

NELNET INC
Form 10-Q/A
August 15, 2014

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

FORM 10-Q/A
AMENDMENT NO. 1

(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, 2014

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)

84-0748903
(I.R.S. Employer Identification No.)

121 SOUTH 13TH STREET
SUITE 100
LINCOLN, NEBRASKA
(Address of principal executive offices)

68508
(Zip Code)

(402) 458-2370
(Registrant's telephone number, including area 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 [X] 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 [X] No []

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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 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, 2014, there were 34,807,168 and 11,491,932 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).

EXPLANATORY NOTE

Nelnet, Inc. (the “Company”) is filing this Amendment No. 1 on Form 10-Q/A (the “Amendment”) to the Company’s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2014 that was originally filed on August 7, 2014 (the “Original Filing”), solely for the purpose of filing or furnishing the related certifications set forth as exhibit nos. 31.1, 31.2, and 32 in Part II, Item 6 of the Original Filing (collectively, the “Certifications”), which Certifications were inadvertently omitted from the Original Filing as a result of an administrative filing error. In accordance with Exchange Act Rules Compliance and Disclosure Interpretation 161.08 by the Division of Corporation Finance of the Securities and Exchange Commission, the entire quarterly report set forth in the Original Filing is re-filed with this Amendment, along with the currently dated Certifications filed or furnished herewith. Except as otherwise expressly set forth herein, this Amendment does not reflect events occurring after the date of the Original Filing, or modify or update those disclosures in the Original Filing that may be affected by subsequent events.

NELNET, INC.
FORM 10-Q
INDEX
June 30, 2014

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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, 2014 | As of December 31, 2013 |
|--|------------------------|-------------------------------|
| Assets: | | |
| Student loans receivable (net of allowance for loan losses of \$52,467 and \$55,122, respectively) | \$29,342,430 | 25,907,589 |
| Cash and cash equivalents: | | |
| Cash and cash equivalents - not held at a related party | 29,863 | 8,537 |
| Cash and cash equivalents - held at a related party | 62,236 | 54,730 |
| Total cash and cash equivalents | 92,099 | 63,267 |
| Investments | 141,489 | 192,040 |
| Restricted cash and investments | 862,034 | 735,123 |
| Restricted cash - due to customers | 98,005 | 167,576 |
| Accrued interest receivable | 360,075 | 314,553 |
| Accounts receivable (net of allowance for doubtful accounts of \$1,490 and \$3,845, respectively) | 58,321 | 56,072 |
| Goodwill | 126,200 | 117,118 |
| Intangible assets, net | 44,849 | 6,132 |
| Property and equipment, net | 35,498 | 33,829 |
| Other assets | 141,989 | 115,043 |
| Fair value of derivative instruments | 68,033 | 62,507 |
| Total assets | \$31,371,022 | 27,770,849 |
| Liabilities: | | |
| Bonds and notes payable | \$29,492,560 | 25,955,289 |
| Accrued interest payable | 24,339 | 21,725 |
| Other liabilities | 160,444 | 164,300 |
| Due to customers | 98,005 | 167,576 |
| Fair value of derivative instruments | 15,546 | 17,969 |
| Total liabilities | 29,790,894 | 26,326,859 |
| 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 34,859,786 shares and 34,881,338 shares, respectively | 349 | 349 |
| Class B, convertible, \$0.01 par value. Authorized 60,000,000 shares; issued and outstanding 11,491,932 shares and 11,495,377 shares, respectively | 115 | 115 |
| Additional paid-in capital | 20,721 | 24,887 |

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| | | |
|--|--------------|------------|
| Retained earnings | 1,552,988 | 1,413,492 |
| Accumulated other comprehensive earnings | 5,569 | 4,819 |
| Total Nelnet, Inc. shareholders' equity | 1,579,742 | 1,443,662 |
| Noncontrolling interest | 386 | 328 |
| Total equity | 1,580,128 | 1,443,990 |
| Total liabilities and equity | \$31,371,022 | 27,770,849 |

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

| | | |
|---|--------------|---------------|
| Student loans receivable | \$29,479,249 | 26,020,629 |
| Restricted cash and investments | 859,441 | 732,771 |
| Fair value of derivative instruments | 33,797 | 36,834 |
| Other assets | 358,646 | 313,748 |
| Bonds and notes payable | (29,778,096 |) (26,244,222 |
| Other liabilities | (335,992 |) (303,142 |
| Net assets of consolidated variable interest entities | \$617,045 | 556,618 |

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, | |
|--|--------------------------------|---------|------------------------------|----------|
| | 2014 | 2013 | 2014 | 2013 |
| Interest income: | | | | |
| Loan interest | \$175,466 | 158,063 | 332,362 | 313,602 |
| Investment interest | 1,482 | 1,483 | 3,461 | 3,100 |
| Total interest income | 176,948 | 159,546 | 335,823 | 316,702 |
| Interest expense: | | | | |
| Interest on bonds and notes payable | 69,235 | 58,127 | 129,239 | 116,485 |
| Net interest income | 107,713 | 101,419 | 206,584 | 200,217 |
| Less provision for loan losses | 1,500 | 5,000 | 4,000 | 10,000 |
| Net interest income after provision for loan losses | 106,213 | 96,419 | 202,584 | 190,217 |
| Other income: | | | | |
| Loan and guaranty servicing revenue | 66,460 | 60,078 | 131,217 | 115,679 |
| Tuition payment processing and campus commerce revenue | 21,834 | 18,356 | 47,069 | 41,767 |
| Enrollment services revenue | 20,145 | 24,823 | 42,156 | 53,780 |
| Other income | 15,315 | 12,288 | 33,446 | 21,704 |
| Gain on sale of loans and debt repurchases | 18 | 7,355 | 57 | 8,762 |
| Derivative market value and foreign currency adjustments and derivative settlements, net | 1,570 | 40,188 | (2,695 |) 41,260 |
| Total other income | 125,342 | 163,088 | 251,250 | 282,952 |
| Operating expenses: | | | | |
| Salaries and benefits | 53,888 | 47,432 | 106,372 | 95,337 |
| Cost to provide enrollment services | 13,311 | 16,787 | 27,786 | 36,429 |
| Depreciation and amortization | 5,214 | 4,320 | 9,997 | 8,697 |
| Other | 40,377 | 34,365 | 76,004 | 69,306 |
| Total operating expenses | 112,790 | 102,904 | 220,159 | 209,769 |
| Income before income taxes | 118,765 | 156,603 | 233,675 | 263,400 |

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| | | | | |
|---|------------|------------|------------|------------|
| Income tax expense | 43,078 | 54,746 | 83,689 | 93,193 |
| Net income | 75,687 | 101,857 | 149,986 | 170,207 |
| Net income attributable to noncontrolling interest | 693 | 614 | 1,206 | 885 |
| Net income attributable to Nelnet, Inc. | \$74,994 | 101,243 | 148,780 | 169,322 |
| Earnings per common share: | | | | |
| Net income attributable to Nelnet, Inc. shareholders - basic and diluted | \$1.61 | 2.17 | 3.20 | 3.63 |
| Weighted average common shares outstanding - basic and diluted | 46,529,377 | 46,626,853 | 46,528,651 | 46,642,356 |

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, | |
|---|--------------------------------|---------|------------------------------|----------|
| | 2014 | 2013 | 2014 | 2013 |
| Net income | \$75,687 | 101,857 | 149,986 | 170,207 |
| Other comprehensive income (loss): | | | | |
| Available-for-sale securities: | | | | |
| Unrealized holding gains (losses) arising during period, net | 5,826 | (3,335 |) 9,501 | 1,185 |
| Less reclassification adjustment for gains recognized in net income, net of losses | (1,238 |) (559 |) (8,311 |) (1,516 |
| Income tax effect | (1,698 |) 1,441 | (440 |) 115 |
| Total other comprehensive income (loss) | 2,890 | (2,453 |) 750 | (216 |
| Comprehensive income | 78,577 | 99,404 | 150,736 | 169,991 |
| Comprehensive income attributable to noncontrolling interest | 693 | 614 | 1,206 | 885 |
| Comprehensive income attributable to Nelnet, Inc. | \$77,884 | 98,790 | 149,530 | 169,106 |

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 | | Class A Preferred stock | Class B Common stock | Additional paid-in capital | Retained earnings | Accumulated other comprehensive earnings | Noncontrolling interest | Total equity |
|--|-----------------------------------|-----------------------------------|-------------------------------|----------------------------|----------------------------------|----------------------|---|----------------------------|-----------------|
| | Common stock Class A shares | Common stock Class B shares | | | | | | | |
| Balance as of March 31, 2013 | 35,029,341 | 11,495,377 | \$— 350 | 115 | 27,786 | 1,192,822 | 5,050 | 281 | 1,226,404 |
| Net income | — | — | — | — | — | 101,243 | — | 614 | 101,857 |
| Other comprehensive loss | — | — | — | — | — | — | (2,453) | — | (2,453) |
| Distribution to noncontrolling interest | — | — | — | — | — | — | — | (782) | (782) |
| Cash dividend on Class A and Class B common stock - \$0.10 per share | — | — | — | — | — | (4,649) | — | — | (4,649) |
| Issuance of common stock, net of forfeitures | 24,390 | — | — 1 | — | 694 | — | — | — | 695 |
| Compensation expense for stock based awards | — | — | — | — | 808 | — | — | — | 808 |
| Repurchase of common stock | (65,621) | — | — (1) | — | (2,284) | — | — | — | (2,285) |
| Balance as of June 30, 2013 | 34,988,110 | 11,495,377 | \$— 350 | 115 | 27,004 | 1,289,416 | 2,597 | 113 | 1,319,595 |
| Balance as of March 31, 2014 | 35,019,924 | 11,491,932 | \$— 350 | 115 | 27,138 | 1,482,637 | 2,679 | 755 | 1,513,674 |
| Net income | — | — | — | — | — | 74,994 | — | 693 | 75,687 |
| Other comprehensive income | — | — | — | — | — | — | 2,890 | — | 2,890 |
| Distribution to noncontrolling interest | — | — | — | — | — | — | — | (1,062) | (1,062) |
| Cash dividend on Class A and Class B common stock - \$0.10 per share | — | — | — | — | — | (4,643) | — | — | (4,643) |

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| | | | | | | | | |
|---|-------------|------------|--------|------------|-----------|--------|--------|-----------|
| Issuance of common stock, net of forfeitures | —49,802 | — | — 1 | — 882 | — | — | — | 883 |
| Compensation expense for stock based awards | — | — | — | — 1,135 | — | — | — | 1,135 |
| Repurchase of common stock | —(209,940) | — | — (2) | — (8,434) | — | — | — | (8,436) |
| Balance as of June 30, 2014 | —34,859,786 | 11,491,932 | \$—349 | 115 20,721 | 1,552,988 | 5,569 | 386 | 1,580,128 |
| Balance as of December 31, 2012 | —35,116,913 | 11,495,377 | \$—351 | 115 32,540 | 1,129,389 | 2,813 | 5 | 1,165,213 |
| Issuance of noncontrolling interest | — | — | — | — | — | — | 5 | 5 |
| Net income | — | — | — | — | 169,322 | — | 885 | 170,207 |
| Other comprehensive loss | — | — | — | — | — | (216) | — | (216) |
| Distribution to noncontrolling interest | — | — | — | — | — | — | (782) | (782) |
| Cash dividends on Class A and Class B common stock - \$0.20 per share | — | — | — | — | (9,295) | — | — | (9,295) |
| Issuance of common stock, net of forfeitures | —150,353 | — | — 2 | — 1,967 | — | — | — | 1,969 |
| Compensation expense for stock based awards | — | — | — | — 1,483 | — | — | — | 1,483 |
| Repurchase of common stock | —(279,156) | — | — (3) | — (8,986) | — | — | — | (8,989) |
| Balance as of June 30, 2013 | —34,988,110 | 11,495,377 | \$—350 | 115 27,004 | 1,289,416 | 2,597 | 113 | 1,319,595 |
| Balance as of December 31, 2013 | —34,881,338 | 11,495,377 | \$—349 | 115 24,887 | 1,413,492 | 4,819 | 328 | 1,443,990 |
| Issuance of noncontrolling interest | — | — | — | — | — | — | 201 | 201 |
| Net income | — | — | — | — | 148,780 | — | 1,206 | 149,986 |
| Other comprehensive | — | — | — | — | — | 750 | — | 750 |

| | | | | | | | | | | | |
|---|---|------------|------------|-----|------|----------|----------|-----------|----------|----------|-----------|
| income | | | | | | | | | | | |
| Distribution to noncontrolling interest | — | — | — | — | — | — | — | (1,349) | (1,349) | | |
| Cash dividends on Class A and Class B common stock - \$0.20 per share | — | — | — | — | — | (9,284) | — | — | (9,284) | | |
| Issuance of common stock, net of forfeitures | — | 205,507 | — | — | 2 | — | 3,126 | — | — | 3,128 | |
| Compensation expense for stock based awards | — | — | — | — | — | 2,010 | — | — | — | 2,010 | |
| Repurchase of common stock | — | (230,504) | — | — | (2) | — | (9,302) | — | — | (9,304) | |
| Conversion of common stock | — | 3,445 | (3,445) | — | — | — | — | — | — | — | |
| Balance as of June 30, 2014 | — | 34,859,786 | 11,491,932 | \$— | 349 | 115 | 20,721 | 1,552,988 | 5,569 | 386 | 1,580,128 |

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, | |
|--|------------------------------|--------------|
| | 2014 | 2013 |
| Net income attributable to Nelnet, Inc. | \$ 148,780 | 169,322 |
| Net income attributable to noncontrolling interest | 1,206 | 885 |
| Net income | 149,986 | 170,207 |
| 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 | 49,206 | 39,160 |
| Student loan discount accretion | (21,087) | (17,769) |
| Provision for loan losses | 4,000 | 10,000 |
| Derivative market value adjustment | (7,950) | (43,729) |
| Foreign currency transaction adjustment | (1,798) | (14,072) |
| Payments to terminate and/or amend derivative instruments, net of proceeds | — | (3,819) |
| Gain on sale of loans | — | (34) |
| Gain from debt repurchases | (57) | (8,728) |
| Gain from sales of available-for-sale securities, net | (8,311) | (1,516) |
| Deferred income tax expense | 5,653 | 21,244 |
| Non-cash compensation expense | 2,082 | 1,558 |
| Other | 2,885 | (27) |
| (Increase) decrease in accrued interest receivable | (3,567) | 10,980 |
| Increase in accounts receivable | (695) | (2,378) |
| Decrease in other assets | 1,383 | 566 |
| Increase (decrease) in accrued interest payable | 1,432 | (10) |
| Decrease in other liabilities | (16,690) | (8,447) |
| Net cash provided by operating activities | 156,472 | 153,186 |
| Cash flows from investing activities, net of acquisitions: | | |
| Purchases of student loans and student loan residual interests | (2,843,061) | (1,158,245) |
| Purchase of student loans from a related party | (175) | — |
| Net proceeds from student loan repayments, claims, capitalized interest, participations, and other | 1,712,350 | 1,393,949 |
| Proceeds from sale of student loans | 6 | 11,287 |
| Purchases of available-for-sale securities | (135,890) | (132,496) |
| Proceeds from sales of available-for-sale securities | 195,938 | 37,656 |
| Purchases of other investments | (27,011) | (3,893) |
| Repayments of notes and other receivables | 3,821 | — |
| Purchases of property and equipment, net | (9,022) | (9,558) |
| (Increase) decrease in restricted cash and investments, net | (27,247) | 135,735 |
| Business acquisitions, net of cash acquired | (45,583) | — |
| Net cash (used in) provided by investing activities | (1,175,874) | 274,435 |
| Cash flows from financing activities, net of borrowings assumed: | | |
| Payments on bonds and notes payable | (1,821,723) | (3,538,437) |
| Proceeds from issuance of bonds and notes payable | 2,901,639 | 3,143,612 |
| Payments of debt issuance costs | (12,241) | (11,485) |

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| | | | | |
|---|-------------|---|----------|---|
| Dividends paid | (9,284 |) | (9,295 |) |
| Repurchases of common stock | (9,304 |) | (8,989 |) |
| Proceeds from issuance of common stock | 295 | | 303 | |
| Issuance of noncontrolling interest | 201 | | 5 | |
| Distribution to noncontrolling interest | (1,349 |) | (782 |) |
| Net cash provided by (used in) financing activities | 1,048,234 | | (425,068 |) |
| Net increase in cash and cash equivalents | 28,832 | | 2,553 | |
| Cash and cash equivalents, beginning of period | 63,267 | | 66,031 | |
| Cash and cash equivalents, end of period | \$92,099 | | 68,584 | |
| Cash disbursements made for: | | | | |
| Interest | \$97,668 | | 100,292 | |
| Income taxes, net of refunds | \$83,706 | | 69,866 | |
| Noncash activity: | | | | |
| Investing activity - student loans and other assets acquired | \$2,571,997 | | \$— | |
| Financing activity - borrowings and other liabilities assumed in acquisition of student loans | \$2,444,874 | | \$— | |

Supplemental disclosures of noncash operating and investing activities regarding a business combination are contained in note 6.

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, 2014 and for the three and six months ended June 30, 2014 and 2013 have been prepared on the same basis as the audited consolidated financial statements for the year ended December 31, 2013 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, 2014 are not necessarily indicative of the results for the year ending December 31, 2014. 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, 2013 (the "2013 Annual Report").

2. Student Loans Receivable and Allowance for Loan Losses

Student loans receivable consisted of the following:

| | As of June 30, 2014 | As of December 31, 2013 |
|--|------------------------|----------------------------|
| Federally insured loans | | |
| Stafford and other | \$6,479,493 | 6,686,626 |
| Consolidation | 23,032,622 | 19,363,577 |
| Total | 29,512,115 | 26,050,203 |
| Non-federally insured loans | 67,670 | 71,103 |
| | 29,579,785 | 26,121,306 |
| Loan discount, net of unamortized loan premiums and deferred origination costs (a) | (184,888 |) (158,595 |
| Allowance for loan losses – federally insured loans | (40,921 |) (43,440 |
| Allowance for loan losses – non-federally insured loans | (11,546 |) (11,682 |
| | \$29,342,430 | 25,907,589 |

For loans purchased where there is evidence of credit deterioration since the origination of the loan, the Company records a credit discount, separate from the allowance for loan losses, which is non-accretable to interest income. Remaining discounts and premiums for purchased loans are recognized in interest income over the remaining estimated lives of the loans. The Company continues to evaluate credit losses associated with purchased loans (a) based on current information and changes in expectations to determine the need for any additional allowance for loan losses. At June 30, 2014 and December 31, 2013, "loan discount, net of unamortized loan premiums and deferred origination costs" included \$29.9 million and \$20.2 million, respectively, of non-accretable discount associated with purchased loans.

Student Loan Residual Interests

On April 25, 2014, the Company acquired the ownership interest in three Federal Family Education Loan Program ("FFEL Program" or "FFELP") student loan securitization trusts giving the Company rights to the residual interest in a

total of \$2.6 billion of securitized federally insured loans and related assets. The three trusts include loans funded to term with \$2.6 billion (par value) of notes payable that carry interest rates on a spread to LIBOR or are set and periodically reset via a "dutch auction".

The Company has consolidated these trusts on its consolidated balance sheet because management has determined the Company is the primary beneficiary of the trusts. Upon acquisition, the Company recorded all assets and liabilities of the trusts at fair value, resulting in the recognition of a student loan discount of \$68.7 million and a notes payable discount of \$163.7 million. These discounts will be accreted using the effective interest method over the lives of the underlying assets and liabilities. All other assets acquired and liabilities assumed (restricted cash, accrued interest receivable/payable, and other assets/liabilities) were recorded at cost, which approximates fair value.

Activity in the Allowance for Loan Losses

The provision for loan losses represents the periodic expense of maintaining an allowance appropriate 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, | |
|---|--------------------------------|---------|------------------------------|----------|
| | 2014 | 2013 | 2014 | 2013 |
| Balance at beginning of period | \$54,628 | 49,409 | 55,122 | 51,902 |
| Provision for loan losses: | | | | |
| Federally insured loans | 2,000 | 5,000 | 5,000 | 11,000 |
| Non-federally insured loans | (500) | — | (1,000) | (1,000) |
| Total provision for loan losses | 1,500 | 5,000 | 4,000 | 10,000 |
| Charge-offs: | | | | |
| Federally insured loans | (4,138) | (3,340) | (7,769) | (9,330) |
| Non-federally insured loans | (598) | (592) | (1,019) | (1,364) |
| Total charge-offs | (4,736) | (3,932) | (8,788) | (10,694) |
| Recoveries - non-federally insured loans | 339 | 442 | 710 | 810 |
| Purchase (sale) of federally insured loans, net | 150 | 275 | 250 | (1,943) |
| Transfer from repurchase obligation related to non-federally insured loans repurchased, net | 586 | 417 | 1,173 | 1,536 |
| Balance at end of period | \$52,467 | 51,611 | 52,467 | 51,611 |
| Allocation of the allowance for loan losses: | | | | |
| Federally insured loans | \$40,921 | 39,848 | 40,921 | 39,848 |
| Non-federally insured loans | 11,546 | 11,763 | 11,546 | 11,763 |
| Total allowance for loan losses | \$52,467 | 51,611 | 52,467 | 51,611 |

Repurchase Obligations

As of June 30, 2014, the Company had participated a cumulative amount of \$117.1 million (par value) of non-federally insured loans to third parties. Loans participated under these agreements 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. Per the terms of the servicing agreements, the Company's servicing operations are obligated to repurchase loans subject to the participation interests in the event such loans become 60 days or 90 days delinquent.

In addition, in 2011, the Company sold a portfolio of non-federally insured loans for proceeds of \$91.3 million (100% of par value). The Company retained credit risk related to this portfolio and will pay cash to purchase back any loans which become 60 days delinquent. As of June 30, 2014, the balance of this portfolio was \$58.9 million (par value).

The Company's estimate related to its obligation to repurchase these loans is included in "other liabilities" in the Company's consolidated balance sheets. The activity related to this accrual is detailed below.

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| | Three months ended June 30, | | Six months ended June 30, | |
|-------------------|-----------------------------|--------|---------------------------|----------|
| | 2014 | 2013 | 2014 | 2013 |
| Beginning balance | \$15,413 | 15,011 | 16,143 | 16,130 |
| Loans repurchased | (586 |) (417 |) (1,316 |) (1,536 |
| Ending balance | \$14,827 | 14,594 | 14,827 | 14,594 |

8

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 percent of non-federally insured loans that were delinquent 31 days or greater as of June 30, 2014, December 31, 2013, and June 30, 2013 was 12.6 percent, 12.7 percent, and 27.1 percent, respectively. The table below shows the Company's federally insured student loan delinquency amounts.

| | As of June 30, 2014 | | As of December 31, 2013 | | As of June 30, 2013 | |
|--------------------------------------|---------------------|---------|-------------------------|---------|---------------------|---------|
| Federally insured loans: | | | | | | |
| Loans in-school/grace/deferment | \$3,095,741 | | \$2,872,505 | | \$2,983,795 | |
| Loans in forbearance | 3,593,891 | | 3,370,025 | | 3,320,101 | |
| Loans in repayment status: | | | | | | |
| Loans current | 19,164,660 | 84.0 % | 16,337,922 | 82.5 % | 15,355,379 | 83.6 % |
| Loans delinquent 31-60 days | 1,026,046 | 4.5 | 967,318 | 4.9 | 776,577 | 4.2 |
| Loans delinquent 61-90 days | 674,918 | 3.0 | 550,333 | 2.8 | 531,339 | 2.9 |
| Loans delinquent 91-120 days | 376,068 | 1.5 | 390,791 | 2.0 | 291,732 | 1.6 |
| Loans delinquent 121-270 days | 1,133,527 | 5.0 | 1,117,936 | 5.6 | 1,016,571 | 5.5 |
| Loans delinquent 271 days or greater | 447,264 | 2.0 | 443,373 | 2.2 | 413,240 | 2.2 |
| Total loans in repayment | 22,822,483 | 100.0 % | 19,807,673 | 100.0 % | 18,384,838 | 100.0 % |
| Total federally insured loans | \$29,512,115 | | \$26,050,203 | | \$24,688,734 | |

3. Bonds and Notes Payable

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

| | As of June 30, 2014 | | |
|---|-------------------------|---------------------|---------------------|
| | Carrying amount | Interest rate range | Final maturity |
| Variable-rate bonds and notes issued in asset-backed securitizations: | | | |
| Bonds and notes based on indices | \$26,983,517 | 0.24% - 6.90% | 5/25/18 - 8/26/52 |
| Bonds and notes based on auction or remarketing | 1,562,325 | 0.06% - 2.09% | 5/1/28 - 11/26/46 |
| Total variable-rate bonds and notes | 28,545,842 | | |
| FFELP warehouse facilities | 1,139,750 | 0.15% - 0.25% | 1/17/16 - 6/11/17 |
| Unsecured line of credit | 65,000 | 1.65% | 6/30/19 |
| Unsecured debt - Junior Subordinated Hybrid Securities | 96,457 | 3.61% | 9/15/61 |
| Other borrowings | 63,068 | 1.66% - 5.10% | 10/31/14 - 11/11/15 |
| | 29,910,117 | | |
| Discount on bonds and notes payable | (417,557) | | |
| Total | \$29,492,560 | | |
| | As of December 31, 2013 | | |
| | Carrying amount | Interest rate range | Final maturity |
| Variable-rate bonds and notes issued in asset-backed securitizations: | | | |
| Bonds and notes based on indices | \$23,479,893 | 0.25% - 6.90% | 5/25/18 - 8/26/52 |
| Bonds and notes based on auction or remarketing | 1,134,250 | 0.07% - 2.17% | 5/1/28 - 11/26/46 |
| Total variable-rate bonds and notes | 24,614,143 | | |
| FFELP warehouse facilities | 1,396,344 | 0.17% - 0.25% | 1/17/16 - 6/12/16 |
| Unsecured line of credit | 45,000 | 1.67% | 3/28/18 |
| Unsecured debt - Junior Subordinated Hybrid Securities | 96,457 | 3.62% | 9/15/61 |
| Other borrowings | 61,401 | 1.67% - 5.10% | 4/11/14 - 11/11/15 |
| | 26,213,345 | | |
| Discount on bonds and notes payable | (258,056) | | |
| Total | \$25,955,289 | | |

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, 2014, the Company had three FFELP warehouse facilities as summarized below.

| | NHELP-III | NHELP-II | NFSLW-I (a) | Total |
|------------------------------------|------------------|--------------------|---------------|-----------|
| Maximum financing amount | \$750,000 | 500,000 | 500,000 | 1,750,000 |
| Amount outstanding | 659,668 | 92,803 | 387,279 | 1,139,750 |
| Amount available | \$90,332 | 407,197 | 112,721 | 610,250 |
| Expiration of liquidity provisions | February 5, 2015 | September 30, 2014 | June 11, 2015 | |
| Final maturity date | January 17, 2016 | September 30, 2016 | June 11, 2017 | |
| Maximum advance rates | 92.2 - 95.0% | 84.5 - 94.5% | 92.0 - 98.0% | |
| Minimum advance rates | 92.2 - 95.0% | 84.5 - 94.5% | 84.0 - 90.0% | |
| Advanced as equity support | \$39,496 | 8,264 | 18,870 | 66,630 |

(a) On April 15, 2014, the Company amended the agreement for this warehouse facility to temporarily increase the maximum financing amount to \$1.0 billion, change the expiration date for the liquidity provisions to June 11, 2015, and change the maturity date to June 11, 2017. As a result of the completion of the 2014-3 asset-backed securitization summarized in the table below, on April 30, 2014, the Company determined that it no longer needed the increased capacity on this warehouse facility, and the \$500.0 million temporary increase was terminated on May 22, 2014.

Asset-backed Securitizations

The following table summarizes the asset-backed securitization transactions completed during the six months ended June 30, 2014.

| | 2014-1 | 2014-2 | | 2014-3 | | 2014-4 | | 2014- | | |
|---------------------------------|-----------|-----------|-----------|-----------|---------|---------|-----------|-----------|---------|---------|
| | | Class A-1 | Class A-2 | Class A-3 | 2014-2 | | Class A-1 | Class A-2 | 2014-4 | |
| | | notes | notes | notes | total | | notes | notes | total | |
| Date securities issued | 2/6/14 | 3/12/14 | 3/12/14 | 3/12/14 | 3/12/14 | 4/30/14 | 5/23/14 | 5/23/14 | 5/23/14 | 6/18/14 |
| Total original principal amount | \$458,500 | | | | 509,000 | 719,800 | | | 384,500 | 603,000 |
| Class A senior notes: | | | | | | | | | | |
| Total original principal amount | \$445,000 | 191,000 | 222,000 | 84,000 | 497,000 | 700,700 | 267,500 | 107,500 | 375,000 | 587,000 |
| Bond discount | — | — | — | (535) | (535) | — | — | — | — | — |
| Issue price | \$445,000 | 191,000 | 222,000 | 83,465 | 496,465 | 700,700 | 267,500 | 107,500 | 375,000 | 587,000 |
| | 0.57 | % 0.28 | % 0.60 | % 0.85 | % | 0.58 | % 0.54 | % 0.95 | % | 0.55 |

Cost of funds
(1-month
LIBOR
plus:)

| | | | | | | | | |
|---------------------|---------|---------|---------|---------|---------|----------|----------|--------|
| Final maturity date | 9/25/41 | 6/25/21 | 3/25/30 | 7/27/37 | 6/25/41 | 11/27/34 | 11/25/43 | 7/25/4 |
|---------------------|---------|---------|---------|---------|---------|----------|----------|--------|

Class B
subordinated
notes:

| | | | | | | | | |
|---------------------------------|----------|--|--|--------|--------|--|-------|--------|
| Total original principal amount | \$13,500 | | | 12,000 | 19,100 | | 9,500 | 16,000 |
|---------------------------------|----------|--|--|--------|--------|--|-------|--------|

| | | | | | | | | |
|---------------|----------|--|--|----------|----------|--|----------|----------|
| Bond discount | (1,132) | | | (1,046) | (1,467) | | (1,138) | (1,230) |
|---------------|----------|--|--|----------|----------|--|----------|----------|

| | | | | | | | | |
|-------------|----------|--|--|--------|--------|--|-------|--------|
| Issue price | \$12,368 | | | 10,954 | 17,633 | | 8,362 | 14,760 |
|-------------|----------|--|--|--------|--------|--|-------|--------|

| | | | | | | | | |
|-------------------------------------|--------|--|--|--------|--------|--|--------|--------|
| Cost of funds (1-month LIBOR plus:) | 1.50 % | | | 1.50 % | 1.50 % | | 1.50 % | 1.50 % |
|-------------------------------------|--------|--|--|--------|--------|--|--------|--------|

| | | | | | | | | |
|---------------------|----------|--|--|---------|----------|--|---------|--------|
| Final maturity date | 10/25/47 | | | 6/25/41 | 10/25/50 | | 9/25/51 | 5/25/4 |
|---------------------|----------|--|--|---------|----------|--|---------|--------|

Unsecured Line of Credit

On June 30, 2014, the Company's unsecured line of credit was amended to increase the line of credit from \$275.0 million to \$350.0 million and extend the maturity date from March 28, 2018 to June 30, 2019. In addition, the amendment revised certain covenants related to maintenance of a minimum consolidated net worth, limitations on recourse indebtedness and liens, and a limitation on the amount of non-federally insured student loans in the Company's portfolio. As of June 30, 2014, the \$350.0 million unsecured line of credit had an outstanding balance of \$65.0 million and \$285.0 million available for future use.

Debt Repurchases

The Company repurchased \$0.2 million (par value) and \$56.4 million (par value) of its own asset-backed debt securities during the three months ended June 30, 2014 and 2013, respectively, and recognized gains on such purchases of approximately \$18,000 and \$7.4 million, respectively. During the six months ended June 30, 2014 and 2013, the Company repurchased \$1.6 million (par value) and \$69.4 million (par value), respectively, of its own asset-backed debt securities and recognized gains on such purchases of approximately \$57,000 and \$8.7 million, respectively.

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 6 of the notes to consolidated financial statements included in the 2013 Annual Report. A tabular presentation of such derivatives outstanding as of June 30, 2014 and December 31, 2013 is presented below.

Basis Swaps

The following table summarizes the Company's basis swaps outstanding as of June 30, 2014 and December 31, 2013 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").

| Maturity | | Notional amount | |
|----------|-----|-----------------|-----|
| 2021 | | \$250,000 | |
| 2022 | | 1,900,000 | |
| 2023 | | 3,650,000 | |
| 2024 | | 250,000 | |
| 2026 | | 800,000 | |
| 2028 | | 100,000 | |
| 2036 | | 700,000 | |
| 2039 | (a) | 150,000 | |
| 2040 | (b) | 200,000 | |
| | | \$8,000,000 | (c) |

(a) This derivative has a forward effective start date in 2015.

(b) This derivative has a forward effective start date in 2020.

(c) The weighted average rate paid by the Company on the 1:3 Basis Swaps as of June 30, 2014 and December 31, 2013 was one-month LIBOR plus 3.5 basis points.

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, 2014 and December 31, 2013.

| Maturity | As of June 30, 2014 | | As of December 31, 2013 | | |
|----------|---------------------|---|-------------------------|---|---|
| | Notional amount | Weighted average fixed rate paid by the Company (a) | Notional amount | Weighted average fixed rate paid by the Company (a) | |
| 2014 | \$1,250,000 | 0.67 | % \$1,750,000 | 0.71 | % |
| 2015 | 1,100,000 | 0.89 | 1,100,000 | 0.89 | |
| 2016 | 750,000 | 0.85 | 750,000 | 0.85 | |
| 2017 | 1,250,000 | 0.86 | 1,250,000 | 0.86 | |
| | \$4,350,000 | 0.81 | % \$4,850,000 | 0.81 | % |

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

Interest Rate Swaps – Unsecured Debt Hedges

The Company had the following derivatives outstanding as of June 30, 2014 and December 31, 2013 that are used to effectively convert the variable interest rate on a portion of the Junior Subordinated Hybrid Securities ("Hybrid Securities") to a fixed rate.

| 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.

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, | |
|--|-----------------------------|-----------|---------------------------|-----------|
| | 2014 | 2013 (b) | 2014 | 2013 (b) |
| Re-measurement of Euro Notes | \$2,751 | (14,691) | 1,798 | 14,072 |
| Change in fair value of cross-currency interest rate swaps | (2,999) | 14,748 | (3,037) | (20,096) |
| Total impact to consolidated statements of income - income (expense) (a) | \$(248) | 57 | (1,239) | (6,024) |

(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.

(b) The 2013 operating results include the re-measurement of an additional €420.5 million of student loan asset-backed Euro notes and the change in fair value of a related cross-currency interest rate swap entered into in connection with the issuance of such notes. In November 2013, the principal amount outstanding on the notes was changed to U.S. dollars and the cross-currency interest swap was terminated.

The re-measurement of the Euro-denominated bonds generally correlates with the change in fair value of the corresponding cross-currency interest rate swap. However, the Company will experience unrealized gains or losses related to the cross-currency interest rate swap if the two underlying indices (and related forward curve) do not move in parallel.

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, 2014 | As of December 31, 2013 | As of June 30, 2014 | As of December 31, 2013 |
| 1:3 basis swaps | \$31,510 | 18,490 | — | — |
| Interest rate swaps - floor income hedges | 2,726 | 7,183 | 10,849 | 15,849 |
| Interest rate swaps - hybrid debt hedges | — | — | 4,697 | 2,120 |
| Cross-currency interest rate swap | 33,797 | 36,834 | — | — |
| Total | \$68,033 | 62,507 | 15,546 | 17,969 |

During the six months ended June 30, 2013, the Company terminated certain derivatives for gross proceeds and payments of \$2.7 million and \$6.5 million, respectively. There were no derivative terminations during the first six months of 2014.

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:

| | | Gross amounts not offset in the consolidated balance sheets | | |
|---------------------------------|---|---|--------------------------|-----------------------|
| Derivative assets | Gross amounts of recognized assets presented in the consolidated balance sheets | Derivatives subject to enforceable master netting arrangement | Cash collateral received | Net asset (liability) |
| Balance as of June 30, 2014 | \$68,033 | (15,546 |) (323 |) 52,164 |
| Balance as of December 31, 2013 | 62,507 | (15,437 |) (15,959 |) 31,111 |

| | | 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 enforceable master netting arrangement | Cash collateral pledged | Net asset (liability) |
| Balance as of June 30, 2014 | \$(15,546 |) 15,546 | — | — |
| Balance as of December 31, 2013 | (17,969 |) 15,437 | 3,630 | 1,098 |

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, | |
|---|-----------------------------|----------|---------------------------|-----------|
| | 2014 | 2013 | 2014 | 2013 |
| Settlements: | | | | |
| 1:3 basis swaps | \$858 | 782 | 1,739 | 1,692 |
| Interest rate swaps - floor income hedges | (6,974 |) (8,534 |) (13,924 |) (16,839 |
| Interest rate swaps - hybrid debt hedges | (256 |) (512 |) (508 |) (1,157 |
| Cross-currency interest rate swaps | 158 | (93 |) 250 | (237 |
| Total settlements - expense | (6,214 |) (8,357 |) (12,443 |) (16,541 |
| Change in fair value: | | | | |
| 1:3 basis swaps | 11,910 | 9,630 | 13,020 | 11,563 |
| Interest rate swaps - floor income hedges | (2,813 |) 33,408 | 545 | 42,830 |
| Interest rate swaps - hybrid debt hedges | (1,065 |) 5,450 | (2,578 |) 9,090 |
| Cross-currency interest rate swaps | (2,999 |) 14,748 | (3,037 |) (20,096 |
| Other | — | — | — | 342 |
| Total change in fair value - income (expense) | 5,033 | 63,236 | 7,950 | 43,729 |
| Re-measurement of Euro Notes (foreign currency transaction adjustment) - income (expense) | 2,751 | (14,691 |) 1,798 | 14,072 |
| Derivative market value and foreign currency adjustments and derivative settlements, net - income (expense) | \$1,570 | 40,188 | (2,695 |) 41,260 |

5. Investments

A summary of the Company's investments and restricted investments follows:

| | As of June 30, 2014 | | | | As of December 31, 2013 | | | |
|---|---------------------|------------------------|-----------------------------|------------|-------------------------|------------------------|-------------------------|------------|
| | Amortized cost | Gross unrealized gains | Gross unrealized losses (a) | Fair value | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value |
| Investments: | | | | | | | | |
| Available-for-sale investments: | | | | | | | | |
| Student loan asset-backed and other debt securities (b) | \$ 124,556 | 7,090 | (212) | 131,434 | 171,931 | 7,111 | (1,241) | 177,801 |
| Equity securities | 1,527 | 1,969 | (7) | 3,489 | 1,502 | 1,783 | (3) | 3,282 |
| Total available-for-sale investments | \$ 126,083 | 9,059 | (219) | 134,923 | 173,433 | 8,894 | (1,244) | 181,083 |
| Trading investments: | | | | | | | | |
| Student loan asset-backed and other debt securities | | | | 6,566 | | | | 10,957 |
| Total available-for-sale and trading investments | | | | \$ 141,489 | | | | 192,040 |
| Restricted Investments (c): | | | | | | | | |
| Guaranteed investment contracts - held-to-maturity | | | | \$ 6,921 | | | | 7,285 |

(a) As of June 30, 2014, 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, 2014, 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.

(c) Restricted investments are included in "restricted cash and investments" in the Company's consolidated balance sheets.

The amounts reclassified from accumulated other comprehensive income related to the realized gains and losses on available-for-sale-securities is summarized below.

| Affected line item in the consolidated statements of income - income (expense): | Three months ended June 30, | | Six months ended June 30, | |
|---|-----------------------------|--------|---------------------------|--------|
| | 2014 | 2013 | 2014 | 2013 |
| Other income | \$ 1,238 | 559 | 8,311 | 1,516 |
| Income tax expense | (458) | (207) | (3,075) | (561) |
| Net | \$ 780 | 352 | 5,236 | 955 |

6. Business Combination

The Company uses the acquisition method in accounting for acquired businesses. Under the acquisition method, the financial statements reflect the operations of an acquired business starting from the completion of the acquisition. The assets acquired and liabilities assumed are recorded at their respective estimated fair values at the date of acquisition. Any excess of the purchase price over the estimated fair values of the identifiable net assets acquired is recorded as goodwill. All contingent consideration is measured at fair value on the acquisition date and included in the consideration transferred in the acquisition. Contingent consideration classified as a liability is remeasured to fair

value at each reporting date until the contingency is resolved, and changes in fair value are recognized in earnings.

Wilcomp Software, L.P. (d.b.a. RenWeb School Management Software) (“RenWeb”)

On June 3, 2014, the Company purchased 100 percent of the ownership interests of RenWeb. RenWeb provides school information systems for private and faith-based schools that help schools automate administrative processes such as admissions, scheduling, student billing, attendance, and grade book management. The combination of RenWeb’s school administration software and the Company’s tuition management and financial needs assessment services are expected to significantly increase the value of the Company’s offerings in this area, allowing the Company to deliver a comprehensive suite of solutions to schools.

The initial consideration paid by the Company for RenWeb was \$44.0 million. In addition to the initial purchase price, additional payments are to be paid by the Company to the former owners of RenWeb based on certain operating results and other performance

measures of RenWeb as defined in the purchase agreement. The contingent payments, if any, are payable when earned and the potential undiscounted amount of all future payments that the Company could be required to make under the contingent consideration arrangement is between \$0 and \$4.0 million. Such payments, if any, will be paid no later than January 2017. As of the acquisition date, the Company had accrued \$2.3 million as additional consideration, which represents the estimated fair value of the contingent consideration arrangement.

The following table summarizes the initial estimated fair values of the assets acquired and liabilities assumed at the acquisition date. The fair values of the assets and liabilities related to RenWeb are subject to refinement as the Company completes its analysis relative to the fair values at the date of acquisition.

| | | |
|---|----------|---|
| Cash and cash equivalents | \$ 326 | |
| Accounts receivable | 961 | |
| Property and equipment | 105 | |
| Other assets | 22 | |
| Intangible assets | 37,188 | |
| Excess cost over fair value of net assets acquired (goodwill) | 9,082 | |
| Other liabilities | (1,341) |) |
| Net assets acquired | \$46,343 | |

The \$37.2 million of acquired intangible assets on the date of acquisition had a weighted-average useful life of approximately 18 years. The intangible assets that made up this amount included customer relationships of \$25.5 million (20-year useful life), trade name of \$6.4 million (20-year useful life), computer software of \$4.9 million (5-year useful life), and non-competition agreements of \$0.4 million (10-year useful life).

The \$9.1 million of goodwill was assigned to the Tuition Payment Processing and Campus Commerce operating segment and is expected to be deductible for tax purposes. The amount allocated to goodwill was primarily attributable to anticipated synergies as discussed previously.

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

7. Intangible Assets

Intangible assets consist of the following:

| | Weighted average remaining useful life as of June 30, 2014 (months) | As of June 30, 2014 | As of December 31, 2013 |
|---|--|------------------------|-------------------------------|
| Amortizable intangible assets: | | | |
| Customer relationships (net of accumulated amortization of \$21,595 and \$19,821, respectively) | 223 | \$ 29,884 | 6,132 |
| Computer software (net of accumulated amortization of \$634 and \$0, respectively) | 47 | 8,231 | — |
| Trade names (net of accumulated amortization of \$39 and \$0, respectively) | 239 | 6,383 | — |
| Covenants not to compete (net of accumulated amortization of \$3 and \$0, respectively) | 119 | 351 | — |
| Total - amortizable intangible assets | 192 | \$44,849 | 6,132 |

The Company recorded amortization expense on its intangible assets of \$1.4 million and \$0.8 million during the three months ended June 30, 2014 and 2013, respectively, and \$2.4 million and \$1.7 million during the six months ended June 30, 2014 and 2013, respectively. The Company will continue to amortize intangible assets over their remaining useful lives. As of June 30, 2014 the Company estimates it will record amortization expense as follows:

| | |
|---------------------|----------|
| 2014 (Q3 - Q4) | \$2,843 |
| 2015 | 6,402 |
| 2016 | 5,982 |
| 2017 | 4,406 |
| 2018 | 4,000 |
| 2019 and thereafter | 21,216 |
| | \$44,849 |

8. Goodwill

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

| | Student Loan and Guaranty Servicing | Tuition Payment Processing and Campus Commerce | Enrollment Services | Asset Generation and Management | Total |
|-------------------------------------|---|--|------------------------|---------------------------------------|---------|
| Balance as of December 31, 2013 | \$8,596 | 58,086 | 8,553 | 41,883 | 117,118 |
| Goodwill acquired during the period | — | 9,082 | — | — | 9,082 |
| Balance as of June 30, 2014 | \$8,596 | 67,168 | 8,553 | 41,883 | 126,200 |

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, 2014 | | | 2013 | | |
|--|-------------------------------------|---|------------|------------------------|---|------------|
| | Common shareholders | Unvested restricted stock shareholders | Total | Common shareholders | Unvested restricted stock shareholders | Total |
| Numerator: | | | | | | |
| Net income attributable to Nelnet, Inc. | \$ 74,263 | 731 | 74,994 | 100,339 | 904 | 101,243 |
| Denominator: | | | | | | |
| Weighted-average common shares outstanding - basic and diluted | 46,075,869 | 453,508 | 46,529,377 | 46,210,571 | 416,282 | 46,626,853 |
| Earnings per share - basic and diluted | \$ 1.61 | 1.61 | 1.61 | 2.17 | 2.17 | 2.17 |
| | Six months ended June 30, 2014 | | | 2013 | | |
| | Common shareholders | Unvested restricted stock shareholders | Total | Common shareholders | Unvested restricted stock shareholders | Total |
| Numerator: | | | | | | |
| Net income attributable to Nelnet, Inc. | \$ 147,388 | 1,392 | 148,780 | 167,868 | 1,454 | 169,322 |
| Denominator: | | | | | | |
| Weighted-average common shares outstanding - basic and diluted | 46,093,314 | 435,337 | 46,528,651 | 46,241,277 | 401,079 | 46,642,356 |
| Earnings per share - basic and diluted | \$ 3.20 | 3.20 | 3.20 | 3.63 | 3.63 | 3.63 |

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 13 of the notes to consolidated financial statements included in the 2013 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.

Three months ended June 30, 2014

Fee-Based

| | Student Loan and Guaranty Servicing | Tuition Payment Processing and Campus Commerce | Enrollment Services | Total Fee- Based | Asset Generation and Management | Corporate Activity and Overhead | Eliminations | Total |
|---|--|---|------------------------|------------------------|--|--|--------------|----------|
| Total interest income | \$9 | 3 | — | 12 | 175,562 | 2,036 | (662) | 176,948 |
| Interest expense | — | — | — | — | 67,936 | 1,961 | (662) | 69,235 |
| Net interest income | 9 | 3 | — | 12 | 107,626 | 75 | — | 107,713 |
| Less provision for loan losses | — | — | — | — | 1,500 | — | — | 1,500 |
| Net interest income after provision for loan losses | 9 | 3 | — | 12 | 106,126 | 75 | — | 106,213 |
| Other income: | | | | | | | | |
| Loan and guaranty servicing revenue | 66,460 | — | — | 66,460 | — | — | — | 66,460 |
| Intersegment servicing revenue | 13,800 | — | — | 13,800 | — | — | (13,800) | — |
| Tuition payment processing and campus commerce revenue | — | 21,834 | — | 21,834 | — | — | — | 21,834 |
| Enrollment services revenue | — | — | 20,145 | 20,145 | — | — | — | 20,145 |
| Other income | — | — | — | — | 4,496 | 10,819 | — | 15,315 |
| Gain on sale of loans and debt repurchases | — | — | — | — | 18 | — | — | 18 |
| Derivative market value and foreign currency adjustments, net | — | — | — | — | 8,848 | (1,064) | — | 7,784 |
| Derivative settlements, net | — | — | — | — | (5,958) | (256) | — | (6,214) |
| Total other income | 80,260 | 21,834 | 20,145 | 122,239 | 7,404 | 9,499 | (13,800) | 125,342 |
| Operating expenses: | | | | | | | | |
| Salaries and benefits | 33,093 | 11,112 | 4,132 | 48,337 | 570 | 4,981 | — | 53,888 |
| Cost to provide enrollment services | — | — | 13,311 | 13,311 | — | — | — | 13,311 |
| Depreciation and amortization | 2,819 | 1,845 | 41 | 4,705 | — | 509 | — | 5,214 |
| Other | 19,815 | 2,956 | 1,844 | 24,615 | 8,845 | 6,917 | — | 40,377 |
| Intersegment expenses, net | 1,124 | 1,404 | 944 | 3,472 | 13,968 | (3,640) | (13,800) | — |

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| | | | | | | | | |
|--|----------|----------|--------|----------|-----------|-------|-----------|-----------|
| Total operating expenses | 56,851 | 17,317 | 20,272 | 94,440 | 23,383 | 8,767 | (13,800) | 112,790 |
| Income before income taxes and corporate overhead allocation | 23,418 | 4,520 | (127) | 27,811 | 90,147 | 807 | — | 118,765 |
| Corporate overhead allocation | (2,060) | (687) | (687) | (3,434) | (1,249) | 4,683 | — | — |
| Income before income taxes | 21,358 | 3,833 | (814) | 24,377 | 88,898 | 5,490 | — | 118,765 |
| Income tax (expense) benefit | (8,116) | (1,456) | 309 | (9,263) | (33,781) | (34) | — | (43,078) |
| Net income | 13,242 | 2,377 | (505) | 15,114 | 55,117 | 5,456 | — | 75,687 |
| Net income attributable to noncontrolling interest | — | — | — | — | — | 693 | — | 693 |
| Net income attributable to Nelnet, Inc. | \$13,242 | 2,377 | (505) | 15,114 | 55,117 | 4,763 | — | 74,994 |

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Three months ended June 30, 2013

Fee-Based

| | Student Loan and Guaranty Servicing | Tuition Payment Processing and Campus Commerce | Enrollment Services | Total Fee- Based | Asset Generation and Management | Corporate Activity and Overhead | Eliminations | Total |
|---|--|---|------------------------|------------------------|--|--|--------------|----------|
| Total interest income | \$9 | — | — | 9 | 158,175 | 2,196 | (834) | 159,546 |
| Interest expense | — | — | — | — | 56,920 | 2,041 | (834) | 58,127 |
| Net interest income | 9 | — | — | 9 | 101,255 | 155 | — | 101,419 |
| Less provision for loan losses | — | — | — | — | 5,000 | — | — | 5,000 |
| Net interest income after provision for loan losses | 9 | — | — | 9 | 96,255 | 155 | — | 96,419 |
| Other income: | | | | | | | | |
| Loan and guaranty servicing revenue | 60,078 | — | — | 60,078 | — | — | — | 60,078 |
| Intersegment servicing revenue | 13,903 | — | — | 13,903 | — | — | (13,903) | — |
| Tuition payment processing and campus commerce revenue | — | 18,356 | — | 18,356 | — | — | — | 18,356 |
| Enrollment services revenue | — | — | 24,823 | 24,823 | — | — | — | 24,823 |
| Other income | — | — | — | — | 3,030 | 9,258 | — | 12,288 |
| Gain on sale of loans and debt repurchases | — | — | — | — | 7,355 | — | — | 7,355 |
| Derivative market value and foreign currency adjustments, net | — | — | — | — | 43,096 | 5,449 | — | 48,545 |
| Derivative settlements, net | — | — | — | — | (7,845) | (512) | — | (8,357) |
| Total other income | 73,981 | 18,356 | 24,823 | 117,160 | 45,636 | 14,195 | (13,903) | 163,088 |
| Operating expenses: | | | | | | | | |
| Salaries and benefits | 28,091 | 9,427 | 4,809 | 42,327 | 592 | 4,513 | — | 47,432 |
| Cost to provide enrollment services | — | — | 16,787 | 16,787 | — | — | — | 16,787 |
| Depreciation and amortization | 2,731 | 1,132 | 61 | 3,924 | — | 396 | — | 4,320 |
| Other | 18,031 | 2,192 | 1,243 | 21,466 | 7,923 | 4,976 | — | 34,365 |
| Intersegment expenses, net | 851 | 1,494 | 1,130 | 3,475 | 14,108 | (3,680) | (13,903) | — |
| Total operating expenses | 49,704 | 14,245 | 24,030 | 87,979 | 22,623 | 6,205 | (13,903) | 102,904 |
| Income before income taxes and corporate overhead allocation | 24,286 | 4,111 | 793 | 29,190 | 119,268 | 8,145 | — | 156,603 |

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| | | | | | | | | |
|--|----------|----------|--------|-----------|-----------|--------|---|-----------|
| Corporate overhead allocation | (1,513) | (504) | (504) | (2,521) | (1,081) | 3,602 | — | — |
| Income before income taxes | 22,773 | 3,607 | 289 | 26,669 | 118,187 | 11,747 | — | 156,603 |
| Income tax (expense) benefit | (8,655) | (1,370) | (109) | (10,134) | (44,911) | 299 | — | (54,746) |
| Net income | 14,118 | 2,237 | 180 | 16,535 | 73,276 | 12,046 | — | 101,857 |
| Net income attributable to noncontrolling interest | — | — | — | — | — | 614 | — | 614 |
| Net income attributable to Nelnet, Inc. | \$14,118 | 2,237 | 180 | 16,535 | 73,276 | 11,432 | — | 101,243 |

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Six months ended June 30, 2014

Fee-Based

| | Student Loan and Guaranty Servicing | Tuition Payment Processing and Campus Commerce | Enrollment Services | Total Fee- Based | Asset Generation and Management | Corporate Activity and Overhead | Eliminations | Total |
|---|--|---|------------------------|------------------------|--|--|--------------|-----------|
| Total interest income | \$20 | 3 | — | 23 | 332,565 | 4,694 | (1,459) | 335,823 |
| Interest expense | — | — | — | — | 127,412 | 3,286 | (1,459) | 129,239 |
| Net interest income | 20 | 3 | — | 23 | 205,153 | 1,408 | — | 206,584 |
| Less provision for loan losses | — | — | — | — | 4,000 | — | — | 4,000 |
| Net interest income after provision for loan losses | 20 | 3 | — | 23 | 201,153 | 1,408 | — | 202,584 |
| Other income: | | | | | | | | |
| Loan and guaranty servicing revenue | 131,217 | — | — | 131,217 | — | — | — | 131,217 |
| Intersegment servicing revenue | 28,021 | — | — | 28,021 | — | — | (28,021) | — |
| Tuition payment processing and campus commerce revenue | — | 47,069 | — | 47,069 | — | — | — | 47,069 |
| Enrollment services revenue | — | — | 42,156 | 42,156 | — | — | — | 42,156 |
| Other income | — | — | — | — | 8,660 | 24,786 | — | 33,446 |
| Gain on sale of loans and debt repurchases | — | — | — | — | 57 | — | — | 57 |
| Derivative market value and foreign currency adjustments, net | — | — | — | — | 12,325 | (2,577) | — | 9,748 |
| Derivative settlements, net | — | — | — | — | (11,935) | (508) | — | (12,443) |
| Total other income | 159,238 | 47,069 | 42,156 | 248,463 | 9,107 | 21,701 | (28,021) | 251,250 |
| Operating expenses: | | | | | | | | |
| Salaries and benefits | 65,400 | 21,139 | 8,512 | 95,051 | 1,179 | 10,142 | — | 106,372 |
| Cost to provide enrollment services | — | — | 27,786 | 27,786 | — | — | — | 27,786 |
| Depreciation and amortization | 5,608 | 3,273 | 88 | 8,969 | — | 1,028 | — | 9,997 |
| Other | 38,267 | 5,603 | 3,293 | 47,163 | 15,991 | 12,850 | — | 76,004 |
| Intersegment expenses, net | 2,207 | 2,824 | 1,950 | 6,981 | 28,339 | (7,299) | (28,021) | — |
| Total operating expenses | 111,482 | 32,839 | 41,629 | 185,950 | 45,509 | 16,721 | (28,021) | 220,159 |
| Income before income taxes and corporate overhead allocation | 47,776 | 14,233 | 527 | 62,536 | 164,751 | 6,388 | — | 233,675 |

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| | | | | | | | | |
|--|-----------|----------|----------|-----------|-----------|--------|---|-----------|
| Corporate overhead allocation | (3,920) | (1,307) | (1,307) | (6,534) | (2,578) | 9,112 | — | — |
| Income before income taxes | 43,856 | 12,926 | (780) | 56,002 | 162,173 | 15,500 | — | 233,675 |
| Income tax (expense) benefit | (16,665) | (4,911) | 296 | (21,280) | (61,625) | (784) | — | (83,689) |
| Net income | 27,191 | 8,015 | (484) | 34,722 | 100,548 | 14,716 | — | 149,986 |
| Net income attributable to noncontrolling interest | — | — | — | — | — | 1,206 | — | 1,206 |
| Net income attributable to Nelnet, Inc. | \$27,191 | 8,015 | (484) | 34,722 | 100,548 | 13,510 | — | 148,780 |

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Six months ended June 30, 2013

Fee-Based

| | Student Loan and Guaranty Servicing | Tuition Payment Processing and Campus Commerce | Enrollment Services | Total Fee- Based | Asset Generation and Management | Corporate Activity and Overhead | Eliminations | Total |
|---|--|---|------------------------|------------------------|--|--|--------------|---------|
| Total interest income | \$ 19 | — | — | 19 | 313,829 | 4,507 | (1,653) | 316,702 |
| Interest expense | — | — | — | — | 114,402 | 3,736 | (1,653) | 116,485 |
| Net interest income | 19 | — | — | 19 | 199,427 | 771 | — | 200,217 |
| Less provision for loan losses | — | — | — | — | 10,000 | — | — | 10,000 |
| Net interest income after provision for loan losses | 19 | — | — | 19 | 189,427 | 771 | — | 190,217 |
| Other income: | | | | | | | | |
| Loan and guaranty servicing revenue | 115,679 | — | — | 115,679 | — | — | — | 115,679 |
| Intersegment servicing revenue | 28,856 | — | — | | | | | |