NELNET INC
Form 10-Q
August 09, 2011

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

FORM 10-Q

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

For the quarterly period ended June 30, 2011

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	84-0748903
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
121 SOUTH 13TH STREET, SUITE 201 LINCOLN, NEBRASKA	68508
(Address of principal executive offices)	(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 July 31, 2011, there were 37,043,597 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).

NELNET, INC.
FORM 10-Q
INDEX
June 30, 2011

PART I. FINANCIAL INFORMATION

Item 1.	Financial Statements	2
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	28
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	70
Item 4.	Controls and Procedures	76

PART II. OTHER INFORMATION

Item 1.	Legal Proceedings	76
Item 1A.	Risk Factors	77
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	78
Item 6.	Exhibits	80

Signatures 81

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	As of June 30, 2011 (unaudited)	As of December 31, 2010
Assets:		
Student loans receivable (net of allowance for loan losses of $42,300 and $43,626, respectively)	$23,228,778	23,948,014
Student loans receivable - held for sale	—	84,987
Cash and cash equivalents:		
Cash and cash equivalents - not held at a related party	12,851	6,952
Cash and cash equivalents - held at a related party	103,490	276,849
Total cash and cash equivalents	116,341	283,801
Investments - trading securities	31,664	43,236
Restricted cash and investments	610,730	668,757
Restricted cash - due to customers	64,452	88,528
Accrued interest receivable	302,481	318,152
Accounts receivable (net of allowance for doubtful accounts of $1,172 and $1,221, respectively)	51,116	52,614
Goodwill	117,118	117,118
Intangible assets, net	37,564	38,712
Property and equipment, net	34,593	30,573
Other assets	94,224	101,054
Fair value of derivative instruments	182,450	118,346
Total assets	$24,871,511	25,893,892
Liabilities:		
Bonds and notes payable	$23,605,413	24,672,472
Accrued interest payable	17,093	19,153
Other liabilities	172,386	191,017
Due to customers	64,452	88,528
Fair value of derivative instruments	23,383	16,089
Total liabilities	23,882,727	24,987,259
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 37,044,372 shares as of June 30, 2011 and 36,846,353 shares as of December 31, 2010	370	368
	115	115

Class B, convertible, $0.01 par value. Authorized 60,000,000 shares; issued and outstanding 11,495,377 shares as of June 30, 2011 and December 31, 2010		
Additional paid-in capital	74,646	76,263
Retained earnings	914,823	831,057
Employee notes receivable	(1,170)	(1,170)
Total shareholders' equity	988,784	906,633
Commitments and contingencies		
Total liabilities and shareholders' equity	$24,871,511	25,893,892

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,	
	2011	2010	2011	2010
Interest income:				
Loan interest	$138,934	155,353	276,292	290,320
Investment interest	856	1,304	1,582	2,305
Total interest income	139,790	156,657	277,874	292,625
Interest expense:				
Interest on bonds and notes payable	51,054	59,243	103,361	110,102
Net interest income	88,736	97,414	174,513	182,523
Less provision for loan losses	5,250	6,200	9,000	11,200
Net interest income after provision for loan losses	83,486	91,214	165,513	171,323
Other income (expense):				
Loan and guaranty servicing revenue	37,389	36,652	73,025	73,046
Tuition payment processing and campus commerce revenue	14,761	12,795	34,130	30,177
Enrollment services revenue	32,315	35,403	66,183	68,674
Software services revenue	4,346	5,499	9,123	9,843
Other income	6,826	8,496	13,318	15,756
Gain on sale of loans and debt repurchases	—	8,759	8,307	18,936
Derivative market value and foreign currency adjustments and derivative settlements, net	(20,335)	(10,608)	(23,371)	(8,926)
Total other income	75,302	96,996	180,715	207,506
Operating expenses:				
Salaries and benefits	42,881	40,962	86,793	81,606
Cost to provide enrollment services	22,140	24,111	44,979	46,136
Depreciation and amortization	6,769	9,728	13,545	20,511
Restructure expense	—	72	—	1,269
Other	28,767	33,348	54,872	62,403
Total operating expenses	100,557	108,221	200,189	211,925
Income before income taxes	58,231	79,989	146,039	166,904
Income tax expense	(21,106)	(29,996)	(54,034)	(62,589)
Net income	$37,125	49,993	92,005	104,315
Earnings per common share:				
Net earnings - basic	$0.76	1.00	1.90	2.08
Net earnings - diluted	$0.76	0.99	1.89	2.08

Weighted average common shares outstanding:				
Basic	48,302,779	49,735,398	48,237,411	49,726,099
Diluted	48,488,046	49,934,648	48,425,886	49,923,680

See accompanying notes to consolidated financial statements.

3

NELNET, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME
(Dollars in thousands, except share data)
(unaudited)

	Preferred stock shares	Common stock shares Class A	Common stock shares Class B	Preferred stock	Class A common stock	Class B common stock	Additional paid-in capital	Retained earnings	Employee notes receivable	Total shareholders' equity
Balance as of March 31, 2010	—	38,587,293	11,495,377	$—	386	115	112,980	726,982	(1,250)	839,213
Comprehensive income:										
Net income	—	—	—	—	—	—	—	49,993	—	49,993
Cash dividend on Class A and Class B common stock - $0.07 per share	—	—	—	—	—	—	—	(3,507)	—	(3,507)
Issuance of common stock, net of forfeitures	—	71,156	—	—	1	—	701	—	—	702
Compensation expense for stock based awards	—	—	—	—	—	—	366	—	—	366
Repurchase of common stock	—	(663,443)	—	—	(7)	—	(12,815)	—	—	(12,822)
Balance as of June 30, 2010	—	37,995,006	11,495,377	$—	380	115	101,232	773,468	(1,250)	873,945
Balance as of March 31, 2011	—	36,983,557	11,495,377	$—	370	115	73,502	882,550	(1,170)	955,367
Comprehensive income:										
Net income	—	—	—	—	—	—	—	37,125	—	37,125
Cash dividend on Class A and Class B common stock - $0.10 per share	—	—	—	—	—	—	—	(4,852)	—	(4,852)
Issuance of common stock, net of forfeitures	—	70,794	—	—	1	—	1,027	—	—	1,028

Compensation expense for stock based awards	—	—	—	—	—	—	342	—	—	342
Repurchase of common stock	—	(9,979)	—	—	(1)	—	(225)	—	—	(226)
Balance as of June 30, 2011	—	37,044,372	11,495,377	$ —	370	115	74,646	914,823	(1,170)	988,784
Balance as of December 31, 2009	—	38,396,791	11,495,377	$ —	384	115	109,359	676,154	(1,449)	784,563
Comprehensive income:										
Net income	—	—	—	—	—	—	—	104,315	—	104,315
Cash dividend on Class A and Class B common stock - $0.14 per share	—	—	—	—	—	—	—	(7,001)	—	(7,001)
Issuance of common stock, net of forfeitures	—	274,594	—	—	3	—	4,233	—	—	4,236
Compensation expense for stock based awards	—	—	—	—	—	—	691	—	—	691
Repurchase of common stock	—	(676,379)	—	—	(7)	—	(13,051)	—	—	(13,058)
Reduction of employee stock notes receivable	—	—	—	—	—	—	—	—	199	199
Balance as of June 30, 2010	—	37,995,006	11,495,377	$ —	380	115	101,232	773,468	(1,250)	873,945
Balance as of December 31, 2010	—	36,846,353	11,495,377	$ —	368	115	76,263	831,057	(1,170)	906,633
Comprehensive income:										
Net income	—	—	—	—	—	—	—	92,005	—	92,005
Cash dividend on Class A and Class B common stock - $0.17 per share	—	—	—	—	—	—	—	(8,239)	—	(8,239)
Contingency payment related to business combination	—	—	—	—	—	—	(5,893)	—	—	(5,893)

Issuance of common stock, net of forfeitures	—	222,463	—	—	3	—	4,113	—	—	4,116
Compensation expense for stock based awards	—	—	—	—	—	—	697	—	—	697
Repurchase of common stock	—	(24,444)	—	—	(1)	—	(534)	—	—	(535)
Balance as of June 30, 2011	—	37,044,372	11,495,377	$ —	370	115	74,646	914,823	(1,170)	988,784

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,	
	2011	2010
Net income	$92,005	104,315
Adjustments to reconcile net income to net cash provided by operating activities, net of business acquisition:		
Depreciation and amortization, including loan premiums/discount and deferred origination costs	35,841	50,193
Provision for loan losses	9,000	11,200
Derivative market value adjustment	(68,658)	168,201
Foreign currency transaction adjustment	84,354	(165,075)
Proceeds to terminate and/or amend derivative instruments	12,369	14,764
Payments to terminate and/or amend derivative instruments	(522)	(763)
Gain on sale of loans	(1,345)	—
Gain from debt repurchases	(6,962)	(18,936)
Change in investments - trading securities, net	11,572	(31,017)
Deferred income tax (benefit) expense	(8,715)	7,229
Non-cash compensation expense	1,092	1,119
Other non-cash items	108	495
Decrease (increase) in accrued interest receivable	15,671	(68,182)
Decrease (increase) in accounts receivable	1,498	(15,393)
Decrease in other assets	3,258	4,036
(Decrease) increase in accrued interest payable	(2,060)	2,531
Decrease in other liabilities	(10,290)	(3,306)
Net cash provided by operating activities	168,216	61,411
Cash flows from investing activities, net of business acquisition:		
Originations and purchases of student loans, including loan premiums/discounts and deferred origination costs	(662,324)	(2,936,134)
Purchases of student loans, including loan premiums, from a related party	(29)	(988,998)
Net proceeds from student loan repayments, claims, capitalized interest, participations, and other	1,350,344	1,049,712
Proceeds from sale of student loans	95,131	21,036
Purchases of property and equipment, net	(8,281)	(4,670)
Decrease (increase) in restricted cash and investments, net	58,027	(44,397)
Business and asset acquisitions, net of cash acquired, including contingency payments	(14,080)	(3,000)
Net cash provided by (used in) investing activities	818,788	(2,906,451)
Cash flows from financing activities:		
Payments on bonds and notes payable	(1,782,953)	(1,778,360)
Proceeds from issuance of bonds and notes payable	745,554	4,586,636

Payments on bonds payable due to a related party	(107,050)	—
Payments of debt issuance costs	(1,506)	(7,043)
Dividends paid	(8,239)	(7,001)
Repurchases of common stock	(535)	(13,058)
Proceeds from issuance of common stock	265	247
Payments received on employee stock notes receivable	—	199
Net cash (used in) provided by financing activities	(1,154,464)	2,781,620
Net decrease in cash and cash equivalents	(167,460)	(63,420)
Cash and cash equivalents, beginning of period	283,801	338,181
Cash and cash equivalents, end of period	$116,341	274,761
Supplemental disclosures of cash flow information:		
Interest paid	$101,007	102,783
Income taxes paid, net of refunds	$63,331	51,887

See accompanying notes to consolidated financial statements.

NELNET, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Information as of June 30, 2011 and for the three and six months ended
June 30, 2011 and 2010 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 June 30, 2011 and for the three and six months ended June 30, 2011 and 2010 have been prepared on the same basis as the audited consolidated financial statements for the year ended December 31, 2010 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, 2011 are not necessarily indicative of the results for the year ending December 31, 2011. 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, 2010.

Reclassifications

Certain amounts previously reported within operating expenses have been reclassified to conform to the current period presentation. These reclassifications include:

- Reclassifying "professional and other services," "occupancy and communications," "postage and distribution," "advertising and marketing," and "trustee and other debt related fees" to "other" operating expenses.

- Reclassifying student list amortization, which was previously included in "advertising and marketing," to "depreciation and amortization."

The reclassifications had no effect on consolidated net income or consolidated assets and liabilities.

2. Student Loans Receivable and Allowance for Loan Losses

The Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2010-20, Disclosure about the Credit Quality of Financing Receivables and the Allowance for Credit Losses ("ASU 2010-20"), which was an update to the Receivables Topic of the FASB Accounting Standards Codification ("ASC"). In accordance with ASU 2010-20, the Company has expanded its disclosures about the credit quality of its student loans receivable and the associated allowance for loan losses. ASU 2010-20 requires entities to provide disclosures on a disaggregated basis. The ASU defines two levels of disaggregation – portfolio segment and class of financing receivable. A portfolio segment is defined as the level at which an entity develops and documents a systematic method for determining its allowance for credit losses. Classes of financing receivables generally are a disaggregation of a portfolio segment. The Company evaluates the adequacy of the allowance for loan losses on its federally insured loan portfolio separately from its non-federally insured loan portfolio. Management has determined that each of the federally insured loan portfolio and the non-federally insured loan portfolio meets the definition of a portfolio segment. Accordingly, the portfolio segment basis disclosures required by ASU 2010-20 are presented in this note for each of these portfolios. The Company does not disaggregate its portfolio segment student loan portfolios into classes of financing receivables as defined in ASU 2010-20. In addition, as of June 30, 2011 and December 31, 2010, the Company does not have any impaired loans as defined in the Receivables Topic of the FASB ASC.

Student loans receivable consisted of the following:

	As of June 30, 2011	As of December 31, 2010	
	Held for investment	Held for investment	Held for sale (a)
Federally insured loans	$ 23,083,157	23,757,699	—
Non-federally insured loans	30,655	26,370	84,987
	23,113,812	23,784,069	84,987
Unamortized loan premiums/discounts and deferred origination costs, net	157,266	207,571	—
Allowance for loan losses – federally insured loans	(31,968)	(32,908)	—
Allowance for loan losses – non-federally insured loans	(10,332)	(10,718)	—
	$ 23,228,778	23,948,014	84,987
Allowance for federally insured loans as a percentage of such loans	0.14 %	0.14 %	
Allowance for non-federally insured loans as a percentage of such loans	33.70 %	40.64 %	

(a) On January 13, 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 December 31, 2010, the Company classified this portfolio as held for sale and the loans were carried at fair value.

Activity in the Allowance for Loan Losses

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

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Balance at beginning of period	$ 41,097	49,400	43,626	50,887
Provision for loan losses:				
Federally insured loans	5,000	5,200	8,500	9,200
Non-federally insured loans	250	1,000	500	2,000
Total provision for loan losses	5,250	6,200	9,000	11,200
Charge-offs:				
Federally insured loans	(4,585)	(4,971)	(9,440)	(9,039)
Non-federally insured loans	(1,226)	(2,383)	(2,220)	(3,763)
Total charge-offs	(5,811)	(7,354)	(11,660)	(12,802)
Recoveries:				
Non-federally insured loans	283	331	653	582
Total recoveries	283	331	653	582
Purchase of federally insured loans	—	2,000	—	2,710
Purchase of non-federally insured loans	—	220	—	220

Transfer to/from repurchase obligation related to loans sold/purchased, net	1,481	—	681	(2,000)
Balance at end of period	$ 42,300	50,797	42,300	50,797
Allocation of the allowance for loan losses:				
Federally insured loans	$ 31,968	32,972	31,968	32,972
Non-federally insured loans	10,332	17,825	10,332	17,825
Total allowance for loan losses	$ 42,300	50,797	42,300	50,797

Repurchase Obligations

As of June 30, 2011, the Company had participated a cumulative amount of $117.1 million 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 on 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, on January 13, 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.

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

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Beginning balance	$ 19,670	12,600	12,600	10,600
Repurchase obligation transferred to/from the allowance for loan losses related to loans purchased/sold, net	(1,481)	—	(681)	2,000
Repurchase obligation associated with loans sold (a)	—	—	6,270	—
Current period expense (b)	2,500	—	2,500	—
Ending balance	$ 20,689	12,600	20,689	12,600

(a) As discussed previously, on January 13, 2011, the Company sold a portfolio of loans and retained all credit risk related to this portfolio. These loans were classified as held for sale as of December 31, 2010 and the loans were carried at fair value. Upon sale, the Company established a repurchase obligation associated with those loans that are estimated to become 60 days delinquent.

(b) The current period expense is included in "other" under operating expenses in the accompanying consolidated statements of income. During the three months ended June 30, 2011, the Company recorded an expense of $2.5 million related to its obligation to repurchase non-federally insured loans.

Student Loan Status and Delinquencies

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

	As of June 30, 2011		As of December 31, 2010	
	Dollars	Percent	Dollars	Percent
Federally Insured Loans:				
Loans in-school/grace/deferment (a)	$ 4,061,955		$ 4,358,616	
Loans in forebearance (b)	3,263,802		2,984,869	
Loans in repayment status:				
Loans current	13,748,083	87.2 %	14,309,480	87.2 %
Loans delinquent 31-60 days (c)	583,443	3.7	794,140	4.8
Loans delinquent 61-90 days (c)	358,539	2.3	306,853	1.9
Loans delinquent 91 days or greater (d)	1,067,335	6.8	1,003,741	6.1
Total loans in repayment	15,757,400	100.0 %	16,414,214	100.0 %
Total federally insured loans	$ 23,083,157		$ 23,757,699	
Non-Federally Insured Loans:				
Loans in-school/grace/deferment (a)	$ 3,749		$ 3,500	
Loans in forebearance (b)	510		292	
Loans in repayment status:				
Loans current	22,221	84.2 %	16,679	73.9 %
Loans delinquent 31-60 days (c)	624	2.4	1,546	6.8

Loans delinquent 61-90 days (c)	587	2.2	1,163	5.2
Loans delinquent 91 days or greater	2,964	11.2	3,190	14.1
Total loans in repayment	26,396	100.0 %	22,578	100.0 %
Total non-federally insured loans	$ 30,655		$ 26,370	

(a) Loans for borrowers who still may be attending school or engaging in other permitted educational activities and are not yet required to make payments on the loans, e.g., residency periods for medical students or a grace period for bar exam preparation for law students.

(b) Loans for borrowers who have temporarily ceased making full payments due to hardship or other factors, according to a schedule approved by the servicer consistent with the established loan program servicing procedures and policies.

(c) The period of delinquency is based on the number of days scheduled payments are contractually past due and relate to repayment loans, that is, receivables not charged off, and not in school, grace, deferment, or forbearance.

(d) Loans delinquent 91 days or greater include federally insured loans in claim status, which are loans that have gone into default and have been submitted to the guaranty agency.

Loan Sales

See note 4, “Gain on Sale of Loans and Debt Repurchases,” for a summary of loans sold by the Company.

Loan Purchases

See note 14, “Subsequent Event,” for a summary of a significant purchase of federally insured loans that occurred subsequent to June 30, 2011.

3. Bonds and Notes Payable

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

	As of June 30, 2011			
	Carrying amount	Interest rate range		Final maturity
Variable-rate bonds and notes (a):				
Bonds and notes based on indices	$ 19,629,816	0.26% - 6.90	%	5/26/14 - 7/27/48
Bonds and notes based on auction or remarketing	717,175	0.10% - 1.44	%	5/1/28 - 5/1/42
Total variable-rate bonds and notes	20,346,991			
Commercial paper - FFELP warehouse facility	469,578	0.18% - 0.29	%	7/29/13
Department of Education Conduit	2,497,198	0.25	%	5/8/14
Unsecured line of credit	177,300	0.56	%	5/8/12
Unsecured debt - Junior Subordinated Hybrid Securities	100,697	7.40	%	9/15/61
Other borrowings	13,649	3.50% - 5.10	%	11/14/11 - 11/11/15
	$ 23,605,413			

	As of December 31, 2010			
	Carrying amount	Interest rate range		Final maturity
Variable-rate bonds and notes (a):				
Bonds and notes based on indices	$ 20,170,217	0.30% - 6.90	%	5/26/14 - 7/27/48
Bonds and notes based on auction or remarketing	944,560	0.24% - 1.51	%	5/1/11 - 7/1/43
Total variable-rate bonds and notes	21,114,777			
Commercial paper - FFELP warehouse facility	108,381	0.29% - 0.35	%	7/29/13
Department of Education Conduit	2,702,345	0.31	%	5/8/14
Unsecured line of credit	450,000	0.79	%	5/8/12
Unsecured debt - Junior Subordinated Hybrid Securities	163,255	7.40	%	9/15/61
Related party debt	107,050	0.53	%	5/20/11
Other borrowings	26,664	0.26% - 5.10	%	1/1/11 - 11/11/15
	$ 24,672,472			

(a) Issued in asset-backed securitizations

Secured Financing Transactions

The Company has historically relied upon secured financing vehicles as its most significant source of funding for student loans. The net cash flow the Company receives from the securitized student loans generally represents the excess amounts, if any, generated by the underlying student loans over the amounts required to be paid to the bondholders, after deducting servicing fees and any other expenses relating to the securitizations. The Company's rights to cash flow from securitized student loans are subordinate to bondholder interests and may fail to generate any cash flow beyond what is due to bondholders. The Company's secured financing vehicles during the periods presented above include a loan warehouse facility, asset-backed securitizations, and the government's Conduit Program (as described below).

The majority of the bonds and notes payable are primarily secured by the student loans receivable, related accrued interest, and by the amounts on deposit in the accounts established under the respective bond resolutions or financing agreements. Certain variable rate bonds and notes are secured by a letter of credit and reimbursement agreement issued by a third-party liquidity provider.

FFELP warehouse facilities

The Company funds a portion of its Federal Family Education Loan Program (the "FFEL Program" or "FFELP") loan acquisitions using its FFELP warehouse facility. 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, 2011, the Company's FFELP warehouse facility had a maximum financing amount of $500.0 million, with a revolving financing structure supported by 364-day liquidity provisions. As of June 30, 2011, $469.6 million was outstanding under the FFELP warehouse facility, $30.4 million was available for future use, and $28.1 million was advanced as equity support.

On July 14, 2011, the Company renewed the liquidity agreement on its existing FFELP warehouse facility (the "NFSLW-I Warehouse") and entered into an additional FFELP warehouse facility (the "NHELP-I Warehouse").

Effective July 14, 2011, the Company's NFSLW-I Warehouse facility has a maximum financing amount of $300.0 million, with a revolving financing structure supported by 364-day liquidity provisions, which expires on April 1, 2012. The final maturity date of the facility is July 1, 2014. In the event the Company is unable to renew the liquidity provisions by April 1, 2012, 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 July 1, 2014.

The NFSLW-I Warehouse facility provides for formula based advance rates depending on FFELP loan type, up to a maximum of 85 percent to 98 percent of the principal and interest of loans financed. The advance rates for collateral may increase or decrease based on market conditions, but they are subject to a minimum advance of 84.5 to 90 percent based on loan type. The facility contains financial covenants relating to levels of the Company's consolidated net worth, ratio of adjusted EBITDA to corporate debt interest, and unencumbered cash. Any violation of these covenants could result in a requirement for the immediate repayment of any outstanding borrowings under the facility

The new NHELP-I Warehouse has a maximum financing amount of $500.0 million, with a revolving financing structure supported by 364-day liquidity provisions, which expires on October 1, 2012. The final maturity date of the facility is July 1, 2014. In the event the Company is unable to renew the liquidity provisions by October 1, 2012, 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 July 1, 2014.

The NHELP-I Warehouse facility provides for formula based advance rates depending on FFELP loan type, up to a maximum of 93 percent to 95 percent of the principal and interest of loans financed. The advance rates for collateral may increase or decrease based on market conditions, but they are subject to a minimum advance of 85 to 90 percent based on loan type. The facility contains financial covenants relating to levels of the Company's consolidated net worth, ratio of adjusted EBITDA to corporate debt interest, and unencumbered cash. Any violation of these covenants could result in a requirement for the immediate repayment of any outstanding borrowings under the facility.

Asset-backed securitizations

During the first quarter of 2011, the Company completed an asset-backed securities transaction totaling $384.4 million. Notes issued in this asset-backed securities transaction carry interest rates based on a spread to LIBOR. The Company used the proceeds from the sale of these notes to purchase principal and interest on student loans, including loans which were previously financed in the FFELP warehouse facility.

See note 14, "Subsequent Event," for a summary of notes payable related to a significant purchase of oederally insured loans that occurred subsequent to June 30, 2011.

Department of Education's Conduit Program

In May 2009, the U.S. Department of Education (the "Department") implemented a program under which it finances eligible FFELP Stafford and PLUS loans in a conduit vehicle established to provide funding for student lenders (the "Conduit Program"). Loans eligible for the Conduit Program had to be first disbursed on or after October 1, 2003, but not later than June 30, 2009, and fully disbursed before September 30, 2009, and meet certain other requirements. Funding for the Conduit Program is provided by the capital markets at a cost based on market rates, with the Company being advanced 97 percent of the student loan face amount. Excess amounts needed to fund the remaining 3 percent of the student loan balances were contributed by the Company. The Conduit Program expires on May 8, 2014. The Student Loan Short-Term Notes ("Student Loan Notes") issued by the Conduit Program are supported by a combination

of (i) notes backed by FFELP loans, (ii) a liquidity agreement with the Federal Financing Bank, and (iii) a put agreement provided by the Department. If the conduit does not have sufficient funds to pay all Student Loan Notes, then those Student Loan Notes will be repaid with funds from the Federal Financing Bank. The Federal Financing Bank will hold the notes for a short period of time and, if at the end of that time, the Student Loan Notes still cannot be paid off, the underlying FFELP loans that serve as collateral to the Conduit Program will be sold to the Department through a put agreement at a price of 97 percent of the face amount of the loans. As of June 30, 2011, the Company had $2.5 billion borrowed under the facility and $87.9 million advanced as equity support in the facility. Effective July 1, 2010, no additional loans could be funded using the Conduit Program.

Unsecured Line of Credit

The Company has a $750.0 million unsecured line of credit that terminates in May 2012. As of June 30, 2011, there was $177.3 million outstanding on this line. Upon termination in 2012, there can be no assurance that the Company will be able to maintain this line of credit, find alternative funding, or increase the amount outstanding under the line, if necessary. The lending commitment under the Company's unsecured line of credit is provided by a total of thirteen banks, with no individual bank representing more than 11% of the total lending commitment. The bank lending group includes Lehman Brothers Bank ("Lehman"), a subsidiary of Lehman Brothers Holdings Inc., which represents approximately 7% of the lending commitment under the line of credit. In September 2008, Lehman Brothers Holdings Inc. filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code. The Company does not expect that Lehman will fund future borrowing requests. As of June 30, 2011, excluding Lehman's lending commitment, the Company has $532.6 million available for future use under its unsecured line of credit.

The line of credit agreement contains certain financial covenants that, if not met, lead to an event of default under the agreement. The covenants include maintaining:

- A minimum consolidated net worth
- A minimum adjusted EBITDA to corporate debt interest (over the last four rolling quarters)
- A limitation on subsidiary indebtedness
- A limitation on the percentage of non-guaranteed loans in the Company's portfolio

As of June 30, 2011, the Company was in compliance with all of these requirements. Many of these covenants are duplicated in the Company's other lending facilities, including its FFELP warehouse facilities.

The Company's operating line of credit does not have any covenants related to unsecured debt ratings. However, changes in the Company's ratings (as well as the amounts the Company borrows) have modest implications on the pricing level at which the Company obtains funding.

A default on the Company's FFELP warehouse facilities would result in an event of default on the Company's unsecured line of credit that would result in the outstanding balance on the line of credit becoming immediately due and payable.

Related Party Transactions

Union Bank Participation Agreement

The Company maintains an agreement with Union Bank and Trust Company ("Union Bank"), an entity under common control, as trustee for various grantor trusts, under which Union Bank has agreed to purchase from the Company participation interests in student loans (the "FFELP Participation Agreement"). The Company uses this facility as an additional source to fund FFELP student loans. The Company has the option to purchase the participation interests from the grantor trusts at the end of a 364-day term upon termination of the participation certificate. As of June 30, 2011 and December 31, 2010, $570.7 million and $350.4 million, respectively, of loans were subject to outstanding participation interests held by Union Bank, as trustee, under this agreement. The agreement automatically renews annually and is terminable by either party upon five business days notice. This agreement provides beneficiaries of Union Bank's grantor trusts with access to investments in interests in student loans, while providing liquidity to the Company. The Company can participate loans to Union Bank to the extent of availability under the grantor trusts, up

to $750 million or an amount in excess of $750 million if mutually agreed to by both parties. Loans participated under this agreement have been accounted for by the Company as loan sales. Accordingly, the participation interests sold are not included on the Company's consolidated balance sheets.

Related Party Debt

The Company has from time to time repurchased certain of its own asset-backed securities (bonds and notes payable). For accounting purposes, these notes have been effectively retired and are not included on the Company's consolidated balance sheets. However, these securities are legally outstanding at the trust level and the Company could sell these notes to third parties or redeem the notes at par as cash is generated by the trust estate. As of December 31, 2010, the Company had $107.1 million of these securities participated to Union Bank, as trustee for various grantor trusts, and such notes were included in "bonds and notes payable" on the Company's consolidated balance sheet. During the first quarter of 2011, the Company redeemed all outstanding notes under this participation.

Debt Repurchases

During the first six months of 2010 and 2011, the Company repurchased outstanding debt as summarized in note 4, "Gain on Sale of Loans and Debt Repurchases."

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4. Gain on Sale of Loans and Debt Repurchases

"Gain on sale of loans and debt repurchases" in the accompanying consolidated statements of income is composed of the following items:

	Three months ended June 30, 2011			Six months ended June 30, 2011		
	Notional amount	Purchase price	Gain	Notional amount	Purchase price	Gain
Gains on debt repurchases:						
Junior Subordinated Hybrid Securities	$ —	—	—	62,558	55,651	6,907
Asset-backed securities (a)	—	—	—	600	545	55
	$ —	—	—	63,158	56,196	6,962
Gain on sale of loans			—			1,345
Gain on sale of loans and debt repurchases, net			$ —			$ 8,307

	Three months ended June 30, 2010			Six months ended June 30, 2010		
	Notional amount	Purchase price	Gain	Notional amount	Purchase price	Gain
Gains on debt repurchases:						
Asset-backed securities (a)	$ 117,775	109,016	8,759	392,025	373,089	18,936

(a) For accounting purposes, the asset-backed securities repurchased by the Company are effectively retired and are not included on the Company's consolidated balance sheet. However, as of June 30, 2011, the Company has purchased a cumulative amount of $61.7 million of these securities that remain legally outstanding at the trust level and the Company could sell these notes to third parties or redeem the notes at par as cash is generated by the trust estate. Upon a sale to third parties, the Company would obtain cash proceeds equal to the market value of the notes on the date of such sale. The par value of these notes ($61.7 million as of June 30, 2011) may not represent market value of such securities.

5. Derivative Financial Instruments

The Company is exposed to certain risks relating to its ongoing business operations. The primary risks managed by using derivative instruments are interest rate risk and foreign currency exchange risk.

Interest Rate Risk

The Company's primary market risk exposure arises from fluctuations in its borrowing and lending rates, the spread between which could impact the Company due to shifts in market interest rates. Because the Company generates a significant portion of its earnings from its student loan spread, the interest rate sensitivity of the balance sheet is a key profitability driver. 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 assessment of current and future market conditions. Based on those factors, the Company uses derivative instruments as part of its overall risk management strategy.

Basis Swaps

The Company funds the majority of its student loan assets with one-month or three-month LIBOR indexed floating rate securities. Meanwhile, the interest earned on the Company's student loan assets is indexed to commercial paper and treasury bill rates. 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 occurs daily. In a declining interest rate environment, this may cause the Company's student loan spread to compress, while in a rising rate environment, it may cause the spread to increase. As of June 30, 2011, the Company had $22.1 billion and $1.0 billion of FFELP loans indexed to the three-month financial commercial paper rate and the three-month treasury bill rate, respectively, both of which reset daily, and $18.9 billion of debt indexed to three-month LIBOR, which resets quarterly, and $0.7 billion of debt indexed to one-month LIBOR, which resets monthly.

Because of the different indice types and different indice reset frequencies, the Company is exposed to interest rate risk in the form of basis risk and repricing risk, which, as noted above, is the risk that the different indices may reset at different frequencies, or will not move in the same direction or with the same magnitude. While these indices are all short term in nature with rate movements that are highly correlated over a longer period of time, there have been points in recent history when volatility has been high and correlation has been reduced.

The Company has used derivative instruments to hedge both the basis and repricing risk on certain student loans in which the Company earns interest based on a treasury bill rate that resets daily and are funded with debt indexed to primarily three-month LIBOR. To hedge these loans, the Company has entered into basis swaps in which the Company receives three-month LIBOR set discretely in advance and pays a weekly treasury bill rate plus a spread as defined in the agreement ("T-Bill/LIBOR Basis Swaps").

However, the Company does not generally hedge the basis risk on those assets indexed to the commercial paper rate that are funded with liabilities in which the Company pays primarily on the LIBOR indice, since the derivatives needed to hedge this risk are generally illiquid or non-existent and the relationship between these indices has been highly correlated over a long period of time.

The Company has also used derivative instruments to hedge the repricing risk due to the timing of the interest rate resets on its assets and liabilities. 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 basis swaps outstanding as of both June 30, 2011 and December 31, 2010:

	Notional Amounts	
Maturity	1:3 Basis Swaps	T-Bill/LIBOR Basis Swaps
2011	$ -	225,000
2021	250,000	-
2023	1,250,000	-
2024	250,000	-
2028	100,000	-
2039 (a)	150,000	-
2040 (b)	200,000	-
	$ 2,200,000	225,000

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

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

Interest rate swaps – floor income hedges

FFELP loans originated prior to April 1, 2006 generally earn interest at the higher of a floating rate based on the Special Allowance Payment (or SAP) formula set by the Department and the borrower rate, which is fixed over a period of time. The SAP formula is based on an applicable indice plus a fixed spread that is dependent upon when the loan was originated, the loan's repayment status, and funding sources for the loan. The Company generally finances its student loan portfolio with variable rate debt. In low and/or declining interest rate environments, when the fixed borrower rate is higher than the rate produced by the SAP formula, the Company's student loans earn at a fixed rate while the interest on the variable rate debt typically continues to decline. 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. In accordance with legislation enacted in 2006, lenders are required to rebate fixed rate floor income and variable rate floor income to the Department for all FFELP loans first originated on or after April 1, 2006.

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

13

As of June 30, 2011 and December 31, 2010, the Company had $9.8 billion and $8.5 billion, respectively, of student loan assets that were earning fixed rate floor income. The following tables summarize the outstanding derivative investments used by the Company to economically hedge these loans.

	As of June 30, 2011			
Maturity		Notional Amount	Weighted average fixed rate paid by the Company (a)	
2011	$	3,300,000	0.55	%
2012		950,000	1.08	
2013		2,150,000	0.85	
2015		100,000	2.26	
2020		50,000	3.23	
	$	6,550,000	0.77	%

	As of December 31, 2010			
Maturity		Notional Amount	Weighted average fixed rate paid by the Company (a)	
2011	$	4,300,000	0.53	%
2012		3,950,000	0.67	
2013		650,000	1.07	
2015		100,000	2.26	
2020		50,000	3.23	
	$	9,050,000	0.66	%

(a) For all interest rate derivatives, the Company receives discrete

Interest rate swaps – unsecured debt hedges

On September 27, 2006, the Company issued $200.0 million aggregate principal amount of Junior Subordinated Hybrid Securities. As of June 30, 2011, $100.7 million of these notes were outstanding. The interest rate on the Hybrid Securities from the date they were issued through September 28, 2011 is 7.40%, payable semi-annually. Beginning September 29, 2011 through September 29, 2036, the interest rate on the Hybrid Securities will be equal to three-month LIBOR plus 3.375%, payable quarterly. As of both June 30, 2011 and December 31, 2010, the Company had the following derivatives outstanding that were used to effectively convert the future variable interest rate on the Hybrid Securities to a fixed rate.

Notional Amount (a)	Weighted average fixed rate paid by the Company (b)
$ 100,000	4.27 %

(a) The effective start date on $75 million (notional amount) of the derivatives outstanding is March 2012 with a maturity date of September 29, 2036. $25 million (notional amount) of the derivatives outstanding are cancelable on September 29, 2011 at the Company's discretion. If this one time option to cancel is not exercised by the Company, the maturity date will be September 29, 2036.

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

Foreign Currency Exchange Risk

During 2006, the Company completed separate debt offerings of student loan asset-backed securities that included €420.5 million and €352.7 million 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 is re-measured at each reporting period and recorded on the Company's 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 "derivative market value and foreign currency adjustments and derivative settlements, net" 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 indice based on notional amounts of €420.5 million and €352.7 million and pays a spread to the LIBOR indice 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 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. These items are included in "derivative market value and foreign currency adjustments and derivative settlements, net" on the accompanying consolidated statements of income.

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Re-measurement of Euro Notes	$ (19,020)	93,401	(84,355)	165,075
Change in fair value of cross currency interest rate swaps	18,734	(100,946)	81,266	(160,021)
Total impact to statements of income - income (expense)	$ (286)	(7,545)	(3,089)	5,054

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. Management intends to hold the cross-currency interest rate swaps through the maturity of the Euro-denominated bonds.

Accounting for Derivative Financial Instruments

The Company records derivative instruments on the consolidated balance sheets as either an asset or liability measured at its fair value. Management has structured the majority of the Company's derivative transactions with the intent that each is economically effective; however, the Company's derivative instruments do not qualify for hedge accounting. As a result, the change in fair value of the Company's derivatives at each reporting date are included in "derivative market value and foreign currency adjustments and derivative settlements, net" in the Company's consolidated statements of income. Changes or shifts in the forward yield curve and fluctuations in currency rates can significantly impact the valuation of the Company's derivatives. Accordingly, changes or shifts to the forward yield curve and fluctuations in currency rates will impact the financial position and results of operations of the Company.

Any proceeds received or payments made by the Company to terminate a derivative in advance of its expiration date, or to amend the terms of an existing derivative, are included in “derivative market value and foreign currency adjustments and derivative settlements, net” on the consolidated statements of income and are accounted for as a change in fair value of such derivative. During the three and six months ended June 30, 2011, the Company terminated and/or amended certain derivatives for net payments of $0.4 million and net proceeds of $11.8 million, respectively. During the three and six months ended June 30, 2010, the Company terminated and/or amended certain derivatives for net proceeds of $13.1 million and $14.0 million, respectively.

The following table summarizes the fair value of the Company’s derivatives not designated as hedging:

	Fair value of asset derivatives		Fair value of liability derivatives	
	As of June 30, 2011	As of December 31, 2010	As of June 30, 2011	As of December 31, 2010
1:3 basis swaps	$ 5,477	10,489	470	44
T-Bill/LIBOR basis swaps	—	—	80	201
Interest rate swaps - floor income hedges	621	10,569	20,506	15,372
Interest rate swaps - hybrid debt hedges	166	1,132	1,953	470
Cross-currency interest rate swaps	176,184	94,918	—	—
Other	2	1,238	374	2
Total	$ 182,450	118,346	23,383	16,089

The following table summarizes the effect of derivative instruments in the consolidated statements of income. All gains and losses recognized in income related to the Company's derivative activity are included in "derivative market value and foreign currency and derivative settlements, net" on the consolidated statements of income.

Derivatives not designated as hedging	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
Settlements:				
1:3 basis swaps	$ 373	80	581	221
T-Bill/LIBOR basis swaps	(64)	—	(194)	—
Interest rate swaps - floor income hedges	(6,345)	(4,286)	(12,563)	(8,142)
Interest rate swaps - hybrid debt hedges	(248)	(79)	(494)	(79)
Cross-currency interest rate swaps	2,770	917	4,880	2,219
Other	(8)	(9)	116	(19)
Total settlements - (expense) income	(3,522)	(3,377)	(7,674)	(5,800)
Change in fair value:				
1:3 basis swaps	(1,228)	6,300	(5,438)	5,754
T-Bill/LIBOR basis swaps	92	190	121	236
Interest rate swaps - floor income hedges	(11,109)	(9)	(4,714)	(7,548)
Interest rate swaps - hybrid debt hedges	(3,897)	(5,377)	(2,449)	(5,321)
Cross-currency interest rate swaps	18,734	(100,946)	81,266	(160,021)
Other	(385)	(790)	(128)	(1,301)
Total change in fair value - (expense) income	2,207	(100,632)	68,658	(168,201)
Re-measurement of Euro Notes (foreign currency transaction adjustment) - (expense) income	(19,020)	93,401	(84,355)	165,075
Derivative market value and foreign currency adjustments and derivative settlements - (expense) income	$ (20,335)	(10,608)	(23,371)	(8,926)

Derivative Instruments - Credit and Market Risk

By using derivative instruments, the Company is exposed to credit and market risk.

When the fair value of a derivative instrument is negative (a liability on the Company's balance sheet), the Company would owe the counterparty if the derivative was settled and, therefore, has no immediate credit risk. Additionally, if the negative fair value of derivatives with a counterparty exceeds a specified threshold, the Company may have to

make a collateral deposit with the counterparty. The threshold at which the Company posts collateral is dependent upon the Company's unsecured credit rating. If the Company's credit ratings are downgraded from current levels or if interest and foreign currency exchange rates move materially, the Company could be required to deposit a significant amount of collateral with its derivative instrument counterparties. The collateral deposits, if significant, could negatively impact the Company's liquidity and capital resources. As of June 30, 2011, the Company had $22.3 million posted as collateral to derivative counterparties, which is included in "restricted cash and investments" in the Company's consolidated balance sheet. The Company does not use the collateral to offset fair value amounts recognized in the financial statements for derivative instruments.

When the fair value of a derivative contract is positive (an asset on the Company's balance sheet), this generally indicates that the counterparty would owe the Company if the derivative was settled. If the counterparty fails to perform, credit risk with such counterparty is equal to the extent of the fair value gain in the derivative less any collateral held by the Company. If the Company was unable to collect from a counterparty, it would have a loss equal to the amount the derivative is recorded on the consolidated balance sheet. As of June 30, 2011, the trustee for the Company's asset-backed securities transactions held $167.5 million of collateral from the counterparty on the cross-currency interest rate swaps. The Company considers counterparties' credit risk when determining the fair value of derivative positions on its exposure net of collateral. However, the Company does not use the collateral to offset fair value amounts recognized in the financial statements for derivative instruments.

The Company attempts to manage market and credit risks associated with interest and foreign currency exchange rates by establishing and monitoring limits as to the types and degree of risk that may be undertaken and by entering into transactions with high-quality counterparties that are reviewed periodically by the Company's risk committee. As of June 30, 2011, all of the Company's derivative counterparties had investment grade credit ratings. The Company also has a policy of requiring that all derivative contracts be governed by an International Swaps and Derivatives Association, Inc. Master Agreement.

6. Investments

Included in "investments – trading securities" on the consolidated balance sheets as of June 30, 2011 and December 31, 2010 are debt and equity securities that are bought and held principally for the purpose of selling them in the near term. These investments are classified as trading securities and reported at fair value.

In December 2010, Union Bank established various trusts whereby Union Bank serves as trustee for the purpose of purchasing, holding, managing, and selling investments in student loan asset backed securities. Union Bank, in its individual capacity, and the Company have both invested money into the trusts. As of June 30, 2011 and December 31, 2010, the Company had $17.7 million and $4.9 million, respectively, invested in the trusts. The Company's investments held in the trusts are included in "investments – trading securities" on the consolidated balance sheets.

Prior to May 1, 2011, the Company and Union Bank employed certain individuals as dual employees and such employees provided consulting and advisory services to Union Bank as trustee for these trusts, and Union Bank agreed to pay the Company for the share of such employees' salary and payroll based on the value of such services rendered as well as the loss of value of such dual employees' services to the Company. On May 9, 2011, a subsidiary of the Company entered into a management agreement with Union Bank, effective as of May 1, 2011, under which the subsidiary performs various advisory and management services on behalf of Union Bank with respect to investments in securities by the trusts, including identifying securities for purchase or sale by the trusts. The agreement provides that Union Bank will pay to the subsidiary annual fees of 25 basis points on the outstanding balance of the investments in the trusts. As of June 30, 2011, the outstanding balance of investments in the trusts was $279.5 million. In addition, Union Bank will pay additional fees to the subsidiary of 50% of the gains from the sale of securities from the trusts. During the three month period ended June 30, 2011, the Company recognized $1.2 million of fee revenue related to this agreement which is included in "other income" in the accompanying consolidated statement of income.

7. Intangible Assets

Intangible assets consist of the following:

	Weighted average remaining useful life as of June 30, 2011 (months)		As of June 30, 2011	As of December 31, 2010
Amortizable intangible assets:				
Customer relationships (net of accumulated amortization of $55,199 and $49,743, respectively)	64	$	29,907	28,576
Computer software (net of accumulated amortization of $3,739 and $2,419, respectively)	19		4,179	5,499
Trade names (net of accumulated amortization of $8,115 and $6,956, respectively)	18		3,478	4,637
Total - amortizable intangible assets	54	$	37,564	38,712

The Company recorded amortization expense on its intangible assets of $4.0 million and $6.2 million for the three months ended June 30, 2011 and 2010, respectively, and $–––7.9 million and $12.7 million for the six months ended

June 30, 2011 and 2010, respectively. The Company will continue to amortize intangible assets over their remaining useful lives. As of June 30, 2011, the Company estimates it will record amortization expense as follows:

2011 (July 1 - December 31)	$8,981
2012	17,531
2013	4,286
2014	2,429
2015	925
2016 and thereafter	3,412
	$37,564

During the first quarter of 2010, the Company purchased certain assets of a software company that constituted a business combination. The initial consideration paid by the Company was $3.0 million in cash. In addition to the initial purchase price, additional payments are to be made by the Company based on certain operating results as defined in the purchase agreement. These contingent payments are payable in two additional annual installments due in March 2012 and March 2013 and in total are estimated by the Company, as of June 30, 2011, to be $3.5 million. The contingent payments will be remeasured to fair value each reporting date until the contingency is resolved, with all changes in fair value being recognized in earnings. Substantially all of the purchase price was allocated to a computer software intangible asset that is being amortized over three years.

On June 30, 2011, the Company purchased contracts with more than 370 K–12 schools to provide tuition payment plan services. The initial consideration paid by the Company was $6.9 million in cash. The purchase price is subject to adjustment based on customer retention. The adjustment to purchase price, if any, will occur on September 30, 2011 and May 31, 2012. Substantially all of the purchase price was allocated to a customer relationship intangible asset that is being amortized over three years.

8. Goodwill

The following table summarizes the Company's allocation of goodwill by operating segment as of June 30, 2011 and December 31, 2010:

Student Loan and Guaranty Servicing	$8,596
Tuition Payment Processing and Campus Commerce	58,086
Enrollment Services	8,553
Asset Generation and Management	41,883
	$117,118

9. Shareholders' Equity

Dividends

Dividends of $0.07 and $0.10 per share on the Company's Class A and Class B common stock were paid on March 15, 2011 and June 15, 2011, respectively, to all holders of record as of March 1, 2011, and June 1, 2011, respectively. In addition, a $0.10 per share dividend on the Company's Class A and Class B common stock will be paid on September 15, 2011 to all holders of record as of September 1, 2011.

Contingent Consideration - infiNET Integrated Solutions, Inc. ("infiNET")

In 2004, the Company purchased 50% of the stock of infiNET and, in 2006, purchased the remaining 50% of infiNET's stock. infiNET provides software for customer-focused electronic transactions, information sharing, and electronic account and bill presentment for colleges and universities. Consideration for the purchase of the remaining 50% of the stock of infiNET included 95,380 restricted shares of the Company's Class A common stock. The purchase agreement provided that the 95,380 shares of Class A common stock issued in the acquisition were subject to stock price guaranty provisions whereby if on or about February 28, 2011 the average market trading price of the Class A common stock was less than $104.8375 per share and had not exceeded that price for any 25 consecutive trading days during the 5-year period from the closing of the acquisition to February 28, 2011, then the Company was required to pay additional cash to the sellers of infiNET for each share of Class A common stock issued in an amount representing the difference between $104.8375 less the greater of $41.9335 or the gross sales price such seller obtained from a sale of the shares occurring subsequent to February 28, 2011. On February 28, 2011, the Company paid $5.9 million in cash to satisfy this obligation. This payment was recorded by the Company as a reduction to additional paid-in capital.

10. 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 of computing earnings per share, which requires the calculation of separate earnings per share amounts for unvested share-based awards and for common stock. Unvested share-based awards that contain nonforfeitable rights to dividends are considered securities which participate in undistributed earnings with common stock. Earnings per share attributable to common stock is shown in the table below.

A reconciliation of weighted average shares outstanding follows:

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
	$ 37,125	49,993	92,005	104,315

Net income attributable to Nelnet, Inc.					
Less earnings allocated to holders of unvested restricted stock		226	315	570	653
Net income available to common stockholders	$	36,899	49,678	91,435	103,662
Weighted average common shares outstanding - basic		48,302,779	49,735,398	48,237,411	49,726,099
Dilutive effect of the assumed vesting of restricted stock awards		185,267	199,250	188,475	197,581
Weighted average common shares outstanding - diluted		48,488,046	49,934,648	48,425,886	49,923,680
Basic earnings per common share	$	0.76	1.00	1.90	2.08
Diluted earnings per common share	$	0.76	0.99	1.89	2.08

There were no shares that were antidilutive and not included in average shares outstanding for the diluted earnings per share calculation.

11. 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.

The accounting policies of the Company's operating segments are the same as those described in note 2 in the notes to the consolidated financial statements included in the Company's Annual Report filed on Form 10-K for the year ended December 31, 2010. Intersegment revenues are charged by a segment to another segment that provides the product or service. 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. The Company allocates certain corporate overhead expenses to the individual operating segments. These expenses include certain corporate activities 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.

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. Management, including the Company's chief operating decision maker, evaluates the performance of the Company's operating segments based on their profitability. As discussed further below, management measures the profitability of the Company's operating segments based on "base net income." Accordingly, information regarding the Company's operating segments is provided based on "base net income." The Company's "base net income" is not a defined term within generally accepted accounting principles ("GAAP") and may not be comparable to similarly titled measures reported by other companies. Unlike financial accounting, there is no comprehensive, authoritative guidance for management reporting.

Fee-Based Operating Segments

Student Loan and Guaranty Servicing

The following are the primary product and service offerings the Company offers as part of its Student Loan and Guaranty Servicing segment:

- Servicing of FFELP loans
- Origination and servicing of non-federally insured student loans
- Servicing federally-owned student loans for the Department of Education
- Servicing and support outsourcing for guaranty agencies
- Student loan servicing software and other information technology products and services

The Student Loan and Guaranty Servicing operating segment provides for the servicing of the Company's student loan portfolios and the portfolios of third parties. The loan servicing activities include loan origination activities, loan conversion activities, application processing, borrower updates, payment processing, due diligence procedures, funds management reconciliations, and claim processing. These activities are performed internally for the Company's portfolio in addition to generating external fee revenue when performed for third party clients.

In June 2009, the Department of Education named the Company as one of four private sector companies awarded a servicing contract to service federally-owned student loans. In September 2009, the Company began servicing loans under this contract. The contract spans five years with one five-year renewal at the option of the Department.

This operating segment also provides servicing activities for guarantee agencies. These activities include providing software and data center services, borrower and loan updates, default aversion tracking services, claim processing services, and post-default collection services.

This operating segment also develops student loan servicing software, which is used internally by the Company and also licensed to third party student loan holders and servicers. In addition, this operating segment provides information technology products and services with core areas of business in educational loan software solutions, technical consulting services, and Enterprise content management solutions.

Tuition Payment Processing and Campus Commerce

The Company's Tuition Payment Processing and Campus Commerce operating segment provides products and services to help students and families manage the payment of education costs at all levels (K-12 and higher education). It also provides innovative education-focused technologies, services, and support solutions to help schools with the everyday challenges of collecting and processing commerce data.

In the K-12 market, the Company offers actively managed tuition payment plans as well as assistance with financial needs assessment, enrollment management, and donor management. The Company offers two principal products to the higher education market: actively managed tuition payment plans and campus commerce technologies and payment processing.

Enrollment Services

The Enrollment Services operating segment offers products and services that are focused on helping colleges recruit and retain students (interactive and list marketing services) and helping students plan and prepare for life after high school (publishing services and resource centers). Interactive marketing products and services include agency of record services, qualified inquiry generation, pay per click, and other marketing management, along with school operations consulting and call center solutions. The majority of interactive marketing revenue is derived from fees which are earned through the delivery of qualified inquiries or clicks provided to colleges and universities. List marketing services include providing lists to help higher education institutions and businesses reach the middle school, high school, college bound high school, college, and young adult market places. Publishing services include test preparation study guides, school directories and databases, and career exploration guides. Resource centers include online courses, scholarship search and selection data, career planning, and on-line information about colleges and universities.

Asset Generation and Management Operating Segment

The Asset Generation and Management Operating Segment includes the acquisition, management, and ownership of the Company’s student loan assets, which has historically been the Company’s largest product and service offering. The Company generates a substantial portion of its earnings from the spread, referred to as the Company’s student loan spread, between the yield it receives on its student loan portfolio and the associated costs to finance such portfolio. The student loan assets are held in a series of education lending subsidiaries designed specifically for this purpose. In addition to the student loan spread earned on its portfolio, all costs and activity associated with managing the portfolio, such as servicing of the assets and debt maintenance are included in this segment.

As a result of legislation (the Reconciliation Act of 2010), effective July 1, 2010, all new federal loan originations are made through the Direct Loan Program and the Company no longer originates FFELP loans. This legislation does not alter or affect the terms and conditions of existing FFELP loans.

Corporate Activity and Overhead

Corporate Activity and Overhead includes the following items:

- Income earned on certain investment activities
- Interest expense incurred on unsecured debt transactions
- Other products and service offerings that are not considered operating segments

Corporate Activities also includes certain corporate activities and overhead functions related to executive management, human resources, accounting and finance, legal, and marketing. Beginning in 2010, these costs were allocated to each operating segment based on estimated use of such activities and services.

Segment Operating Results – “Base Net Income”

The tables below include the operating results of each of the Company’s operating segments. Management, including the chief operating decision maker, evaluates the Company on certain non-GAAP performance measures that the Company refers to as “base net income” for each operating segment. While “base net income” is not a substitute for

reported results under GAAP, the Company relies on "base net income" to manage each operating segment because it believes this measure provides additional information regarding the operational and performance indicators that are most closely assessed by management.

"Base net income" is the primary financial performance measure used by management to develop the Company's financial plans, track results, and establish corporate performance targets and incentive compensation. Management believes this information provides additional insight into the financial performance of the core business activities of the Company's operating segments. Accordingly, the tables presented below reflect "base net income," which is the operating measure reviewed and utilized by management to manage the business. Reconciliations of the segment totals to the Company's operating results in accordance with GAAP are also included in the tables below.

Income Taxes

For segment reporting, income taxes are applied 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.

Reclassifications

Certain amounts previously reported within operating expenses have been reclassified to conform to the current period presentation. These reclassifications had no effect on any of the segments' net income or assets and liabilities.

Segment Results and Reconciliations to GAAP

	Three months ended June 30, 2011									
	Student Loan and Guaranty Servicing	Fee-Based Tuition Payment Processing and Campus Commerce	Enrollment Services	Total Fee-Based	Asset Generation and Management	Corporate Activity and Overhead	Eliminations	Base Net Income	Adjustments to GAAP Results	GAAP Results of Operations
Total interest income	$12	2	—	14	139,284	1,147	(655)	139,790	—	139,790
Interest expense	—	—	—	—	49,269	2,440	(655)	51,054	—	51,054
Net interest income (loss)	12	2	—	14	90,015	(1,293)	—	88,736	—	88,736
Less provision for loan losses	—	—	—	—	5,250	—	—	5,250	—	5,250
Net interest income (loss) after provision for loan losses	12	2	—	14	84,765	(1,293)	—	83,486	—	83,486
Other income (expense):										
Loan and guaranty servicing revenue	37,389	—	—	37,389	—	—	—	37,389	—	37,389
Intersegment servicing revenue	16,793	—	—	16,793	—	—	(16,793)	—	—	—
Tuition payment processing and campus commerce	—	14,761	—	14,761	—	—	—	14,761	—	14,761

revenue										
Enrollment services revenue	—	—	32,315	32,315	—	—	—	32,315	—	32,315
Software services revenue	4,346	—	—	4,346	—	—	—	4,346	—	4,346
Other income	—	—	—	—	3,997	2,829	—	6,826	—	6,826
Gain on sale of loans and debt repurchases	—	—	—	—	—	—	—	—	—	—
Derivative market value and foreign currency adjustments	—	—	—	—	—	—	—	—	(16,813)	(16,813)
Derivative settlements, net	—	—	—	—	(3,274)	(248)	—	(3,522)	—	(3,522)
Total other income (expense)	58,528	14,761	32,315	105,604	723	2,581	(16,793)	92,115	(16,813)	75,302
Operating expenses:										
Salaries and benefits	24,731	7,249	5,931	37,911	709	4,261	—	42,881	—	42,881
Cost to provide enrollment services	—	—	22,140	22,140	—	—	—	22,140	—	22,140
Depreciation and amortization	1,336	345	780	2,461	—	349	—	2,810	3,959	6,769
Restructure expense	—	—	—	—	—	—	—	—	—	—
Other	14,605	2,327	2,442	19,374	5,139	4,254	—	28,767	—	28,767
Intersegment expenses, net	1,060	1,118	959	3,137	17,047	(3,391)	(16,793)	—	—	—
Total operating expenses	41,732	11,039	32,252	85,023	22,895	5,473	(16,793)	96,598	3,959	100,557
Income (loss) before income taxes and corporate overhead	16,808	3,724	63	20,595	62,593	(4,185)	—	79,003	(20,772)	58,231

allocation										
Corporate overhead allocation	(1,233)	(411)	(411)	(2,055)	(2,054)	4,109	—	—	—	—
Income (loss) before income taxes	15,575	3,313	(348)	18,540	60,539	(76)	—	79,003	(20,772)	58,231
Income tax (expense) benefit	(5,917)	(1,259)	132	(7,044)	(23,412)	1,457	—	(28,999)	7,893	(21,106)
Net income (loss)	$9,658	2,054	(216)	11,496	37,127	1,381	—	50,004	(12,879)	37,125

21

	Three months ended June 30, 2010									
	Student Loan and Guaranty Servicing	Fee-Based Tuition Payment Processing and Campus Commerce	Enrollment Services	Total Fee-Based	Asset Generation and Management	Corporate Activity and Overhead	Eliminations	Base Net Income	Adjustments to GAAP Results	GAAP Results of Operations
Total interest income	$ 17	4	—	21	155,701	1,922	(987)	156,657	—	156,657
Interest expense	—	—	—	—	54,105	6,125	(987)	59,243	—	59,243
Net interest income (loss)	17	4	—	21	101,596	(4,203)	—	97,414	—	97,414
Less provision for loan losses	—	—	—	—	6,200	—	—	6,200	—	6,200
Net interest income (loss) after provision for loan losses	17	4	—	21	95,396	(4,203)	—	91,214	—	91,214
Other income (expense):										
Loan and guaranty servicing revenue	36,652	—	—	36,652	—	—	—	36,652	—	36,652
Intersegment servicing revenue	21,969	—	—	21,969	—	—	(21,969)	—	—	—
Tuition payment processing and campus commerce revenue	—	12,795	—	12,795	—	—	—	12,795	—	12,795
Enrollment services revenue	—	—	35,403	35,403	—	—	—	35,403	—	35,403
Software services	5,499	—	—	5,499	—	—	—	5,499	—	5,499

revenue										
Other income	295	—	—	295	4,636	3,565	—	8,496	—	8,496
Gain on sale of loans and debt repurchases	—	—	—	—	8,759	—	—	8,759	—	8,759
Derivative market value and foreign currency adjustments	—	—	—	—	—	—	—	—	(7,231)	(7,231)
Derivative settlements, net	—	—	—	—	(3,377)	—	—	(3,377)	—	(3,377)
Total other income (expense)	64,415	12,795	35,403	112,613	10,018	3,565	(21,969)	104,227	(7,231)	96,996
Operating expenses:										
Salaries and benefits	23,327	6,594	6,447	36,368	1,286	3,808	(500)	40,962	—	40,962
Cost to provide enrollment services	—	—	24,111	24,111	—	—	—	24,111	—	24,111
Depreciation and amortization	1,157	339	1,616	3,112	—	384	—	3,496	6,232	9,728
Restructure expense	84	—	—	84	—	(12)	—	72	—	72
Other	18,668	2,272	2,449	23,389	2,992	6,967	—	33,348	—	33,348
Intersegment expenses, net	1,149	879	641	2,669	21,891	(3,091)	(21,469)	—	—	—
Total operating expenses	44,385	10,084	35,264	89,733	26,169	8,056	(21,969)	101,989	6,232	108,221
Income (loss) before income taxes and corporate overhead allocation	20,047	2,715	139	22,901	79,245	(8,694)	—	93,452	(13,463)	79,989
Corporate overhead allocation	(1,484)	(495)	(495)	(2,474)	(2,473)	4,947	—	—	—	—
Income (loss) before	18,563	2,220	(356)	20,427	76,772	(3,747)	—	93,452	(13,463)	79,989

income taxes										
Income tax (expense) benefit	(7,053)	(844)	135	(7,762)	(29,173)	1,823	—	(35,112)	5,116	(29,996)
Net income (loss)	$11,510	1,376	(221)	12,665	47,599	(1,924)	—	58,340	(8,347)	49,993
Additional information:										
Net income (loss)	$11,510	1,376	(221)	12,665	47,599	(1,924)	—	58,340	(8,347)	49,993
Plus: Restructure expense (a)	84	—	—	84	—	(12)	—	72	(72)	—
Less: Net tax effect	(32)	—	—	(32)	—	5	—	(27)	27	—
Net income (loss), excluding restructure expense	$11,562	1,376	(221)	12,717	47,599	(1,931)	—	58,385	(8,392)	49,993

(a) During the second quarter of 2010, the Company recorded restructuring charges associated with previously implemented restructuring plans.

	Six months ended June 30, 2011									
	Student Loan and Guaranty Servicing	Fee-Based Tuition Payment Processing and Campus Commerce	Enrollment Services	Total Fee-Based	Asset Generation and Management	Corporate Activity and Overhead	Eliminations	Base Net Income	Adjustments to GAAP Results	GAAP Results of Operations
Total interest income	$27	8	—	35	276,923	2,293	(1,377)	277,874	—	277,874
Interest expense	—	—	—	—	98,985	5,753	(1,377)	103,361	—	103,361
Net interest income (loss)	27	8	—	35	177,938	(3,460)	—	174,513	—	174,513
Less provision for loan losses	—									