NELNET INC
Form 10-Q
November 07, 2013

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2013

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 201 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 [ ]

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 [X]
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[X]

As of October 31, 2013, there were 34,872,451 and 11,495,377 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).

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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)

	As of September 30, 2013 (unaudited)	As of December 31, 2012
Assets:		
Student loans receivable (net of allowance for loan losses of $54,197 and $51,902, respectively)	$24,701,112	24,830,621
Non-federally insured student loans receivable - held for sale	28,480	—
Cash and cash equivalents:		
Cash and cash equivalents - not held at a related party	6,421	7,567
Cash and cash equivalents - held at a related party	44,970	58,464
Total cash and cash equivalents	51,391	66,031
Investments	232,663	83,312
Restricted cash and investments	674,926	815,462
Restricted cash - due to customers	93,695	96,516
Accrued interest receivable	303,350	307,518
Accounts receivable (net of allowance for doubtful accounts of $2,510 and $1,529, respectively)	62,951	63,638
Goodwill	117,118	117,118
Intangible assets, net	6,932	9,393
Property and equipment, net	33,013	31,869
Other assets	103,021	88,976
Fair value of derivative instruments	128,276	97,441
Total assets	$26,536,928	26,607,895
Liabilities:		
Bonds and notes payable	$24,858,455	25,098,835
Accrued interest payable	14,218	14,770
Other liabilities	171,134	161,671
Due to customers	93,695	96,516
Fair value of derivative instruments	21,513	70,890
Total liabilities	25,159,015	25,442,682
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 34,876,145 shares and 35,116,913 shares, respectively	349	351
Class B, convertible, $0.01 par value. Authorized 60,000,000 shares; issued and outstanding 11,495,377 shares	115	115

Additional paid-in capital	24,068	32,540
Retained earnings	1,347,609	1,129,389
Accumulated other comprehensive earnings	5,722	2,813
Total Nelnet, Inc. shareholders' equity	1,377,863	1,165,208
Noncontrolling interest	50	5
Total equity	1,377,913	1,165,213
Total liabilities and equity	$26,536,928	26,607,895
Supplemental information - assets and liabilities of consolidated variable interest entities:		
Student loans receivable	$24,755,486	24,920,130
Restricted cash and investments	673,304	753,511
Fair value of derivative instruments	101,819	82,841
Other assets	305,546	306,454
Bonds and notes payable	(25,017,110)	(25,209,341)
Other liabilities	(311,541)	(348,364)
Net assets of consolidated variable interest entities	$507,504	505,231

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 September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Interest income:				
Loan interest	$158,675	150,528	472,277	454,574
Investment interest	1,562	1,140	4,662	3,290
Total interest income	160,237	151,668	476,939	457,864
Interest expense:				
Interest on bonds and notes payable	55,315	66,402	171,800	203,175
Net interest income	104,922	85,266	305,139	254,689
Less provision for loan losses	5,000	5,000	15,000	18,000
Net interest income after provision for loan losses	99,922	80,266	290,139	236,689
Other income (expense):				
Loan and guaranty servicing revenue	64,582	53,285	180,261	155,164
Tuition payment processing and campus commerce revenue	19,927	17,928	61,694	56,675
Enrollment services revenue	22,563	30,661	76,343	92,035
Other income	8,613	12,699	30,317	32,453
Gain on sale of loans and debt repurchases	2,138	195	10,900	1,130
Derivative market value and foreign currency adjustments and derivative settlements, net	(16,648)	(31,275)	24,612	(68,073)
Total other income	101,175	83,493	384,127	269,384
Operating expenses:				
Salaries and benefits	48,712	46,395	144,049	144,193
Cost to provide enrollment services	14,668	20,151	51,097	62,203
Depreciation and amortization	4,340	8,402	13,037	24,764
Other	39,887	29,989	109,193	93,160
Total operating expenses	107,607	104,937	317,376	324,320
Income before income taxes	93,490	58,822	356,890	181,753
Income tax expense	30,444	21,870	123,637	59,978
Net income	63,046	36,952	233,253	121,775
Net income attributable to noncontrolling interest	216	124	1,101	412
Net income attributable to Nelnet, Inc.	$62,830	36,828	232,152	121,363
Earnings per common share:				
Net income attributable to Nelnet, Inc. shareholders - basic and diluted	$1.35	0.78	4.98	2.56
Weighted average common shares outstanding - basic and diluted	46,496,612	47,460,308	46,593,241	47,399,207

See accompanying notes to consolidated financial statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Net income	$63,046	36,952	233,253	121,775
Other comprehensive income:				
Available-for-sale securities:				
Unrealized holding gains arising during period, net of losses	5,689	133	6,875	1,745
Less reclassification adjustment for gains recognized in net income, net of losses	(730)	(2,618)	(2,246)	(4,848)
Income tax effect	(1,834)	961	(1,720)	1,170
Total other comprehensive income (loss)	3,125	(1,524)	2,909	(1,933)
Comprehensive income	66,171	35,428	236,162	119,842
Comprehensive income attributable to noncontrolling interest	216	124	1,101	412
Comprehensive income attributable to Nelnet, Inc.	$65,955	35,304	235,061	119,430

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											
		Common stock shares										
	Preferred stock shares	Class A	Class B	Preferred stock	Class A common stock	Class B common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive earnings	Employee notes receivable	Noncontrolling interest	Total equity
Balance as of June 30, 2012	—	35,847,801	11,495,377	$—	358	115	52,194	1,092,715	(409)	(368)	293	1,144,898
Net income	—	—	—	—	—	—	—	36,828	—	—	124	36,952
Other comprehensive loss	—	—	—	—	—	—	—	—	(1,524)	—	—	(1,524)
Cash dividend on Class A and Class B common stock - $0.1 per share	—	—	—	—	—	—	—	(4,737)	—	—	—	(4,737)
Issuance of common stock, net of forfeitures	—	(180)	—	—	—	—	271	—	—	—	—	271
Compensation expense for stock based awards	—	—	—	—	—	—	584	—	—	—	—	584
Repurchase of common stock	—	(8,545)	—	—	—	—	(206)	—	—	—	—	(206)
Balance as of September 30, 2012	—	35,839,076	11,495,377	$—	358	115	52,843	1,124,806	(1,933)	(368)	417	1,176,238
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
Net income	—	—	—	—	—	—	—	62,830	—	—	216	63,046
Other comprehensive income	—	—	—	—	—	—	—	—	3,125	—	—	3,125
Distribution to noncontrolling interest	—	—	—	—	—	—	—	—	—	—	(279)	(279)
Cash dividend on Class A and Class B common stock - $0.1 per share	—	—	—	—	—	—	—	(4,637)	—	—	—	(4,637)
Issuance of common stock,	—	(745)	—	—	—	—	264	—	—	—	—	264

net of forfeitures												
Compensation expense for stock based awards	—	—	—	—	—	—	824	—	—	—	—	824
Repurchase of common stock	—	(111,220)	—	—	(1)	—	(4,024)	—	—	—	—	(4,025)
Balance as of September 30, 2013	—	34,876,145	11,495,377	$—	349	115	24,068	1,347,609	5,722	—	50	1,377,913
Balance as of December 31, 2011	—	35,643,102	11,495,377	$—	356	115	49,245	1,017,629	—	(1,140)	—	1,066,205
Issuance of noncontrolling interest	—	—	—	—	—	—	—	—	—	—	5	5
Net income	—	—	—	—	—	—	—	121,363	—	—	412	121,775
Other comprehensive loss	—	—	—	—	—	—	—	—	(1,933)	—	—	(1,933)
Cash dividends on Class A and Class B common stock - $0.3 per share	—	—	—	—	—	—	—	(14,186)	—	—	—	(14,186)
Issuance of common stock, net of forfeitures	—	255,538	—	—	3	—	3,545	—	—	—	—	3,548
Compensation expense for stock based awards	—	—	—	—	—	—	1,573	—	—	—	—	1,573
Repurchase of common stock	—	(59,564)	—	—	(1)	—	(1,520)	—	—	—	—	(1,521)
Reduction of employee stock notes receivable	—	—	—	—	—	—	—	—	—	772	—	772
Balance as of September 30, 2012	—	35,839,076	11,495,377	$—	358	115	52,843	1,124,806	(1,933)	(368)	417	1,176,238
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	—	—	—	—	—	—	—	232,152	—	—	1,101	233,253
Other comprehensive	—	—	—	—	—	—	—	—	2,909	—	—	2,909

income												
Distribution to noncontrolling interest	—	—	—	—	—	—	—	—	—	—	(1,061)	(1,061)
Cash dividends on Class A and Class B common stock - $0.3 per share	—	—	—	—	—	—	—	(13,932)	—	—	—	(13,932)
Issuance of common stock, net of forfeitures	—	149,608	—	—	2	—	2,231	—	—	—	—	2,233
Compensation expense for stock based awards	—	—	—	—	—	—	2,308	—	—	—	—	2,308
Repurchase of common stock	—	(390,376)	—	—	(4)	—	(13,011)	—	—	—	—	(13,015)
Balance as of September 30, 2013	—	34,876,145	11,495,377	$ —	349	115	24,068	1,347,609	5,722	—	50	1,377,913

See accompanying notes to consolidated financial statements.

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

	Nine months ended September 30, 2013	2012
Net income attributable to Nelnet, Inc.	$232,152	121,363
Net income attributable to noncontrolling interest	1,101	412
Net income	233,253	121,775
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization, including debt discounts and student loan premiums and deferred origination costs	58,330	85,370
Student loan discount accretion	(26,333)	(31,693)
Provision for loan losses	15,000	18,000
Derivative market value adjustment	(73,743)	67,349
Foreign currency transaction adjustment	25,902	(6,186)
Payments to terminate and/or amend derivative instruments, net of proceeds	(6,469)	(6,430)
Gain on sale of loans	(34)	(80)
Gain from debt repurchases	(10,866)	(1,050)
Gain from sales of available-for-sale securities, net	(2,246)	(4,848)
Purchases of student loans - held for sale	(28,480)	—
Deferred income tax expense (benefit)	13,279	(29,141)
Other	2,557	763
Decrease in accrued interest receivable	4,168	40,545
Decrease (increase) in accounts receivable	687	(7,745)
(Increase) decrease in other assets	(2,445)	2,330
Decrease in accrued interest payable	(552)	(2,998)
Increase in other liabilities	598	14,636
Net cash provided by operating activities	202,606	260,597
Cash flows from investing activities:		
Purchases of student loans	(1,696,253)	(875,556)
Purchase of student loans from a related party	(466,941)	(299)
Net proceeds from student loan repayments, claims, capitalized interest, participations, and other	2,269,253	2,500,005
Proceeds from sale of student loans	11,287	92,149
Purchases of available-for-sale securities	(196,657)	(155,057)
Proceeds from sales of available-for-sale securities	52,733	112,854
Purchases of other investments	(8,316)	—
Purchases of property and equipment, net	(11,720)	(7,370)
Decrease (increase) in restricted cash	140,536	(291,239)
Net cash provided by investing activities	93,922	1,375,487
Cash flows from financing activities:		
Payments on bonds and notes payable	(4,159,079)	(2,795,019)
Proceeds from issuance of bonds and notes payable	3,888,772	1,232,250
Payments of debt issuance costs	(13,295)	(7,630)
Dividends paid	(13,932)	(14,186)
Repurchases of common stock	(13,015)	(1,521)
Proceeds from issuance of common stock	437	349

Payments received on employee stock notes receivable	—	772
Issuance of noncontrolling interest	5	5
Distribution to noncontrolling interest	(1,061)	—
Net cash used in financing activities	(311,168)	(1,584,980)
Net (decrease) increase in cash and cash equivalents	(14,640)	51,104
Cash and cash equivalents, beginning of period	66,031	42,570
Cash and cash equivalents, end of period	$51,391	93,674
Supplemental disclosures of cash flow information:		
Interest paid	$148,482	179,007
Income taxes paid, net of refunds	$114,744	86,798

See accompanying notes to consolidated financial statements.

NELNET, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Information as of September 30, 2013 and for the three and nine months ended September 30, 2013 and 2012 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

1. Basis of Financial Reporting

The accompanying unaudited consolidated financial statements of Nelnet, Inc. and subsidiaries (the "Company") as of September 30, 2013 and for the three and nine months ended September 30, 2013 and 2012 have been prepared on the same basis as the audited consolidated financial statements for the year ended December 31, 2012 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 nine months ended September 30, 2013 are not necessarily indicative of the results for the year ending December 31, 2013. 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, 2012 (the "2012 Annual Report").

2. Student Loans Receivable and Allowance for Loan Losses

Student loans receivable consisted of the following:

	As of September 30, 2013 Held for investment		Held for sale	As of December 31, 2012 Held for investment	
Federally insured loans					
Stafford and other	$6,884,348		—	7,261,114	
Consolidation	17,908,229		—	17,708,732	
Total	24,792,577		—	24,969,846	
Non-federally insured loans	66,283		28,480	26,034	
	24,858,860		28,480	24,995,880	
Loan discount, net of unamortized loan premiums and deferred origination costs	(103,551	)	—	(113,357	)
Allowance for loan losses – federally insured loans	(42,406	)	—	(40,120	)
Allowance for loan losses – non-federally insured loans	(11,791	)	—	(11,782	)
	$24,701,112		28,480	24,830,621	
Allowance for federally insured loans as a percentage of such loans	0.17	%		0.16	%
Allowance for non-federally insured loans as a percentage of such loans	17.79	%		45.26	%

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 September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Balance at beginning of period	$51,611	49,657	51,902	48,482
Provision for loan losses:				
Federally insured loans	5,000	5,000	16,000	18,000
Non-federally insured loans	—	—	(1,000)	—
Total provision for loan losses	5,000	5,000	15,000	18,000
Charge-offs:				
Federally insured loans	(3,142)	(5,449)	(12,472)	(16,943)
Non-federally insured loans	(906)	(1,058)	(2,270)	(2,355)
Total charge-offs	(4,048)	(6,507)	(14,742)	(19,298)
Recoveries - non-federally insured loans	363	399	1,173	1,104
Purchase (sale) of federally insured loans, net	700	(928)	(1,243)	(2,647)
Transfer from repurchase obligation related to non-federally insured loans repurchased, net	571	588	2,107	2,568
Balance at end of period	$54,197	48,209	54,197	48,209
Allocation of the allowance for loan losses:				
Federally insured loans	$42,406	35,614	42,406	35,614
Non-federally insured loans	11,791	12,595	11,791	12,595
Total allowance for loan losses	$54,197	48,209	54,197	48,209

Repurchase Obligations

As of September 30, 2013, the Company had participated a cumulative amount of $98.5 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 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 September 30, 2013, the balance of this portfolio was $66.0 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.

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Beginning balance	$14,594	17,243	16,130	19,223
Repurchase obligation transferred to the allowance for loan losses related to loans repurchased, net	(571)	(588)	(2,107)	(2,568)

Ending balance	$14,023	16,655	14,023	16,655

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 held for investment that were delinquent 31 days or greater as of September 30, 2013, December 31, 2012, and September 30, 2012 was 13.4 percent, 28.6 percent, and 26.0 percent, respectively. The table below shows the Company’s federally insured student loan delinquency amounts.

Rehabilitation Loans and Delinquent Loans Funded in FFELP Warehouse Facilities

Rehabilitation loans are student loans that have previously defaulted, but for which the borrower has made a specified number of on-time payments. Although rehabilitation loans benefit from the same guarantees as other federally insured student loans, rehabilitation loans have generally experienced re-default rates that are higher than default rates for federally insured student loans that have not previously defaulted. The Company has purchased a significant amount of rehabilitation loans during 2012 and 2013. Upon purchase, these loans are recorded at fair value, which generally approximates the federal guarantee rate under the Federal Family Education Loan Program ("FFEL Program" or "FFELP"). As such, there is minimal credit risk related to rehabilitation loans purchased; therefore, these loans are presented separately in the following delinquency tables.

In addition, the Company has purchased delinquent federally insured loans that are funded in the Company's FFELP warehouse facilities. Upon purchase, these loans are recorded at fair value, which generally approximates the federal guarantee rate. As such, there is minimal credit risk related to these loans. Loans delinquent 121 days or greater and funded in the Company's FFELP warehouse facilities are included with rehabilitated loans purchased in the following delinquency tables.

	As of September 30, 2013			As of December 31, 2012			As of September 30, 2012		
Federally insured loans, excluding rehabilitation loans:									
Loans in-school/grace/deferment	$2,780,442			$2,949,320			$3,163,918		
Loans in forbearance	2,953,119			2,992,023			2,868,168		
Loans in repayment status:									
Loans current	14,157,330	87.2	%	14,583,044	87.6	%	13,673,217	87.2	%
Loans delinquent 31-60 days	662,814	4.1		652,351	3.9		586,021	3.7	
Loans delinquent 61-90 days	354,975	2.2		330,885	2.0		308,377	2.0	
Loans delinquent 91-120 days	235,681	1.5		247,381	1.5		237,941	1.5	
Loans delinquent 121-270 days	624,042	3.8		603,942	3.6		628,697	4.0	
Loans delinquent 271 days or greater	195,853	1.2		220,798	1.4		253,438	1.6	
Total loans in repayment	16,230,695	100.0	%	16,638,401	100.0	%	15,687,691	100.0	%
Total federally insured loans, excluding rehabilitation loans	$21,964,256			$22,579,744			$21,719,777		
Rehabilitation loans:									
Loans in-school/grace/deferment	$259,377			$150,317			$90,836		
Loans in forbearance	443,629			330,278			129,257		
Loans in repayment status:									
Loans current	1,078,730	50.7	%	670,205	35.1	%	418,584	61.9	%
Loans delinquent 31-60 days	188,583	8.9		113,795	6.0		52,053	7.7	
Loans delinquent 61-90 days	125,310	5.9		79,691	4.2		35,104	5.2	

Loans delinquent 91-120 days	137,016	6.4		186,278	9.8		33,931	5.0	
Loans delinquent 121-270 days	354,192	16.7		633,001	33.1		99,041	14.7	
Loans delinquent 271 days or greater	241,484	11.4		226,537	11.8		37,025	5.5	
Total loans in repayment	2,125,315	100.0	%	1,909,507	100.0	%	675,738	100.0	%
Total rehabilitation loans	2,828,321			2,390,102			895,831		
Total federally insured loans	$24,792,577			$24,969,846			$22,615,608		

3. Bonds and Notes Payable

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

	As of September 30, 2013		
	Carrying amount	Interest rate range	Final maturity
Variable-rate bonds and notes issued in asset-backed securitizations:			
Bonds and notes based on indices	$22,632,522	0.27% - 6.90%	11/25/15 - 8/26/52
Bonds and notes based on auction or remarketing	890,500	0.08% - 2.13%	5/1/28 - 5/25/42
Total variable-rate bonds and notes	23,523,022		
FFELP warehouse facilities	1,277,650	0.18% - 0.28%	1/17/16 - 6/12/16
Unsecured line of credit	75,000	1.68%	3/28/18
Unsecured debt - Junior Subordinated Hybrid Securities	99,232	3.62%	9/15/61
Other borrowings	61,828	1.68% - 5.10%	11/14/13 - 11/11/15
	25,036,732		
Discount on bonds and notes payable	(178,277)		
Total	$24,858,455		

	As of December 31, 2012		
	Carrying amount	Interest rate range	Final maturity
Variable-rate bonds and notes issued in asset-backed securitizations:			
Bonds and notes based on indices	$21,185,140	0.32% - 6.90%	11/25/15 - 8/26/52
Bonds and notes based on auction or remarketing	969,925	0.15% - 2.14%	5/1/28 - 5/25/42
Total variable-rate bonds and notes	22,155,065		
FFELP warehouse facilities	1,554,151	0.21% - 0.29%	1/31/15 - 6/30/15
Department of Education Conduit	1,344,513	0.82%	1/19/14
Unsecured line of credit	55,000	1.71%	2/17/16
Unsecured debt - Junior Subordinated Hybrid Securities	99,232	3.68%	9/15/61
Other borrowings	62,904	1.50% - 5.10%	11/14/13 - 11/11/15
	25,270,865		
Discount on bonds and notes payable	(172,030)		
Total	$25,098,835		

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 September 30, 2013, the Company had four FFELP warehouse facilities as summarized below.

	NHELP-I (a)	NHELP-III (b)	NHELP-II (c)	NFSLW-I (d)	Total
Maximum financing amount	$500,000	750,000	500,000	500,000	2,250,000
Amount outstanding	—	637,770	373,258	266,622	1,277,650
Amount available	$500,000	112,230	126,742	233,378	972,350
Expiration of liquidity provisions		January 16, 2014	February 28, 2014	June 12, 2014	
Final maturity date		January 17, 2016	February 28, 2016	June 12, 2016	
Maximum advance rates		92.2 - 95%	84.5 - 94.5%	92 - 98%	
Minimum advance rates		92.2 - 95%	84.5 - 94.5%	84 - 90%	
Advanced as equity support	$—	36,926	33,863	11,647	82,436

(a) On October 1, 2013, the Company terminated this facility. All loans previously financed in this facility were financed in other warehouse facilities during the third quarter of 2013.

(b) The Company entered into this facility on January 16, 2013. On September 16, 2013, the Company amended this facility to increase the maximum financing amount from $500 million to $750 million.

(c) On June 3, 2013, the Company amended this facility to change the terms of the advance rates.

(d) On June 13, 2013, the Company amended this facility to change the terms of the advance rates and extend the expiration of the liquidity provisions and its final maturity date.

Each FFELP warehouse facility is supported by 364-day liquidity provisions, which are subject to the respective expiration date shown in the previous table. In the event the Company is unable to renew the liquidity provisions by such date, 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 final maturity date. The NFSLW-I warehouse facility provides for formula-based advance rates, depending on FFELP loan type, up to a maximum of the principal and interest of loans financed as shown in the table above. The advance rates for collateral may increase or decrease based on market conditions, but they are subject to minimums as disclosed above. The NHELP-III and NHELP-II warehouse facilities have static advance rates that require initial equity for loan funding, but do not require increased equity based on market movements.

The FFELP warehouse facilities contain financial covenants relating to levels of the Company’s consolidated net worth, ratio of recourse indebtedness to adjusted EBITDA, and unencumbered cash. Any noncompliance with these covenants could result in a requirement for the immediate repayment of any outstanding borrowings under the facilities.

Asset-backed Securitizations

The following table summarizes the asset-backed securitization transactions completed during the nine months ended September 30, 2013.

	2013-1	2013-2 (a)	2013-3	2013-4	2013-5 (a)	Total
Date securities issued	1/31/13	2/28/13	4/30/13	6/21/13	9/30/13	
Total original principal amount	$437,500	1,122,000	765,000	453,000	399,000	$3,176,500
Class A senior notes:						
Total original principal amount	$428,000	1,122,000	745,000	440,000	399,000	3,134,000
Bond discount	—	(3,325)	—	(1,690)	(4,881)	(9,896)
Issue price	$428,000	1,118,675	745,000	438,310	394,119	3,124,104
Cost of funds (1-month LIBOR plus:)	0.60%	0.50%	0.50%	0.50%	0.63%	
Final maturity date	6/25/41	7/25/40	2/25/37	12/26/42	1/25/37	
Class B subordinated notes:						
Total original principal amount	$9,500		20,000	13,000		42,500
Bond discount	(1,525)		(1,762)	(1,804)		(5,091)
Issue price	$7,975		18,238	11,196		37,409
Cost of funds (1-month LIBOR plus:)	1.50%		1.50%	1.50%		
Final maturity date	3/25/48		7/25/47	1/25/47		

(a) Total original principal amount excludes the Class B subordinated tranches for the 2013-2 and 2013-5 transactions totaling $34.0 million and $9.0 million, respectively, that were retained at issuance. As of September 30, 2013, the Company has a total of $85.5 million (face amount) of its own Class B subordinated notes remaining from prior completed asset-backed securitizations that are not included in the Company's consolidated balance sheet.

Department of Education Conduit

In May 2009, the U.S. Department of Education (the "Department") implemented a program under which it financed eligible FFELP loans in a conduit vehicle established to provide funding for student lenders (the "Conduit Program"). As of December 31, 2012, the Company had $1.3 billion borrowed under this facility. On February 28, 2013, all student loans funded in the Conduit Program were refinanced in the 2013-2 asset-backed securitization and the Company's FFELP warehouse facilities. After these transactions, no loans remained financed by the Company in the Conduit Program and the facility was paid down in full. No additional loans can be financed in this facility, and the Conduit Program has expired for future use by the Company.

Unsecured Line of Credit

On February 17, 2012, the Company entered into a $250.0 million unsecured line of credit. On March 28, 2013, the facility was amended to increase the line of credit to $275.0 million and extend the maturity date from February 17, 2016 to March 28, 2018. There were no significant financial covenant changes made as part of this amendment. As of September 30, 2013, $75.0 million was outstanding on the unsecured line of credit and $200.0 million was available for future use.

Debt Repurchases

The Company repurchased $15.4 million (face amount) and $4.1 million (face amount) of its own asset-backed debt securities during the three months ended September 30, 2013 and 2012, respectively, and recognized gains on such purchases of $2.1 million and $0.2 million, respectively. During the nine months ended September 30, 2013 and 2012, the Company repurchased $84.7 million (face amount) and $21.7 million (face amount) of its own asset-backed debt securities and recognized gains of $10.9 million and $1.1 million, respectively.

4. Derivative Financial Instruments

The Company uses derivative financial instruments primarily to manage interest rate risk and foreign currency exchange risk.

Interest Rate Risk

The Company is 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 Company has adopted a policy of periodically reviewing the mismatch related to the interest rate characteristics of its assets and liabilities together with the Company's outlook as to current and future market conditions. Based on those factors, the Company uses derivative instruments as part of its overall risk management strategy. Derivative instruments used as part of the Company's interest rate risk management strategy currently include basis swaps and interest rate swaps.

Basis Swaps

Interest earned on the majority of the Company's FFELP student loan assets is indexed to the one-month LIBOR rate. Meanwhile, the Company funds the majority of its assets with three-month LIBOR indexed floating rate securities. The different interest rate characteristics of the Company's loan assets and liabilities funding these assets results in basis risk.

The Company also faces repricing risk due to the timing of the interest rate resets on its liabilities, which may occur as infrequently as once a quarter, in contrast to the timing of the interest rate resets on its assets, which generally occur daily. As of September 30, 2013, the Company had $23.7 billion and $1.0 billion of FFELP loans indexed to the one-month LIBOR rate and the three-month treasury bill rate, respectively, the indices for which reset daily, and $15.2 billion of debt indexed to three-month LIBOR, the indices for which reset quarterly, and $8.1 billion of debt indexed to one-month LIBOR, the indices for which reset monthly.

The Company has used derivative instruments to economically hedge its basis and repricing risk. The Company has entered into basis swaps 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).

The following table summarizes the Company's 1:3 Basis Swaps outstanding:

		As of September 30, 2013		As of December 31, 2012	
Maturity		Notional amount		Notional amount	
2021		$250,000		250,000	
2022		1,900,000		1,900,000	
2023		3,650,000		3,150,000	
2024		250,000		250,000	
2026		800,000		800,000	
2028		100,000		100,000	
2036		700,000		700,000	
2039	(a)	150,000		150,000	
2040	(b)	200,000		200,000	
		$8,000,000	(c)	7,500,000	(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 September 30, 2013 and December 31, 2012, was one-month LIBOR plus 3.5 basis points and one-month LIBOR plus 3.3 basis points, respectively.

Interest Rate Swaps – Floor Income Hedges

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 Payments ("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 certain declining interest rate environments, when the fixed borrower rate is higher than the SAP rate, these 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.

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 SAP 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.

As of September 30, 2013 and December 31, 2012, the Company had $11.2 billion and $11.3 billion, respectively, of student loan assets that were earning fixed rate floor income. The weighted average estimated variable conversion rate for these loans, which is the estimated short-term interest rate at which the loans would convert to a variable rate, was 1.82%.

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

	As of September 30, 2013			As of December 31, 2012		
Maturity	Notional amount	Weighted average fixed rate paid by the Company (a)		Notional amount	Weighted average fixed rate paid by the Company (a)	
2013	$—	—	%	$3,150,000	0.71	%
2014	1,750,000	0.71		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		750,000	0.99	
	$4,850,000	0.81	%	$7,500,000	0.78	%

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

Interest Rate Swaps – Unsecured Debt Hedges

As of both September 30, 2013 and December 31, 2012, the Company had $99.2 million of unsecured Junior Subordinated Hybrid Securities debt outstanding. The interest rate on the Hybrid Securities through September 29, 2036 is equal to three-month LIBOR plus 3.375%, payable quarterly. The Company had the following derivatives outstanding that are used to effectively convert the variable interest rate on a portion of the Hybrid Securities to a fixed rate of 7.7%.

	As of September 30, 2013		As of December 31, 2012	
Maturity	Notional amount	Weighted average fixed rate paid by the Company (a)	Notional amount	Weighted average fixed rate paid by the Company (a)
2036	$25,000	4.28 %	$75,000	4.28 %

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

Foreign Currency Exchange Risk

In 2006, the Company issued €420.5 million and €352.7 million of student loan asset-backed Euro Notes with interest rates based on a spread to the EURIBOR index. As a result of these transactions, 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. Changes in the principal and accrued interest amounts as a result of foreign currency exchange rate fluctuations are included in the Company's consolidated statements of income.

The Company entered into cross-currency interest rate swaps in connection with the issuance of the Euro Notes. Under the terms of these derivative instrument agreements, the Company receives from a counterparty a spread to the EURIBOR index based on notional amounts of €420.5 million and €352.7 million and pays a spread to the LIBOR index based on notional amounts of $500.0 million and $450.0 million, respectively. In addition, under the terms of these agreements, all principal payments on the Euro Notes will effectively be paid at the exchange rate between the U.S. dollar and Euro in effect 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 instruments.

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Re-measurement of Euro Notes	$(39,974)	(20,799)	(25,902)	6,186
Change in fair value of cross-currency interest rate swaps	39,074	24,586	18,978	(24,934)
Total impact to consolidated statements of income - income (expense) (a)	$(900)	3,787	(6,924)	(18,748)

(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.

The re-measurement of the Euro-denominated bonds generally correlates with the change in fair value of the cross-currency interest rate swaps. However, the Company will experience unrealized gains or losses related to the cross-currency interest rate swaps 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 September 30, 2013	As of December 31, 2012	As of September 30, 2013	As of December 31, 2012
1:3 basis swaps	$20,425	12,239	—	1,215
Interest rate swaps - floor income hedges	6,032	—	18,186	45,913
Interest rate swaps - hybrid debt hedges	—	—	3,327	23,762
Cross-currency interest rate swaps	101,819	82,841	—	—
Other	—	2,361	—	—

Total	$128,276	97,441	21,513	70,890

During the three and nine months ended September 30, 2013, the Company terminated certain derivatives for net payments of $2.7 million and $6.5 million, respectively. During the three and nine months ended September 30, 2012, the Company paid $6.4 million to terminate certain derivatives. Any proceeds received or payments made to terminate a derivative in advance of its expiration date are accounted for as a change in fair value of such derivative.

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 (a)	Net asset (liability)
Balance as of September 30, 2013	$128,276	(17,991)	(73,734)	36,551
Balance as of December 31, 2012	97,441	(13,234)	(19,993)	64,214

		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 (b)	Net asset (liability)
Balance as of September 30, 2013	$(21,513)	17,991	4,000	478
Balance as of December 31, 2012	(70,890)	13,234	63,128	5,472

(a) As of September 30, 2013 and December 31, 2012, the trustee for certain of the Company's asset-backed securitization transactions held $73.7 million and $20.0 million, respectively, of collateral from the counterparty on the cross-currency interest rate swaps.

(b) As of September 30, 2013 and December 31, 2012, the Company had $4.0 million and $63.1 million, respectively, posted as collateral to derivative counterparties, which is included in “restricted cash and investments” in the Company's consolidated balance sheet.

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

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Settlements:				
1:3 basis swaps	$781	1,100	2,474	3,651
Interest rate swaps - floor income hedges	(7,178)	(5,595)	(24,017)	(12,237)
Interest rate swaps - hybrid debt hedges	(256)	(733)	(1,413)	(1,479)
Cross-currency interest rate swaps	(35)	227	(273)	3,390
Other	—	(50)	—	(235)
Total settlements - income (expense)	(6,688)	(5,051)	(23,229)	(6,910)
Change in fair value:				
1:3 basis swaps	(2,161)	(4,578)	9,402	(2,005)
Interest rate swaps - floor income hedges	(9,599)	(29,903)	33,231	(41,681)
Interest rate swaps - hybrid debt hedges	2,700	1,695	11,790	(890)
Cross-currency interest rate swaps	39,074	24,586	18,978	(24,934)
Other	—	2,775	342	2,161
Total change in fair value - income (expense)	30,014	(5,425)	73,743	(67,349)
Re-measurement of Euro Notes (foreign currency transaction adjustment) - income (expense)	(39,974)	(20,799)	(25,902)	6,186
Derivative market value and foreign currency adjustments and derivative settlements, net - income (expense)	$(16,648)	(31,275)	24,612	(68,073)

5. Investments

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

	As of September 30, 2013				As of December 31, 2012			
	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)	$211,548	8,535	(968)	219,115	64,970	3,187	(179)	67,978
Equity securities	1,550	1,519	(5)	3,064	3,449	1,604	(180)	4,873
Total available-for-sale investments	$213,098	10,054	(973)	222,179	68,419	4,791	(359)	72,851
Trading investments:								
Student loan asset-backed and other debt securities				10,484				10,461
Total available-for-sale and trading investments				$232,663				83,312
Restricted Investments (c):								
Guaranteed investment contracts - held-to-maturity				$6,724				8,830

(a) As of September 30, 2013, 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 September 30, 2013, 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.

	Three months ended September 30,		Nine months ended September 30,	
Affected line item in the consolidated statements of income - income (expense):	2013	2012	2013	2012
Other income	$730	2,618	2,246	4,848
Income tax expense	(270)	(969)	(831)	(1,794)
Net	$460	1,649	1,415	3,054

6. Income Taxes

The effective tax rate for the three months ended September 30, 2013 and 2012 was 32.6% and 37.2%, respectively, and was 34.8% and 33.0% for the nine months ended September 30, 2013 and 2012, respectively. During the third quarter of 2013, income tax expense was reduced by $4.1 million due to the resolution of various uncertain tax positions relating primarily to prior years resulting from examination closings and lapse of applicable statute of limitations. In addition, the Company reversed $1.3 million ($0.8 million after tax) of interest expense during the third quarter of 2013 related to the resolution of certain tax positions. The reversal of interest expense reduced "interest on bonds and notes payable" in the accompanying consolidated statement of income. During the second quarter of 2012, state income tax laws were enacted that reduced the Company's income tax expense during the second quarter by $4.6 million.

7. 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 September 30,					
	2013			2012		
	Common shareholders	Unvested restricted stock shareholders	Total	Common shareholders	Unvested restricted stock shareholders	Total
Numerator:						
Net income attributable to Nelnet, Inc.	$62,277	553	62,830	36,538	290	36,828
Denominator:						
Weighted-average common shares outstanding - basic and diluted	46,086,743	409,869	46,496,612	47,086,182	374,126	47,460,308
Earnings per share - basic and diluted	$1.35	1.35	1.35	0.78	0.78	0.78

Nine months ended September 30,					
2013			2012		
		Total			Total

	Common shareholders	Unvested restricted stock shareholders		Common shareholders	Unvested restricted stock shareholders	
Numerator:						
Net income attributable to Nelnet, Inc.	$230,141	2,011	232,152	120,452	911	121,363
Denominator:						
Weighted-average common shares outstanding - basic and diluted	46,189,200	404,041	46,593,241	47,042,062	357,145	47,399,207
Earnings per share - basic and diluted	$4.98	4.98	4.98	2.56	2.56	2.56

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.

As of September 30, 2013, a cumulative amount of 127,129 shares have been deferred by non-employee directors under the Directors Stock Compensation Plan and will become issuable upon the termination of service by the respective non-employee director on the board of directors. These shares are included in the Company's weighted average shares outstanding calculation.

8. Segment Reporting

The Company earns fee-based revenue through its Student Loan and Guaranty Servicing, Tuition Payment Processing and Campus Commerce, and Enrollment Services operating segments. In addition, the Company earns net interest income on its student loan portfolio in its Asset Generation and Management operating segment. The Company’s operating segments are defined by the products and services they offer and the types of customers they serve, and they reflect the manner in which financial information is currently evaluated by management. See note 1 of the notes to the consolidated financial statements included in the 2012 Annual Report for a description of each operating segment, including the primary products and services offered.

The management reporting process measures the performance of the Company’s operating segments based on the management structure of the Company, as well as the methodology used by management to evaluate performance and allocate resources. Executive management (the "chief operating decision maker") evaluates the performance of the Company’s operating segments based on their financial results prepared in conformity with U.S. generally accepted accounting principles.

The accounting policies of the Company’s operating segments are the same as those described in note 2 of the notes to the consolidated financial statements included in the 2012 Annual Report. Intersegment revenues are charged by the segment that provides a product or service to another segment. Intersegment revenues and expenses are included within each segment consistent with the income statement presentation provided to management. Changes in management structure or allocation methodologies and procedures may result in changes in reported segment financial information. Income taxes are allocated based on 38% of income (loss) before taxes for each individual operating segment. The difference between the consolidated income tax expense and the sum of taxes calculated for each operating segment is included in income taxes in Corporate Activity and Overhead.

Corporate Activity and Overhead

Corporate Activity and Overhead includes the following items:

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

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

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Segment Results of Operations

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

	Three months ended September 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	$10	—	—	10	158,793	2,201	(767)	160,237
Interest expense	—	—	—	—	56,100	(18)	(767)	55,315
Net interest income (loss)	10	—	—	10	102,693	2,219	—	104,922
Less provision for loan losses	—	—	—	—	5,000	—	—	5,000
Net interest income (loss) after provision for loan losses	10	—	—	10	97,693	2,219	—	99,922
Other income (expense):								
Loan and guaranty servicing revenue	64,582	—	—	64,582	—	—	—	64,582
Intersegment servicing revenue	13,519	—	—	13,519	—	—	(13,519)	—
Tuition payment processing and campus commerce revenue	—	19,927	—	19,927	—	—	—	19,927
Enrollment services revenue	—	—	22,563	22,563	—	—	—	22,563
Other income	—	—	—	—	3,981	4,632	—	8,613
Gain on sale of loans and debt repurchases	—	—	—	—	2,138	—	—	2,138
Derivative market value and foreign currency adjustments, net	—	—	—	—	(12,660)	2,700	—	(9,960)
Derivative settlements, net	—	—	—	—	(6,432)	(256)	—	(6,688)
Total other income (expense)	78,101	19,927	22,563	120,591	(12,973)	7,076	(13,519)	101,175
Operating expenses:								
Salaries and benefits	29,719	9,229	4,491	43,439	555	4,718	—	48,712
Cost to provide enrollment services	—	—	14,668	14,668	—	—	—	14,668
Depreciation and amortization	2,677	1,117	57	3,851	—	489	—	4,340
Other	19,752	1,908	1,556	23,216	7,939	8,732	—	39,887
	1,457	1,431	1,139	4,027	13,705	(4,213)	(13,519)	—

Intersegment expenses, net								
Total operating expenses	53,605	13,685	21,911	89,201	22,199	9,726	(13,519)	107,607
Income (loss) before income taxes and corporate overhead allocation	24,506	6,242	652	31,400	62,521	(431)	—	93,490
Corporate overhead allocation	(1,822)	(607)	(607)	(3,036)	(1,302)	4,338	—	—
Income (loss) before income taxes	22,684	5,635	45	28,364	61,219	3,907	—	93,490
Income tax (expense) benefit	(8,620)	(2,141)	(17)	(10,778)	(23,263)	3,597	—	(30,444)
Net income (loss)	14,064	3,494	28	17,586	37,956	7,504	—	63,046
Net income attributable to noncontrolling interest	—	—	—	—	—	216	—	216
Net income (loss) attributable to Nelnet, Inc.	$ 14,064	3,494	28	17,586	37,956	7,288	—	62,830

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	Three months ended September 30, 2012							
	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	$12	3	—	15	150,661	1,891	(899)	151,668
Interest expense	—	—	—	—	64,829	2,472	(899)	66,402
Net interest income (loss)	12	3	—	15	85,832	(581)	—	85,266
Less provision for loan losses	—	—	—	—	5,000	—	—	5,000
Net interest income (loss) after provision for loan losses	12	3	—	15	80,832	(581)	—	80,266
Other income (expense):								
Loan and guaranty servicing revenue	53,285	—	—	53,285	—	—	—	53,285
Intersegment servicing revenue	15,855	—	—	15,855	—	—	(15,855)	—
Tuition payment processing and campus commerce revenue	—	17,928	—	17,928	—	—	—	17,928
Enrollment services revenue	—	—	30,661	30,661	—	—	—	30,661
Other income	—	—	—	—	5,834	6,865	—	12,699
Gain on sale of loans and debt repurchases	—	—	—	—	195	—	—	195
Derivative market value and foreign currency adjustments, net	—	—	—	—	(30,694)	4,470	—	(26,224)
Derivative settlements, net	—	—	—	—	(4,319)	(732)	—	(5,051)
Total other income (expense)	69,140	17,928	30,661	117,729	(28,984)	10,603	(15,855)	83,493
Operating expenses:								
Salaries and benefits	27,716	8,578	5,147	41,441	462	4,492	—	46,395
Cost to provide enrollment services	—	—	20,151	20,151	—	—	—	20,151
Depreciation and amortization	4,691	1,703	1,633	8,027	—	375	—	8,402
Other	16,775	2,285	1,782	20,842	3,451	5,696	—	29,989
Intersegment expenses, net	1,262	1,379	1,000	3,641	16,064	(3,850)	(15,855)	—
Total operating expenses	50,444	13,945	29,713	94,102	19,977	6,713	(15,855)	104,937
	18,708	3,986	948	23,642	31,871	3,309	—	58,822

Income (loss) before income taxes and corporate overhead allocation								
Corporate overhead allocation	(1,337)	(446)	(446)	(2,229)	(909)	3,138	—	—
Income (loss) before income taxes	17,371	3,540	502	21,413	30,962	6,447	—	58,822
Income tax (expense) benefit	(6,601)	(1,345)	(191)	(8,137)	(11,765)	(1,968)	—	(21,870)
Net income (loss)	10,770	2,195	311	13,276	19,197	4,479	—	36,952
Net income attributable to noncontrolling interest	—	—	—	—	—	124	—	124
Net income (loss) attributable to Nelnet, Inc.	$10,770	2,195	311	13,276	19,197	4,355	—	36,828

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	Nine months ended September 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	$29	—	—	29	472,622	6,708	(2,420)	476,939
Interest expense	—	—	—	—	170,502	3,718	(2,420)	171,800
Net interest income (loss)	29	—	—	29	302,120	2,990	—	305,139
Less provision for loan losses	—	—	—	—	15,000	—	—	15,000
Net interest income (loss) after provision for loan losses	29	—	—	29	287,120	2,990	—	290,139
Other income (expense):								
Loan and guaranty servicing revenue	180,261	—	—	180,261	—	—	—	180,261
Intersegment servicing revenue	42,375	—	—	42,375	—	—	(42,375)	—
Tuition payment processing and campus commerce revenue	—	61,694	—	61,694	—	—	—	61,694
Enrollment services revenue	—	—	76,343	76,343	—	—	—	76,343
Other income	—	—	—	—	11,207	19,110	—	30,317
Gain on sale of loans and debt repurchases	—	—	—	—	10,900	—	—	10,900
Derivative market value and foreign currency adjustments, net	—	—	—	—	35,711	12,130	—	47,841
Derivative settlements, net	—	—	—	—	(21,816)	(1,413)	—	(23,229)
Total other income (expense)	222,636	61,694	76,343	360,673	36,002	29,827	(42,375)	384,127
Operating expenses:								
Salaries and benefits	86,254	28,015	15,067	129,336	1,709	13,004	—	144,049
Cost to provide enrollment services	—	—	51,097	51,097	—	—	—	51,097
Depreciation and amortization	8,197	3,387	179	11,763	—	1,274	—	13,037
Other	56,173	6,387	4,450	67,010	23,375	18,808	—	109,193
Intersegment expenses, net	3,243	4,350	3,418	11,011	42,955	(11,591)	(42,375)	—
Total operating expenses	153,867	42,139	74,211	270,217	68,039	21,495	(42,375)	317,376

Income (loss) before income taxes and corporate overhead allocation	68,798	19,555	2,132	90,485	255,083	11,322	—	356,890
Corporate overhead allocation	(4,332)	(1,443)	(1,443)	(7,218)	(3,095)	10,313	—	—
Income (loss) before income taxes	64,466	18,112	689	83,267	251,988	21,635	—	356,890
Income tax (expense) benefit	(24,498)	(6,882)	(261)	(31,641)	(95,755)	3,759	—	(123,637)
Net income (loss)	39,968	11,230	428	51,626	156,233	25,394	—	233,253
Net income attributable to noncontrolling interest	—	—	—	—	—	1,101	—	1,101
Net income (loss) attributable to Nelnet, Inc.	$39,968	11,230	428	51,626	156,233	24,293	—	232,152

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	Nine months ended September 30, 2012							
	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	$44	8	—	52	455,413	5,226	(2,827)	457,864
Interest expense	—	—	—	—	199,675	6,327	(2,827)	203,175
Net interest income (loss)	44	8	—	52	255,738	(1,101)	—	254,689
Less provision for loan losses	—	—	—	—	18,000	—	—	18,000
Net interest income (loss) after provision for loan losses	44	8	—	52	237,738	(1,101)	—	236,689
Other income (expense):								
Loan and guaranty servicing revenue	155,164	—	—	155,164	—	—	—	155,164
Intersegment servicing revenue	49,210	—	—	49,210	—	—	(49,210)	—
Tuition payment processing and campus commerce revenue	—	56,675	—	56,675	—	—	—	56,675
Enrollment services revenue	—	—	92,035	92,035	—	—	—	92,035
Other income	—	—	—	—	14,415	18,038	—	32,453
Gain on sale of loans and debt repurchases	—	—	—	—	1,130	—	—	1,130
Derivative market value and foreign currency adjustments, net	—	—	—	—	(62,351)	1,188	—	(61,163)
Derivative settlements, net	—	—	—	—	(5,431)	(1,479)	—	(6,910)
Total other income (expense)	204,374	56,675	92,035	353,084	(52,237)	17,747	(49,210)	269,384
Operating expenses:								
Salaries and benefits	85,663	25,771	17,587	129,021	1,723	13,449	—	144,193
Cost to provide enrollment services	—	—	62,203	62,203	—	—	—	62,203
Depreciation and amortization	13,629	5,174	4,867	23,670	—	1,094	—	24,764
Other	52,980	7,557	5,483	66,020	10,203	16,937	—	93,160
Intersegment expenses, net	3,832	4,042	2,824	10,698	49,842	(11,330)	(49,210)	—
Total operating expenses	156,104	42,544	92,964	291,612	61,768	20,150	(49,210)	324,320
	48,314	14,139	(929)	61,524	123,733	(3,504)	—	181,753

Income (loss) before income taxes and corporate overhead allocation								
Corporate overhead allocation	(4,115)	(1,372)	(1,372)	(6,859)	(3,701)	10,560	—	—
Income (loss) before income taxes	44,199	12,767	(2,301)	54,665	120,032	7,056	—	181,753
Income tax (expense) benefit	(16,796)	(4,851)	874	(20,773)	(45,610)	6,405	—	(59,978)
Net income (loss)	27,403	7,916	(1,427)	33,892	74,422	13,461	—	121,775
Net income attributable to noncontrolling interest	—	—	—	—	—	412	—	412
Net income (loss) attributable to Nelnet, Inc.	$27,403	7,916	(1,427)	33,892	74,422	13,049	—	121,363

9. Major Customer

The Company earns loan servicing revenue from a servicing contract with the Department that spans five years (through June 2014). Revenue earned by the Company's Student Loan and Guaranty Servicing operating segment related to this contract was $26.0 million and $19.1 million for the three months ended September 30, 2013 and 2012, respectively, and $68.4 million and