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 September 30, 2020

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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Class A Common Stock, Par Value $0.01 per Share	NNI	New York Stock Exchange

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 every Interactive Data File required to be submitted 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 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 an 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.

Large accelerated filer ☒ Accelerated filer ☐
Non-accelerated filer ☐ 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 October 31, 2020, there were 27,169,876 and 11,171,609 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).

NELNET, INC.
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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 September 30, 2020	As of December 31, 2019
Assets:		
Loans and accrued interest receivable (net of allowance for loan losses of $185,899 and $61,914, respectively)	$ 20,076,542	21,402,868
Cash and cash equivalents:		
Cash and cash equivalents - not held at a related party	31,998	13,922
Cash and cash equivalents - held at a related party	64,318	119,984
Total cash and cash equivalents	96,316	133,906
Investments	476,827	247,099
Restricted cash	519,143	650,939
Restricted cash - due to customers	286,082	437,756
Accounts receivable (net of allowance for doubtful accounts of $3,731 and $4,455, respectively)	69,916	115,391
Goodwill	156,912	156,912
Intangible assets, net	58,701	81,532
Property and equipment, net	360,490	348,259
Other assets	121,597	134,308
Total assets	$ 22,222,526	23,708,970
Liabilities:		
Bonds and notes payable	$ 19,215,053	20,529,054
Accrued interest payable	29,612	47,285
Other liabilities	288,948	303,781
Due to customers	286,082	437,756
Total liabilities	19,819,695	21,317,876
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 27,163,588 shares and 28,458,495 shares, respectively	272	285
Class B, convertible, $0.01 par value. Authorized 60,000,000 shares; issued and outstanding 11,171,609 shares and 11,271,609 shares, respectively	112	113
Additional paid-in capital	1,704	5,715
Retained earnings	2,393,113	2,377,627
Accumulated other comprehensive earnings	4,284	2,972
Total Nelnet, Inc. shareholders' equity	2,399,485	2,386,712
Noncontrolling interests	3,346	4,382
Total equity	2,402,831	2,391,094
Total liabilities and equity	$ 22,222,526	23,708,970
Supplemental information - assets and liabilities of consolidated education and other lending variable interest entities:		
Loans and accrued interest receivable	$ 20,085,382	21,399,382
Restricted cash	501,080	639,847
Bonds and notes payable	(19,349,111)	(20,742,798)
Accrued interest payable and other liabilities	(88,911)	(162,494)
Net assets of consolidated education and other lending variable interest entities	$ 1,148,440	1,133,937

See accompanying notes to consolidated financial statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	2020	**2019**	**2020**	**2019**
Interest income:				
Loan interest	$ 134,507	229,063	462,439	709,618
Investment interest	5,238	9,882	18,379	26,701
Total interest income	139,745	238,945	480,818	736,319
Interest expense:				
Interest on bonds and notes payable	58,423	172,488	277,788	551,221
Net interest income	81,322	66,457	203,030	185,098
Less (negative provision) provision for loan losses	(5,821)	10,000	73,476	26,000
Net interest income after provision for loan losses	87,143	56,457	129,554	159,098
Other income/expense:				
Loan servicing and systems revenue	113,794	113,286	337,571	342,169
Education technology, services, and payment processing revenue	74,121	74,251	217,100	213,753
Communications revenue	20,211	16,470	57,390	46,770
Gain on sale of loans	14,817	—	33,023	1,712
Other income	1,502	13,439	69,910	36,946
Impairment expense	—	—	(34,419)	—
Derivative market value adjustments and derivative settlements, net	1,049	1,668	(13,406)	(33,959)
Total other income/expense	225,494	219,114	667,169	607,391
Cost of services:				
Cost to provide education technology, services, and payment processing services	25,243	25,671	63,424	62,601
Cost to provide communications services	5,914	5,236	17,240	15,096
Total cost of services	31,157	30,907	80,664	77,697
Operating expenses:				
Salaries and benefits	126,096	116,670	365,220	338,942
Depreciation and amortization	30,308	27,701	87,349	76,398
Other expenses	34,744	58,329	115,184	147,562
Total operating expenses	191,148	202,700	567,753	562,902
Income before income taxes	90,332	41,964	148,306	125,890
Income tax expense	19,156	8,829	30,286	26,429
Net income	71,176	33,135	118,020	99,461
Net loss (income) attributable to noncontrolling interests	327	77	(568)	(38)
Net income attributable to Nelnet, Inc.	$ 71,503	33,212	117,452	99,423
Earnings per common share:				
Net income attributable to Nelnet, Inc. shareholders - basic and diluted	$ 1.86	0.83	2.99	2.48
Weighted average common shares outstanding - basic and diluted	38,538,476	39,877,129	39,229,932	40,098,346

See accompanying notes to consolidated financial statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Net income	$ 71,176	33,135	118,020	99,461
Other comprehensive income (loss):				
Available-for-sale securities:				
Unrealized holding gains (losses) arising during period, net	1,893	(334)	2,114	(1,306)
Reclassification adjustment for (gains) losses recognized in net income, net	(513)	—	(390)	—
Income tax effect	(329)	80	(412)	313
Total other comprehensive income (loss)	1,051	(254)	1,312	(993)
Comprehensive income	72,227	32,881	119,332	98,468
Comprehensive loss (income) attributable to noncontrolling interests	327	77	(568)	(38)
Comprehensive income attributable to Nelnet, Inc.	$ 72,554	32,958	118,764	98,430

See accompanying notes to consolidated financial statements.

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

	Nelnet, Inc. Shareholders										
	Preferred stock shares	Common stock shares		Preferred stock	Class A common stock	Class B common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive (loss) earnings	Noncontrolling interests	Total equity
		Class A	Class B								
Balance as of June 30, 2019	—	28,399,526	11,279,641	$ —	284	113	1,670	2,317,115	3,144	4,292	2,326,618
Issuance of noncontrolling interests	—	—	—	—	—	—	—	—	—	4,165	4,165
Net income (loss)	—	—	—	—	—	—	—	33,212	—	(77)	33,135
Other comprehensive loss	—	—	—	—	—	—	—	—	(254)	—	(254)
Distribution to noncontrolling interests	—	—	—	—	—	—	—	—	—	(3,865)	(3,865)
Cash dividends on Class A and Class B common stock - $0.18 per share	—	—	—	—	—	—	—	(7,142)	—	—	(7,142)
Issuance of common stock, net of forfeitures	—	15,345	—	—	—	—	524	—	—	—	524
Compensation expense for stock based awards	—	—	—	—	—	—	1,705	—	—	—	1,705
Repurchase of common stock	—	(3,365)	—	—	—	—	(221)	—	—	—	(221)
Balance as of September 30, 2019	—	28,411,506	11,279,641	$ —	284	113	3,678	2,343,185	2,890	4,515	2,354,665
Balance as of June 30, 2020	—	27,232,836	11,171,609	$ —	272	112	1,867	2,331,312	3,233	3,990	2,340,786
Issuance of noncontrolling interests	—	—	—	—	—	—	—	—	—	14	14
Net income (loss)	—	—	—	—	—	—	—	71,503	—	(327)	71,176
Other comprehensive income	—	—	—	—	—	—	—	—	1,051	—	1,051
Distribution to noncontrolling interests	—	—	—	—	—	—	—	—	—	(331)	(331)
Cash dividends on Class A and Class B common stock - $0.20 per share	—	—	—	—	—	—	—	(7,664)	—	—	(7,664)
Issuance of common stock, net of forfeitures	—	24,132	—	—	—	—	553	—	—	—	553
Compensation expense for stock based awards	—	—	—	—	—	—	1,864	—	—	—	1,864
Repurchase of common stock	—	(93,380)	—	—	—	—	(2,580)	(2,038)	—	—	(4,618)
Balance as of September 30, 2020	—	27,163,588	11,171,609	$ —	272	112	1,704	2,393,113	4,284	3,346	2,402,831

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		Preferred stock	Class A common stock	Class B common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive (loss) earnings	Noncontrolling interests	Total equity
		Class A	Class B								
Balance as of December 31, 2018	—	28,798,464	11,459,641	$ —	288	115	622	2,299,556	3,883	10,315	2,314,779
Issuance of noncontrolling interests	—	—	—	—	—	—	—	—	—	4,217	4,217
Net income	—	—	—	—	—	—	—	99,423	—	38	99,461
Other comprehensive loss	—	—	—	—	—	—	—	—	(993)	—	(993)
Distribution to noncontrolling interests	—	—	—	—	—	—	—	—	—	(3,978)	(3,978)
Cash dividends on Class A and Class B common stock - $0.54 per share	—	—	—	—	—	—	—	(21,546)	—	—	(21,546)
Issuance of common stock, net of forfeitures	—	156,874	—	—	1	—	4,400	—	—	—	4,401
Compensation expense for stock based awards	—	—	—	—	—	—	4,663	—	—	—	4,663
Repurchase of common stock	—	(723,832)	—	—	(7)	—	(6,007)	(34,248)	—	—	(40,262)
Impact of adoption of new accounting standard	—	—	—	—	—	—	—	—	—	(6,077)	(6,077)
Conversion of common stock	—	180,000	(180,000)	—	2	(2)	—	—	—	—	—
Balance as of September 30, 2019	—	28,411,506	11,279,641	$ —	284	113	3,678	2,343,185	2,890	4,515	2,354,665
Balance as of December 31, 2019	—	28,458,495	11,271,609	$ —	285	113	5,715	2,377,627	2,972	4,382	2,391,094
Issuance of noncontrolling interests	—	—	—	—	—	—	—	—	—	66	66
Net income	—	—	—	—	—	—	—	117,452	—	568	118,020
Other comprehensive income	—	—	—	—	—	—	—	—	1,312	—	1,312
Distribution to noncontrolling interests	—	—	—	—	—	—	—	—	—	(920)	(920)
Cash dividends on Class A and Class B common stock - $0.60 per share	—	—	—	—	—	—	—	(23,343)	—	—	(23,343)
Issuance of common stock, net of forfeitures	—	196,407	—	—	2	—	5,153	—	—	—	5,155
Compensation expense for stock based awards	—	—	—	—	—	—	5,459	—	—	—	5,459
Repurchase of common stock	—	(1,591,314)	—	—	(16)	—	(14,623)	(58,506)	—	—	(73,145)
Impact of adoption of new accounting standard	—	—	—	—	—	—	—	(18,867)	—	—	(18,867)
Conversion of common stock	—	100,000	(100,000)	—	1	(1)	—	—	—	—	—
Acquisition of noncontrolling interest	—	—	—	—	—	—	—	(1,250)	—	(750)	(2,000)
Balance as of September 30, 2020	—	27,163,588	11,171,609	$ —	272	112	1,704	2,393,113	4,284	3,346	2,402,831

See accompanying notes to consolidated financial statements.

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

	Nine months ended September 30,	
	2020	**2019**
Net income attributable to Nelnet, Inc.	$ 117,452	99,423
Net income attributable to noncontrolling interests	568	38
Net income	118,020	99,461
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization, including debt discounts and loan premiums and deferred origination costs	149,175	142,519
Loan discount accretion	(27,814)	(27,554)
Provision for loan losses	73,476	26,000
Derivative market value adjustments	21,072	73,265
Payments from termination of derivative instruments, net	—	(13,940)
Payments to clearinghouse - initial and variation margin, net	(20,405)	(59,967)
Gain on sale of loans	(33,023)	(1,712)
Gain from investments, net	(37,766)	(4,891)
(Gain) loss on repurchases and extinguishment of debt, net	(508)	15,679
Deferred income tax benefit	(10,975)	(9,592)
Non-cash compensation expense	5,538	4,948
Impairment expense	34,419	—
Increase in loan and investment accrued interest receivable	(27,192)	(57,864)
Decrease (increase) in accounts receivable	45,475	(7,637)
Decrease (increase) in other assets, net	19,491	(28,646)
Decrease in the carrying amount of ROU asset	9,150	6,529
Decrease in accrued interest payable	(17,673)	(9,334)
Increase in other liabilities	32,733	62,757
Decrease in the carrying amount of lease liability	(8,484)	(6,734)
Decrease in due to customers	(151,674)	(60,369)
Net cash provided by operating activities	173,035	142,918
Cash flows from investing activities:		
Purchases of loans	(1,032,636)	(1,360,873)
Purchases of loans from a related party	(75,118)	(32,580)
Net proceeds from loan repayments, claims, and capitalized interest	2,209,797	2,628,156
Proceeds from sale of loans	136,126	42,215
Purchases of available-for-sale securities	(221,427)	(1,010)
Proceeds from sales of available-for-sale securities	97,278	169
Proceeds from beneficial interest in loan securitizations	34,371	2,166
Purchases of other investments	(122,584)	(70,600)
Proceeds from other investments	8,528	52,653
Purchases of property and equipment	(80,698)	(67,681)
Net cash provided by investing activities	953,637	1,192,615
Cash flows from financing activities:		
Payments on bonds and notes payable	(2,803,214)	(3,718,851)
Proceeds from issuance of bonds and notes payable	1,460,524	2,410,363
Payments of debt issuance costs	(7,144)	(10,527)
Payments to extinguish debt	—	(14,030)
Dividends paid	(23,343)	(21,546)
Repurchases of common stock	(73,145)	(40,262)
Proceeds from issuance of common stock	1,250	1,171
Acquisition of noncontrolling interest	(2,000)	—
Issuance of noncontrolling interests	—	4,138
Distribution to noncontrolling interests	(660)	(173)
Net cash used in financing activities	(1,447,732)	(1,389,717)
Net decrease in cash, cash equivalents, and restricted cash	(321,060)	(54,184)
Cash, cash equivalents, and restricted cash, beginning of period	1,222,601	1,192,391
Cash, cash equivalents, and restricted cash, end of period	$ 901,541	1,138,207

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

	Nine months ended September 30,	
	2020	**2019**
Supplemental disclosures of cash flow information:		
Cash disbursements made for interest	$ 259,120	518,557
Cash disbursements made for income taxes, net of refunds and credits received	$ 13,413	14,820
Cash disbursements made for operating leases	$ 9,457	7,307
Non-cash operating, investing, and financing activity:		
ROU assets obtained in exchange for lease obligations	$ 4,158	7,972
Receipt of beneficial interest in consumer loan securitizations	$ 52,501	7,921
Distribution to noncontrolling interest	$ 260	3,805

Supplemental disclosures of noncash activities regarding the adoption of the new accounting standard for measurement of credit losses on financial instruments on January 1, 2020 are contained in note 1.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported in the consolidated balance sheets to the total of the amounts reported in the consolidated statements of cash flows.

	As of September 30, 2020	As of December 31, 2019	As of September 30, 2019	As of December 31, 2018
Total cash and cash equivalents	$ 96,316	133,906	160,979	121,347
Restricted cash	519,143	650,939	667,919	701,366
Restricted cash - due to customers	286,082	437,756	309,309	369,678
Cash, cash equivalents, and restricted cash	$ 901,541	1,222,601	1,138,207	1,192,391

See accompanying notes to consolidated financial statements.

1. Basis of Financial Reporting

The accompanying unaudited consolidated financial statements of Nelnet, Inc. and subsidiaries (the "Company") as of September 30, 2020 and for the three and nine months ended September 30, 2020 and 2019 have been prepared on the same basis as the audited consolidated financial statements for the year ended December 31, 2019 and, in the opinion of the Company's management, the unaudited consolidated financial statements reflect all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of results of operations for the interim periods presented. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Operating results for the three and nine months ended September 30, 2020 are not necessarily indicative of the results for the year ending December 31, 2020. 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, 2019 (the "2019 Annual Report").

Reclassifications

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

- Reclassifying the line item "accrued interest receivable" on the Company's consolidated balance sheet to "loans and accrued interest receivable" and "investments"; and
- Reclassifying "gain on sale of loans" that was previously included in "other income" to a new line item on the Company's consolidated statements of income.

Accounting Standard Adopted in 2020

In June 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-13, *Financial Instruments – Credit Losses* ("ASC 326"), which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. Since its original issuance in 2016, the FASB has issued several updates to the original ASU.

The CECL methodology utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses for financial assets measured at amortized cost at the time the financial asset is originated or acquired, including, for the Company, loans receivable, accounts receivable, and held-to-maturity beneficial interests in loan securitizations. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. In addition, ASC 326 made changes to the accounting for available-for-sale debt securities. For available-for-sale debt securities where fair value is less than amortized cost, credit-related impairment, if any, is recognized through an allowance for credit losses and adjusted each period for changes in credit risk.

On January 1, 2020, the Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost. Results for reporting periods beginning after January 1, 2020 are presented under ASC 326 (recognizing estimated credit losses expected to occur over the asset's remaining life) while prior period amounts continue to be reported in accordance with previously applicable GAAP (recognizing estimated credit losses using an incurred loss model); therefore, the comparative information for 2019 is not comparable to the information presented for 2020. Adoption of the new guidance primarily impacted the allowance for loan losses related to the Company's loan portfolio. Upon adoption, the Company recorded an increase to the allowance for loan losses of $91.0 million, which included a reclassification of the non-accretable discount balance and premiums related to loans purchased with evidence of credit deterioration, and decreased retained earnings, net of tax, by $18.9 million. The following table illustrates the impact of the adoption of ASC 326.

	Balances at December 31, 2019	Impact of ASC 326 adoption	Balances at January 1, 2020
Assets			
Loans and accrued interest receivable, net of allowance			
Loans receivable	$ 20,798,719	—	20,798,719
Accrued interest receivable	733,497	—	733,497
Loan discount, net	(35,036)	33,790	(1,246)
Non-accretable discount	(32,398)	32,398	—
Allowance for loan losses	(61,914)	(91,014)	(152,928)
Loans and accrued interest receivable, net of allowance	21,402,868	(24,826)	21,378,042
Liabilities			
Other liabilities (deferred taxes)	303,781	(5,958)	297,823
Equity			
Retained earnings	2,377,627	(18,868)	2,358,759

The Company adopted ASC 326 using the prospective transition approach for loans receivable purchased with credit deterioration ("PCD") that were previously classified as purchased credit impaired ("PCI"). In accordance with the standard, the Company did not reassess whether PCI assets met the criteria of PCD assets as of the date of adoption. On January 1, 2020, the unamortized cost basis of the PCD assets were adjusted to reflect the addition of $32.4 million in the allowance for loan losses (as reflected in the table above). The remaining noncredit premium on these loans as of January 1, 2020 (based on the adjusted amortized cost basis) will be amortized into interest income over the life of the loans. Changes to the allowance for loan losses on these loans after adoption are recorded through provision expense.

Summary of Significant Accounting Policies Affected by Implementation of ASC 326

Allowance for Loan Losses

The allowance for loan losses is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans as of the balance sheet date. Such allowance is based on the credit losses expected to arise over the life of the asset which includes consideration of prepayments. Loans are charged off when management determines the loan is uncollectible. Charge-offs are recognized as a reduction to the allowance for loan losses. Expected recoveries of amounts previously charged off, not to exceed the aggregate of the amount previously charged off, are included in the estimate of the allowance for loan losses at the balance sheet date.

The Company aggregates loans with similar risk characteristics into homogeneous pools to estimate its expected credit losses. The Company continuously evaluates such pooling decisions and adjusts as needed from period to period as risk characteristics change.

The Company determines its estimated credit losses for the following financial assets as follows:

Loans receivable

Management has determined that the federally insured, private education, and consumer loan portfolios each meet the definition of a portfolio segment, which is defined as the level at which an entity develops and documents a systematic method for determining its allowance for loan losses. Accordingly, the portfolio segment disclosures are presented on this basis in note 2 for each of these portfolios. The Company does not disaggregate its portfolio segment loan portfolios into classes of financing receivables.

The Company utilizes an undiscounted cash flow methodology in determining its lifetime expected credit losses on its federally insured and private education loan portfolios and a remaining life methodology for its consumer loan portfolio. Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. The Company has determined that, for modeling current expected credit losses, in general, the Company can reasonably estimate expected losses that incorporate current and forecasted economic conditions up to a one-year period. After this "reasonable and supportable" period, the Company uses a reversion period to the Company's actual long-term historical loss experience over a full economic life cycle. Historical credit loss experience provides

the basis for the estimation of expected credit losses. Qualitative and quantitative adjustments to historical loss information are made separately on each of the Company's federally insured, private education, and consumer loan portfolios.

Qualitative and quantitative adjustments related to current conditions and the reasonable and supportable forecast period consider the following factors, as applicable, for each of the Company's loan portfolios: student loans in repayment versus those in nonpaying status; delinquency status; type of private education or consumer loan program; trends in defaults in the portfolio based on Company and industry data; past experience; trends in federally insured student loan claims rejected for payment by guarantors; changes in federal student loan programs; current economic conditions, including changes in unemployment rates and gross domestic product growth; and other relevant qualitative factors. The federal government guarantees 97 percent of the principal of and the interest on federally insured student loans disbursed on and after July 1, 2006 (and 98 percent for those loans disbursed on and after October 1, 1993 and prior to July 1, 2006), which limits the Company's loss exposure on the outstanding balance of the Company's federally insured portfolio. Student loans disbursed prior to October 1, 1993 are fully insured. The Company places private education loans on nonaccrual status when the collection of principal and interest is 90 days past due and charges off the loan when the collection of principal and interest is 120 days past due. The Company places consumer loans on nonaccrual status when the collection of principal and interest is 90 days past due and charges off the loan when the collection of principal and interest is 120 days or 180 days past due, depending on type of loan program. Collections, if any, are reflected as a recovery through the allowance for loan losses.

Purchased Loans Receivable with Credit Deterioration ("PCD")

The Company has purchased federally insured rehabilitation loans that have experienced more than insignificant credit deterioration since origination. Rehabilitation loans are loans that have previously defaulted, but for which the borrower has made a specified number of on-time payments. Although rehabilitation loans benefit from the same guarantees as other federally insured loans, rehabilitation loans have generally experienced redefault rates that are higher than default rates for federally insured loans that have not previously defaulted. These PCD loans are recorded at the amount paid. An allowance for loan losses is determined using the same methodology as for other loans held for investment. The sum of the loans' purchase price and allowance for loan losses becomes its initial amortized cost basis. The difference between the initial amortized cost basis and the par value of the loan is a noncredit discount or premium, which is amortized or accreted into interest income over the life of the loan. Subsequent changes to the allowance for credit losses are recorded through provision expense.

Loan Accrued Interest Receivable

The Company has elected to present its loan accrued interest receivable balance combined in its consolidated balance sheets with the loans receivable amortized cost balance.

For the Company's federally insured loan portfolio, the Company has elected to measure an allowance for credit losses for accrued interest receivables. For federally insured loans, accrued interest receivable is typically charged-off when the contractual payment of principal or interest has become greater than 270 days past due. Charge-offs of accrued interest receivable are recognized as a reduction to the allowance for loan losses.

For the Company's private education and consumer loan portfolios, the Company has elected not to measure an allowance for credit losses for accrued interest receivables. For private education and consumer loans, the accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days past due. Charge-offs of accrued interest receivable are recognized by reversing interest income.

2. Loans and Accrued Interest Receivable and Allowance for Loan Losses

Loans and accrued interest receivable consisted of the following:

	As of September 30, 2020	As of December 31, 2019
Federally insured student loans:		
Stafford and other	$ 4,372,469	4,684,314
Consolidation	14,773,110	15,644,229
Total	19,145,579	20,328,543
Private education loans	273,807	244,258
Consumer loans	100,180	225,918
	19,519,566	20,798,719
Accrued interest receivable	760,787	733,497
Loan discount, net of unamortized loan premiums and deferred origination costs	(17,912)	(35,036)
Non-accretable discount	—	(32,398)
Allowance for loan losses:		
Federally insured loans	(139,943)	(36,763)
Private education loans	(20,013)	(9,597)
Consumer loans	(25,943)	(15,554)
	$ 20,076,542	21,402,868

On January 30, 2020 and July 29, 2020, the Company sold $124.2 million (par value) and $60.8 million (par value), respectively, of consumer loans to an unrelated third party who securitized such loans. The Company recognized a gain of $18.2 million (pre-tax) and $14.8 million (pre-tax), respectively, as part of these transactions. As partial considerations received for the consumer loans sold, the Company received a 31.4 percent and 25.4 percent residual interest, respectively, in the consumer loan securitizations that are included in "investments" on the Company's consolidated balance sheet.

Activity in the Allowance for Loan Losses

The following table presents the activity in the allowance for loan losses by portfolio segment.

	Balance at beginning of period	Impact of ASC 326 adoption	Provision (negative provision) for loan losses	Charge-offs	Recoveries	Initial allowance on loans purchased with credit deterioration (a)	Loan sale	Balance at end of period
				Three months ended September 30, 2020				
Federally insured loans	$ 144,829	—	(5,299)	(2,487)	—	2,900	—	139,943
Private education loans	25,535	—	(5,650)	(5)	133	—	—	20,013
Consumer loans	39,081	—	5,128	(2,723)	381	—	(15,924)	25,943
	$ 209,445	—	(5,821)	(5,215)	514	2,900	(15,924)	185,899
				Three months ended September 30, 2019				
Federally insured loans	$ 39,056	—	2,000	(3,380)	—	—	—	37,676
Private education loans	10,157	—	—	(459)	184	—	—	9,882
Consumer loans	13,378	—	8,000	(2,759)	240	—	—	18,859
	$ 62,591	—	10,000	(6,598)	424	—	—	66,417
				Nine months ended September 30, 2020				
Federally insured loans	$ 36,763	72,291	32,074	(14,885)	—	13,700	—	139,943
Private education loans	9,597	4,797	6,471	(1,360)	508	—	—	20,013
Consumer loans	15,554	13,926	34,931	(9,893)	849	—	(29,424)	25,943
	$ 61,914	91,014	73,476	(26,138)	1,357	13,700	(29,424)	185,899
				Nine months ended September 30, 2019				
Federally insured loans	$ 42,310	—	6,000	(10,634)	—	—	—	37,676
Private education loans	10,838	—	—	(1,529)	573	—	—	9,882
Consumer loans	7,240	—	20,000	(7,417)	536	—	(1,500)	18,859
	$ 60,388	—	26,000	(19,580)	1,109	—	(1,500)	66,417

a) During the three and nine months ended September 30, 2020, the Company acquired $137.5 million (par value) and $721.4 million (par value), respectively, of federally insured rehabilitation loans. These loans met the definition of PCD loans when they were purchased by the Company. The Company estimated that the expected credit losses relating to these loans was $2.9 million and $13.7 million, respectively, at the time of purchase. The noncredit discount recorded as part of these acquisitions will be recognized into interest income using an effective yield over the life of the loans.

In March 2020, the rapid outbreak of the respiratory disease caused by a novel strain of coronavirus, coronavirus 2019 or COVID-19 ("COVID-19"), was declared a global pandemic by the World Health Organization and a national emergency by the President, and caused significant disruptions in the U.S. and world economies. Apart from the impact of the adoption of ASC 326 effective January 1, 2020, the Company’s allowance for loan losses increased during the first quarter of 2020 primarily as a result of the COVID-19 pandemic and its effects on current and forecasted economic conditions.

The Company's provision expense for the three months ended June 30, 2020 was impacted by the Company's estimate of certain improved economic conditions as of June 30, 2020 in comparison to what was used by the Company to determine the allowance for loan losses as of March 31, 2020. These improved economic conditions were partially offset by the Company extending its reversion period (to the Company's actual long-term historical loss experience) as of June 30, 2020, as the Company currently believes the economy will take longer to recover from the COVID-19 pandemic than what was originally estimated as of March 31, 2020.

The Company's provision expense for the three months ended September 30, 2020 was impacted by the Company's ongoing loan portfolio amortization; management's estimate of certain continued improved economic conditions as of September 30, 2020 in comparison to what was used by the Company to determine the allowance for loan losses as of June 30, 2020; and a decrease in the amount of loans in forbearance at September 30, 2020 as compared to June 30, 2020.

Loan Status and Delinquencies

The key credit quality indicators for the Company's federally insured, private education, and consumer loan portfolios are loan status, including delinquencies. The impact of changes in loan status is incorporated into the allowance for loan losses calculation. 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 status and delinquency amounts.

	As of September 30, 2020			As of December 31, 2019			As of September 30, 2019		
Federally insured loans:									
Loans in-school/grace/deferment	$ 1,037,754	5.4 %		$ 1,074,678	5.3 %		$ 1,243,705	6.0 %	
Loans in forbearance	1,916,906	10.0		1,339,821	6.6		1,391,482	6.7	
Loans in repayment status:									
Loans current	14,845,519		91.7 %	15,410,993		86.0 %	15,646,231		86.7 %
Loans delinquent 31-60 days	945,411		5.9	650,796		3.6	662,431		3.8
Loans delinquent 61-90 days	249,523		1.5	428,879		2.4	402,197		2.2
Loans delinquent 91-120 days	129,994		0.8	310,851		1.7	279,524		1.5
Loans delinquent 121-270 days	605		0.0	812,107		4.5	795,230		4.4
Loans delinquent 271 days or greater	19,867		0.1	300,418		1.8	275,037		1.4
Total loans in repayment	16,190,919	84.6	100.0 %	17,914,044	88.1	100.0 %	18,060,650	87.3	100.0 %
Total federally insured loans	19,145,579	100.0 %		20,328,543	100.0 %		20,695,837	100.0 %	
Accrued interest receivable	757,960			730,059			732,608		
Loan discount, net of unamortized premiums and deferred origination costs	(20,554)			(35,822)			(36,210)		
Non-accretable discount (a)	—			(28,036)			(27,809)		
Allowance for loan losses	(139,943)			(36,763)			(37,676)		
Total federally insured loans and accrued interest receivable, net of allowance for loan losses	$ 19,743,042			$ 20,957,981			$ 21,326,750		
Private education loans:									
Loans in-school/grace/deferment	$ 3,839	1.4 %		$ 4,493	1.8 %		$ 3,944	2.1 %	
Loans in forbearance	5,437	2.0		3,108	1.3		2,242	1.2	
Loans in repayment status:									
Loans current	261,514		98.8 %	227,013		95.9 %	173,883		94.7 %
Loans delinquent 31-60 days	1,820		0.7	2,814		1.2	3,011		1.6
Loans delinquent 61-90 days	454		0.2	1,694		0.7	1,370		0.7
Loans delinquent 91 days or greater	743		0.3	5,136		2.2	5,462		3.0
Total loans in repayment	264,531	96.6	100.0 %	236,657	96.9	100.0 %	183,726	96.7	100.0 %
Total private education loans	273,807	100.0 %		244,258	100.0 %		189,912	100.0 %	
Accrued interest receivable	1,960			1,558			1,440		
Loan premium, net of unaccreted discount	1,137			46			(1,421)		
Non-accretable discount (a)	—			(4,362)			(4,798)		
Allowance for loan losses	(20,013)			(9,597)			(9,882)		
Total private education loans and accrued interest receivable, net of allowance for loan losses	$ 256,891			$ 231,903			$ 175,251		
Consumer loans:									
Loans in deferment	$ 1,084	1.1 %		$ —			$ —		
Loans in repayment status:									
Loans current	96,038		96.9 %	220,404		97.5 %	315,708		98.3 %
Loans delinquent 31-60 days	1,044		1.1	2,046		0.9	2,249		0.7
Loans delinquent 61-90 days	776		0.8	1,545		0.7	1,617		0.5
Loans delinquent 91 days or greater	1,238		1.2	1,923		0.9	1,625		0.5
Total loans in repayment	99,096	98.9	100.0 %	225,918		100.0 %	321,199		100.0 %
Total consumer loans	100,180	100.0 %		225,918			321,199		
Accrued interest receivable	867			1,880			2,605		
Loan premium	1,505			740			1,148		
Allowance for loan losses	(25,943)			(15,554)			(18,859)		
Total consumer loans and accrued interest receivable, net of allowance for loan losses	$ 76,609			$ 212,984			$ 306,093		

(a) Upon adoption of ASC 326 on January 1, 2020, the Company reclassified the non-accretable discount balance related to loans purchased with evidence of credit deterioration to allowance for loan losses.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was signed into law. The CARES Act, among other things, provides broad relief, effective March 13, 2020 through September 30, 2020, for borrowers that have student loans owned by the Department of Education (the "Department"). On August 8, 2020, the President directed the Secretary of the Department to continue to suspend loan payments, stop collections, and waive interest on student loans owned by the Department until December 31, 2020. This relief package excluded Federal Family Education Loan Program ("FFELP" or "FFEL Program"), private education, and consumer loans.

Although the Company's loans are excluded from the provisions of the CARES Act, the Company is providing relief for its borrowers.

For the Company's federally insured and private education loans, effective March 13, 2020 through June 30, 2020, the Company proactively applied a 90 day natural disaster forbearance to any loan that was 31-269 days past due (for federally insured loans) and 80 days past due (for private education loans), and to any current loan upon request. Beginning July 1, 2020, the Company discontinued proactively applying 90 day natural disaster forbearances on past due loans. However, the Company will continue to apply a natural disaster forbearance with an end date of December 31, 2020 to any federally insured and private education loan upon request. In addition, for both federally insured and private education loans, effective March 13, 2020 through December 31, 2020, borrower late fees are being waived and borrower payments made after March 13, 2020 are refunded upon a borrower's request.

For the majority of the Company's consumer loans, borrowers are generally being offered, upon request and/or documented evidence of financial distress, a two-month deferral of payments, with an option of additional deferrals if the COVID-19 pandemic continues. In addition, effective March 13, 2020 through September 30, 2020, the majority of fees (non-sufficient funds, late charges, check fees) and credit bureau reporting were suspended. The specific relief terms on the Company's consumer loan portfolio vary depending on the loan program and servicer of such loans.

The Company will continue to review whether additional and/or extended borrower relief policies and activities are needed. When providing relief for its borrowers, the Company follows the guidance under the CARES Act to determine if a modification is subject to troubled debt restructuring classification. All relief provided to borrowers by the Company through September 30, 2020 have met the criteria under the CARES Act and the modifications have not been accounted for as troubled debt restructuring.

Nonaccrual Status

The Company does not place federally insured loans on nonaccrual status due to the government guaranty. The amortized cost of private and consumer loans on nonaccrual status, as well as the allowance for loan losses related to such loans, as of December 31, 2019 and September 30, 2020, was not material.

Amortized Cost Basis by Origination Year

The following table presents the amortized cost of the Company's private education and consumer loans by loan status and delinquency amount as of September 30, 2020 based on year of origination. Effective July 1, 2010, no new loan originations can be made under the FFEL Program and all new federal loan originations must be made under the Federal Direct Loan Program. As such, all the Company's federally insured loans were originated prior to July 1, 2010.

	Nine months ended September 30, 2020	2019	2018	2017	2016	Prior Years	Total
Private education loans:							
Loans in school/grace/deferment	$ —	909	—	—	169	2,761	3,839
Loans in forbearance	273	683	—	—	333	4,148	5,437
Loans in repayment status:							
Loans current	30,088	89,772	1,053	—	5,917	134,684	261,514
Loans delinquent 31-60 days	—	71	—	—	17	1,732	1,820
Loans delinquent 61-90 days	—	—	—	—	—	454	454
Loans delinquent 91 days or greater	—	—	—	—	—	743	743
Total loans in repayment	30,088	89,843	1,053	—	5,934	137,613	264,531
Total private education loans	$ 30,361	91,435	1,053	—	6,436	144,522	273,807
Accrued interest receivable							1,960
Loan premium, net of unaccreted discount							1,137
Allowance for loan losses							(20,013)
Total private education loans and accrued interest receivable, net of allowance for loan losses							$ 256,891
Consumer loans:							
Loans in deferment	$ 72	497	495	20	—	—	1,084
Loans in repayment status:							
Loans current	38,927	26,259	27,419	3,433	—	—	96,038
Loans delinquent 31-60 days	228	589	226	1	—	—	1,044
Loans delinquent 61-90 days	146	322	280	28	—	—	776
Loans delinquent 91 days or greater	326	339	535	38	—	—	1,238
Total loans in repayment	39,627	27,509	28,460	3,500	—	—	99,096
Total consumer loans	$ 39,699	28,006	28,955	3,520	—	—	100,180
Accrued interest receivable							867
Loan premium							1,505
Allowance for loan losses							(25,943)
Total consumer loans and accrued interest receivable, net of allowance for loan losses							$ 76,609

3. Bonds and Notes Payable

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

	As of September 30, 2020		
	Carrying amount	Interest rate range	Final maturity
Variable-rate bonds and notes issued in FFELP loan asset-backed securitizations:			
Bonds and notes based on indices	$ 17,265,435	0.32% - 2.05%	5/27/25 - 3/26/68
Bonds and notes based on auction	751,675	1.15% - 2.11%	3/22/32 - 11/26/46
Total FFELP variable-rate bonds and notes	18,017,110		
Fixed-rate bonds and notes issued in FFELP loan asset-backed securitizations	939,132	1.42% - 3.45%	10/25/67 - 8/27/68
FFELP warehouse facilities	145,149	0.34% / 0.46%	11/22/21 / 2/26/23
Private education loan warehouse facility	102,564	0.45%	2/13/22
Consumer loan warehouse facility	30,290	0.33%	4/23/22
Variable-rate bonds and notes issued in private education loan asset-backed securitizations	54,122	1.65% / 1.90%	12/26/40 / 6/25/49
Fixed-rate bonds and notes issued in private education loan asset-backed securitization	39,977	3.60% / 5.35%	12/26/40 / 12/28/43
Unsecured line of credit	—	—	12/16/24
Unsecured debt - Junior Subordinated Hybrid Securities	20,381	3.60%	9/15/61
Other borrowings	113,672	0.85% / 1.91%	5/4/21 / 5/30/22
	19,462,397		
Discount on bonds and notes payable and debt issuance costs	(247,344)		
Total	$ 19,215,053		

	As of December 31, 2019		
	Carrying amount	Interest rate range	Final maturity
Variable-rate bonds and notes issued in FFELP loan asset-backed securitizations:			
Bonds and notes based on indices	$ 18,428,998	1.98% - 3.61%	5/27/25 - 1/25/68
Bonds and notes based on auction	768,626	2.75% - 3.60%	3/22/32 - 11/26/46
Total FFELP variable-rate bonds and notes	19,197,624		
Fixed-rate bonds and notes issued in FFELP loan asset-backed securitizations	512,836	2.00% - 3.45%	10/25/67 / 11/25/67
FFELP warehouse facilities	778,094	1.98% / 2.07%	5/20/21 / 5/31/22
Consumer loan warehouse facility	116,570	1.99%	4/23/22
Variable-rate bonds and notes issued in private education loan asset-backed securitizations	73,308	3.15% / 3.54%	12/26/40 / 6/25/49
Fixed-rate bonds and notes issued in private education loan asset-backed securitization	49,367	3.60% / 5.35%	12/26/40 / 12/28/43
Unsecured line of credit	50,000	3.29%	12/16/24
Unsecured debt - Junior Subordinated Hybrid Securities	20,381	5.28%	9/15/61
Other borrowings	5,000	3.44%	5/30/22
	20,803,180		
Discount on bonds and notes payable and debt issuance costs	(274,126)		
Total	$ 20,529,054		

FFELP Warehouse Facilities

The Company funds the majority of its FFELP loan acquisitions using its FFELP warehouse facilities. Student loan warehousing allows the Company to buy and manage student loans prior to transferring them into more permanent financing arrangements.

As of September 30, 2020, the Company had two FFELP warehouse facilities as summarized below.

	NFSLW-I (a)	NHELP-II (b)	Total
Maximum financing amount	$ 300,000	250,000	550,000
Amount outstanding	68,099	77,050	145,149
Amount available	$ 231,901	172,950	404,851
Expiration of liquidity provisions	November 20, 2020	February 26, 2021	
Final maturity date	November 22, 2021	February 26, 2023	
Advanced as equity support	$ 4,524	6,644	11,168

(a) On May 20, 2020, the Company decreased the maximum financing amount for this warehouse facility to $300 million, extended the expiration of liquidity provisions to November 20, 2020, and extended the maturity date to November 22, 2021.

(b) On May 29, 2020, the Company decreased the maximum financing amount for this warehouse facility to $250 million, extended the expiration of liquidity provisions to February 26, 2021, and extended the maturity date to February 26, 2023.

On November 2, 2020, the Company decreased the maximum financing amount for each of its FFELP warehouse facilities to $50.0 million.

Asset-Backed Securitizations

The following table summarizes the asset-backed securitization transactions completed during the first nine months of 2020.

	2020-1	2020-2	2020-3	2020-4 (a)	Total
Date securities issued	2/20/20	3/11/20	3/19/20	8/27/20	
Total original principal amount	$ 435,600	272,100	352,600	191,300	1,251,600
Class A senior notes:					
Total principal amount	$ 424,600	264,300	343,600	191,300	1,223,800
Bond discount	—	(44)	(1,503)	(19)	(1,566)
Issue price	$ 424,600	264,256	342,097	191,281	1,222,234
Cost of funds	1-month LIBOR plus 0.74%	1.83%	1-month LIBOR plus 0.92%	1.42%	
Final maturity date	3/26/68	4/25/68	3/26/68	8/27/68	
Class B subordinated notes:					
Total principal amount	$ 11,000	7,800	9,000		27,800
Bond discount	—	(574)	(284)		(858)
Issue price	$ 11,000	7,226	8,716		26,942
Cost of funds	1-month LIBOR plus 1.75%	2.50%	1-month LIBOR plus 1.90%		
Final maturity date	3/26/68	4/25/68	3/26/68		

(a) Total original principal amount excludes the Class B subordinated tranche for the 2020-4 transaction totaling $5.0 million that was retained by the Company at issuance. As of September 30, 2020, the Company had a total of $20.8 million (par value) of its own asset-backed securities that were retained upon initial issuance or repurchased in the secondary market. For accounting purposes, these notes are eliminated in consolidation and are not included in the Company's consolidated financial statements. However, these securities 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 in the trust estate. Upon a sale of these notes to third parties, the Company would obtain cash proceeds equal to the market value of the notes on the date of such sale. Upon sale, these notes would be

shown as "bonds and notes payable" in the Company's consolidated balance sheet. The Company believes the market value of such notes is currently less than par value. Any excess of the par value over the market value on the date of sale would be recognized by the Company as interest expense over the life of the bonds.

Private Education Loan Warehouse Facility

On February 13, 2020, the Company obtained a private education loan warehouse facility with an aggregate maximum financing amount available of $100.0 million. On March 20, 2020, the facility was amended to increase the maximum financing amount to $200.0 million. The facility has an advance rate of 80 to 90 percent, liquidity provisions through February 13, 2021, and a final maturity date of February 13, 2022. As of September 30, 2020, $102.6 million was outstanding under this warehouse facility and $97.4 million was available for future funding. Additionally, as of September 30, 2020, the Company had $11.1 million advanced as equity support under this facility.

Consumer Loan Warehouse Facility

The Company has a consumer loan warehouse facility that as of September 30, 2020 had an aggregate maximum financing amount available of $200.0 million. The facility has an advance rate of 70 or 75 percent depending on the type of collateral and subject to certain concentration limits, liquidity provisions to April 23, 2021, and a final maturity date of April 23, 2022. As of September 30, 2020, $30.3 million was outstanding under this warehouse facility and $169.7 million was available for future funding. Additionally, as of September 30, 2020, the Company had $13.8 million advanced as equity support under this facility. On November 3, 2020, the Company decreased the maximum financing amount on this facility to $100.0 million.

Unsecured Line of Credit

The Company has a $455.0 million unsecured line of credit that has a maturity date of December 16, 2024. As of September 30, 2020, no amount was outstanding on the line of credit and $455.0 million was available for future use. The line of credit provides that the Company may increase the aggregate financing commitments, through the existing lenders and/or through new lenders, up to a total of $550.0 million, subject to certain conditions.

Junior Subordinated Hybrid Securities ("Hybrid Securities")

Subsequent to September 30, 2020, the Company redeemed all the outstanding $20.4 million of Hybrid Securities at par.

Other Borrowings

During the second quarter of 2020, the Company entered into an agreement with Union Bank and Trust Company ("Union Bank"), a related party, as trustee for various grantor trusts, under which Union Bank has agreed to purchase from the Company participation interests in student loan asset-backed securities. As of September 30, 2020, $108.7 million of student loan asset-backed securities 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. The Company can participate student loan asset-backed securities to Union Bank to the extent of availability under the grantor trusts, up to $100.0 million or an amount in excess of $100.0 million if mutually agreed to by both parties. Student loan asset-backed securities under this agreement have been accounted for by the Company as a secured borrowing.

4. Derivative Financial Instruments

The Company uses derivative financial instruments to manage interest rate 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 2019 Annual Report. A tabular presentation of such derivatives outstanding as of September 30, 2020 and December 31, 2019 is presented below.

Basis Swaps

The following table summarizes the Company's outstanding basis swaps as of December 31, 2019 and September 30, 2020, in which the Company receives three-month LIBOR set discretely in advance and pays one-month LIBOR plus or minus a spread as defined in the agreements (the "1:3 Basis Swaps").

Maturity	Notional amount	
	As of September 30, 2020	As of December 31, 2019
2020	$ —	1,000,000
2021	250,000	250,000
2022	2,000,000	2,000,000 (a)
2023	750,000	750,000
2024	1,750,000	1,750,000
2026	1,150,000	1,150,000
2027	250,000	250,000
	$ 6,150,000	7,150,000

(a) $750 million of the notional amount of these derivatives had forward effective start dates in May 2020.

The weighted average rate paid by the Company on the 1:3 Basis Swaps as of September 30, 2020 and December 31, 2019 was one-month LIBOR plus 9.1 basis points and 9.7 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 September 30, 2020		As of December 31, 2019	
Maturity	Notional amount	Weighted average fixed rate paid by the Company (a)(c)	Notional amount	Weighted average fixed rate paid by the Company (a)
2020	$ —	— %	$ 1,500,000	1.01 %
2021	600,000	2.15	600,000	2.15
2022 (b)	500,000	0.94	250,000	1.65
2023	400,000	1.00	150,000	2.25
2024	250,000	0.28	—	—
	$ 1,750,000	1.28 %	$ 2,500,000	1.42 %

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

(b) $250.0 million of the derivatives outstanding at December 31, 2019 and September 30, 2020 have forward effective start dates in June 2021.

(c) Excluding the derivatives with forward effective start dates, the weighted average fixed rate paid by the Company as of September 30, 2020, on its $1.5 billion floor income derivative portfolio was 1.21%.

Consolidated Financial Statement Impact Related to Derivatives - Statements of Income

The following table summarizes the components of "derivative market value adjustments and derivative settlements, net" included in the consolidated statements of income.

	Three months ended September 30,		Nine months ended September 30,	
	2020	**2019**	**2020**	**2019**
Settlements:				
1:3 basis swaps	$ 1,197	234	10,438	3,375
Interest rate swaps - floor income hedges	(3,588)	7,064	(2,772)	35,931
Total settlements - (expense) income	(2,391)	7,298	7,666	39,306
Change in fair value:				
1:3 basis swaps	(161)	6,636	(1,475)	4,427
Interest rate swaps - floor income hedges	3,601	(12,094)	(19,597)	(75,657)
Interest rate swap options - floor income hedges	—	(1)	—	(1,465)
Interest rate caps	—	(171)	—	(570)
Total change in fair value - income (expense)	3,440	(5,630)	(21,072)	(73,265)
Derivative market value adjustments and derivative settlements, net - income (expense)	$ 1,049	1,668	(13,406)	(33,959)

5. Investments

A summary of the Company's investments follows:

	As of September 30, 2020				As of December 31, 2019			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Investments (at fair value):								
Student loan asset-backed and other debt securities - available-for-sale (a)	$ 173,327	6,049	(414)	178,962	48,790	3,911	—	52,701
Equity securities	26,793	6,465	(2,792)	30,466	9,622	4,561	(1,283)	12,900
Total investments (at fair value)	$ 200,120	12,514	(3,206)	209,428	58,412	8,472	(1,283)	65,601
Other Investments (not measured at fair value):								
Venture capital and funds:								
Measurement alternative				143,221				72,760
Equity method				14,104				15,379
Other				938				1,301
Total venture capital and funds				158,263				89,440
Real estate and solar:								
Equity and HLBV method (b)				44,634				51,721
Other				852				867
Total real estate and solar				45,486				52,588
Beneficial interest in federally insured loan securitizations (c)				30,726				—
Beneficial interest in consumer loan securitizations, net of allowance for credit losses of $20,947 as of September 30, 2020 (c)				27,751				33,187
Tax liens and affordable housing				5,173				6,283
Total investments (not measured at fair value)				267,399				181,498
Total investments				$ 476,827				$ 247,099

(a) As of September 30, 2020, $108.7 million (par value) of student loan asset-backed securities were subject to participation interests held by Union Bank, as discussed in note 3 under "Other Borrowings."

As of September 30, 2020, the stated maturities of a majority of the Company's student loan asset-backed and other debt securities classified as available-for-sale were greater than 10 years; however, such securities with a fair value of $30.9 million as of September 30, 2020 are scheduled to mature within the next 10 years, including $2.0 million, $24.4 million, and $4.5 million scheduled to mature within the next one year, 1-5 years, and 6-10 years, respectively.

(b) The Company makes investments in entities that promote renewable energy sources (solar). The Company's investments in these entities generate a return primarily through the realization of federal income tax credits, operating cash flows, and other tax benefits, such as tax deductions from operating losses of the investments, over specified time periods which range from 5 to 6 years. As of September 30, 2020, the Company has funded or is committed to fund $153.6 million in solar investments. The carrying value of the Company's solar investments are reduced by tax credits earned when the solar project is placed in service.

The Company accounts for its solar investments using the Hypothetical Liquidation at Book Value ("HLBV") method of accounting. HLBV is a balance sheet-oriented method of accounting that provides an approach for allocating pre-tax net income or loss to an investor. HLBV allocates pre-tax net income or loss to the partners (investors) and calculates at the end of each balance sheet date the amount each partner would receive in the event the partnership were liquidated at book value. The amount allocated to each partner requires an analysis of each partners' capital account as adjusted according to the liquidation provisions of the partnership agreement. For the majority of the Company's solar investments, the HLBV

method of accounting results in accelerated losses in the initial year of investment. During the three and nine months ended September 30, 2020, the Company recognized pre-tax losses of $11.8 million and $12.6 million, respectively, on its solar investments. These losses are included in "other income" in the consolidated statements of income. The losses recognized for the same periods in 2019 were not significant.

(c) The Company has purchased partial ownership in certain federally insured and consumer loan securitizations. As of the latest remittance reports filed by the various trusts prior to September 30, 2020, the Company's ownership correlates to approximately $530 million and $350 million of federally insured and consumer loans, respectively, included in these securitizations.

Investment in Agile Sports Technologies, Inc. (doing business as "Hudl")

On May 20, 2020, the Company made an additional equity investment of approximately $26 million in Hudl, as one of the participants in an equity raise completed by Hudl. Prior to the additional 2020 investment, the Company had direct and indirect equity ownership interests in Hudl of less than 20%, which did not materially change as a result of this transaction. The Company accounts for its investment in Hudl using the measurement alternative method, which requires it to adjust its carrying value of the investment for changes resulting from observable market transactions. As a result of Hudl's equity raise, the Company recognized a $51.0 million (pre-tax) gain during the second quarter of 2020 to adjust its carrying value to reflect the May 20, 2020 transaction value. This gain is included in "other income" on the consolidated statements of income.

David S. Graff, who has served on the Company's Board of Directors since May 2014, is CEO, co-founder, and a director of Hudl.

Impairment Expense

During the first quarter of 2020, the Company recorded a total of $34.1 million (pre-tax) in impairment charges related to its investments, which included $26.3 million and $7.8 million in impairments related to the Company's beneficial interest in consumer loan securitizations and several of its venture capital investments, respectively. As of March 31, 2020, the Company's estimate of future cash flows from the beneficial interest in consumer loan securitizations was lower than previously anticipated due to the expectation of increased consumer loan defaults within such securitizations due to the distressed economic conditions resulting from the COVID-19 pandemic. The Company measured the allowance for credit losses on the consumer loan beneficial interests by comparing the present value of expected cash flows to the amortized cost basis and recorded an allowance for credit losses of $26.3 million, which represented the amount by which the fair value was less than the amortized cost basis. Additionally, as of March 31, 2020, the Company identified several venture capital investments, a majority of which were accounted for under the measurement alternative, that were also negatively impacted by the distressed economic conditions resulting from the COVID-19 pandemic during the first quarter of 2020, and estimated that the fair value of such investments was significantly reduced from their previous carrying value.

6. Intangible Assets

A summary of the Company's intangible assets follows:

	Weighted average remaining useful life as of September 30, 2020 (months)	As of September 30, 2020	As of December 31, 2019
Amortizable intangible assets, net:			
Customer relationships (net of accumulated amortization of $80,448 and $60,553, respectively)	82	$ 52,004	71,900
Trade names (net of accumulated amortization of $4,253 and $2,792, respectively)	76	6,018	7,478
Computer software (net of accumulated amortization of $4,708 and $3,233, respectively)	6	679	2,154
Total - amortizable intangible assets, net	81	$ 58,701	81,532

The Company recorded amortization expense on its intangible assets of $8.0 million during each of the three months ended September 30, 2020 and 2019, and $22.8 million and $24.8 million during the nine months ended September 30, 2020 and 2019, respectively. The Company will continue to amortize intangible assets over their remaining useful lives. As of September 30, 2020, the Company estimates it will record amortization expense as follows:

2020 (October 1 - December 31)	$	7,979
2021		19,687
2022		6,431
2023		6,184
2024		5,771
2025 and thereafter		12,649
	$	58,701

7. Goodwill

The carrying amount of goodwill as of December 31, 2019 and September 30, 2020 by reportable operating segment was as follows:

	Loan Servicing and Systems	Education Technology, Services, and Payment Processing	Communications	Asset Generation and Management	Corporate and Other Activities	Total
Goodwill balance	$ 23,639	70,278	21,112	41,883	—	156,912

8. Property and Equipment

A summary of the Company's property and equipment follows:

	Useful life	As of September 30, 2020	As of December 31, 2019
Non-communications:			
Computer equipment and software	1-5 years	$ 185,066	160,319
Building and building improvements	5-48 years	39,995	37,904
Office furniture and equipment	1-10 years	22,234	21,245
Leasehold improvements	1-15 years	9,621	9,517
Transportation equipment	5-10 years	4,897	5,049
Land	—	1,400	1,400
Construction in progress	—	30,301	13,738
		293,514	249,172
Accumulated depreciation - non-communications		(174,263)	(142,270)
Non-communications, net property and equipment		119,251	106,902
Communications:			
Network plant and fiber	4-15 years	273,754	254,560
Customer located property	2-4 years	31,844	27,011
Central office	5-15 years	19,801	17,672
Transportation equipment	4-10 years	7,157	6,611
Computer equipment and software	1-5 years	6,088	5,574
Other	1-39 years	3,761	3,702
Land	—	70	70
Construction in progress	—	4,129	54
		346,604	315,254
Accumulated depreciation - communications		(105,365)	(73,897)
Communications, net property and equipment		241,239	241,357
Total property and equipment, net		$ 360,490	348,259

The Company recorded depreciation expense on its property and equipment of $22.3 million and $19.7 million during the three months ended September 30, 2020 and 2019, respectively, and $64.6 million and $51.6 million during the nine months ended September 30, 2020 and 2019, respectively.

9. Earnings per Common Share

Presented below is a summary of the components used to calculate basic and diluted earnings per share. The Company applies the two-class method in computing both basic and diluted earnings per share, which requires the calculation of separate earnings per share amounts for common stock and unvested share-based awards. Unvested share-based awards that contain nonforfeitable rights to dividends are considered securities which participate in undistributed earnings with common stock.

	Three months ended September 30,					
	2020			2019		
	Common shareholders	Unvested restricted stock shareholders	Total	Common shareholders	Unvested restricted stock shareholders	Total
Numerator:						
Net income attributable to Nelnet, Inc.	$ 70,483	1,020	71,503	32,778	434	33,212
Denominator:						
Weighted-average common shares outstanding - basic and diluted	37,988,584	549,892	38,538,476	39,356,311	520,818	39,877,129
Earnings per share - basic and diluted	$ 1.86	1.86	1.86	0.83	0.83	0.83

	Nine months ended September 30,					
	2020			2019		
	Common shareholders	Unvested restricted stock shareholders	Total	Common shareholders	Unvested restricted stock shareholders	Total
Numerator:						
Net income attributable to Nelnet, Inc.	$ 115,794	1,658	117,452	98,125	1,298	99,423
Denominator:						
Weighted-average common shares outstanding - basic and diluted	38,676,092	553,840	39,229,932	39,574,868	523,478	40,098,346
Earnings per share - basic and diluted	$ 2.99	2.99	2.99	2.48	2.48	2.48

10. Segment Reporting

See note 14 of the notes to consolidated financial statements included in the 2019 Annual Report for a description of the Company's operating segments. The following tables include the results of each of the Company's operating segments reconciled to the consolidated financial statements.

	Three months ended September 30, 2020						
	Loan Servicing and Systems	Education Technology, Services, and Payment Processing	Communications	Asset Generation and Management	Corporate and Other Activities	Eliminations	Total
Total interest income	$ 34	367	—	137,959	1,646	(261)	139,745
Interest expense	24	16	—	57,755	888	(261)	58,423
Net interest income (expense)	10	351	—	80,204	758	—	81,322
Less (negative provision) provision for loan losses	—	—	—	(5,821)	—	—	(5,821)
Net interest income after provision for loan losses	10	351	—	86,025	758	—	87,143
Other income/expense:							
Loan servicing and systems revenue	113,794	—	—	—	—	—	113,794
Intersegment revenue	8,287	3	—	—	—	(8,290)	—
Education technology, services, and payment processing revenue	—	74,121	—	—	—	—	74,121
Communications revenue	—	—	20,211	—	—	—	20,211
Gain on sale of loans	—	—	—	14,817	—	—	14,817
Other income	2,353	373	511	1,004	(2,737)	—	1,502
Impairment expense	—	—	—	—	—	—	—
Derivative settlements, net	—	—	—	(2,391)	—	—	(2,391)
Derivative market value adjustments, net	—	—	—	3,440	—	—	3,440
Total other income/expense	124,434	74,497	20,722	16,870	(2,737)	(8,290)	225,494
Cost of services:							
Cost to provide education technology, services, and payment processing services	—	25,243	—	—	—	—	25,243
Cost to provide communications services	—	—	5,914	—	—	—	5,914
Total cost of services	—	25,243	5,914	—	—	—	31,157
Operating expenses:							
Salaries and benefits	72,912	25,460	5,485	438	21,801	—	126,096
Depreciation and amortization	9,951	2,366	11,152	—	6,839	—	30,308
Other expenses	12,407	3,126	2,219	3,672	13,320	—	34,744
Intersegment expenses, net	15,834	3,610	491	8,868	(20,513)	(8,290)	—
Total operating expenses	111,104	34,562	19,347	12,978	21,447	(8,290)	191,148
Income (loss) before income taxes	13,340	15,043	(4,539)	89,917	(23,426)	—	90,332
Income tax (expense) benefit	(3,201)	(3,610)	1,089	(21,580)	8,146	—	(19,156)
Net income (loss)	10,139	11,433	(3,450)	68,337	(15,280)	—	71,176
Net loss (income) attributable to noncontrolling interests	—	—	—	—	327	—	327
Net income (loss) attributable to Nelnet, Inc.	$ 10,139	11,433	(3,450)	68,337	(14,953)	—	71,503
Total assets as of September 30, 2020	$ 211,726	382,608	305,276	20,686,478	770,621	(134,183)	22,222,526

	Three months ended September 30, 2019						
	Loan Servicing and Systems	Education Technology, Services, and Payment Processing	Communications	Asset Generation and Management	Corporate and Other Activities	Eliminations	Total
Total interest income	$ 532	3,499	—	233,225	2,859	(1,171)	238,945
Interest expense	51	12	—	171,485	2,110	(1,171)	172,488
Net interest income (expense)	481	3,487	—	61,740	749	—	66,457
Less (negative provision) provision for loan losses	—	—	—	10,000	—	—	10,000
Net interest income after provision for loan losses	481	3,487	—	51,740	749	—	56,457
Other income/expense:							
Loan servicing and systems revenue	113,286	—	—	—	—	—	113,286
Intersegment revenue	11,611	—	—	—	—	(11,611)	—
Education technology, services, and payment processing revenue	—	74,251	—	—	—	—	74,251
Communications revenue	—	—	16,470	—	—	—	16,470
Gain on sale of loans	—	—	—	—	—	—	—
Other income	2,291	—	532	3,384	7,231	—	13,439
Impairment expense	—	—	—	—	—	—	—
Derivative settlements, net	—	—	—	7,298	—	—	7,298
Derivative market value adjustments, net	—	—	—	(5,630)	—	—	(5,630)
Total other income/expense	127,188	74,251	17,002	5,052	7,231	(11,611)	219,114
Cost of services:							
Cost to provide education technology, services, and payment processing services	—	25,671	—	—	—	—	25,671
Cost to provide communications services	—	—	5,236	—	—	—	5,236
Total cost of services	—	25,671	5,236	—	—	—	30,907
Operating expenses:							
Salaries and benefits	69,209	23,826	5,763	394	17,479	—	116,670
Depreciation and amortization	8,565	2,997	10,926	—	5,212	—	27,701
Other expenses	16,686	5,325	3,842	19,054	13,422	—	58,329
Intersegment expenses, net	12,955	3,194	701	11,678	(16,917)	(11,611)	—
Total operating expenses	107,415	35,342	21,232	31,126	19,196	(11,611)	202,700
Income (loss) before income taxes	20,254	16,725	(9,466)	25,666	(11,216)	—	41,964
Income tax (expense) benefit	(4,861)	(4,014)	2,272	(6,160)	3,935	—	(8,829)
Net income (loss)	15,393	12,711	(7,194)	19,506	(7,281)	—	33,135
Net loss (income) attributable to noncontrolling interests	—	—	—	—	77	—	77
Net income (loss) attributable to Nelnet, Inc.	$ 15,393	12,711	(7,194)	19,506	(7,204)	—	33,212
Total assets as of September 30, 2019	$ 222,606	413,076	306,743	22,520,688	685,998	(212,392)	23,936,719

	Nine months ended September 30, 2020						
	Loan Servicing and Systems	Education Technology, Services, and Payment Processing	Communications	Asset Generation and Management	Corporate and Other Activities	Eliminations	Total
Total interest income	$ 403	2,777	—	474,468	4,397	(1,228)	480,818
Interest expense	97	54	—	275,492	3,373	(1,228)	277,788
Net interest income (expense)	306	2,723	—	198,976	1,024	—	203,030
Less (negative provision) provision for loan losses	—	—	—	73,476	—	—	73,476
Net interest income after provision for loan losses	306	2,723	—	125,500	1,024	—	129,554
Other income/expense:							
Loan servicing and systems revenue	337,571	—	—	—	—	—	337,571
Intersegment revenue	27,878	17	—	—	—	(27,895)	—
Education technology, services, and payment processing revenue	—	217,100	—	—	—	—	217,100
Communications revenue	—	—	57,390	—	—	—	57,390
Gain on sale of loans	—	—	—	33,023	—	—	33,023
Other income	6,897	373	1,256	4,951	56,435	—	69,910
Impairment expense	—	—	—	(26,303)	(8,116)	—	(34,419)
Derivative settlements, net	—	—	—	7,666	—	—	7,666
Derivative market value adjustments, net	—	—	—	(21,072)	—	—	(21,072)
Total other income/expense	372,346	217,490	58,646	(1,735)	48,319	(27,895)	667,169
Cost of services:							
Cost to provide education technology, services, and payment processing services	—	63,424	—	—	—	—	63,424
Cost to provide communications services	—	—	17,240	—	—	—	17,240
Total cost of services	—	63,424	17,240	—	—	—	80,664
Operating expenses:							
Salaries and benefits	211,806	73,678	16,471	1,301	61,964	—	365,220
Depreciation and amortization	27,941	7,115	32,482	—	19,811	—	87,349
Other expenses	43,277	11,544	9,681	12,253	38,428	—	115,184
Intersegment expenses, net	48,069	10,366	1,650	29,839	(62,030)	(27,895)	—
Total operating expenses	331,093	102,703	60,284	43,393	58,173	(27,895)	567,753
Income (loss) before income taxes	41,559	54,086	(18,878)	80,372	(8,830)	—	148,306
Income tax (expense) benefit	(9,974)	(12,981)	4,531	(19,289)	7,426	—	(30,286)
Net income (loss)	31,585	41,105	(14,347)	61,083	(1,404)	—	118,020
Net loss (income) attributable to noncontrolling interests	—	—	—	—	(568)	—	(568)
Net income (loss) attributable to Nelnet, Inc.	$ 31,585	41,105	(14,347)	61,083	(1,972)	—	117,452
Total assets as of September 30, 2020	$ 211,726	382,608	305,276	20,686,478	770,621	(134,183)	22,222,526

	Nine months ended September 30, 2019						
	Loan Servicing and Systems	Education Technology, Services, and Payment Processing	Communications	Asset Generation and Management	Corporate and Other Activities	Eliminations	Total
Total interest income	$ 1,579	7,175	3	723,388	7,170	(2,995)	736,319
Interest expense	70	32	—	544,319	9,796	(2,995)	551,221
Net interest income (expense)	1,509	7,143	3	179,069	(2,626)	—	185,098
Less (negative provision) provision for loan losses	—	—	—	26,000	—	—	26,000
Net interest income after provision for loan losses	1,509	7,143	3	153,069	(2,626)	—	159,098
Other income/expense:							
Loan servicing and systems revenue	342,169	—	—	—	—	—	342,169
Intersegment revenue	35,426	—	—	—	—	(35,426)	—
Education technology, services, and payment processing revenue	—	213,753	—	—	—	—	213,753
Communications revenue	—	—	46,770	—	—	—	46,770
Gain on sale of loans	—	—	—	1,712	—	—	1,712
Other income	6,642	—	1,019	10,084	19,200	—	36,946
Impairment expense	—	—	—	—	—	—	—
Derivative settlements, net	—	—	—	39,306	—	—	39,306
Derivative market value adjustments, net	—	—	—	(73,265)	—	—	(73,265)
Total other income/expense	384,237	213,753	47,789	(22,163)	19,200	(35,426)	607,391
Cost of services:							
Cost to provide education technology, services, and payment processing services	—	62,601	—	—	—	—	62,601
Cost to provide communications services	—	—	15,096	—	—	—	15,096
Total cost of services	—	62,601	15,096	—	—	—	77,697
Operating expenses:							
Salaries and benefits	201,924	69,656	15,692	1,153	50,517	—	338,942
Depreciation and amortization	26,236	9,832	26,025	—	14,305	—	76,398
Other expenses	52,732	16,440	11,184	29,098	38,107	—	147,562
Intersegment expenses, net	40,317	9,642	2,081	35,630	(52,244)	(35,426)	—
Total operating expenses	321,209	105,570	54,982	65,881	50,685	(35,426)	562,902
Income (loss) before income taxes	64,537	52,725	(22,286)	65,025	(34,111)	—	125,890
Income tax (expense) benefit	(15,489)	(12,654)	5,349	(15,606)	11,971	—	(26,429)
Net income (loss)	49,048	40,071	(16,937)	49,419	(22,140)	—	99,461
Net loss (income) attributable to noncontrolling interests	—	—	—	—	(38)	—	(38)
Net income (loss) attributable to Nelnet, Inc.	$ 49,048	40,071	(16,937)	49,419	(22,178)	—	99,423
Total assets as of September 30, 2019	$ 222,606	413,076	306,743	22,520,688	685,998	(212,392)	23,936,719

11. Disaggregated Revenue and Deferred Revenue

The following tables provide disaggregated revenue by service offering and/or customer type for the Company's fee-based reportable operating segments.

Loan Servicing and Systems

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Government servicing - Nelnet	$ 36,295	38,645	112,305	118,744
Government servicing - Great Lakes	45,350	46,234	137,010	139,285
Private education and consumer loan servicing	7,928	9,561	24,733	28,026
FFELP servicing	4,912	6,089	15,443	19,208
Software services	10,426	10,493	32,395	30,255
Outsourced services and other	8,883	2,264	15,685	6,651
Loan servicing and systems revenue	$ 113,794	113,286	337,571	342,169

Education Technology, Services, and Payment Processing

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Tuition payment plan services	$ 22,477	25,760	77,011	80,589
Payment processing	35,420	35,138	88,329	85,428
Education technology and services	15,840	13,067	50,820	46,872
Other	384	286	940	864
Education technology, services, and payment processing revenue	$ 74,121	74,251	217,100	213,753

Communications

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Internet	$ 12,794	9,899	35,926	27,641
Television	4,446	4,068	12,913	12,020
Telephone	2,931	2,487	8,436	7,062
Other	40	16	115	47
Communications revenue	$ 20,211	16,470	57,390	46,770
Residential revenue	$ 15,173	12,397	42,946	35,351
Business revenue	4,918	4,025	14,002	11,256
Other	120	48	442	163
Communications revenue	$ 20,211	16,470	57,390	46,770

Other Income

The following table provides the components of "other income" on the consolidated statements of income:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Investment advisory services	$ 4,463	753	8,187	2,194
Management fee revenue	2,353	2,291	6,897	6,642
Borrower late fee income	871	3,196	4,377	9,870
Gain (loss) on investments, net	(10,152)	1,948	39,134	5,779
Other	3,967	5,251	11,315	12,461
Other income	$ 1,502	13,439	69,910	36,946

Deferred Revenue

Activity in the deferred revenue balance, which is included in "other liabilities" on the consolidated balance sheets, is shown below:

	Loan Servicing and Systems	Education Technology, Services, and Payment Processing	Communications	Corporate and Other Activities	Total
			Three months ended September 30, 2020		
Balance, beginning of period	$ 2,115	19,924	3,728	1,676	27,443
Deferral of revenue	365	41,471	11,331	851	54,018
Recognition of revenue	(970)	(19,490)	(11,139)	(800)	(32,399)
Balance, end of period	$ 1,510	41,905	3,920	1,727	49,062
			Three months ended September 30, 2019		
Balance, beginning of period	$ 3,315	21,489	3,080	1,611	29,495
Deferral of revenue	881	42,752	9,302	953	53,888
Recognition of revenue	(1,149)	(21,820)	(9,158)	(850)	(32,977)
Balance, end of period	$ 3,047	42,421	3,224	1,714	50,406
			Nine months ended September 30, 2020		
Balance, beginning of period	$ 2,712	32,074	3,232	1,628	39,646
Deferral of revenue	1,547	78,891	31,898	2,585	114,921
Recognition of revenue	(2,749)	(69,060)	(31,210)	(2,486)	(105,505)
Balance, end of period	$ 1,510	41,905	3,920	1,727	49,062
			Nine months ended September 30, 2019		
Balance, beginning of period	$ 4,413	30,556	2,551	1,602	39,122
Deferral of revenue	2,761	81,484	26,366	2,530	113,141
Recognition of revenue	(4,127)	(69,619)	(25,693)	(2,418)	(101,857)
Balance, end of period	$ 3,047	42,421	3,224	1,714	50,406

12. Major Customer

Nelnet Servicing, LLC ("Nelnet Servicing"), a subsidiary of the Company, earns loan servicing revenue from a servicing contract with the Department. Revenue earned by Nelnet Servicing related to this contract was $36.3 million and $38.6 million for the three months ended September 30, 2020 and 2019, and $112.3 million and $118.7 million for the nine months ended September 30, 2020 and 2019, respectively. In addition, Great Lakes Educational Loan Services, Inc. ("Great Lakes"), which was acquired by the Company on February 7, 2018, also earns loan servicing revenue from a similar servicing contract with the Department. Revenue earned by Great Lakes related to this contract was $45.4 million and $46.2 million for the three months ended September 30, 2020 and 2019, and $137.0 million and $139.3 million for the nine months ended September 30, 2020 and 2019, respectively.

Nelnet Servicing and Great Lakes' servicing contracts with the Department previously provided for expiration on June 16, 2019. On November 26, 2019, Nelnet Servicing and Great Lakes each received extensions from the Department on their contracts through December 14, 2020. The most current contract extensions also provide the potential for two additional six-month extensions at the Department's discretion through December 14, 2021.

On October 13, 2020, Nelnet Servicing and Great Lakes received correspondence from the Department indicating the Department's intent to exercise the first additional six-month extension of the current servicing contracts, from December 14, 2020 to approximately June 15, 2021. The correspondence served only as a non-binding notice of intent that does not commit the Department to extend the contracts, and any formal extension of the contracts will occur only upon a unilateral modification by the Department to the contracts.

The Department is conducting a contract procurement process entitled Next Generation Financial Services Environment (“NextGen”) for a new framework for the servicing of all student loans owned by the Department. On January 15, 2019, the Department issued solicitations for three NextGen components:

- NextGen Enhanced Processing Solution ("EPS")
- NextGen Business Process Operations ("BPO")
- NextGen Optimal Processing Solution ("OPS")

On April 1, 2019, October 4, 2019, and February 3, 2020, the Company responded to the EPS solicitation component. In addition, on August 1, 2019 and January 30, 2020, the Company responded to the BPO solicitation component. The EPS solicitation component was for a transitional technology system and certain processing functions the Department planned to use under NextGen to service the Department's student loan customers for a period of time before eventually moving to OPS in the future. However, on April 3, 2020, the Department cancelled the OPS solicitation component. The BPO solicitation component is for the back office and call center operational functions for servicing the Department's student loan customers.

On March 30, 2020, the Company received a letter from the Department notifying the Company that the Company's proposal in response to the EPS component had been determined to be outside of the competitive range and would receive no further consideration for an award. On April 13, 2020 and April 27, 2020, the Company filed protests with the Government Accountability Office ("GAO") challenging the Department's decision to cancel the OPS solicitation component without amending the EPS solicitation component and the Department's competitive range exclusion of the Company's proposal from the EPS solicitation component. On July 10, 2020, the Department cancelled the solicitation for the EPS component. Based on the Department's cancellation of the EPS procurement, on July 14, 2020, the GAO dismissed the Company's protests as moot.

On June 18, 2020, the Company received a letter from the Department notifying the Company that the Company's proposal in response to the BPO solicitation component was determined to be ineligible for award, claiming the Company's response did not meet certain requirements related to small business participation. On June 24, 2020, the Department awarded and signed contracts with five other companies in connection with the BPO solicitation. On July 13, 2020, July 20, 2020 and July 28, 2020, the Company filed protests with the GAO challenging the Department's determination that the Company's BPO response did not meet small business participation requirements and the Department's decision to proceed with awards of contracts for the BPO component, when it cancelled the EPS component and a new EPS solicitation is expected to be released. On October 19, 2020, the GAO denied the Company's protests concerning the BPO solicitation component.

In the Department's description of its July 10, 2020 cancellation of the EPS solicitation component, the Department indicated that it continues to be committed to the goals and vision of NextGen, and that it would be introducing a new solicitation to continue the NextGen strategy in the future. On October 28, 2020, the Department issued a new federal loan servicing solicitation for an Interim Servicing Solution ("ISS"). Responses for the ISS solicitation are due December 9, 2020. ISS is a follow-on to the existing Title IV Additional Servicing and Not-for-Profit Servicing contracts, which would award a full system and servicing solution to two providers. The Department anticipates awarding a five-year contract followed by five, one-year optional ordering periods. Under ISS, the selected providers will provide the technology platform to host the Department's student loan portfolio; customer service (including contact centers) and back-office processing; digital engagement layer including borrower-facing website and mobile-applications; intake, imaging, and fulfillment; and portfolio-level operations. As the companies awarded BPO contracts are onboarded, contact center and back-office operations will shift from the ISS contract to the BPO providers. The Company fully intends to respond to the ISS solicitation.

13. Fair Value

The following tables present the Company’s financial assets and liabilities that are measured at fair value on a recurring basis.

	As of September 30, 2020			As of December 31, 2019		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Assets:						
Investments:						
Student loan asset-backed securities - available-for-sale	$ —	178,859	178,859	—	52,597	52,597
Equity securities	6	—	6	6	—	6
Equity securities measured at net asset value (a)			30,460			12,894
Debt securities - available-for-sale	103	—	103	104	—	104
Total investments	109	178,859	209,428	110	52,597	65,601
Total assets	$ 109	178,859	209,428	110	52,597	65,601

(a) In accordance with the Fair Value Measurements Topic of the FASB Accounting Standards Codification, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy.

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

	As of September 30, 2020				
	Fair value	Carrying value	Level 1	Level 2	Level 3
Financial assets:					
Loans receivable	$ 20,136,583	19,315,755	—	—	20,136,583
Accrued loan interest receivable	760,787	760,787	—	760,787	—
Cash and cash equivalents	96,316	96,316	96,316	—	—
Investments (at fair value)	209,428	209,428	109	178,859	—
Beneficial interest in loan securitizations	58,477	58,477	—	—	58,477
Restricted cash	519,143	519,143	519,143	—	—
Restricted cash – due to customers	286,082	286,082	286,082	—	—
Financial liabilities:					
Bonds and notes payable	18,983,969	19,215,053	—	18,983,969	—
Accrued interest payable	29,612	29,612	—	29,612	—
Due to customers	286,082	286,082	286,082	—	—

	As of December 31, 2019				
	Fair value	Carrying value	Level 1	Level 2	Level 3
Financial assets:					
Loans receivable	$ 21,477,630	20,669,371	—	—	21,477,630
Accrued loan interest receivable	733,497	733,497	—	733,497	—
Cash and cash equivalents	133,906	133,906	133,906	—	—
Investments (at fair value)	65,601	65,601	110	52,597	—
Beneficial interest in loan securitizations	33,258	33,187	—	—	33,258
Restricted cash	650,939	650,939	650,939	—	—
Restricted cash – due to customers	437,756	437,756	437,756	—	—
Financial liabilities:					
Bonds and notes payable	20,479,095	20,529,054	—	20,479,095	—
Accrued interest payable	47,285	47,285	—	47,285	—
Due to customers	437,756	437,756	437,756	—	—

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 2019 Annual Report.

14. Subsequent Events

Recapitalization and Additional Funding for ALLO Communications LLC ("ALLO")

On October 1, 2020, Nelnet, Inc. entered into various agreements with SDC ALLO Holdings, LLC ("SDC"), a third party global digital infrastructure investor, and ALLO, the Company's communication's subsidiary, for various transactions contemplated by the parties in connection with a recapitalization and additional funding for ALLO.

The agreements provide for a series of initial interrelated transactions (the "Initial Transactions") whereby (i) on October 15, 2020, ALLO issued non-voting preferred membership units of ALLO to SDC for an aggregate purchase price payment of approximately $197.0 million from SDC to ALLO, and ALLO redeemed certain non-voting preferred membership units of ALLO held by Nelnet, Inc. in exchange for an aggregate redemption price payment to Nelnet, Inc. of $160.0 million; (ii) ALLO will use its reasonable best efforts to incur and undertake private debt financing from one or more unrelated third-party lender(s) in the aggregate approximate amount of $100.0 million; and (iii) subject to ALLO obtaining such debt financing, ALLO will redeem certain additional preferred return membership units of ALLO held by Nelnet, Inc. in exchange for an aggregate redemption price payment to Nelnet, Inc. of approximately $100.0 million (subject to the amount of gross proceeds actually received in the debt financing).

Upon the receipt of required regulatory approvals from the Federal Communications Commission and other applicable regulatory authorities, the non-voting preferred membership units of ALLO held by SDC will automatically convert into voting membership units of ALLO. As a result of such conversion, SDC, Nelnet, Inc., and members of ALLO's management will own approximately 48 percent, 45 percent and 7 percent, respectively, of the outstanding voting membership interests of ALLO and Nelnet, Inc. will deconsolidate ALLO from the Company's consolidated financial statements. It is currently anticipated that such regulatory conditions will be satisfied by December 31, 2020.

Upon deconsolidation of ALLO by Nelnet, Inc., the Company will initially record its 45 percent voting membership interests in ALLO at fair value, and thereafter account for such investment under the equity method of accounting. In addition, upon deconsolidation of ALLO, the Company will initially record its remaining non-voting preferred membership units in ALLO at fair value, and account for such investment as a separate equity investment.

The agreements also provide for secondary transactions (the "Secondary Transactions") subsequent to the completion of the Initial Transactions, whereby (i) Nelnet, Inc., SDC, and ALLO will use commercially reasonable efforts (which expressly excludes requiring ALLO to raise any additional equity financing or sell any assets) to cause ALLO to redeem, on or before the three and one-half year anniversary (subject to adjustment) of the completion of ALLO's redemptions from Nelnet, Inc. in the Initial Transactions, the remaining preferred membership units of ALLO held by Nelnet, Inc. in exchange for an aggregate redemption price payment to Nelnet, Inc. of approximately $126 million, plus the amount of accrued and unpaid preferred return on such units and the amount of any contributions or other amounts funded by Nelnet, Inc. to ALLO subsequent to ALLO's redemptions from Nelnet, Inc. in the Initial Transactions; and (ii) Nelnet, Inc. will have a contingent payment obligation to pay SDC a contingent payment amount of $25 million to $35 million in the event Nelnet, Inc. disposes of other voting membership units of ALLO that it holds and realizes from such disposition certain targeted return levels relative to the implied value of its investment in such units upon SDC's initial investment in ALLO on October 15, 2020.

The Company currently estimates the above transactions will result in the Company recognizing incremental net income before tax of approximately $230 million, which reflects the Company recognizing a gain as a result of the deconsolidation of ALLO and recording its voting and non-voting membership interests in ALLO at fair value, net of compensation expense for the modification of certain equity awards previously granted to members of ALLO's management and an expense to record the Company's contingent payment obligation to SDC at fair value. The amount of incremental net income the Company ultimately recognizes as a result of these transactions will be impacted by the timing of when, or if, regulatory approval is obtained.

Nelnet Bank

On November 2, 2020, the Company obtained final approval from the Federal Deposit Insurance Corporation ("FDIC") for federal deposit insurance and for a bank charter from the Utah Department of Financial Institutions ("UDFI") in connection with the establishment of Nelnet Bank, and Nelnet Bank launched operations. Nelnet Bank will operate as an internet Utah-chartered industrial bank franchise focused on the private education loan marketplace, with a home office in Salt Lake City, Utah. Nelnet Bank was funded by the Company with an initial capital contribution of $100 million, consisting of $55.9 million of cash and $44.1 million of student loan asset-backed securities. In addition, the Company made a pledged deposit of $40.0 million with Nelnet Bank, as required under an agreement with the FDIC. Nelnet Bank will operate as a subsidiary of the Company, and the industrial bank charter allows the Company to maintain its other diversified business offerings.

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 and nine months ended September 30, 2020 and 2019. 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 2019 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 "anticipate," "assume," "believe," "continue," "could," "estimate," "expect," "forecast," "future," "intend," "may,"

“plan,” “potential,” “predict,” “scheduled,” “should,” “will,” “would,” and similar expressions, as well as statements 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 2019 Annual Report and subsequent reports filed by the Company with the SEC, including the "Risk Factors" section of this report, and elsewhere in this report, and include such risks and uncertainties as:

- risks and uncertainties related to the severity, magnitude, and duration of the COVID-19 pandemic, including changes in the macroeconomic environment and consumer behavior, restrictions on business, educational, individual, or travel activities intended to slow the spread of the pandemic, and volatility in market conditions resulting from the pandemic, including interest rates, the value of equities, and other financial assets;

- risks related to the ability to successfully maintain and increase allocated volumes of student loans serviced by the Company under existing and any future servicing contracts with the U.S. Department of Education (the "Department"), which current contracts accounted for 30 percent of the Company's revenue in 2019, risks that the reported non-binding notice of intent by the Department to extend the current servicing contracts from December 14, 2020 to approximately June 15, 2021, which notice does not commit the Department to extend the contracts, may not result in actual extensions of the contracts, risks to the Company related to the Department's initiatives to procure new contracts for federal student loan servicing, including the pending and uncertain nature of the Department's NextGen and ISS procurement processes (under which awards of new NextGen contracts have been made to other service providers), the possibility that awards or evaluations of proposals may be challenged by various interested parties and may not be finalized or implemented within the currently anticipated time frame or at all, risks that the Company may not be successful in obtaining any of such potential new contracts, and risks related to the Company's ability to comply with agreements with third-party customers for the servicing of Federal Direct Loan Program, Federal Family Education Loan Program (the "FFEL Program" or "FFELP"), and private education and consumer loans;

- 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 FFEL Program, risks related to the use of derivatives to manage exposure to interest rate fluctuations, uncertainties regarding the expected benefits from purchased securitized and unsecuritized FFELP, private education, and consumer loans and initiatives to purchase additional FFELP, private education, and consumer loans, and risks from changes in levels of loan prepayment or default rates;

- financing and liquidity risks, including risks of changes in the general interest rate environment, including the availability of any relevant money market index rate such as LIBOR or the relationship between the relevant money market index rate and the rate at which the Company's assets and liabilities are priced, and changes in the securitization and other financing markets for loans, including adverse changes resulting from unanticipated repayment trends on student loans in FFELP securitization trusts that could accelerate or delay repayment of the associated bonds, 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 terms of education loans and in the educational credit and services markets resulting from changes in applicable laws, regulations, and government programs and budgets, such as changes resulting from the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") and 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 a breach of or failure in the Company's operational or information systems or infrastructure, or those of third-party vendors, including cybersecurity risks related to the potential disclosure of confidential loan borrower and other customer information, the potential disruption of the Company's systems or those of third-party vendors or customers, and/or the potential damage to the Company's reputation resulting from cyber-breaches;

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

- risks and uncertainties related to the ability of ALLO Communications LLC ("ALLO") to successfully expand its fiber network and market share in existing service areas and additional communities and manage related construction risks;

- risks related to the ability to satisfy regulatory and other conditions and complete all of the various transactions contemplated by the reported recapitalization and additional funding for ALLO in the expected time frame or at all, and risks related to the expected benefits to the Company (including the estimated incremental net income contribution) and to ALLO from such transactions, including risks and uncertainties as to whether the Company and/or ALLO will be able to realize such expected benefits;
- risks and uncertainties of the expected benefits from Nelnet Bank obtaining an industrial bank charter, including the ability to successfully conduct banking operations and achieve expected market penetration;
- risks related to investments in solar projects, including risks of not being able to realize tax credits which remain subject to recapture by taxing authorities;
- risks and uncertainties related to other initiatives to pursue additional strategic investments, acquisitions, and other activities, including activities that are intended to diversify the Company both within and outside of its historical core education-related businesses; and
- risks and uncertainties associated with litigation matters and with maintaining compliance with the extensive regulatory requirements applicable to the Company's businesses, reputational and other risks, including the risk of increased regulatory costs resulting from the politicization of student loan servicing, 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 is a diverse company with a purpose to serve others and a vision to make customers' dreams possible by delivering customer focused products and services. The largest operating businesses engage in loan servicing; education technology, services, and payment processing; and communications. A significant portion of the Company's revenue is net interest income earned on a portfolio of federally insured student loans. The Company also makes investments to further diversify both within and outside of its historical core education-related businesses, including, but not limited to, investments in real estate, early-stage and emerging growth companies, and renewable energy.

GAAP Net Income and Non-GAAP Net Income, Excluding Adjustments

The Company prepares its financial statements and presents its financial results in accordance with U.S. GAAP. However, it also provides additional non-GAAP financial information related to specific items management believes to be important in the evaluation of its operating results and performance. A reconciliation of the Company's GAAP net income to net income, excluding derivative market value adjustments, and a discussion of why the Company believes providing this additional information is useful to investors, is provided below.

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
GAAP net income attributable to Nelnet, Inc.	$ 71,503	33,212	117,452	99,423
Realized and unrealized derivative market value adjustments	(3,440)	5,630	21,072	73,265
Tax effect (a)	826	(1,351)	(5,057)	(17,584)
Net income attributable to Nelnet, Inc., excluding derivative market value adjustments (b)	$ 68,889	37,491	133,467	155,104
Earnings per share:				
GAAP net income attributable to Nelnet, Inc.	$ 1.86	0.83	2.99	2.48
Realized and unrealized derivative market value adjustments	(0.09)	0.14	0.54	1.83
Tax effect (a)	0.02	(0.03)	(0.13)	(0.44)
Net income attributable to Nelnet, Inc., excluding derivative market value adjustments (b)	$ 1.79	0.94	3.40	3.87

(a) The tax effects are calculated by multiplying the realized and unrealized derivative market value adjustments by the applicable statutory income tax rate.

(b) "Derivative market value adjustments" includes both the realized portion of gains and losses (corresponding to variation margin received or paid on derivative instruments that are settled daily at a central clearinghouse) and the unrealized portion of gains and losses that are caused by changes in fair values of derivatives which do not qualify for "hedge treatment" under GAAP. "Derivative market value adjustments" does not include "derivative settlements" that represent the cash paid or received during the current period to settle with derivative instrument counterparties the economic effect of the Company's derivative instruments based on their contractual terms.

The accounting for derivatives requires that changes in the fair value of derivative instruments be recognized currently in earnings, with no fair value adjustment of the hedged item, unless specific hedge accounting criteria is met. Management has structured all 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 derivative instruments is reported in current period earnings with no consideration for the corresponding change in fair value of the hedged item. Under GAAP, the cumulative net realized and unrealized gain or loss caused by changes in fair values of derivatives in which the Company plans to hold to maturity will equal zero over the life of the contract. However, the net realized and unrealized gain or loss during any given reporting period fluctuates significantly from period to period.

The Company believes these point-in-time estimates of asset and liability values related to its derivative instruments that are subject to interest rate fluctuations are subject to volatility mostly due to timing and market factors beyond the control of management, and affect the period-to-period comparability of the results of operations. Accordingly, the Company's management utilizes operating results excluding these items for comparability purposes when making decisions regarding the Company's performance and in presentations with credit rating agencies, lenders, and investors. Consequently, the Company reports this non-GAAP information because the Company believes that it provides additional information regarding operational and performance indicators that are closely assessed by management. There is no comprehensive, authoritative guidance for the presentation of such non-GAAP information, which is only meant to supplement GAAP results by providing additional information that management utilizes to assess performance.

GAAP net income increased for the three months ended September 30, 2020 compared to the same period in 2019 primarily due to the following factors:

- The increase in loan spread on the Company's loan portfolio and related derivative settlements;
- The recognition of negative provision for loan losses in the third quarter of 2020 on the Company's loan portfolio;
- The recognition of a $14.8 million ($11.2 million after tax) gain from the sale of consumer loans in the third quarter of 2020; and
- The recognition of $14.0 million ($10.6 million after tax) of expenses during the third quarter of 2019 to extinguish notes payable in certain asset-backed securitizations prior to the notes' contractual maturities.

These factors were partially offset by the following items:

- The decrease in the average balance of loans due to the amortization of the FFELP loan portfolio;
- The decrease in net income from the Company's Loan Servicing and Systems operating segment due to a decrease in revenue as a result of the COVID-19 pandemic and incurring additional costs to meet increased service and security standards under the Department servicing contracts; and
- The recognition of an $11.8 million ($9.0 million after tax) non-cash loss in the third quarter of 2020 related to the Company's solar investments. The accounting treatment for the majority of the Company's solar investments results in accelerated losses in the initial year of investment.

GAAP net income increased for the nine months ended September 30, 2020 compared to the same period in 2019 primarily due to the following factors:

- The increase in loan spread on the Company's loan portfolio and related derivative settlements;
- The recognition of a $51.0 million ($38.8 million after tax) gain to adjust the carrying value of the Company's investment in Hudl to reflect Hudl's May 2020 equity raise transaction value;
- The recognition of a $33.0 million ($25.1 million after tax) gain from the sale of consumer loans in 2020;
- The recognition of $15.8 million ($12.0 million after tax) of expenses during 2019 to extinguish notes payable in certain asset-backed securitizations prior to the notes' contractual maturities; and
- A decrease in net losses related to changes in the fair values of derivative instruments that do not qualify for hedge accounting.

These factors were partially offset by the following items:

- The decrease in the average balance of loans due to the amortization of the FFELP loan portfolio;
- The decrease in net income from the Company's Loan Servicing and Systems operating segment due to a decrease in revenue as a result of the COVID-19 pandemic and incurring additional costs to meet increased service and security standards under the Department servicing contracts;
- The recognition of an incremental provision for loan losses totaling $63.0 million ($47.9 million after tax) in the first quarter of 2020 related to the increase in expected life of loan defaults as a result of the COVID-19 pandemic;

- The recognition of $34.1 million ($25.9 million after tax) of impairment charges in the first quarter of 2020 related to the Company's beneficial interest in consumer loan securitizations and certain venture capital investments due to adverse economic conditions resulting from the COVID-19 pandemic; and
- The recognition of a $12.6 million ($9.6 million after-tax) non-cash loss in 2020 related to the Company's solar investments.

Operating Results

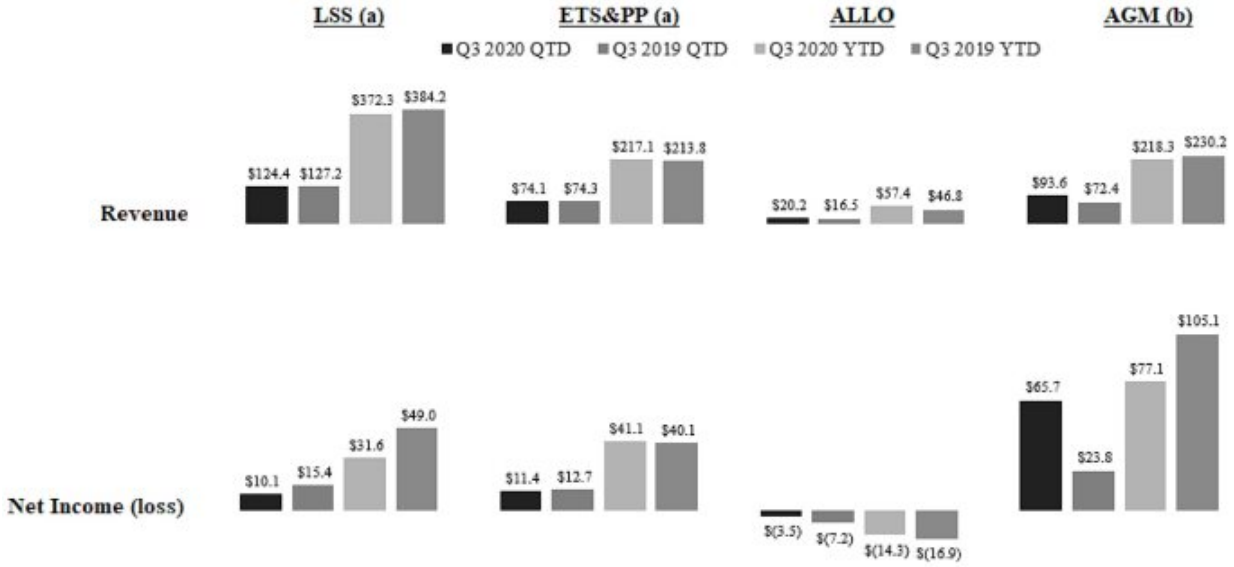
The Company earns net interest income on its loan portfolio, consisting primarily of FFELP loans, in its Asset Generation and Management ("AGM") operating segment. This segment is expected to generate a stable net interest margin and significant amounts of cash as the FFELP portfolio amortizes. As of September 30, 2020, the Company had a $19.5 billion loan portfolio that management anticipates will amortize over the next approximately 20 years and has a weighted average remaining life of 8.8 years. The Company actively works to maximize the amount and timing of cash flows generated by its FFELP portfolio and seeks to acquire additional loan assets to leverage its servicing scale and expertise to generate incremental earnings and cash flow. However, due to the continued amortization of the Company's FFELP loan portfolio, over time, the Company's net income generated by the AGM segment will continue to decrease. The Company currently believes that in the short-term it will most likely not be able to invest the excess cash generated from the FFELP loan portfolio into assets that immediately generate the rates of return historically realized from that portfolio.

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

- Loan Servicing and Systems ("LSS") - referred to as Nelnet Diversified Services ("NDS")
- Education Technology, Services, and Payment Processing ("ETS&PP") - referred to as Nelnet Business Solutions ("NBS")
- Communications - referred to as ALLO Communications ("ALLO")

Other business activities and operating segments that are not reportable are combined and included in Corporate and Other Activities ("Corporate"). 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 for the three and nine months ended September 30, 2020 and 2019 (dollars in millions). See "Results of Operations" for each reportable operating segment under this Item 2 for additional detail.



(a) Revenue includes intersegment revenue.

(b) Total revenue includes "net interest income" and "total other income/expense" from the Company's segment statements of operations, excluding the impact from changes in fair values of derivatives. Net income excludes changes in fair values of derivatives, net of tax. For information regarding the exclusion of the impact from changes in fair values of derivatives, see "GAAP Net Income and Non-GAAP Net Income, Excluding Adjustments" above.

Recent Development - Recapitalization and Additional Funding for ALLO Communications LLC ("ALLO")

On October 1, 2020, Nelnet, Inc. entered into various agreements with SDC ALLO Holdings, LLC (“SDC”), a third party global digital infrastructure investor, and ALLO, the Company's communication's subsidiary, for various transactions contemplated by the parties in connection with a recapitalization and additional funding for ALLO. For additional information, see the discussion under the caption "Recapitalization and Additional Funding for ALLO Communications LLC ("ALLO")" in note 14 of the notes to consolidated financial statements included under Part I, Item 1 of this report.

Recent Development - Nelnet Bank

On November 2, 2020, the Company obtained final approval from the Federal Deposit Insurance Corporation ("FDIC") for federal deposit insurance and for a bank charter from the Utah Department of Financial Institutions ("UDFI") in connection with the establishment of Nelnet Bank, and Nelnet Bank launched operations. For additional information, see the discussion under the caption "Nelnet Bank" in note 14 of the notes to consolidated financial statements included under Part I, Item 1 of this report.

Certain other events and transactions from 2020, which have impacted, will impact, or could impact the operating results of the Company, are discussed below.

Impacts of COVID-19 Pandemic

Beginning in March 2020, the coronavirus 2019 or COVID-19 (“COVID-19”) pandemic resulted in many businesses and schools closing or reducing hours throughout the U.S. to combat the spread of COVID-19, and states and local jurisdictions implementing various containment efforts, including lockdowns on non-essential business and other business restrictions, stay-at-home orders, and shelter-in-place orders. The COVID-19 pandemic has caused significant disruption to the U.S. and world economies, including significantly higher unemployment and underemployment, significantly lower interest rates, and extreme volatility in the U.S. and world markets. As a result of the COVID-19 outbreak and federal, state, and local government responses to COVID-19, the Company has experienced and may in the future experience various disruptions and impacts to the Company's businesses and results of operations. The following provides a summary of how COVID-19 has impacted and may impact the Company's business and operating results.

Corporate

The Company has implemented adjustments to its operations designed to keep employees safe and comply with federal, state, and local guidelines, including those regarding social distancing. As of March 25, 2020, the majority of our 6,600 associates were working and continue to work from home. Substantially all Company associates working from home are able to connect to their work environment virtually and continue to serve our customers.

The Company has investments in real estate, early-stage and emerging growth companies (venture capital investments), and renewable energy (solar). The Company identified several venture capital investments that were negatively impacted by the distressed economic conditions resulting from the COVID-19 pandemic and recognized impairment charges on such investments of $7.8 million (pre-tax) during the first quarter of 2020.

Loan Servicing and Systems

The CARES Act, which was signed into law on March 27, 2020, among other things, provides broad relief for federal student loan borrowers. Under the CARES Act, federal student loan payments and interest accruals were suspended until September 30, 2020 for all borrowers that have loans owned by the Department. The Department instructed servicers to apply the benefits of the law retroactively to March 13, 2020, when the President declared a state of emergency related to COVID-19. On August 8, 2020, the President issued a memorandum extending the CARES Act federal student loan borrower relief provisions until December 31, 2020. The Company received less servicing revenue per borrower from the Department based on the borrower forbearance status through September 30, 2020 than what was earned on such accounts prior to these provisions. The Department further reduced the monthly rate paid to its servicers for those in a forbearance status for the period from October 1, 2020 through December 31, 2020 from $2.19 per borrower to $2.05 per borrower. The Company currently anticipates revenue per borrower will return to pre-COVID-19 levels in the first quarter 2021. While federal student loan payments are suspended, the Company's operating expenses have been and will continue to be lower due to a significant reduction of borrower statement printing and postage costs. In addition, revenue from the Department for originating consolidation loans was adversely impacted as a result of borrowers receiving relief on their existing loans, thus not initiating a consolidation. The Company currently anticipates this revenue will continue to be negatively impacted while student loan payments and interest accruals are suspended.

During the second and third quarters of 2020, FFELP, private education, and consumer loan servicing revenue was adversely impacted by the COVID-19 pandemic due to reduced or eliminated delinquency outreach to borrowers, holds on claim filings, and reduced or eliminated late fees processing. In addition, origination fee revenue was negatively impacted as borrowers are less likely to refinance their loans when they are receiving certain relief measures from their current lender. The Company currently anticipates this trend will continue in future periods that are impacted by the COVID-19 pandemic, with the magnitude based on the extent to which existing or additional borrower relief policies and activities are implemented or extended by servicing customers.

If the student loan borrower relief provisions of the CARES Act were potentially extended past December 31, 2020 and/or new legislative or regulatory student loan borrower relief measures similar to such provisions of the CARES Act were to become effective, the levels and timing of future servicing revenues could continue to be impacted in a similar manner through the extended period of time that such provisions or measures are in effect.

Due to decreased servicing and transaction activity as a result of suspended payments under the CARES Act as discussed above, the Company has been able to transition associates to help state agencies process unemployment claims and conduct certain health tracing support activities. These contracts were awarded to the Company as a result of the Company's technology, security, compliance, and other capabilities needed to conduct such activities.

Education Technology, Services, and Payment Processing

This segment has been and will continue to be impacted by COVID-19 through lower interest rate levels, which reduce earnings for this business compared to recent historical results as the tuition funds held in custody for schools produce less interest earnings. If interest rates remain at current levels, the Company anticipates this segment will earn minimal interest income in future periods. In addition, as a result of COVID-19, demand for certain of the Company's products and services has been negatively impacted. The Company currently anticipates this trend will continue in future periods that are impacted by the COVID-19 pandemic.

Communications

As a result of COVID-19, ALLO has experienced increased demand from new and existing residential customers to support connectivity needs primarily for work and learn from home applications. Along with offering 60 days free for eligible customers, ALLO has partnered with school districts to provide more connectivity to students, often at discounted rates. ALLO signed the FCC Keep Americans Connected Pledge and did not suspend customers for non-payment, charge late fees, or apply suspension fees during the period from March 15, 2020 to June 30, 2020.

A prolonged economic downturn as a result of the COVID-19 pandemic could adversely impact customers' ability to pay for ALLO services. However, to date the impact has been minimal as the services ALLO provides are viewed as critical by both residential and business customers. Due to losses from COVID-19, in the future some businesses may not be able to re-open, which would adversely impact ALLO's results of operations and cash flow.

In view of the importance of ALLO's technicians being able to connect new customers while maintaining social distance and protecting community and associate health and safety, ALLO has adjusted operational procedures by implementing associate health checks, following CDC and local health official safety protocols, facilitating customer screening, and adjusting the installation process to limit the time in the home or business as much as possible.

Asset Generation and Management

AGM's results were adversely impacted during the first quarter of 2020 as a result of COVID-19 due to:

- An incremental increase in the provision for loan losses of $63.0 million (pre-tax) resulting from an increase in expected life of loan defaults due to the COVID-19 pandemic.
- A $26.3 million (pre-tax) impairment charge recognized on the Company's beneficial interest in consumer loan securitizations. The Company's estimate of future cash flows from the beneficial interest in consumer loan securitizations was lower than originally anticipated due to the expectation of increased consumer loan defaults within such securitizations due to the distressed economic conditions resulting from the COVID-19 pandemic.

In addition, variable loan spread was compressed during the first and second quarters of 2020 due to a widening of the basis between the asset and debt indices in which the Company earns interest on its loans and funds such loans. The significant widening during the first and second quarters of 2020 was the result of the significant decrease in interest rates during March 2020 and the first half of the second quarter of 2020 as a result of COVID-19. In a declining interest rate environment, student loan spread is compressed, due to the timing of interest rate resets on the Company's assets occurring daily in contrast to the

timing of the interest resets on the Company's debt that occurs either monthly or quarterly. During the third quarter of 2020, as the Company's debt reset at lower interest rates, the Company's variable loan spread increased.

As a result of the decrease in interest rates in 2020, the Company has earned an increased amount of fixed rate floor income from its federally insured student loan portfolio.

The CARES Act, among other things, provides broad relief, effective March 13, 2020, for borrowers that have student loans owned by the Department. This relief package excluded FFELP, private education, and consumer loans. Although the Company's loans are excluded from the provisions of the CARES Act, the Company is providing relief for its borrowers.

For the Company's federally insured and private education loans, effective March 13, 2020 through June 30, 2020, the Company proactively applied a 90 day natural disaster forbearance to any loan that was 31-269 days past due (for federally insured loans) and 80 days past due (for private education loans), and to any current loan upon request. Beginning July 1, 2020, the Company discontinued proactively applying 90 day natural disaster forbearances on past due loans. However, the Company will continue to apply a natural disaster forbearance with an end date of December 31, 2020, to any federally insured and private education loan upon request. As of September 30, 2020, federally insured and private education loans in forbearance were $1.9 billion (or 10.0% of the portfolio) and $5.4 million (or 2.0% of the portfolio), respectively. The amount of federally insured and private education loans in forbearance hit their peak in May 2020 at $6.0 billion and $38.6 million, respectively. The Company anticipates that loans in forbearance will continue to decline in the fourth quarter of 2020 and in 2021, absent any intervening policy change, when borrowers are currently scheduled to exit forbearance. Despite the COVID-19 pandemic, most borrowers continue to make payments according to their payment plans.

In addition, for both federally insured and private education loans, effective March 13, 2020 through December 31, 2020, borrower late fees are being waived and borrower payments made after March 13, 2020 are refunded upon a borrower's request.

For the majority of the Company's consumer loans, borrowers are generally being offered, upon request and/or documented evidence of financial distress, a two-month deferral of payments, with an option of additional deferrals if the COVID-19 pandemic continues. In addition, effective March 13, 2020 through September 30, 2020, the majority of fees (non-sufficient funds, late charges, check fees) and credit bureau reporting were suspended. The specific relief terms on the Company's consumer loan portfolio vary depending on the loan program and servicer of such loans.

The Company will continue to review whether additional and/or extended borrower relief policies and activities are needed.

The Company is not contractually committed to acquire FFELP, private education, or consumer loans, so the Company has been and will continue to be selective as to which, if any, loans it purchases during the current period of economic uncertainty.

Liquidity

The Company currently believes its cash and anticipated cash generated from operations on an annual basis will be sufficient to fund its operating expenses and business activities for the foreseeable future. In addition, the Company does not currently believe the COVID-19 pandemic will have any impact regarding compliance with covenants on any of the Company's debt facilities, including its unsecured line of credit.

See further discussion regarding the Company's strong liquidity position below.

Other Risks and Uncertainties

The COVID-19 pandemic is unprecedented and continues to evolve. The extent to which COVID-19 may impact the Company's businesses depends on future developments, which are highly uncertain, subject to various risks, and cannot be predicted with confidence, such as the ultimate spread, severity, and duration of the pandemic, travel restrictions, stay-at-home or other similar orders and social distancing in the United States and other countries, business and/or school closures and disruptions, and the effectiveness of actions taken in the United States and other countries to contain and treat the virus. For additional information on the risks and uncertainties regarding the impacts of COVID-19, see Part II, Item 1A. "Risk Factors - The COVID-19 pandemic has adversely impacted our results of operations, and could continue to adversely impact our results of operations, as well as adversely impact our businesses, financial condition, and/or cash flows" in this report.

Investment in Agile Sports Technologies, Inc. (doing business as "Hudl")

On May 20, 2020, the Company made an additional equity investment of approximately $26.0 million in Hudl, as one of the participants in an equity raise completed by Hudl. As a result of Hudl's equity raise, the Company recognized a $51.0 million (pre-tax) gain during the second quarter of 2020 to adjust its carrying value to reflect the May 20, 2020 transaction value. For

additional information, see the discussion under the caption "Investment in Agile Sports Technologies, Inc. (doing business as "Hudl")" in note 5 of the notes to consolidated financial statements included under Part I, Item 1 of this report.

Department of Education Servicing Contracts and Procurements for New Contracts

Nelnet Servicing, LLC ("Nelnet Servicing"), a subsidiary of the Company, earns loan servicing revenue from a servicing contract with the Department. Revenue earned by Nelnet Servicing related to this contract was $36.3 million and $38.6 million for the three months ended September 30, 2020 and 2019, and $112.3 million and $118.7 million for the nine months ended September 30, 2020 and 2019, respectively. In addition, Great Lakes Educational Loan Services, Inc. ("Great Lakes"), which was acquired by the Company on February 7, 2018, also earns loan servicing revenue from a similar servicing contract with the Department. Revenue earned by Great Lakes related to this contract was $45.4 million and $46.2 million for the three months ended September 30, 2020 and 2019, and $137.0 million and $139.3 million for the nine months ended September 30, 2020 and 2019, respectively.

Nelnet Servicing and Great Lakes' servicing contracts with the Department currently provide for expiration on December 14, 2020, with the potential for two additional six-month extensions at the Department's discretion through December 14, 2021. The Department is conducting a contract procurement process for a new framework for the servicing of all student loans owned by the Department. For information regarding recent developments related to and the current status of these servicing contracts, and the Department's procurement processes for new servicing contracts, see note 12 of the notes to consolidated financial statements included under Part I, Item 1 of this report.

Adoption of New Accounting Standard for Credit Losses

On January 1, 2020, the Company adopted ASU No. 2016-13*, Financial Instruments – Credit Losses* (“ASC 326”), which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (“CECL”) methodology.

The CECL methodology utilizes a lifetime “expected credit loss” measurement objective for the recognition of credit losses for financial assets measured at amortized cost at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses.

The new guidance primarily impacted the allowance for loan losses related to the Company’s loan portfolio. Upon adoption, the Company recorded an increase to the allowance for loan losses of $91.0 million, which included a reclassification of the non-accretable discount balance and premiums related to loans purchased with evidence of credit deterioration, and decreased retained earnings, net of tax, by $18.9 million. Results for reporting periods beginning after January 1, 2020 are presented under ASC 326 (recognizing estimated credit losses expected to occur over the asset's remaining life) while prior period amounts continue to be reported in accordance with previously applicable GAAP (recognizing estimated credit losses using an incurred loss model); therefore, the comparative information for 2019 is not comparable to the information presented for 2020.

Liquidity

- As of September 30, 2020, the Company had cash and cash equivalents of $96.3 million. In addition, the Company had a portfolio of available-for-sale investments, consisting primarily of student loan asset-backed securities, with a fair value of $179.0 million as of September 30, 2020. As of September 30, 2020, the Company has participated $108.7 million of these securities, and such participation is reflected as debt on the Company's consolidated balance sheet.

- The Company has a $455.0 million unsecured line of credit with a maturity date of December 16, 2024. As of September 30, 2020, the unsecured line of credit had no amount outstanding and $455.0 million was available for future use. The line of credit provides that the Company may increase the aggregate financing commitments, through the existing lenders and/or through new lenders, up to a total of $550.0 million, subject to certain conditions.

- The majority of the Company’s portfolio of student loans is funded in asset-backed securitizations that will generate significant earnings and cash flow over the life of these transactions. As of September 30, 2020, the Company currently expects future undiscounted cash flows from its securitization portfolio to be approximately $2.26 billion, of which approximately $1.62 billion will be generated over the next approximate 5 years (through 2025).

- The Company has a stock repurchase program to purchase up to a total of five million shares of the Company’s Class A common stock during the three-year period ending May 7, 2022. Year to date, through September 30, 2020, the Company has repurchased 1,591,314 shares of stock for $73.1 million ($45.96 per share). As of September 30, 2020, 3.2 million shares remained authorized for repurchase under the Company's stock repurchase program.

- The Company paid a third quarter 2020 cash dividend on the Company's Class A and Class B common stock of $0.20 per share. In addition, the Company's Board of Directors has declared a fourth quarter 2020 cash dividend on the Company's outstanding shares of Class A and Class B common stock of $0.22 per share. The fourth quarter cash dividend will be paid on December 15, 2020 to shareholders of record at the close of business on December 1, 2020.

- Subsequent to September 30, 2020, ALLO received approximately $197.0 million of proceeds from an investment by SDC, a third party global digital infrastructure investor, and paid Nelnet, Inc. $160.0 million to redeem certain preferred membership units of ALLO held by Nelnet, Inc.

The Company intends to use its strong liquidity position to capitalize on market opportunities, including FFELP, private education, and consumer loan acquisitions; strategic acquisitions and investments; and capital management initiatives, including stock repurchases, debt repurchases, and dividend distributions. The timing and size of these opportunities will vary and will have a direct impact on the Company's cash and investment balances.

CONSOLIDATED RESULTS OF OPERATIONS

An analysis of the Company's operating results for the three and nine months ended September 30, 2020 compared to the same periods in 2019 is provided below.

The Company's operating results are primarily driven by the performance of its existing loan portfolio and the revenues generated by its fee-based businesses and the costs to provide such services. The performance of the Company's portfolio is driven by net interest income (which includes financing costs) and losses related to credit quality of the assets, along with the cost to administer and service the assets and related debt.

The Company operates as distinct reportable operating segments as described above. For a reconciliation of the reportable segment operating results to the consolidated results of operations, see note 10 of the notes to consolidated financial statements included under Part I, Item 1 of this report. Since the Company monitors and assesses its operations and results based on these segments, the discussion following the consolidated results of operations is presented on a reportable segment basis.

	Three months ended September 30,		Nine months ended September 30,		
	2020	2019	2020	2019	Additional information
Loan interest	$ 134,507	229,063	462,439	709,618	Decrease was due primarily to decreases in the gross yield earned on loans and the average balance of loans, partially offset by an increase in gross fixed rate floor income due to lower interest rates in 2020 as compared to 2019.
Investment interest	5,238	9,882	18,379	26,701	Includes income from unrestricted interest-earning deposits and investments and funds in asset-backed securitizations. Decrease was due to a decrease in interest rates.
Total interest income	139,745	238,945	480,818	736,319	
Interest expense	58,423	172,488	277,788	551,221	Decrease was due primarily to a decrease in cost of funds and a decrease in the average balance of debt outstanding.
Net interest income	81,322	66,457	203,030	185,098	See table below for additional analysis.
Less (negative provision) provision for loan losses	(5,821)	10,000	73,476	26,000	The Company's provision expense for the three months ended September 30, 2020 was impacted by the Company's estimate of certain improved economic conditions as of September 30, 2020 in comparison to what was used by the Company to determine the allowance for loan losses as of June 30, 2020. The increase during the nine months ended September 30, 2020 compared to the same period in 2019 was due to provision expense recognized in the first quarter of 2020 as a result of an increase in expected defaults as a result of the COVID-19 pandemic and an increased provision for loan losses on loans acquired in 2020 to reflect life of loan expected losses as compared to loans acquired in 2019 for which the provision for loan losses was recognized based upon an incurred loss methodology.
Net interest income after provision for loan losses	87,143	56,457	129,554	159,098	
Other income/expense:					
LSS revenue	113,794	113,286	337,571	342,169	See LSS operating segment - results of operations.
ETS&PP revenue	74,121	74,251	217,100	213,753	See ETS&PP operating segment - results of operations.
Communications revenue	20,211	16,470	57,390	46,770	See Communications operating segment - results of operations.
Gain on sale of loans	14,817	—	33,023	1,712	Gain on sale of loans represents portfolios of consumer loans sold in the first and third quarters of 2020 and the second quarter of 2019.
Other income	1,502	13,439	69,910	36,946	See table below for the components of "other income."
Impairment expense	—	—	(34,419)	—	During the first quarter of 2020, the Company recognized impairments of $26.3 million and $7.8 million related to beneficial interest in consumer loan securitization investments and several venture capital investments, respectively. Such impairments were the result of impacts from the COVID-19 pandemic.

Derivative settlements, net	(2,391)	7,298	7,666	39,306	The Company maintains an overall risk management strategy that incorporates the use of derivative instruments to reduce the economic effect of interest rate volatility. Derivative settlements for each applicable period should be evaluated with the Company's net interest income. See table below for additional analysis.
Derivative market value adjustments, net	3,440	(5,630)	(21,072)	(73,265)	Includes the realized and unrealized gains and losses that are caused by changes in fair values of derivatives which do not qualify for "hedge treatment" under GAAP. The majority of the derivative market value adjustments related to the changes in fair value of the Company's floor income interest rate swaps. Such changes reflect that a decrease in the forward yield curve during a reporting period results in a decrease in the fair value of the Company's floor income interest rate swaps, and an increase in the forward yield curve during a reporting period results in an increase in the fair value of the Company's floor income interest rate swaps.
Total other income/expense	225,494	219,114	667,169	607,391	
Cost of services:					
Cost to provide education technology, services, and payment processing services	25,243	25,671	63,424	62,601	Represents primarily direct costs to provide payment processing services in the ETS&PP operating segment.
Cost to provide communications services	5,914	5,236	17,240	15,096	Represents costs of services primarily associated with television programming costs in the Communications operating segment.
Total cost of services	31,157	30,907	80,664	77,697	
Operating expenses:					
Salaries and benefits	126,096	116,670	365,220	338,942	Increases were due to (i) increases in personnel in the LSS and corporate operating segments to meet increased service and security standards under the Department servicing contracts; (ii) increases in personnel in the LSS operating segment to develop a new private education and consumer loan servicing system; and (iii) increases in personnel to support the growth in the customer base and the development of new technologies in the ETS&PP operating segment.
Depreciation and amortization	30,308	27,701	87,349	76,398	Increases were primarily due to additional depreciation expense at ALLO.
Other expenses	34,744	58,329	115,184	147,562	Other expenses includes expenses necessary for operations, such as postage and distribution, consulting and professional fees, occupancy, communications, and certain information technology-related costs. Decreases were due to (i) cost savings in the LSS segment from an increase in the adoption of electronic borrower statements and correspondence and a decrease in printing and postage while loan payments are suspended as a result of COVID-19 borrower relief efforts; (ii) reduction of travel expenses and the cancellation of on-site conferences in the ETS&PP segment; and (iii) a decrease in servicing fees paid by the AGM segment to third parties. In addition, the AGM segment recognized $14.0 million and $15.8 million of expenses during the three and nine months ended September 30, 2019, respectively, to extinguish asset-backed notes from certain securitizations prior to their contractual maturity. See each individual operating segment results of operations discussion for additional information.
Total operating expenses	191,148	202,700	567,753	562,902	
Income before income taxes	90,332	41,964	148,306	125,890	
Income tax expense	19,156	8,829	30,286	26,429	The effective tax rate was 21.1% and 21.0% for the three months ended September 30, 2020 and 2019, respectively, and 20.5% and 21.0% for the nine months ended September 30, 2020 and 2019, respectively.
Net income	71,176	33,135	118,020	99,461	
Net loss (income) attributable to noncontrolling interests	327	77	(568)	(38)	
Net income attributable to Nelnet, Inc.	$ 71,503	33,212	117,452	99,423	

The following table summarizes the components of “net interest income” and “derivative settlements, net.”

Derivative settlements represent the cash paid or received during the current period to settle with derivative instrument counterparties the economic effect of the Company's derivative instruments based on their contractual terms. Derivative accounting requires that net settlements with respect to derivatives that do not qualify for "hedge treatment" under GAAP be recorded in a separate income statement line item below net interest income. The Company maintains an overall risk management strategy that incorporates the use of derivative instruments to reduce the economic effect of interest rate volatility. As such, management believes derivative settlements for each applicable period should be evaluated with the Company’s net interest income as presented in the table below. Net interest income (net of settlements on derivatives) is a non-GAAP financial measure, and the Company reports this non-GAAP information because the Company believes that it provides additional information regarding operational and performance indicators that are closely assessed by management. There is no comprehensive, authoritative guidance for the presentation of such non-GAAP information, which is only meant to supplement GAAP results by providing additional information that management utilizes to assess performance. See note 4 of the notes to consolidated financial statements included under Part I, Item 1 of this report for additional information on the Company's derivative instruments, including the net settlement activity recognized by the Company for each type of derivative for the 2020 and 2019 periods presented in the table under the caption "Consolidated Financial Statement Impact Related to Derivatives - Statements of Income" in note 4 and in the table below.

	Three months ended September 30,		Nine months ended September 30,		
	2020	2019	2020	2019	Additional information
Variable loan interest margin	$ 40,364	46,051	100,863	134,312	Represents the yield the Company receives on its loan portfolio less the cost of funding these loans. Variable loan spread is also impacted by the amortization/accretion of loan premiums and discounts and the 1.05% per year consolidation loan rebate fee paid to the Department. See AGM operating segment - results of operations.
Settlements on associated derivatives	1,197	234	10,438	3,375	Represents the net settlements received related to the Company’s 1:3 basis swaps.
Variable loan interest margin, net of settlements on derivatives	41,561	46,285	111,301	137,687	
Fixed rate floor income	36,633	12,685	87,258	33,950	The Company has a portfolio of student loans that are earning interest at a fixed borrower rate which exceeds the statutorily defined variable lender rates, generating fixed rate floor income. See Item 3, "Quantitative and Qualitative Disclosures About Market Risk - Interest Rate Risk" for additional information.
Settlements on associated derivatives	(3,588)	7,064	(2,772)	35,931	Represents the net settlements (paid) received related to the Company’s floor income interest rate swaps.
Fixed rate floor income, net of settlements on derivatives	33,045	19,749	84,486	69,881	
Investment interest	5,238	9,882	18,379	26,701	
Corporate debt interest expense	(913)	(2,161)	(3,470)	(9,865)	Includes interest expense on the Junior Subordinated Hybrid Securities, unsecured line of credit, and the asset-backed securities participation agreement. Decrease was due to a decrease in interest rates and in the average balance outstanding on the Company's unsecured line of credit, partially offset by interest expense incurred on the asset-backed securities participation agreement that was executed in the second quarter of 2020.
Net interest income (net of settlements on derivatives)	$ 78,931	73,755	210,696	224,404	

The following table summarizes the components of "other income."

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Investment advisory services (a)	$ 4,463	753	8,187	2,194
Management fee revenue (b)	2,353	2,291	6,897	6,642
Borrower late fee income (c)	871	3,196	4,377	9,870
Gain (loss) on investments, net (d)	(10,152)	1,948	39,134	5,779
Other	3,967	5,251	11,315	12,461
Other income	$ 1,502	13,439	69,910	36,946

(a) The Company provides investment advisory services through Whitetail Rock Capital Management, LLC ("WRCM"), the Company's SEC-registered investment advisor subsidiary, under various arrangements. WRCM earns annual fees of 25 basis points on the majority of the outstanding balance of asset-backed securities under management and up to 50 percent of the gains from the sale of asset-backed securities or asset-backed securities being called prior to the full contractual maturity for which it provides advisory services. As of September 30, 2020, the outstanding balance of asset-backed securities under management subject to these arrangements was $1.3 billion. In addition, WRCM earns annual management fees of five basis points for certain other investments under management. The increase in advisory fees in 2020 as compared to 2019 was the result of an increase in performance fees earned.

(b) Represents revenue earned from providing administrative support and marketing services primarily to Great Lakes' former parent company in accordance with a contract that expires in January 2021.

(c) Represents borrower late fees earned by the AGM operating segment. The decrease in borrower late fees for the three and nine months ended September 30, 2020 as compared to the same periods in 2019 was due to the Company suspending borrower late fees effective March 13, 2020 to provide borrowers relief as a result of the COVID-19 pandemic.

(d) During the second quarter of 2020, the Company recognized a $51.0 million (pre-tax) gain to adjust the carrying value of its investment in Hudl to reflect Hudl's May 2020 equity raise transaction value. Amounts also include the Company's share of income or loss from solar investments accounted for using the Hypothetical Liquidation at Book Value ("HLBV") method of accounting. For the majority of the Company's solar investments, the HLBV method of accounting results in accelerated losses in the initial year of investment. During the three and nine months ended September 30, 2020, the Company recognized pre-tax losses of $11.8 million and $12.6 million, respectively, on its solar investments. The losses recognized for the same periods in 2019 were not significant.

Based on current solar investments made to date, the Company currently anticipates it will recognize a pre-tax loss related to its solar investments of approximately $24.0 million in the fourth quarter of 2020. The amount of the loss the Company ultimately recognizes will be impacted by the amount of income/loss ultimately allocated to the Company using the HLBV method of accounting on its solar investments and the amount of additional solar investments made by the Company for the remainder of 2020.

LOAN SERVICING AND SYSTEMS OPERATING SEGMENT – RESULTS OF OPERATIONS

Loan Servicing Volumes

	As of							
	December 31, 2018	March 31, 2019	June 30, 2019	September 30, 2019	December 31, 2019	March 31, 2020	June 30, 2020	September 30, 2020
Servicing volume (dollars in millions):								
Nelnet:								
Government	$ 179,507	183,093	181,682	184,399	183,790	185,477	185,315	189,932
FFELP	36,748	35,917	35,003	33,981	33,185	32,326	31,392	31,122
Private and consumer	15,666	16,065	16,025	16,286	16,033	16,364	16,223	16,267
Great Lakes:								
Government	232,694	237,050	236,500	240,268	239,980	243,205	243,609	249,723
Total	$ 464,615	472,125	469,210	474,934	472,988	477,372	476,539	487,044
Number of servicing borrowers:								
Nelnet:								
Government	5,771,923	5,708,582	5,592,989	5,635,653	5,574,001	5,498,872	5,496,662	5,604,685
FFELP	1,709,853	1,650,785	1,588,530	1,529,392	1,478,703	1,423,286	1,370,007	1,332,908
Private and consumer	696,933	699,768	693,410	701,299	682,836	670,702	653,281	649,258
Great Lakes:								
Government	7,458,684	7,385,284	7,300,691	7,430,165	7,396,657	7,344,509	7,346,691	7,542,679
Total	15,637,393	15,444,419	15,175,620	15,296,509	15,132,197	14,937,369	14,866,641	15,129,530
Number of remote hosted borrowers:	6,393,151	6,332,261	6,211,132	6,457,296	6,433,324	6,354,158	6,264,559	6,251,598

Nelnet Servicing and Great Lakes' servicing contracts with the Department currently provide for expiration on December 14, 2020, with the potential for two additional six-month extensions at the Department's discretion through December 14, 2021. On October 13, 2020, Nelnet Servicing and Great Lakes received correspondence from the Department indicating the Department's intent to exercise the first additional six-month extension of the current servicing contracts, from December 14, 2020 to approximately June 15, 2021. The correspondence served only as a non-binding notice of intent that does not commit the Department to extend the contracts, and any formal extension of the contracts will occur only upon a unilateral modification by the Department to the contracts. The Department is conducting a contract procurement process for a new framework for the servicing of all student loans owned by the Department. See note 12 of the notes to consolidated financial statements included under Part I, Item 1 of this report for additional information.

The Department currently allocates new loan volume among its servicers based on certain performance metrics that measure the satisfaction among separate customer groups, including borrowers and Department personnel who work with the servicers, and that measure the success of keeping borrowers in an on-time repayment status and helping borrowers avoid default. Under the most recently publicly announced performance metric measurements used by the Department for the quarterly periods January 1, 2020 through June 30, 2020, Great Lakes' and Nelnet Servicing's overall rankings among the nine current servicers for the Department were first and tied for fifth, respectively. Based on these results, Great Lakes' and Nelnet Servicing's allocation of new student loan servicing volumes for the period September 1, 2020 through February 28, 2021 are 20 percent and 10 percent, respectively.

On October 26, 2020, the Department communicated to its servicers that a not-for-profit servicer requested to end its contract with the Department. Effective October 23, 2020, the percent of allocated new student loan servicing volume that previously was awarded to this servicer will be split among the remaining servicers, resulting in Great Lakes' allocation to increase by two percent and each remaining servicer to obtain an additional one percent allocation.

Summary and Comparison of Operating Results

	Three months ended September 30,		Nine months ended September 30,		
	2020	2019	2020	2019	Additional information
Net interest income	$ 10	481	306	1,509	Decrease was due to lower interest rates in 2020 as compared to 2019.
Loan servicing and systems revenue	113,794	113,286	337,571	342,169	See table below for additional information.
Intersegment servicing revenue	8,287	11,611	27,878	35,426	Represents revenue earned by the LSS operating segment as a result of servicing loans for the AGM operating segment. Decrease was due to the impact of borrower relief policies implemented by AGM in response to the COVID-19 pandemic and the expected amortization of AGM's FFELP portfolio. FFELP intersegment servicing revenue will continue to decrease as AGM's FFELP portfolio pays off.
Other income	2,353	2,291	6,897	6,642	Represents revenue earned from providing administrative support and marketing services primarily to Great Lakes' former parent company in accordance with a contract that expires in January 2021. Increase for the nine months ended September 30, 2020 as compared to the same period in 2019 was due to an increase in marketing and administrative support provided to other clients primarily in the first quarter of 2020.
Total other income	124,434	127,188	372,346	384,237	
Salaries and benefits	72,912	69,209	211,806	201,924	Increase was due to an increase in headcount to provide enhanced service levels to borrowers under the Department servicing contracts, and to develop a new private education and consumer loan servicing system.
Depreciation and amortization	9,951	8,565	27,941	26,236	Increase was due to capital expenditures to support the recent extension of the government servicing contracts.
Other expenses	12,407	16,686	43,277	52,732	Decrease for the three and nine months ended September 30, 2020 as compared to the same periods in 2019 was due to cost savings as a result of the impact of the COVID-19 pandemic and the resulting CARES Act, primarily associated with the fact that while student loan payments are suspended there is a significant reduction of borrower statement printing and postage costs. See "Overview - Impacts of COVID-19 Pandemic - Loan Servicing and Systems" above for additional information. Decrease was also due to cost savings from an increase in the adoption of electronic borrower statements and correspondence. Decrease for the nine months ended September 30, 2020 as compared to the same period in 2019 was also due to a decrease in expenses related to travel and the provision for servicing losses.
Intersegment expenses	15,834	12,955	48,069	40,317	Intersegment expenses represent costs for certain corporate activities and services that are allocated to each operating segment based on estimated use of such activities and services. Increase was due to an increase in security service levels related to the Department servicing contracts.
Total operating expenses	111,104	107,415	331,093	321,209	
Income before income taxes	13,340	20,254	41,559	64,537	
Income tax expense	(3,201)	(4,861)	(9,974)	(15,489)	Represents income tax expense at an effective tax rate of 24%.
Net income	$ 10,139	15,393	31,585	49,048	The LSS segment incurred additional costs during 2020 to meet increased service and security standards under the Department servicing contracts. In addition, servicing revenue in 2020 has been negatively impacted as a result of the COVID-19 pandemic. As a result, the segment's net income and operating margin decreased in 2020 as compared to the same periods in 2019.
Before tax operating margin	10.7 %	15.9 %	11.2 %	16.8 %	

Loan servicing and systems revenue

	Three months ended September 30,		Nine months ended September 30,		
	2020	2019	2020	2019	Additional information
Government servicing - Nelnet	$ 36,295	38,645	112,305	118,744	Represents revenue from Nelnet Servicing's Department servicing contract. Decrease was due to a decrease in revenue from the administration of the Total and Permanent Disability (TPD) Discharge program, decrease in fees earned from the Department for originating consolidation loans, and decrease in revenue earned per borrower as a result of certain provisions included in the CARES Act. See "Overview - Impacts of COVID-19 Pandemic - Loan Servicing and Systems" above for additional information.
Government servicing - Great Lakes	45,350	46,234	137,010	139,285	Represents revenue from the Great Lakes' Department servicing contract. Decrease was due to a decrease in fees earned from the Department for originating consolidation loans and decrease in revenue earned per borrower as a result of certain provisions included in the CARES Act. See "Overview - Impacts of COVID-19 Pandemic - Loan Servicing and Systems" above for additional information.
Private education and consumer loan servicing	7,928	9,561	24,733	28,026	Decrease was due to a decrease in the number of borrowers serviced, a decrease in origination fees, and the impact of borrower relief policies implemented by private lenders in response to the COVID-19 pandemic. See "Overview - Impacts of COVID-19 Pandemic - Loan Servicing and Systems" above for additional information.
FFELP servicing	4,912	6,089	15,443	19,208	Decrease was due to a decrease in the number of borrowers serviced and the impact of borrower relief policies implemented by lenders in response to the COVID-19 pandemic. See "Overview - Impacts of COVID-19 Pandemic - Loan Servicing and Systems" above for additional information. Over time, FFELP servicing revenue will continue to decrease as third-party customers' FFELP portfolios pay off.
Software services	10,426	10,493	32,395	30,255	Increase for the nine months ended September 30, 2020 as compared to the same period in 2019 was due to increased contract programming revenue for services provided during the first six months of 2020 related to hosted FFELP guarantee activities. Software services revenue has been negatively impacted in 2020 as a result of COVID-19 forbearances on loans serviced by the Company's Direct Servicing hosted clients, offset by an increase in remote hosted borrowers.
Outsourced services and other	8,883	2,264	15,685	6,651	The majority of this revenue relates to providing contact center and back office operational outsourcing activities. Increase was due to providing temporary outsourcing services to state agencies to process unemployment claims and conduct certain health tracing support activities. See "Overview - Impacts of COVID-19 Pandemic - Loan Servicing and Systems" above for additional information.
Loan servicing and systems revenue	$ 113,794	113,286	337,571	342,169	

EDUCATION TECHNOLOGY, SERVICES, AND PAYMENT PROCESSING OPERATING SEGMENT – RESULTS OF OPERATIONS

As discussed further in the Company's 2019 Annual Report, this segment of the Company's business is subject to seasonal fluctuations which correspond, or are related to, the traditional school year. Based on the timing of revenue recognition and when expenses are incurred, revenue and pre-tax operating margin are higher in the first quarter as compared to the remainder of the year.

Summary and Comparison of Operating Results

	Three months ended September 30,		Nine months ended September 30,		
	2020	2019	2020	2019	Additional information
Net interest income	$ 351	3,487	2,723	7,143	Represents interest income on tuition funds held in custody for schools. Decrease was due to a decrease in interest rates in 2020 as compared with 2019. If interest rates remain at current levels, the Company anticipates this segment will earn minimal interest income in future periods.
Education technology, services, and payment processing revenue	74,121	74,251	217,100	213,753	See table below for additional information.
Intersegment revenue	3	—	17	—	
Other income	373	—	373	—	
Total other income	74,497	74,251	217,490	213,753	
Cost to provide education technology, services, and payment processing services	25,243	25,671	63,424	62,601	See table below for additional information.
Salaries and benefits	25,460	23,826	73,678	69,656	Increase was due to an increase in headcount to support the growth of the customer base and investment in the development of new technologies.
Depreciation and amortization	2,366	2,997	7,115	9,832	Amortization of intangible assets related to business acquisitions was $2.4 million and $2.8 million for the three months ended September 30, 2020 and 2019, respectively, and $7.1 million and $9.3 million for the nine months ended September 30, 2020 and 2019, respectively.
Other expenses	3,126	5,325	11,544	16,440	Decrease was due to a reduction of travel expenses and the cancellation of on-site conferences as a result of the COVID-19 pandemic.
Intersegment expenses, net	3,610	3,194	10,366	9,642	Intersegment expenses represent costs for certain corporate activities and services that are allocated to each operating segment based on estimated use of such activities and services.
Total operating expenses	34,562	35,342	102,703	105,570	
Income before income taxes	15,043	16,725	54,086	52,725	
Income tax expense	(3,610)	(4,014)	(12,981)	(12,654)	Represents income tax expense at an effective tax rate of 24%.
Net income	$ 11,433	12,711	41,105	40,071	

Education technology, services, and payment processing revenue

The following table provides disaggregated revenue by service offering and before tax operating margin for each reporting period.

	Three months ended September 30,		Nine months ended September 30,		
	2020	2019	2020	2019	Additional information
Tuition payment plan services	$ 22,477	25,760	77,011	80,589	Tuition payment plan services revenue for the three months ended September 30, 2020 decreased as compared to the same period in 2019 as a result of the COVID-19 pandemic. Revenue recognized during the first six months of 2020 was primarily related to payment plans for the 2019-2020 academic year for K-12 schools and the spring and summer 2020 semester for institutions of higher education. As a result, fees for the majority of payment plans for these periods were received and were based on school enrollments prior to the conditions arising from the COVID-19 pandemic.
Payment processing	35,420	35,138	88,329	85,428	Increase in revenue was due to an increase in payments volume from new school customers, partially offset by the decline in payment volume for certain of the Company's existing customers as a result of the COVID-19 pandemic.
Education technology and services	15,840	13,067	50,820	46,872	Increase was due to an increase from FACTS Student Information System ("SIS") software subscriptions, online application and enrollment services, and financial needs assessment services as a result of an increase in the number of students and schools using these products.
Other	384	286	940	864	
Education technology, services, and payment processing revenue	74,121	74,251	217,100	213,753	
Cost to provide education technology, services, and payment processing services	25,243	25,671	63,424	62,601	Costs primarily relate to payment processing revenue and such costs decrease/increase in relationship to payment revenue.
Net revenue	$ 48,878	48,580	153,676	151,152	
Before tax operating margin	30.8 %	34.4 %	35.2 %	34.9 %	

COMMUNICATIONS OPERATING SEGMENT – RESULTS OF OPERATIONS

Summary and Comparison of Operating Results

	Three months ended September 30,		Nine months ended September 30,		
	2020	2019	2020	2019	Additional information
Net interest income	$ —	—	—	3	
Communications revenue	20,211	16,470	57,390	46,770	Communications revenue is derived primarily from the sale of pure fiber optic services to residential and business customers in Nebraska and Colorado, including internet, television, and telephone services. Increase was due to additional residential households and businesses served as a result of the completion of the Lincoln, Nebraska network build out in 2019 and continued maturity of ALLO's existing markets. See additional financial and operating data for ALLO in the tables below.
Other income	511	532	1,256	1,019	
Total other income	20,722	17,002	58,646	47,789	
Cost to provide communications services	5,914	5,236	17,240	15,096	Cost of services are primarily associated with television programming costs. Other costs include connectivity, franchise, and other regulatory costs directly related to providing internet and voice services.
Salaries and benefits	5,485	5,763	16,471	15,692	Gross salaries and benefits paid in 2020 as compared to 2019 decreased due to a decrease in headcount. However, certain salary and benefit costs qualify for capitalization as ALLO develops its network. The total amount of costs capitalized during the nine months ended September 30, 2020 was lower than the same period in 2019, which resulted in an increase in expense for the current year to date period.
Depreciation and amortization	11,152	10,926	32,482	26,025	Depreciation reflects the allocation of the costs of ALLO's property and equipment over the period in which such assets are used. A significant amount of property and equipment purchases have been made to support the Lincoln, Nebraska network expansion. The gross property and equipment balances related to this segment as of September 30, 2020, December 31, 2019, September 30, 2019, and December 31, 2018 were $346.6 million, $315.3 million, $308.1 million and $273.9 million, respectively. Amortization reflects the allocation of costs related to intangible assets recorded at fair value as of the date the Company acquired ALLO over their estimated useful lives.
Other expenses	2,219	3,842	9,681	11,184	Other expenses includes selling, general, and administrative expenses necessary for operations, such as advertising, occupancy, professional services, construction materials, and personal property taxes. Decrease was due to a reduction in construction related costs and travel expenses as a result of the COVID-19 pandemic.
Intersegment expenses	491	701	1,650	2,081	Intersegment expenses represent costs for certain corporate activities and services that are allocated to each operating segment based on estimated use of such activities and services.
Total operating expenses	19,347	21,232	60,284	54,982	
Loss before income taxes	(4,539)	(9,466)	(18,878)	(22,286)	
Income tax benefit	1,089	2,272	4,531	5,349	Represents income tax benefit at an effective tax rate of 24%.
Net loss	$ (3,450)	(7,194)	(14,347)	(16,937)	The Company anticipates this operating segment will be dilutive to consolidated earnings as it continues to develop and add customers to its network in Lincoln, Nebraska and other communities, due to large upfront capital expenditures and associated depreciation and upfront customer acquisition costs.
Additional information:					
Net loss	$ (3,450)	(7,194)	(14,347)	(16,937)	
Net interest income	—	—	—	(3)	
Income tax benefit	(1,089)	(2,272)	(4,531)	(5,349)	
Depreciation and amortization	11,152	10,926	32,482	26,025	
Earnings before interest, income taxes, depreciation, and amortization (EBITDA)	$ 6,613	1,460	13,604	3,736	For additional information regarding this non-GAAP measure, see the table below.

Certain financial and operating data for ALLO is summarized in the tables below.

	Three months ended September 30,				Nine months ended September 30,			
	2020		2019		2020		2019	
Residential revenue	$ 15,173	75.1 %	$ 12,397	75.3 %	$ 42,946	74.8 %	$ 35,351	75.6 %
Business revenue	4,918	24.3	4,025	24.4	14,002	24.4	11,256	24.1
Other revenue	120	0.6	48	0.3	442	0.8	163	0.3
Communications revenue	$ 20,211	100.0 %	$ 16,470	100.0 %	$ 57,390	100.0 %	$ 46,770	100.0 %
Internet	$ 12,794	63.3 %	$ 9,899	60.1 %	$ 35,926	62.6 %	$ 27,641	59.1 %
Television	4,446	22.0	4,068	24.7	12,913	22.5	12,020	25.7
Telephone	2,931	14.5	2,487	15.1	8,436	14.7	7,062	15.1
Other	40	0.2	16	0.1	115	0.2	47	0.1
Communications revenue	$ 20,211	100.0 %	$ 16,470	100.0 %	$ 57,390	100.0 %	$ 46,770	100.0 %
Net loss	$ (3,450)		(7,194)		(14,347)		(16,937)	
EBITDA (a)	6,613		1,460		13,604		3,736	
Capital expenditures	14,250		10,187		31,490		37,185	

	As of							
	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018
Residential customer information:								
Households served	56,787	53,067	49,684	47,744	45,228	42,760	40,338	37,351
Households passed (b)	147,087	144,869	143,505	140,986	137,269	132,984	127,253	122,396
Households served/passed	38.6 %	36.6 %	34.6 %	33.9 %	32.9 %	32.2 %	31.7 %	30.5 %
Total households in current markets (c)	171,121	171,121	171,121	160,884	159,974	159,974	152,840	152,840

(a) Earnings before interest, income taxes, depreciation, and amortization ("EBITDA") is a supplemental non-GAAP performance measure that is frequently used in capital-intensive industries such as telecommunications. ALLO's management uses EBITDA to compare ALLO's performance to that of its competitors and to eliminate certain non-cash and non-operating items in order to consistently measure performance from period to period. EBITDA excludes interest and income taxes because these items are associated with a company's particular capitalization and tax structures. EBITDA also excludes depreciation and amortization expense because these non-cash expenses primarily reflect the impact of historical capital investments, as opposed to the cash impacts of capital expenditures made in recent periods, which may be evaluated through cash flow measures. The Company reports EBITDA for ALLO because the Company believes that it provides useful additional information for investors regarding a key metric used by management to assess ALLO's performance. There are limitations to using EBITDA as a performance measure, including the difficulty associated with comparing companies that use similar performance measures whose calculations may differ from ALLO's calculations. In addition, EBITDA should not be considered a substitute for other measures of financial performance, such as net income or any other performance measures derived in accordance with GAAP. A reconciliation of EBITDA from net income (loss) under GAAP is presented under "Summary and Comparison of Operating Results" in the table above.

(b) Represents the number of single residence homes, apartments, and condominiums that ALLO already serves and those in which ALLO has the capacity to connect to its network distribution system without further material extensions to the transmission lines, but have not been connected.

(c) During the first quarter of 2020, ALLO announced plans to expand its network to make services available in Norfolk, Nebraska. ALLO is now in twelve communities, including ten in Nebraska and two in Colorado.

Recapitalization and Additional Funding for ALLO

On October 1, 2020, Nelnet, Inc. and ALLO entered into various agreements with SDC, a third party global digital infrastructure investor, in connection with a recapitalization and additional funding for ALLO. Upon regulatory approval of various aspects of the transactions, Nelnet Inc.'s voting ownership interest in ALLO will drop to 45 percent, and ALLO will be deconsolidated from the Company's consolidated financial statements. It is currently anticipated that such regulatory conditions will be satisfied by December 31, 2020. See note 14 of the notes to consolidated financial statements included under Part 1, Item 1 of this report for additional information.

ASSET GENERATION AND MANAGEMENT OPERATING SEGMENT – RESULTS OF OPERATIONS

Loan Portfolio

As of September 30, 2020, the Company had a $19.5 billion loan portfolio, consisting primarily of federally insured loans, that management anticipates will amortize over the next approximately 20 years and has a weighted average remaining life of 8.8 years. For a summary of the Company's loan portfolio as of September 30, 2020 and December 31, 2019, see note 2 of the notes to consolidated financial statements included under Part I, Item 1 of this report.

Loan Activity

The following table sets forth the activity of loans:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Beginning balance	$ 19,830,397	21,590,836	20,798,719	22,520,498
Loan acquisitions:				
Federally insured student loans	137,714	248,542	947,288	1,088,649
Private education loans	—	3,804	80,908	3,804
Consumer loans	26,446	113,338	112,257	298,092
Total loan acquisitions	164,160	365,684	1,140,453	1,390,545
Repayments, claims, capitalized interest, and other	(277,949)	(497,762)	(1,715,214)	(1,875,948)
Consolidation loans lost to external parties	(136,263)	(251,810)	(519,364)	(780,467)
Consumer loans sold	(60,779)	—	(185,028)	(47,680)
Ending balance	$ 19,519,566	21,206,948	19,519,566	21,206,948

Allowance for Loan Losses and Loan Delinquencies

On January 1, 2020, the Company adopted ASU No. 2016-13*, Financial Instruments – Credit Losses* ("ASC 326"), which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology.

The CECL methodology utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses for financial assets measured at amortized cost at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses.

Upon adoption, the Company recorded an increase to the allowance for loan losses of $91.0 million, which included a reclassification of the non-accretable discount balance and premiums related to loans purchased with evidence of credit deterioration, and decreased retained earnings, net of tax, by $18.9 million. Results for reporting periods beginning after January 1, 2020 are presented under ASC 326 (recognizing estimated credit losses expected to occur over the asset's remaining life) while prior period amounts continue to be reported in accordance with previously applicable GAAP (recognizing estimated credit losses using an incurred loss model); therefore, the comparative information for 2019 is not comparable to the information presented for 2020.

Management has determined that each of the federally insured, private education, and consumer loan portfolios meet the definition of a portfolio segment, which is defined as the level at which an entity develops and documents a systematic method for determining its allowance for credit losses.

The Company's total allowance for loan losses of $185.9 million at September 30, 2020 represents reserves equal to 0.7% of the Company's federally insured loans (or 28.5% of the risk sharing component of the loans that is not covered by the federal guaranty), 7.3% of the Company's private education loans, and 25.9% of the Company's consumer loans.

For a summary of the activity in the allowance for loan losses for the three and nine months ended September 30, 2020 and 2019, and a summary of the Company's loan status and delinquency amounts as of September 30, 2020, December 31, 2019, and September 30, 2019, see note 2 of the notes to consolidated financial statements included under Part I, Item 1 of this report.

Loan Spread Analysis

The following table analyzes the loan spread on the Company's portfolio of loans, which represents the spread between the yield earned on loan assets and the costs of the liabilities and derivative instruments used to fund the assets. The spread amounts included in the following table are calculated by using the notional dollar values found in the table under the caption "Net interest income after provision for loan losses, net of settlements on derivatives" below, divided by the average balance of loans or debt outstanding.

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Variable loan yield, gross	2.77 %	4.78 %	3.29 %	4.94 %
Consolidation rebate fees	(0.84)	(0.83)	(0.84)	(0.83)
Discount accretion, net of premium and deferred origination costs amortization	0.01	0.02	0.02	0.02
Variable loan yield, net	1.94	3.97	2.47	4.13
Loan cost of funds - interest expense	(1.16)	(3.16)	(1.82)	(3.35)
Loan cost of funds - derivative settlements (a) (b)	0.02	0.00	0.07	0.02
Variable loan spread	0.80	0.81	0.72	0.80
Fixed rate floor income, gross	0.73	0.23	0.58	0.21
Fixed rate floor income - derivative settlements (a) (c)	(0.07)	0.13	(0.02)	0.22
Fixed rate floor income, net of settlements on derivatives	0.66	0.36	0.56	0.43
Core loan spread	1.46 %	1.17 %	1.28 %	1.23 %
Average balance of loans	$ 19,866,040	21,600,850	20,300,617	21,917,298
Average balance of debt outstanding	19,632,675	21,371,482	20,153,478	21,632,256

(a) Derivative settlements represent the cash paid or received during the current period to settle with derivative instrument counterparties the economic effect of the Company's derivative instruments based on their contractual terms. Derivative accounting requires that net settlements with respect to derivatives that do not qualify for "hedge treatment" under GAAP be recorded in a separate income statement line item below net interest income. The Company maintains an overall risk management strategy that incorporates the use of derivative instruments to reduce the economic effect of interest rate volatility. As such, management believes derivative settlements for each applicable period should be evaluated with the Company's net interest income (loan spread) as presented in this table. The Company reports this non-GAAP information because it believes that it provides additional information regarding operational and performance indicators that are closely assessed by management. There is no comprehensive, authoritative guidance for the presentation of such non-GAAP information, which is only meant to supplement GAAP results by providing additional information that management utilizes to assess performance. See note 4 of the notes to consolidated financial statements included under Part I, Item 1 of this report for additional information on the Company's derivative instruments, including the net settlement activity recognized by the Company for each type of derivative for the 2020 and 2019 periods presented in the table under the caption "Consolidated Financial Statement Impact Related to Derivatives - Statements of Income" in note 4 and in this table.

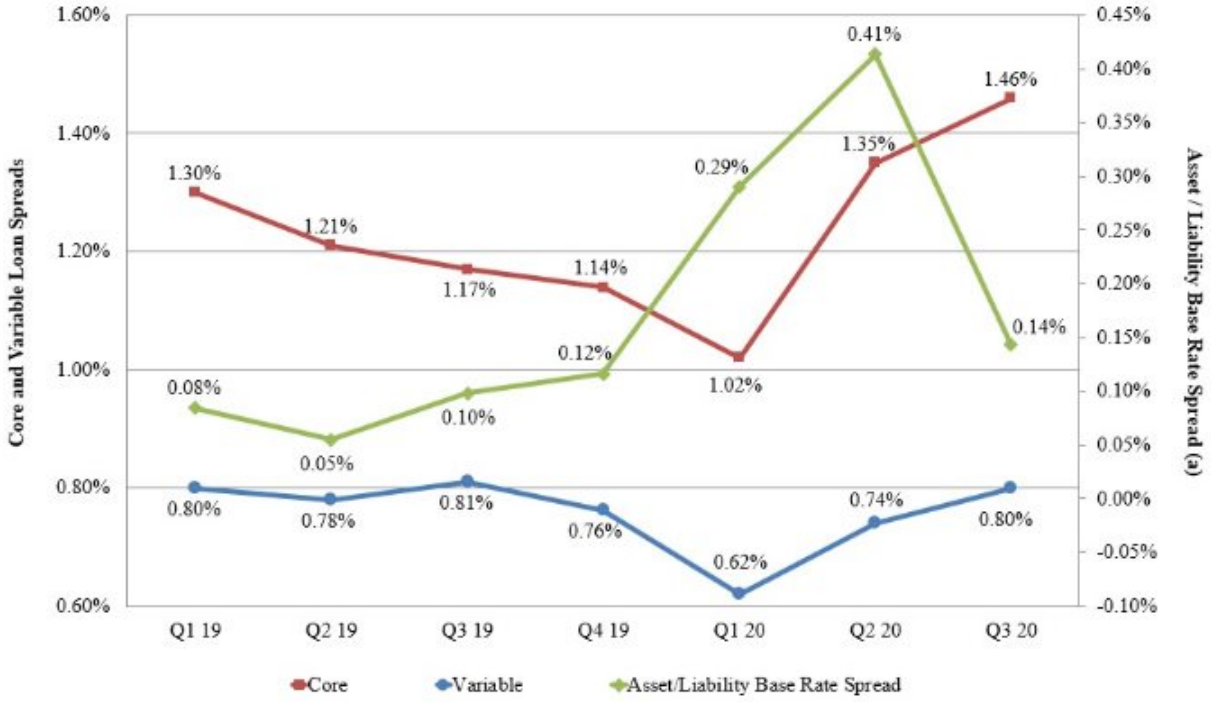
A reconciliation of core loan spread, which includes the impact of derivative settlements on loan spread, to loan spread without derivative settlements follows.

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Core loan spread	1.46 %	1.17 %	1.28 %	1.23 %
Derivative settlements (1:3 basis swaps)	(0.02)	(0.00)	(0.07)	(0.02)
Derivative settlements (fixed rate floor income)	0.07	(0.13)	0.02	(0.22)
Loan spread	1.51 %	1.04 %	1.23 %	0.99 %

(b) Derivative settlements consist of net settlements received related to the Company's 1:3 basis swaps.

(c) Derivative settlements consist of net settlements (paid) received related to the Company's floor income interest rate swaps.

A trend analysis of the Company's core and variable loan spreads is summarized below.



(a) The interest earned on a large portion of the Company's FFELP student loan assets is indexed to the one-month LIBOR rate. The Company funds a portion of its assets with three-month LIBOR indexed floating rate securities. The relationship between the indices in which the Company earns interest on its loans and funds such loans has a significant impact on loan spread. This table (the right axis) shows the difference between the Company's liability base rate and the one-month LIBOR rate by quarter. See Item 3, “Quantitative and Qualitative Disclosures About Market Risk - Interest Rate Risk,” which provides additional detail on the Company’s FFELP student loan assets and related funding for those assets.

Variable loan spread was compressed during the first and second quarters of 2020 due to a widening of the basis between the asset and debt indices in which the Company earns interest on its loans and funds such loans (as reflected in the table above). The significant widening during the first and second quarters of 2020 was the result of the significant decrease in interest rates during March 2020 and the first half of the second quarter of 2020. In a declining interest rate environment, student loan spread is compressed, due to the timing of interest rate resets on the Company's assets occurring daily in contrast to the timing of the interest resets on the Company's debt that occurs either monthly or quarterly. During the third quarter of 2020, as the Company's debt reset at lower interest rates, the Company's variable loan spread increased. See Item 3, “Quantitative and Qualitative Disclosures About Market Risk - Interest Rate Risk,” which provides additional detail on the Company’s FFELP student loan assets and related funding for those assets.

The difference between variable loan spread and core loan spread is fixed rate floor income earned on a portion of the Company's federally insured student loan portfolio. A summary of fixed rate floor income and its contribution to core loan spread follows:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Fixed rate floor income, gross	$ 36,633	12,685	87,258	33,950
Derivative settlements (a)	(3,588)	7,064	(2,772)	35,931
Fixed rate floor income, net	$ 33,045	19,749	84,486	69,881
Fixed rate floor income contribution to spread, net	0.66 %	0.36 %	0.56 %	0.43 %

(a) Derivative settlements consist of net settlements (paid) received related to the Company's derivatives used to hedge student loans earning fixed rate floor income.

The increase in gross fixed rate floor income for the three and nine months ended September 30, 2020 compared to the same periods in 2019 was due to lower interest rates in 2020 as compared to 2019. The Company has a portfolio of derivative instruments in which the Company pays a fixed rate and receives a floating rate to economically hedge a portion of loans earning fixed rate floor income. The decrease in net derivative settlements (paid) received from the floor income interest rate swaps in 2020 as compared to 2019 was due to a decrease in the notional amount of derivatives outstanding and a decrease in interest rates. See Item 3, "Quantitative and Qualitative Disclosures About Market Risk - Interest Rate Risk," which provides additional detail on the Company's portfolio earning fixed rate floor income and the derivatives used by the Company to hedge these loans.

Interest Rate Risk - Replacement of LIBOR as a Benchmark Rate

As of September 30, 2020, the interest earned on a principal amount of $17.8 billion in the Company's FFELP student loan asset portfolio was indexed to one-month LIBOR, and the interest paid on a principal amount of $17.3 billion of the Company's FFELP student loan asset-backed debt securities was indexed to one-month or three-month LIBOR. In addition, the majority of the Company's derivative financial instrument transactions used to manage LIBOR interest rate risks are indexed to LIBOR. A market transition away from the current LIBOR framework could result in significant changes to the interest rate characteristics of the Company's LIBOR-indexed assets and funding for those assets, as well as the Company's LIBOR-indexed derivative instruments. See Item 1A, "Risk Factors - Loan Portfolio - Interest rate risk - replacement of LIBOR as a benchmark rate" in the Company's 2019 Annual Report.

Summary and Comparison of Operating Results

	Three months ended September 30,		Nine months ended September 30,		
	2020	2019	2020	2019	Additional information
Net interest income after provision for loan losses	$ 86,025	51,740	125,500	153,069	See table below for additional analysis.
Gain on sale of loans	14,817	—	33,023	1,712	The Company sold portfolios of consumer loans in the first and third quarters of 2020, and second quarter of 2019, and recognized gains of $18.2 million, $14.8 million, and $1.7 million, respectively.
Other income	1,004	3,384	4,951	10,084	Represents primarily borrower late fees. The decrease in borrower late fees for the three and nine months ended September 30, 2020 as compared to the same periods in 2019 was due to the Company suspending borrower late fees effective March 13, 2020 to provide borrowers relief as a result of the COVID-19 pandemic. See "Overview - Impacts of COVID-19 Pandemic - Asset Generation and Management" above for additional information.
Impairment expense	—	—	(26,303)	—	In March 2020, the Company recognized an impairment of its beneficial interest in consumer loan securitization investments as a result of the expected impacts of the COVID-19 pandemic. See note 5 of the notes to consolidated financial statements included under Part I, Item 1 of this report.
Derivative settlements, net	(2,391)	7,298	7,666	39,306	The Company maintains an overall risk management strategy that incorporates the use of derivative instruments to reduce the economic effect of interest rate volatility. Derivative settlements for each applicable period should be evaluated with the Company's net interest income as reflected in the table below.
Derivative market value adjustments, net	3,440	(5,630)	(21,072)	(73,265)	Includes the realized and unrealized gains and losses that are caused by changes in fair values of derivatives which do not qualify for "hedge treatment" under GAAP. The majority of the derivative market value adjustments related to the changes in fair value of the Company's floor income interest rate swaps. Such changes reflect that a decrease in the forward yield curve during a reporting period results in a decrease in the fair value of the Company's floor income interest rate swaps, and an increase in the forward yield curve during a reporting period results in an increase in the fair value of the Company's floor income interest rate swaps.
Total other income/expense	16,870	5,052	(1,735)	(22,163)	
Salaries and benefits	438	394	1,301	1,153	
Other expenses	3,672	19,054	12,253	29,098	The Company recognized $14.0 million and $15.8 million of expenses during the three and nine months ended September 30, 2019, respectively, to extinguish asset-backed notes from certain securitizations prior to their contractual maturity. Excluding these costs, other expenses were $5.1 million and $13.3 million for the three and nine months ended September 30, 2019, respectively. Other than the debt extinguishment costs, the primary component of other expenses is servicing fees paid to third parties. The decrease in servicing fees in 2020 as compared to 2019 was due to a decrease in the Company's loan portfolio.

Intersegment expenses	8,868	11,678	29,839	35,630	Amounts include fees paid to the LSS operating segment for the servicing of the Company's loan portfolio. These amounts exceed the actual cost of servicing the loans. The decrease in servicing fees for the three and nine months ended September 30, 2020 as compared to the same periods in 2019 was due to the expected amortization of the Company's FFELP portfolio and a decrease in certain servicing activities due to borrower relief initiatives and policies as a result of the COVID-19 pandemic. Intersegment expenses also include costs for certain corporate activities and services that are allocated to each operating segment based on estimated use of such activities and services.
Total operating expenses	12,978	31,126	43,393	65,881	Total operating expenses, excluding the $14.0 million and $15.8 million of expenses recognized in the three and nine months ended September 30, 2019, respectively, related to the extinguishment of debt prior to their contractual maturity (as described above), were 26 basis points and 32 basis points of the average balance of loans for the three months ended September 30, 2020 and 2019, respectively, and 29 basis points and 30 basis points for the nine months ended September 30, 2020 and 2019, respectively.
Income before income taxes	89,917	25,666	80,372	65,025	
Income tax expense	(21,580)	(6,160)	(19,289)	(15,606)	Represents income tax expense at an effective tax rate of 24%.
Net income	$ 68,337	19,506	61,083	49,419	
Additional information:					
Net income	$ 68,337	19,506	61,083	49,419	See "Overview - GAAP Net Income and Non-GAAP Net Income, Excluding Adjustments" above for additional information about non-GAAP net income, excluding derivative market value adjustments. The increase in net income for the three months ended September 30, 2020 as compared to the same period in 2019 was due to (i) an increase in core loan spread; (ii) recognizing a gain from the sale of a consumer loan portfolio in 2020; (iii) a decrease in provision for loan losses; and (iv) recognizing an expense for the early extinguishment of debt in 2019. These items were partially offset by (i) a decrease in the average balance of loans in 2020 as compared to 2019 and (ii) a decrease in borrower late fees. The decrease in net income for the nine months ended September 30, 2020 as compared to the same period in 2019 was due to (i) the impairment of the Company's beneficial interest in consumer loan securitizations recognized in 2020; (ii) the decrease in the average balance of loans in 2020 as compared to 2019; (iii) an incremental provision for loan losses in 2020 of $63.0 million (pre-tax) related to the increase in expected defaults as a result of the COVID-19 pandemic; and (iv) a decrease in borrower late fees. These items were partially offset by (i) an increase in core loan spread; (ii) recognizing gains from the sale of consumer loan portfolios in 2020; and (iii) recognizing expenses for the early extinguishment of debt in 2019.
Derivative market value adjustments, net	(3,440)	5,630	21,072	73,265	
Tax effect	826	(1,351)	(5,057)	(17,584)	
Net income, excluding derivative market value adjustments	$ 65,723	23,785	77,098	105,100	

Net interest income after provision for loan losses, net of settlements on derivatives

The following table summarizes the components of "net interest income after provision for loan losses" and "derivative settlements, net."

	Three months ended September 30,		Nine months ended September 30,		
	2020	2019	2020	2019	Additional information
Variable interest income, gross	$ 138,986	260,089	500,141	809,097	Decrease was due to a decrease in the gross yield earned on loans and a decrease in the average balance of loans.
Consolidation rebate fees	(41,768)	(44,717)	(127,292)	(136,855)	Decrease was due to a decrease in the average consolidation loan balance.
Discount accretion, net of premium and deferred origination costs amortization	656	1,006	2,332	3,426	Net discount accretion is due to the Company's purchases of loans at a net discount over the last several years.
Variable interest income, net	97,874	216,378	375,181	675,668	
Interest on bonds and notes payable	(57,510)	(170,327)	(274,318)	(541,356)	Decrease was due to a decrease in cost of funds and a decrease in the average balance of debt outstanding.
Derivative settlements, net (a)	1,197	234	10,438	3,375	Derivative settlements include the net settlements received related to the Company's 1:3 basis swaps.
Variable loan interest margin, net of settlements on derivatives (a)	41,561	46,285	111,301	137,687	
Fixed rate floor income, gross	36,633	12,685	87,258	33,950	Fixed rate floor income increased due to lower interest rates in 2020 as compared to 2019.
Derivative settlements, net (a)	(3,588)	7,064	(2,772)	35,931	Derivative settlements include the settlements (paid) received related to the Company's floor income interest rate swaps. Decrease in net settlements (paid) received was due to a decrease in the notional amount of derivatives outstanding and lower interest rates in 2020 as compared to 2019.
Fixed rate floor income, net of settlements on derivatives	33,045	19,749	84,486	69,881	
Core loan interest income (a)	74,606	66,034	195,787	207,568	
Investment interest	3,452	4,162	12,029	13,770	Decrease was due to lower interest rates in 2020 as compared to 2019.
Intercompany interest	(245)	(1,158)	(1,174)	(2,963)	Decrease was due to lower interest rates in 2020 as compared to 2019.
Negative provision (provision) for loan losses - federally insured loans	5,299	(2,000)	(32,074)	(6,000)	See "Allowance for Loan Losses and Loan Delinquencies" included above under "Asset Generation and Management Operating Segment - Results of Operations."
Negative provision (provision) for loan losses - private education loans	5,650	—	(6,471)	—	
Provision for loan losses - consumer loans	(5,128)	(8,000)	(34,931)	(20,000)	
Net interest income after provision for loan losses (net of settlements on derivatives) (a)	$ 83,634	59,038	133,166	192,375	Net interest income after provision for loan losses (net of settlements on derivatives) increased for the three months ended September 30, 2020 as compared to the same period in 2019 due to an increase in core loan spread and a decrease in provision for loan losses, partially offset by a decrease in the average balance of loans. Excluding the incremental provision for loan losses recognized in the first quarter of 2020 of $63.0 million related to the increase in expected defaults as a result of the COVID-19 pandemic, net interest income after provision for loan losses (net of settlements on derivatives) for the nine months ended September 30, 2020 would have been $196.2 million. The increase in net interest income after provision for loan losses (net of settlements on derivatives), excluding this provision, for the nine months ended September 30, 2020 as compared to the same period in 2019 was due to an increase in core loan spread, partially offset by a decrease in the average balance of loans and an increase in the consumer loan provision for loan losses in 2019 due to significant acquisitions of consumer loans in 2019.

(a) Derivative settlements represent the cash paid or received during the current period to settle with derivative instrument counterparties the economic effect of the Company's derivative instruments based on their contractual terms. Derivative accounting requires that net settlements on derivatives that do not qualify for "hedge treatment" under GAAP be recorded in a separate income statement line item below net interest income. The Company maintains an overall risk management strategy that incorporates the use of derivative instruments to reduce the economic effect of interest rate volatility. As such, management believes derivative settlements for each applicable period should be evaluated with the Company's net interest income as presented in this table. Core loan interest income and net interest income after provision for loan losses (net of settlements on derivatives) are non-GAAP financial measures, and the Company reports this non-GAAP information because the Company believes that it provides additional information regarding operational and performance indicators that are closely assessed by management. There is no comprehensive, authoritative guidance for the presentation of such non-GAAP information, which is only meant to supplement GAAP results by providing additional information that management utilizes to assess performance. See note 4 of the notes to consolidated financial statements included under Part I, Item 1 of this report for additional information on the Company's derivative instruments, including the net settlement activity recognized by the Company for each type of derivative referred to in the "Additional information" column of this table, for the 2020 and 2019 periods presented in the table under the caption "Consolidated Financial Statement Impact Related to Derivatives - Statements of Income" in note 4 and in this table.

LIQUIDITY AND CAPITAL RESOURCES

The Company's Loan Servicing and Systems, and Education Technology, Services, and Payment Processing operating segments are non-capital intensive and both produce positive operating cash flows. As such, a minimal amount of debt and equity capital is allocated to these segments and any liquidity or capital needs are satisfied using cash flow from operations. Therefore, the Liquidity and Capital Resources discussion is concentrated on the Company's liquidity and capital needs to meet existing debt obligations in the Asset Generation and Management operating segment.

Sources of Liquidity

As of September 30, 2020, the Company had cash and cash equivalents of $96.3 million. The Company also had a portfolio of available-for-sale investments, consisting primarily of student loan asset-backed securities, with a fair value of $179.0 million as of September 30, 2020. As of September 30, 2020, the Company had participated $108.7 million of these securities, and such participation is reflected as debt on the Company's consolidated balance sheet.

The Company also has a $455.0 million unsecured line of credit that matures on December 16, 2024. As of September 30, 2020, there was no amount outstanding on the unsecured line of credit and $455.0 million was available for future use. The line of credit provides that the Company may increase the aggregate financing commitments, through the existing lenders and/or through new lenders, up to a total of $550.0 million, subject to certain conditions. In addition, the Company has a $22.0 million secured line of credit agreement that matures on May 30, 2022. As of September 30, 2020, the secured line of credit had $5.0 million outstanding and $17.0 million was available for future use.

In addition, the Company has retained certain of its own asset-backed securities upon their initial issuance or repurchased certain of its own asset-backed securities (bonds and notes payable) in the secondary market. For accounting purposes, these notes are eliminated in consolidation and are not included in the Company's consolidated financial statements. However, these securities 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 of these notes to third parties, the Company would obtain cash proceeds equal to the market value of the notes on the date of such sale. As of September 30, 2020, the Company holds $20.8 million (par value) of its own asset-backed securities.

The Company intends to use its liquidity position to capitalize on market opportunities, including FFELP, private education, and consumer loan acquisitions; strategic acquisitions and investments; and capital management initiatives, including stock repurchases, debt repurchases, and dividend distributions. The timing and size of these opportunities will vary and will have a direct impact on the Company's cash and investment balances.

Recent Events

Recapitalization and Additional Funding for ALLO

On October 1, 2020, Nelnet, Inc. and ALLO entered into various agreements with SDC, a third party global digital infrastructure investor, for various transactions contemplated by the parties in connection with a recapitalization and additional funding for ALLO.

The agreements provide for a series of initial interrelated transactions (the "Initial Transactions") whereby (i) on October 15, 2020, ALLO issued non-voting preferred membership units of ALLO to SDC for an aggregate purchase price payment of approximately $197.0 million from SDC to ALLO, and ALLO redeemed certain non-voting preferred membership units of ALLO held by Nelnet, Inc. in exchange for an aggregate redemption price payment to Nelnet, Inc. of $160.0 million; (ii) ALLO will use its reasonable best efforts to incur and undertake private debt financing from one or more unrelated third-party lender(s) in the aggregate approximate amount of $100.0 million; and (iii) subject to ALLO obtaining such debt financing, ALLO will redeem certain additional preferred return membership units of ALLO held by Nelnet, Inc. in exchange for an aggregate redemption price payment to Nelnet, Inc. of approximately $100.0 million (subject to the amount of gross proceeds actually received in the debt financing).

The agreements also provide for secondary transactions (the "Secondary Transactions") subsequent to the completion of the Initial Transactions, whereby (i) Nelnet, Inc., SDC, and ALLO will use commercially reasonable efforts (which expressly excludes requiring ALLO to raise any additional equity financing or sell any assets) to cause ALLO to redeem, on or before the three and one-half year anniversary (subject to adjustment) of the completion of ALLO's redemptions from Nelnet, Inc. in the Initial Transactions, the remaining preferred membership units of ALLO held by Nelnet, Inc. in exchange for an aggregate redemption price payment to Nelnet, Inc. of approximately $126 million, plus the amount of accrued and unpaid preferred return on such units and the amount of any contributions or other amounts funded by Nelnet, Inc. to ALLO subsequent to ALLO's redemptions from Nelnet, Inc. in the Initial Transactions; and (ii) Nelnet, Inc. will have a contingent payment

obligation to pay SDC a contingent payment amount of $25 million to $35 million in the event Nelnet, Inc. disposes of other voting membership units of ALLO that it holds and realizes from such disposition certain targeted return levels.

Nelnet Bank

On November 2, 2020, the Company obtained final approval from the FDIC for federal deposit insurance and for a bank charter from the UDFI in connection with the establishment of Nelnet Bank, and Nelnet Bank launched operations. Nelnet Bank was funded by the Company with an initial capital contribution of $100.0 million, consisting of $55.9 million of cash and $44.1 million of student loan asset-backed securities. In addition, the Company made a pledged deposit of $40.0 million with Nelnet Bank, as required under an agreement with the FDIC discussed below.

Prior to FDIC approval, Nelnet Bank, Nelnet, Inc. (the parent), and Michael S. Dunlap (Nelnet, Inc.'s controlling shareholder) entered into a Capital and Liquidity Maintenance Agreement and a Parent Company Agreement with the FDIC in connection with Nelnet, Inc.'s role as a source of financial strength for Nelnet Bank. As part of the Capital and Liquidity Maintenance Agreement, Nelnet, Inc. is obligated to (i) contribute capital to Nelnet Bank for it to maintain capital levels that meet FDIC requirements for a "well capitalized" bank, including a leverage ratio of capital to total assets of at least 12 percent; (ii) provide and maintain an irrevocable asset liquidity takeout commitment for the benefit of Nelnet Bank in an amount equal to the greater of either 10 percent of Nelnet Bank's total assets or such additional amount as agreed to by Nelnet Bank and Nelnet, Inc.; (iii) provide additional liquidity to Nelnet Bank in such amount and duration as may be necessary for Nelnet Bank to meet its ongoing liquidity obligations; and (iv) establish and maintain a pledged deposit of $40.0 million with Nelnet Bank.

Cash Flows

During the nine months ended September 30, 2020, the Company generated $173.0 million in operating activities, compared to $142.9 million for the same period in 2019. The increase in such cash flows from operating activities was due to:

- The increase in net income;
- Adjustments to net income for the impact of the non-cash provision for loan losses and impairment charges;
- A decrease in net payments to the Company's clearinghouse for margin payments on derivatives; and
- The impact of changes to accrued interest receivable, accounts receivable, and other assets during the nine months ended September 30, 2020 as compared to the same period in 2019.

These factors were partially offset by:

- The adjustments to net income for derivative market value adjustments;
- Adjustments to net income for the impact of the gains from sale of loans and investments; and
- The impact of changes to other liabilities and the due to customers liability account during the nine months ended September 30, 2020 as compared to the same period in 2019.

The primary items included in the statement of cash flows for investing activities are the purchase and repayment of loans. The primary items included in financing activities are the proceeds from the issuance of and payments on bonds and notes payable used to fund loans. Cash provided by investing activities and used in financing activities for the nine months ended September 30, 2020 was $953.6 million and $1.4 billion, respectively. Cash provided by investing activities and used in financing activities for the nine months ended September 30, 2019 was $1.2 billion and $1.4 billion, respectively. Investing and financing activities are further addressed in the discussion that follows.

Liquidity Needs and Sources of Liquidity Available to Satisfy Debt Obligations Secured by Loan Assets and Related Collateral

The following table shows the Company's debt obligations outstanding that are secured by loan assets and related collateral.

	As of September 30, 2020	
	Carrying amount	Final maturity
Bonds and notes issued in asset-backed securitizations	$ 19,050,341	5/27/25 - 8/27/68
FFELP, private education, and consumer loan warehouse facilities	278,003	11/22/21 - 2/26/23
	$ 19,328,344	

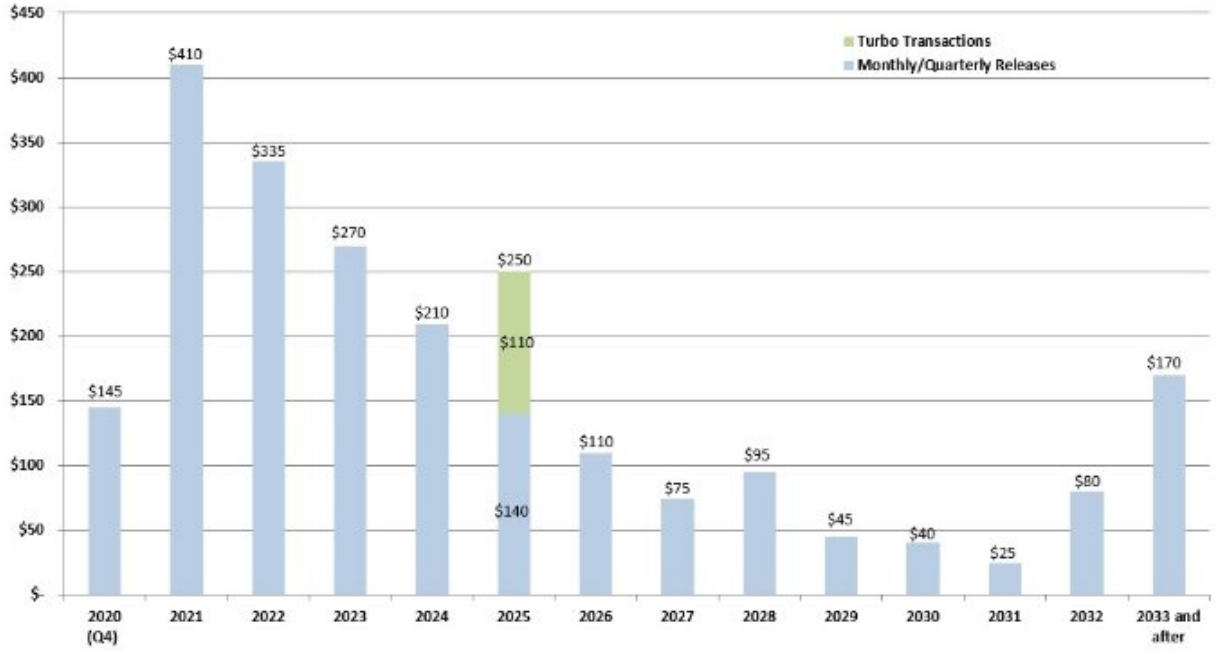
Bonds and Notes Issued in Asset-backed Securitizations

The majority of the Company's portfolio of student loans is funded in asset-backed securitizations that are structured to substantially match the maturity of the funded assets, thereby minimizing liquidity risk. Cash generated from student loans funded in asset-backed securitizations provide the sources of liquidity to satisfy all obligations related to the outstanding bonds and notes issued in such securitizations. In addition, due to (i) the difference between the yield the Company receives on the loans and cost of financing within these transactions, and (ii) the servicing and administration fees the Company earns from these transactions, the Company has created a portfolio that will generate earnings and significant cash flow over the life of these transactions.

As of September 30, 2020, based on cash flow models developed to reflect management's current estimate of, among other factors, prepayments, defaults, deferment, forbearance, and interest rates, the Company currently expects future undiscounted cash flows from its portfolio to be approximately $2.26 billion as detailed below.

The forecasted cash flow presented below includes all loans funded in asset-backed securitizations as of September 30, 2020. As of September 30, 2020, the Company had $19.1 billion of loans included in asset-backed securitizations, which represented 97.8 percent of its total loan portfolio. The forecasted cash flow does not include cash flows that the Company expects to receive related to loans funded in its warehouse facilities as of September 30, 2020, private education and consumer loans funded with operating cash, and loans acquired subsequent to September 30, 2020.

Asset-backed Securitization Cash Flow Forecast
$2.26 billion
(dollars in millions)



The forecasted future undiscounted cash flows of approximately $2.26 billion include approximately $1.13 billion (as of September 30, 2020) of overcollateralization included in the asset-backed securitizations. These excess net asset positions are included in the consolidated balance sheets and included in the balances of "loans and accrued interest receivable" and "restricted cash." The difference between the total estimated future undiscounted cash flows and the overcollateralization of approximately $1.13 billion, or approximately $0.86 billion after income taxes based on the estimated effective tax rate, is expected to be accretive to the Company's September 30, 2020 balance of consolidated shareholders' equity.

Two of the Company's asset-backed securitizations as of September 30, 2020 are structured as "Turbo Transactions" which require all cash generated from the student loans (including excess spread) to be directed toward payment of interest and any outstanding principal generally until such time as all principal on the notes has been paid in full. Once the notes in such transactions are paid in full, the remaining unencumbered student loans (and other remaining assets, if any) in the securitizations will be released to the Company, at which time the Company will have the option to refinance or sell these assets, or retain them on the balance sheet as unencumbered assets.

The Company uses various assumptions, including prepayments and future interest rates, when preparing its cash flow forecast. These assumptions are further discussed below.

Prepayments: The primary variable in establishing a life of loan estimate is the level and timing of prepayments. Prepayment rates equal the amount of loans that prepay annually as a percentage of the beginning of period balance, net of scheduled principal payments. A number of factors can affect estimated prepayment rates, including the level of consolidation activity, borrower default rates, and utilization of debt management options such as income-based repayment, deferments, and forbearance. Should any of these factors change, management may revise its assumptions, which in turn would impact the projected future cash flow. The Company's cash flow forecast above assumes prepayment rates that are generally consistent with those utilized in the Company's recent asset-backed securitization transactions. If management used a prepayment rate assumption two times greater than what was used to forecast the cash flow, the cash flow forecast would be reduced by approximately $145 million to $180 million.

Interest rates: The Company funds a large portion of its student loans with three-month LIBOR indexed floating rate securities. Meanwhile, the interest earned on the Company's student loan assets is indexed primarily to a one-month LIBOR rate. The different interest rate characteristics of the Company's loan assets and liabilities funding these assets result in basis risk. The Company's cash flow forecast assumes three-month LIBOR will exceed one-month LIBOR by 12 basis points for the life of the portfolio, which approximates the historical relationship between these indices. If the forecast is computed assuming a spread of 24 basis points between three-month and one-month LIBOR for the life of the portfolio, the cash flow forecast would be reduced by approximately $25 million to $50 million. As the percentage of the Company's outstanding debt financed by three-month LIBOR declines, the Company's basis risk will be reduced.

There is significant uncertainty regarding the availability of LIBOR as a benchmark rate after 2021, and any market transition away from the current LIBOR framework could result in significant changes to the forecasted cash flows from the Company's asset-backed securitizations. See Item 1A, "Risk Factors - Loan Portfolio - Interest rate risk - replacement of LIBOR as a benchmark rate" in the Company's 2019 Annual Report. In addition, the COVID-19 pandemic may impact forecasted cash flows from the Company's asset-backed securitizations. See Part II, Item 1A. "Risk Factors - The COVID-19 pandemic has adversely impacted our results of operations, and could continue to adversely impact our results of operations, as well as adversely impact our businesses, financial condition, and/or cash flows" in this report.

The Company uses the current forward interest rate yield curve to forecast cash flows. A change in the forward interest rate curve would impact the future cash flows generated from the portfolio. An increase in future interest rates will reduce the amount of fixed rate floor income the Company is currently receiving. The Company attempts to mitigate the impact of a rise in short-term rates by hedging interest rate risks. The forecasted cash flow does not include cash flows the Company expects to pay/receive related to derivative instruments used by the Company to manage interest rate risk. See Item 3, "Quantitative and Qualitative Disclosures About Market Risk — Interest Rate Risk."

Warehouse Facilities

The Company funds a portion of its FFELP loan acquisitions using its FFELP warehouse facilities. Student loan warehousing allows the Company to buy and manage student loans prior to transferring them into more permanent financing arrangements. As of September 30, 2020, the Company had two FFELP warehouse facilities with an aggregate maximum financing amount available of $550.0 million, of which $145.1 million was outstanding and $404.9 million was available for additional funding. On November 2, 2020, the Company decreased the maximum financing amount for these FFELP warehouse facilities to $100.0 million (each facility having a $50.0 million maximum financing amount). One warehouse facility has a static advance rate until the expiration date of the liquidity provisions (November 20, 2020). In the event the liquidity provisions are not extended, the valuation agent has the right to perform a one-time mark to market on the underlying loans funded in this facility, subject to a floor. The loans would then be funded at this new advance rate until the final maturity date of the facility (November 22, 2021). The other warehouse facility has a static advance rate that requires initial equity for loan funding and does not require increased equity based on market movements. As of September 30, 2020, the Company had $11.2 million advanced as equity support on these facilities. For further discussion of the Company's FFELP warehouse facilities outstanding at September 30, 2020, see note 3 of the notes to consolidated financial statements included under Part I, Item 1 of this report.

On February 13, 2020, the Company obtained a private education loan warehouse facility with an aggregate maximum financing amount available of $100.0 million. On March 20, 2020, the facility was amended to increase the maximum financing amount to $200.0 million. The facility has an advance rate of 80 to 90 percent, liquidity provisions through February 13, 2021, and a final maturity date of February 13, 2022. As of September 30, 2020, $102.6 million was outstanding under this warehouse facility and $97.4 million was available for future funding. Additionally, as of September 30, 2020, the Company had $11.1 million advanced as equity support under this facility.

The Company has a consumer loan warehouse facility that as of September 30, 2020 had an aggregate maximum financing amount available of $200.0 million. The facility has an advance rate of 70 or 75 percent depending on the type of collateral and subject to certain concentration limits, liquidity provisions to April 23, 2021, and a final maturity date of April 23, 2022. As of September 30, 2020, $30.3 million was outstanding under this facility and $169.7 million was available for future funding. Additionally, as of September 30, 2020, the Company had $13.8 million advanced as equity support under this facility. On November 3, 2020, the Company decreased the maximum financing amount on this facility to $100.0 million.

Upon termination or expiration of the warehouse facilities, the Company would expect to access the securitization market, obtain replacement warehouse facilities, use operating cash, consider the sale of assets, or transfer collateral to satisfy any remaining obligations.

Other Uses of Liquidity

The Company no longer originates new FFELP loans, but continues to acquire FFELP loan portfolios from third parties and believes additional loan purchase opportunities exist, including opportunities to purchase private education and consumer loans.

The Company plans to fund additional loan acquisitions using current cash and investments; using its Union Bank participation agreement (as described below); using its existing warehouse facilities (as described above); increasing the capacity under existing and/or establishing new warehouse facilities; and continuing to access the asset-backed securities market.

Union Bank Participation Agreement

The Company maintains an agreement with Union Bank, a related party, as trustee for various grantor trusts, under which Union Bank has agreed to purchase from the Company participation interests in student loans. As of September 30, 2020, $903.0 million 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 $900.0 million or an amount in excess of $900.0 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.

Asset-backed Securities Transactions

During the first nine months of 2020, the Company completed four FFELP asset-backed securitizations totaling $1.3 billion (par value). The proceeds from these transactions were used primarily to refinance student loans included in the Company's FFELP warehouse facilities. See note 3 of the notes to consolidated financial statements included under Part I, Item 1 of this report for additional information on these securitizations.

The Company, through its subsidiaries, has historically funded student loans by completing asset-backed securitizations. Depending on market conditions, the Company currently anticipates continuing to access the asset-backed securitization market. Such asset-backed securitization transactions would be used to refinance student loans included in its warehouse facilities, loans purchased from third parties, and/or student loans in its existing asset-backed securitizations.

Liquidity Impact Related to Hedging Activities

The Company utilizes derivative instruments to manage interest rate sensitivity. By using derivative instruments, the Company is exposed to market risk which could impact its liquidity. Based on the derivative portfolio outstanding as of September 30, 2020, the Company does not currently anticipate any movement in interest rates having a material impact on its capital or liquidity profile, nor does the Company expect that any movement in interest rates would have a material impact on its ability to meet potential collateral deposits with its counterparties and/or make variation margin payments to its third-party clearinghouse. However, if interest rates move materially and negatively impact the fair value of the Company's derivative portfolio, the replacement of LIBOR as a benchmark rate has significant adverse impacts on the Company's derivatives, or if the Company enters into additional derivatives for which the fair value becomes negative, the Company could be required to deposit additional collateral with its derivative instrument counterparties and/or make variation margin payments to its third-party clearinghouse. The collateral deposits or variation margin, if significant, could negatively impact the Company's liquidity and capital resources. In addition, clearing rules require the Company to post amounts of liquid collateral when executing new derivative instruments, which could prevent or limit the Company from utilizing additional derivative instruments to manage interest rate sensitivity and risks. See note 4 of the notes to consolidated financial statements included under Part I, Item 1 of this report for additional information on the Company's derivative portfolio.

Other Debt Facilities

As discussed above, the Company has a $455.0 million unsecured line of credit with a maturity date of December 16, 2024. As of September 30, 2020, the unsecured line of credit had no amount outstanding and $455.0 million was available for future use. The Company also has a $22.0 million secured line of credit agreement with a maturity date of May 30, 2022. As of September 30, 2020, the secured line of credit had $5.0 million outstanding with $17.0 million available for future use. The line of credit is secured by several Company-owned properties. Upon the maturity date of these facilities, there can be no assurance that the Company will be able to maintain these lines of credit, increase the amount outstanding under the lines, or find alternative funding if necessary.

As of September 30, 2020, the Company had $20.4 million of unsecured Junior Subordinated Hybrid Securities (the "Hybrid Securities") that were outstanding. On October 5, 2020, the Company redeemed in full all the outstanding Hybrid Securities at par.

During the second quarter of 2020, the Company entered into an agreement with Union Bank, as trustee for various grantor trusts, under which Union Bank has agreed to purchase from the Company participation interests in student loan asset-backed securities. As of September 30, 2020, $108.7 million of student loan asset-backed securities were subject to outstanding participation interests held by Union Bank, as trustee, under this agreement. This participation agreement has been accounted for by the Company as a secured borrowing. Upon termination or expiration of this agreement, the Company would expect to use operating cash, consider the sale of assets, or transfer collateral to satisfy any remaining obligations.

For further discussion of these debt facilities described above, see note 3 of the notes to consolidated financial statements included under Part I, Item 1 of this report.

Stock Repurchases

The Board of Directors has authorized a stock repurchase program to repurchase up to a total of five million shares of the Company's Class A common stock during the three-year period ending May 7, 2022. As of September 30, 2020, 3,246,732 shares remained authorized for repurchase under the Company's stock repurchase program. Shares may be repurchased from time to time depending on various factors, including share prices and other potential uses of liquidity. Shares repurchased by the Company during the three months ended March 31, 2020, June 30, 2020, and September 30, 2020 are shown below. Certain of these repurchases were made pursuant to a trading plan adopted by the Company in accordance with Rule 10b5-1 under the Securities Exchange Act of 1934. For additional information on stock repurchases during the third quarter of 2020, see "Stock Repurchases" under Part II, Item 2 of this report.

	Total shares repurchased	Purchase price (in thousands)	Average price of shares repurchased (per share)
Quarter ended March 31, 2020	24,885	$ 1,253	50.36
Quarter ended June 30, 2020	1,473,049	67,274	45.67
Quarter ended September 30, 2020	93,380	4,618	49.45
Total	1,591,314	$ 73,145	45.96

Included in the shares repurchased during the quarter ended June 30, 2020 in the table above are a total of 100,000 shares of Class A common stock the Company purchased on May 27, 2020 from Shelby J. Butterfield, a significant shareholder of the Company. The shares were purchased at a discount to the closing market price of the Company's Class A common stock as of May 27, 2020, and the transaction was separately approved by the Company's Board of Directors. Immediately prior to the Company's repurchase of such shares from Ms. Butterfield, the repurchased shares were shares of the Company's Class B common stock that Ms. Butterfield converted to shares of Class A common stock.

Dividends

On September 15, 2020, the Company paid a third quarter 2020 cash dividend on the Company's Class A and Class B common stock of $0.20 per share. In addition, the Company's Board of Directors has declared a fourth quarter 2020 cash dividend on the Company's outstanding shares of Class A and Class B common stock of $0.22 per share. The fourth quarter cash dividend will be paid on December 15, 2020 to shareholders of record at the close of business on December 1, 2020.

The Company currently plans to continue making regular quarterly dividend payments, subject to future earnings, capital requirements, financial condition, and other factors.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
(All dollars are in thousands, except share amounts, unless otherwise noted)

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.

The following table sets forth the Company's loan assets and debt instruments by rate characteristics:

	As of September 30, 2020		As of December 31, 2019	
	Dollars	Percent	Dollars	Percent
Fixed-rate loan assets	$ 8,632,613	44.2 %	$ 3,647,365	17.5 %
Variable-rate loan assets	10,886,953	55.8	17,151,354	82.5
Total	$ 19,519,566	100.0 %	$ 20,798,719	100.0 %
Fixed-rate debt instruments	$ 979,109	5.0 %	$ 562,203	2.7 %
Variable-rate debt instruments	18,483,288	95.0	20,240,977	97.3
Total	$ 19,462,397	100.0 %	$ 20,803,180	100.0 %

FFELP loans originated prior to April 1, 2006 generally earn interest at the higher of the borrower rate, which is fixed over a period of time, or a floating rate based on the special allowance payment ("SAP") formula set by the Department. The SAP rate is based on an applicable index plus a fixed spread that depends on loan type, origination date, and repayment status. The Company generally finances its student loan portfolio with variable rate debt. In low and/or declining interest rate environments, when the fixed borrower rate is higher than the SAP rate, the Company's student loans earn at a fixed rate while the interest on the variable rate debt typically continues to reflect the low and/or declining interest rates. In these interest rate environments, the Company may earn additional spread income that it refers to as floor income.

Depending on the type of loan and when it was originated, the borrower rate is either fixed to term or is reset to an annual rate each July 1. As a result, for loans where the borrower rate is fixed to term, the Company may earn floor income for an extended period of time, which the Company refers to as fixed rate floor income, and for those loans where the borrower rate is reset annually on July 1, the Company may earn floor income to the next reset date, which the Company refers to as variable rate floor income. All FFELP loans first originated on or after April 1, 2006 effectively earn at the SAP rate, since lenders are required to rebate fixed rate floor income and variable rate floor income for those loans to the Department.

As a result of the significant drop in interest rates in March 2020 and the first half of the second quarter of 2020, the Company earned $4.8 million of variable-rate floor income on approximately $1.4 billion of FFELP loans during the six months ended June 30, 2020. Since the borrower rate reset on July 1, 2020, the Company no longer earns such variable-rate floor income on these loans, reflecting the lower interest rate environment. No variable-rate floor income was earned by the Company in 2019.

A summary of fixed rate floor income earned by the Company follows.

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Fixed rate floor income, gross	$ 36,633	12,685	87,258	33,950
Derivative settlements (a)	(3,588)	7,064	(2,772)	35,931
Fixed rate floor income, net	$ 33,045	19,749	84,486	69,881

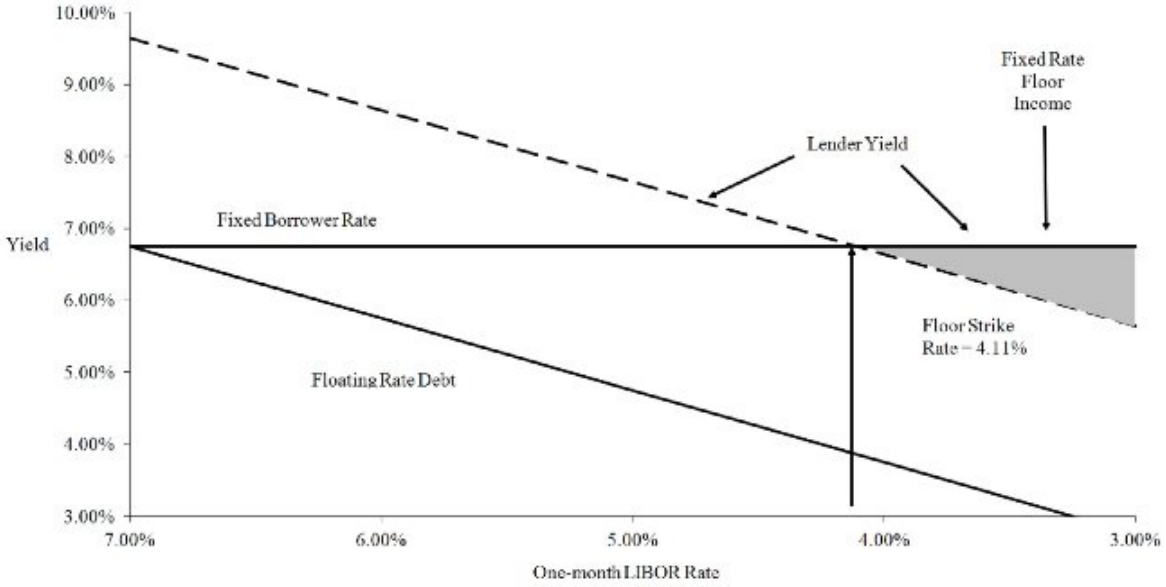
(a) Derivative settlements consist of settlements (paid) received related to the Company's derivatives used to hedge student loans earning fixed rate floor income.

Gross fixed rate floor income increased for the three and nine months ended September 30, 2020 as compared to the same periods in 2019 due to lower interest rates in 2020 as compared to 2019.

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

The decrease in net derivative settlements (paid) received from the floor income interest rate swaps for the three and nine months ended September 30, 2020 as compared to the same periods in 2019 was due to a decrease in the notional amount of derivatives outstanding and a decrease in interest rates.

The following graph depicts fixed rate floor income for a borrower with a fixed rate of 6.75% and a SAP rate of 2.64%:



The following table shows the Company's federally insured student loan assets that were earning fixed rate floor income as of September 30, 2020.

Fixed interest rate range	Borrower/lender weighted average yield	Estimated variable conversion rate (a)	Loan balance
< 3.0%	2.88 %	0.24 %	$ 1,187,724
3.0 - 3.49%	3.19 %	0.55 %	1,492,759
3.5 - 3.99%	3.65 %	1.01 %	1,448,423
4.0 - 4.49%	4.20 %	1.56 %	1,079,025
4.5 - 4.99%	4.71 %	2.07 %	675,545
5.0 - 5.49%	5.22 %	2.58 %	445,530
5.5 - 5.99%	5.67 %	3.03 %	298,883
6.0 - 6.49%	6.19 %	3.55 %	345,881
6.5 - 6.99%	6.70 %	4.06 %	340,012
7.0 - 7.49%	7.17 %	4.53 %	122,688
7.5 - 7.99%	7.71 %	5.07 %	222,253
8.0 - 8.99%	8.18 %	5.54 %	523,747
> 9.0%	9.05 %	6.41 %	202,584
			$ 8,385,054

(a) The estimated variable conversion rate is the estimated short-term interest rate at which loans would convert to a variable rate. As of September 30, 2020, the weighted average estimated variable conversion rate was 1.93% and the short-term interest rate was 17 basis points.

The following table summarizes the outstanding derivative instruments as of September 30, 2020 used by the Company to economically hedge loans earning fixed rate floor income.

Maturity	Notional amount	Weighted average fixed rate paid by the Company (a)(c)
2021	$ 600,000	2.15 %
2022 (b)	500,000	0.94
2023	400,000	1.00
2024	250,000	0.28
	$ 1,750,000	1.28 %

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

(b) $250.0 million of these derivatives have forward effective start dates in June 2021.

(c) Excluding the derivatives with forward effective start dates, the weighted average fixed rate paid by the Company as of September 30, 2020 on its $1.5 billion floor income derivative portfolio was 1.21%.

The Company is also exposed to interest rate risk in the form of basis risk and repricing risk because the interest rate characteristics of the Company's assets do not match the interest rate characteristics of the funding for those assets. The following table presents the Company's FFELP student loan assets and related funding for those assets arranged by underlying indices as of September 30, 2020.

Index	Frequency of variable resets	Assets	Funding of student loan assets
1 month LIBOR (a)	Daily	$ 17,778,799	—
3 month H15 financial commercial paper	Daily	760,997	—
3 month Treasury bill	Daily	605,783	—
1 month LIBOR	Monthly	—	10,580,507
3 month LIBOR (a)	Quarterly	—	6,684,928
Fixed rate	—	—	939,132
Auction-rate (b)	Varies	—	751,675
Asset-backed commercial paper (c)	Varies	—	145,149
Other (d)	—	1,247,145	1,291,333
		$ 20,392,724	20,392,724

(a) The Company has certain basis swaps outstanding in which the Company receives three-month LIBOR and pays one-month LIBOR plus or minus a spread as defined in the agreements (the "1:3 Basis Swaps"). The Company entered into these derivative instruments to better match the interest rate characteristics on its student loan assets and the debt funding such assets. The following table summarizes the 1:3 Basis Swaps outstanding as of September 30, 2020.

Maturity	Notional amount (i)
2021	$ 250,000
2022	2,000,000
2023	750,000
2024	1,750,000
2026	1,150,000
2027	250,000
	$ 6,150,000

(i) The weighted average rate paid by the Company on the 1:3 Basis Swaps as of September 30, 2020 was one-month LIBOR plus 9.1 basis points.

(b) As of September 30, 2020, the Company was sponsor for $751.7 million of outstanding asset-backed securities that were set and provide for interest rates to be periodically reset via a "dutch auction" ("Auction Rate Securities"). Since the auction feature has essentially been inoperable for substantially all auction rate securities since 2008, the Auction Rate Securities generally pay interest to the holder at a maximum rate as defined by the indenture. While these rates will vary, they will generally be based on a spread to LIBOR or Treasury Securities, or the Net Loan Rate as defined in the financing documents.

(c) The interest rates on the Company's warehouse facilities are indexed to asset-backed commercial paper rates.

(d) Assets include accrued interest receivable and restricted cash. Funding represents overcollateralization (equity) and other liabilities included in FFELP asset-backed securitizations and warehouse facilities.

There is significant uncertainty regarding the availability of LIBOR as a benchmark rate after 2021, and any market transition away from the current LIBOR framework could result in significant changes to the interest rate characteristics of the Company's LIBOR-indexed assets and funding for those assets. See Item 1A, "Risk Factors - Loan Portfolio - Interest rate risk - replacement of LIBOR as a benchmark rate" in the Company's 2019 Annual Report.

Sensitivity Analysis

The following tables summarize the effect on the Company's earnings, based upon a sensitivity analysis performed by the Company assuming hypothetical increases in interest rates of 100 basis points and 300 basis points while funding spreads remain constant. In addition, a sensitivity analysis was performed assuming the funding index increases 10 basis points and 30 basis points while holding the asset index constant, if the funding index is different than the asset index. The sensitivity analysis was performed on the Company's variable rate assets (including loans earning fixed rate floor income) and liabilities. The analysis includes the effects of the Company's derivative instruments in existence during these periods.

	Interest rates				Asset and funding index mismatches			
	Change from increase of 100 basis points		Change from increase of 300 basis points		Increase of 10 basis points		Increase of 30 basis points	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
	Three months ended September 30, 2020							
Effect on earnings:								
Decrease in pre-tax net income before impact of derivative settlements	$ (16,328)	(18.1)%	$ (31,947)	(35.4)%	$ (1,737)	(1.9) %	$ (5,212)	(5.7)%
Impact of derivative settlements	2,643	2.9	7,930	8.8	1,546	1.7	4,638	5.1
Increase (decrease) in net income before taxes	$ (13,685)	(15.2)%	$ (24,017)	(26.6)%	$ (191)	(0.2) %	$ (574)	(0.6)%
Increase (decrease) in basic and diluted earnings per share	$ (0.27)		$ (0.47)		$ —		$ (0.01)	
	Three months ended September 30, 2019							
Effect on earnings:								
Decrease in pre-tax net income before impact of derivative settlements	$ (6,119)	(14.6)%	$ (12,330)	(29.4)%	$ (2,343)	(5.6) %	$ (7,029)	(16.7)%
Impact of derivative settlements	6,932	16.5	20,795	49.6	1,613	3.8	4,839	11.5
Increase (decrease) in net income before taxes	$ 813	1.9 %	$ 8,465	20.2 %	$ (730)	(1.8) %	$ (2,190)	(5.2)%
Increase (decrease) in basic and diluted earnings per share	$ 0.02		$ 0.16		$ (0.01)		$ (0.04)	
	Nine months ended September 30, 2020							
Effect on earnings:								
Decrease in pre-tax net income before impact of derivative settlements	$ (42,577)	(28.7)%	$ (79,919)	(53.9)%	$ (5,491)	(3.7) %	$ (16,479)	(11.1)%
Impact of derivative settlements	8,859	6.0	26,577	17.9	4,566	3.1	13,698	9.2
Increase (decrease) in net income before taxes	$ (33,718)	(22.7)%	$ (53,342)	(36.0)%	$ (925)	(0.6) %	$ (2,781)	(1.9)%
Increase (decrease) in basic and diluted earnings per share	$ (0.65)		$ (1.03)		$ (0.02)		$ (0.05)	
	Nine months ended September 30, 2019							
Effect on earnings:								
Decrease in pre-tax net income before impact of derivative settlements	$ (15,042)	(11.9)%	$ (28,881)	(22.9)%	$ (7,343)	(5.8) %	$ (22,028)	(17.5)%
Impact of derivative settlements	23,122	18.4	69,366	55.1	5,167	4.1	15,501	12.3
Increase (decrease) in net income before taxes	$ 8,080	6.5 %	$ 40,485	32.2 %	$ (2,176)	(1.7) %	$ (6,527)	(5.2)%
Increase (decrease) in basic and diluted earnings per share	$ 0.15		$ 0.77		$ (0.04)		$ (0.12)	

Financial Statement Impact – Derivatives

For a table summarizing the effect of derivative instruments in the consolidated statements of income, including the components of "derivative market value adjustments and derivative settlements, net" included in the consolidated statements of income, see note 4 of the notes to consolidated financial statements included under Part I, Item 1 of this report.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company's management, with the participation of the Company's principal executive and principal financial officers, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of September 30, 2020. Based on this evaluation, the Company's principal executive and principal financial officers concluded that the Company's disclosure controls and procedures were effective as of September 30, 2020.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the fiscal quarter ended September 30, 2020 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. The Company has not experienced any material impact to its internal control over financial reporting despite the fact that the majority of its employees are working remotely due to the COVID-19 pandemic. The Company is continually monitoring and assessing the effect of the COVID-19 situation on its internal controls to minimize the impact on their design and operating effectiveness.

Effective January 1, 2020, the Company implemented ASU No. 2016-13, *Financial Instruments - Credit Losses*. As a result, management made the following significant modifications to the Company's internal control over financial reporting environment, including changes to accounting policies and procedures, operational processes, and documentation practices:

(a) Updated written policies and procedures addressing selected methods and policies for developing the allowance for loan losses and determining significant judgments, including the data used; assessment of risk; and identification of significant assumptions in the allowance estimation process.

(b) Developed a process to evaluate whether adjustments to the selected methodology are necessary based on historical information, current economic conditions, and reasonable and supportable forecasts.

(c) Updated documentation for assumptions and data used to develop its loss rates, including evaluation of the relevance and reliability of any external data; amount and timing of expected cash flows; and remaining life of loan methodologies.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There have been no material changes from the information set forth in the Legal Proceedings section of the Company's Annual Report on Form 10-K for the year ended December 31, 2019 under Item 3 of Part I of such Form 10-K.

ITEM 1A. RISK FACTORS

The following risk factors provide supplements and updates to the risk factors described in the Company's Annual Report on Form 10-K for the year ended December 31, 2019 in response to Item 1A of Part I of such Form 10-K, and the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2020 and June 30, 2020 in response to Item 1A of Part II of such Form 10-Q:

The COVID-19 pandemic has adversely impacted our results of operations, and could continue to adversely impact our results of operations, as well as adversely impact our businesses, financial condition, and/or cash flows.

Beginning in March 2020, the coronavirus 2019 or COVID-19 ("COVID-19") pandemic resulted in many businesses and schools closing or reducing hours throughout the U.S. to combat the spread of COVID-19, and states and local jurisdictions implementing various containment efforts, including lockdowns on non-essential business and other business restrictions, stay-at-home orders, and shelter-in-place orders. The COVID-19 pandemic has caused significant disruption to the U.S. and world economies, including significantly higher unemployment and underemployment, significantly lower interest rates, and extreme volatility in the U.S. and world markets. These effects have adversely impacted our results of operations for the nine months ended September 30, 2020, and if these effects continue for a prolonged period or result in sustained economic stress or recession, they could have a material adverse impact on us in a number of ways related to credit, interest rates, operations, and other risks as described in more detail below.

Credit Risks

COVID-19 is having far reaching, negative impacts on individuals, businesses, and, consequently, the overall economy. Specifically, COVID-19 has materially disrupted business operations, resulting in significantly higher levels of unemployment or underemployment. As a result, many individual student and consumer borrowers have experienced financial hardship, making it difficult, if not impossible, to meet loan payment obligations without temporary assistance, and we expect that more borrowers will be similarly affected the longer the COVID-19 pandemic continues. We are monitoring key metrics as early warning indicators of financial hardship, including changes in weekly unemployment claims, enrollment in auto-debit payments, requests for new forbearances, enrollment in hardship payment plans, and early delinquency metrics.

Due to these circumstances, in the first quarter of 2020, we recognized an increase to the expense provision for loan losses of $63.0 million (pre-tax) and an impairment charge on our beneficial interest in consumer loans securitizations of $26.3 million (pre-tax). The increase in the provision for loan losses and impairment expense were based on an evaluation of current and forecasted economic conditions, directly taking into consideration the negative impact of COVID-19 on the U.S. economy. We evaluated and considered several forecasted economic scenarios when making these adjustments. We also considered the characteristics of our loan portfolios and their expected behavior in the forecasted economic scenarios. We update our evaluation of current and forecasted economic conditions each reporting period and adjust our allowance for loan losses as appropriate. If future economic conditions as a result of COVID-19 are significantly worse than what was assumed as a part of these assessments, specifically related to the severity and length of the downturn and the timing and extent of subsequent recovery, it could result in additional allowance for loan losses and impairment charges being recorded in future periods.

Interest Rate Risks

Our net interest income and profitability have been and could further be negatively affected by volatility in interest rates caused by uncertainties stemming from COVID-19. In March 2020, the Federal Reserve lowered the target range for the federal funds rate to a range from 0 to 0.25 percent, citing concerns about the impact of COVID-19 on markets and stress in the energy sector. A prolonged period of extremely volatile and unstable market conditions would likely increase our funding costs and negatively affect market risk mitigation strategies. Higher income volatility from changes in interest rates and spreads to benchmark indices has caused and could cause a loss of net interest income and adverse changes in current fair value measurements of our assets and liabilities. Fluctuations in interest rates have impacted and will continue to impact both the level of income and expense recorded on most of our assets and liabilities and the value of all interest-earning assets and interest-bearing liabilities, which in turn could have a material adverse effect on our net income, operating results, or financial condition.

For example, during the first and second quarters of 2020, we experienced a compression in variable loan spread due to a significant widening of the basis between the asset and debt indices in which we earn interest on our loans and fund such loans. This widening was the result of a significant decrease in interest rates beginning in March 2020 as a result of COVID-19. In a declining interest rate environment, student loan spread is compressed, due to the timing of interest rate resets on our assets occurring daily in contrast to the timing of the interest resets on our debt that occurs either monthly or quarterly. Although such compression is generally expected to be mitigated over time as interest rates on our debt are reset to reflect the lower interest rate environment, interest rate volatility may continue to have an adverse impact on us.

Operational Risks

The majority of our employees have had to move to a work-from-home environment. We have never had to run our operations to such extent remotely for an extended period of time, and it is possible we will encounter significant challenges to running our businesses. Our operations rely on the efficient and secure collection, processing, storage, and transmission of personal, confidential, and other information in a significant number of customer transactions on a continuous basis through our computer systems and networks and those of our third-party service providers. Unanticipated issues arising from handling personal, confidential, and other information from a less efficient work-from-home environment could adversely impact our operations and lead to greater risks for us, including cybersecurity risks.

Beginning in March 2020, schools largely moved to on-line classes for their students. Although many schools moved to on-campus learning beginning with the 2020/2021 academic year, it is uncertain if, and the extent to which, they will have to move back to on-line classes during the academic term if the COVID-19 pandemic increases in severity. The COVID-19 pandemic has and may continue to impact demand for our education technologies, services, and payment processing products and services.

Under the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) signed into law on March 27, 2020, federal student loan payments and interest accruals were suspended on all loans owned by the Department of Education (the “Department”) until September 30, 2020. The Department instructed us and other student loan servicers to apply the benefits of

the law retroactively to March 13, 2020, when the President declared a state of emergency related to COVID-19. On August 8, 2020, the President issued a memorandum extending the CARES Act federal student loan borrower relief provisions until December 31, 2020. We will receive less servicing revenue per borrower based on borrower status through the expiration of these provisions. We currently anticipate revenue per borrower will return to pre-COVID-19 levels in the first quarter 2021. While federal student loan payments are suspended, our operating expenses have been and will continue to be lower due to a significant reduction of borrower statement printing and postage costs. In addition, revenue from the Department for originating consolidation loans was adversely impacted as a result of borrowers receiving relief on their existing loans, thus not initiating a consolidation. We currently anticipate this revenue will continue to be negatively impacted while student loan payments and interest accruals are suspended.

During the second and third quarters of 2020, FFELP, private education, and consumer loan servicing revenue was adversely impacted by the COVID-19 pandemic, due to reduced or eliminated delinquency outreach to borrowers, holds on claim filings, and reduced or eliminated late fees processing. In addition, origination fee revenue was negatively impacted as borrowers are less likely to refinance their loans when they are receiving certain relief measures from their current lender. We currently anticipate this trend will continue in future periods that are impacted by the COVID-19 pandemic, with the magnitude based on the extent to which existing or additional borrower relief policies and activities are implemented or extended by servicing customers.

If the student loan borrower relief provisions of the CARES Act were potentially extended past December 31, 2020 and/or new legislative or regulatory student loan borrower relief measures similar to such provisions of the CARES Act were to become effective, the levels and timing of future servicing revenues could continue to be impacted in a similar manner through the extended period of time that such provisions or measures are in effect.

Although the CARES Act does not apply to our FFELP loans, private education loans, or consumer loans, several states have announced various initiatives to suspend payment obligations for private education loan borrowers in those states, and we are proactively providing relief for our FFELP, private education, and consumer loan borrowers. In addition, there currently are federal legislative proposals that would provide borrower relief with respect to commercially-held FFELP loans, such as our FFELP loans. For example, on October 1, 2020, the U.S. House of Representatives passed an updated version of the previously passed Heroes Act (the "Amended Heroes Act") which would amend the CARES Act to define "federal student loan" to include commercially-held FFELP loans such as our FFELP loans, and require the Department to pay the amount of interest due on the unpaid principal to the holders of commercially-held FFELP loans on a monthly basis. The Amended Heroes Act would also amend the CARES Act to extend suspension of principal payments, no interest accrual, and other benefits for FFELP student loan borrowers through September 30, 2021. There can be no assurance as to whether the Amended Heroes Act or any similar legislative proposal will become law or, if any become law, the nature of any changes to their current provisions or as to the timing of their enactment or implementation. Due to uncertainties regarding, among other things, the duration of the COVID-19 pandemic and any new legislation, regulations, guidance, or widely accepted practices with respect to relief to loan borrowers, we are not able to estimate the ultimate impact that debt relief measures will have on our results of operations.

The CARES Act and other COVID-19-related borrower relief measures have resulted in, and may continue to result in, certain processing and other changes within our loan servicing operations, including the processing of automatic forbearances, special payment instructions, and special credit reporting. Such changes involve additional regulatory and other complexities, uncertainties, and matters of interpretation. In addition, such COVID-19 regulatory measures and associated operational changes increase the risk that noncompliance with applicable laws, regulations, and Consumer Financial Protection Bureau guidance could result in penalties, litigation, reputation damage, and a loss of customers.

Liquidity and Capital Resources

We currently believe our liquidity and capital resources position is strong, and we expect to be able to fund our business operations for the foreseeable future. We also currently plan to continue making regular quarterly dividend payments on our Class A and Class B common stock, subject to future earnings, capital requirements, financial condition, and other factors. However, if circumstances surrounding COVID-19 continue to change in significantly adverse ways and/or if the pandemic continues for an extended period of time, our liquidity and capital resources position could be materially and adversely affected, which could adversely impact our businesses, cash flows (including forecasted cash flows from our asset-backed securitizations), and overall financial condition, and could also result in a reduction, suspension, or discontinuation of quarterly dividend payments on our Class A and Class B common stock.

* * * * *

The extent to which the COVID-19 pandemic impacts our businesses, results of operations, financial condition, and/or cash flows will depend on future developments, which are highly uncertain and largely beyond our control, including, among others: the scope, severity, and duration of the pandemic; the number of our employees, borrowers, customers, and vendors adversely

affected by the pandemic; the impact of the pandemic on schools, student enrollment, and the need for student and consumer loans; the broader public health and economic dislocations resulting from the pandemic; the actions taken by governmental authorities to limit the public health, financial, and economic impacts of the pandemic; any further legislative or regulatory changes that suspend or reduce payments or cancel or discharge obligations for student or consumer loan borrowers; any reputational damage related to the broader reception and perception of our response to the pandemic; and the impact of the pandemic on local, U.S., and world economies. However, as with many other businesses, the impact of the COVID-19 pandemic, or any other pandemic, on our businesses could be material and adverse. To the extent that the COVID-19 pandemic continues to adversely affect the U.S. and world economies and/or adversely affects our businesses, results of operations, financial condition, and/or cash flows, it may also have the effect of increasing the likelihood and/or magnitude of other risks described in the "Risk Factors" section of our 2019 Annual Report on Form 10-K or risks described in our other filings with the Securities and Exchange Commission.

Our largest fee-based customer, the Department of Education, represented 30 percent of our revenue in 2019. Failure to extend the Department contracts or obtain new Department contracts in the Department's NextGen or ISS procurement processes, our inability to consistently surpass competitor performance metrics, or unfavorable contract modifications or interpretations, could significantly lower servicing revenue and hinder future service opportunities.

Our subsidiaries Nelnet Servicing, LLC (“Nelnet Servicing”) and Great Lakes Educational Loan Services, Inc. (“Great Lakes”) are two of four large private sector companies (referred to as Title IV Additional Servicers, or “TIVAS”) that have student loan servicing contracts awarded by the Department in June 2009 to provide additional servicing capacity for loans owned by the Department. The Department also has contracts with approximately 30 not-for-profit (“NFP”) entities to service student loans, although currently four NFP servicers service the volume allocated to these entities. As of September 30, 2020, Nelnet Servicing was servicing $189.9 billion of student loans for 5.6 million borrowers under its contract, and Great Lakes was servicing $249.7 billion of student loans for 7.5 million borrowers under its contract. These contracts represented 30 percent of our revenue in 2019, and for the three and nine months ended September 30, 2020, we recognized a total of $81.6 million and $249.3 million in revenue from the Department under these contracts, respectively.

The current servicing contracts with the Department expire on December 14, 2020 and provide the potential for two additional six-month extensions at the Department’s discretion through December 14, 2021. On October 13, 2020, Nelnet Servicing and Great Lakes received correspondence from the Department indicating the Department's intent to exercise the first additional six-month extension of the current servicing contracts, from December 14, 2020 to approximately June 15, 2021. The correspondence served only as a non-binding notice of intent that does not commit the Department to extend the contracts, and any formal extension of the contracts will occur only upon a unilateral modification by the Department to the contracts.

The Department is conducting a contract procurement process entitled Next Generation Financial Services Environment (“NextGen”) for a new framework for the servicing of all student loans owned by the Department. On January 15, 2019, the Department issued solicitations for various components of NextGen. For the currently existing component of NextGen, we received an unfavorable determination by the Department with respect to our proposal, and contracts were awarded to other parties in June 2020.

On October 28, 2020, the Department issued a new federal loan servicing solicitation for an Interim Servicing Solution ("ISS"). ISS is a follow-on to the existing Title IV Additional Servicing and NFP Servicing contracts, which would award a full system and servicing solution to two providers. Responses for the ISS solicitation are due December 9, 2020. We fully intend to respond to the ISS solicitation.

In the event that our servicing contracts are not extended beyond the current expiration date or we are not chosen as a subsequent servicer, loan servicing revenue would decrease significantly. There are significant risks to us and uncertainties regarding the current Department contracts and potential future Department contracts, including the uncertain nature of the Department's awards of new NextGen contracts to other service providers and the pending and uncertain nature of other components of the NextGen contract procurement process and the ISS contract procurement process, which could be subject to potential delays, cancellations, or material changes to the structure of the contract procurement process; the possibility that new contract awards and evaluations of proposals may be challenged by various interested parties and may not be finalized or implemented within the currently anticipated time frame or at all; risks that we may not be successful in obtaining any new contracts with the Department; and risks and uncertainties as to the terms and requirements under a potential new contract or contracts with the Department. We cannot predict the timing, nature, or ultimate outcome of the Department's NextGen contract procurement process or the ISS solicitation.

New loan volume is currently allocated among the four TIVAS and four NFP servicers based on certain performance metrics established by the Department and compared among all loan servicers in this group. The amount of future allocations of new

loan volume could be negatively impacted if we are unable to consistently surpass comparable competitor and/or other performance metrics.

In the event the current Department servicing contracts become subject to unfavorable modifications or interpretations by the Department, loan servicing revenue could decrease significantly and/or operating costs to perform the contracts could increase significantly. For example, as of January 2020, a change instituted by the Department required enrollment in the Ongoing Security Authorization (OSA) program that requires quarterly control assessments. The OSA program replaced the previous Authority to Operate (ATO) triennial assessment process. Because the OSA program is a novel process, we may encounter unforeseen issues with the Department, including differing interpretations on compliance controls and reporting requirements. Our inability to remediate any such issues to the satisfaction of the Department may cause a temporary or permanent injunction on servicing student loans under the contracts.

Additionally, we are partially dependent on the existing Department contracts to broaden servicing operations with the Department, other federal and state agencies, and commercial clients. The size and importance of these contracts provide us the scale and infrastructure needed to profitably expand into new business opportunities. Failure to extend the Department contracts beyond the current expiration date, or obtain new Department contracts, could significantly hinder future opportunities, as well as result in potential restructuring charges that may be necessary to re-align our cost structure with our servicing operations.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Stock Repurchases

The following table summarizes the repurchases of Class A common stock during the third quarter of 2020 by the Company or any “affiliated purchaser” of the Company, as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934. Certain share repurchases included in the table below were made pursuant to a trading plan adopted by the Company in accordance with Rule 10b5-1 under the Securities Exchange Act of 1934.

Period	Total number of shares purchased (a)	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs (b)	Maximum number of shares that may yet be purchased under the plans or programs (b)
July 1 - July 31, 2020	90,582	$ 49.03	89,087	3,246,732
August 1 - August 31, 2020	104	59.12	—	3,246,732
September 1 - September 30, 2020	2,694	63.40	—	3,246,732
Total	93,380	$ 49.45	89,087	

(a) The total number of shares includes: (i) shares repurchased pursuant to the stock repurchase program discussed in footnote (b) below; and (ii) shares owned and tendered by employees to satisfy tax withholding obligations upon the vesting of restricted shares. Shares of Class A common stock tendered by employees to satisfy tax withholding obligations included 1,495 shares, 104 shares, and 2,694 shares in July, August, and September 2020, respectively. Unless otherwise indicated, shares owned and tendered by employees to satisfy tax withholding obligations were purchased at the closing price of the Company's shares on the date of vesting.

(b) On May 8, 2019, the Company announced that its Board of Directors authorized a stock repurchase program to repurchase up to a total of five million shares of the Company's Class A common stock during the three-year period ending May 7, 2022.

Working capital and dividend restrictions/limitations

The Company's $455.0 million unsecured line of credit, which is available through December 16, 2024, imposes restrictions on the payment of dividends through covenants requiring a minimum consolidated net worth and a minimum level of unencumbered cash, cash equivalent investments, and available borrowing capacity under the line of credit. In addition, trust indentures and other financing agreements governing debt issued by the Company's lending subsidiaries generally have limitations on the amounts of funds that can be transferred to the Company by its subsidiaries through cash dividends at certain times. These provisions do not currently materially limit the Company's ability to pay dividends, and, based on the Company's current financial condition and recent results of operations, the Company does not currently anticipate that these provisions will materially limit the future payment of dividends.

ITEM 6. EXHIBITS

10.1*+	Master Agreement entered into as of October 1, 2020, by and among SDC Allo Holdings, LLC, Nelnet, Inc., and ALLO Communications LLC.
10.2*+	Membership Unit Purchase Agreement, dated as of October 1, 2020, by and among SDC Allo Holdings, LLC, Nelnet, Inc., and ALLO Communications LLC.
10.3*	Omnibus Amendment dated as of October 15, 2020 to the Master Agreement and the Membership Unit Purchase Agreement, by and among SDC Allo Holdings, LLC, Nelnet, Inc., and ALLO Communications LLC.
10.4+	Appendix A, dated July 29, 2020 to Management Agreement dated effective as of October 27, 2015, by and between Union Bank and Trust Company and Whitetail Rock Capital Management, LLC, filed as Exhibit 10.4 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2020 and incorporated herein by reference.
10.5+	Amended Appendix A, dated July 29, 2020 to Management Agreement dated effective as of March 23, 2017, by and between Union Bank and Trust Company and Whitetail Rock Capital Management, LLC, filed as Exhibit 10.5 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2020 and incorporated herein by reference.
10.6+	Management Agreement dated effective as of July 29, 2020, by and between Union Bank and Trust Company and Whitetail Rock Capital Management, LLC, filed as Exhibit 10.6 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2020 and incorporated herein by reference.
10.7	Amendment No. 1 to Second Amended and Restated Credit Agreement dated as of October 1, 2020 among Nelnet, Inc., the various Lenders signatory thereto, and U.S. Bank National Association, as administrative agent for the Lenders, filed as Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on October 2, 2020 and incorporated herein by reference.
31.1*	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of Chief Executive Officer Jeffrey R. Noordhoek.
31.2*	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of Chief Financial Officer James D. Kruger.
32**	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

* Filed herewith

** Furnished herewith

+ Schedules, exhibits, and similar attachments to this exhibit have been omitted pursuant to Item 601(a)(5) of Regulation S-K. The exhibit is not intended to be, and should not be relied upon as, including disclosures regarding any facts and circumstances relating to the registrant or any of its subsidiaries or affiliates. The exhibit contains representations and warranties by the registrant and the other parties that were made only for purposes of the agreement set forth in the exhibit and as of specified dates. The representations, warranties, and covenants in the agreement were made solely for the benefit of the parties to the agreement, may be subject to limitations agreed upon by the contracting parties (including being qualified by confidential disclosures made for the purposes of allocating contractual risk between the parties to the agreement instead of establishing these matters as facts), and may apply contractual standards of materiality or material adverse effect that generally differ from those applicable to investors. In addition, information concerning the subject matter of the representations, warranties, and covenants may change after the date of the agreement, which subsequent information may or may not be fully reflected in the registrant’s public disclosures.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NELNET, INC.

Date:	November 5, 2020	By:	/s/ JEFFREY R. NOORDHOEK
		Name:	Jeffrey R. Noordhoek
		Title:	Chief Executive Officer Principal Executive Officer

Date:	November 5, 2020	By:	/s/ JAMES D. KRUGER
		Name:	James D. Kruger
		Title:	Chief Financial Officer Principal Financial Officer and Principal Accounting Officer

EXHIBIT 10.1

MASTER AGREEMENT

This Master Agreement (the "Master Agreement") is entered into as of the 1st day of October, 2020 (the "Effective Date"), by and among SDC Allo Holdings, LLC, a Delaware limited liability company (the "Buyer"), Nelnet, Inc., a Nebraska corporation ("Nelnet"), and ALLO Communications LLC, a Nebraska limited liability company (the "Company").

RECITALS

A. Nelnet, the Buyer, and the Company (or some combination thereof) desire to enter into various agreements and consummate various transactions pursuant to such agreements as described in this Master Agreement; and

B. The parties to this Master Agreement wish to assemble in this Master Agreement, in a single document, references to substantially all related agreements and transactions contemplated by such parties.

NOW, THEREFORE, in consideration of the foregoing premises and in consideration of and in reliance upon the representations, warranties and obligations in this Master Agreement, the parties agree as follows:

ARTICLE I.
RELATED TRANSACTION DOCUMENTS

1.1 Identity and Listing of Related Transaction Documents. The Buyer, Nelnet and the Company, or some combination thereof, intend to execute, deliver and perform their respective obligations under the following agreements, documents and instruments (collectively, the "Related Transaction Documents") in accordance with and subject to the terms and conditions set forth therein:

a. Membership Unit Purchase Agreement, dated as of the Effective Date (the "MUPA"), by and between the Buyer, Nelnet and the Company, with respect to the issuance and sale by the Company to the Buyer of certain Class E Membership Units issued by the Company, a copy of which is attached hereto as Exhibit "A";

b. Subscription Agreement, dated as of the Closing Date (as defined in the MUPA) (the "Subscription Agreement"), by and between the Company and the Buyer, with respect to issuance of and subscription for the Class E Membership Units to be issued by the Company and purchased by the Buyer, a copy of which is attached hereto as Exhibit "B," pursuant to the MUPA;

c. Initial Class D Membership Unit Redemption Agreement, dated as of the Effective Date (the "Initial Redemption Agreement"), by and between Nelnet and the Company, with respect to the redemption by the Company from Nelnet of certain Class D Membership Units issued by the Company, a copy of which is attached hereto as Exhibit "C";

d. Ninth Amended and Restated Operating Agreement, dated as of the Closing Date (the "Post-Closing Operating Agreement"), by and among the Buyer, Nelnet, the other members of the Company, and the Company, with respect to amendment and restatement of the Company's operating agreement, a copy of which is attached hereto as Exhibit "D";

e. Contingent Payment Agreement, dated as of the Effective Date (the "Contingent Payment Agreement"), by and between Nelnet and the Buyer, with respect to a contingent obligation to make a payment by Nelnet to the Buyer if certain events occur, a copy of which is attached hereto as Exhibit "E";

f. The Secondary Class D Membership Unit Redemption Agreement, dated as of the Effective Date (the "Secondary Redemption Agreement"), by and between Nelnet and the Company, with respect to redemption by the Company from Nelnet of the balance of Class D Membership Units following consummation of the Initial Redemption Agreement, a copy of which is attached hereto as Exhibit "F";

g. All agreements and documentation to be entered into by the Company related to the Company's undertaking and incurrence of the Third-Party Debt (as defined in the Contingent Payment Agreement), providing for gross proceeds (which shall be net of any debt financing fees and related expenses) in the aggregate amount of $140,000,000 (or such other amount as may be mutually agreed by the parties hereto), by and among, inter alia, the Company and the lender(s) party thereto, on terms substantially consistent with Schedule 8.12 of the Disclosure Schedules to the MUPA with such additions and modifications thereto as may be mutually agreed to by the Buyer and Nelnet (such approval not to be unreasonably withheld, conditioned or delayed);

h. This Master Agreement; and

i. Such other agreements, documents and instruments as may be required in accordance with and pursuant to the agreements described in paragraphs (a) through (h) above.

ARTICLE II
BIFURCATION OF INITIAL TRANSACTIONS AND SECONDARY TRANSACTIONS

2.1 Initial Transactions. The parties to this Master Agreement shall use commercially reasonable efforts to accomplish the following summarized transactions (collectively, the "Initial Transactions") as soon as practicable, subject to the timing provisions set forth in the Related Transaction Documents, and all in accordance with and pursuant to the terms and provisions set forth in the applicable Related Transaction Documents:

a. Sale by the Company of certain Class E Membership Units in the Company, to be issued by the Company on the Closing Date to the Buyer for an aggregate sale and purchase price of $197,000,000.00, as set forth in the MUPA and the Subscription Agreement;

b. Execution and delivery of the Post-Closing Operating Agreement by all of the parties thereto;

c. Consummation of the Third-Party Debt;

d. Upon consummation of the series of transactions as described in Section 2.1(a) and (b) above, the redemption by the Company of a portion of Nelnet's Class D Membership Units, including the accrued and unpaid Class D Preferred Return) (as defined in the Post-Closing Operating Agreement) thereon, for a redemption price of $160,000,000.00, to be paid by the Company to Nelnet, as set forth in the Initial Redemption Agreement; and

e. Upon consummation of the series of transactions as described in Section 2.1(a), (b) and (c) above, the redemption by the Company of a portion of Nelnet's Class D Membership Units, including the accrued and unpaid Class D Preferred Return (as defined in the Post-Closing Operating Agreement) thereon, for a redemption price of $140,000,000.00, to be paid by the Company to Nelnet, as set forth in the Initial Redemption Agreement; *provided*, that to the extent the gross proceeds of the Third-Party Debt received by the Company is less than $140,000,000.00, the redemption price pursuant to the Initial Redemption Agreement (including a corresponding number of Nelnet's Class D Membership Units) shall be reduced on a dollar for dollar basis equal to the excess of $140,000,000 over the amount of the gross proceeds of the Third-Party Debt actually received by the Company.

2.2 Secondary Transactions. Subsequent to closing of the Initial Transactions, the parties to this Master Agreement shall use commercially reasonable efforts (which shall not include requiring the Company to raise any additional equity or sell any assets) to accomplish the following transactions (collectively, the "Secondary Transactions") subject to the deferred timing provisions set forth in the applicable Related Transaction Documents, and all in accordance with and pursuant to the terms and provisions set forth in the applicable Related Transaction Documents:

a. Redemption, on or before the three and one-half year anniversary of the date of consummation of the redemption contemplated by Initial Redemption Agreement (it being understood that such timing is subject to adjustment), by the Company of the remaining balance of Nelnet's outstanding Class D Membership Units in the Company in accordance with the terms of the Secondary Redemption Agreement.

b. Performance of the Contingent Payment Agreement in accordance with its terms.

2.3 Class D Membership Unit Preferred Redemptions. Notwithstanding the Secondary Redemption Agreement, to the extent the parties hereto mutually agree, the Company shall be permitted to redeem Nelnet's Class D Membership Units in multiple tranches at different times.

ARTICLE III
MISCELLANEOUS AND CONSTRUCTION

3.1 Notices. All notices shall be in writing delivered as follows:

a. If to the Company:

ALLO Communications LLC
Attention: Bradley Moline
330 South 21st Street
Lincoln, Nebraska 68510
Email: bmoline@allophone.net

with a copy to:

Nelnet, Inc.
Attention: Legal Department
121 South 13th Street, Suite 100
Lincoln, NE 68508
Email: mark.pence@nelnet.net

and a copy to:

Daniel F. Kaplan
Perry, Guthery, Haase
& Gessford, P.C., L.L.O.
233 South 13th Street, Suite 1400
Lincoln, Nebraska 68508
Email: dkaplan@perrylawfirm.com

b. If to the Buyer:

c/o SDC Capital Partners, LLC
817 Broadway, 10th Floor
New York, New York 10003
Attn: Todd M. Aaron
Email: TAaron@sdccapitalpartners.com

with a copy to:

Skadden, Arps, Slate, Meagher & Flom LLP
One Manhattan West
New York, New York 10001
Attn: Thomas W. Greenberg, Esq.
Email: thomas.greenberg@skadden.com

c. If to Nelnet:

Nelnet, Inc.
Attention: Legal Department
121 South 13th Street, Suite 100
Lincoln, NE 68508
Email: terry.heimes@nelnet.net

with a copy to:

Nelnet, Inc.
Attention: Legal Department
121 South 13th Street, Suite 100
Lincoln, NE 68508
Email: bill.munn@nelnet.net

and a copy to:

Daniel F. Kaplan
Perry, Guthery, Haase
& Gessford, P.C., L.L.O.
233 South 13th Street, Suite 1400
Lincoln, Nebraska 68508
Email: dkaplan@perrylawfirm.com

or to such other address as may have been designated in a prior notice. All notices and other communications given or made pursuant to this Master Agreement shall be in writing and shall be deemed effectively given upon the earlier of actual receipt, or (a) personal delivery to the party to be notified, (b) when transmitted via electronic mail, *provided*, that the sender on the same day sends a confirming copy of such notice by a recognized overnight delivery service (charges prepaid), (c) five (5) days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (d) one (1) business day after deposit with a nationally recognized overnight courier, freight prepaid, specifying next business day delivery, with written verification of receipt.

3.2 Assignment; Binding Effect. This Master Agreement may not be assigned by any party without the prior written consent of all other parties hereto, except that the Buyer may assign all or any of its rights (but not obligations) hereunder to any Affiliate of the Buyer; *provided*, *however*, that no such assignment shall relieve the Buyer of its obligations hereunder. Any purported assignment in violation of the foregoing shall be null and void and of no force or effect. Except as may be otherwise provided herein, this Master Agreement will be binding upon and inure to the benefit of the parties and their respective successors and permitted assigns. Except as otherwise provided in this Master Agreement, nothing in this Master Agreement is

intended or will be construed to confer on any person or entity other than the parties any rights or benefits hereunder.

3.3 Counterparts. This Master Agreement may be executed in multiple counterparts, each of which will be deemed an original, and all of which together will constitute one and the same document.

3.4 Construction. The language used in this Master Agreement will be deemed to be the language chosen by the parties hereto to express their mutual intent, and no rule of strict construction will be applied against any party. This Master Agreement shall be construed to be valid and enforceable to the full extent allowed by law. It is agreed that if any part, term or provision of this Master Agreement is determined to be illegal, unenforceable or in conflict with applicable law, the validity of the remaining terms and provisions shall not be affected, and the rights and obligations of the parties shall be construed and enforced as if the Master Agreement did not contain the term of provision held to be invalid.

3.5 Modification. No supplement, modification or amendment of this Master Agreement will be binding unless made in a written instrument which is signed by all parties and which specifically refers to this Agreement.

3.6 Governing Law; Venue; Waiver of Jury Trial. This Master Agreement and the rights and obligations of the parties hereunder shall be construed in accordance with and be governed by the laws of the State of Delaware without regard to any otherwise applicable principles of conflicts of law. Each party agrees that venue for any action or proceeding commenced in connection with this Master Agreement shall be proper in the state of organization or residence of the party against which such action or proceeding is initiated or filed, and waives any objection to such venue. EACH PARTY HEREBY ACKNOWLEDGES AND AGREES THAT ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION THAT MAY ARISE UNDER, OR RELATING TO THIS MASTER AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREIN IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES, AND THEREFORE IT HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES ALL RIGHTS IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION (WHETHER BASED ON CONTRACT, TORT OR OTHERWISE) DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS MASTER AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREIN OR THE FACTS OR CIRCUMSTANCES LEADING TO ITS EXECUTION OR PERFORMANCE. EACH PARTY CERTIFIES AND ACKNOWLEDGES THAT (i) NO PARTY OR REPRESENTATIVE OR AFFILIATE THEREOF HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER; (ii) IT UNDERSTANDS AND HAS CONSIDERED THE IMPLICATIONS OF SUCH WAIVER; (iii) IT MAKES SUCH WAIVER KNOWINGLY AND VOLUNTARILY AND (iv) IT HAS BEEN INDUCED TO ENTER INTO THIS MASTER AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS CONTAINED IN THIS PARAGRAPH.

3.7 Conflicts. In the event of any conflict between the terms set forth in this Master Agreement, on the one hand, and any of the other Related Transaction Documents, on the other hand, the terms as set forth in the respective Related Transaction Documents shall control; *provided*, that the obligations under this Master Agreement shall not create any further obligations on the parties hereto beyond those contained in the Related Transaction Documents, subject to the terms and conditions therein, with respect to (i) any of the matters set forth herein or (ii) any of the transactions contemplated by the Related Transaction Documents.

3.8 Entire Agreement. This Master Agreement and the agreements and documents referred to in this Master Agreement or delivered hereunder (including without limitation the Related Transaction Documents) are the exclusive statement of the agreement between the parties concerning the subject matter hereof. All negotiations between the parties are merged into this Master Agreement, and there are no representations, warranties, covenants, understandings or agreements, oral or otherwise, in relation thereto between the parties other than those incorporated herein and to be delivered hereunder. This Master Agreement shall specifically supersede any prior negotiations, understandings or agreements among any of Nelnet, the Company and/or SDC Capital Partners, LLC (or its affiliates) including, without limitation, the letter with respect to exclusive negotiations executed by Nelnet and SDC Capital Partners, LLC and dated as of July 20, 2020.

3.9 Severability. Whenever possible, each provision of this Master Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Master Agreement is held to be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Master Agreement.

[Remainder of page intentionally left blank.]

INTENDING TO BE LEGALLY BOUND, the parties have signed this Master Agreement as of the date first above written.

COMPANY:

ALLO COMMUNICATIONS LLC

By: /s/ WILLIAM MUNN

Name: William Munn

Title: Secretary

[Signature Page of Master Agreement]

BUYER:

SDC ALLO HOLDINGS, LLC

By: SDC Digital Infrastructure Opportunity Fund II, L.P., as Sole Member

By: SDC DIOF II GP, LLC, as General Partner

By: SDC GP Manager, LLC, as Managing Member

By: /s/ TODD AARON

Name: Todd Aaron

Title: Authorized Person

[Signature Page of Master Agreement]

NELNET:

NELNET, INC.

By: /s/ WILLIAM MUNN

Name: William Munn

Title: Secretary

[Signature Page of Master Agreement]

EXHIBIT 10.2

MEMBERSHIP UNIT PURCHASE AGREEMENT

BY AND AMONG

SDC ALLO HOLDINGS, LLC,

NELNET, INC.

AND

ALLO COMMUNICATIONS LLC

DATED AS OF OCTOBER 1, 2020

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INDEMNIFICATION

ARTICLE X

MISCELLANEOUS AND CONSTRUCTION

MEMBERSHIP UNIT PURCHASE AGREEMENT

This Membership Unit Purchase Agreement (the "Agreement") is entered into as of the 1st day of October, 2020, by and among SDC Allo Holdings, LLC, a Delaware limited liability company (the "Buyer"), ALLO Communications LLC, a Nebraska limited liability company (the "Company"), and Nelnet, Inc., a Nebraska corporation ("Nelnet").

RECITALS

A. The Company desires to issue and sell to the Buyer and the Buyer desires to purchase from the Company, upon the terms and conditions hereinafter set forth, an aggregate number and class of equity membership units (the "Membership Units") set forth opposite the Buyer's name on Schedule 2.1 attached hereto to be issued by the Company at the Closing (as defined below); and

B. The Company, the Buyer and Nelnet have entered into that certain Master Agreement dated as of even date with this Agreement (the "Master Agreement") setting forth the various related covenants and agreements of the respective parties thereto, of which this Agreement constitutes a part.

NOW, THEREFORE, in consideration of the foregoing premises and in consideration of and in reliance upon the representations, warranties and obligations in this Agreement, the parties agree as follows:

ARTICLE I
DEFINITIONS

1.1 Definitions. When used in this Agreement, the following terms in all of their tenses and cases will have the meanings assigned to them below or elsewhere in this Agreement as indicated below:

"Actions" means civil, criminal or administrative actions, suits, claims, oppositions, disputes, litigations, objections, hearings, arbitrations, mediations, investigations, audit, complaint, charge, governmental inquiry or other proceedings, in each case, brought, conducted or heard by or before, or otherwise involving, any court or other Governmental Authority or any arbitrator or arbitration panel.

"Affiliate" of any Person means any other Person that directly or indirectly controls, is controlled by, or is under common control with, any such Person and any officer, director or controlling person of such Person.

"Agreement" is defined in the preamble of this Agreement.

"Basket Amount" is defined in Section 9.4(a).

"Benefit Plans" is defined in Section 4.12(a).

"Books and Records" means all books and records of the Company relating to the Company's business and properties, including, but not limited to, (i) all books and records relating to the purchase of materials and supplies, sales of products, dealings with customers, invoices, suppliers' lists and personnel records, (ii) all Contracts, reports, opinions, maps and other documents affecting the title to or the value of the properties of the Company, (iii) Tax Returns, and (iv) all financial and operating data, files and other information with respect to the Company's business and properties.

"Business Day" means a day other than a Saturday, Sunday, or other day on which commercial banks in the City of New York are authorized or required to close.

"Buyer" is defined in the preamble of this Agreement.

"Buyer Fundamental Representations" means each of the representations and warranties of the Buyer made in Sections 5.1, 5.2 and 5.3.

"Buyer Indemnified Parties" is defined in Section 8.8(a).

"Cable Act" means Title VI of the Communications Act and the rules and regulations promulgated and published orders and decisions issued by the FCC thereunder.

"Cable System" means a cable system, as such term is defined in 47 U.S.C. § 522(7).

"Closing" and "Closing Date" are defined in Section 7.1.

"Code" means the Internal Revenue Code of 1986, as amended.

"Communications Act" means the Communications Act of 1934, as amended, and the rules, regulations and published policies, procedures, orders and decisions of the FCC promulgated thereunder;

"Communications Laws" means (i) the Communications Act; (ii) state statutes governing intrastate telecommunications services and/or facilities and the rules, regulations, and published policies, procedures, orders and decisions of any applicable State PSC; and (iii) any Laws of any other Governmental Authority directly regulating or overseeing communications facilities or communications services, including, but not limited to, Laws relating to the occupancy or use of any public rights-of-way.

"Communications Licenses" is defined in Section 4.23(a).

"Company" is defined in the preamble of this Agreement.

"Company Fundamental Representations" means each of the representations and warranties of the Company made in Sections: 4.1; 4.2(a); 4.4(a), (b), (c) and (f); 4.5 (but only the first and third sentences thereof), and 4.16.

"Company Indemnified Parties" is defined in Section 9.3.

"Company's Knowledge" means the knowledge of Bradley Moline, Nate Buhrman and Terry J. Heimes, Todd Heyne, Allison O'Neil, Mark Pence and William Munn, following due inquiry of their direct reports, as to a particular fact or matter; *provided*, that the fact that any Person is included herein shall not operate as a waiver of any applicable legal privilege or protection.

"Company Real Property" means any real property and improvements at any time owned, leased, subleased, used, operated or occupied (whether for storage, disposal or otherwise) by the Company.

"Consents" is defined in Section 8.9.

"Contract" means, whether written or oral, any contract, agreement, subcontract, settlement agreement, lease, sublease, instrument, note, option, bond, mortgage, indenture, trust document, loan or credit agreement, license, sublicense or other commitment, obligation, arrangement or understanding which is legally binding upon the parties thereto.

"Disguised Sale Proceeds" is defined in Section 8.8(h).

"Equity Commitment Letter" means the letter agreement, dated the date hereof, between the Buyer and SDC Digital Infrastructure Opportunity Fund II, L.P., a copy of which has been delivered to Nelnet concurrently with the execution hereof.

"ERISA" is defined in Section 4.12(a).

"Existing Members" means, collectively, any Person that owns Membership Units of the Company immediately prior to the Closing Date, in their capacity as members of the Company.

"FCC" means the Federal Communications Commission.

"Financial Statements" is defined in Section 4.14.

"Financing Regulatory Consents" is defined in Section 8.10(b).

"Franchise" means any franchise agreement, Permit or ordinance, and any amendment, modification or renewal thereof, granted or issued by a Governmental Authority, which is necessary or required to authorize the construction and operation of voice, video or data systems utilizing public rights-of-way.

"Fund Administrator" means the entity that administers a state or the federal Universal Service Fund, state or federal telecommunications relay service fund, the North American Numbering Plan, or number portability.

"Fundamental Fiber Network Representations" means those representations set forth in Sections 4.25(b) and (e) hereof.

"GAAP" means United States generally accepted accounting principles, applied consistently with historical practices.

"Governmental Authority" means any federal, provincial, municipal, state, regional or local authority, agency, body, court or instrumentality, regulatory or otherwise, domestic or foreign, or any political subdivision of the foregoing, or any entity, authority, agency, ministry or other similar body exercising executive, legislative, judicial, regulatory or administrative authority or functions of or pertaining to government, including any authority or other quasi-governmental entity established to perform any of such functions.

"Indebtedness" means with respect to any Person (other than trade payables and similar current Liabilities incurred or arising in the Ordinary Course of Business of such Person), without duplication, (a) all obligations of such Person for borrowed money or advances of any kind, (b) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (c) all obligations of such Person upon which interest charges are customarily paid (other than trade payables and other current Liabilities incurred or arising in the Ordinary Course of Business), (d) all obligations of such Person under conditional sale or other title retention agreements relating to tangible property or assets purchased by such Person, (e) all obligations of such Person issued or assumed as the deferred purchase price of property or services (other than Leases, current trade payables and other current Liabilities incurred or arising in the Ordinary Course of Business), (f) all Indebtedness of others secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on property owned or acquired by such Person, whether or not the obligations secured thereby have been assumed, (g) all guarantees by such Person of Indebtedness of others, (h) all capital lease obligations of such Person, (i) all payment obligations of such Person under any interest rate protection agreements, forward contract, foreign currency hedge or other hedging or similar agreements to the extent constituting a liability under GAAP and (j) any other obligation that in accordance with GAAP is required to be reflected as debt on the balance sheet of such Person (other than trade payables and current accruals incurred in the Ordinary Course of Business).

"Indemnified Person" is defined in Section 9.5(a).

"Indemnified Taxes" means (a) any and all Taxes of the Company attributable to any Pre-Closing Tax Period (as determined under Section 8.8(b)); (b) any and all Taxes of any member of an affiliated, consolidated, combined, or unitary group of which the Company (or any predecessor) is or was a member on or prior to the Closing Date, including pursuant to Treas. Regs. §1.1502-6 or any analogous or similar state, local, or foreign Laws; (c) any and all Taxes of any Person (other than the Company) imposed on the Company as a transferee or successor, by contract or pursuant to any Laws, which Taxes relate to an event or transaction occurring prior to the Closing Date; (d) any and all withholding, payroll, social security, unemployment or similar Taxes attributable to any payments that are contingent upon or payable as a result of the transactions contemplated by the Related Transaction Documents; (e) any and all Taxes imposed with respect to any breach or inaccuracy of the representations and warranties made by the Company in Section 4.11 hereof; (f) any and all Taxes imposed with respect to any breach or nonperformance of any covenant or agreement on the part of Nelnet set forth in Section 8.8 hereof; (g) any payment made by the Company to any Governmental Authority or any other

Person pursuant to any Tax sharing, Tax indemnification or Tax allocation agreement or arrangement to which the Company was or is a party on or prior to the Closing Date (other than agreements entered into in the ordinary course of business the principal purpose of which is not Taxes); and (h) any transfer documentary, sales, use, stamp, registration and other such Taxes, and all conveyance fees, recording charges and other fees and charges incurred in connection with the transactions contemplated by the Related Transaction Documents.

"Indemnitor" is defined in Section 9.5(a).

"Intellectual Property" is defined in Section 4.3.

"Latest Balance Sheet" is defined in Section 4.14.

"Law" means any common law and any federal, provincial, municipal, state, regional, local or foreign law, bylaw, rule, statute, ordinance, order or regulation.

"Leased Real Property" is defined in Section 4.19(b).

"Leases" is defined in Section 4.19(b).

"Liabilities" means responsibilities, obligations, duties, commitments, claims and liabilities of any and every kind, whether known or unknown, accrued, absolute, contingent or otherwise.

"Lien" means any security interest, mortgage, deed of trust, hypothecation, lien, charge, easement, adverse claim, encumbrance, limitation, option, pledge, assignment, lease, sublease, license, encroachment, claim, restrictive covenant, restriction on transfer, preemptive purchase right, right of first offer or refusal, right of use, right-of-way, conditional sale, warrant or any title defect or restriction of any kind.

"Losses" means any and all claims, damages, fines, expenses, losses, penalties and Liabilities whenever arising or incurred, which arise under and are required by any applicable Law (including amounts paid in settlement, costs of investigation and reasonable attorneys' fees and expenses); *provided, however*, that the term "Losses" shall exclude (i) any punitive or exemplary damages, except to the extent that such damages are payable to a party other than the Person being indemnified hereunder and (ii) any consequential, special or indirect damages, except to the extent that such damages are (x) payable to a party other than the Person indemnified hereunder or (y) the reasonably foreseeable result of an indemnifiable matter hereunder.

"Master Agreement" is defined in Recital (B) of this Agreement.

"Material Adverse Effect" means any fact, circumstance, event, development, condition, change, effect or occurrence that, individually or in the aggregate, (i) has had, or would reasonably be expected to have, a material adverse effect on the business, assets, Liabilities, capitalization, operations (including results of operations), condition (financial or otherwise) or prospects of the Company or (ii) has had, or would reasonably be expected to have, a material

adverse effect on the ability of the Company or Nelnet to consummate the transactions contemplated hereby in accordance with the terms hereof, but in the case of clause (i) shall exclude any change, effect or occurrence to the extent arising or resulting from: (a) any change in general business or economic conditions, or in the industries or markets in which the Company operates, (b) acts of war, sabotage, terrorism, military actions, or escalations thereof, (c) any change in financial, banking or securities markets (including any disruption thereof and any decline in the price of any security or any market index), (d) changes in accounting rules or principles, including GAAP, (e) any change in Law, (f) the announcement of the transactions contemplated by this Agreement, or (g) the taking of any action required by this Agreement, the Master Agreement and the other agreements contemplated hereby and thereby (*provided* that the exceptions in clauses (f) and (g) shall not apply to Section 4.2); *provided, further,* that, in the case of the foregoing clauses (a), (b), (c), (d) and (e), except to the extent such fact, circumstance, event, development, condition, change, effect or occurrence disproportionately affects the Company relative to other businesses in the industries or markets in which the Company operates.

"Material Contracts" is defined in Section 4.6.

"Membership Units" is defined in Recital (A) of this Agreement.

"Nelnet" is defined in the preamble of this Agreement.

"Nelnet Indemnified Parties" is defined in Section 9.3.

"Ordinary Course of Business" means, with respect to any action, an action taken by a Person only if such action is consistent with the past practices of such Person and is taken in the ordinary course of the normal day-to-day operations of such Person.

"Owned Real Property" is defined in Section 4.19(a).

"Partnership Representative" is defined in Section 8.8(c)(2).

"Permit" means all approvals, agreements, authorizations, permits, licenses, easements, orders, certificates, registrations, franchises, qualifications, rulings, waivers, variances or other form of permission, consent, exemption or authority issued, granted, given or otherwise made available by or under the authority of any Governmental Authority.

"Permitted Liens" means any of the following Liens: (a) Liens for current taxes and other governmental charges that are not yet due and payable, (b) Liens for Taxes the non-payment of which is being contested in good faith by appropriate proceedings; *provided* that adequate reserves therefor shall have been set aside on the books of the Company in accordance with GAAP, (c) Liens of carriers, warehousemen, mechanics, laborers, and materialmen and other similar statutory Liens incurred in the Ordinary Course of Business in respect of obligations that are not overdue and are fully and properly reserved for on the Latest Balance Sheet, (d) Liens incurred in the Ordinary Course of Business in connection with worker's compensation and unemployment insurance or similar laws, (e) statutory landlords' Liens, (f) with respect to real property, easements, restrictions, reservations, Contracts and other matters of record to the extent they do not, and are not reasonably expected to, individually or in the aggregate, materially detract from the use and enjoyment of such real property as such property is used in the Ordinary

Course of Business, (g) encumbrances that are minor or technical defects in title to the extent they do not, individually or in the aggregate, materially detract from the use and enjoyment of the affected property as such property is used in the Ordinary Course of Business, (h) restrictions set forth in, or rights granted to a Governmental Authority in, a Franchise, (i) any interest or title of a lessor under an operating lease or capitalized lease or of any licensor under a software or other license agreement, (j) any restriction imposed by or created in the Transfer Restrictions, (k) leases or subleases of the Company Real Property to third parties, to the extent listed on Schedule 4.19(d); and (l) Liens made in the Ordinary Course of Business of the Company to secure any immaterial Indebtedness of the Company.

"Person" means any individual, corporation, partnership, limited liability company, association, trust, joint venture or any other entity or organization.

"Physical Network" means the Physical Network Equipment, the Physical Network Fiber, the Physical Network Property and other network facilities that comprise the physical network, including fiber optic and other fixed wired and wireless network-related assets and telecommunications and cable equipment used by the Company to carry out its businesses as presently conducted, whether owned, leased or licensed by the Company and irrespective of whether they are located on public or private property, including, but not limited to, wires, cables, conduits, poles, antennas, transmission equipment, junction boxes, manholes, hand holes, connecting equipment and electronics.

"Physical Network Fiber" means the fiber optic strands owned by the Company or in which the Company holds an ownership leasehold, license or IRU interest.

"Physical Network Equipment" means all of the telecommunications and equipment owned or used by the Company to provide telecommunications, information services or other video services on or over the Physical Network.

"Physical Network Property" is defined in Section 4.25(d).

"Post-Closing Operating Agreement" is defined in Section 7.2(g).

"Post-Closing Operating Agreement Approvals" means those approvals listed on Schedule B to the Post-Closing Operating Agreement.

"Pre-Closing Operating Agreement" means the Eighth Amended and Restated Operating Agreement of the Company dated as of September 30, 2018.

"Pre-Closing Tax Period" means any taxable period ending on or prior to the Closing Date or that portion of any Straddle Period ending on the Closing Date.

"Programming Agreement" means a Contract relating to the distribution of programming on video distribution networks, including retransmission consent agreements.

"Purchase Price" is defined in Section 3.1.

"Purchased Equity Interests" is defined in Section 2.1.

"Regulatory Consents" means the Transaction Regulatory Consents and the Financing Regulatory Consents.

"Regulatory Payments" means the amounts necessary to satisfy any billed or unbilled regulatory fees, assessments, fines, penalties, forfeitures, contributions, including Universal Service Contributions, or other payments assessed by or otherwise owed to the FCC, any State PSC, and the Fund Administrators or their agents, based upon the revenues of the Company.

"Related Transaction Documents" means, collectively, the agreements, instruments and documents, to be executed and delivered in connection with the transactions contemplated by this Agreement and the Master Agreement.

"Second Amended and Restated Credit Agreement" means the Second Amended and Restated Credit Agreement, dated as of December 16, 2019, among Nelnet, Inc., U.S. Bank National Association, as Administrative Agent, Wells Fargo Bank, National Association, as Syndication Agent, Citibank, N.A. and Royal Bank of Canada, as Co-Documentation Agents, U.S. Bank National Association and Wells Fargo Securities, LLC, as Joint Lead Arrangers and Joint Book Runners, and various lender parties thereto

"Securities Act" means the Securities Act of 1933, as amended.

"Separation" is defined in Section 8.2(a).

"Separation Costs" is defined in Section 8.2(b).

"Separation Plan" is defined in Section 8.2(a).

"State PSC" means a state public service or public utility commission, or other similar state regulatory body.

"Straddle Period" means any taxable period that includes, but does not end on, the Closing Date.

"Subsidiaries" means any majority or wholly owned subsidiary of the Company created prior to Closing.

"Systems" means the fiber, cable television, video, telecommunications and data reception and distribution systems owned, operated or used by the Company in the conduct of the fiber, copper wire, cable television, video, telecommunications, and internet businesses and all of the activities and operations ancillary to such businesses, including advertising services and other income-generating businesses, conducted or carried on in the their service territories.

"Tax" or "Taxes" means (i) any and every federal, state, local or foreign tax with respect to income, accumulated earnings, franchise, capital, employees' income withholding, back-up withholding, withholding on payments to foreign persons, social security, unemployment,

disability, real property, personal property, sales, use, excise, occupation, transfer or any other taxes, duties, charges, fees (including 911 fees and surcharges) or levies of any nature imposed by any Taxing Authority or other Governmental Authority, (ii) any Liability for the payment of amounts determined by reference to amounts described in the preceding clause (i) as a result of being or having been a member of any group of corporations that files, will file, or has filed Tax Returns on a combined, consolidated or unitary basis, as a result of any obligation under any agreement or arrangement (including any tax sharing arrangement), as a result of being a transferee or successor, or by Contract or otherwise, and (iii) any escheatment obligation and all interest, penalties and other additions to tax imposed by any Governmental Authority in respect of any of the amounts set forth in the preceding clauses (i) through (iii).

"Tax Audit" means any audit, assessment, claim, levy, proceeding or other examination relating to Taxes by any Governmental Authority, or the appeal of any of the foregoing.

"Tax Return" means any and all returns, reports or similar statements and claims for refunds (including elections, declarations, disclosures, schedules, estimates and information returns) required to be supplied to a Taxing Authority relating to Taxes and, in each case, any amendments thereto.

"Third Party Claim" is defined in Section 9.5(a).

"Transaction Regulatory Consents" is defined in Section 8.10(a).

"Transition Services Agreement" means the transition services agreement attached hereto as Exhibit A by and between the Company and Nelnet to be effective as of the Closing.

"Transfer Restrictions" means (a) transfer restrictions under applicable federal or state securities laws, or (b) transfer or other restrictions under the Pre-Closing Operating Agreement or the Post-Closing Operating Agreement, as applicable.

"Unaudited Interim Financial Statements" is defined in Section 4.14.

"Universal Service Contributions" means any amount owed to a federal or state Universal Service Fund under applicable Law (or under any forms or instructions related to the payment of such amounts, or any policies, practices or procedures adopted by the Fund Administrators), whether billed or unbilled.

"Universal Service Fund" means a state or the federal mechanism designated by applicable Law to support the availability of communications services, whether in high cost areas or to specific classes of customers (such as schools and libraries, low income consumers, hospitals or other designated customer classes).

"Universal Service Subsidies" means any amounts paid from Universal Service Funds to carriers for services that qualify for support under a state or the federal Universal Service Fund.

"Valid Right" means a right of ownership, use or occupancy arising under fee title, a leasehold interest, an easement, a right-of-way agreement, a license, an indefeasible right of use agreement or other similar agreement.

"Valid Right Contracts" is defined in Section 4.25(d).

"Year-end Financial Statements" is defined in Section 4.14.

ARTICLE II
PURCHASE OF EQUITY INTERESTS

2.1 Purchase of Membership Units. Subject to the terms of this Agreement, the Company agrees to issue, sell, transfer and assign (or cause to be sold, transferred and assigned) to the Buyer, and the Buyer agrees to purchase and acquire from the Company, Ninety-Three Thousand Four Hundred (93,400) units of Class E Membership Units (the "Purchased Equity Interests"), resulting in ownership of Membership Units by each of the members of the Company in the respective numbers set forth opposite each such member's name on Schedule 2.1 attached hereto following Closing.

ARTICLE III
CONSIDERATION

3.1 Purchase Price. The aggregate purchase price for the Purchased Equity Interests shall be One Hundred Ninety-Seven Million Dollars ($197,000,000.00 USD) (the "Purchase Price").

3.2 Payment of the Purchase Price. At the Closing, the Buyer will pay, or cause to be paid, the Purchase Price in immediately available funds by wire transfer to the Company in accordance with the written wiring instructions given by the Company to the Buyer prior to the Closing Date.

3.3 Withholding. Notwithstanding anything in this Agreement to the contrary, each of the Buyer and the Company acknowledges that, to the best of its knowledge, under current Law, no withholding is required on any payment to the Company hereunder provided that the Company timely and properly provides the required notices described in Section 7.5(a)(7) and the Buyer has no actual knowledge that such statements are false. In the event that the Buyer determines that withholding is required, the Buyer will use commercially reasonable efforts to notify the Company in advance and cooperate in good faith to reduce or minimize such withholding.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES
OF THE COMPANY

The Company represents and warrants to the Buyer, as of the date of this Agreement and as of Closing, as follows:

4.1 Authorization of Purchased Equity Interests. The Company has duly authorized the issuance and sale of the Purchased Equity Interests to the Buyer in accordance with the terms hereof, free and clear of any Liens other than the Transfer Restrictions), and such Purchased Equity Interests, when issued and delivered to Buyer in accordance with the terms hereof, will be validly issued. Upon receipt of the Purchase Price by the Company, the Buyer will be the record and beneficial owner of the Purchased Equity Interests, which shall be free and clear from all Liens of any nature (other than the Transfer Restrictions). None of the issued and outstanding Membership Units of the Company are or will be, as of the Closing Date, certificated or evidenced by other documentary means. Notwithstanding the representations and warranties set forth in this Sections 4.1, 4.2, 4.4 and 6.2, the parties hereto acknowledge and agree that the issuance and sale of the Purchased Equity Interests by the Company is subject to the execution and delivery of the Post-Closing Operating Agreement at Closing in accordance with Sections 7.2(g) and 7.3(e).

4.2 Authorization; Non-Contravention.

(a) The Company has the necessary power and authority to execute and deliver this Agreement and the Related Transaction Documents and to perform the obligations to be performed by the Company hereunder and thereunder, and this Agreement and the Related Transaction Documents are valid and binding upon the Company and enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws affecting creditors' rights and remedies generally and subject as to enforceability, to general principles of equity, irrespective of whether enforcement is sought in a proceeding at law or in equity. The execution, delivery and performance of this Agreement and each Related Transaction Document by the Company do not, and the consummation of the transactions contemplated hereby and thereby and the performance by the Company of the terms of this Agreement and the Related Transaction Documents will not, (i) violate any Law, (ii) conflict with, result in a breach of, constitute a default under, result in the acceleration of, create in any Person the right to accelerate, modify or cancel, or require any notice under any Material Contract to which the Company is a party or by which the Company is bound or to which any of its assets are subject, *provided* the Consents listed on Schedule 4.2(b) have been received at or before the Closing, or failure to obtain such Consents would not otherwise be reasonably expected to result in a Material Adverse Effect, (iii) violate provisions of the Company's articles of organization or the Pre-Closing Operating Agreement, or (iv) result in acceleration of any obligation under, or constitute an event of default under, any order, judgment or decree to which the Company is bound.

(b) Except as set forth in this Agreement or on Schedule 4.2(b) attached hereto, no approval, authorization, license, Permit or other action by, or filing with, any Governmental Authority or non-governmental third party, or of the managers of the Company, is required that has not been obtained in connection with the execution and delivery of this Agreement by the Company or the consummation by the Company of the transactions contemplated hereby.

4.3 Intellectual Property. The Company has no patents, pending patent applications and registration certificates. Schedule 4.3 sets forth all trade names, trademarks and service marks

and applications therefor, all copyright registrations, all internet domain name registrations and social media handles of the Company, used in the business and operations of the Company as presently conducted (collectively, the "Intellectual Property"). Except as set forth on Schedule 4.3, the Company is the sole and exclusive owner of the entire right, title and interest in and to the Intellectual Property, free of any and all Liens other than Permitted Liens. There are no pending, or, to the Company's Knowledge, threatened proceedings or litigation or other adverse claims affecting or with respect to any aspect of the Intellectual Property. To the Company's Knowledge, no Person is infringing, misappropriating or otherwise violating any aspect of the Intellectual Property or any other Intellectual Property owned by the Company. Neither the business and operations of the Company, nor the Intellectual Property, is infringing upon, misappropriating or otherwise violating, and has not infringed upon, misappropriated or otherwise violated, the intellectual property rights of any other Persons. There have been no material security breaches in the information technology systems of the Company, or, to the Company's Knowledge, in the information technology systems of third Persons to the extent used by or on behalf of the Company. The Company has at all times complied with all applicable Laws, as well as its own rules, policies, and procedures, relating to privacy, data protection, and the collection, retention, protection, and use of personal information collected, used, or held for use by the Company, and no claims have been asserted or threatened against the Company alleging a violation of any Person's privacy or personal information or data rights.

4.4 Organization and Standing of the Company.

(a) The Company is a limited liability company duly organized, validly existing and in good standing under the laws of the State of Nebraska, its state of organization, and is legally qualified to transact business and is in good standing in every jurisdiction in which the nature of the business conducted by it or the character or location of properties owned or leased by it makes such qualification necessary, except in such jurisdictions where failure to be so duly qualified would not have a Material Adverse Effect upon the Company. A list of the jurisdictions in which the Company is qualified to transact business is set forth in Schedule 4.4(a) attached hereto.

(b) The Company has delivered to the Buyer a true and complete copy of the Company's certificate of organization and the Pre-Closing Operating Agreement, and any amendments thereto, presently in effect. The Company is not in default under or in violation of any provision of its certificate of organization or the Pre-Closing Operating Agreement. The Post-Closing Operating Agreement will be in effect as of the Closing.

(c) The class and number of the Company's authorized and issued Membership Units as of the date hereof are set forth on Schedule 4.4(c)(i) attached hereto and no other series or class of units of the Company is authorized or outstanding. All of the issued and outstanding Membership Units are duly authorized and validly issued. All of the issued and outstanding Membership Units have been issued and sold in compliance with state and federal securities Laws. At the Closing, immediately after the giving effect to the transactions contemplated hereby, all of the issued and outstanding membership interests or units of the Company will be held of record and beneficially by the respective holders, in the amounts and in the classes as set forth in Schedule 4.4(c)(ii) attached hereto, and no

other series or class of units of the Company will be authorized or outstanding. As of the Closing Date, the Purchased Equity Interests shall have been duly authorized, validly issued, fully paid, non-assessable and free of preemptive rights, and shall be subject to no restrictions with respect to transferability other than the Transfer Restrictions. Except as set forth on Schedule 4.4(c)(i), and except as otherwise set forth in the Pre-Closing Operating Agreement and/or the Post-Closing Operating Agreement, there are no: (i) outstanding equity interests, membership interests or units, or other forms of equity in the Company other than the Membership Units, (ii) outstanding or authorized membership interests or unit appreciation, phantom membership interests or units, profit participation, or similar rights with respect to the Company, (iii) voting trusts, proxies or other agreements or understandings with respect to the voting of the Purchased Equity Interests, or (iv) outstanding subscriptions, options, warrants, calls, Contracts, demands, commitments, conversion rights, purchase rights, exchange rights, equity pools, rights of first refusal or other agreements or arrangements of any nature whatsoever under which the Company is or may become obligated to issue, assign or transfer any membership interests or units of the Company. The Company has paid all capital contributions, assessments and other requests for funds with respect to which the Company has issued a capital call, invoice or other demand and has no current or future obligation to contribute additional capital to the Company, other than as may be provided in either the Pre-Closing Operating Agreement or the Post-Closing Operating Agreement.

(d) The Company has all Permits necessary to carry on the businesses in which it is engaged and to own and use the properties owned and used by it. Except as set forth on Schedule 4.4(d) attached hereto, none of the Permits of the Company will be terminated or become terminable due to consummation of the transactions provided for herein.

(e) Except as set forth on Schedule 4.4(e) attached hereto, no Person has demand or other registration rights to cause the Company to file any registration statement under the Securities Act relating to any securities of the Company or any right to participate in any such registration statement.

(f) Prior to the execution hereof, the Company has obtained valid waivers of the Transfer Restrictions and any rights of other parties to purchase any of the Purchased Equity Interests covered by this Agreement or to purchase any other equity interests as a result of the transactions contemplated hereby. Prior to the execution hereof, the Company shall have received the required consents from the Existing Members, in accordance with the Pre-Closing Operating Agreement, necessary to amend the Pre-Closing Operating Agreement, such that effective as of the Closing, the Post-Closing Operating Agreement will be in effect.

4.5 Good Title to Assets. The properties and assets owned, leased, or licensed by the Company constitute all material assets used in connection with the business of the Company, and such properties and assets are sufficient to permit the Company to continue to carry on its business and operations in the Ordinary Course of Business following the Closing as is currently conducted by the Company. All machinery, equipment, furniture, leasehold improvements, fixtures, vehicles, structures, any related capitalized items, and other personal property reflected in the Financial

Statements or acquired since the date of the Latest Balance Sheet are in good operating condition and repair, subject to normal wear and tear. The Company has good and marketable title to the properties and assets owned by it, free and clear of any Liens, other than Liens disclosed on Schedule 4.5 and Permitted Liens.

4.6 Material Contracts. Schedule 4.6 attached hereto is a true and complete schedule of all Contracts which are in effect and binding upon the Company ("Material Contracts"), which:

(a) are listed on Schedule 4.22;

(b) are Programming Agreements as set forth on Schedule 4.22(b);

(c) (i) require the payment or incurrence of Liabilities to or by the Company in excess of Two Hundred Fifty Thousand Dollars ($250,000) in any calendar year and (ii) such Contract is not cancelable, without material penalty, by the Company on one hundred and eighty (180) days' or less notice;

(d) document Indebtedness of the Company;

(e) are collective bargaining agreements, labor agreements or other labor-related agreements or arrangements with any works council, union or other labor organization or association;

(f) are Contracts pursuant to which the Company grants or receives a right to use or register any material Intellectual Property, other than Contracts for commercially available software providing for annual consideration of less than Two Hundred Fifty Thousand Dollars ($250,000);

(g) are Contracts, other than the Pre-Closing Operating Agreement and the Post-Closing Operating Agreement, (i) for the employment or service of any officer or employee providing an annual base salary in excess of $250,000 or (ii) that otherwise restrict the Company's ability to terminate the employment of any employee at any time for any lawful reason or for no reason without more than thirty (30) days' notice;

(h) involve any bonus, pension, profit-sharing, retirement or any other form of deferred compensation plan or stock purchase, stock-option or similar plan, whether formal or informal, or any severance agreement or arrangement, if executed by each party thereto, other than the Pre-Closing Operating Agreement and the Post-Operating Agreement;

(i) relate to any partnership or joint venture;

(j) limit the ability of the Company or its Affiliates to engage or to compete in any business in any manner or any geography or any Contract that grants any Person the exclusive right to provide services of the Company or contains a right of first refusal, first offer or first negotiation;

(k) are Contracts (i) to purchase or sell goods or services exclusively from or to any third party or (ii) which contain any "most favored nation" clause or minimum purchase requirement;

(l) involve any settlement, conciliation or similar Contract, in each case the performance of which will involve payment of consideration in excess of One Hundred Thousand Dollars ($100,000);

(m) are Contracts with an officer, employee, equityholder, Affiliate, or director of the Company, other than any (i) employment agreements between the Company and any officer, manager, or director of the Company or any Affiliate of the foregoing or (ii) Contract between the Company and any officer, employee, equityholder or director of the Company with respect to services or products offered by the Company to its customers in the Ordinary Course of Business of the Company;

(n) are Contracts relating to the acquisition or disposition (whether by merger, sale of stock, sale of assets or otherwise) of any Person or material line of business entered into during the past three (3) years or the future acquisition or disposition (whether by merger, sale of stock, sale of assets or otherwise) of any Person or material line of business;

(o) any Contracts with the FCC or any other Governmental Authority relating to the operation or construction of Cable Systems;

(p) are Leases; or

(q) relate to the Company's Valid Right to operate its Physical Network.

True, correct and complete copies of the Material Contracts have been delivered to the Buyer. To the Company's Knowledge, no Person has claimed that any of the Material Contracts is invalid or unenforceable or in default, except as set forth on Schedule 4.6. Except as set forth on Schedule 4.6: (a) the Company shall continue to receive all benefits of the Material Contracts, (b) each of the Material Contracts is legal, valid, binding, enforceable and in full force and effect and will continue to be so following consummation of the transactions contemplated hereby, except as enforceability may be limited by bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws affecting creditors' rights and remedies generally and subject as to enforceability, to general principles of equity, irrespective of whether enforcement is sought in a proceeding at law or in equity, (c) neither the Company, nor, to the Company's Knowledge, any other party is in material breach or default under any Material Contract, and (d) to the Company's Knowledge, no event has occurred which, with notice or lapse of time, would constitute a material breach or default, or permit termination, modification or acceleration under any Material Contract.

4.7 Subsidiaries. The Company (a) has no Subsidiaries, (b) is not a member of or participant in any partnership, joint venture or similar arrangement, and (c) does not own, of record or beneficially, any direct or indirect capital stock or other equity interest in any other Person, or any right (contingent or otherwise) to acquire the same.

4.8 Litigation. Other than as set forth on Schedule 4.8 attached hereto, (a) there are no actions, claims, proceedings, litigations, state or federal equal employment opportunity commission proceedings or investigations pending or, to the Company's Knowledge, threatened against the Company or the transactions contemplated by this Agreement or the rights to be acquired by the Buyer pursuant hereto and (b) the Company is not subject to any outstanding judgment, order or decree of any Governmental Authority.

4.9 Compliance with Laws; Permits. The Company has complied in all material respects and is complying in all material respects with all Laws, and, to the Company's Knowledge, the Company is not in violation of any applicable Law and has not received notice of any such violation. Schedule 4.9 attached hereto lists all Permits used by the Company and all Permits required for operating the Physical Network, and each such Permit is valid and in full force and effect. Other than as set forth in Schedule 4.9, the Company (a) holds or has the right to use all Permits that are necessary to conduct its business as now conducted, (b) is not and has not been in breach of the material terms and requirements of any such Permit, (c) has not received notice from any Governmental Authority regarding any actual, alleged, or potential violation of any such Permit, and (d) has duly filed all applications required to be filed to renew or maintain any such Permit on a timely basis.

4.10 Compensation of Employees. There are no arrearages in the payment of wages or salaries to employees of the Company. Other than employment agreements listed on Schedule 4.10 attached hereto, and other than with respect to the Pre-Closing Operating Agreement and the Post-Closing Operating Agreement, the Company has no employment or consulting agreements with any employee or other person or entity which is in writing or which is not terminable at will. Schedule 4.10 hereto sets forth all employment agreements between National Education Loan Network, Inc., an Affiliate of the Company, and employees who are devoted full time to the Company.

4.11 Taxes. Other than as set forth on Schedule 4.11 attached hereto:

(a) All Tax Returns required to be filed by or with respect to the Company have been duly and timely filed with the appropriate Taxing Authority and each such Tax Return is true, complete and correct in all material respects. No penalties or other charges of any nature are or will become due with respect to the late filing of any Tax Returns required to be filed by or with respect to the Company on or before the Closing Date.

(b) All Taxes payable by or with respect to the Company have been timely and fully paid (whether or not shown as due on any Tax Return). The Financial Statements reflect an adequate reserve (determined in accordance with the Company's past practices) (excluding any reserves for deferred Taxes) for all Taxes payable by or with respect to the Company for all taxable periods and portions thereof accrued as of the date of such balance sheet, and since the date of the Latest Balance Sheet, the Company has not incurred any additional Liability for Taxes other than in the Ordinary Course of Business or in connection with the transactions contemplated by this Agreement and the Related Transaction Documents.

(c) The Company has withheld all Taxes required to have been withheld and paid over such Taxes to the relevant Governmental Authority, and complied with all information reporting and backup withholding requirements, including maintenance of required records with respect thereto, in connection with such payments.

(d) There are no outstanding or pending Contracts or waivers extending the statutory period of limitations applicable to any claim for, or the period for the collection or assessment of, Taxes of the Company due for any taxable period, in each case, which period has not yet expired, and no power of attorney granted by the Company with respect to any Taxes is currently in force.

(e) There is no Tax Audit pending with respect to any Taxes or Tax Returns of the Company and, to the Company's Knowledge, no Tax Audit has been threatened in writing, in each case, with respect to any Taxes or Tax Returns of the Company. The Company has not received from any Governmental Authority (including any jurisdictions in which the Company has not filed Tax Returns) a request in writing for information regarding or relating to Tax matters.

(f) All deficiencies for Taxes proposed, asserted, or assessed in writing against the Company have been fully and timely paid, settled or properly reflected in the relevant entity's most recent Financial Statements.

(g) The Company has at all times since its formation been treated as a partnership or an entity disregarded as separate from its owner for U.S. federal income tax purposes (and analogous or corresponding state and local income tax purposes).

(h) The Company is not a party to any joint venture, partnership or other arrangement or Contract that could be treated as a partnership for federal income Tax purposes.

(i) The Company has not been informed by a Governmental Authority in any jurisdiction in which it does not file a Tax Return that the Company is required to file a Tax Return in such jurisdiction or that such entity is, or may be, subject to taxation by that jurisdiction.

(j) There are no Liens for Taxes upon any of assets of the Company other than Permitted Liens.

(k) The Company is not a party to, or bound by, any Tax indemnity agreement, Tax sharing agreement or Tax allocation agreement or similar agreement or arrangement with respect to Taxes (including any advance pricing agreement, closing agreement or other agreement relating to Taxes with any Governmental Authority), whether written or unwritten.

(l) The Company does not have any actual or potential Liability for any Taxes of any Person (other than the Company) under Treasury Regulation Section 1.1502-6 (or

any analogous provision of Law in any jurisdiction), or as a transferee or successor, by Contract or otherwise.

(m) The Company has not agreed to and is not required to make, any adjustment to taxable income for any taxable period ending after the Closing Date under Section 481(a) of the Code (or any comparable provision of Law in any jurisdiction) by reason of a change in accounting method initiated by the Company nor has any Taxing Authority proposed any such adjustment, and there is no application pending with any Taxing Authority requesting permission for any changes in accounting methods that relate to the business or operations of the Company.

(n) The Company is not and shall not be required to include any item of income in, or exclude any item of deduction from, taxable income for any period (or a portion thereof) ending after the Closing Date as a result of any (i) election made pursuant to Section 108(i) of the Code on or prior to the Closing Date, (ii) installment sale or open transaction made on or prior to the Closing Date, (iii) amount reportable under the completed contract method of accounting, the long-term contract method of accounting or the cash method of accounting, in each case with respect to a transaction that occurred prior to the Closing Date, (iv) prepaid amount received on or prior to the Closing Date, or (v) comparable provisions of state, local, foreign or U.S. federal income tax Law.

(o) The Company is not the subject of (i) a ruling with respect to Taxes that has continuing effect, (ii) a "closing agreement" within the meaning of Section 7121 of the Code (or any comparable agreement under state, local or foreign law) or any other settlement with any Taxing Authority that has continuing effect, or (iii) a special arrangement with a Taxing Authority regarding any matter with respect to Taxes.

(p) The Company has never participated in and has no Liability with respect to any "listed transaction" or "reportable transaction" within the meaning of Treasury Regulations Section 1.6011-4 (or any similar designation under state, local, or foreign Law).

(q) No election has been made under Section 1101(g)(4) of the Bipartisan Budget Act, or any subsequent Law or guidance (including pursuant to Treasury Regulations Section 301.9100-22T) to have the provisions of Section 1101 of the Bipartisan Budget Act apply to any of the Company's partnership income Tax Returns.

(r) The Company has in effect a valid election under Section 754 of the Code.

4.12 Employee Benefit Plans.

(a) Schedule 4.12 attached hereto sets forth an accurate and complete list and description of each material Benefit Plan. "Benefit Plan" means (i) any "employee benefit plan" as that term is defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") (whether or not subject to ERISA) and (ii) other than with respect to the Pre-Closing Operating Agreement and the Post-Closing Operating Agreement, any other written or oral plan or Contract involving direct or indirect

compensation or benefits, including employment, consulting, insurance coverage, gratuity, leave, severance or other termination pay or benefits, change in control, retention, performance, holiday pay, vacation pay, fringe benefits, disability benefits, pension, retirement, profit sharing, deferred compensation, bonus, equity, stock option, stock purchase, restricted stock or stock unit, phantom stock, stock appreciation or other form of incentive compensation or post-retirement compensation, in each case, (a) that is adopted, maintained by, sponsored in whole or in part by, contributed to by, or on behalf of, or required to be contributed by, or on behalf of, the Company for the benefit of its current or former employees, retirees, dependents, spouses, directors, independent contractors or other beneficiaries, (b) with respect to which the Company has any Liability or (c) in which any current or former employees, retirees, dependents, spouses, directors, independent contractors or other beneficiaries of the Company participate. Other than as set forth on Schedule 4.12 attached hereto, neither the Company nor any ERISA affiliate of the Company (which for purposes of this Agreement shall mean any entity required to be aggregated with the Company under Code Sections 414(b), (c), (m) or (o)) has ever sponsored, maintained, contributed to or had any obligation to contribute to (w) any "multiemployer plan" within the meaning of Section 3(37) of ERISA, (x) any plan subject to Title IV of ERISA or the minimum funding standards of Section 412 of the Code or Section 302 of ERISA, (y) any "multiple employer plan" within the meaning of Section 210 of ERISA or Section 413(c) of the Code, or (z) any "multiple employer welfare arrangement" as such term is defined in Section 3(40) of ERISA. Each Benefit Plan is in compliance in all material respects with the applicable terms of ERISA, the Code and any other applicable Law. No Benefit Plan has been funded or administered in a manner that would result in a material Liability for any Tax or penalty for overfunding or prohibited transactions under applicable Law.

(b) Neither the execution of this Agreement nor the consummation of the transactions contemplated by this Agreement (alone or together with any other event), other than with respect to the Pre-Closing Operating Agreement and Post-Closing Operating Agreement, will (i) entitle any current or former employee, officer, director or other service provider of the Company to any payment or benefit; (ii) increase the compensation or benefits otherwise payable to any such current or former employee, officer, director or other service provider of the Company; (iii) accelerate the time of payment, funding or vesting of any amounts due to any current or former employee, officer, director or other service provider of the Company; or (iv) result in any amounts payable or benefits provided to any individual to fail to be deductible for federal income Tax purposes by virtue of Section 280G of the Code.

4.13 Absence of Certain Events. Other than as expressly provided in this Agreement or in any of the Related Transaction Documents, and except as set forth in Schedule 4.13 attached hereto, since December 31, 2019, there has not been:

(a) any amendment to the Company's articles of organization or the Pre-Closing Operating Agreement, or merger with or into or consolidation with any Person, or change in the character or the business of the Company;

(b) any distributions of any kind to the Company's members declared or made, or any direct or indirect redemption, purchase, retirement or other acquisition of any of the equity securities of the Company;

(c) any sale, pledge, transfer or disposal of, or agreement to issue, sell, pledge, transfer or dispose of, any equity interests of the Company or issue any equity interests of any class or issue or become a party to any subscriptions, warrants, rights, options, convertible securities or other agreements or commitments of any character relating to the issued or unissued equity interests of the Company (other than this Agreement and the agreements contemplated hereby), or grant any stock appreciation, phantom unit or similar rights;

(d) any loan or advance made to any of the Company's officers, directors, employees, consultants, agents, equityholders or any other loan or advance made other than in the Ordinary Course of Business;

(e) any change in the financial condition, properties, business or operations of the Company or any fact, circumstance, event, development, condition, change, effect or occurrence which is, or may result in, singly or in the aggregate, a Loss in excess of One Million Dollars ($1,000,000), or a Material Adverse Effect on the Company;

(f) any Loss, other than a Loss in the Ordinary Course of Business of the Company, affecting the business, assets, Liabilities, financial condition or operations of the Company, unless such loss could not reasonably be expected to result in a Loss singly or in the aggregate in excess of Five Hundred Thousand Dollars ($500,000), or a Material Adverse Effect upon the Company;

(g) any strike or other labor trouble or dispute that, in the case of disputes, has resulted in or may result in, singly or in the aggregate, a Loss in excess of One Hundred Thousand Dollars ($100,000) or a Material Adverse Effect upon the Company;

(h) any loss of any material Permit, qualification or certificate of authority held by the Company required for providing cable television, telephone and/or Internet services;

(i) any Indebtedness, Liability or obligation incurred by the Company or any transaction entered into by the Company, other than in the Ordinary Course of Business, or any guarantee by the Company of any Indebtedness, Liability or obligation of any other Person, which results in Liabilities singly or in the aggregate in excess of Two Hundred Fifty Thousand Dollars ($250,000);

(j) any obligation, Liability or Lien, paid, discharged or satisfied by or on behalf of the Company other than the current Liabilities reflected in the Latest Balance Sheet;

(k) any sale, transfer or other disposition of any asset of the Company having a book value in excess of Two Hundred Fifty Thousand Dollars ($250,000) in a single instance and Five Hundred Thousand Dollars ($500,000) in the aggregate, or any

cancellation of any debt or claim of the Company having a book value in excess of Two Hundred Fifty Thousand Dollars ($250,000) in a single instance and Five Hundred Thousand Dollars ($500,000) in the aggregate, except in the Ordinary Course of Business;

(l) any material change in, or any Contract to materially change, the compensation or other direct or indirect remuneration payable to any officer, employee or agent of the Company or any bonus, incentive or deferred compensation, profit sharing, retirement, pension, group insurance, death benefit or other fringe benefit plan, or any employment or consulting agreement, granted, entered into or materially amended or altered, other than in the Ordinary Course of Business or as required pursuant to an existing employment agreement;

(m) any (i) termination or failure to renew, or receipt of a threat (that was not subsequently withdrawn) by a third party to terminate or fail to renew any Material Contracts or (ii) material amendment or modification of any terms or conditions of, or extensions, waivers of any material right under any Material Contract.

(n) any (i) settlement, cancelation, compromise, release or waiver with respect to any claim, action or proceeding against the Company or (ii) commencement of a lawsuit that, individually or in the aggregate would be material to the Company;

(o) any material failure to maintain the Books and Records in the usual, regular and ordinary manner, consistent with past practice, or any change in the accounting principles or practices or auditing practices of the Company;

(p) any material election with respect to Taxes, any material changes to any method of Tax accounting, filing of any amended material Tax Return, settlement or compromise any claim or assessment in respect of a material amount of Taxes or enter into any closing agreement (or similar Contract) with any taxing authority of any Governmental Authority;

(q) any entry into any (i) new line of business (ii) or new geographic markets other than in the Norfolk, Nebraska area and the Imperial, Nebraska area; or

(r) any write-off as uncollectible of any receivables, or any portion thereof, other than a write-off which is immaterial or otherwise made in the Ordinary Course of Business.

4.14 Financial Statements. Schedule 4.14 attached hereto consists of: (a) the Company's unaudited consolidated balance sheet as of June 30, 2020 (the "Latest Balance Sheet") and the related statements of income and cash flows for the partial year period during 2020 then ended (the "Unaudited Interim Financial Statements"), and (b) the Company's unaudited consolidated balance sheets as of December 31, 2017, December 31, 2018, and December 31, 2019, together with the unaudited statements of income and cash flows for the periods ending December 31, 2017, December 31, 2018, and December 31, 2019 (the "Year-end Financial Statements") (the statements described in clauses (a) and (b) of this Section 4.14, collectively, the "Financial Statements"). Other than as set forth on Schedule 4.14, the Financial Statements present fairly, in all material respects, the consolidated financial position, cash flows and results of operations of the

Company, as of the times and for the periods referred to therein, in conformity with GAAP consistently applied throughout the periods covered thereby (subject, in the case of the Unaudited Interim Financial Statements, to (i) the absence of footnote disclosures, and (ii) changes resulting from normal year-end adjustments). In the past three (3) years, neither the Company nor the Board of Managers of the Company has received any written, or to the Company's Knowledge, oral notification of any (a) material weakness in the internal controls over financial reporting of the Company or (b) fraud, whether or not material, that involves management or other employees of the Company who have a significant role in the internal controls over financial reporting of the Company.

4.15 Absence of Undisclosed Liabilities. Except as disclosed on Schedule 4.15 attached hereto, the Company does not have any direct or indirect, primary or secondary, Liability or Indebtedness of any type, whether accrued, absolute or contingent, liquidated or unliquidated, matured or unmatured, or otherwise, except for (a) Liabilities which are accrued or reserved against and reflected upon the Financial Statements of the Company, or (b) Liabilities that are immaterial (having an outstanding balance in each single instance, or series of related instances, of less than Two Hundred Fifty Thousand Dollars ($250,000)) or otherwise incurred in the Ordinary Course of Business since the date of the Latest Balance Sheet. Except as disclosed on Schedule 4.15 attached hereto, the Company has not incurred, assumed, guaranteed, endorsed, or otherwise become directly or contingently liable on (including Liability by way of agreement, contingent or otherwise, to purchase, to provide funds for payment, to supply funds to, or otherwise invest in the debtor or otherwise to assure the creditor against loss), any Indebtedness.

4.16 Brokers and Finders. The Company has not incurred any Liability for any brokerage fees, commissions or finder's fees in connection with this Agreement, the Related Transaction Documents or the transactions contemplated hereby or thereby.

4.17 Conflicts of Interest. Except as set forth on Schedule 4.17 attached hereto, no officer, employee, equityholder (or any Affiliate of such equityholder), or director of the Company (or any member of any family of such officer, employee, equityholder, or director of the Company) has any direct or indirect interest in any creditor, competitor, supplier, customer on any Material Contracts, or agent of the Company. Except as set forth on Schedule 4.17, there are no employment Contracts, loans, leases, sale and leaseback transactions, royalty agreements, or other continuing transactions or arrangements between (a) the Company, on the one hand, and (b) any officer, employee, equityholder (or any Affiliate of such equityholder), or director of the Company (or any member of any family of such officer, employee, equityholder, or director of the Company) on the other hand.

4.18 Bonds. Except as set forth on Schedule 4.18 attached hereto, as of the Closing Date, the Company is not required to provide any bonding or other financial security arrangements in connection with any transactions with any suppliers, the coverage for which exceeds singly or in the aggregate Two Hundred and Fifty Thousand Dollars ($250,000).

4.19 Real Estate.

(a) Owned Real Property. Schedule 4.19(a) attached hereto is a true and complete list of all the Company Real Property owned in fee simple by the Company (the

"Owned Real Property") and sets forth the use of each Owned Real Property. The Company has good and valid marketable title in fee simple to the Owned Real Property, free and clear of all Liens, except for Permitted Liens. The Company has not granted any outstanding opinions, rights of first offer or rights of first refusal to purchase any such Owned Real Property or any portion thereof or interest therein in favor of any third party, except as disclosed in Schedule 4.19(a). The Company has not leased or otherwise granted to any person the right to use or occupy any Owned Real Property, except as disclosed in Schedule 4.19(a).

(b) Leased Real Property. Schedule 4.19(b) attached hereto is a true and complete list of all of the Company Real Property either leased, subleased or ground leased by the Company (the "Leased Real Property"), as the same may have been amended, supplemented or otherwise modified from time to time (the "Leases"). Schedule 4.19(b) also sets forth the use of each Leased Real Property. The Company has a valid leasehold interest in the Leased Real Property. With respect to the Leases, the Company is not in breach thereof or default thereunder and there does not exist under any Lease any event which, with or without the giving of notice or the lapse of time or both, would constitute such a breach or default by the Company, except for such breaches and defaults as to which requisite waivers or consents have been obtained or which would not reasonably be expected to have a Material Adverse Effect. To the Company's Knowledge, the Company is not aware of and has not received any written notice of a violation applicable to any building, zoning, health or other Law, contractual restriction or covenant or easements in respect of the use or occupation of the property and improvements subject to any Lease for the conduct of business as currently conducted or as planned to be conducted as of the date of this Agreement, in each case, which would reasonably be expected to have a Material Adverse Effect. Schedule 4.19(b) also sets forth the Leases that have expired, lapsed or ended without the parties thereto entering into any Contract for the extension or renewal of such term, and such Leases are, as of the date of this Agreement, continuing on a periodic basis without interruption and, to the Company's Knowledge, without any breach by any party thereto and, accordingly, may be subject to termination by either party thereto.

(c) Except as disclosed on Schedule 4.19(c), (i) there are no condemnation, eminent domain or similar proceedings affecting any Owned Real Property, Leased Real Property or Physical Network Property that are currently pending or, to the Company's Knowledge, threatened and (ii) to the Company's Knowledge, the buildings, structures and material fixtures location upon the Owned Real Property, Leased Real Property and Physical Network Property are, in all material respects, in good repair, working order and condition, and free from any known defects (subject to normal wear and tear) and, in the case of buildings and other structures, are structurally sound.

(d) Except as disclosed on Schedule 4.19(d), the Company has not leased as lessor or sublessor any Company Real Property and has not granted any third party the right to use, occupy or access any Company Real Property.

4.20 Agreements with Regulators. The Company (a) is not subject to any cease-and-desist or other order or enforcement action issued by, (b) is not a party to any Contract (other than

those set forth in Schedule 4.6), consent agreement or memorandum of understanding with, (c) has not since January 1, 2017 received any supervisory letter from, (d) has not been ordered to pay any civil money penalty by, and (e) has not since January 1, 2015 adopted any related policies, procedures or resolutions of the members or managers or any committee thereof at the request or suggestion of, any Governmental Authority.

4.21 Insurance. The Company has procured, or has caused an Affiliate of the Company to procure on behalf of the Company, insurance policies, copies of which have been made available to the Buyer. All premiums due and payable to procure such policies have been paid. To the Company's Knowledge, there is no threatened termination of, or premium increase with respect to, any such policy, except in accordance with the terms thereof.

4.22 Vendors. Schedule 4.22 attached hereto sets forth a list of the top twenty (20) vendors of the Company on a consolidated basis by dollar value of spend by the Company, for the fiscal year ended December 31, 2019. Except as set forth on Schedule 4.22 attached hereto, to the Company's Knowledge, the Company has not received any written statement from any of the vendors listed on Schedule 4.22 attached hereto that any such vendor will stop, materially decrease the rate of, or materially and adversely change the payment or price terms with respect to, supplying products or services to the Company or terminate or cancel its relationship with the Company.

4.23 Regulatory Matters. Without limiting any of the other representations or warranties made in this Section 4.23:

(a) The Company holds all Permits from the FCC and each State PSC required under the Communications Laws for the Company to own, lease and operate its Physical Network or to conduct its business in the manner in which such business is currently being conducted ("Communications Licenses"). Schedule 4.23(a) attached hereto sets forth a true, correct and complete list of all such Communications Licenses. Except as set forth on Schedule 4.23(a), each Communications License is in full force and effect, there are no actions pending, or, to the Company's Knowledge, threatened which have resulted or would reasonably be expected to result in any revocation, suspension, default or violation of or with respect to any Communications License, a material condition on the Communications License, or any material fine or forfeiture in connection therewith.

(b) Except as set forth on Schedule 4.23(b), since December 31, 2016, the Company has operated and conducted its business in all material respects in compliance with the terms and conditions of the Communications Licenses and the Communications Laws, including timely and accurately submitting all material reports, notifications and applications required by applicable Communications Laws, and the payment of all Regulatory Payments, except as would not, individually or in the aggregate, reasonably be expected to (A) result in material Liability to Company, (B) prevent or materially interfere with or delay the consummation of any of the transactions contemplated in this Agreement, or (C) materially affect, impede, or restrain the operation of the business of the Company as now conducted; *provided* that, for purposes of the foregoing, "material reports" shall include FCC Forms 499A and 499Q.

(c) Except as set forth on Schedule 4.23(c), since December 31, 2016, the Company has filed all required reports, including, but not limited to, FCC Forms 499A and 499Q, and all such filings were, when made or amended, true, correct and complete and in accordance with existing precedent of the relevant Governmental Authority. At the Closing, the Company shall have paid all federal and state Regulatory Payments billed by the FCC, State PSCs, and Fund Administrators and pertaining to the period prior to the Closing Date. At the Closing, the Company shall have filed all required reports, including, but not limited to, FCC Forms 499A and 499Q, that were due prior to the Closing Date, and retained all supporting documentation, necessary for the FCC, State PSCs, and Fund Administrators to calculate their Regulatory Payments. Where such reports are not due to be filed until after the Closing Date, the Company shall also have compiled and retained all documentation needed to file any reports necessary for the FCC, State PSCs, and Fund Administrators to calculate Regulatory Payments for the period prior to the Closing Date. Since December 31, 2016, the Company has not been the subject of any audit, inquiry (including a performance quality assurance inquiry), investigation, enforcement, action, assessment, fine, penalty or interest related to Universal Service Subsidies or Regulatory Payments and, to the Company's Knowledge, no such audit, inquiry, investigation, enforcement, action, fine, penalty or interest is threatened.

(d) The Company does not currently deploy Physical Network facilities manufactured by Chinese companies, including, but not limited to, Huawei or ZTE.

4.24 Retransmission Consent and Must-Carry; Rate Regulation; Copyright Compliance. Except in each case as would not have a Material Adverse Effect:

(a) Each station carried on each System is carried pursuant to a retransmission consent agreement, "must-carry" election or other Programming Agreement. Since January 1, 2017, the Company has complied with the must-carry, retransmission consent, and commercial leased access provisions of the Cable Act. Since January 1, 2017, the Company has not received any notice from any Governmental Authority with respect to an intention to enforce customer service standards pursuant to the Cable Act and the Company has not agreed with any Governmental Authority to establish customer service standards that exceed the standards in the Cable Act.

(b) Other than with respect to must-carry obligations, since January 1, 2017, no written notices or demands have been received from the FCC or from any television station or from any other Person or Governmental Authority (i) challenging the right of any System to carry any television broadcast station or deliver the same or (ii) claiming that any System failed to carry a television broadcast station required to be carried pursuant to the Communications Act or has failed to carry a television broadcast station on a channel designated by such station consistent with the requirements of the Communications Act.

(c) Each System is in compliance with the provisions of the Cable Act relating to the rates and other fees charged to subscribers of the System. The Company has established rates charged to subscribers that are allowable under the Cable Act and any

authoritative interpretation thereof, to the extent such rates are subject to regulation by any Governmental Authority, including any local franchising authority and the FCC.

(d) The Company has, in the past three (3) years, complied with, and each System is in compliance with, the specifications set forth in Part 76, Subpart K of the rules and regulations of the FCC, Section 111 of the Copyright Act and the rules and regulations of the U.S. Copyright Office, the Register of Copyrights and the Copyright Royalty Board and the Cable Act.

(e) Since January 1, 2017, the Company has filed with the U.S. Copyright Office all statements of account and other documents and instruments and has paid all royalties, supplemental royalties, fees and other sums to the U.S. Copyright Office under the Copyright Act with respect to each System as are required to obtain, hold and maintain the compulsory copyright license for cable television systems prescribed in Section 111 of the Copyright Act. Since January 1, 2017, the Company has not been notified or otherwise advised of any inquiry, claim, action or demand pending before the U.S. Copyright Office or any other Person that questions the copyright filings or payments made by the Company with respect to the Systems. The Company has made all requisite filings and payments with the Register of Copyrights and is otherwise in compliance with all applicable rules and regulations of the U.S. Copyright Office.

4.25 Fiber Network.

(a) There are no unremediated root causes of previous material outages, failures, breakdowns or continuous periods of substandard service and material network service unavailability, or customer service credits owed as a result in the past two (2) years.

(b) Schedule 4.25(b) attached hereto includes a true and complete general description and maps of the Physical Network, including fibers and fiber miles owned or leased by the Company and the identity of any underlying provider.

(c) During the past two (2) years, the Company has not been obligated to make any material payments to any customers for failure to satisfy applicable "Service Level Agreements" with its customers.

(d) The Owned Real Property, the Leased Real Property, and Contracts furnish the Company with sufficient rights under which the Company uses and operates substantially all portions of its Physical Network ("Physical Network Property"), as the same may have been amended, supplemented or otherwise modified from time to time ("Valid Right Contracts"). To the Company's Knowledge, the Company has not received any written notice of a violation applicable to any building, zoning, health or other Law, contractual restriction or covenant or easement in respect of the use or occupation of the Physical Network Property and improvements subject to any Valid Right Contract for the conduct of business as currently conducted or as planned to be conducted as of the date of this Agreement, in each case, which would reasonably be expected to have a Material Adverse Effect.

(e) The Company has a Valid Right, free and clear of all Liens, except for Permitted Liens, to use and operate the Physical Network and all of the material tangible personal property that they purport to own or that is used by them to operate the Physical Network as currently operated by the Company, including all necessary rights to attach, affix, maintain, repair, replace, run, lay or otherwise deploy fiber optic cable and related fiber optic equipment. No Governmental Authority or other third party has any right to purchase the Physical Network or any portion thereof.

(f) The Physical Network, taken as a whole, is, in all material respects, in good repair, working order and condition, and free from any known defects (subject to normal wear and tear), other than normal repairs in the Ordinary Course of Business, and no other assets are necessary for the use, operation or maintenance of the Physical Network consistent with past practices other than those described in Sections 4.25(b) and 4.25(e).

ARTICLE V
REPRESENTATIONS AND WARRANTIES OF BUYER

The Buyer represents and warrants to the Company, as of the date of this Agreement and as of Closing, as follows:

5.1 Organization and Power. The Buyer is a limited liability company duly organized, validly existing and in good standing under the laws of the State of Delaware. The Buyer has full limited liability company power to execute, deliver and perform this Agreement and all other agreements and documents to be executed and delivered by it in connection herewith.

5.2 Authority; Noncontravention.

(a) The Buyer has the necessary limited liability company powers and authority to execute and deliver this Agreement and the Related Transaction Documents and to perform the obligations to be performed by the Buyer hereunder and thereunder, and this Agreement and the Related Transaction Documents are valid and binding upon the Buyer and enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy laws, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws affecting creditors' rights and remedies generally and subject as to enforceability, to general principles of equity, irrespective of whether enforcement is sought in a proceeding at law or in equity. The execution and delivery of this Agreement will not (i) violate any Law, (ii) conflict with, result in a breach of, constitute a default under, result in acceleration of, create in any Person the right to accelerate, modify or cancel, or require any notice under any Contract to which the Buyer is a party or by which the Buyer is bound or which any of its assets are subject, (iii) violate the articles of incorporation or bylaws of the Buyer, or (iv) result in acceleration of any obligation under, or constitute an event of default under, any order, judgment or decree to which the Buyer is bound.

(b) Except as specifically set forth in this Agreement, no approval, authorization, license, Permits or other action by, or filing with, any Governmental

Authority or non-governmental third party, or of the shareholders or directors of the Buyer is required that has not been obtained in connection with the execution and delivery of this Agreement by the Buyer or the consummation by the Buyer of the transactions contemplated hereby.

5.3 Brokers and Finders. The Buyer has not employed any broker or finder or incurred any Liability for any brokerage fees, commissions or finder's fees in connection with this Agreement, the Related Transaction Documents or the transactions contemplated hereby or thereby.

5.4 Accredited Investor. The Buyer is an "accredited investor" as that term is defined in Regulation D promulgated under the Securities Act.

5.5 Restricted Securities. The Buyer understands that the Purchased Equity Interests subscribed for hereunder have not been, and will not be, registered under the Securities Act or any state securities laws, and are being offered and sold in reliance upon federal, state exemptions from registration requirements for transactions not involving any public offering. The Buyer recognizes that reliance upon such exemptions is based in part upon the representations of the undersigned contained herein. The Buyer represents and warrants that the Purchased Equity Interests will be acquired by the Buyer solely for the account of the Buyer, for investment purposes only and not with a view to the distribution thereof. The Buyer represents and warrants that the Buyer (a) is a sophisticated investor with such knowledge and experience in business and financial matters as will enable the undersigned to evaluate the merits and risks of investment in the Purchased Equity Interests, (b) is able to bear the economic risk and lack of liquidity of an investment in the Purchased Equity Interests and (c) is able to bear the risk of loss of its entire investment in the Purchased Equity Interests.

5.6 Registration of Company. The Buyer acknowledges and understands that the Company does not intend to register as an investment Company under the Investment Company Act of 1940, as amended, and that no person or entity serving as a member, officer or manager of the Company is registered as of the date hereof as an investment adviser under the Investment Advisers Act of 1940, as amended.

ARTICLE VI
REPRESENTATIONS AND WARRANTIES OF NELNET

Nelnet represents and warrants to the Buyer, as of the date of this Agreement and as of Closing, as follows:

6.1 Organization and Power. Nelnet is a corporation duly organized, validly existing and in good standing under the laws of the State of Nebraska. Nelnet has full corporate power to execute, deliver and perform this Agreement and all other agreements and documents to be executed and delivered by it in connection herewith.

6.2 Authority; Noncontravention.

(a) Except as set forth in Schedule 6.2 attached hereto, Nelnet has the necessary corporate power and authority to execute and deliver this Agreement and the

Related Transaction Documents and to perform the obligations to be performed by Nelnet hereunder and thereunder, and this Agreement and the Related Transaction Documents are valid and binding upon Nelnet and enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy laws, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws affecting creditors' rights and remedies generally and subject as to enforceability, to general principles of equity, irrespective of whether enforcement is sought in a proceeding at law or in equity. The execution and delivery of this Agreement will not (i) conflict with, result in a breach of, constitute a default under, result in acceleration of, create in any Person the right to accelerate, modify or cancel, or require any notice under any Contract to which Nelnet is a party or by which Nelnet is bound or which any of its assets are subject, (ii) violate the articles of incorporation or bylaws of the Buyer, or (iii) result in acceleration of any obligation under, or constitute an event of default under, any order, judgment or decree to which Nelnet is bound.

(b) Except as specifically set forth in this Agreement, no approval, authorization, license, Permits or other action by, or filing with, any Governmental Authority or non-governmental third party, or of the shareholders or directors of Nelnet is required that has not been obtained in connection with the execution and delivery of this Agreement by Nelnet or the consummation by Nelnet of the transactions contemplated hereby.

6.3 Brokers and Finders. Nelnet has not employed any broker or finder or incurred any Liability for any brokerage fees, commissions or finder's fees in connection with this Agreement, the Related Transaction Documents or the transactions contemplated hereby or thereby.

ARTICLE VII
CLOSING

7.1 Closing. Subject to the terms and conditions of this Agreement, the consummation of the transactions contemplated hereby (the "Closing") shall take place via electronic exchange of copies of signed documents, on a date to be specified by the Company and the Buyer, which shall be no later than the fifth (5th) Business Day after satisfaction or (to the extent permitted by applicable Law) waiver of the conditions set forth in Sections 7.2 and 7.3 (other than those conditions that by their terms are to be satisfied at the Closing, but subject to the satisfaction or (to the extent permitted by applicable Law) waiver of such conditions) (the date on which the Closing occurs being hereinafter referred to as the "Closing Date"), unless another time, date or place is agreed to in writing by the Company and the Buyer; *provided* that, the Closing Date shall be no earlier than twelve (12) Business Days following the date hereof. The transfers and deliveries herein contemplated will be mutually interdependent and regarded as occurring simultaneously; and no such transfer or delivery will become effective until all of the transfers and deliveries provided for in Sections 7.2 and 7.3 have been consummated.

7.2 Conditions to Buyer's Obligations. The obligation of the Buyer to effect the Closing and consummate the transactions contemplated by this Agreement is subject to satisfaction

(or written waiver by the Buyer in the Buyer's sole discretion) of the following conditions at or before the Closing:

(a) Agreements Performed. The Company and Nelnet shall each have performed in all material respects all of the obligations under this Agreement to be performed by the Company or Nelnet, as applicable, at or before the Closing;

(b) Representations Accurate. Each of the representations and warranties of the Company made in Article IV and of Nelnet made in Article VI contained herein (in each case without giving effect to any materiality, "Material Adverse Effect" or other similar qualifications contained therein) will continue to be accurate in all material respects as of the Closing (except for those representations and warranties which address matters only as of a particular date, which shall be accurate in all material respects as of such date);

(c) No Change. Since the date of this Agreement, there shall have been no change, event, occurrence, circumstance or condition of any kind or character that has had or would reasonably be expected to have, either individually or in the aggregate with all such other changes, events, occurrences, circumstances or conditions, a Material Adverse Effect on the Company;

(d) Closing Certificate. An officer of the Company and Nelnet shall have delivered to the Buyer at the Closing a certificate certifying that the conditions specified in Sections 7.2(a), 7.2(b) and 7.2(c) have been satisfied;

(e) Legal Action. (i) No court or other Governmental Authority of competent jurisdiction shall have enacted, issued, promulgated, enforced or entered any Law (whether temporary, preliminary or permanent) that is in effect and restrains, enjoins or otherwise prohibits consummation of the transactions contemplated by this Agreement, (ii) no Governmental Authority shall have instituted any Action (which remains pending at what would otherwise be the Closing Date) before any United States court or other Governmental Authority of competent jurisdiction seeking to restrain, enjoin or otherwise prohibit consummation of the transactions contemplated by this Agreement and (iii) no other Person shall have instituted any Action (which remains pending at what would otherwise be the Closing Date) before any United States court or other Governmental Authority of competent jurisdiction that is reasonably likely to restrain, enjoin or otherwise prohibit consummation of the transactions contemplated by this Agreement;

(f) Access to Records. The Buyer shall have been afforded an opportunity to review all Books and Records of the Company;

(g) Amended and Restated Operating Agreement. The Buyer shall have received that certain Ninth Amended and Restated Operating Agreement of the Company, substantially in the form as Exhibit B attached hereto (the "Post-Closing Operating Agreement"), executed by the Company, Nelnet, and other members of the Company;

(h) Assignments. The Buyer shall have received the assignments of the Purchased Equity Interests, executed by the Company, substantially in the form as Schedule 7.2(h) attached hereto;

(i) Subscription Agreement. The Buyer shall have received the Subscription Agreement, as defined in the Master Agreement, executed by the Company;

(j) Third Party Consents. Each of the consents set forth on Schedule 7.2(j) shall have been received;

(k) Release of the Company as Guarantor. The Company shall have been released as a guarantor under the Second Amended and Restated Credit Agreement; and

(l) Related Transaction Documents. The Buyer shall have received all of the Related Transaction Documents, executed by the Company, required to be delivered to the Buyer hereunder and in accordance with the Master Agreement.

7.3 Conditions to the Company's and Nelnet's Obligations. The obligation of the Company and Nelnet to effect the Closing and consummate the transactions contemplated by this Agreement is subject to satisfaction (or written waiver of the Company or Nelnet in its sole discretion) of the following conditions at or before the Closing:

(a) Agreements Performed. The Buyer shall have performed in all material respects all of the obligations under this Agreement to be performed by it at or before the Closing;

(b) Representations Accurate. Each of the representations and warranties of the Buyer made in Article V contained herein (in each case without giving effect to any materiality, "material adverse effect" or other similar qualifications contained therein) will continue to be accurate in all material respects as of the Closing (except for those representations and warranties which address matters only as of a particular date, which shall be accurate in all material respects as of such date);

(c) Closing Certificate. An officer of the Buyer shall have delivered to the Company at the Closing a certificate certifying that the conditions specified in Sections 7.3(a) and 7.3(b) have been satisfied;

(d) Legal Action. (i) No court or other Governmental Authority of competent jurisdiction shall have enacted, issued, promulgated, enforced or entered any Law (whether temporary, preliminary or permanent) that is in effect and restrains, enjoins or otherwise prohibits consummation of the transactions contemplated by this Agreement. (ii) no Governmental Authority shall have instituted any Action (which remains pending at what would otherwise be the Closing Date) before any United States court or other Governmental Authority of competent jurisdiction seeking to restrain, enjoin or otherwise prohibit consummation of the transactions contemplated by this Agreement and (iii) no other Person shall have instituted any Action (which remains pending at what would otherwise be the Closing Date) before any United States court or other Governmental

Authority of competent jurisdiction that is reasonably likely to restrain, enjoin or otherwise prohibit consummation of the transactions contemplated by this Agreement;

(e) Amended and Restated Operating Agreement. The Company shall have received the Post-Closing Operating Agreement, executed by the Buyer and all other members of the Company;

(f) Subscription Agreement. The Company shall have received the Subscription Agreement, as defined in the Master Agreement, executed by the Buyer;

(g) Release of the Company as Guarantor. The Company shall have been released as a guarantor under the Second Amended and Restated Credit Agreement; and

(h) Related Transaction Documents. The Company shall have received all of the Related Transaction Documents, executed by the Buyer, including without limitation the Equity Commitment Letter, required to be delivered to the Company hereunder and in accordance with the Master Agreement.

7.4 Closing Covenants.

(a) Supplemental Disclosure. Until the Closing, each of the parties hereto will immediately notify the other parties of any event or circumstance that:

(1) makes it necessary to correct any representation and warranty made by such party in Article IV, V or VI or in the Schedules hereto that has been rendered inaccurate thereby; or

(2) arises hereafter and which, had it existed on or prior to the date hereof, would have resulted in an inaccuracy in a representation and warranty made by such party in Article IV, V or VI.

provided, *however*, that no notification pursuant to this Section 7.4(a) shall (i) impact either the Buyer's or the Company's (x) ability to terminate this Agreement in accordance with Section 7.4(c) or (y) rights to indemnification pursuant to Article IX or (ii) cause such condition set forth in Section 7.2(b) or Section 7.3(b), respectively, to become satisfied, if absent such supplemental disclosure, such condition would not have been satisfied.

(b) Satisfaction of Conditions. The Company and Nelnet agree to use their reasonable best efforts to cause each of the conditions set forth in Section 7.2 to be satisfied at or before the Closing. The Buyer agrees to use its reasonable best efforts to cause each of the conditions set forth in Section 7.3 to be satisfied at or before the Closing.

(c) Termination. This Agreement may be terminated prior to the Closing as provided below:

(1) by written agreement of the Buyer and the Company;

(2) by the Buyer, if there has been a breach by the Company or Nelnet of any of the Company's or Nelnet's representations, warranties, covenants or agreements set forth in this Agreement, as applicable, that would prevent or has prevented the satisfaction of any condition to the obligations of the Buyer at the Closing, and such breach has not been waived by the Buyer or, in the case of a covenant breach, cannot be or has not been cured by the Company within ten (10) Business Days after written notice thereof by the Buyer;

(3) by the Company, if there has been a breach by the Buyer of any of the Buyer's representations, warranties, covenants or agreements set forth in this Agreement that would prevent or has prevented the satisfaction of any condition to the obligation of the Company, and such breach has not been waived by the Company or, in the case of a covenant breach, cannot be or has not been cured by the Buyer within ten (10) Business Days after written notice thereof by the Company; and

If this Agreement is terminated pursuant to paragraph (a) of this Section, all provisions of this Agreement will become void without any liability on the part of any party. If this Agreement is terminated pursuant to paragraph (b) or (c) of this Section, all rights and remedies of each party hereunder and all other provisions hereof related thereto will survive termination to the extent required so that any party responsible for any breach or nonperformance of its obligations hereunder prior to termination will remain liable for the Losses and damages resulting therefrom. All rights and remedies of each party hereunder and all other provisions hereof related thereto will survive termination to the extent required so that any party responsible for any breach or nonperformance of its obligations hereunder prior to termination will remain liable for the damages resulting therefrom.

7.5 Closing Deliveries. At the Closing, the parties hereto will make the transfers and deliveries hereinafter set forth. The transfers and deliveries herein contemplated will be mutually interdependent and regarded as occurring simultaneously; and no such transfer or delivery will become effective until all of the transfers and deliveries provided for hereunder have been consummated. The transfers and deliveries herein contemplated will be deemed to have occurred and the Closing will be effective as of the close of business on the Closing Date.

(a) Deliveries from the Company to the Buyer. At the Closing, the Company shall deliver or cause to be delivered the following to the Buyer:

(1) separate assignments of the Purchased Equity Interests, duly executed by each of the Company and duly recorded on the transfer records of the Company, free of all Liens (other than Permitted Liens and Transfer Restrictions);

(2) the Post-Closing Operating Agreement, executed by the Company, Nelnet, and each other member of the Company;

(3) certificates of good standing issued within ten (10) days prior to the Closing by the Secretary of State of Nebraska with respect to the Company;

(4) copy of resolutions of managers of the Company and the managers and/or members, as applicable, separately evidencing authority of the Company, to execute, deliver and perform this Agreement and other agreements, instruments and deliverables hereunder, and each certified as to correctness and accuracy by the secretary or manager thereof, as applicable;

(5) the Subscription Agreement (as defined in the Master Agreement), executed by the Company;

(6) each of the Related Transaction Documents, executed as applicable by the Company which are signatories thereto, as required to be delivered to the Buyer hereunder or under the Master Agreement;

(7) a duly completed and properly executed IRS Form W-9 from each of the Company and Nelnet;

(8) reserved; and

(9) the Transition Services Agreement, executed by the Company and Nelnet.

(b) Deliveries from the Buyer to the Company. At the Closing, the Buyer shall deliver or cause to be delivered the following to the Company:

(1) the Purchase Price, in accordance with Section 3.2, including evidence of wire transfer or payment by check of the Purchase Price to the Company;

(2) the Post-Closing Operating Agreement, executed by the Buyer;

(3) copy of resolutions of the managing member (or such other applicable governing body) of the Buyer, authorizing the Buyer to execute, deliver and perform this Agreement and other agreements, instruments and deliverables hereunder, and certified as to correctness and accuracy by the secretary thereof;

(4) the Subscription Agreement, as defined in the Master Agreement, executed by the Buyer; and

(5) each of the Related Transaction Documents, executed by the Buyer, as required to be delivered to the Company hereunder or under the Master Agreement.

ARTICLE VIII
COVENANTS

8.1 Miscellaneous Covenants.

(a) Publicity. All public announcements relating to this Agreement or the transactions contemplated hereby will be made only as may be authorized by mutual agreement of the parties hereto or as required by applicable Law. If a party is required by applicable Law to make an announcement relating to this Agreement, that party shall use reasonable efforts to share the proposed announcement with the other parties hereto prior to any publication; *provided*, that the Buyer and its Affiliates and Buyer's Representatives may make, without such consent of the Company and Nelnet, disclosures to limited partners or investors for the purpose of (and to the extent consistent with such Person's customary practice regarding) investor reporting in the Ordinary Course of Business; *provided*, further, that the parties hereto may make, without the consent of any other party hereto, disclosures to potential financing sources in connection with the transactions contemplated hereby. In the event that the Buyer, its Affiliates or Buyer's Representatives make disclosures as permitted in either of the provisos set forth in the preceding sentence, the Buyer shall make such recipient(s) aware of the confidential nature of such disclosures and request that such recipient not disclose any such information so disclosed to any other Person.

(b) Expenses. Except to the extent otherwise specifically provided herein, each party hereto will pay all of its own respective expenses incident to the transactions contemplated by this Agreement which are incurred by such party or its representatives; *provided* that, at and following the Closing, the Buyer and Nelnet shall each be entitled to cause the Company to pay such fees and expenses (including any fees and expenses associated with the Regulatory Consents) incurred by the Buyer and Nelnet (and each of their Affiliates) in connection with the transactions contemplated hereby; *provided, further*, that the payment for such fees and expenses shall not exceed Two Million Dollars ($2,000,000) for each of the Buyer and Nelnet, or the aggregate of Four Million Dollars ($4,000,000) for both the Buyer and Nelnet on a combined basis, on all matters other than fees and expenses incurred in connection with (i) any filings made under the H-S-R Act in accordance with Section 8.11 hereof, (ii) the third-party debt financing in accordance with Section 8.12 hereof and (iii) any regulatory filings that are made in connection with the transactions contemplated hereby, including any regulatory filings made in connection with the third-party debt financing contemplated by Section 8.12 hereof (which fees and expenses shall be borne entirely by the Company and not be subject to the foregoing cap).

8.2 Separation Plan and Costs.

(a) Separation Plan. Prior to and after the Closing, the parties hereto shall use their reasonable best efforts to jointly develop and implement a plan (the "Separation Plan") to separate the business operations, functions and systems of the Company (including, without limitation, the following functions: finance and accounting, legal, audit and compliance, human resources, trust administration support, infrastructure and information systems, facilities management and public relations and corporate communications) from Nelnet in order to permit the Company to operate as a stand-alone independently operated entity over a mutually agreed reasonably practicable timeline following the Closing and prior to the expiration of the Transition Services Agreement as further set forth on Schedule 8.2(a) (the "Separation").

(b) Separation Costs. In connection with the Separation, and as further set forth in the Separation Plan, Nelnet shall bear all one-time separation costs and all other costs as further identified in the Separation Plan relating to the activities to effect the Separation that are contemplated by the Separation Plan (the "Separation Costs") incurred by or on behalf of the Company. SDC and Nelnet shall work collaboratively to jointly manage the Separation Costs throughout the Separation process. To the extent the Separation Costs are incurred by the Company, Nelnet shall as promptly as reasonably practicable reimburse the Company for all such costs. Notwithstanding the foregoing, Nelnet's duty to pay Separation Costs shall not exceed the aggregate amount of Six Million Dollars ($6,000,000).

8.3 Confidentiality.

(a) Confidentiality Obligation. Except for a Required Disclosure (as defined below) each party hereto agrees not to disclose or use, directly or indirectly, any Confidential Information, at any time after execution of this Agreement, and prior to the Closing. In the event of a contemplated Required Disclosure of Confidential Information by a party, such party agrees to use his, her or its best efforts to provide the other party and the Company an opportunity to object to the disclosure and as much prior written notice as is possible under the circumstances. For purposes of this Section 8.3(a), "Confidential Information" means (a) all information belonging to, used by, or which is in the possession of any party hereto relating to the Company's or another party hereto's business to the extent such information is not intended to be disseminated to the public or is otherwise not generally known to competitors of the Company including, but not limited to, information relating to the Company's products, services, strategies, pricing, customers, representatives, suppliers, distributors, technology, finances, employee compensation, computer software and hardware, inventions, developments, or trade secrets and (b) all information relating to the acquisition of the Purchased Equity Interests by the Buyer hereunder, including, without limitation, all strategies, negotiations, discussions, terms, conditions and other information relating to this Agreement and each other document and agreement delivered in connection herewith. Nothing herein shall require any party to withhold from disclosure of any Confidential Information hereunder where disclosure is required by applicable Law, required to be included in either party's financial statements or required for the preparation and submission of any report for any agency, commission or board requiring such information in connection with such party's business (a "Required Disclosure"). Notwithstanding any other provision contained in this Agreement to the contrary, the Buyer may furnish information (including Confidential Information) to only to that limited number of the officers, employees, accountants, counsel and other representatives of the Buyer ("Buyer's Representatives") who need the information for the exclusive purpose of evaluating the transactions contemplated by this Agreement, and only after each of such Buyer's Representatives has been informed of the confidential character of the Confidential Information and has agreed to retain it in confidence in accordance with the requirements of this Agreement.

8.4 Access to Information. Upon reasonable notice and subject to applicable Law relating to the exchange of information, the Company shall afford to the Buyer's Representatives

access, during normal business hours during the period prior to the Closing Date, to all of the properties of the Company and, during such period, the Company shall make available to the Buyer all information and Books and Records concerning the Company and its properties, business and employees as the Buyer may reasonably request.

8.5 Conduct of Business. The Company agrees that, from the date hereof through the Closing, except to the extent otherwise permitted by this Agreement, as set forth on Schedule 8.5 attached hereto or the Related Transaction Documents, or consented to in writing by the Buyer, the Company shall:

(a) operate its business only in the Ordinary Course of Business;

(b) not amend its organizational documents or incorporate or form any subsidiary;

(c) not enter into, terminate, modify or amend any of the terms of any of the Material Contracts;

(d) pay accounts payable and other obligations of the Company when they become due and payable in the Ordinary Course of Business;

(e) use its reasonable efforts to preserve its business intact, to retain the services of its employees and to preserve its goodwill and relationships with customers, suppliers, creditors and others having business relationships with it;

(f) take such action as may be reasonably necessary to preserve its properties and assets and to maintain its Permits;

(g) maintain its insurance policies in full force and effect;

(h) comply with any applicable Law;

(i) promptly advise the Buyer in writing of any Material Adverse Effect on the Company and of any event or circumstance which will, or with reasonable certainty will, result in such a Material Adverse Effect on the Company or which will, or with reasonable certainty will, constitute a violation or breach of any representation, warranty or covenant contained in this Agreement;

(j) review with the Buyer each decision regarding new Material Contracts or extensions or amendments of existing Material Contracts, equipment purchases and sales and other operational decisions involving more than Two Hundred Fifty Thousand Dollars ($250,000);

(k) except as may be required by applicable Law or pursuant to the terms of an existing Benefit Plan or Contract, (i) not make or commit to make any increases in the compensation or benefits of any employee, officer, director or other service provider of the Company; (ii) not enter into, amend, terminate or alter any Benefit Plan, trust

agreement or arrangement (or any such arrangement that would be a Benefit Plan if in effect as of the date hereof); (iii) not accelerate the vesting or payment, or fund or in any other way secure the payment, of compensation or benefits under any Benefit Plan; (iv) not hire any employee, officer, director or other service provider of the Company other than to fill an open position listed on Schedule 8.5(k) attached hereto or to replace an employee whose employment terminates after the date of this Agreement, in each case with compensation and benefits no more favorable than those provided to a similarly situated employee; or (v) not terminate (other than for cause or termination at the option of the employee) the employment or services of any employee, officer, director or other service provider of the Company receiving compensation of more than $100,000 in any year;

(l) not pay, discharge or satisfy any Liability or Lien other than trade payables, current Liabilities reflected in the most recent financial statements of the Company, and current Liabilities incurred since the date of the most recent financial statements of the Company in the Ordinary Course of Business or otherwise in accordance with the Related Transaction Documents;

(m) not incur any Indebtedness other than in the Ordinary Course of Business;

(n) except as otherwise provided in this Section 8.5, not sell, transfer or otherwise dispose of or encumber any of its cash, assets or properties owned by the Company;

(o) not effect any acquisition of any business, securities or material assets outside of the Ordinary Course of Business;

(p) not declare or pay any dividend or make any distribution, or redeem, purchase or otherwise acquire any of its membership interests or units, except to the extent required by the terms of this Agreement or the Related Transaction Documents;

(q) not (i) effect any recapitalization, reclassification, equity split, stock dividend or similar change in the Company's capitalization or (ii) issue, sell, pledge, transfer or dispose of, or agree to issue, sell, pledge, transfer or dispose of, any equity interests of the Company or issue any equity interests of any class or issue or become a party to any subscriptions, warrants, rights, options, convertible securities or other agreements or commitments of any character relating to the issued or unissued equity interests of the Company (other than this Agreement and the agreements contemplated hereby), or grant any stock appreciation, phantom unit or similar rights;

(r) not enter into any new Leases or Valid Right Contract nor sell or lease any Owned Real Property, if the consideration with respect to any such single individual Lease, Valid Right Contract, or sale or lease of Owned Real Property exceeds Two Hundred Fifty Thousand Dollars ($250,000) over an annual period or less;

(s) not modify or amend any of the terms of the Leases nor terminate existing Leases;

(t) not make, revoke or change any material election in respect of Taxes, adopt or change any material Tax accounting method, enter into any Tax closing agreement or Tax ruling, settle or compromise any Tax claim or assessment, consent to any extension or waiver of the limitation period applicable to any Tax claim or assessment other than as the result of extending the due date of a Tax Return, or file any amended Tax Return;

(u) continue to operate pursuant to the Company's existing development plan as set forth on Schedule 8.5(u) attached hereto; and

(v) not make or enter into any Contract or understanding to take any action referred to in Sections 8.5(a) through 8.5(u) above.

8.6 Financial Information. From and after the date hereof, the Company shall provide the Buyer with copies of monthly financial statements of the Company. Such financial statements shall be delivered to the Buyer promptly after such statements become generally available to the management of the Company. To the extent that the Post-Closing Operating Agreement requires the Company to furnish additional or different information to the Buyer, the Company shall perform and comply with the requirements therein.

8.7 Officers and Employees. Without incurring any Liability with respect to the Company, the Company shall use reasonable efforts to cause all officers and employees employed by or otherwise devoted to the Company to remain with or working for the Company prior to the Closing Date.

8.8 Tax Matters.

(a) Tax Indemnification. Subject to the provisions of this Section 8.8, Nelnet will indemnify the Buyer and its Affiliates (exclusive of the Company) and the shareholders, officers, directors, employees and agents of the Buyer and their Affiliates (exclusive of the Company) (collectively, the "Buyer Indemnified Parties") against and hold them harmless from any and all Losses that such Buyer Indemnified Parties may at any time suffer or incur, or become subject to, as a result of or in connection with (without duplication) all Taxes (or the non-payment thereof) of the Company that are Indemnified Taxes.

(b) Allocations. Each of the Company, the Buyer, and Nelnet agrees that, to the greatest extent permitted by applicable Law, the Buyer's distributive shares of the Company's income, gain, loss, deduction, credit and all other items attributable to the Membership Units for the taxable year of the Company in which the Closing occurs shall be determined on the basis of an interim closing of the books of the Company as of the close of business on the Closing Date (and shall not be based upon a proration of such items for the entire taxable year).

(c) Tax Filings. Subject to any contrary term or provision set forth in the Pre-Closing Operating Agreement or the Post-Closing Operating Agreement, or any other Related Transaction Document, including this Agreement:

(1) Nelnet shall, at its own expense, prepare, or cause to be prepared, all Tax Returns for the Company that are required to be filed with respect to any Pre-Closing Tax Period that ends on or before the Closing Date consistently with past practice ("Pre-Closing Tax Returns"). With respect to any Pre-Closing Tax Return that has not been filed prior to the date of this Agreement, Nelnet shall provide the Buyer with a copy of such Tax Return thirty (30) days in advance of the due date for filing such Tax Return (after taking into account any applicable waivers or extensions) for the Buyer's review and consent, which consent shall not be unreasonably withheld, conditioned, or delayed. The Buyer shall reasonably cooperate with Nelnet to cause such Pre-Closing Tax Return to be filed promptly, and Nelnet shall promptly pay all Taxes shown to be due on such Tax Return to the appropriate Governmental Authority. The Company shall make a valid election under Section 754 of the Code with respect to the U.S. federal income Tax Return ending on the Closing Date, and any analogous election available under state or local Tax Law, and shall not revoke any such elections.

(2) The partnership representative of the Company (as designated in the Post-Closing Operating Agreement) (the "Partnership Representative") shall prepare, or cause to be prepared, and file, or cause to be filed on a timely basis, all Tax Returns of the Company other than Pre-Closing Tax Returns ("Post-Closing Tax Returns"). The Partnership Representative shall deliver to the parties hereto a draft of any Post-Closing Tax Return that reflects an amount of Pre-Closing Taxes for which Nelnet is responsible pursuant to this Agreement (together with a calculation of the amount of Pre-Closing Taxes for which Nelnet is responsible pursuant to this Agreement) at least thirty (30) days prior to the due date of such Tax Return (after taking into account any applicable waivers or extensions) for Nelnet's review and consent, which consent shall not be unreasonably withheld, conditioned, or delayed; *provided* that the Partnership Representative's failure to timely deliver a Post-Closing Tax Return to Nelnet shall not relieve Nelnet of its indemnification obligation provided under Section 8.8(a) except to the extent that Nelnet shall have been materially prejudiced as a result of such failure.

(d) Cooperation on Tax Matters. The parties hereto shall reasonably (and shall cause their respective Affiliates, officers, employees, agents, auditors and representatives to) cooperate fully in connection with the filing of Tax Returns and in connection with any Tax Audit, litigation or other proceeding with respect to the Taxes or Tax Returns of the Company. Such cooperation shall include reasonably furnishing or making available during normal business hours, personnel, powers of attorney, and the retention and (upon a party's reasonable request) the provision of records and information that are reasonably relevant to the preparation of any such Tax Return or to any such Tax Audit, litigation or other proceeding. The parties hereto shall, upon request, use their commercially reasonable efforts to obtain any certificate or other document from any Person as may be necessary to mitigate, reduce or eliminate any Tax that could be imposed on the Company (including with respect to the transactions contemplated hereby).

(e) Transfer Taxes. Notwithstanding any other provisions of this Agreement to the contrary, all transfer, documentary, sales, use, stamp duty, registration, and other such Taxes and fees (including any penalties and interest) incurred as a result of the

transactions contemplated by this Agreement and the Related Transaction Documents ("Transfer Taxes") shall be borne by Nelnet. The party hereto responsible under applicable Law shall file all necessary Tax Returns and other documentation with respect to all such Transfer Taxes, and, if required by applicable Law, the parties hereto will, and will cause their respective Affiliates to, join in the execution of any such Tax Returns and other documentation. The non-filing party shall cooperate in so preparing and filing any such Tax Returns and other documentation.

(f) Tax Proceedings. Notwithstanding anything to the contrary in the Post-Closing Operating Agreement or any other Related Transaction Document, including this Agreement:

(1) If any third party shall notify any Buyer Indemnified Party of any Tax Audit with respect to Taxes or other payments that may give rise to a claim for indemnification against Nelnet under Section 8.8(a) (each, a "Tax Proceeding"), the Buyer shall promptly notify Nelnet thereof in writing; provided that the Buyer's failure to notify shall not relieve Nelnet of its indemnification obligation provided under Section 8.8(a) except to the extent Nelnet shall have been materially prejudiced as a result of such failure.

(2) Nelnet shall have the right to control, at its own expense and through counsel of its own choosing, any Tax Proceeding that relates to a Pre-Closing Tax Period and the Buyer shall have the right to participate in (but not control) the conduct of such Tax Proceeding at its own expense. The Buyer shall (and shall cause its Affiliates including the Company to) cooperate with Nelnet in pursuing such Tax Proceeding (including by providing appropriate powers of attorney and executing any and all agreements, instruments and other documents that are necessary or appropriate in connection with the settlement or compromise of any Tax Proceeding), and Nelnet shall not settle, compromise or concede any such Tax Proceeding without the written consent of the Buyer, which consent shall not be unreasonably withheld, delayed or conditioned. In the event that Nelnet does not assume control of any such Tax Proceeding, the Buyer shall assume control of such Tax Proceeding; provided that the Buyer shall keep Nelnet reasonably informed of the details and status of such Tax Proceeding and shall not settle, compromise or concede any such Tax Proceeding without the written consent of Nelnet, which consent shall not be unreasonably withheld, delayed or conditioned, and Nelnet shall have the right to participate in the conduct of such Tax Proceeding at its own expense.

(3) The Buyer and Nelnet shall jointly control (at each party's own cost and expense) all Tax Proceedings relating to Straddle Periods of the Company. The parties each agree to cooperate with each other in pursuing any such Tax Proceeding (including by the Buyer providing or causing to be provided powers of attorney) and neither the Buyer nor Nelnet shall (or shall permit any of their Affiliates including the Company to) settle a Tax Proceeding relating to a Straddle Period of the Company without the other party's prior written consent, which consent shall not be unreasonably withheld, conditioned or delayed.

(g) Tax Sharing Agreements. All Tax sharing agreements or similar agreements, if any, between the Company, on the one hand, and the Existing Members and/or any of their Affiliates (other than the Company), on the other hand, shall be terminated as of the Closing Date and, after the Closing Date, the Company shall not be bound thereby or have any liability thereunder.

(h) Treatment as Taxable Sale. For U.S. federal income Tax purposes, each of the parties hereto intend and agree to treat the issuance and sale of the Purchased Equity Interests and any distribution of proceeds by the Company to the Existing Members pursuant to the Related Transaction Documents as, in part, a redemption of Membership Units held by Nelnet, and, in part, a subsequent disguised sale under Section 707 of the Code and Treas. Reg. § 1.707-3(a) to the extent of the Buyer's contribution of cash by payment of the Purchase Price to the Company (any such distributed proceeds, the "Disguised Sale Proceeds"). Each of the parties hereto shall (and shall cause their respective Affiliates to) prepare and file all relevant Tax Returns on a basis consistent with the foregoing and take no inconsistent position on any United States federal income Tax Return, in any Tax Audit or similar proceeding relating to Taxes before any Government Authority, or otherwise, except to the extent otherwise required pursuant to a final determination within the definition of Section 1313(a) of the Code (or any analogous provision of state, local or non-U.S. Law).

(i) Tax Matters. Notwithstanding anything to the contrary in any Related Transaction Document, including this Agreement, the rights and obligations of the parties with respect to Taxes shall be governed exclusively by this Section 8.8 and Section 9.1.

8.9 Consents. Subject to the other provisions of this Agreement, which may impose additional or different obligations, including Section 8.10, as soon as reasonably practicable after the date of this Agreement, the Buyer, on the one hand, and the Company, on the other hand, shall use all commercially reasonable efforts and take, or cause to be taken, all actions and to do, or cause to be done, all things necessary or advisable under applicable Law to consummate the transactions contemplated by this Agreement, including (i) preparing and filing as promptly as practicable with any Governmental Authority or other Person all documentation necessary and required by applicable Law to effect all filings, notices, petitions, statements, registrations, submissions of information, applications and other documents required hereunder, and (ii) using reasonable best efforts to obtain obtaining all approvals, Consents, waivers, permits and authorizations required to be obtained hereunder from any Governmental Authority or other Person ("Consents") to consummate this Agreement and the transactions contemplated hereby and to continue operating the Company's business consistent with past practice. Without limiting the condition to Closing set forth in Section 7.2(j), in the event the Company fails to obtain some or any of the Consents as of the Closing, then, following the Closing, the Company shall promptly use commercially reasonable efforts to obtain or cause to be obtained all Consents at the Company's expense. Pending receipt thereof, the parties hereto shall use commercially reasonable efforts, and the parties hereto shall cooperate with each other in any mutually-acceptable lawful arrangements designed to provide to the Company all of the benefits of the underlying Contracts with respect to which any such Consents may apply, as well as the benefits that the Company would have obtained had such Consents been obtained with respect to the underlying Contract at

the Closing. To the extent that any of the benefits of any such Contract cannot be provided to the Company following the Closing and the use of commercially reasonable efforts of the Company pursuant to this Section 8.9, then the Company shall enter into such arrangements as may be necessary to provide to the parties hereto the economic and operational equivalent of such Contract having been subject to the Consents, as applicable, in the manner described above.

8.10 Regulatory Consents.

(a) As soon as practicable after the execution of this Agreement, but in any event no later than ten (10) Business Days from the date hereof, the parties hereto will jointly prepare and file or submit all initial filings required to be made with the FCC, State PSCs and other Governmental Authorities seeking consent or approval for, or providing prior notice of, the transactions contemplated herein in order to obtain the Post-Closing Operating Agreement Approvals (the "Transaction Regulatory Consents") as set forth on Schedule 8.10(a) attached hereto.

(b) As soon as practicable after the execution of this Agreement, but in any event no later than ten (10) Business Days from receipt of a term sheet for third-party debt financing, the parties hereto will jointly prepare and file or submit all initial filings required to be made with the FCC, State PSCs and other Governmental Authorities seeking a Permit or consent or approval for, or providing prior notice of, the third-party debt financing and any reorganization contemplated thereby (the "Financing Regulatory Consents") as set forth on Schedule 8.10(b) attached hereto.

(c) The Buyer shall have primary responsibility for preparing the filings for the Transaction Regulatory Consents and the Financing Regulatory Consents for the third-party debt financing. The Company shall have primary responsibility for preparing the filings for the Financing Regulatory Consents associated with the reorganization contemplated by the third-party debt financing. To the extent advisable and permitted by Law, the initial filings for the Transaction Regulatory Consents and Financing Regulatory Consents shall be combined into a single filing for each state. Each party hereto shall cooperate in good faith with the other parties hereto in preparing the filings as described above, consult with and reasonably accept input from the other parties hereto with respect to the efforts to obtain such consents as described above, and keep the other parties hereto informed as to all efforts in connection therewith.

(d) The Company will bear the expense of any filing fee with respect to the applications filed with the FCC and other Governmental Authorities for the Regulatory Consents.

(e) Each party hereto will promptly file any additional information requested by any Governmental Authority as soon as practicable after receipt of a request for additional information. The parties hereto will cooperate fully with each other and any applicable Governmental Authority in all reasonable respects in promptly seeking to make or obtain the Regulatory Consents. Each party hereto will have the right to review and approve in advance, with such approvals not to be unreasonably withheld or delayed, all

filings with Governmental Authorities to be made jointly or by the other party in connection with the transactions contemplated by this Agreement. Each party hereto will coordinate and cooperate with one another in exchanging such information and providing such reasonable assistance as may be requested in connection with such filings, but neither the Company nor the Buyer will be required to agree to any changes in, or the imposition of any condition on, any Communications License as a condition to obtaining any Regulatory Consent if such change in or the imposition of any condition on such Communications License would result in a Material Adverse Effect. Each party hereto will promptly supply the other with copies of all nonconfidential correspondence, filings or communications (or memoranda setting forth the substance thereof) between such party or its representatives and any Governmental Authority or members of their respective staffs with respect to this Agreement or the transactions contemplated by this Agreement. Notwithstanding anything to the contrary in this Section 8.10, materials provided to the other parties or their counsel may be redacted to remove competitively sensitive material, as well as information otherwise not germane to regulatory review.

8.11 H-S-R Act. If requested by the Buyer following the Closing, each of the Company and Nelnet agrees to reasonably cooperate and assist the Buyer by furnishing to the other party reasonably requested information and documentary material necessary or appropriate to prepare filings under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and all regulations promulgated thereunder (the "H-S-R Act"), and by promptly notifying the other party of any written communication to that party from any Governmental Authority relating to compliance with the H-S-R Act. The Company shall pay the filing fee with respect to the filing made under the H-S-R Act.

8.12 Financing. The Company shall use, and shall cause its Affiliates to use, its reasonable best efforts, at the Company's expense, to take, or cause to be taken, all actions, and to do, or cause to be done, all things necessary, proper or advisable to consummate and obtain the third-party debt financing on terms substantially consistent with those set forth on Schedule 8.12 attached hereto, with such additions and modifications thereto as may be mutually agreed to by the Buyer and Nelnet (such approval not to be unreasonably withheld, conditioned or delayed), including any reorganization of the Company necessary to consummate such financing on the terms set forth therein. Subject to any required consents in the Post-Closing Operating Agreement, if requested by the Buyer and Nelnet in connection with such reorganization and at such time following the Closing as necessary, the Company shall form a new limited liability company with the same capitalization as the Company. As reasonably requested by the Buyer or Nelnet, as applicable, the Company shall assist the Buyer or Nelnet in connection with obtaining such third-party debt financing, including, in connection with the preparation of definitive financing documents. Without the prior written consent of the Buyer and Nelnet, the Company shall not agree to any Contracts relating to such third-party debt financing (such consent not to be unreasonably withheld, conditioned or delayed). Upon the request of the Buyer or Nelnet, from time-to-time, the Company shall keep the Buyer or Nelnet, as applicable, informed on a reasonably current basis and in reasonable detail of the status of its efforts to arrange the third-party debt financing. Upon the Buyer's or Nelnet's request, as applicable, the Company shall also promptly provide to such party copies of the Contracts relating to the third-party debt financing and shall in good faith take into consideration any comments of such party.

8.13 Intercompany Agreements and Payables.

(a) As of the Closing Date, Nelnet and the Company shall terminate or cause to be terminated (without any costs or liabilities to the Company) all agreements between the Company, on the one hand, and Nelnet and/or any of its Affiliates (other than the Company), on the other hand, other than this Agreement, the Master Agreement, the Transition Services Agreement, the Related Transaction Documents and the agreements listed on Schedule 8.13 hereto. Schedule 8.13 shall also set forth a listing of intercompany loans and intercompany payables or receivables between the Company, on the one hand, and Nelnet or its Affiliates (other than the Company), on the other hand. On or prior to the Closing Date, Nelnet shall, and shall cause the Company to, take all actions necessary or advisable for the payment to Nelnet or its Affiliates and satisfaction of all intercompany loans and all intercompany payables or receivables between the Company, on the one hand, and Nelnet or its Affiliates (other than the Company), on the other hand, in a manner that does not create any unnecessary Tax liabilities or other adverse consequences to the Company or Buyer. Nelnet shall, or shall cause the Company to provide Buyer with evidence reasonably acceptable to Buyer of Nelnet's compliance with this Section 8.13. It is acknowledged by the parties hereto that certain of such intercompany payables or receivables may not be determinable prior to the Closing Date with a reasonable degree of certainty or accuracy, and thus the parties agree that such amounts are good faith estimates and agree to true up and reconcile such intercompany payables and receivables (and adjust payments therefor) within thirty (30) days following the Closing Date based upon determinations revised to reflect accurate information at such time; *provided* that the intercompany receivables in favor of the Company and the intercompany payables in favor of Nelnet shall not exceed Two Hundred Fifty-Three Thousand Dollars ($253,000) and Seven Hundred Seventy-Two Thousand Dollars ($772,000), respectively; *provided*, *further*, that the intercompany payables in favor of Nelnet shall not include any expenses related to the transactions contemplated hereby or in-kind accrual on the Class D Preferred Return (as defined in the Pre-Closing Operating Agreement).

(b) Nelnet agrees that from and after the Closing, and in any event until at least the four (4) year anniversary of the Closing Date, Nelnet (and its Affiliates) shall purchase from the Company services for cash payments in the aggregate over such four (4) year period totaling at least eighty-five percent (85%) of Nelnet's annual run-rate as of the date hereof (*i.e.,* One Million Four Hundred Thousand Dollars ($1,400,000). Additionally, prior to purchasing services from any other network service provider, Nelnet (or its Affiliate, as applicable) shall provide the Company with written notice of the terms and conditions that such other network service provider is willing to offer to Nelnet (or its Affiliate) and Nelnet shall provide the Company with ten (10) Business Days to offer to sell such services to Nelnet (or its Affiliate) on the same (or more favorable to Nelnet) material terms and conditions as such other network service provider. If the Company is unable to offer such services to Nelnet (or its Affiliate) on the same material terms, then after such ten (10) Business Day period, Nelnet (or its Affiliate) shall be permitted to engage such other network service provider.

8.14 Release as Guarantor. Prior to or as of the Closing, Nelnet shall take all actions necessary at Nelnet's expense to cause the Company to be released (without any continuing guaranty liabilities or obligations thereunder) as a guarantor under the Second Amended and Restated Credit Agreement.

ARTICLE IX
INDEMNIFICATION

9.1 Survival of Representations and Warranties and Indemnity Obligations. The representations and warranties of the Company in Article IV and the Buyer in Article V will survive the Closing but will expire and be of no further force or effect twenty (20) months after the Closing Date, except that: (a) the Company Fundamental Representations and the representations and warranties of Nelnet in Article VI, shall survive until seventy-two (72) months after the Closing Date, (b) subject to Section 9.5(c), the representations and warranties made by the Company in Section 4.11, shall survive until the expiration of the applicable governing statute of limitations, (c) the Fundamental Fiber Network Representations shall survive until seventy-two (72) months after the Closing Date, and (d) the Buyer Fundamental Representations shall survive until seventy-two (72) months after the Closing Date. All covenants contained in this Agreement which are to be performed prior to the Closing shall terminate on the first anniversary of the Closing Date. The covenants contained in this Agreement which are to be performed at or after the Closing shall terminate once such covenants are fully performed. Subject to Section 9.5(c) and without limiting any claims for indemnity made prior to the end of the applicable survival period, no claim for indemnity may be made following the applicable survival period.

9.2 Indemnification by Nelnet. Subject to the provisions of this Article IX, Nelnet will indemnify the Buyer Indemnified Parties against and hold them harmless from:

(a) Representations. All Losses resulting from any breach of, or any inaccuracy in, any representation or warranty made by the Company in Article IV or Nelnet in Article VI hereof, other than any representation or warranty made by the Company in Section 4.11.

(b) Covenants. All Losses resulting from any breach or nonperformance of any covenant or obligation made or incurred by the Company or Nelnet herein.

9.3 Indemnification by Buyer. Subject to the provisions of this Article IX, the Buyer will indemnify the Company and the members, officers, directors, employees and agents of the Company and its Affiliates (collectively, the "Company Indemnified Parties"), as well as Nelnet and the officers, directors, employees and agents of Nelnet and its Affiliates (collectively, the "Nelnet Indemnified Parties") against and hold them harmless from:

(a) Representations. All Losses resulting from any breach of, or any inaccuracy in, any representation or warranty made by the Buyer in Article V hereof.

(b) Covenants. All Losses resulting from any breach or nonperformance of any covenant or obligation made or incurred by the Buyer herein.

9.4 Limitations on Indemnification.

(a) Neither Nelnet nor the Buyer, as the case may be, will have an obligation to indemnify the Buyer Indemnified Parties or the Company Indemnified Parties under Sections 9.2(a) or Section 9.3(a), as the case may be, until the aggregate amount of such other party's Losses exceeds Five Hundred Thousand Dollars ($500,000) (the "Basket Amount") and then only to the extent of any such excess; *provided, however*, the Basket Amount limitation shall not apply to Losses resulting from (i) any breach by the Company of any Company Fundamental Representations, any Fundamental Fiber Network Representations or any representation and warranty of Nelnet in Article VI or (ii) any breach by the Buyer of any Buyer Fundamental Representations; *provided*, *further*, that Nelnet will not have an obligation to indemnify the Buyer Indemnified Parties for any breach of a Fundamental Fiber Network Representation until the aggregate amount of such other party's Losses exceeds Two Hundred Fifty Thousand Dollars ($250,000) and then only to the extent of any such excess (the "Fiber Network Basket Amount"). No claim for indemnity under Sections 9.2(a) (other than with respect to the Fundamental Fiber Network Representations) or Section 9.3(a) for Losses shall be included in the Basket Amount unless the amount of any single claim (or series of related claims arising out of similar facts or circumstances) for the other party's Losses exceeds Forty Thousand Dollars ($40,000). Any claim for indemnity under Section 9.2(a) for a single claim (or series of related claims arising out of similar facts or circumstances) for Losses with respect to a breach by the Company of any Fundamental Fiber Network Representation that is less than the Fiber Network Basket Amount shall be counted toward the Basket Amount.

(b) Notwithstanding anything to the contrary contained in this Agreement:

(i) the aggregate of all indemnifiable Losses of the Buyer Indemnified Parties under Section 9.2(a) (other than Losses resulting from any breach by the Company of the Company Fundamental Representations or of the Fundamental Fiber Network Representations, or any breach by Nelnet of the representations and warranties in Article VI), shall be limited to Twelve and One-Half Percent (12.5%) of the Purchase Price;

(ii) the aggregate of all indemnifiable Losses of the Buyer Indemnified Parties resulting from any breach by the Company of the Fundamental Fiber Network Representations shall be limited to Forty Million Dollars ($40,000,000); and

(iii) the aggregate indemnifiable Losses of the Buyer Indemnified Parties (including under Section 9.2(a)) resulting from any breach by the Company of the Company Fundamental Representations or any breach by Nelnet of the representations and warranties in Article VI shall be limited to the Purchase Price.

(c) Notwithstanding anything to the contrary contained in this Agreement, (i) the aggregate of all indemnifiable Losses of the Company Indemnified Parties under Section 9.3(a) (other than Losses resulting from any breach by the Buyer of the Buyer Fundamental Representations) shall be limited to Twelve and One-Half (12.5%) of the

Purchase Price and (ii) the aggregate indemnifiable Losses of the Company Indemnified Parties (including under Section 9.3(a)) shall be limited to the Purchase Price.

(d) Notwithstanding anything to the contrary contained in this Agreement, (i) the indemnifiable Losses of the Nelnet Indemnified Parties under Section 9.3(a) (other than Losses resulting from any breach by the Buyer of the Buyer Fundamental Representations) shall be limited to Twelve and One-Half Percent (12.5%) of the Purchase Price and (ii) the aggregate indemnifiable Losses of the Nelnet Indemnified Parties (including under Section 9.3(a)) shall be limited to the Purchase Price.

(e) Notwithstanding anything to the contrary in this Article IX, for purposes of measuring whether a breach or inaccuracy of a representation or warranty has occurred for purposes of this Article IX and in determining the amount of Losses resulting therefrom, any limitation or qualification as to "materiality," "Material Adverse Effect" or similar language set forth in such representation or warranty shall be disregarded.

9.5 Procedure for Indemnification – Third Party Claims.

(a) In order for a Buyer Indemnified Party or a Company Indemnified Party (an "Indemnified Person") to be entitled to any indemnification under this Article IX in respect of, or arising out of, a claim brought against the Indemnified Person by a third party (a "Third Party Claim"), such Indemnified Person must notify the party obligated to indemnify such Indemnified Person (the "Indemnitor") in writing of the Third Party Claim promptly after receipt by the Indemnified Person of written notice of the Third Party Claim; *provided, however*, that failure to give such notification shall not affect the indemnification provided hereunder, unless, and then only to the extent, that the Indemnitor is actually prejudiced by such failure to receive notification. Thereafter, the Indemnified Person shall deliver to the Indemnitor promptly after receipt thereof, copies of all notices and documents (including court papers) received by the Indemnified Person relating to the Third Party Claim.

(b) If a Third Party Claim is made against an Indemnified Person, the Indemnitor will be entitled to participate in the related proceeding and, if they so choose, assume and control the defense of such Third Party Claim; *provided, however*, that the Indemnitor shall not be entitled to assume and control the defense of such proceeding if the Indemnitor is also a party to such proceeding and the Indemnified Person determines in good faith that joint representation would be unethical. If the Indemnitor assumes the defense of such Third Party Claim, the Indemnitor shall not settle such Third Party Claim without the consent of the Indemnified Person (which consent shall not be unreasonably withheld, conditioned or delayed) unless such settlement (i) does not involve any finding or admission of any wrongdoing by the Indemnified Person, (ii) does not involve any relief other than monetary damages and (iii) provides a customary release of the Indemnified Person in connection with such Third Party Claim.

(c) If a party receives a notice of a Third Party Claim within five (5) Business Days prior to the expiration of the applicable survival period as set forth in Section 9.1

with respect to an indemnification claim therefor, such indemnification claim may be made at any time until the date that is five (5) Business Days following the expiration of such applicable survival period (it being understood that any such indemnity claim made prior to such date shall survive until finally resolved).

9.6 Procedure for Indemnification – Other Claims. An indemnification claim for any matter not involving a Third Party Claim may be asserted by notice to the Indemnitor.

9.7 Mitigation of Losses. Notwithstanding anything to the contrary herein, any indemnity payment due and payable by the Indemnitor under this Article IX shall be reduced, whether retroactively or otherwise, by an amount equal to any and all (a) Tax benefits and credits that are actually realized (as determined on a "with-and-without basis") by the Indemnified Person arising from the incurrence or payment of any such Loss in the taxable year of such Loss, and (b) insurance proceeds received by any Indemnified Person in respect of such Loss, whether such proceeds are received before or after indemnity payments are made, less (i) any reasonable costs and expenses incurred by the Indemnified Person to recover such insurance proceeds, and less (ii) any increase in insurance premiums resulting from such Losses for insurance related to such Losses. The Indemnified Person shall make a good faith effort to recover such Loss against applicable insurance policies; *provided, however*, that such good faith effort shall not require the Indemnified Person to initiate any proceeding against any insurer and in no event shall the existence of a claim by an Indemnified Person for monies from such Indemnified Person's insurer (A) delay any payment determined to be due and owing by an Indemnitor, or (B) relieve the Indemnitor of its indemnification obligations pursuant to this Article IX unless such claim was paid by such Indemnified Person's insurer. Rather, the Indemnitor shall make payment in full of the amount determined to be due and owing by it against an assignment by the Indemnified Person to the Indemnitor of the entire claim of the Indemnified Person for the insurance proceeds from such Indemnified Person's insurer to extent permissible. Each Indemnified Party shall reasonably consult and cooperate with each Indemnitor with a view toward mitigating Losses in connection with any claims for which a party seeks indemnification, and each Indemnified Party shall take all reasonable steps to mitigate its Losses upon and after becoming aware of an event which, in the Indemnified Party's good faith judgment, is reasonably likely to give rise to such Losses; each Indemnitor shall reimburse each Indemnified Party for the costs associated with taking such steps.

9.8 Exclusive Remedy. From and after the Closing (except with respect to any claims for fraud or injunctive relief pursuant to Section 10.8), the indemnifications provided for in Section 8.8 and this Article IX will constitute the sole and exclusive remedies of any party with respect to any matters arising out of this Agreement and the sale and purchase transactions contemplated hereby, whether based on contract, tort, strict liability, or otherwise, including any breach or alleged breach of any representation, warranty, covenant or agreement made herein or in any certificate delivered pursuant hereto.

ARTICLE X
MISCELLANEOUS AND CONSTRUCTION

10.1 Notices. All notices shall be in writing delivered as follows:

(a) If to the Company:

ALLO Communications LLC
Attention: Bradley Moline
330 South 21st Street
Lincoln, Nebraska 68510
Email: bmoline@allophone.net

with a copy to:

Nelnet, Inc.
Attention: Legal Department
121 South 13th Street, Suite 100
Lincoln, NE 68508
Email: mark.pence@nelnet.net

and a copy to:

Daniel F. Kaplan
Perry, Guthery, Haase
& Gessford, P.C., L.L.O.
233 South 13th Street, Suite 1400
Lincoln, Nebraska 68508
Email: dkaplan@perrylawfirm.com

(b) If to the Buyer:

c/o SDC Capital Partners, LLC
817 Broadway, 10th Floor
New York, New York 10003
Attn: Todd M. Aaron
Email: TAaron@sdccapitalpartners.com

with a copy to:

Skadden, Arps, Slate, Meagher & Flom LLP
One Manhattan West
New York, New York 10001
Attn: Thomas W. Greenberg, Esq.
Email: thomas.greenberg@skadden.com

(c) If to Nelnet:

Nelnet, Inc.
Attention: Terry J. Heimes
121 South 13th Street, Suite 100
Lincoln, NE 68508

Email: terry.heimes@nelnet.net

with a copy to:

Nelnet, Inc.
Attention: Legal Department
121 South 13th Street, Suite 100
Lincoln, NE 68508
Email: bill.munn@nelnet.net

and a copy to:

Daniel F. Kaplan
Perry, Guthery, Haase
& Gessford, P.C., L.L.O.
233 South 13th Street, Suite 1400
Lincoln, Nebraska 68508
Email: dkaplan@perrylawfirm.com

or to such other address as may have been designated in a prior notice. All notices and other communications given or made pursuant to this Agreement shall be in writing and shall be deemed effectively given upon the earlier of actual receipt, or (a) personal delivery to the party to be notified, (b) when transmitted via electronic mail, provided, that the sender on the same day sends a confirming copy of such notice by a recognized overnight delivery service (charges prepaid), (c) five (5) days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (d) one (1) business day after deposit with a nationally recognized overnight courier, freight prepaid, specifying next business day delivery, with written verification of receipt.

10.2 Assignment; Binding Effect. This Agreement may not be assigned by any party without the prior written consent of all other parties hereto, except that the Buyer may assign all or any of its rights (but not obligations) hereunder to any Affiliate of the Buyer; *provided*, *however*, that no such assignment shall relieve the Buyer of its obligations hereunder. Any purported assignment in violation of the foregoing shall be null and void and of no force or effect. Except as may be otherwise provided herein, this Agreement will be binding upon and inure to the benefit of the parties and their respective successors and permitted assigns. Except as otherwise provided in this Agreement, nothing in this Agreement is intended or will be construed to confer on any Person other than the parties any rights or benefits hereunder.

10.3 Counterparts. This Agreement may be executed in multiple counterparts, each of which will be deemed an original, and all of which together will constitute one and the same document.

10.4 Construction. The language used in this Agreement will be deemed to be the language chosen by the parties hereto to express their mutual intent, and no rule of strict construction will be applied against any party. This Agreement shall be construed to be valid and enforceable to the full extent allowed by law. It is agreed that if any part, term or provision of this

Agreement is determined to be illegal, unenforceable or in conflict with applicable law, the validity of the remaining terms and provisions shall not be affected, and the rights and obligations of the parties shall be construed and enforced as if the Agreement did not contain the term of provision held to be invalid.

10.5 Modification. No supplement, modification or amendment of this Agreement will be binding unless made in a written instrument which is signed by all parties and which specifically refers to this Agreement.

10.6 Governing Law; Venue; Waiver of Jury Trial. This Agreement and the rights and obligations of the parties hereunder shall be construed in accordance with and be governed by the laws of the State of Delaware without regard to any otherwise applicable principles of conflicts of law. Each party agrees that venue for any action or proceeding commenced in connection with this Agreement shall be proper in the state of organization or residence of the party against which the action or proceeding is initiated or filed, and waives any objection to such venue. EACH PARTY HEREBY ACKNOWLEDGES AND AGREES THAT ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION THAT MAY ARISE UNDER, OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREIN IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES, AND THEREFORE IT HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES ALL RIGHTS IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION (WHETHER BASED ON CONTRACT, TORT OR OTHERWISE) DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREIN OR THE FACTS OR CIRCUMSTANCES LEADING TO ITS EXECUTION OR PERFORMANCE. EACH PARTY CERTIFIES AND ACKNOWLEDGES THAT (i) NO PARTY OR REPRESENTATIVE OR AFFILIATE THEREOF HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER; (ii) IT UNDERSTANDS AND HAS CONSIDERED THE IMPLICATIONS OF SUCH WAIVER; (iii) IT MAKES SUCH WAIVER KNOWINGLY AND VOLUNTARILY AND (iv) IT HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS CONTAINED IN THIS PARAGRAPH.

10.7 Entire Agreement. This Agreement and the agreements and documents referred to in this Agreement or delivered hereunder are the exclusive statement of the agreement between the parties concerning the subject matter hereof. All negotiations between the parties are merged into this Agreement, and there are no representations, warranties, covenants, understandings or agreements, oral or otherwise, in relation thereto between the parties other than those incorporated herein and to be delivered hereunder or under the Master Agreement. This Agreement shall specifically supersede any prior negotiations, understandings or agreements between Company and SDC Capital Partners, LLC including the letter with respect to exclusive negotiations executed by Nelnet, Inc. and SDC Capital Partners, LLC and dated as of July 20, 2020, as amended.

10.8 Severability. Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable Law, but if any provision of this Agreement is held to be prohibited by or invalid under applicable Law, such provision shall

be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement.

10.9 Specific Performance. The parties hereto agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached, and that money damages or legal remedies would not be an adequate remedy for any such damages. Therefore, it is accordingly agreed that each party shall be entitled to enforce specifically the terms and provisions of this Agreement, or to enforce compliance with, the covenants and obligations of any other party, in any court of competent jurisdiction as set forth in Section 10.6, and appropriate injunctive relief shall be granted in connection therewith (without proof of actual damages). Any party seeking an injunction, a decree or order of specific performance shall not be required to provide any bond or other security in connection therewith and any such remedy shall be in addition and not in substitution for any other remedy to which such party is entitled at law or in equity. The parties further agree (i) not to assert that a remedy of injunctive relief, specific performance or other equitable relief is unenforceable, invalid, contrary to law or inequitable for any reason, nor to assert that a remedy of money damages would provide an adequate remedy and (ii) to waive any defenses in any action for specific performance, including the defense that a remedy at law would be adequate.

10.10 General.

(a) The singular form of any word used herein, including the terms defined in Article I hereof, shall include the plural, and vice versa. The use herein of a word of any gender shall include both genders.

(b) Unless otherwise specified, references to Articles, Sections, and other subdivisions of this Agreement are to the designated Articles, Sections, and other subdivisions of this Agreement as originally executed.

(c) The headings or titles of the several Articles and Sections shall be solely for convenience of reference and shall not affect the meaning, construction, or effect of the provisions hereof.

(d) All accounting terms not specifically defined shall be construed in accordance with GAAP.

(e) Any reference herein to any Person includes such Person's successors and assigns but, if applicable, only if such successors and assigns are not prohibited by this Agreement, and reference to a Person in a particular capacity excludes such Person in any other capacity or individually.

(f) Any references herein to "dollars" or "$" mean United States dollars, unless otherwise clearly indicated to the contrary.

(g) Any reference herein to any agreement, document, or instrument means such agreement, document or instrument as amended or modified and in effect from time to time in accordance with the terms thereof.

(h) Any reference herein to any Law means such Law as amended, modified, codified, replaced or reenacted, in whole or in part, and in effect from time to time, including rules and regulations promulgated thereunder, and reference to any section or other provision of any Law means that provision of such Law from time to time in effect and constituting the substantive amendment, modification, codification, replacement or reenactment of such section or other provision.

(i) "Hereunder," "hereof," "hereto," and words of similar import shall be deemed references to this Agreement as a whole and not to any particular Article, Section or other provision hereof.

(j) The word "including" (and with correlative meaning "include") when used herein means including without limiting the generality of any description preceding such term and "or" is used in the inclusive sense of "and/or."

(k) With respect to the determination of any period of time, "from" means "from and including" and "to" means "to but excluding."

(l) Any references herein to documents, instruments or agreements shall be deemed to refer as well to all addenda, exhibits, schedules, or amendments thereto.

[Remainder of page intentionally left blank.]

INTENDING TO BE LEGALLY BOUND, the parties have signed this Membership Unit Purchase Agreement as of the date first above written.

THE COMPANY:

ALLO COMMUNICATIONS LLC

By: /s/ WILLIAM J. MUNN

Name: William J. Munn
Title: Secretary

[Signature Page of Membership Unit Purchase Agreement]

BUYER:

SDC ALLO HOLDINGS, LLC

By: SDC Digital Infrastructure
Opportunity Fund II, L.P.,
as Sole Member

By: SDC DIOF II GP, LLC,
as General Partner

By: SDC GP Manager, LLC,
as Managing Member

By: /s/ TODD AARON
Name: Todd Aaron
Title: Authorized Person

[Signature Page of Membership Unit Purchase Agreement]

NELNET:

NELNET, INC.

By: /s/ TERRY J. HEIMES
Name: Terry J. Heimes
Title: Chief Operating Officer

[Signature Page of Membership Unit Purchase Agreement]

LIST OF SCHEDULES TO MEMBERSHIP UNIT PURCHASE AGREEMENT

The following is a list of the disclosure schedules to the Membership Unit Purchase Agreement that were omitted from Exhibit 10.2 pursuant to the provisions of Item 601(a)(5) of Regulations S-K.

List of Schedules

Schedule 2.1: Purchased Equity Interests; Membership Units Owned by Each Member After Closing; Vested Class C Membership Units Owned by Management After Closing

Schedule 4.2: Pre-Closing Consents

Schedule 4.3: Intellectual Property

Schedule 4.4(a): Jurisdictions Where Qualified to Transact Business

Schedule 4.4(c)(i): Outstanding, Issued and Authorized Membership Units Pre-Closing; Unvested Class C Membership Units Owned by Management Before Closing

Schedule 4.4(c)(ii): Outstanding, Issued and Authorized Membership Units Post-Closing

Schedule 4.4(d): Exceptions to Continuation of Permits

Schedule 4.4(e): Registration Rights

Schedule 4.5: Liens

Schedule 4.6: Material Contracts

Schedule 4.8: Litigation

Schedule 4.9: Compliance with Laws; Permits; Breaches of Permits or Applicable Law

Schedule 4.10: Compensation of Employees

Schedule 4.11: Taxes Matters

Schedule 4.12: Employee Benefit Plans

Schedule 4.13: Absence of Certain Events

Schedule 4.14: Financial Statements and Related Matters

Schedule 4.15: Absence of Undisclosed Liabilities

Schedule 4.17: Conflicts of Interest

Schedule 4.18: Bonds

Schedule 4.19: Real Estate

Schedule 4.20: Agreements with Regulators

Schedule 4.21: Insurance

Schedule 4.22: Vendors

Schedule 4.22(b) Programming Agreements

Schedule 4.23: Regulatory Matters

Schedule 4.25: Fiber Network

Schedule 6.2(a): Authority; Non-Contravention

Schedule 7.2(h): Form of Assignment
Schedule 7.2(j): Required Consents
Schedule 8.2(a): Separation Plan
Schedule 8.5: Exceptions for Conduct of Business
Schedule 8.10: Regulatory Consents
Schedule 8.12: Third-Party Debt Financing Terms
Schedule 8.13: Intercompany Agreements Payables and Receivables with Nelnet Surviving Closing

EXHIBIT 10.3

OMNIBUS AMENDMENT
TO
AGREEMENTS

This OMNIBUS AMENDMENT (this "Amendment"), dated October 15, 2020, amends that certain (i) Master Agreement, dated October 1, 2020 (the "Master Agreement"), by and among ALLO Communications LLC, a Nebraska limited liability company (the "Company"), SDC Allo Holdings, LLC, a Delaware limited liability company ("Buyer"), and Nelnet, Inc., a Nebraska corporation ("Nelnet"), and (ii) Membership Unit Purchase Agreement, dated October 1, 2020, by and among the Company, Buyer and Nelnet (the "Purchase Agreement" and, together with the Master Agreement, the "Agreements").

RECITALS

WHEREAS, the Company, Buyer and Nelnet have entered into each of the Agreements;

WHEREAS, the Company, Buyer and Nelnet each desire to amend certain provisions of each of the Agreements as set forth herein; and

WHEREAS, pursuant to Section 3.5 of the Master Agreement and Section 10.5 of the Purchase Agreement, each Agreement may be modified or amended only by a written instrument which is signed by all parties and which specifically refers to the relevant Agreement.

NOW, THEREFORE, in consideration of the foregoing and the respective covenants and agreements set forth herein and other good and valuable consideration, the receipt and sufficiency of which are hereby confirmed, and subject to the terms and conditions set forth herein, each of the parties hereto agrees as follows:

ARTICLE I
AGREEMENT

1.01 Amendment. All references to "$197,000,000.00" in the Agreements are, for all purposes, hereby replaced with "$196,980,600.00".

ARTICLE II
MISCELLANEOUS

2.01 Effect of Amendment. Except as amended as set forth herein, the Agreements shall continue in full force and effect in accordance with such Agreement's terms. Nothing in this Amendment shall be construed to amend, modify or waive any provision of the Agreements, except as specifically set forth above. From and after the date of this Amendment, all references to the Purchase Agreement or the Master Agreement, as applicable, including all such references in the Purchase Agreement or the Master Agreement, as applicable, and each other agreement, document or instrument contemplated by the Purchase Agreement or the Master Agreement, as applicable, shall for all purposes be deemed to be references to the Purchase Agreement or the Master Agreement, as applicable, as amended by this Amendment. The parties hereto agree and acknowledge that to the extent any terms or provisions of this Amendment are in any way inconsistent with or in conflict with any term, condition or provision of the Purchase Agreement or the Master Agreement, this Amendment shall govern and control.

2.02 Amendments. This Amendment may be amended only by a written agreement executed by all of the parties to this Amendment.

2.03 Miscellaneous. Section 3.3 (Counterparts), Section 3.6 (Governing Law; Venue; Waiver of Jury Trial) and Section 3.9 (Severability) of the Master Agreement are incorporated herein *mutatis mutandis*.

[Signature Page Follows]

[*Signature pages follow*]

IN WITNESS WHEREOF, each of the undersigned has caused this Amendment to be executed as of the day and year first above written.

THE COMPANY:

ALLO COMMUNICATIONS LLC

By: /s/ WILLIAM J. MUNN
Name: William J. Munn
Title: Secretary

[Signature Page to Omnibus Amendment to Agreements]

BUYER:

SDC ALLO HOLDINGS, LLC

By: SDC Digital Infrastructure
Opportunity Fund II, L.P.,
as Sole Member

By: SDC DIOF II GP, LLC,
as General Partner

By: SDC GP Manager, LLC,
as Managing Member

By: /s/ TODD AARON
Name: Todd Aaron
Title: Authorized Person

[Signature Page to Omnibus Amendment to Agreements]

NELNET:

NELNET, INC.

By: /s/ TERRY J. HEIMES
Name: Terry J. Heimes
Title: Chief Operating Officer

[Signature Page to Omnibus Amendment to Agreements]

Exhibit 31.1

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Jeffrey R. Noordhoek, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Nelnet, Inc. (the "Company");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2020

/s/ JEFFREY R. NOORDHOEK
Jeffrey R. Noordhoek Chief Executive Officer
Principal Executive Officer

Exhibit 31.2

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, James D. Kruger, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Nelnet, Inc. (the "Company");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2020

/s/ JAMES D. KRUGER
James D. Kruger
Chief Financial Officer
Principal Financial Officer and Principal Accounting Officer

Exhibit 32

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Nelnet, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 5, 2020

By: /s/ JEFFREY R. NOORDHOEK
Name: Jeffrey R. Noordhoek
Title: Chief Executive Officer
Principal Executive Officer

By: /s/ JAMES D. KRUGER
Name: James D. Kruger
Title: Chief Financial Officer
Principal Financial Officer and Principal Accounting Officer