

NELNET INC  
Form 10-Q  
August 07, 2018

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2018

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)

(402) 458-2370

(Registrant's telephone number, including area code)

68508

(Zip Code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of July 31, 2018, there were 29,332,461 and 11,468,587 shares of Class A Common Stock and Class B Common Stock, par value \$0.01 per share, outstanding, respectively (excluding a total of 11,305,731 shares of Class A Common Stock held by wholly owned subsidiaries).

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NELNET, INC.  
FORM 10-Q  
INDEX  
June 30, 2018

PART I. FINANCIAL INFORMATION

Item 1. <u>Financial Statements</u>	<u>2</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>34</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>62</u>
Item 4. <u>Controls and Procedures</u>	<u>67</u>

PART II. OTHER INFORMATION

Item 1. <u>Legal Proceedings</u>	<u>67</u>
Item 1A. <u>Risk Factors</u>	<u>67</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>68</u>
Item 6. <u>Exhibits</u>	<u>69</u>

<u>Signatures</u>	<u>70</u>
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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

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

	As of June 30, 2018	As of December 31, 2017
Assets:		
Loans receivable (net of allowance for loan losses of \$53,715 and \$54,590, respectively)	\$22,710,369	21,814,507
Cash and cash equivalents:		
Cash and cash equivalents - not held at a related party	20,739	6,982
Cash and cash equivalents - held at a related party	47,128	59,770
Total cash and cash equivalents	67,867	66,752
Investments and notes receivable	256,647	240,538
Restricted cash	741,726	688,193
Restricted cash - due to customers	154,760	187,121
Loan accrued interest receivable	591,055	430,385
Accounts receivable (net of allowance for doubtful accounts of \$1,778 and \$1,436, respectively)	59,171	37,863
Goodwill	153,802	138,759
Intangible assets, net	102,489	38,427
Property and equipment, net	328,016	248,051
Other assets	41,388	73,021
Fair value of derivative instruments	1,954	818
Total assets	\$25,209,244	23,964,435
Liabilities:		
Bonds and notes payable	\$22,468,364	21,356,573
Accrued interest payable	63,226	50,039
Other liabilities	231,138	198,252
Due to customers	154,760	187,121
Fair value of derivative instruments	5,053	7,063
Total liabilities	22,922,541	21,799,048
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 29,331,002 shares and 29,341,517 shares, respectively	293	293
Class B, convertible, \$0.01 par value. Authorized 60,000,000 shares; issued and outstanding 11,468,587 shares	115	115
Additional paid-in capital	2,586	521
Retained earnings	2,271,171	2,143,983
Accumulated other comprehensive earnings	2,704	4,617

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Total Nelnet, Inc. shareholders' equity	2,276,869	2,149,529
Noncontrolling interests	9,834	15,858
Total equity	2,286,703	2,165,387
Total liabilities and equity	\$25,209,244	23,964,435

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

Student loans receivable	\$22,759,323	21,909,476
Restricted cash	699,779	641,994
Loan accrued interest receivable and other assets	593,394	431,934
Bonds and notes payable	(22,565,920 )	(21,702,298 )
Accrued interest payable and other liabilities	(261,731 )	(168,637 )
Net assets of consolidated education lending variable interest entities	\$ 1,224,845	1,112,469

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,	
	2018	2017	2018	2017
Interest income:				
Loan interest	\$223,371	189,878	421,094	371,086
Investment interest	5,818	3,200	10,952	5,816
Total interest income	229,189	193,078	432,046	376,902
Interest expense:				
Interest on bonds and notes payable	171,450	113,236	306,999	220,135
Net interest income	57,739	79,842	125,047	156,767
Less provision for loan losses	3,500	3,000	7,500	4,000
Net interest income after provision for loan losses	54,239	76,842	117,547	152,767
Other income:				
Loan servicing and systems revenue	114,545	56,899	214,687	111,128
Education technology, services, and payment processing revenue	48,742	43,480	108,963	99,504
Communications revenue	10,320	5,719	19,509	10,826
Other income	9,580	12,485	27,776	25,118
Gain from debt repurchases	—	442	359	5,421
Derivative market value and foreign currency transaction adjustments and derivative settlements, net	17,031	(27,910)	83,829	(32,741)
Total other income	200,218	91,115	455,123	219,256
Cost of services:				
Cost to provide education technology, services, and payment processing services	11,317	9,515	25,000	22,305
Cost to provide communications services	3,865	2,203	7,583	4,157
Total cost of services	15,182	11,718	32,583	26,462
Operating expenses:				
Salaries and benefits	111,118	74,628	207,760	146,491
Depreciation and amortization	21,494	9,038	39,951	17,636
Loan servicing fees	3,204	5,628	6,341	11,653
Other expenses	40,409	26,262	73,826	52,423
Total operating expenses	176,225	115,556	327,878	228,203
Income before income taxes	63,050	40,683	212,209	117,358
Income tax expense	13,511	16,032	49,487	44,787
Net income	49,539	24,651	162,722	72,571
Net (income) loss attributable to noncontrolling interests	(104)	4,086	637	6,192
Net income attributable to Nelnet, Inc.	\$49,435	28,737	163,359	78,763
Earnings per common share:				
Net income attributable to Nelnet, Inc. shareholders - basic and diluted	\$1.21	0.68	3.99	1.86
Weighted average common shares outstanding - basic and diluted	40,886,617	42,326,540	40,918,396	42,309,295

See accompanying notes to consolidated financial statements.



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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Net income	\$49,539	24,651	162,722	72,571
Other comprehensive loss:				
Available-for-sale securities:				
Unrealized holding losses arising during period, net	(413 )	(1,281 )	(1,474 )	(22 )
Reclassification adjustment for gains recognized in net income, net of losses	(5 )	(409 )	(52 )	(740 )
Income tax effect	100	626	356	283
Total other comprehensive loss	(318 )	(1,064 )	(1,170 )	(479 )
Comprehensive income	49,221	23,587	161,552	72,092
Comprehensive (income) loss attributable to noncontrolling interests	(104 )	4,086	637	6,192
Comprehensive income attributable to Nelnet, Inc.	\$49,117	27,673	162,189	78,284

See accompanying notes to consolidated financial statements.



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

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

	Nelnet, Inc. Shareholders						Retained earnings	Accumulated other comprehensive (loss) earnings	Noncontrolling interests	Total equity
	Preferred stock Class A shares	Class B	Class A Preferred stock	Class B common stock	Class B common stock	Additional paid-in capital				
Balance as of March 31, 2017	30,740,185	11,476,932	\$ 307	115	2,236	2,100,214	5,315	19,480	2,127,667	
Issuance of noncontrolling interests	—	—	—	—	—	—	—	26	26	
Net income (loss)	—	—	—	—	—	28,737	—	(4,086)	24,651	
Other comprehensive loss	—	—	—	—	—	—	—	—	—	