NELNET INC
Form 10-Q
May 07, 2015

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 March 31, 2015

or

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

For the transition period from to .

COMMISSION FILE NUMBER 001-31924

NELNET, INC.
(Exact name of registrant as specified in its charter)

NEBRASKA (State or other jurisdiction of incorporation or organization)	84-0748903 (I.R.S. Employer Identification No.)
121 SOUTH 13TH STREET SUITE 100 LINCOLN, NEBRASKA (Address of principal executive offices)	68508 (Zip Code)

(402) 458-2370
(Registrant’s telephone number, including area code)

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

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

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 [X]	Accelerated filer [ ]
Non-accelerated filer [ ]	Smaller reporting company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes[ ] No[X]

As of April 30, 2015, there were 34,592,926 and 11,486,932 shares of Class A Common Stock and Class B Common Stock, par value $0.01 per share, outstanding, respectively (excluding 11,317,364 shares of Class A Common Stock held by wholly owned subsidiaries).

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March 31, 2015

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	As of March 31, 2015	As of December 31, 2014
Assets:		
Student loans receivable (net of allowance for loan losses of $51,161 and $48,900, respectively)	$27,897,949	28,005,195
Cash and cash equivalents:		
Cash and cash equivalents - not held at a related party	38,071	37,781
Cash and cash equivalents - held at a related party	61,975	92,700
Total cash and cash equivalents	100,046	130,481
Investments and notes receivable	276,904	235,709
Restricted cash and investments	866,587	850,440
Restricted cash - due to customers	71,890	118,488
Accrued interest receivable	355,372	351,588
Accounts receivable (net of allowance for doubtful accounts of $1,908 and $1,656, respectively)	55,968	50,552
Goodwill	126,200	126,200
Intangible assets, net	40,183	42,582
Property and equipment, net	51,003	45,894
Other assets	77,097	76,622
Fair value of derivative instruments	36,595	64,392
Total assets	$29,955,794	30,098,143
Liabilities:		
Bonds and notes payable	$27,815,324	28,027,350
Accrued interest payable	27,275	25,904
Other liabilities	174,248	167,881
Due to customers	71,890	118,488
Fair value of derivative instruments	85,564	32,842
Total liabilities	28,174,301	28,372,465
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 34,713,065 shares and 34,756,384 shares, respectively	347	348
Class B, convertible, $0.01 par value. Authorized 60,000,000 shares; issued and outstanding 11,486,932 shares	115	115
Additional paid-in capital	13,177	17,290

Retained earnings	1,762,711	1,702,560
Accumulated other comprehensive earnings	4,872	5,135
Total Nelnet, Inc. shareholders' equity	1,781,222	1,725,448
Noncontrolling interest	271	230
Total equity	1,781,493	1,725,678
Total liabilities and equity	$29,955,794	30,098,143
Supplemental information - assets and liabilities of consolidated variable interest entities:		
Student loans receivable	$27,965,879	28,181,244
Restricted cash and investments	850,890	846,199
Fair value of derivative instruments, net	(70,261)	(20,455)
Other assets	355,015	351,934
Bonds and notes payable	(28,119,030)	(28,391,530)
Other liabilities	(295,163)	(280,233)
Net assets of consolidated variable interest entities	$687,330	687,159

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 March 31,	
	2015	2014
Interest income:		
Loan interest	$171,944	156,896
Investment interest	2,205	1,979
Total interest income	174,149	158,875
Interest expense:		
Interest on bonds and notes payable	71,554	60,004
Net interest income	102,595	98,871
Less provision for loan losses	2,000	2,500
Net interest income after provision for loan losses	100,595	96,371
Other income (expense):		
Loan and guaranty servicing revenue	57,811	64,757
Tuition payment processing, school information, and campus commerce revenue	34,680	25,235
Enrollment services revenue	17,863	22,011
Other income	6,918	18,131
Gain on sale of loans and debt repurchases	2,875	39
Derivative market value and foreign currency adjustments and derivative settlements, net	(3,078)	(4,265)
Total other income	117,069	125,908
Operating expenses:		
Salaries and benefits	61,050	52,484
Cost to provide enrollment services	11,702	14,475
Loan servicing fees	7,685	5,421
Depreciation and amortization	5,662	4,783
Other	29,129	30,206
Total operating expenses	115,228	107,369
Income before income taxes	102,436	114,910
Income tax expense	37,630	40,611
Net income	64,806	74,299
Net income attributable to noncontrolling interest	41	513
Net income attributable to Nelnet, Inc.	$64,765	73,786
Earnings per common share:		
Net income attributable to Nelnet, Inc. shareholders - basic and diluted	$1.40	1.59
Weighted average common shares outstanding - basic and diluted	46,290,590	46,527,917

See accompanying notes to consolidated financial statements.

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

	Three months ended March 31,	
	2015	2014
Net income	$64,806	74,299
Other comprehensive income (loss):		
Available-for-sale securities:		
Unrealized holding (losses) gains arising during period, net	(213)	3,675
Less reclassification adjustment for gains recognized in net income, net of losses	(205)	(7,073)
Income tax effect	155	1,258
Total other comprehensive loss	(263)	(2,140)
Comprehensive income	64,543	72,159
Comprehensive income attributable to noncontrolling interest	41	513
Comprehensive income attributable to Nelnet, Inc.	$64,502	71,646

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										
	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	Accumulated other comprehensive earnings	Noncontrolling interest	Total equity
Balance as of December 31, 2013	—	34,881,338	11,495,377	$—	349	115	24,887	1,413,492	4,819	328	1,443,990
Issuance of noncontrolling interest	—	—	—	—	—	—	—	—	—	201	201
Net income	—	—	—	—	—	—	—	73,786	—	513	74,299
Other comprehensive loss	—	—	—	—	—	—	—	—	(2,140)	—	(2,140)
Distribution to noncontrolling interest	—	—	—	—	—	—	—	—	—	(287)	(287)
Cash dividends on Class A and Class B common stock - $0.10 per share	—	—	—	—	—	—	—	(4,641)	—	—	(4,641)
Issuance of common stock, net of forfeitures	—	155,705	—	—	2	—	2,244	—	—	—	2,246
Compensation expense for stock based awards	—	—	—	—	—	—	875	—	—	—	875
Repurchase of common stock	—	(20,564)	—	—	(1)	—	(868)	—	—	—	(869)
Conversion of common stock	—	3,445	(3,445)	—	—	—	—	—	—	—	—
Balance as of March 31, 2014	—	35,019,924	11,491,932	$—	350	115	27,138	1,482,637	2,679	755	1,513,674
Balance as of December 31, 2014	—	34,756,384	11,486,932	$—	348	115	17,290	1,702,560	5,135	230	1,725,678
Net income	—	—	—	—	—	—	—	64,765	—	41	64,806
Other comprehensive loss	—	—	—	—	—	—	—	—	(263)	—	(263)
	—	—	—	—	—	—	—	(4,614)	—	—	(4,614)

Cash dividends on Class A and Class B common stock - $0.10 per share											
Issuance of common stock, net of forfeitures	—	132,479	—	—	1	—	2,467	—	—	—	2,468
Compensation expense for stock based awards	—	—	—	—	—	—	1,357	—	—	—	1,357
Repurchase of common stock	—	(175,798)	—	—	(2)	—	(7,937)	—	—	—	(7,939)
Balance as of March 31, 2015	—	34,713,065	11,486,932	$ —	347	115	13,177	1,762,711	4,872	271	1,781,493

See accompanying notes to consolidated financial statements.

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

	Three months ended March 31,	
	2015	2014
Net income attributable to Nelnet, Inc.	$64,765	73,786
Net income attributable to noncontrolling interest	41	513
Net income	64,806	74,299
Adjustments to reconcile net income to net cash provided by operating activities, net of acquisitions:		
Depreciation and amortization, including debt discounts and student loan premiums and deferred origination costs	30,225	21,999
Student loan discount accretion	(10,746)	(10,023)
Provision for loan losses	2,000	2,500
Derivative market value adjustment	46,072	(2,916)
Foreign currency transaction adjustment	(48,209)	952
Proceeds from termination of derivative instruments	34,447	—
Gain on sale of loans	(351)	—
Gain from debt repurchases	(2,524)	(39)
Gain from sales of available-for-sale securities, net	(205)	(7,073)
Proceeds (payments) from sales (purchases) of trading securities, net	1,304	(731)
Deferred income tax expense	224	2,497
Other	3,115	2,285
(Increase) decrease in accrued interest receivable	(3,784)	8,881
Increase in accounts receivable	(5,416)	(5,758)
Decrease in other assets	605	1,303
Increase in accrued interest payable	1,371	613
Increase (decrease) in other liabilities	16,414	(185)
Net cash provided by operating activities	129,348	88,604
Cash flows from investing activities, net of acquisitions:		
Purchases of student loans	(844,120)	(386,100)
Net proceeds from student loan repayments, claims, capitalized interest, participations, and other	940,907	686,908
Proceeds from sale of student loans	3,996	—
Purchases of available-for-sale securities	(512)	(69,930)
Proceeds from sales of available-for-sale securities	1,317	99,799
Purchases of investments and issuance of notes receivable	(49,953)	(14,467)
Proceeds from investments and notes receivable	4,709	—
Purchases of property and equipment, net	(8,372)	(3,146)
(Increase) decrease in restricted cash and investments, net	(16,147)	29,356
Business acquisition, net of cash acquired	—	(1,909)
Net cash provided by investing activities	31,825	340,511
Cash flows from financing activities:		
Payments on bonds and notes payable	(1,459,807)	(1,347,517)
Proceeds from issuance of bonds and notes payable	1,285,760	972,384
Payments of debt issuance costs	(5,256)	(4,700)
Dividends paid	(4,614)	(4,641)

Repurchases of common stock	(7,939)	(869)
Proceeds from issuance of common stock	248	149
Issuance of noncontrolling interest	—	201
Distribution to noncontrolling interest	—	(287)
Net cash used in financing activities	(191,608)	(385,280)
Net (decrease) increase in cash and cash equivalents	(30,435)	43,835
Cash and cash equivalents, beginning of period	130,481	63,267
Cash and cash equivalents, end of period	$100,046	107,102
Cash disbursements made for:		
Interest	$53,235	48,750
Income taxes, net of refunds	$45	13,378

See accompanying notes to consolidated financial statements.

NELNET, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except per share amounts, unless otherwise noted)
(unaudited)

1. Basis of Financial Reporting

The accompanying unaudited consolidated financial statements of Nelnet, Inc. and subsidiaries (the “Company”) as of March 31, 2015 and for the three months ended March 31, 2015 and 2014 have been prepared on the same basis as the audited consolidated financial statements for the year ended December 31, 2014 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 months ended March 31, 2015 are not necessarily indicative of the results for the year ending December 31, 2015. 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, 2014 (the "2014 Annual Report").

Reclassifications

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

- Reclassifying certain investments and notes receivable, which were previously included in "other assets" to "investments and notes receivable."

- Reclassifying third-party loan servicing fees, which were previously included in "other" operating expenses to "loan servicing fees."

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

2. Student Loans Receivable and Allowance for Loan Losses

Student loans receivable consisted of the following:

	As of March 31, 2015	As of December 31, 2014
Federally insured loans		
Stafford and other	$6,287,829	6,030,825
Consolidation	21,687,746	22,165,605
Total	27,975,575	28,196,430
Private education loans	131,513	27,478
	28,107,088	28,223,908
Loan discount, net of unamortized loan premiums and deferred origination costs (a)	(157,978)	(169,813)
Allowance for loan losses – federally insured loans	(38,021)	(39,170)
Allowance for loan losses – private education loans	(13,140)	(9,730)
	$27,897,949	28,005,195

(a) As of March 31, 2015 and December 31, 2014, "loan discount, net of unamortized loan premiums and deferred origination costs" included $32.4 million and $28.8 million, respectively, of non-accretable discount associated with purchased loans of $8.9 billion and $8.5 billion, respectively.

On February 5, 2015, the Company entered into an agreement with CommonBond, Inc. ("CommonBond"), a student lending company that provides private education loans to graduate students, under which the Company committed to purchase up to $150.0 million of private education loans. As of March 31, 2015, the Company had purchased $15.2 million in private loans from CommonBond pursuant to this agreement.

Activity in the Allowance for Loan Losses

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

	Three months ended March 31,	
	2015	2014
Balance at beginning of period	$48,900	55,122
Provision for loan losses:		
Federally insured loans	2,000	3,000
Private education loans	—	(500)
Total provision for loan losses	2,000	2,500
Charge-offs:		
Federally insured loans	(3,149)	(3,631)
Private education loans	(676)	(421)
Total charge-offs	(3,825)	(4,052)
Recoveries - private education loans	254	371
Purchase (sale) of federally insured and private education loans, net	(230)	100
Transfer from repurchase obligation related to private education loans repurchased	4,062	587
Balance at end of period	$51,161	54,628
Allocation of the allowance for loan losses:		
Federally insured loans	$38,021	42,909
Private education loans	13,140	11,719
Total allowance for loan losses	$51,161	54,628

Repurchase Obligation

The Company has sold various portfolios of private education loans to third-parties. Per the terms of the servicing agreements, the Company’s servicing operations are obligated to repurchase loans subject to the sale agreements in the event such loans become 60 or 90 days delinquent. As of March 31, 2015 and December 31, 2014, the balance of loans subject to these repurchase obligations was $57.7 million and $155.3 million, respectively, and the associated obligation related to these loans was $3.9 million and $11.8 million, respectively. The Company repurchased $94.1 million of private education loans during the three month period ended March 31, 2015. The Company's estimate related to its obligation to repurchase these loans is included in "other liabilities" in the Company's consolidated balance sheets.

Student Loan Status and Delinquencies

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

	As of March 31, 2015			As of December 31, 2014			As of March 31, 2014		
Federally insured loans:									
Loans in-school/grace/deferment	$2,781,537			$2,805,228			$2,879,382		
Loans in forbearance	3,244,255			3,288,412			3,213,638		
Loans in repayment status:									
Loans current	18,672,471	85.0	%	18,460,279	83.5	%	16,498,560	83.9	%
Loans delinquent 31-60 days	911,653	4.2		1,043,119	4.8		832,381	4.2	
Loans delinquent 61-90 days	571,759	2.6		588,777	2.7		522,699	2.7	
Loans delinquent 91-120 days	346,857	1.6		404,905	1.8		344,143	1.8	
Loans delinquent 121-270 days	1,030,645	4.7		1,204,405	5.4		984,648	5.0	
Loans delinquent 271 days or greater	416,398	1.9		401,305	1.8		470,204	2.4	
Total loans in repayment	21,949,783	100.0	%	22,102,790	100.0	%	19,652,635	100.0	%
Total federally insured loans	$27,975,575			$28,196,430			$25,745,655		
Private education loans:									
Loans in-school/grace/deferment	$5,006			$905			$2,612		
Loans in forbearance	20			—			24		
Loans in repayment status:									
Loans current	118,278	93.5	%	18,390	69.2	%	57,115	86.6	%
Loans delinquent 31-60 days	1,200	0.9		1,078	4.1		1,223	1.9	
Loans delinquent 61-90 days	1,753	1.4		1,035	3.9		1,748	2.7	
Loans delinquent 91 days or greater	5,256	4.2		6,070	22.8		5,818	8.8	
Total loans in repayment	126,487	100.0	%	26,573	100.0	%	65,904	100.0	%
Total non-federally insured loans	$131,513			$27,478			$68,540		

3. Bonds and Notes Payable

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

	As of March 31, 2015		
	Carrying amount	Interest rate range	Final maturity
Variable-rate bonds and notes issued in asset-backed securitizations:			
Bonds and notes based on indices	$25,850,638	0.16% - 6.90%	8/26/19 - 8/26/52
Bonds and notes based on auction	1,197,065	0.64% - 2.16%	3/22/32 - 11/26/46
Total variable-rate bonds and notes	27,047,703		
FFELP warehouse facilities	1,010,258	0.17% - 0.29%	1/17/16 - 12/17/17
Unsecured line of credit	—	—	6/30/19
Unsecured debt - Junior Subordinated Hybrid Securities	59,837	3.65%	9/15/61
Other borrowings	82,305	1.68% - 5.10%	11/11/15 - 12/31/18
	28,200,103		
Discount on bonds and notes payable	(384,779)		
Total	$27,815,324		

	As of December 31, 2014		
	Carrying amount	Interest rate range	Final maturity
Variable-rate bonds and notes issued in asset-backed securitizations:			
Bonds and notes based on indices	$25,713,431	0.19% - 6.90%	5/25/18 - 8/26/52
Bonds and notes based on auction	1,311,669	0.47% - 2.17%	3/22/32 - 11/26/46
Total variable-rate bonds and notes	27,025,100		
FFELP warehouse facilities	1,241,665	0.16% - 0.26%	1/17/16 - 6/11/17
Unsecured line of credit	—	—	6/30/19
Unsecured debt - Junior Subordinated Hybrid Securities	71,688	3.63%	9/15/61
Other borrowings	81,969	1.67% - 5.10%	11/11/15 - 12/31/18
	28,420,422		
Discount on bonds and notes payable	(393,072)		
Total	$28,027,350		

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 March 31, 2015, the Company had three FFELP warehouse facilities as summarized below.

	NHELP-III (a)	NFSLW-I (b)	NHELP-II	Total
Maximum financing amount	$750,000	750,000	500,000	2,000,000
Amount outstanding	537,005	404,020	69,233	1,010,258
Amount available	$212,995	345,980	430,767	989,742
Expiration of liquidity provisions	May 5, 2015	June 11, 2015	December 17, 2015	
Final maturity date	January 17, 2016	June 11, 2017	December 17, 2017	
Maximum advance rates	92.2 - 95.0%	92.0 - 98.0%	91.0 - 97.0%	
Minimum advance rates	92.2 - 95.0%	84.0 - 90.0%	91.0 - 97.0%	
Advanced as equity support	$32,515	19,001	3,640	55,156

(a) On April 30, 2015, the Company amended the agreement for this warehouse facility to change the expiration date for the liquidity provisions to April 29, 2016, and to change the final maturity date to April 29, 2018.

(b) On January 27, 2015, the Company amended the agreement for this warehouse facility to temporarily increase the maximum financing amount to $1.2 billion. On March 26, 2015, the Company reduced the maximum financing amount from $1.2 billion to $750 million.

Asset-backed Securitizations

The following table summarizes the asset-backed securitization transactions completed during the three months ended March 31, 2015.

	2015-1	2015-2			Total
		Class A-1 notes	Class A-2 notes	2015-2 total	
Date securities issued	2/27/15	3/26/15	3/26/15	3/26/15	
Total original principal amount	$566,346	122,500	584,500	722,000	$1,288,346
Class A senior notes:					
Total original principal amount	$553,232	122,500	584,500	707,000	1,260,232
Bond discount	—	—	—	—	—
Issue price	$553,232	122,500	584,500	707,000	1,260,232
Cost of funds (1-month LIBOR plus:)	0.59 %	0.27 %	0.60 %		
Final maturity date	4/25/41	3/25/20	9/25/42		
Class B subordinated notes:					
Total original principal amount	$13,114			15,000	28,114
Bond discount	(1,157)			(1,793)	(2,950)
Issue price	$11,957			13,207	25,164
Cost of funds (1-month LIBOR plus:)	1.50 %			1.50 %	
Final maturity date	6/25/46			5/25/49	

Unsecured Line of Credit

The Company has a $350.0 million line of credit that has a maturity date of June 30, 2019. As of March 31, 2015, the $350.0 million unsecured line of credit had no amount outstanding and $350.0 million was available for future use.

Debt Repurchases

During the three months ended March 31, 2015 and 2014, the Company repurchased $11.9 million (par value) of its Junior Subordinated Hybrid Securities unsecured debt and $1.4 million (par value) of its own asset-backed debt securities and recognized gains on such purchases of $2.5 million and approximately $39,000, respectively.

4. Derivative Financial Instruments

The Company uses derivative financial instruments primarily to manage interest rate risk and foreign currency exchange risk. Derivative instruments used as part of the Company's risk management strategy are further described in note 5 of the notes to consolidated financial statements included in the 2014 Annual Report. A tabular presentation of such derivatives outstanding as of March 31, 2015 and December 31, 2014 is presented below.

Basis Swaps

The following table summarizes the Company’s basis swaps outstanding as of March 31, 2015 and December 31, 2014 in which the Company receives three-month LIBOR set discretely in advance and pays one-month LIBOR plus or minus a spread as defined in the agreements (the "1:3 Basis Swaps").

	As of March 31, 2015	As of December 31, 2014
Maturity	Notional amount	Notional amount
2016	$ 1,000,000	$ —
2021	—	250,000
2022	1,900,000	1,900,000
2023	2,400,000	3,650,000
2024	—	250,000
2026	800,000	800,000
2028	—	100,000
2036	—	700,000
2039	—	150,000
	$ 6,100,000	$ 7,800,000

The weighted average rate paid by the Company on the 1:3 Basis Swaps as of March 31, 2015 and December 31, 2014 was one-month LIBOR plus 6.0 basis points and 3.5 basis points, respectively.

Interest Rate Swaps – Floor Income Hedges

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

	As of March 31, 2015		As of December 31, 2014	
Maturity	Notional amount	Weighted average fixed rate paid by the Company (a)	Notional amount	Weighted average fixed rate paid by the Company (a)
2015	$ 1,100,000	0.89 %	$ 1,100,000	0.89 %
2016	750,000	0.85	750,000	0.85
2017	1,350,000	0.85	1,250,000	0.86
2018	100,000	1.02	—	—
2025	100,000	2.32	—	—
2045	25,000	2.46	—	—

$3,425,000	0.92 %	$3,100,000	0.87 %

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

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

Interest Rate Swaps – Unsecured Debt Hedges

The Company had the following derivatives outstanding as of March 31, 2015 and December 31, 2014 that are used to effectively convert the variable interest rate on a portion of the Junior Subordinated Hybrid Securities to a fixed rate.

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

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

Foreign Currency Exchange Risk

In 2006, the Company issued €352.7 million of student loan asset-backed Euro Notes (the "Euro Notes") with an interest rate based on a spread to the EURIBOR index. As a result of the Euro Notes, the Company is exposed to market risk related to fluctuations in foreign currency exchange rates between the U.S. dollar and Euro. The principal and accrued interest on these notes are re-measured at each reporting period and recorded in the Company's consolidated balance sheet in U.S. dollars based on the foreign currency exchange rate on that date.

The Company entered into a cross-currency interest rate swap in connection with the issuance of the Euro Notes. Under the terms of the cross-currency interest rate swap, the Company receives from the counterparty a spread to the EURIBOR index based on a notional amount of €352.7 million and pays a spread to the LIBOR index based on a notional amount of $450.0 million. In addition, under the terms of this agreement, all principal payments on the Euro Notes will effectively be paid at the exchange rate in effect between the U.S. dollar and Euro as of the issuance of the notes.

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

	Three months ended March 31,	
	2015	2014
Re-measurement of Euro Notes	$ 48,209	(952)
Change in fair value of cross-currency interest rate swap	(49,805)	(39)
Total impact to consolidated statements of income - income (expense) (a)	$ (1,596)	(991)

(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 corresponding cross-currency interest rate swap. However, the Company will experience unrealized gains or losses related to the cross-currency interest rate swap if the two underlying indices (and related forward curve) do not move in parallel.

Consolidated Financial Statement Impact Related to Derivatives

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

	Fair value of asset derivatives		Fair value of liability derivatives	
	As of March 31, 2015	As of December 31, 2014	As of March 31, 2015	As of December 31, 2014
1:3 basis swaps	$30,072	53,549	—	—
Interest rate swaps - floor income hedges	1,756	5,165	6,498	5,034
Interest rate swap option - floor income hedge	4,767	5,678	—	—
Interest rate swaps - hybrid debt hedges	—	—	8,805	7,353
Cross-currency interest rate swap	—	—	70,261	20,455
Total	$36,595	64,392	85,564	32,842

During the three months ended March 31, 2015, the Company terminated a total notional amount of $2.7 billion of 1:3 Basis Swaps for gross proceeds of $34.4 million.

Offsetting of Derivative Assets/Liabilities

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

		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 pledged (received)	Net asset (liability)
Balance as of March 31, 2015	$36,595	(9,761)	5,556	32,390
Balance as of December 31, 2014	64,392	(12,387)	—	52,005

		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 (received)	Net asset (liability)
	$(85,564)	9,761	6,400	(69,403)

Balance as of March 31, 2015				
Balance as of December 31, 2014	(32,842)	12,387	(1,454)	(21,909)

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

	Three months ended March 31,	
	2015	2014
Settlements:		
1:3 basis swaps	$266	881
Interest rate swaps - floor income hedges	(5,015)	(6,950)
Interest rate swaps - hybrid debt hedges	(252)	(252)
Cross-currency interest rate swap	(214)	92
Total settlements - (expense) income	(5,215)	(6,229)
Change in fair value:		
1:3 basis swaps	10,969	1,110
Interest rate swaps - floor income hedges	(4,872)	3,358
Interest rate swap option - floor income hedge	(912)	—
Interest rate swaps - hybrid debt hedges	(1,452)	(1,513)
Cross-currency interest rate swap	(49,805)	(39)
Total change in fair value - (expense) income	(46,072)	2,916
Re-measurement of Euro Notes (foreign currency transaction adjustment) - income (expense)	48,209	(952)
Derivative market value and foreign currency adjustments and derivative settlements, net - income (expense)	$(3,078)	(4,265)

5. Investments and Notes Receivable

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

	As of March 31, 2015				As of December 31, 2014			
	Amortized cost	Gross unrealized gains	Gross unrealized losses (a)	Fair value	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Investments (at fair value):								
Available-for-sale investments:								
Student loan asset-backed and other debt securities (b)	$130,754	5,998	(484)	136,268	131,589	6,204	(236)	137,557
Equity securities	1,787	2,268	(48)	4,007	1,553	2,216	(33)	3,736
Total available-for-sale investments	$132,541	8,266	(532)	140,275	133,142	8,420	(269)	141,293
Trading investments:								
Student loan asset-backed securities				6,526				7,830
Total available-for-sale and trading investments				146,801				149,123
Other Investments and Notes Receivable (not measured at fair value):								
Investments accounted for under the cost and equity methods				81,912				36,991
Notes receivable				31,806				30,643
Other				16,385				18,952
Total investments and notes receivable				$276,904				235,709

(a) As of March 31, 2015, 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 March 31, 2015, 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.

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

	Three months ended March 31,	
Affected line item in the consolidated statements of income - income (expense):	2015	2014
Other income	$205	7,073
Income tax expense	(76)	(2,617)
Net	$129	4,456

6. Intangible Assets and Goodwill

Intangible assets consist of the following:

	Weighted average remaining useful life as of March 31, 2015 (months)	As of March 31, 2015	As of December 31, 2014
Amortizable intangible assets:			
Customer relationships (net of accumulated amortization of $18,820 and $17,361, respectively)	211	$25,871	27,330
Computer software (net of accumulated amortization of $2,472 and $1,896, respectively)	39	6,393	6,969
Trade names (net of accumulated amortization of $403 and $272, respectively)	230	6,019	6,150
Content (net of accumulated amortization of $225 and $0, respectively)	21	1,575	1,800
Covenants not to compete (net of accumulated amortization of $30 and $21, respectively)	110	325	333
Total - amortizable intangible assets	178	$40,183	42,582

The Company recorded amortization expense on its intangible assets of $2.4 million and $1.0 million during the three months ended March 31, 2015 and 2014, respectively. The Company will continue to amortize intangible assets over their remaining useful lives. As of March 31, 2015, the Company estimates it will record amortization expense as follows:

2015 (April 1 - December 31)	$7,196
2016	6,249
2017	3,752
2018	3,533
2019	2,861
2020 and thereafter	16,592
	$40,183

There were no changes in the carrying amount of goodwill during the three months ended March 31, 2015. The carrying amount of goodwill by reportable operating segment as of March 31, 2015 and December 31, 2014 is shown in the table below.

Student Loan and Guaranty	Tuition Payment	Asset Generation	Corporate and Other	Total

	Servicing	Processing and Campus Commerce	and Management	Activities	
Balance as of December 31, 2014 and March 31, 2015	$8,596	67,168	41,883	8,553	126,200

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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 March 31,					
	2015			2014		
	Common shareholders	Unvested restricted stock shareholders	Total	Common shareholders	Unvested restricted stock shareholders	Total
Numerator:						
Net income attributable to Nelnet, Inc.	$64,078	687	64,765	73,125	661	73,786
Denominator:						
Weighted-average common shares outstanding - basic and diluted	45,799,873	490,717	46,290,590	46,110,952	416,965	46,527,917
Earnings per share - basic and diluted	$1.40	1.40	1.40	1.59	1.59	1.59

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.

8. Segment Reporting

See note 14 of the notes to consolidated financial statements included in the 2014 Annual Report for a description of the Company's operating segments. The following tables include the results of each of the Company's operating segments reconciled to the consolidated financial statements.

Effective January 1, 2015, internal reporting to executive management (the "chief operating decision maker") changed to reflect operational changes made within the organization. The operational and internal reporting changes included moving the majority of information technology infrastructure personnel and related functions to Corporate and Other Activities. The associated costs are allocated to the other operating segments based on those segments' actual use of information technology related products and services. Information technology infrastructure personnel and related functions were historically included within the Student Loan and Guaranty Servicing operating segment, and associated costs were allocated to the other operating segments based on those segments' actual use of the related products and services. Prior period segment operating results have been reclassified to reflect these changes; however, the reclassifications had no effect on any operating segment's net income.

	Three months ended March 31, 2015					
	Student Loan and Guaranty Servicing	Tuition Payment Processing and Campus Commerce	Asset Generation and Management	Corporate and Other Activities	Eliminations	Total
Total interest income	$7	2	172,423	2,153	(436)	174,149
Interest expense	—	—	70,540	1,450	(436)	71,554
Net interest income	7	2	101,883	703	—	102,595
Less provision for loan losses	—	—	2,000	—	—	2,000
Net interest income after provision for loan losses	7	2	99,883	703	—	100,595
Other income:						
Loan and guaranty servicing revenue	57,811	—	—	—	—	57,811
Intersegment servicing revenue	12,871	—	—	—	(12,871)	—
Tuition payment processing, school information, and campus commerce revenue	—	34,680	—	—	—	34,680
Enrollment services revenue	—	—	—	17,863	—	17,863
Other income	—	—	4,576	2,342	—	6,918
Gain on sale of loans and debt repurchases	—	—	351	2,524	—	2,875
Derivative market value and foreign currency adjustments, net	—	—	3,590	(1,453)	—	2,137
Derivative settlements, net	—	—	(4,963)	(252)	—	(5,215)
Total other income	70,682	34,680	3,554	21,024	(12,871)	117,069
Operating expenses:						
Salaries and benefits	33,703	13,321	541	13,485	—	61,050
Cost to provide enrollment services	—	—	—	11,702	—	11,702
Loan servicing fees	—	—	7,685	—	—	7,685
Depreciation and amortization	446	2,195	—	3,021	—	5,662
Other	14,600	3,802	1,068	9,659	—	29,129
Intersegment expenses, net	9,700	2,614	13,040	(12,483)	(12,871)	—

Total operating expenses	58,449	21,932	22,334	25,384	(12,871)	115,228
Income (loss) before income taxes and corporate overhead allocation	12,240	12,750	81,103	(3,657)	—	102,436
Corporate overhead allocation	(2,153)	(862)	(1,078)	4,093	—	—
Income before income taxes	10,087	11,888	80,025	436	—	102,436
Income tax (expense) benefit	(3,834)	(4,518)	(30,409)	1,131	—	(37,630)
Net income	6,253	7,370	49,616	1,567	—	64,806
Net income attributable to noncontrolling interest	—	—	—	41	—	41
Net income attributable to Nelnet, Inc.	$6,253	7,370	49,616	1,526	—	64,765

	Three months ended March 31, 2014					
	Student Loan and Guaranty Servicing	Tuition Payment Processing and Campus Commerce	Asset Generation and Management	Corporate and Other Activities	Eliminations	Total
Total interest income	$11	—	157,003	2,658	(797)	158,875
Interest expense	—	—	59,476	1,325	(797)	60,004
Net interest income	11	—	97,527	1,333	—	98,871
Less provision for loan losses	—	—	2,500	—	—	2,500
Net interest income after provision for loan losses	11	—	95,027	1,333	—	96,371
Other income:						
Loan and guaranty servicing revenue	64,757	—	—	—	—	64,757
Intersegment servicing revenue	14,221	—	—	—	(14,221)	—
Tuition payment processing, school information, and campus commerce revenue	—	25,235	—	—	—	25,235
Enrollment services revenue	—	—	—	22,011	—	22,011
Other income	—	—	4,164	13,967	—	18,131
Gain on sale of loans and debt repurchases	—	—	39	—	—	39
Derivative market value and foreign currency adjustments, net	—	—	3,477	(1,513)	—	1,964
Derivative settlements, net	—	—	(5,977)	(252)	—	(6,229)
Total other income	78,978	25,235	1,703	34,213	(14,221)	125,908
Operating expenses:						
Salaries and benefits	29,398	10,027	609	12,450	—	52,484
Cost to provide enrollment services	—	—	—	14,475	—	14,475
Loan servicing fees	—	—	5,421	—	—	5,421
Depreciation and amortization	419	1,428	—	2,936	—	4,783
Other	15,651	2,647	1,725	10,183	—	30,206
Intersegment expenses, net	9,163	1,420	14,371	(10,733)	(14,221)	—
Total operating expenses	54,631	15,522	22,126	29,311	(14,221)	107,369
Income before income taxes and corporate overhead allocation	24,358	9,713	74,604	6,235	—	114,910
Corporate overhead allocation	(1,860)	(620)	(1,329)	3,809	—	—
Income before income taxes	22,498	9,093	73,275	10,044	—	114,910
Income tax (expense) benefit	(8,549)	(3,455)	(27,844)	(763)	—	(40,611)
Net income	13,949	5,638	45,431	9,281	—	74,299
Net income attributable to noncontrolling interest	—	—	—	513	—	513
Net income attributable to Nelnet, Inc.	$13,949	5,638	45,431	8,768	—	73,786

9. Major Customer

The Company earns loan servicing revenue from a servicing contract with the U.S. Department of Education that currently expires on June 16, 2019. Revenue earned by the Company's Student Loan and Guaranty Servicing operating segment related to this contract was $32.4 million and $29.9 million for the three months ended March 31, 2015 and 2014, respectively.

10. Related Parties

The Company has entered into certain contractual arrangements with related parties as described in note 20 of the notes to consolidated financial statements included in the 2014 Annual Report. The following provides an update for a related party transaction that occurred during the first three months of 2015.

On March 17, 2015, the Company made a $40.5 million equity investment in Agile Sports Technologies, Inc. (doing business as "Hudl"). David Graff, who has served on the Company's Board of Directors since May 2014, is CEO, co-founder, and a director of Hudl. Prior to the 2015 investment, the Company and Michael Dunlap, the Company's Executive Chairman and a principal shareholder, made separate equity investments in Hudl. As of March 31, 2015, the Company and Mr. Dunlap hold combined direct and indirect equity ownership interests in Hudl of 18.7% and 2.8%, respectively. The Company's investment in Hudl is included in "investments and notes receivable" in the Company's consolidated balance sheet.

11. Fair Value

The following tables present the Company’s financial assets and liabilities that are measured at fair value on a recurring basis. There were no transfers into or out of level 1, level 2, or level 3 for the three months ended March 31, 2015.

	As of March 31, 2015			As of December 31, 2014		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Assets:						
Investments (available-for-sale and trading):						
Student loan asset-backed securities	$—	142,429	142,429	—	145,000	145,000
Equity securities	4,007	—	4,007	3,736	—	3,736
Debt securities	365	—	365	387	—	387
Total investments (available-for-sale and trading)	4,372	142,429	146,801	4,123	145,000	149,123
Fair value of derivative instruments	—	36,595	36,595	—	64,392	64,392
Total assets	$4,372	179,024	183,396	4,123	209,392	213,515
Liabilities:						
Fair value of derivative instruments	$—	85,564	85,564	—	32,842	32,842
Total liabilities	$—	85,564	85,564	—	32,842	32,842

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

	As of March 31, 2015				
	Fair value	Carrying value	Level 1	Level 2	Level 3
Financial assets:					
Student loans receivable	$28,922,872	27,897,949	—	—	28,922,872
Cash and cash equivalents	100,046	100,046	100,046	—	—
Investments (available-for-sale and trading)	146,801	146,801	4,372	142,429	—
Notes receivable	29,476	31,806	—	29,476	—
Restricted cash	856,715	856,715	856,715	—	—
Restricted cash – due to customers	71,890	71,890	71,890	—	—
Restricted investments	9,872	9,872	9,872	—	—
Accrued interest receivable	355,372	355,372	—	355,372	—
Derivative instruments	36,595	36,595	—	36,595	—
Financial liabilities:					
Bonds and notes payable	27,695,072	27,815,324	—	27,695,072	—
Accrued interest payable	27,275	27,275	—	27,275	—
Due to customers	71,890	71,890	71,890	—	—
Derivative instruments	85,564	85,564	—	85,564	—

	As of December 31, 2014				
	Fair value	Carrying value	Level 1	Level 2	Level 3
Financial assets:					
Student loans receivable	$28,954,226	28,005,195	—	—	28,954,226
Cash and cash equivalents	130,481	130,481	130,481	—	—
Investments (available-for-sale and trading)	149,123	149,123	4,123	145,000	—
Notes receivable	28,832	30,643	—	28,832	—
Restricted cash	800,164	800,164	800,164	—	—

Restricted cash – due to customers	118,488	118,488	118,488	—	—
Restricted investments	50,276	50,276	50,276	—	—
Accrued interest receivable	351,588	351,588	—	351,588	—
Derivative instruments	64,392	64,392	—	64,392	—
Financial liabilities:					
Bonds and notes payable	27,809,997	28,027,350	—	27,809,997	—
Accrued interest payable	25,904	25,904	—	25,904	—
Due to customers	118,488	118,488	118,488	—	—
Derivative instruments	32,842	32,842	—	32,842	—

The methodologies for estimating the fair value of financial assets and liabilities are described in note 21 of the notes to consolidated financial statements included in the 2014 Annual Report.

12. Legal Proceedings and Regulatory Matters

Legal Proceedings

Grant Keating v. Peterson's Nelnet, LLC et al

On August 6, 2012, an Amended Complaint was served on Peterson's Nelnet, LLC, a subsidiary of Nelnet, Inc. ("Nelnet"), CUnet, LLC, a subsidiary of Nelnet, and on Nelnet (collectively, the "Keating Defendants"), in connection with a lawsuit by Grant Keating in the U.S. Federal District Court for the Northern District of Ohio (the “Ohio District Court”). The lawsuit was originally instituted on August 24, 2011, and alleges that the Keating Defendants sent an advertising text message to the named plaintiff in June 2011 using an automatic telephone dialing system, and without the plaintiff's express consent. The complaint also alleges that this text message violated the Telephone Consumer Protection Act, purportedly entitling the plaintiff to $500, trebled for a willful violation. The complaint further alleges that the Keating Defendants sent putative class members similar text messages using an automatic telephone dialing system, without such purported class members' consent. The complaint seeks to establish a class action. On August 29, 2013, the Keating Defendants filed motions for summary judgment, and the named plaintiff filed a motion for class certification. On May 12, 2014, the Ohio District Court granted the Keating Defendants' motion for summary judgment, dismissing the case. On September 8, 2014, the named plaintiff filed an appeal brief with the Circuit Court of Appeals and on October 22, 2014, the Keating Defendants filed a responsive brief. As of the filing date of this report, the Ohio District Court has not established, recognized, or certified a class. The Keating Defendants intend to continue to defend themselves vigorously in this lawsuit.

Due to the uncertainty and risks inherent in class determination and the overall litigation process, the Company believes that a meaningful estimate of a reasonably possible loss, if any, or range of reasonably possible losses, if any, for this lawsuit cannot currently be made.

Regulatory Matters

Consumer Financial Protection Bureau Examination

The Dodd-Frank Wall Street Reform and Consumer Protection Act established the Consumer Financial Protection Bureau (the "CFPB"), which has broad authority to regulate a wide range of consumer financial products and services. On December 3, 2013, the CFPB issued a rule that allows the CFPB to supervise nonbank student loan servicers that handle more than one million borrowers, including the Company, thus giving the CFPB broad authority to examine, investigate, supervise, and otherwise regulate the Company's businesses, including the authority to impose fines and require changes with respect to any practices that the CFPB finds to be unfair, deceptive, or abusive.

The CFPB is currently conducting its initial supervisory examination of the large nonbank student loan servicers, including the Company. If the CFPB were to determine the Company was not in compliance, it is possible that this could result in material adverse consequences, including, without limitation, settlements, fines, penalties, adverse regulatory actions, changes in the Company's practices, or other actions. However, the Company is unable to estimate at this time any potential financial or other impact that could result from the CFPB's examination, in the event that any adverse regulatory actions occur.

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

(Management's Discussion and Analysis of Financial Condition and Results of Operations is for the three months ended March 31, 2015 and 2014. All dollars are in thousands, except per share amounts, unless otherwise noted.)

The following discussion and analysis provides information that the Company's management believes is relevant to an assessment and understanding of the consolidated results of operations and financial condition of the Company. The discussion should be read in conjunction with the Company's consolidated financial statements included in the 2014 Annual Report.

Forward-looking and cautionary statements

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

The forward-looking statements are based on assumptions and analyses made by management in light of management's experience and its perception of historical trends, current conditions, expected future developments, and other factors that management believes are appropriate under the circumstances. These statements are subject to known and unknown risks, uncertainties, assumptions, and other factors that may cause the actual results and performance to be materially different from any future results or performance expressed or implied by such forward-looking statements. These factors include, among others, the risks and uncertainties set forth in the “Risk Factors” section of the 2014 Annual Report and elsewhere in this report, and include such risks and uncertainties as:

- student loan portfolio risks such as interest rate basis and repricing risk resulting from the fact that the interest rate characteristics of the student loan assets do not match the interest rate characteristics of the funding for those assets, the risk of loss of floor income on certain student loans originated under the Federal Family Education Loan Program (the "FFEL Program" or "FFELP"), risks related to the use of derivatives to manage exposure to interest rate fluctuations, uncertainties regarding the expected benefits from recently purchased securitized and unsecuritized FFELP student loans and initiatives to purchase additional FFELP and private education loans, and risks from changes in levels of student loan prepayment or default rates;

- financing and liquidity risks, including risks of changes in the general interest rate environment and in the securitization and other financing markets for student loans, which may increase the costs or limit the availability of financings necessary to purchase, refinance, or continue to hold student loans;

- risks from changes in the educational credit and services markets resulting from changes in applicable laws, regulations, and government programs and budgets, such as the expected decline over time in FFELP loan interest income and fee-based revenues due to the discontinuation of new FFELP loan originations in 2010 and potential government initiatives or legislative proposals to consolidate existing FFELP loans to the Federal Direct Loan Program or otherwise allow FFELP loans to be refinanced with Federal Direct Loan Program loans, risks related to reduced government payments to guaranty agencies to rehabilitate defaulted FFELP loans and services in support of those activities, risks related to the Company's ability to maintain or increase volumes under the Company's loan servicing contract with the U.S. Department of Education (the "Department"), which accounted for approximately 10 percent of the Company's revenue in 2014 and for which the loan allocation metrics were modified effective September 1, 2014, and risks related to the Company's ability to comply with agreements with third-party customers for the servicing of FFELP, Federal Direct Loan Program, and private education loans;

- risks related to a breach of or failure in the Company's operational or information systems or infrastructure, or those of third-party vendors;

- uncertainties inherent in forecasting future cash flows from student loan assets and related asset-backed securitizations; and

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risks and uncertainties associated with litigation matters and with maintaining compliance with the extensive regulatory requirements applicable to the Company's businesses, and uncertainties inherent in the estimates and assumptions about future events that management is required to make in the preparation of the Company's consolidated financial statements.

All forward-looking statements contained in this report are qualified by these cautionary statements and are made only as of the date of this document. Although the Company may from time to time voluntarily update or revise its prior forward-looking statements to reflect actual results or changes in the Company's expectations, the Company disclaims any commitment to do so except as required by securities laws.

OVERVIEW

The Company provides educational products and services in loan servicing, payment processing, education planning, and asset management. These products and services help students and families plan, prepare, and pay for their education and make the administrative and financial processes more efficient for schools and financial organizations. In addition, the Company earns interest income on a portfolio of federally insured student loans.

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

	Three months ended March 31,	
	2015	2014
GAAP net income attributable to Nelnet, Inc.	$64,765	73,786
Derivative market value and foreign currency adjustments, net of tax	(1,325)	(1,218)
Net income, excluding derivative market value and foreign currency adjustments (a)	$63,440	72,568
Earnings per share:		
GAAP net income attributable to Nelnet, Inc.	$1.40	1.59
Derivative market value and foreign currency adjustments, net of tax	(0.03)	(0.03)
Net income, excluding derivative market value and foreign currency adjustments (a)	$1.37	1.56

(a) The Company provides non-GAAP information that reflects specific items management believes to be important in the evaluation of its financial position and performance. "Derivative market value and foreign currency adjustments" include (i) the unrealized gains and losses that are caused by changes in fair values of derivatives which do not qualify for "hedge treatment" under GAAP; and (ii) the foreign currency transaction gains or losses caused by the re-measurement of the Company's Euro-denominated bonds to U.S. dollars. The Company believes these point-in-time estimates of asset and liability values related to these financial instruments that are subject to interest and currency rate fluctuations affect the period-to-period comparability of the results of operations. Accordingly, the Company provides operating results excluding these items for comparability purposes.

The Company earns net interest income on its FFELP student loan portfolio in its Asset Generation and Management ("AGM") operating segment. This segment is expected to generate a stable net interest margin and significant amounts of cash as the FFELP portfolio amortizes. As of March 31, 2015, the Company had a $27.9 billion student loan portfolio that will amortize over the next approximately 25 years. The Company actively seeks to acquire additional FFELP loan portfolios to leverage its servicing scale and expertise to generate incremental earnings and cash flow.

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

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

Other business activities and operating segments that are not reportable are combined and included in Corporate and Other Activities. Corporate and Other Activities also includes income earned on certain investments and interest expense incurred on unsecured debt transactions.

The information below provides the operating results for each reportable operating segment and Corporate and Other Activities ("Corporate") for the three months ended March 31, 2015 and 2014 (dollars in millions).

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

(b) Total revenue includes "net interest income after provision for loan losses" and "total other income" from the Company's segment statements of income, excluding the impact from changes in fair values of derivatives and foreign currency transaction adjustments. Net income excludes changes in fair values of derivatives and foreign currency transaction adjustments, net of tax.

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

Student Loan and Guaranty Servicing

- As of March 31, 2015, the Company was servicing $168.8 billion in FFELP, private, and government owned student loans, as compared with $147.9 billion of loans as of March 31, 2014.

- Revenue decreased in the first quarter of 2015 compared to the same period in 2014 due primarily to a decrease in rehabilitation collection revenue. Federal budget provisions that became effective July 1, 2014 have reduced payments by the Department to guaranty agencies for assisting student loan borrowers with the rehabilitation of defaulted loans under FFELP, and as a result, rehabilitation revenue has been negatively affected. Rehabilitation collection revenue recognized by the Company was $7.4 million and $13.4 million for the three months ended March 31, 2015 and 2014, respectively.

- Revenue from the Department servicing contract increased to $32.4 million for the three months ended March 31, 2015, compared to $29.9 million for the same period in 2014. As of March 31, 2015, the Company was servicing $140.8 billion of loans for 5.9 million borrowers under this contract.

- Before tax operating margin was 14.3% and 28.5% for the three months ended March 31, 2015 and 2014, respectively. Operating margin decreased as a result of the implementation of federal budget reductions for guaranty agencies revenue. In addition, as the volume of loans serviced under the Department servicing contract continues to grow and loans serviced under the legacy commercial programs continue to run off, the Company expects operating margins to tighten accordingly.

Tuition Payment Processing and Campus Commerce

- Revenue increased in the three months ended March 31, 2015 compared to the same period in 2014 due to the acquisition of RenWeb in the second quarter of 2014 and due to increases in the number of managed tuition payment plans, campus commerce customer transaction volume, and new school customers.

- Excluding the amortization of intangibles, before tax operating margin was 40.5% and 40.1% for the three months ended March 31, 2015 and 2014, respectively.

- This segment is subject to seasonal fluctuations. Based on the timing of when revenue is recognized and when expenses are incurred, revenue and operating margin are higher in the first quarter as compared to the remainder of the year.

Asset Generation and Management

- The Company acquired $836.1 million of student loans during the first three months of 2015. The average loan portfolio balance for the three months ended March 31, 2015 and 2014 was $28.3 billion and $25.9 billion, respectively.

- Core student loan spread decreased to 1.41% for the three months ended March 31, 2015, compared to 1.49% and 1.44% for the three months ended December 31, 2014 and March 31, 2014, respectively. This decrease was the result of recent acquisitions of consolidation loans, which have lower margins but longer terms.

- Due to historically low interest rates, the Company continues to earn significant fixed rate floor income. During the three months ended March 31, 2015 and 2014, the Company earned $46.2 million and $37.8 million, respectively, of fixed rate floor income (net of $5.0 million and $7.0 million of derivative settlements, respectively, used to hedge such loans).

Corporate and Other Activities

- The Company recognized $0.5 million in net gains from investment activity during the three months ended March 31, 2015, compared to $7.2 million for the same period in 2014. The majority of gains recognized in 2014 were from sales of student loan asset-backed security investments.

- Whitetail Rock Capital Management, LLC ("WRCM"), the Company's SEC-registered investment advisory subsidiary, recognized investment advisory revenue of $0.7 million for the three months ended March 31, 2015, compared to $5.2 million for the three months ended March 31, 2014. The decrease was the result of the reduction in performance fees earned in 2015.

- During the three months ended March 31, 2015, the Company repurchased $11.9 million (par value) of its Junior Subordinated Hybrid Securities for a gain of $2.5 million. Gains from debt repurchases in the first quarter of 2014 were approximately $39,000.

Liquidity and Capital Resources

- As of March 31, 2015, the Company had cash and cash equivalents of $100.0 million. In addition, the Company had a portfolio of available-for-sale and trading investments, consisting primarily of student loan asset-backed securities, with a fair value of $146.8 million as of March 31, 2015.

- For the three months ended March 31, 2015, the Company generated $129.3 million in net cash provided by operating activities.

- Forecasted future cash flows from the Company's FFELP student loan portfolio financed in asset-backed securitization transactions are estimated to be approximately $2.27 billion as of March 31, 2015.

- As of March 31, 2015, no amounts were outstanding on the Company's unsecured line of credit and $350.0 million was available for future use. The unsecured line of credit has a maturity date of June 30, 2019.

- During the three months ended March 31, 2015, the Company repurchased a total of 175,798 shares of Class A common stock for