,420	
Cost to provide enrollment services	—	—	—	10,395	—	10,395	
Other expenses	15,376	4,112	1,270	11,967	—	32,725	
Intersegment expenses, net	8,045	2,164	12,362	(10,348	) (12,223	) —	
Total operating expenses	55,533	22,054	21,576	28,888	(12,223	) 115,828	
Income (loss) before income taxes	20,536	5,633	90,318	(5,168	) —	111,319	
Income tax (expense) benefit	(7,804	) (2,140	) (34,321	) 3,910	—	(40,356	)
Net income (loss)	12,732	3,493	55,997	(1,258	) —	70,963	
Net income attributable to noncontrolling interests	—	—	—	54	—	54	
Net income (loss) attributable to Nelnet, Inc.	\$ 12,732	3,493	55,997	(1,312	) —	70,909	

(a) Does not include the Communications segment, which was initiated as a result of the acquisition of Allo on December 31, 2015.

Edgar Filing: NELNET INC - Form 10-Q

Six months ended June 30, 2016

	Student Loan and Guaranty Servicing	Tuition Payment Processing and Campus Commerce	Communications	Asset Generation and Management	Corporate and Other Activities	Eliminations	Total
Total interest income	\$43	5	—	375,689	4,157	(1,625 )	378,269
Interest expense	—	—	352	182,647	3,087	(1,625 )	184,460
Net interest income	43	5	(352 )	193,042	1,070	—	193,809
Less provision for loan losses	—	—	—	4,500	—	—	4,500
Net interest income (loss) after provision for loan losses	43	5	(352 )	188,542	1,070	—	189,309
Other income:							
Loan and guaranty servicing revenue	106,732	—	—	—	—	—	106,732
Intersegment servicing revenue	23,415	—	—	—	—	(23,415 )	—
Tuition payment processing, school information, and campus commerce revenue	—	69,140	—	—	—	—	69,140
Communications revenue	—	—	8,824	—	—	—	8,824
Enrollment services revenue	—	—	—	—	4,326	—	4,326
Other income	—	—	—	8,097	15,462	—	23,559
Gain on sale of loans and debt repurchases	—	—	—	101	—	—	101
Derivative market value and foreign currency adjustments, net	—	—	—	(51,308 )	(6,053 )	—	(57,361 )
Derivative settlements, net	—	—	—	(11,568 )	(463 )	—	(12,031 )
Total other income	130,147	69,140	8,824	(54,678 )	13,272	(23,415 )	143,290
Operating expenses:							
Salaries and benefits	64,346	29,880	2,467	1,018	26,454	—	124,165
Depreciation and amortization	883	4,782	2,507	—	7,650	—	15,823
Loan servicing fees	—	—	—	14,144	—	—	14,144
Cost to provide communication services	—	—	3,384	—	—	—	3,384
Cost to provide enrollment services	—	—	—	—	3,623	—	3,623
Other expenses	22,850	8,973	1,566	2,997	21,397	—	57,783
Intersegment expenses, net	12,343	3,074	331	23,646	(15,978 )	(23,415 )	—
Total operating expenses	100,422	46,709	10,255	41,805	43,146	(23,415 )	218,922
Income (loss) before income taxes	29,768	22,436	(1,783 )	92,059	(28,804 )	—	113,677
Income tax (expense) benefit	(11,312 )	(8,526 )	678	(34,983 )	14,674	—	(39,469 )
Net income (loss)	18,456	13,910	(1,105 )	57,076	(14,130 )	—	74,208
Net income attributable to noncontrolling interests	—	—	—	—	97	—	97
Net income (loss) attributable to Nelnet, Inc.	\$18,456	13,910	(1,105 )	57,076	(14,227 )	—	74,111

Edgar Filing: NELNET INC - Form 10-Q

	Six months ended June 30, 2015 (a)					
	Student	Tuition	Asset	Corporate		
	Loan and	Payment	Generation	and	Eliminations	Total
	Guaranty	and	and	Other		
	and	Campus	Management	Activities		
	Servicing	Commerce				
Total interest income	\$20	3	348,702	3,967	(821	) 351,871
Interest expense	—	—	141,981	3,020	(821	) 144,180
Net interest income	20	3	206,721	947	—	207,691
Less provision for loan losses	—	—	4,150	—	—	4,150
Net interest income after provision for loan losses	20	3	202,571	947	—	203,541
Other income:						
Loan and guaranty servicing revenue	121,644	—	—	—	—	121,644
Intersegment servicing revenue	25,094	—	—	—	(25,094	) —
Tuition payment processing, school information, and campus commerce revenue	—	62,366	—	—	—	62,366
Enrollment services revenue	—	—	—	26,053	—	26,053
Other income	—	—	8,526	14,867	—	23,393
Gain on sale of loans and debt repurchases	—	—	1,392	2,998	—	4,390
Derivative market value and foreign currency adjustments, net	—	—	12,994	1,087	—	14,081
Derivative settlements, net	—	—	(10,152	) (505	) —	(10,657
Total other income	146,738	62,366	12,760	44,500	(25,094	) 241,270
Operating expenses:						
Salaries and benefits	65,288	26,904	1,065	26,580	—	119,837
Depreciation and amortization	973	4,390	—	6,800	—	12,163
Loan servicing fees	—	—	15,036	—	—	15,036
Cost to provide enrollment services	—	—	—	21,194	—	21,194
Other expenses	29,976	7,914	2,407	22,529	—	62,826
Intersegment expenses, net	14,687	4,199	25,370	(19,162	) (25,094	) —
Total operating expenses	110,924	43,407	43,878	57,941	(25,094	) 231,056
Income (loss) before income taxes	35,834	18,962	171,453	(12,494	) —	213,755
Income tax (expense) benefit	(13,617	) (7,206	) (65,152	) 7,989	—	(77,986
Net income (loss)	22,217	11,756	106,301	(4,505	) —	135,769
Net income attributable to noncontrolling interests	—	—	—	95	—	95
Net income (loss) attributable to Nelnet, Inc.	\$22,217	11,756	106,301	(4,600	) —	135,674

(a) Does not include the Communications segment, which was initiated as a result of the acquisition of Allo on December 31, 2015.

## 11. Major Customer

The Company earns loan servicing revenue from a servicing contract with the U.S. Department of Education (the "Department") that currently expires on June 16, 2019. Revenue earned by the Company's Student Loan and Guaranty Servicing operating segment related to this contract was \$37.1 million and \$33.6 million for the three months ended June 30, 2016 and 2015, respectively, and \$72.3 million and \$66.0 million for the six months ended June 30, 2016 and 2015, respectively. In April 2016, the Department's Office of Federal Student Aid released information regarding a new contract procurement process for the Department to acquire a single servicing solution to support the management of federal student financial aid, including the servicing of all student loans owned by the Department. The contract solicitation process is divided into two phases. Responses for Phase I were due on May 9, 2016.

On May 6, 2016, the Company and Great Lakes Educational Loan Services, Inc. ("Great Lakes") submitted a joint response to Phase I as part of a newly created joint venture to respond to the contract solicitation process and to provide services under the new contract in the event that the Department selects it to be awarded with the contract. The joint venture will operate as a new legal entity called GreatNet Solutions, LLC ("GreatNet"). The Company and Great Lakes each own 50 percent of the ownership interests of GreatNet. In addition to the Company, Great Lakes is currently one of four private sector companies (referred to as Title IV Additional Servicers, or "TIVAS") that currently has a student loan servicing contract with the Department to provide servicing for loans owned by the Department.

On June 30, 2016, the Department announced which entities were selected to respond to Phase II of the procurement selection process. GreatNet was one of three entities selected.

## 12. Fair Value

The following tables present the Company's financial assets and liabilities that are measured at fair value on a recurring basis. There were no transfers into or out of level 1, level 2, or level 3 for the six months ended June 30, 2016.

	As of June 30, 2016			As of December 31, 2015		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Assets:						
Investments (available-for-sale and trading):						
Student loan asset-backed securities	\$—	133,592	133,592	—	147,925	147,925
Equity securities	7,766	—	7,766	7,337	—	7,337
Debt securities	124	—	124	130	—	130
Total investments (available-for-sale and trading)	7,890	133,592	141,482	7,467	147,925	155,392
Fair value of derivative instruments	—	3,408	3,408	—	28,690	28,690
Total assets	\$7,890	137,000	144,890	7,467	176,615	184,082
Liabilities:						
Fair value of derivative instruments	\$—	101,771	101,771	—	74,881	74,881
Total liabilities	\$—	101,771	101,771	—	74,881	74,881

The following table summarizes the fair values of all of the Company's financial instruments on the consolidated balance sheets:

	As of June 30, 2016				
	Fair value	Carrying value	Level 1	Level 2	Level 3
Financial assets:					
Student loans receivable	\$26,875,363	26,539,604	—	—	26,875,363
Cash and cash equivalents	59,253	59,253	59,253	—	—
Investments (available-for-sale and trading)	141,482	141,482	7,890	133,592	—
Notes receivable	17,206	17,206	—	17,206	—
Restricted cash	955,689	955,689	955,689	—	—
Restricted cash – due to customers	132,018	132,018	132,018	—	—
Restricted investments	9,110	9,110	9,110	—	—
Accrued interest receivable	380,140	380,140	—	380,140	—
Derivative instruments	3,408	3,408	—	3,408	—
Financial liabilities:					
Bonds and notes payable	25,510,394	26,399,686	—	25,510,394	—
Accrued interest payable	39,926	39,926	—	39,926	—
Due to customers	132,018	132,018	132,018	—	—
Derivative instruments	101,771	101,771	—	101,771	—
	As of December 31, 2015				
	Fair value	Carrying value	Level 1	Level 2	Level 3
Financial assets:					
Student loans receivable	\$28,611,350	28,324,552	—	—	28,611,350
Cash and cash equivalents	63,529	63,529	63,529	—	—
Investments (available-for-sale and trading)	155,392	155,392	7,467	147,925	—
Notes receivable	18,067	18,473	—	18,067	—
Restricted cash	823,450	823,450	823,450	—	—
Restricted cash – due to customers	144,771	144,771	144,771	—	—
Restricted investments	9,174	9,174	9,174	—	—
Accrued interest receivable	383,825	383,825	—	383,825	—
Derivative instruments	28,690	28,690	—	28,690	—
Financial liabilities:					
Bonds and notes payable	27,150,775	28,105,921	—	27,150,775	—
Accrued interest payable	31,507	31,507	—	31,507	—
Due to customers	144,771	144,771	144,771	—	—
Derivative instruments	74,881	74,881	—	74,881	—

The methodologies for estimating the fair value of financial assets and liabilities are described in note 20 of the notes to consolidated financial statements included in the 2015 Annual Report.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Management's Discussion and Analysis of Financial Condition and Results of Operations is for the three and six months ended June 30, 2016 and 2015. All dollars are in thousands, except per share amounts, unless otherwise noted.)

The following discussion and analysis provides information that the Company's management believes is relevant to an assessment and understanding of the consolidated results of operations and financial condition of the Company. The discussion should be read in conjunction with the Company's consolidated financial statements included in the 2015 Annual Report.

### Forward-looking and cautionary statements

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

The forward-looking statements are based on assumptions and analysis made by management in light of management's experience and its perception of historical trends, current conditions, expected future developments, and other factors that management believes are appropriate under the circumstances. These statements are subject to known and unknown risks, uncertainties, assumptions, and other factors that may cause the actual results and performance to be materially different from any future results or performance expressed or implied by such forward-looking statements. These factors include, among others, the risks and uncertainties set forth in the "Risk Factors" section of the 2015 Annual Report and elsewhere in this report, and include such risks and uncertainties as:

- student 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 student loans and initiatives to purchase additional FFELP and private education loans, and risks from changes in levels of student 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 student 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, risks related to adverse changes in the Company's volumes allocated under the Company's loan servicing contract with the Department, which accounted for approximately 15 percent of the Company's revenue in 2015, risks related to the Department's initiative to procure a new contract for federal student loan servicing to acquire a single servicing solution to service all loans owned by the Department, including the risk that the Company's joint venture with Great



Lakes may not be awarded the contract, 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 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 and the ability to integrate its communications operations and successfully expand its fiber network in existing service areas and additional communities;

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.

#### 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, tuition payment processing and school information systems, 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

A reconciliation of the Company's GAAP net income to net income, excluding derivative market value and foreign currency adjustments, is provided below.

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
GAAP net income attributable to Nelnet, Inc.	\$26,150	70,909	74,111	135,674
Derivative market value and foreign currency adjustments	35,207	(11,944)	57,361	(14,081)
Tax effect (a)	(13,379)	4,539	(21,797)	5,351
Net income, excluding derivative market value and foreign currency adjustments (b)	\$47,978	63,504	109,675	126,944
Earnings per share:				
GAAP net income attributable to Nelnet, Inc.	\$0.61	1.54	1.73	2.94
Derivative market value and foreign currency adjustments	0.83	(0.26)	1.34	(0.31)
Tax effect (a)	(0.31)	0.10	(0.51)	0.12
Net income, excluding derivative market value and foreign currency adjustments (b)	\$1.13	1.38	2.56	2.75

(a) The tax effects are calculated by multiplying the derivative market value and foreign currency adjustments by the applicable statutory income tax rate.

(b) The Company provides additional non-GAAP financial information related to specific items management believes to be important in the evaluation of its operating results and performance. "Derivative market value and foreign

currency adjustments" include (i) the 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 foreign currency transaction gains or losses caused by the re-measurement of the Company's Euro-denominated bonds to U.S. dollars. The Company believes these point-in-time estimates of asset and liability values related to these financial instruments that are subject to interest and currency rate fluctuations are 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.

## Operating Results

The Company earns net interest income on its FFELP student loan portfolio 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 June 30, 2016, the Company had a \$26.5 billion student loan portfolio that will amortize over the next approximately 25 years. The Company actively seeks to acquire additional FFELP loan portfolios to leverage its servicing scale and expertise to generate incremental earnings and cash flow.

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

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

Prior to January 1, 2016, the Company allocated certain corporate overhead expenses that are incurred within the Corporate and Other Activities segment to the other operating segments. These expenses included certain corporate activities related to executive management, internal audit, enterprise risk management, and other costs incurred by the Company due to corporate-wide initiatives. Effective January 1, 2016, internal reporting to executive management (the "chief operating decision maker") changed to eliminate the allocation of these expenses to the other segments. Management believes the change in its allocation methodology results in a better reflection of the operating results of each of the reportable segments as if they each operated as a standalone business entity, which also reflects how management evaluates the performance of the segments. Prior period segment operating results have been restated to conform to the current period presentation.

The information below provides the operating results for each reportable operating segment and Corporate and Other Activities for the three and six months ended June 30, 2016 and 2015 (dollars in millions).

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

(b) Total revenue includes "net interest income after provision for loan losses" and "total other income" from the Company's segment statements of income, excluding the impact from 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.

(c) Computed as income before income taxes divided by total revenue.

A summary of the results and financial highlights for each reportable operating segment and a summary of the Company's liquidity and capital resources follows. See "Results of Operations" for each reportable operating segment and "Liquidity and Capital Resources" under this Item 2 for additional detail.

### Student Loan and Guaranty Servicing

As of June 30, 2016, the Company was servicing \$183.6 billion in FFELP, private, and government owned student loans, as compared with \$169.9 billion of loans as of June 30, 2015.

Revenue decreased in the three and six months ended June 30, 2016 compared to the same periods in 2015 due to a decrease in guaranty servicing and collection revenue. The Company's guaranty servicing and collection revenue was earned from two guaranty clients, and a significant amount of such revenue came from one of those clients. The contract with this client expired on October 31, 2015. FFELP guaranty servicing and collection revenue recognized by the Company from this client for the three and six months ended June 30, 2015 was \$12.6 million and \$21.3 million respectively. The other guaranty servicing and collection client exited the FFELP guaranty business at the end of their contract term on June 30, 2016. After this customer's exit from the FFELP guaranty business effective June 30, 2016, the Company has no remaining guaranty servicing and collection revenue.

Revenue from the government servicing contract increased to \$37.1 million for the three months ended June 30, 2016 compared to \$33.6 million for the same period in 2015, and increased to \$72.3 million for the six months ended June 30, 2016, compared to \$66.0 million for the same period in 2015. This increase was due to the shift in the portfolio of loans serviced to a greater portion of loans in higher paying repayment statuses.

Before tax operating margin was 25.1% and 27.0% for the three months ended June 30, 2016 and 2015, respectively, and 22.9% and 24.4% for the six months ended June 30, 2016 and 2015, respectively. This decrease was due to a decrease in guaranty servicing and collection revenue due to the loss of a significant guaranty client discussed above. The Company anticipates that margins will continue to decrease as a result of the loss of its remaining guaranty servicing and collection customer that exited the FFELP guaranty business at the end of their contract term on June 30, 2016 as discussed above.

In April 2016, the Department's Office of Federal Student Aid released information regarding a new contract procurement process for the Department to acquire a single servicing solution to support the management of federal student financial aid, including the servicing of all student loans owned by the Department. The contract solicitation process is divided into two phases. Responses for Phase I were due on May 9, 2016.

On May 6, 2016, the Company and Great Lakes submitted a joint response to Phase I as part of a newly created joint venture to respond to the contract solicitation process and to provide services under the new contract in the event that the Department selects it to be awarded with the contract. The joint venture will operate as a new legal entity called GreatNet Solutions, LLC ("GreatNet"). The Company and Great Lakes each own 50 percent of the ownership interests of GreatNet. In addition to the Company, Great Lakes is one of four private sector companies (referred to as Title IV Additional Services, or "TIVAS") that currently has a student loan servicing contract with the Department to provide servicing for loans owned by the Department. On June 30, 2016, the Department announced which entities were selected to respond to Phase II of the procurement selection process. GreatNet was one of three entities selected.

### Tuition Payment Processing and Campus Commerce

Revenue increased in the three and six months ended June 30, 2016 compared to the same periods in 2015 due to increases in the number of managed tuition payment plans, campus commerce customer transaction and payments volume, and new school customers.

Before tax operating margin was 20.2% and 20.3% for the three months ended June 30, 2016 and 2015, respectively and 32.5% and 30.4% for the six months ended June 30, 2016 and 2015, respectively.

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.

30

---

## Communications

On December 31, 2015, the Company purchased 92.5 percent of the ownership interests of Allo for total cash consideration of \$46.25 million. On January 1, 2016, the Company sold a 1.0 percent ownership interest in Allo to a non-related third-party for \$0.5 million. The remaining 7.5 percent of the ownership interests of Allo is owned by members of Allo management, who have the opportunity to earn an additional 11.5 percent (up to 19 percent) of the total ownership interests based on the financial performance of Allo. The Allo assets acquired and liabilities assumed were recorded by the Company at their respective estimated fair values at the date of acquisition, and such assets and liabilities were included in the Company's balance sheet as of December 31, 2015. However, Allo had no impact on the consolidated statement of income for 2015. On January 1, 2016, the Company began to reflect the operations of Allo in the consolidated statements of income.

For the three and six months ended June 30, 2016, the operating segment recorded a net loss of \$0.7 million and \$1.1 million, respectively. The Company anticipates this operating segment will be dilutive to consolidated earnings in 2016 due to large upfront capital expenditures and associated depreciation and upfront customer acquisition costs.

- The Company currently plans to spend a total of approximately \$50 million in network capital expenditures during 2016. However, such amount could change based on customer demand for Allo's services. For the six months ended June 30, 2016, Allo's capital expenditures were \$12.0 million, including \$9.2 million for the three months ended June 30, 2016.

## Asset Generation and Management

Core student loan spread was 1.29% for the three months ended June 30, 2016, compared to 1.41% for the same period in 2015 and 1.34% for the three month period ended March 31, 2016. The decrease in core student loan spread for the three month period ended June 30, 2016 compared to the three month period ended March 31, 2016 was due to a widening in the basis between the asset and debt indices in which the Company earns interest on its loans and funds such loans.

Due to historically low interest rates, the Company continues to earn significant fixed rate floor income. During the three months ended June 30, 2016 and 2015, and six months ended June 30, 2016 and 2015, the Company earned \$39.5 million, \$45.1 million, \$80.1 million, and \$91.3 million, respectively, of fixed rate floor income (net of derivative settlements of \$4.8 million and \$5.0 million for the three months ended June 30, 2016 and 2015, respectively, and \$10.1 million and \$10.0 million for the six months ended June 30, 2016 and 2015, respectively, used to hedge such loans). The decrease in fixed rate floor income for the three and six months ended June 30, 2016 compared to the same periods in 2015 is due to an increase in interest rates.

## Liquidity and Capital Resources

As of June 30, 2016, the Company had cash and cash equivalents of \$59.3 million. In addition, the Company had a portfolio of available-for-sale and trading investments, consisting primarily of student loan asset-backed securities, with a fair value of \$141.5 million as of June 30, 2016.

For the six months ended June 30, 2016, the Company generated \$175.2 million in net cash provided by operating activities.

Forecasted future cash flows from the Company's FFELP student loan portfolio financed in asset-backed securitization transactions are estimated to be approximately \$2.37 billion as of June 30, 2016.

During the six months ended June 30, 2016, the Company repurchased a total of 1,611,041 shares of Class A common stock for \$52.5 million (\$32.57 per share). In May 2016, the Company's Board of Directors authorized a new stock repurchase program to repurchase up to a total of five million shares of the Company's Class A common stock during the three-year period ending May 25, 2019. The five million shares authorized under the new program include the remaining 1,664,223 un-repurchased shares from the prior program, which the new program replaced.

During the six months ended June 30, 2016, the Company paid cash dividends of \$10.2 million (\$0.24 per share), including \$5.1 million (\$0.12 per share) during the second quarter.



The Company intends to use its liquidity position to capitalize on market opportunities, including FFELP and private education 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.

#### CONSOLIDATED RESULTS OF OPERATIONS

Analysis of the Company's operating results for the three and six months ended June 30, 2016 compared to the same period in 2015 is summarized below.

The Company's operating results are primarily driven by the performance of its existing portfolio and the revenues generated by its fee-based businesses and the costs to provide their products and services. The performance of the Company's portfolio is driven by net interest income (which includes financing costs) and losses related to credit quality of the assets, along with the cost to administer and service the assets and related debt.

The Company operates in distinct operating segments as described previously. For a reconciliation of the segment operating results to the consolidated results of operations, see note 10 of the notes to consolidated financial statements included under Part I, Item 1 of this report. Since the Company monitors and assesses its operations and results based on these segments, the discussion following the consolidated results of operations is presented on a segment basis.

Edgar Filing: NELNET INC - Form 10-Q

	Three months ended June 30, 2016		Six months ended June 30, 2015		Additional information
Loan interest	\$ 184,067	175,835	374,055	347,779	Increase due to an increase in the gross yield earned on the student loan portfolio, partially offset by a decrease in the average balance of student loans and fixed rate floor income.
Investment interest	2,185	1,887	4,214	4,092	Includes income from unrestricted interest-earning deposits and investments and funds in asset-backed securitizations.
Total interest income	186,252	177,722	378,269	351,871	
Interest expense	94,052	72,626	184,460	144,180	Increase due primarily to an increase in the Company's cost of funds, partially offset by a decrease in the average balance of debt outstanding.
Net interest income	92,200	105,096	193,809	207,691	See table below for additional analysis.
Less provision for loan losses	2,000	2,150	4,500	4,150	Represents the periodic expense of maintaining an allowance appropriate to absorb losses inherent in the portfolio of student loans. See AGM operating segment - results of operations.
Net interest income after provision for loan losses	90,200	102,946	189,309	203,541	
Other income:					
LGS revenue	54,402	63,833	106,732	121,644	See LGS operating segment - results of operations.
TPP&CC revenue	30,483	27,686	69,140	62,366	See TPP&CC operating segment - results of operations.
Communications revenue	4,478	—	8,824	—	See Communications operating segment - results of operations.
Enrollment services revenue	—	12,680	4,326	26,053	See table below for additional analysis.
Other income	9,765	11,985	23,559	23,393	See table below for the components of "other income."
Gain on sale of loans and debt repurchases	—	1,515	101	4,390	Gains are primarily from the Company repurchasing its own debt.
Derivative settlements, net	(5,495 )	(5,442 )	(12,031 )	(10,657 )	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. See table below for additional analysis.
Derivative market value and foreign currency adjustments, net	(35,207 )	11,944	(57,361 )	14,081	Includes (i) the 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 foreign currency transaction gains or losses caused by the re-measurement of the Company's Euro-denominated bonds to U.S. dollars.
Total other income	58,426	124,201	143,290	241,270	

Edgar Filing: NELNET INC - Form 10-Q

Operating expenses:

Salaries and benefits	60,923	58,787	124,165	119,837	Increase was due to additional personnel to support the increase in TPP&CC revenue and the acquisition of Allo on December 31, 2015.
Depreciation and amortization	8,183	6,501	15,823	12,163	Increase was due to additional depreciation expense as a result of investments in information technology infrastructure and due to the acquisition of Allo on December 31, 2015.
Loan servicing fees	7,216	7,420	14,144	15,036	The Company pays higher third-party servicing fees on delinquent loans. The Company's third-party serviced loan portfolio has fewer delinquent loans in 2016 compared to 2015; therefore, third-party servicing fees have decreased.
Cost to provide communication services	1,681	—	3,384	—	Represents costs of services and products primarily associated with television programming costs.
Cost to provide enrollment services	—	10,395	3,623	21,194	See table below for additional analysis.
Other	29,409	32,725	57,783	62,826	Decrease due to a decrease in collection costs associated with the decrease in FFELP guaranty collection revenue, partially offset by an increase as a result of the acquisition of Allo on December 31, 2015.
Total operating expenses	107,412	115,828	218,922	231,056	
Income before income taxes	41,214	111,319	113,677	213,755	
Income tax expense	15,036	40,356	39,469	77,986	The effective tax rate was 36.51% and 36.27% in the three months ended June 30, 2016 and 2015, respectively, and 34.75% and 36.50% in the six months ended June 30, 2016 and 2015, respectively. The lower effective tax rate for the six months ended June 30, 2016 compared to the same period in 2015 was due to the resolution of certain tax positions during the first quarter of 2016.
Net income	26,178	70,963	74,208	135,769	
Net income attributable to noncontrolling interest	28	54	97	95	
Net income attributable to Nelnet, Inc.	\$26,150	70,909	74,111	135,674	
Additional information:					
Net income attributable to Nelnet, Inc.	\$26,150	70,909	74,111	135,674	See "Overview - GAAP Net Income and Non-GAAP Net Income, Excluding Adjustments" above for additional information about non-GAAP net income, excluding derivative market value and foreign currency adjustments.
Derivative market value and foreign currency adjustments	35,207	(11,944)	57,361	(14,081)	
Tax effect	(13,379)	4,539	(21,797)	5,351	
Net income attributable to Nelnet, Inc.,	\$47,978	63,504	109,675	126,944	

excluding derivative  
market value and  
foreign currency  
adjustments

33

---

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

	Three months ended June 30,		Six months ended June 30,		Additional information
	2016	2015	2016	2015	
Variable student loan interest margin, net of settlements on derivatives	\$47,141	54,521	100,996	105,155	Represents the yield the Company receives on its student loan portfolio less the cost of funding these loans. Variable student loan spread is also impacted by the amortization/accretion of loan premiums and discounts, the 1.05% per year consolidation loan rebate fee paid to the Department, and yield adjustments from borrower benefit programs. See AGM operating segment - results of operations.
Fixed rate floor income, net of settlements on derivatives	39,497	45,069	80,136	91,313	The Company has a portfolio of student loans that are earning interest at a fixed borrower rate which exceeds the statutorily defined variable lender rates, generating fixed rate floor income. See Item 3, "Quantitative and Qualitative Disclosures About Market Risk - Interest Rate Risk" for additional information.
Investment interest	2,185	1,887	4,214	4,092	
Non-portfolio related derivative settlements	(231 )	(253 )	(463 )	(506 )	
Corporate debt interest expense	(1,887 )	(1,570 )	(3,105 )	(3,020 )	Includes interest expense on the Junior Subordinated Hybrid Securities and unsecured and secured lines of credit.
Net interest income (net of settlements on derivatives)	\$86,705	99,654	181,778	197,034	

The following table summarizes the components of "Enrollment services revenue" and "Cost to provide enrollment services."

	Inquiry management (marketing) (a)	Inquiry management (software) (a)	Total (a)
	Three months ended June 30, 2016		
Enrollment services revenue	\$—	—	—
Cost to provide enrollment services	—	—	—
Gross profit	\$—	—	—
	Three months ended June 30, 2015		
Enrollment services revenue	\$11,751	929	12,680
Cost to provide enrollment services	10,395	—	10,395
Gross profit	\$1,356	929	2,285
Gross profit %	11.5%		

	Six months ended June 30, 2016		
Enrollment services revenue	\$4,001	325	4,326
Cost to provide enrollment services	3,623	—	3,623
Gross profit	\$378	325	703
Gross profit %	9.4%		

	Six months ended June 30, 2015		
Enrollment services revenue	\$24,006	2,047	26,053
Cost to provide enrollment services	21,194	—	21,194
Gross profit	\$2,812	2,047	4,859
Gross profit %	11.7%		

On February 1, 2016, the Company sold 100 percent of the membership interests in Sparkroom LLC, which includes the majority of the Company's inquiry management products and services within Nelnet Enrollment Solutions. The Company retained the digital marketing and content solution products and services under the brand name Peterson's within the Nelnet Enrollment Solutions business, which include test preparation study guides, school directories and databases, career exploration guides, on-line courses, scholarship search and selection data, (a) career planning information and guides, and on-line information about colleges and universities. The Company reclassified the revenue and cost of goods sold attributable to the Peterson's products and services from "enrollment services revenue" and "cost to provide enrollment services" to "other income" and "other expenses," respectively, on the consolidated statements of income. After this reclassification, "enrollment services revenue" and "cost to provide enrollment services" include the operating results of the products and services sold as part of the Sparkroom disposition for all periods presented. These reclassifications had no effect on consolidated net income.

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

	Three months		Six months	
	ended June 30,		ended June 30,	
	2016	2015	2016	2015
Borrower late fee income	\$3,106	3,621	6,752	7,752
Investment advisory fees	1,014	833	1,832	1,491
Realized and unrealized gains/(losses) on investments classified as available-for-sale and trading, net	(112	) 1,826	1,028	2,349
Peterson's revenue (a)	3,246	4,481	6,527	8,971
Other (b)	2,511	1,224	7,420	2,830
Other income	\$9,765	11,985	23,559	23,393

Represents revenue previously included in "Enrollment services revenue" on the consolidated statements of (a) income. The decrease in revenue for the three and six months ended June 30, 2016 compared to the same periods in 2015 was due to the loss of rights to a certain publication.

(b) The operating results for the six months ended June 30, 2016 includes a gain of approximately \$3.0 million related to the Company's sale of Sparkroom, LLC in February 2016.

## STUDENT LOAN AND GUARANTY SERVICING OPERATING SEGMENT – RESULTS OF OPERATIONS

## Student Loan Servicing Volumes (dollars in millions)

Company owned	\$21,397	\$19,742	\$19,369	\$18,934	\$18,593	\$18,886	\$18,433	\$18,079
% of total	15.5%	12.2%	11.5%	11.1%	10.6%	10.7%	10.1%	9.8%
Number of servicing borrowers:								
Government servicing:	5,305,498	5,915,449	5,882,446	5,817,078	5,886,266	5,842,163	5,786,545	5,726,828
FFELP servicing:	1,462,122	1,397,295	1,358,551	1,353,785	1,339,307	1,335,538	1,298,407	1,296,198
Private servicing:	195,580	202,529	205,926	209,854	230,403	245,737	250,666	264,827
Total:	6,963,200	7,515,273	7,446,923	7,380,717	7,455,976	7,423,438	7,335,618	7,287,853
Number of remote hosted borrowers:	1,915,203	1,611,654	1,592,813	1,559,573	1,710,577	1,755,341	1,796,783	1,842,961

## Department of Education Student Loan Servicing Contract

The Company's current servicing contract with the Department expires on June 16, 2019. In April 2016, the Department's Office of Federal Student Aid released information regarding a new contract procurement process for the Department to acquire a single servicing solution to support the management of federal student financial aid, including the servicing of all student loans owned by the Department. The contract solicitation process is divided into two phases. Responses for Phase I were due on May 9, 2016.

On May 6, 2016, the Company and Great Lakes submitted a joint response to Phase I as part of a newly created joint venture to respond to the contract solicitation process and to provide services under the new contract in the event that the Department selects it to be awarded with the contract. The joint venture will operate as a new legal entity called GreatNet. The Company and Great Lakes each own 50 percent of the ownership interests of GreatNet. In addition to the Company, Great Lakes is one of four private sector companies that currently has a student loan servicing contract with the Department to provide servicing for loans owned by the Department. On June 30, 2016, the Department announced which entities were selected to respond to Phase II of the procurement selection process. GreatNet was one of three entities selected. Navient Corporation and FedLoan Servicing (Pennsylvania Higher Education Assistance Agency), both existing TIVAS, were also selected to respond to Phase II.

During 2015, approximately 75 percent of new government student loans were allocated for servicing to the four TIVAS, with allocations based on established performance metrics compared among that group. An additional six not-for-profit ("NFP") servicers were allocated a total of approximately 25 percent of new loans for servicing during 2015. On March 2, 2016, the



Department announced that, for the period March 1, 2016 through June 30, 2016, new student loans will be allocated for servicing among the group of ten TIVAS and NFP servicers on the basis of the currently established performance metrics as compared among all ten loan servicers in that group, pursuant to a provision in the federal budgetary Consolidated Appropriations Act of 2016. This change resulted in a decrease in the Company's overall government allocation of new student loans for servicing from 13 percent to 8 percent for the period March 1, 2016 through June 30, 2016, and the other TIVAS were similarly affected. However, the Company did and will continue to benefit from the allocation of additional borrowers to the four NFP servicers to which the Company licenses its remote-hosted servicing software.

On July 15, 2016, the Department provided an update on its Direct Loan servicing contract with performance metrics results for the period January 1, 2016 through May 31, 2016 and new volume allocations for its student loan servicers based on these results. The new performance results had the Company ranked fifth among all TIVAS and NFP servicers, which results in the Company being allocated 12 percent of new student loan servicing volume for the period July 1, 2016 through February 28, 2017. The Company ranked second among the four TIVAS, with Great Lakes ranking first.

#### Summary and Comparison of Operating Results

	Three months ended		Six months ended		Additional information
	June 30, 2016	2015	June 30, 2016	2015	
Net interest income	\$22	13	43	20	
Loan and guaranty servicing revenue	54,402	63,833	106,732	121,644	See table below for additional analysis.
Intersegment servicing revenue	11,408	12,223	23,415	25,094	Represents revenue earned by the LGS operating segment as a result of servicing loans for the AGM operating segment. Decrease was due to portfolio run-off.
Total other income	65,810	76,056	130,147	146,738	
Salaries and benefits	31,380	31,585	64,346	65,288	
Depreciation and amortization	445	527	883	973	
Other expenses	11,380	15,376	22,850	29,976	Decrease due primarily to a decrease in collection costs associated with FFELP guaranty collection revenue. Collection costs were \$1.7 million and \$6.0 million for the three months ended June 30, 2016 and 2015, respectively and \$3.5 million and \$10.8 million for the six months ended June 30, 2016 and 2015, respectively. Excluding collection costs, other expenses were \$9.7 million and \$9.4 million for the three months ended June 30, 2016 and 2015, respectively, and \$19.3 million and \$19.2 million for the six months ended June 30, 2016 and 2015, respectively. See additional information below regarding the decrease in FFELP guaranty collection revenue.
	6,102	8,045	12,343	14,687	

Intersegment expenses, net

Intersegment expenses represent costs for certain corporate activities that are allocated to each operating segment based on estimated use of such activities and services.

Total operating expenses	49,307	55,533	100,422	110,924
Income before income taxes	16,525	20,536	29,768	35,834
Income tax expense	(6,280 )	(7,804 )	(11,312 )	(13,617 )
Net income	\$ 10,245	12,732	18,456	22,217

Before tax operating margin	25.1	% 27.0	% 22.9	% 24.4	%
-----------------------------	------	--------	--------	--------	---

Decrease in margin is due to a decrease in guaranty servicing and collection revenue due to the loss of a guaranty client as discussed below. The Company anticipates that margins will continue to decrease as a result of the loss of its remaining guaranty servicing and collection customer that exited the FFELP guaranty business at the end of their contract term on June 30, 2016 as discussed below.

The following table summarizes the components of "Loan and guaranty servicing revenue."

	Three months ended June 30,		Six months ended June 30,		Additional information
	2016	2015	2016	2015	
Government servicing	\$37,063	33,633	72,294	66,041	Increase due to the shift in the portfolio of loans serviced to a greater portion of loans in higher paying repayment statuses.
FFELP servicing	3,684	3,483	7,323	7,028	Increase due to an increase in third-party servicing volume as a result of conversions to the Company's servicing platform. Over time, FFELP servicing revenue will decrease as third-party customers' FFELP portfolios run off.
Private servicing	3,427	2,743	6,573	5,782	Increase due to growth in private loan servicing volume from existing and new clients.
FFELP guaranty servicing	1,161	2,416	2,345	4,897	The Company's guaranty servicing revenue was earned from two guaranty servicing clients. A contract with one client expired on October 31, 2015, and was not renewed. Guaranty servicing revenue from this customer was \$1.3 million for the three months ended June 30, 2015 and \$2.6 million for the six months ended June 30, 2015. The remaining guaranty servicing client exited the FFELP guaranty business at the end of their contract term on June 30, 2016. Guaranty servicing revenue from this customer was \$1.2 million for each of the three months ended June 30, 2016 and 2015 and \$2.3 million for each of the six months ended June 30, 2016 and 2015, respectively. After this customer's exit from the FFELP guaranty business effective June 30, 2016, the Company has no remaining guaranty servicing revenue.
FFELP guaranty collection	3,424	15,840	7,211	26,745	The Company's guaranty collection revenue was earned from two guaranty collection clients. A contract with one client expired on October 31, 2015, and was not renewed. Guaranty collection revenue from this customer was \$11.3 million for the three months ended June 30, 2015 and \$18.7 million for the six months ended June 30, 2015. The remaining guaranty servicing client exited the FFELP guaranty business at the end of their contract term on June 30, 2016. Guaranty collection revenue from this customer was \$3.4 million and \$4.5 million for the three months ended June 30, 2016 and 2015, respectively, and \$7.2 million and \$8.0 million for the six months ended June 30, 2016 and 2015, respectively. After this customer's exit from the FFELP guaranty business effective June 30, 2016, the Company has no remaining guaranty collection revenue. The Company incurred collection costs that were directly related to guaranty collection revenue.
Software services	4,653	4,638	9,261	9,506	The majority of software services revenue relates to providing hosted student loan servicing.
Other	990	1,080	1,725	1,645	
Loan and guaranty servicing revenue	\$54,402	63,833	106,732	121,644	



## TUITION PAYMENT PROCESSING AND CAMPUS COMMERCE OPERATING SEGMENT – RESULTS OF OPERATIONS

This segment of the Company's business is subject to seasonal fluctuations which correspond, or are related to, the traditional school year. Tuition management revenue is recognized over the course of the academic term, but the peak operational activities take place in summer and early fall. Higher amounts of revenue are typically recognized during the first quarter due to fees related to grant and aid applications as well as online applications and enrollment services. The Company's operating expenses do not follow the seasonality of the revenues. This is primarily due to generally fixed year-round personnel costs and seasonal marketing costs. Based on the timing of revenue recognition and when expenses are incurred, revenue and pre-tax operating margin are higher in the first quarter as compared to the remainder of the year.

### Summary and Comparison of Operating Results

	Three months ended June 30,		Six months ended June 30,		Additional information
	2016	2015	2016	2015	
Net interest income	\$3	1	5	3	
Tuition payment processing, school information, and campus commerce revenue	30,483	27,686	69,140	62,366	Increase was due to an increase in the number of managed tuition payment plans, campus commerce customer transaction and payments volume, and new school customers.
Salaries and benefits	15,444	13,583	29,880	26,904	
Depreciation and amortization	2,511	2,195	4,782	4,390	Increase due to additional personnel to support the increase in payment plans and continued system maintenance and enhancements.
Other expenses	4,815	4,112	8,973	7,914	
Intersegment expenses, net	1,562	2,164	3,074	4,199	Intersegment expenses represent costs for certain corporate activities that are allocated to each operating segment based on estimated use of such activities and services.
Total operating expenses	24,332	22,054	46,709	43,407	
Income before income taxes	6,154	5,633	22,436	18,962	
Income tax expense	(2,338 )	(2,140 )	(8,526 )	(7,206 )	
Net income	\$3,816	3,493	13,910	11,756	
Before tax operating margin	20.2 %	20.3 %	32.5 %	30.4 %	

## COMMUNICATIONS OPERATING SEGMENT – RESULTS OF OPERATIONS

## Summary of Operating Results

	Three months ended June 30, 2016	Six months ended June 30, 2016	Additional information
Interest expense	\$ 205	352	
Communications revenue	4,478	8,824	Communications revenue is derived primarily from the sale of pure fiber optic services to residential and business customers in Nebraska, including internet, television, and telephone services. At June 30, 2016, Allo had approximately 170 employees, including part-time employees. Allo also uses temporary employees in the normal course of business. Certain costs qualify for capitalization as Allo builds its network.
Salaries and benefits	1,377	2,467	Depreciation reflects the allocation of the costs of Allo's property and equipment over the period in which such assets are used.
Depreciation and amortization	1,378	2,507	Amortization reflects the allocation of costs related to intangible assets recorded at fair value as of the date the Company acquired Allo over their estimated useful lives.
Cost to provide communications services	1,681	3,384	Costs of services and products is primarily associated with television programming costs.
Other expenses	813	1,566	
Intersegment expenses, net	187	331	Intersegment expenses represent costs for certain corporate activities that are allocated to each operating segment based on estimated use of such activities and services.
Total operating expenses	5,436	10,255	
Loss before income taxes	(1,163 )	(1,783 )	
Income tax benefit	442	678	
Net loss	\$(721 )	(1,105 )	
Additional Information:			
Net loss	\$(721 )	(1,105 )	
Interest expense	205	352	
Income tax benefit	(442 )	(678 )	
Depreciation and amortization	1,378	2,507	
Earnings before interest expense, income taxes, depreciation, and amortization (EBITDA)	\$ 420	1,076	For additional information regarding this non-GAAP measure, see the table immediately below.

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

	Three months ended June 30, 2016	Six months ended June 30, 2016
Residential revenue	\$2,528	5,052
Business revenue	1,584	3,212
Other revenue	366	560
Total revenue	\$4,478	8,824

Net loss	\$(721 )	(1,105 )
EBITDA (a)	420	1,076

Capital expenditures	9,160	12,037
----------------------	-------	--------

Revenue contribution:

Internet	37.0	%	37.6	%
Telephone	26.6		27.2	
Television	31.4		32.1	
Other	5.0		3.1	
	100.0	%	100.0	%

	As of June 30, 2016	As of December 31, 2015
--	---------------------------	-------------------------------

Residential customer information:

Households served	8,314	7,600
Households passed (b)	22,977	21,274
Total households in current markets	137,500	137,500

Earnings before interest, 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 expense 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, and it provides supplemental information about Allo's operating performance on a more variable cost basis. 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 net income (loss) under GAAP is presented in the table immediately above.

(b) 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.



## ASSET GENERATION AND MANAGEMENT OPERATING SEGMENT – RESULTS OF OPERATIONS

## Student Loan Portfolio

As of June 30, 2016, the Company had a \$26.5 billion student loan portfolio that will amortize over the next approximately 25 years. For a summary of the Company's student loan portfolio as of June 30, 2016 and December 31, 2015, see note 2 of the notes to consolidated financial statements included under Part I, Item 1 of this report.

## Loan Activity

The following table sets forth the activity of loans:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Beginning balance	\$27,743,818	28,107,088	28,555,749	28,223,908
Loan acquisitions	74,969	1,228,030	185,928	2,064,142
Repayments, claims, capitalized interest, and other	(737,712 )	(690,556 )	(1,329,732 )	(1,318,916 )
Consolidation loans lost to external parties	(326,515 )	(330,712 )	(612,647 )	(651,288 )
Loans sold	—	—	(44,738 )	(3,996 )
Ending balance	\$26,754,560	28,313,850	26,754,560	28,313,850

## Allowance for Loan Losses and Loan Delinquencies

The Company maintains an allowance appropriate to absorb losses, net of recoveries, inherent in the portfolio of student loans, which results in periodic expense provisions for loan losses. Delinquencies have the potential to adversely impact the Company's earnings through increased servicing and collection costs and account charge-offs.

For a summary of the activity in the allowance for loan losses for the three and six months ended June 30, 2016 and 2015, and a summary of the Company's student loan delinquency amounts as of June 30, 2016, December 31, 2015, and June 30, 2015, see note 2 of the notes to consolidated financial statements included under Part I, Item 1 of this report.

In general, over the last several years, there has been a period over period decrease in the Company's federally insured loan provision for loan losses and charge-offs. The Company's primary driver for loan growth has been acquiring student loan portfolios. The Company records loans acquired net of any credit exposure through a credit discount, separate from the allowance for loan losses. This credit discount is non-accretable to interest income. The Company continues to evaluate credit losses associated with purchased loans based on current information and changes in expectations to determine the need for any additional allowance for loan losses. The recent purchases of large loan portfolios have resulted in an increase in the non-accretable discount balance, but no additional allowance for loan losses associated with these recent loan portfolios has been necessary. In addition, as the Company's overall federally insured student loan portfolio continues to season with the length of time that loans are in active repayment, credit performance continues to improve.

The Company's provision for loan losses for private education loans increased during the first six months of 2016 compared to 2015 due to the increase in the private education loan balance.

## Student Loan Spread Analysis

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

	Three months ended			Six months ended		
	June 30, 2016	March 31, 2016	June 30, 2015	June 30, 2016	June 30, 2015	
Variable student loan yield, gross	2.84	% 2.82	% 2.57	% 2.84	% 2.55	%
Consolidation rebate fees	(0.83)	) (0.83)	) (0.83)	) (0.83)	) (0.84)	)
Discount accretion, net of premium and deferred origination costs amortization	0.06	0.06	0.04	0.06	0.05	
Variable student loan yield, net	2.07	2.05	1.78	2.07	1.76	
Student loan cost of funds - interest expense	(1.35)	) (1.27)	) (1.01)	) (1.32)	) (1.00)	)
Student loan cost of funds - derivative settlements	(0.01)	) (0.02)	) —	) (0.01)	) —	)
Variable student loan spread	0.71	0.76	0.77	0.74	0.76	
Fixed rate floor income, net of settlements on derivatives	0.58	0.58	0.64	0.58	0.65	
Core student loan spread	1.29	% 1.34	% 1.41	% 1.32	% 1.41	%
Average balance of student loans	\$27,314,389	28,232,489	28,297,312	27,773,439	28,293,366	
Average balance of debt outstanding	27,240,061	28,099,821	28,331,870	27,669,813	28,395,893	

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

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 the majority of its assets with three-month LIBOR indexed floating rate securities. The relationship between the indices in which the Company earns interest on its loans and funds such (a) 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. See Item 3, "Quantitative and Qualitative Disclosures About Market Risk - Interest Rate Risk," which provides additional detail on the Company's FFELP student loan assets and related funding for those assets.

Variable student loan spread decreased during the three months ended June 30, 2016 as compared to both the three months ended March 31, 2016 and June 30, 2015 due to a widening in the basis between the asset and debt indices in which the Company earns interest on its loans and funds such loans (as reflected in the table above).

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			Six months ended		
	June 30, 2016	March 31, 2016	June 30, 2015	June 30, 2016	June 30, 2015	
Fixed rate floor income, gross	\$44,338	45,882	50,088	90,220	101,347	
Derivative settlements (a)	(4,841 )	(5,243 )	(5,019 )	(10,084 )	(10,034 )	
Fixed rate floor income, net	\$39,497	40,639	45,069	80,136	91,313	
Fixed rate floor income contribution to spread, net	0.58	% 0.58	% 0.64	% 0.58	% 0.65	%

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

The high levels of fixed rate floor income earned during 2016 and 2015 are due to historically low interest rates. If interest rates remain low, the Company anticipates continuing to earn significant fixed rate floor income in future periods. The decrease in fixed rate floor income for the three and six months ended June 30, 2016 compared to the same periods in 2015 is due to an increase in interest rates. See Item 3, "Quantitative and Qualitative Disclosures About Market Risk - Interest Rate Risk," which provides additional detail on the Company's portfolio earning fixed rate floor income and the derivatives used by the Company to hedge these loans.

## Summary and Comparison of Operating Results

	Three months ended June 30,		Six months ended June 30,		Additional information
	2016	2015	2016	2015	
Net interest income after provision for loan losses	\$90,197	102,688	188,542	202,571	See table below for additional analysis.
Other income	3,834	3,950	8,097	8,526	The primary component of other income is borrower late fees, which were \$3.1 million and \$3.6 million for the three months ended June 30, 2016 and 2015, and \$6.8 million and \$7.8 million for the six months ended June 30, 2016 and 2015, respectively.
Gain on sale of loans and debt repurchases	—	1,041	101	1,392	Gains were primarily from the Company repurchasing its own asset-backed debt securities.
Derivative market value and foreign currency adjustments, net	(31,411 )	9,404	(51,308 )	12,994	Includes (i) the 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 foreign currency transaction gains or losses caused by the re-measurement of the Company's Euro-denominated bonds to U.S. dollars.
Derivative settlements, net	(5,264 )	(5,189 )	(11,568 )	(10,152 )	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 as reflected in the table below.
Total other (expense) income	(32,841 )	9,206	(54,678 )	12,760	
Salaries and benefits	499	524	1,018	1,065	
Loan servicing fees	7,216	7,420	14,144	15,036	The Company pays higher third-party servicing fees on delinquent loans. The Company's third-party serviced loan portfolio has fewer delinquent loans in 2016 compared to 2015; therefore, third-party servicing fees have decreased.
Other expenses	1,481	1,270	2,997	2,407	
Intersegment expenses, net	11,539	12,362	23,646	25,370	Amounts include fees paid to the LGS operating segment for the servicing of the Company's student loan portfolio. Decrease due to run off of the portfolio serviced by LGS.
Total operating expenses	20,735	21,576	41,805	43,878	
Income before income taxes	36,621	90,318	92,059	171,453	
Income tax expense	(13,916 )	(34,321 )	(34,983 )	(65,152 )	
Net income	\$22,705	55,997	57,076	106,301	

Additional information:

Net income	\$22,705	55,997	57,076	106,301	
Derivative market value and foreign currency adjustments, net	31,411	(9,404 )	51,308	(12,994 )	See "Overview - GAAP Net Income and Non-GAAP Net Income, Excluding Adjustments" above for additional information about non-GAAP net income, excluding derivative market value and foreign currency adjustments. Net income, excluding derivative market value and foreign currency adjustments, decreased in 2016 as compared to 2015 due to a decrease in variable student loan spread and fixed rate floor income.
Tax effect	(11,936 )	3,574	(19,497 )	4,938	
Net income, excluding derivative market value and foreign currency adjustments	\$42,180	50,167	88,887	98,245	

The following table summarizes the components of "net interest income after provision for loan losses" and "derivative settlements, net."

	Three months ended		Six months ended		Additional information
	June 30, 2016	2015	June 30, 2016	2015	
Variable interest income, net of settlements on derivatives	\$ 191,802	180,868	388,928	357,346	Increase due to an increase in the gross yield earned on student loans, net of settlements on derivatives, partially offset by a decrease in the average balance of student loans.
Consolidation rebate fees	(56,786 )	(58,427 )	(115,222 )	(117,298 )	Decrease due to a decrease in the average consolidation loan balance.
Discount accretion, net of premium and deferred origination costs amortization	4,291	3,136	8,644	6,267	Increase due to the Company's purchases of loans at a net discount over the last several years.
Interest on bonds and notes payable	(92,166 )	(71,056 )	(181,354 )	(141,160 )	Increase due to an increase in cost of funds, partially offset by a decrease in the average balance of debt outstanding.
Variable student loan interest margin, net of settlements on derivatives	47,141	54,521	100,996	105,155	
Fixed rate floor income, net of settlements on derivatives	39,497	45,069	80,136	91,313	The high levels of fixed rate floor income earned are due to historically low interest rates. Fixed rate floor income has decreased due to the rising interest rate environment.
Investment interest	899	444	1,634	922	
Intercompany interest	(604 )	(385 )	(1,292 )	(821 )	
Provision for loan losses - federally insured	(2,000 )	(2,000 )	(4,000 )	(4,000 )	See "Allowance for Loan Losses and Loan Delinquencies" included above under "Asset Generation and Management Operating Segment - Results of Operations."
Provision for loan losses - private education loans	—	(150 )	(500 )	(150 )	
Net interest income after provision for loan losses (net of settlements on derivatives)	\$ 84,933	97,499	176,974	192,419	

## LIQUIDITY AND CAPITAL RESOURCES

The Company's Student Loan and Guaranty Servicing and Tuition Payment Processing and Campus Commerce operating segments are non-capital intensive and both produce positive operating cash flows. As such, a minimal amount of debt and equity capital is allocated to these segments and any liquidity or capital needs are satisfied using cash flow from operations. Therefore, the Liquidity and Capital Resources discussion is concentrated on the Company's liquidity and capital needs to meet existing debt obligations in the Asset Generation and Management operating segment and capital needs to expand Allo's communications network in the Company's Communications operating segment.

### Sources of Liquidity

The Company has historically generated positive cash flow from operations. For the six months ended June 30, 2016 and the year ended December 31, 2015, the Company's net cash provided by operating activities was \$175.2 million and \$391.4 million, respectively.

As of June 30, 2016, the Company had cash and cash equivalents of \$59.3 million. The Company also had a portfolio of available-for-sale and trading investments, consisting primarily of student loan asset-backed securities, with a fair value of \$141.5 million as of June 30, 2016.

The Company also has a \$350.0 million unsecured line of credit that matures on October 30, 2020. As of June 30, 2016, \$105.0 million was outstanding on the unsecured line of credit and \$245.0 million was available for future use.

In addition, the Company has repurchased certain of its own asset-backed securities (bonds and notes payable) in the secondary market. For accounting purposes, these notes are effectively retired and are not included on the Company's consolidated balance sheet. However, these securities are legally outstanding at the trust level and the Company could sell these notes to third parties or redeem the notes at par as cash is generated by the trust estate. Upon a sale of these notes to third parties, the Company would obtain cash proceeds equal to the market value of the notes on the date of such sale. As of June 30, 2016, the Company holds \$50.8 million (par value) of its own asset-backed securities that are not included in the consolidated financial statements.

The Company intends to use its liquidity position to capitalize on market opportunities, including FFELP and private education loan acquisitions; strategic acquisitions and investments; expansion of Allo's telecommunications network; and capital management initiatives, including stock repurchases, debt repurchases, and dividend distributions. Dependent upon the timing and size of the opportunities, the Company's cash and investment balances may increase from their current levels.

#### Cash Flows

During the six months ended June 30, 2016, the Company generated \$175.2 million from operating activities, compared to \$192.0 million for the same period in 2015. The decrease in cash provided by operating activities reflects a decrease in net income, change in deferred taxes, and a decrease in proceeds from terminating certain derivative instrument contracts during the six months ended June 30, 2016 as compared to the same period in 2015. These factors were partially offset by changes in the adjustments to net income for non-cash fair value adjustments for derivatives and foreign currency transaction adjustments and a decrease in accounts receivable. Accrued interest on loans purchased is included in cash flows from operating activities in the respective period of the purchase. Net purchased accrued interest was \$60.7 million for the six months ended June 30, 2015. Net purchased accrued interest for the six months ended June 30, 2016 was not significant.

The primary items included in the statement of cash flows for investing activities are the purchase and repayment of student loans. The primary items included in financing activities are the proceeds from the issuance of and payments on bonds and notes payable used to fund student loans. Cash provided by investing activities for the six months ended June 30, 2016 and 2015 was \$1.6 billion and \$324.3 million, respectively. Cash used in financing activities was \$1.8 billion and \$464.4 million for the six months ended June 30, 2016 and 2015, respectively. Investing and financing activities are further addressed in the discussion that follows.

#### Liquidity Needs and Sources of Liquidity Available to Satisfy Debt Obligations Secured by Student Loan Assets and Related Collateral

The following table shows the Company's debt obligations outstanding that are secured by student loan assets and related collateral.

	As of June 30, 2016	
	Carrying amount	Final maturity
Bonds and notes issued in asset-backed securitizations	\$24,576,893	8/26/19 - 8/26/52
FFELP warehouse facilities	1,811,708	7/9/18 - 4/26/19
Private education loan warehouse facility	221,114	4/28/17
Other borrowings	75,000	10/31/16
	\$26,684,715	

#### Bonds and Notes Issued in Asset-backed Securitizations



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

As of June 30, 2016, based on cash flow models developed to reflect management's current estimate of, among other factors, prepayments, defaults, deferment, forbearance, and interest rates, the Company currently expects future undiscounted cash flows from its portfolio to be approximately \$2.37 billion as detailed below. The \$2.37 billion includes approximately \$726.5 million (as of June 30, 2016) of overcollateralization included in the asset-backed securitizations. These excess net asset positions are reflected variously in the following balances in the consolidated balance sheet: "student loans receivable," "restricted cash and investments," and "accrued interest receivable."

The forecasted cash flow presented below includes all loans funded in asset-backed securitizations as of June 30, 2016. As of June 30, 2016, the Company had \$24.6 billion of loans included in asset-backed securitizations, which represented 93.0 percent of its total FFELP student loan portfolio. The forecasted cash flow does not include cash flows that the Company expects to receive related to loans funded in its warehouse facilities as of June 30, 2016 or loans acquired subsequent to June 30, 2016.

FFELP Asset-backed Securitization Cash Flow Forecast

\$2.37 billion

(dollars in millions)

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

**Prepayments:** The primary variable in establishing a life of loan estimate is the level and timing of prepayments. Prepayment rates equal the amount of loans that prepay annually as a percentage of the beginning of period balance, net of scheduled principal payments. A number of factors can affect estimated prepayment rates, including the level of consolidation activity, borrower default rates, and utilization of FFEL Program debt management options such as income-based repayment, deferments, and forbearance. Should any of these factors change, management may revise its assumptions, which in turn would impact the projected future cash flow. The Company's cash flow forecast above assumes prepayment rates that are generally consistent with those utilized in the Company's recent asset-backed securitization transactions. If management used a prepayment rate assumption two times greater than what was used to forecast the cash flow, the cash flow forecast would be reduced by approximately \$260 million to \$320 million.

**Interest rates:** The Company funds the majority of its student loans with three-month LIBOR indexed floating rate securities. Meanwhile, the interest earned on the Company's student loan assets is indexed primarily to a one-month LIBOR rate. The different interest rate characteristics of the Company's loan assets and liabilities funding these assets result in basis risk. The Company's cash flow forecast assumes three-month LIBOR will exceed one-month LIBOR by 12 basis points for the life of the portfolio, which approximates the historical relationship between these indices. If the forecast is computed assuming a spread of 24 basis points between three-month and one-month LIBOR for the life of the portfolio, the cash flow forecast would be reduced by approximately \$65 million to \$105 million.

The Company uses the current forward interest rate yield curve to forecast cash flows. A change in the forward interest rate curve would impact the future cash flows generated from the portfolio. An increase in future interest rates will reduce the amount of fixed rate floor income the Company is currently receiving. The Company attempts to mitigate the impact of a rise in short-term rates by hedging interest rate risks. As of June 30, 2016, the net fair value of the Company's interest rate derivatives used to hedge loans earning fixed rate floor income was a net liability of \$42.8 million. See Item 3, "Quantitative and Qualitative Disclosures About Market Risk — Interest Rate Risk."

### FFELP Warehouse Facilities

The Company funds a portion of its FFELP loan acquisitions using its FFELP warehouse facilities. Student loan warehousing allows the Company to buy and manage student loans prior to transferring them into more permanent financing arrangements. As of June 30, 2016, the Company had three FFELP warehouse facilities with an aggregate maximum financing amount available of \$2.1 billion, of which \$1.8 billion was outstanding, and \$0.3 billion was available for additional funding. Of the three facilities, one facility provides for formula-based advance rates, depending on FFELP loan type, up to a maximum of the principal and interest of loans financed. The advance rate for collateral may increase or decrease based on market conditions. The other two FFELP warehouse facilities have static advance rates that require initial equity for loan funding, but do not require increased equity based on market movements. As of June 30, 2016, the Company had \$105.4 million advanced as equity support on these facilities. For further discussion of the Company's FFELP warehouse facilities outstanding at June 30, 2016, see note 3 of the notes to consolidated financial statements included under Part I, Item 1 of this report.

Upon termination or expiration of the warehouse facilities, the Company would expect to access the securitization market, obtain replacement warehouse facilities, use operating cash, consider the sale of assets, or transfer collateral to satisfy any remaining obligations.

### Private Education Loan Warehouse Facility

On June 26, 2015, the Company entered into a \$275.0 million private education loan warehouse facility. As of June 30, 2016, there was \$221.1 million outstanding on the facility and \$53.9 million was available for future use. The facility has a static advance rate that requires initial equity for loan funding, but does not require increased equity based on market movements. The maximum advance rate on the entire facility is 88 percent and minimum advance rates, depending on loan characteristics and program type, ranged from 64 percent to 99 percent. As of June 30, 2016, \$32.0 million was advanced on the facility as equity support. The facility is supported by liquidity provisions, which had an original expiration date of June 24, 2016.

On April 1, 2016, the Company amended the agreement for this facility to change the expiration date for the liquidity provisions to October 28, 2016, and to change the final maturity date to April 28, 2017. In addition, the minimum advance rates, depending on loan characteristics and program type, were changed to a range from 61.75 percent to 95.00 percent, and the maximum advance rate on the entire facility remained at 88 percent. In the event the Company is unable to renew the liquidity provisions by the amended expiration date of October 28, 2016, the facility would become a term facility at a stepped-up cost, with no additional student loans being eligible for financing, and the Company would be required to refinance the existing loans in the facility by the facility's amended final maturity date of April 28, 2017.

Upon termination or expiration of the warehouse facility, the Company would expect to access the securitization market, obtain replacement warehouse facilities, use operating cash, consider the sale of assets, or transfer collateral to satisfy any remaining obligations.

### Other Borrowings

The Company has a \$75.0 million line of credit, which is collateralized by asset-backed security investments, that expires October 31, 2016. The line of credit has covenants and cross default provisions similar to those under the Company's unsecured line of credit. As of June 30, 2016, \$75.0 million was outstanding on this line of credit. Upon termination or expiration of this line of credit, the Company would obtain a replacement facility, use operating cash, consider the sale of assets, or transfer collateral to satisfy any remaining obligations.

### Other Uses of Liquidity

Effective July 1, 2010, no new loan originations can be made under the FFEL Program and all new federal loan originations must be made through the Federal Direct Loan Program. As a result, the Company no longer originates new FFELP loans, but continues to acquire FFELP loan portfolios from third parties and believes additional loan

purchase opportunities exist.

The Company plans to fund future FFELP student loan acquisitions using current cash and investments; using its Union Bank participation agreement (as described below); using its FFELP warehouse facilities (as described above); and continuing to access the asset-backed securitization market.

49

---

### Union Bank Participation Agreement

The Company maintains an agreement with Union Bank, as trustee for various grantor trusts, under which Union Bank has agreed to purchase from the Company participation interests in student loans. As of June 30, 2016, \$505.6 million of loans were subject to outstanding participation interests held by Union Bank, as trustee, under this agreement. The agreement automatically renews annually and is terminable by either party upon five business days' notice. This agreement provides beneficiaries of Union Bank's grantor trusts with access to investments in interests in student loans, while providing liquidity to the Company. The Company can participate loans to Union Bank to the extent of availability under the grantor trusts, up to \$750 million or an amount in excess of \$750 million if mutually agreed to by both parties. Loans participated under this agreement have been accounted for by the Company as loan sales. Accordingly, the participation interests sold are not included in the Company's consolidated balance sheets.

### Asset-backed Securities Transactions

The Company, through its subsidiaries, has historically funded student loans by completing asset-backed securitizations. Fitch Ratings and Moody's Investors Service have placed numerous tranches of FFELP securitizations by various issuers, including certain tranches of prior FFELP securitizations issued by subsidiaries of the Company, on review for potential downgrade due to principal payments and prepayments on the underlying student loans coming in slower than initial expectations, and the resulting risk that certain principal maturities on those FFELP securitizations may not be met by the final maturity dates, which could result in an event of default under the underlying securitization agreements. Such rating actions have caused the spreads on FFELP securitizations in general to widen and have reduced the liquidity in the secondary market for FFELP securitizations.

In June 2016, Moody's published an updated methodology for its ratings of FFELP securitizations, and Fitch announced that it was in the final phase of updating its corresponding ratings criteria. In addition, on June 15, 2016, the Company announced the launch of an online investor communication forum that may facilitate the amendment of securitizations to extend the legal final maturity dates. The ultimate impact of these developments on the Company's current and future securitizations is uncertain. Depending on future rating agency actions and market conditions, the Company currently anticipates continuing to access the asset-backed securitization market for both FFELP and private education loans. Such asset-backed securitization transactions would be used to refinance student loans included in its warehouse facilities, student loans purchased from third parties, and/or student loans in its existing asset-backed securitizations.

### Liquidity Impact Related to Hedging Activities

The Company utilizes derivative instruments to manage interest rate sensitivity. By using derivative instruments, the Company is exposed to market risk which could impact its liquidity. Based on the derivative portfolio outstanding as of June 30, 2016, the Company does not currently anticipate any movement in interest rates having a material impact on its capital or liquidity profile, nor does the Company expect that any movement in interest rates would have a material impact on its ability to meet potential collateral deposits with its counterparties. However, if interest rates move materially and negatively impact the fair value of the Company's derivative portfolio or if the Company enters into additional derivatives for which the fair value becomes negative, the Company could be required to deposit additional collateral with its derivative instrument counterparties and/or a third-party clearinghouse. The collateral deposits, if significant, could negatively impact the Company's liquidity and capital resources. As of June 30, 2016, the fair value of the Company's derivatives which had a negative fair value (a liability in the Company's balance sheet), was \$101.8 million. As of June 30, 2016, the Company had \$110.7 million of collateral deposited with counterparties or a clearinghouse related to these derivatives.

Liquidity Impact Related to the Communications Operating Segment

Allo has made significant investments in its communications network and currently provides fiber directly to homes and businesses in seven Nebraska communities. In November 2015, Allo announced plans to expand its network to make its services available to substantially all commercial and residential premises in Lincoln, Nebraska, and currently plans to expand to additional communities in Nebraska and surrounding states over the next several years. The Company currently plans to spend approximately \$50 million in total in network capital expenditures during 2016. However, such amount could change based on customer demand for Allo's services. For the six month period ended June 30, 2016, Allo's capital expenditures were \$12.0 million.

## Other Debt Facilities

As discussed above, the Company has a \$350.0 million unsecured line of credit with a maturity date of October 30, 2020. As of June 30, 2016, the unsecured line of credit had an outstanding balance of \$105.0 million and \$245.0 million was available for future use. Upon the maturity date in 2020 there can be no assurance that the Company will be able to maintain this line of credit, increase the amount outstanding under the line, or find alternative funding if necessary.

The Company has issued Junior Subordinated Hybrid Securities (the "Hybrid Securities") that have a final maturity date of September 15, 2061. The Hybrid Securities are unsecured obligations of the Company. As of June 30, 2016, \$57.2 million of Hybrid Securities were outstanding.

The Company also has two notes payable, which were each issued by TDP Phase Three, LLC ("TDP") on December 30, 2015 in connection with the development of a commercial building. TDP is an entity established during 2015 for the sole purpose of developing and operating a commercial building. The Company owns 25 percent of TDP. However, because the Company plans to be a tenant in this building once the development is complete, the operating results of TDP are included in the Company's consolidated financial statements. As of June 30, 2016, one of the TDP notes has \$12.0 million outstanding with a maturity date of March 31, 2023; the other TDP note has \$6.4 million outstanding with a maturity date of December 15, 2045. Recourse to the Company on the outstanding balance of these notes is equal to its ownership percentage of TDP.

## Debt Repurchases

Due to the Company's positive liquidity position and opportunities in the capital markets, the Company has repurchased its own debt over the last several years, and may continue to do so in the future. See note 4 of the notes to consolidated financial statements included in the 2015 Annual Report for information on debt repurchased by the Company during the years 2013 through 2015. No significant debt repurchases have been made by the Company during 2016.

## Stock Repurchases

On May 7, 2015, the Company announced that its Board of Directors had authorized a stock repurchase program to repurchase up to a total of five million shares of the Company's Class A common stock during the three-year period ending May 24, 2018. In May 2016, the Company's Board of Directors authorized a new stock repurchase program to repurchase up to a total of five million shares of the Company's Class A common stock during the three-year period ending May 25, 2019. The five million shares authorized under the new program included the remaining 1,664,223 un-repurchased shares from the prior program, which the new program replaced. Under the program, shares may be repurchased from time to time depending on various factors, including share prices and other potential uses of liquidity. Shares repurchased by the Company during the three months ended March 31, 2016 and June 30, 2016 are shown below. For additional information on stock repurchases during the second quarter of 2016, see "Stock Repurchases" under Part II, Item 2 of this report.

	Total shares repurchased	Purchase price (in thousands)	Average price of shares repurchased (per share)
Quarter ended March 31, 2016	1,599,099	\$ 52,069	32.56
Quarter ended June 30, 2016	11,942	399	33.45
Total	1,611,041	\$ 52,468	32.57

As of June 30, 2016, 4,992,360 shares remain authorized for repurchase under this stock repurchase program.

#### Dividends

On June 15, 2016, the Company paid a second quarter 2016 cash dividend on the Company's Class A and Class B common stock of \$0.12 per share. In addition, the Company's Board of Directors has declared a third quarter 2016 cash dividend on the Company's outstanding shares of Class A and Class B common stock of \$0.12 per share. The third quarter cash dividend will be paid on September 15, 2016, to shareholders of record at the close of business on September 1, 2016.

The Company currently plans to continue making regular quarterly dividend payments, subject to future earnings, capital requirements, financial condition, and other factors. In addition, the payment of dividends is subject to the terms of the Company's outstanding Hybrid Securities, which generally provide that if the Company defers interest payments on those securities it cannot pay dividends on its capital stock.



### Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on its financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources that are material to investors.

### RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB issued accounting guidance regarding the recognition of revenue from contracts with customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This guidance will replace most existing revenue recognition guidance once it becomes effective on January 1, 2018. Early application is permitted beginning January 1, 2017, and the standard allows the use of either the retrospective or cumulative effect transition method. The Company is evaluating the impact this standard will have on its ongoing financial reporting, and has not yet selected a method of transition.

In January 2016, the FASB issued accounting guidance regarding the recognition and measurement of financial assets and financial liabilities, which will change the income statement impact of equity investments, and the recognition of changes in fair value of financial liabilities when the fair value option is elected. The new guidance requires all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under the equity method of accounting or those that result in consolidation of the investee) and requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. This guidance is effective for the Company beginning January 1, 2018. Early adoption is permitted for the provisions related to the recognition of changes in fair value of financial liabilities when the fair value option is elected. The Company is evaluating the impact this standard will have on its ongoing financial reporting.

In February 2016, the FASB issued accounting guidance regarding the accounting for leases. The new standard will require most leases where the Company is the lessee to be recognized on the balance sheet, as well as certain changes in the lessor accounting. This guidance is effective for the Company beginning January 1, 2019 and will be applied retrospectively. The Company is evaluating the impact this standard will have on its ongoing financial reporting.

In June 2016, the FASB issued accounting guidance regarding the measurement of credit losses on financial instruments, which will change the way entities recognize impairment of many financial assets by requiring immediate recognition of estimated credit losses expected to occur over the asset's remaining life. This guidance is effective for the Company beginning January 1, 2020. Early application is permitted beginning January 1, 2019. The Company is evaluating the impact this standard will have on its ongoing financial reporting.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

#### Interest Rate Risk

The Company's primary market risk exposure arises from fluctuations in its borrowing and lending rates, the spread between which could impact the Company due to shifts in market interest rates.

Edgar Filing: NELNET INC - Form 10-Q

The following table sets forth the Company's loan assets and debt instruments by interest rate characteristics:

	As of June 30, 2016		As of December 31, 2015	
	Dollars	Percent	Dollars	Percent
Fixed-rate loan assets	\$10,010,100	37.4 %	\$11,229,584	39.3 %
Variable-rate loan assets	16,744,460	62.6	17,326,165	60.7
Total	\$26,754,560	100.0%	\$28,555,749	100.0%
Fixed-rate debt instruments	\$18,355	0.1 %	\$18,355	0.1 %
Variable-rate debt instruments	26,846,899	99.9	28,584,976	99.9
Total	\$26,865,254	100.0%	\$28,603,331	100.0%

52

---

FFELP loans originated prior to April 1, 2006 generally earn interest at the higher of the borrower rate, which is fixed over a period of time, or a floating rate based on the special allowance payment ("SAP") formula set by the Department. The SAP rate is based on an applicable index plus a fixed spread that depends on loan type, origination date, and repayment status. The Company generally finances its student loan portfolio with variable rate debt. In low and/or declining interest rate environments, when the fixed borrower rate is higher than the SAP rate, the Company's student loans earn at a fixed rate while the interest on the variable rate debt typically continues to reflect the low and/or declining interest rates. In these interest rate environments, the Company may earn additional spread income that it refers to as floor income.

Depending on the type of loan and when it was originated, the borrower rate is either fixed to term or is reset to an annual rate each July 1. As a result, for loans where the borrower rate is fixed to term, the Company may earn floor income for an extended period of time, which the Company refers to as fixed rate floor income, and for those loans where the borrower rate is reset annually on July 1, the Company may earn floor income to the next reset date, which the Company refers to as variable rate floor income. All FFELP loans first originated on or after April 1, 2006 effectively earn at the SAP rate, since lenders are required to rebate fixed rate floor income and variable rate floor income for those loans to the Department.

No variable-rate floor income was earned by the Company during 2015 and 2016. A summary of fixed rate floor income earned by the Company follows.

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Fixed rate floor income, gross	\$44,338	50,088	90,220	101,347
Derivative settlements (a)	(4,841 )	(5,019 )	(10,084 )	(10,034 )
Fixed rate floor income, net	\$39,497	45,069	80,136	91,313

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

The high levels of fixed rate floor income earned during 2016 and 2015 are due to historically low interest rates. If interest rates remain low, the Company anticipates continuing to earn significant fixed rate floor income in future periods. Fixed rate floor income decreased for the three and six months ended June 30, 2016 as compared to the same periods in 2015 due to an increase in interest rates.

Absent the use of derivative instruments, a rise in interest rates may reduce the amount of floor income received and this may have an impact on earnings due to interest margin compression caused by increasing financing costs, until such time as the federally insured loans earn interest at a variable rate in accordance with their special allowance payment formulas. In higher interest rate environments, where the interest rate rises above the borrower rate and fixed rate loans effectively become variable rate loans, the impact of the rate fluctuations is reduced.

The following graph depicts fixed rate floor income for a borrower with a fixed rate of 6.75% and a SAP rate of 2.64%:

The following table shows the Company's federally insured student loan assets that were earning fixed rate floor income as of June 30, 2016.

Fixed interest rate range	Borrower/lender weighted average yield	Estimated variable conversion rate (a)	Loan balance
3.0 - 3.49%	3.28%	0.64%	\$1,536,726
3.5 - 3.99%	3.65%	1.01%	2,212,385
4.0 - 4.49%	4.20%	1.56%	1,639,781
4.5 - 4.99%	4.72%	2.08%	997,829
5.0 - 5.49%	5.22%	2.58%	627,344
5.5 - 5.99%	5.67%	3.03%	439,469
6.0 - 6.49%	6.19%	3.55%	510,363
6.5 - 6.99%	6.70%	4.06%	500,707
7.0 - 7.49%	7.17%	4.53%	174,555
7.5 - 7.99%	7.71%	5.07%	294,973
8.0 - 8.99%	8.18%	5.54%	685,884
> 9.0%	9.04%	6.40%	237,633
			\$9,857,649

The estimated variable conversion rate is the estimated short-term interest rate at which loans would convert to a (a) variable rate. As of June 30, 2016, the weighted average estimated variable conversion rate was 2.26% and the short-term interest rate was 45 basis points.

The following table summarizes the outstanding derivative instruments as of June 30, 2016 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)	
2016	\$750,000	0.72	%
2017	1,000,000	0.97	
2018	1,600,000	1.08	
2019	3,250,000	0.97	
2020	1,500,000	1.01	
2025	100,000	2.32	
2026	50,000	1.52	
	\$8,250,000	0.99	%

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

In addition, on August 20, 2014, the Company paid \$9.1 million for an interest rate swap option to economically hedge loans earning fixed rate floor income. The interest rate swap option gives the Company the right, but not the obligation, to enter into a \$250 million notional interest rate swap in which the Company would pay a fixed amount of 3.30% and receive discrete one-month LIBOR. If the interest rate swap option is exercised, the swap would become effective in 2019 and mature in 2024.

The Company is also exposed to interest rate risk in the form of basis risk and repricing risk because the interest rate characteristics of the Company's assets do not match the interest rate characteristics of the funding for those assets. The following table presents the Company's FFELP student loan assets and related funding for those assets arranged by underlying indices as of June 30, 2016:

Index	Frequency of variable resets	Assets	Funding of student loan assets
1 month LIBOR (a)	Daily	\$24,356,092	—
3 month H15 financial commercial paper	Daily	1,339,268	—
3 month Treasury bill	Daily	771,030	—
3 month LIBOR (a) (b)	Quarterly	—	14,741,895
1 month LIBOR	Monthly	—	9,189,155
Auction-rate (c)	Varies	—	1,158,415
Asset-backed commercial paper (d)	Varies	—	1,299,136
Other (e)		1,220,030	1,297,819
		\$27,686,420	27,686,420

The Company has certain basis swaps outstanding in which the Company receives three-month LIBOR and pays one-month LIBOR plus or minus a spread as defined in the agreements (the "1:3 Basis Swaps"). The Company (a) entered into these derivative instruments to better match the interest rate characteristics on its student loan assets and the debt funding such assets. The following table summarizes the 1:3 Basis Swaps outstanding as of June 30, 2016.

Maturity	Notional amount
2016	\$2,000,000

2028 125,000

The weighted average rate paid by the Company on the 1:3 Basis Swaps as of June 30, 2016 was one-month LIBOR plus 9.3 basis points.

The Company has Euro-denominated notes that reprice on the EURIBOR index. The Company has entered into a (b) cross-currency interest rate swap that converts the EURIBOR index to three-month LIBOR. As a result, these notes are reflected in the three-month LIBOR category in the above table. See "Foreign Currency Exchange Risk" below.

The interest rates on certain of the Company's asset-backed securities are set and periodically reset via a "dutch auction" ("Auction Rate Securities"). As of June 30, 2016, the Company was sponsor for \$1.2 billion of Auction Rate (c) Securities. Since February 2008, problems in the auction rate securities market as a whole have led to failures of the auctions pursuant to which the Company's Auction Rate Securities' interest rates are set. As a result, the Auction Rate

55

---

Securities generally pay interest to the holder at a maximum rate as defined by the indenture. While these rates will vary, they will generally be based on a spread to LIBOR or Treasury Securities, or the Net Loan Rate as defined in the financing documents.

(d) The interest rates on certain of the Company's warehouse facilities are indexed to asset-backed commercial paper rates.

Assets include accrued interest receivable and restricted cash and investments. Funding represents (e) overcollateralization (equity) included in FFELP asset-backed securitizations and warehouse facilities and other liabilities funding student loans and related assets.

56

---

## Sensitivity Analysis

The following tables summarize the effect on the Company's earnings, based upon a sensitivity analysis performed by the Company assuming hypothetical increases in interest rates of 100 basis points and 300 basis points while funding spreads remain constant. In addition, a sensitivity analysis was performed assuming the funding index increases 10 basis points and 30 basis points while holding the asset index constant, if the funding index is different than the asset index. The sensitivity analysis was performed on the Company's variable rate assets (including loans earning fixed rate floor income) and liabilities. The analysis includes the effects of the Company's interest rate and basis swaps in existence during these periods.

	Interest rates				Asset and funding index mismatches			
	Change from increase of 100 basis points		Change from increase of 300 basis points		Increase of 10 basis points		Increase of 30 basis points	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
Three months ended June 30, 2016								
Effect on earnings:								
Decrease in pre-tax net income before impact of derivative settlements	\$(17,682)	(42.9)%	\$(32,373)	(78.6)%	\$(4,075)	(9.9)%	\$(12,226)	(29.6)%
Impact of derivative settlements	13,542	32.9	40,625	98.6	717	1.7	2,151	5.2
Increase (decrease) in net income before taxes	\$(4,140 )	(10.0)%	\$8,252	20.0 %	\$(3,358)	(8.2)%	\$(10,075)	(24.4)%
Increase (decrease) in basic and diluted earnings per share	\$(0.06 )		\$0.12		\$(0.05 )		\$(0.15 )	
Three months ended June 30, 2015								
Effect on earnings:								
Decrease in pre-tax net income before impact of derivative settlements	\$(19,948)	(17.9)%	\$(35,538)	(31.9)%	\$(4,106)	(3.7)%	\$(12,316)	(11.1)%
Impact of derivative settlements	8,547	7.7	25,640	23.0	1,219	1.1	3,656	3.3
Increase (decrease) in net income before taxes	\$(11,401)	(10.2)%	\$(9,898 )	(8.9 )%	\$(2,887)	(2.6)%	\$(8,660 )	(7.8 )%
Increase (decrease) in basic and diluted earnings per share	\$(0.15 )		\$(0.13 )		\$(0.04 )		\$(0.12 )	
Six months ended June 30, 2016								
Effect on earnings:								
Decrease in pre-tax net income before impact of derivative settlements	\$(36,040)	(31.7)%	\$(66,023)	(58.1)%	\$(8,248)	(7.3)%	\$(24,745)	(21.8)%
Impact of derivative settlements	29,250	25.7	87,750	77.2	2,340	2.1	7,020	6.2
Increase (decrease) in net income before taxes	\$(6,790 )	(6.0 )%	\$21,727	19.1 %	\$(5,908)	(5.2)%	\$(17,725)	(15.6)%
Increase (decrease) in basic and diluted earnings per share	\$(0.10 )		\$0.31		\$(0.09 )		\$(0.26 )	
Six months ended June 30, 2015								
Effect on earnings:								
Decrease in pre-tax net income before impact of derivative settlements	\$(39,732)	(18.6)%	\$(69,605)	(32.5)%	\$(8,313)	(3.9)%	\$(24,938)	(11.7)%
Impact of derivative settlements	16,547	7.7	49,640	23.2	2,781	1.3	8,343	3.9



Edgar Filing: NELNET INC - Form 10-Q

Increase (decrease) in net income before taxes	\$(23,185) (10.9)%	\$(19,965) (9.3 )%	\$(5,532) (2.6)%	\$(16,595) (7.8 )%
Increase (decrease) in basic and diluted earnings per share	\$(0.31 )	\$(0.26 )	\$(0.08 )	\$(0.23 )

57

---

## Foreign Currency Exchange Risk

The Company has issued €352.7 million of student loan asset-backed Euro Notes (the "Euro Notes") with an interest rate based on a spread to the EURIBOR index. As a result, the Company is exposed to market risk related to fluctuations in foreign currency exchange rates between the U.S. dollar and Euro. The Company has entered into a cross-currency interest rate swap in connection with the issuance of the Euro Notes. See note 4 of the notes to consolidated financial statements included under Part I, Item 1 of this report for additional information, including a summary of the terms of the cross-currency interest rate swap associated with the Euro Notes and the related financial statement impact.

## Financial Statement Impact – Derivatives and Foreign Currency Transaction Adjustments

For a table summarizing the effect of derivative instruments in the consolidated statements of income, including the components of "derivative market value and foreign currency adjustments and derivative settlements, net" included in the consolidated statements of income, see note 4 of the notes to consolidated financial statements included under Part I, Item 1 of this report.

## ITEM 4. CONTROLS AND PROCEDURES

### Disclosure Controls and Procedures

Under supervision and with the participation of certain members of the Company's management, including the chief executive and chief financial officers, the Company completed an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures (as defined in SEC Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on this evaluation, the Company's principal executive and principal financial officers concluded that the disclosure controls and procedures were effective as of the end of the period covered by this report to provide reasonable assurance that information required to be disclosed in reports the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported, within the time periods specified in the SEC's rules and forms, and is accumulated and communicated to the Company's management, including the chief executive and chief financial officers, as appropriate to allow timely decisions regarding required disclosure.

### Changes in Internal Control over Financial Reporting

There was no change in the Company's internal control over financial reporting during the Company's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

There have been no material changes from the information set forth in the Legal Proceedings section of the Company's Annual Report on Form 10-K for the year ended December 31, 2015 under Item 3 of Part I of such Form 10-K.

### ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors described in the Company's Annual Report on Form 10-K for the year ended December 31, 2015 in response to Item 1A of Part I of such Form 10-K.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

## Stock Repurchases

The following table summarizes the repurchases of Class A common stock during the second quarter of 2016 by the Company or any “affiliated purchaser” of the Company, as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934. Certain share repurchases included in the table below were made pursuant to a trading plan adopted by the Company in accordance with Rule 10b5-1 under the Securities Exchange Act of 1934.

Period	Total number of shares purchased (a)	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs (b)	Maximum number of shares that may yet be purchased under the plans or programs (b)
April 1 - April 30, 2016	1,131	\$ 38.40	—	1,664,223
May 1 - May 31, 2016	—	—	—	5,000,000
June 1 - June 30, 2016	10,811	32.93	7,640	4,992,360
Total	11,942	\$ 33.45	7,640	

The total number of shares includes: (i) shares repurchased pursuant to the stock repurchase program discussed in footnote (b) below; and (ii) shares owned and tendered by employees to satisfy tax withholding obligations upon the vesting of restricted shares. Shares of Class A common stock tendered by employees to satisfy tax withholding obligations included 1,131 shares, 0 shares, and 3,171 shares in April, May, and June 2016, respectively. Unless otherwise indicated, shares owned and tendered by employees to satisfy tax withholding obligations were purchased at the closing price of the Company’s shares on the date of vesting.

On May 7, 2015, the Company announced that its Board of Directors had authorized a stock repurchase program to repurchase up to a total of five million shares of the Company's Class A common stock during the three-year period ending May 24, 2018. On August 4, 2016, the Company announced that its Board of Directors authorized a new stock repurchase program in May 2016 to repurchase up to a total of five million shares of the Company's Class A common stock during the three-year period ending May 25, 2019. The five million shares authorized under the new program include the remaining 1,644,223 un-repurchased shares from the prior program, which the new program replaced.

## Working capital and dividend restrictions/limitations

The Company’s credit facilities, including its revolving line of credit which is available through October 30, 2020, impose restrictions with respect to the Company’s minimum consolidated net worth, the ratio of the Company’s adjusted EBITDA to corporate debt interest, the amount of recourse indebtedness, and the amount of private education loans held by the Company. In addition, trust indentures and other financing agreements governing debt issued by the Company's education lending subsidiaries may have general limitations on the amounts of funds that can be transferred to the Company by its subsidiaries through cash dividends.

The supplemental indenture for the Company’s Hybrid Securities issued in September 2006 provides that so long as any Hybrid Securities remain outstanding, if the Company gives notice of its election to defer interest payments but

the related deferral period has not yet commenced or a deferral period is continuing, then the Company will not, and will not permit any of its subsidiaries to:

• declare or pay any dividends or distributions on, or redeem, purchase, acquire or make a liquidation payment regarding, any of the Company's capital stock.

• except as required in connection with the repayment of principal, and except for any partial payments of deferred interest that may be made through the alternative payment mechanism described in the Hybrid Securities indenture, make any payment of principal of, or interest or premium, if any, on, or repay, repurchase, or redeem any of the Company's debt securities that rank pari passu with or junior to the Hybrid Securities.

• make any guarantee payments regarding any guarantee by the Company of the subordinated debt securities of any of the Company's subsidiaries if the guarantee ranks pari passu with or junior in interest to the Hybrid Securities.

In addition, if any deferral period lasts longer than one year, the limitation on the Company's ability to redeem or repurchase any of its securities that rank pari passu with or junior in interest to the Hybrid Securities will continue until the first anniversary of the date on which all deferred interest has been paid or canceled.

If the Company is involved in a business combination where immediately after its consummation more than 50% of the surviving entity's voting stock is owned by the shareholders of the other party to the business combination, then the immediately preceding sentence will not apply to any deferral period that is terminated on the next interest payment date following the date of consummation of the business combination.

However, at any time, including during a deferral period, the Company will be permitted to:

pay dividends or distributions in additional shares of the Company's capital stock.

declare or pay a dividend in connection with the implementation of a shareholders' rights plan, or issue stock under such a plan, or redeem or repurchase any rights distributed pursuant to such a plan.

purchase common stock for issuance pursuant to any employee benefit plans.

#### ITEM 6. EXHIBITS

- 3.1 Articles of Amendment to Second Amended and Restated Articles of Incorporation of Nelnet, Inc., filed as Exhibit 3.1 to the registrant's Current Report on Form 8-K filed on May 31, 2016 and incorporated by reference herein.
- 3.2\* Composite Second Amended and Restated Articles of Incorporation of Nelnet, Inc. as amended.
- 31.1\* Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of Chief Executive Officer Jeffrey R. Noordhoek.
- 31.2\* Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of Chief Financial Officer James D. Kruger.
- 32\*\* Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS\* XBRL Instance Document

101.SCH\* XBRL Taxonomy Extension Schema Document

101.CAL\* XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF\* XBRL Taxonomy Extension Definition Linkbase Document

101.LAB\* XBRL Taxonomy Extension Label Linkbase Document

101.PRE\* XBRL Taxonomy Extension Presentation Linkbase Document

\* Filed herewith

\*\* Furnished herewith



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 thereunto duly authorized.

NELNET, INC.

Date: August 4, 2016 By: /s/ JEFFREY R. NOORDHOEK

Name: Jeffrey R. Noordhoek

Title: Chief Executive Officer

Title: Principal Executive Officer

By: /s/ JAMES D. KRUGER

Date: August 4, 2016 Name: James D. Kruger

Title: Chief Financial Officer

Title: Principal Financial Officer and Principal Accounting Officer