

Higher One Holdings, Inc.
Form 10-Q
May 06, 2016
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 March 31, 2016.

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: 001-34779

HIGHER ONE HOLDINGS, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware **26-3025501**
(State or Other Jurisdiction of (I.R.S. Employer

Incorporation or Organization) Identification No.)
115 Munson Street

New Haven, CT 06511

(Address of Principal Executive Offices)(Zip Code)

(203) 776-7776

(Registrant's Telephone Number, Including Area Code)

N/A

(Former Name, Former Address and Former Fiscal Year, If Changes Since Last Report)

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

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

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

Large accelerated filer	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

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 May 4, 2016, there were 48,664,224 shares of common stock, par value \$0.001 per share, outstanding.

HIGHER ONE HOLDINGS, INC.

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FOR THE THREE MONTHS ENDED MARCH 31, 2016

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As used herein, the terms "we," "us," "our," "the Company," or "Higher One," unless the context otherwise requires, mean Higher One Holdings, Inc. and its subsidiaries.

PART I – FINANCIAL INFORMATION**Item 1. Financial Statements (unaudited)****Higher One Holdings, Inc.****Condensed Consolidated Balance Sheets**

(In thousands of dollars, except share and per share amounts)

(unaudited)

	March 31, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$35,024	\$26,868
Accounts receivable	6,610	5,052
Income receivable	6,546	9,227
Prepaid expenses and other current assets	6,186	8,059
Total current assets	54,366	\$49,206
Deferred costs	3,207	3,753
Fixed assets, net	40,512	42,288
Intangible assets, net	29,855	31,430
Goodwill	53,022	53,022
Loan receivable related to New Markets Tax Credit financing	7,633	7,633
Other assets	2,850	2,909
Restricted cash	2,729	2,729
Total assets	194,174	192,970
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	2,743	3,040
Accrued expenses	18,548	19,675
Deferred revenue	16,118	17,145
Total current liabilities	37,409	39,860
Deferred revenue and other non-current liabilities	5,346	5,414
Loan payable and deferred contribution related to New Markets Tax Credit financing	8,483	8,561
Debt	29,000	29,000
Deferred tax liabilities	1,179	1,404
Total liabilities	81,417	84,239
Commitments and contingencies (Note 7)		
Stockholders' equity:		

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Common stock, \$.001 par value; 200,000,000 shares authorized; 60,366,127 shares issued and 48,280,322 shares outstanding at March 31, 2016 and 59,921,503 shares issued and 48,008,477 shares outstanding at December 31, 2015	60	60
Additional paid-in capital	191,668	191,391
Treasury stock, 12,085,805 and 11,913,026 shares at March 31, 2016 and December 31, 2015, respectively	(137,899)	(137,899)
Accumulated other comprehensive loss	(113)	(113)
Retained earnings	59,041	55,292
Total stockholders' equity	112,757	108,731
Total liabilities and stockholders' equity	\$194,174	\$192,970

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Higher One Holdings, Inc.**Condensed Consolidated Statements of Operations**

(In thousands of dollars, except share and per share amounts)

(unaudited)

	Three Months Ended	
	March 31,	
	2016	2015
Revenue:		
Account revenue	\$30,704	\$37,528
Payment transaction revenue	18,215	17,324
Higher education institution revenue	6,471	6,416
Other revenue	161	240
Revenue	55,551	61,508
Cost of revenue	25,931	27,747
Gross margin	29,620	33,761
Operating expenses:		
General and administrative	17,327	17,541
Product development	1,757	1,405
Sales and marketing	2,787	3,267
Costs related to planned disposal of disbursements business	421	-
Total operating expenses	22,292	22,213
Income from continuing operations	7,328	11,548
Interest income	20	20
Interest expense	(603)	(1,144)
Other income	77	77
Net income before income taxes from continuing operations	6,822	10,501
Income tax expense from continuing operations	3,053	4,335
Income from continuing operations	3,769	6,166
Discontinued operations:		
Income from discontinued operations	-	1,027
Loss on disposal	(32)	-
Income tax (expense) benefit	12	(333)
Income (loss) from discontinued operations	(20)	694
Net income	\$3,749	\$6,860
Weighted average shares outstanding		
Basic	47,906,498	47,355,845
Diluted	49,145,249	47,820,951
Earnings per share of common stock - basic		
Continuing operations	\$0.08	\$0.13
Net income per share	\$0.08	\$0.14

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Earnings per share of common stock - diluted		
Continuing operations	\$0.08	\$0.13
Net income per share	\$0.08	\$0.14
Net income	\$3,749	\$6,860
Foreign currency translation adjustment	-	-
Comprehensive income	\$3,749	\$6,860

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Higher One Holdings, Inc.**Condensed Consolidated Statement of Changes in Stockholders' Equity**

(In thousands of dollars, except share amounts)

(unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income	Retained Earnings	Total Stockholders' Equity
Balance at December 31, 2015	48,008,477	\$ 60	\$ 191,391	\$(137,899)	\$ (113)	\$ 55,292	\$ 108,731
Vesting of restricted stock, net of cancellations for tax withholding	266,745	-	(727)	-	-	-	(727)
Stock-based compensation	-	-	1,136	-	-	-	1,136
Reversal of tax benefit related to options	-	-	(136)	-	-	-	(136)
Exercise of stock options	5,100	-	4	-	-	-	4
Net income	-	-	-	-	-	3,749	3,749
Balance at March 31, 2016	48,280,322	\$ 60	\$ 191,668	\$(137,899)	\$ (113)	\$ 59,041	\$ 112,757

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Higher One Holdings, Inc.**Condensed Consolidated Statements of Cash Flows**

(In thousands of dollars)

(unaudited)

	Three Months Ended March 31,	
	2016	2015
Cash flows from operating activities		
Net income	\$3,749	\$6,860
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,573	5,170
Amortization of deferred finance costs	270	659
Loss on disposition of data analytics business	32	-
Stock-based compensation	1,126	2,198
Deferred income taxes	(473)	(945)
Income tax impact related to exercise of stock options and tax payments related to the vesting of restricted stock units	(732)	(15)
Other non-cash income	(77)	(77)
Loss on disposal of fixed assets	47	10
Changes in operating assets and liabilities:		
Accounts receivable	(1,558)	(3,104)
Income receivable	2,681	2,103
Deferred costs	(100)	(119)
Prepaid expenses and other current assets	1,873	3,014
Other assets	59	(639)
Accounts payable	(286)	259
Accrued expenses	(1,056)	2,860
Deferred revenue	(1,095)	(2,065)
Net cash provided by operating activities	9,033	16,169
Cash flows from investing activities		
Purchases of fixed assets	(208)	(629)
Additions to internal use software	(677)	(1,354)
Net cash used in investing activities	(885)	(1,983)
Cash flows from financing activities		
Repayments of line of credit	-	(35,000)
Payment of deferred financing costs	-	(4,456)
Excess tax benefit related to stock options	4	15
Proceeds from exercise of stock options	4	215
Net cash provided by (used in) financing activities	8	(39,226)
Effect of exchange rate changes on cash	-	-
Net change in cash and cash equivalents	8,156	(25,040)
Cash and cash equivalents at beginning of period	26,868	40,022

Cash and cash equivalents at end of period	\$35,024	\$14,982
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The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Higher One Holdings, Inc.

Notes to Condensed Consolidated Financial Statements

(unaudited)

1. Nature of Business and Organization

Business Overview

Higher One Holdings, Inc., or HOH, is a leading provider of technology and payment services to the higher education industry. HOH, through its subsidiaries, provides a comprehensive suite of disbursement and payment solutions specifically designed for higher education institutions and their students. We have developed and acquired proprietary software-based solutions to provide these services. HOH is incorporated in Delaware and maintains its headquarters in New Haven, Connecticut. HOH has a wholly-owned subsidiary, Higher One, Inc., or HOI, which has two wholly-owned subsidiaries, Higher One Machines, Inc., or HOMI, and Higher One Real Estate, Inc., or Real Estate Inc. HOI and HOMI together own 99.995% of Higher One Financial Technology Private Limited, or HOFTPL. Real Estate Inc. has a 98% ownership interest in Higher One Real Estate SP, LLC, or Real Estate LLC. HOMI and HOFTPL perform certain of our operational support functions. Real Estate Inc. and Real Estate LLC were each formed to hold and operate certain of our real estate assets.

Significant Transactions

As further described in Note 3, on October 14, 2015, we entered into an Asset Purchase Agreement, the Campus Labs Asset Purchase Agreement, with CL NewCo, Inc., an affiliate of Leeds Equity Partners, for the sale of substantially all of the assets of our data analytics business. On November 25, 2015, we completed that sale pursuant to the terms of the Campus Labs Asset Purchase Agreement. The financial results of the data analytics business are reported as discontinued operations.

On December 15, 2015, we entered into an Asset Purchase Agreement, the Disbursements Asset Purchase Agreement, with Customers Bank, or Bank, and Customers Bancorp, Inc., or Bancorp, and together with Bank, Buyer, under which Buyer agreed to purchase substantially all of the assets and assume certain of the liabilities of our refund disbursement business. Buyer is a current bank partner of Higher One.

Under the terms of the Disbursements Asset Purchase Agreement, Buyer agreed to acquire the disbursement business for an aggregate purchase price of \$37 million, payable as follows: \$17 million on the closing date and \$10 million on each of the first two anniversaries of such date. The Disbursements Asset Purchase Agreement also includes possible incentive payments during each of the three (3) years beginning in 2017; namely, in the event the annual gross revenue generated by the disbursement business exceeds \$75 million, we will receive thirty-five percent of any such excess. In addition, concurrently with the closing, the parties will enter into a transition services agreement, the Transition Services Agreement, pursuant to which Higher One will provide certain transition services to Bank and Bank will provide certain services to Higher One from the date of the close through June 30, 2017. As consideration for these services, Customers will pay Higher One an additional \$5 million in cash payable in equal installments over the term of the transition services.

The Disbursements Asset Purchase Agreement includes customary representations, warranties, indemnities and covenants of the parties. The covenants include, among other things, a requirement that we will conduct the disbursement business in the ordinary course before the closing, and a requirement that Holdings will prepare and file a proxy statement with the Securities and Exchange Commission and seek stockholder approval of the transactions contemplated by the Disbursements Asset Purchase Agreement. On April 4, 2016, our stockholders authorized the sale of the disbursements business to Buyer.

We are also obligated to provide certain consulting services to Buyer with respect to the disbursement business for a period of two years following the closing. In addition, we have agreed not to compete with Buyer in the full-service refund disbursement business, or to solicit Higher One employees offered employment by Buyer, for a period of four years following the closing. Under the terms of the Asset Purchase Agreement, we are prohibited from soliciting or encouraging proposals with respect to alternative business combinations that relate only to the disbursement business, but we may engage in discussions or negotiations relating to unsolicited proposals that may result in a superior proposal for such business. If the Disbursements Asset Purchase Agreement is terminated in connection with us entering into an alternative agreement, we would be required to pay a termination fee of \$1.5 million to Buyer.

The Disbursements Asset Purchase Agreement is subject to creditor approval, the receipt of certain required third party consents, and other customary closing conditions. The parties intend to close the transaction during the second quarter of 2016, but the Disbursements Asset Purchase Agreement may be terminated under certain specified circumstances, including if the transactions contemplated by the Disbursements Asset Purchase Agreement are not consummated by July 1, 2016. The results of the disbursements business are included in income from continuing operations for the three months ended March 31, 2016 and 2015.

2. Significant Accounting Policies

Basis of Presentation and Consolidation

The accompanying unaudited condensed consolidated financial statements and the related interim information contained within the notes to such condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP, and the applicable rules of the Securities and Exchange Commission, or the SEC, for interim information and quarterly reports on Form 10-Q.

The unaudited condensed consolidated financial statements have been prepared on a consistent basis with the audited consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2015, and in the opinion of management, include all normal recurring adjustments that are necessary for the fair statement of our interim period results reported herein. The December 31, 2015 condensed consolidated balance sheet data included in this Form 10-Q was derived from our audited financial statements, but does not include all disclosures required by GAAP. Due to seasonal fluctuations and other factors, the results of operations for the three months ended March 31, 2016 are not necessarily indicative of the results to be expected for the full year.

The unaudited condensed consolidated financial statements reflect our financial position and results of operations, including our majority and wholly-owned subsidiaries. Intercompany transactions and balances have been eliminated in consolidation.

The preparation of financial statements in conformity with GAAP requires management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could materially differ from management's estimates.

Prior Period Reclassifications

On November 25, 2015, we sold our data analytics business. The data analytics sale is reported as discontinued operations, which requires retrospective restatement of prior periods to classify the results of operations as discontinued operations. No data analytics assets or liabilities that were sold remain on the consolidated balance sheet as of March 31, 2016 or December 31, 2015. The financial results of the data analytics business is presented as “discontinued operations” on the consolidated statements of operations and comprehensive income for the three months ended March 31, 2016 and 2015. See Note 3 – Discontinued Operations for additional information. The notes to our consolidated financial statements relate to our continuing operations only, unless otherwise indicated. Reclassification of prior period amounts related to discontinued operations as a result of the sale of the data analytics business have been made to conform to the current period financial statement presentation.

Basic and Diluted Net Income Available to Common Stockholders per Common Share

Basic net income per common share excludes dilution for potential common stock issuances and is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted net income per common share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. For the calculation of diluted net income per common share, the basic weighted-average number of shares is increased by the dilutive effect of restricted stock, warrants and stock options using the treasury-stock method. The treasury-stock method assumes that the options or warrants are exercised at the beginning of the period (or date of issue, if later), and that we use those proceeds to purchase common stock for treasury at the average price for the reporting period.

The effect of stock options and warrants to purchase our common stock totaling 2,775,633 and 5,063,524 were not included in the computation of diluted net income per common share for the three months ended March 31, 2016 and 2015, respectively, as their effect would be anti-dilutive. Anti-dilutive securities are securities that upon conversion or exercise increase earnings per share (or reduce the loss per share). In periods when we recognize a net loss, we exclude the impact of outstanding stock awards from the diluted loss per share calculation as their inclusion would have an anti-dilutive effect.

Comprehensive Income

Comprehensive net income includes net income, combined with any unrealized gains and losses not included in earnings. Comprehensive net income is reflected as a separate component of stockholders' equity. Our comprehensive income consists of both net income and foreign currency translation adjustments and it is presented in the accompanying consolidated statements of operations and comprehensive income.

Other Arrangements

We accept payments on behalf of educational institutions and subsequently remit these payments to the education institutions. The amounts received are maintained in segregated accounts. There were approximately \$144.9 million and \$129.9 million of such funds as of March 31, 2016 and December 31, 2015, respectively. These deposits are not included in the accompanying condensed consolidated balance sheets.

Recent Accounting Pronouncements

There were no accounting standards adopted during the three months ended March 31, 2016 which had a material impact on our consolidated financial position, results of operations or liquidity.

In November 2015, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU No. 2015-17, *Income Taxes: Balance Sheet Classification of Deferred Taxes*. This ASU eliminates the requirement to present deferred tax assets and liabilities as current and non-current on the balance sheet. Instead, all deferred tax assets and liabilities are now classified as non-current. We retrospectively adopted ASU 2015-17 as of December 31, 2015.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue From Contracts With Customers*, that outlines a single model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The ASU is based on the principle that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. Entities have the option of using either a full retrospective or a modified retrospective approach for the adoption of the new standard. This standard will be effective for fiscal periods beginning after December 15, 2017; early adoption will be permitted, but not earlier than fiscal periods beginning after December 15, 2016. We are currently assessing the impact that this standard will have on our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which will require, among other items, lessees to recognize most leases as assets and liabilities on the balance sheet. Qualitative and quantitative disclosures will be enhanced to better understand the amount, timing and uncertainty of cash flows arising from leases. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. We are currently assessing the impact that this standard will have on our consolidated financial statements.

In March, 2016, the FASB issued ASU No. 2016-09, *Improvements to Employee Share-Based Payment Accounting*. This ASU contains amendments intended to simplify various aspects of share-based payment accounting and presentation in the financial statements, including the income tax consequences, classification of awards as either equity or liabilities, treatment of forfeitures and statutory tax withholding requirements, and classification in the statement of cash flows. The new standard is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption of this standard is permitted. The amendments requiring recognition in the income statement of excess tax benefits and tax deficiencies resulting from settlements arising after the date of adoption of the new standard should be applied prospectively. Changes relating to classification of excess tax benefits and tax deficiencies in the statement of cash flows may be applied either prospectively or retrospectively. All other amendments are to be applied retrospectively. We have not elected early adoption of this standard. We are currently assessing the impact that this standard will have on our consolidated financial statements.

3. Discontinued Operations – Disposition of Data Analytics business

On October 14, 2015, we entered into an Asset Purchase Agreement, the Campus Labs Asset Purchase Agreement, with CL NewCo, Inc., an affiliate of Leeds Equity Partners, for the sale of substantially all of the assets of our data analytics business. On November 25, 2015, we completed that sale pursuant to the terms of the Campus Labs Asset Purchase Agreement. Pursuant to the terms of the Campus Labs Asset Purchase Agreement, the parties agreed upon a purchase price of \$91.0 million, subject to adjustment to reflect changes in certain working capital items prior to the closing. At the closing, the purchase price was reduced by \$4.0 million to reflect estimated closing date net working capital.

At the time of closing, (1) we received total cash consideration of approximately \$55.2 million, (2) the buyer paid \$30 million on our behalf to reduce the amount outstanding under our credit facility, and (3) the buyer deposited \$1.9 million into an escrow account for potential indemnification claims and a future working capital adjustment. In April 2016, \$0.5 million of the amount in escrow was released to the buyer to resolve the working capital adjustment. We have recorded the interest expense associated with the \$30.0 million that was paid on our behalf to reduce the amount outstanding under our credit facility as an expense in discontinued operations for the three months ended March 31, 2015. We have not allocated any other interest expense to discontinued operations.

The financial results of the data analytics business are reported as discontinued operations. No assets and liabilities of the data analytics business that were sold remain on the consolidated balance sheet as of March 31, 2016 or December

31, 2015. The following table presents the statements of operations for the discontinued operations of the data analytics business:

	For the Three Months Ended	
	March 31,	
<i>(in thousands)</i>	2016	2015
Revenue	\$—	\$4,010
Cost of revenue	—	443
Gross margin	—	3,567
Operating expenses		
General and administrative	32	1,042
Product development	—	366
Sales and marketing	—	896
Interest expense	—	236
Income (loss) from discontinued operations before income tax	(32)	1,027
Income tax expense (benefit)	(12)	333
Income (loss) from discontinued operations, net of tax	\$(20)	\$694

Depreciation and amortization expense of \$0.7 million is included in income from discontinued operations during the three months ended March 31, 2015. Capital expenditures, including costs associated with developing internal use software, of \$0.4 million were incurred related to the data analytics segment during the three months ended March 31, 2015.

4. Fair Value Measurements

We had no unrealized gains or losses from investments as of March 31, 2016 or December 31, 2015, and there is no difference between the amortized cost and fair value of the securities we held. The carrying amounts of our cash equivalents, accounts receivable, accounts payable and accrued expenses approximate fair value because of the short-term nature of these instruments. The carrying amount of our debt outstanding under our Credit Facility (defined below) approximates fair value as a result of our amendments to the credit facility in November 2015. Our loan receivable related to our New Markets Tax Credit financing is a debt instrument that we classify as held to maturity and is recorded at amortized cost. The carrying value of both our loan receivable and loan payable related to our New Markets Tax Credit financing approximates fair value as of March 31, 2016. The fair value of our loan payable and loan receivable related to our New Markets Tax Credit financing was estimated using discounted cash flow analysis based on rates for similar types of arrangements and are considered Level 3 measurements.

During the three months ended March 31, 2016, we issued 1,146,727 shares of cash-settled restricted stock units to members of management and the board of directors. The cash-settled restricted stock units granted to management vest over a two-year period, with half of the units vesting and settling on the first anniversary of the grant date and the remaining half vesting and settling on the second anniversary of the grant date. The cash-settled restricted stock units granted to members of the board of directors vest and settle when each respective board member no longer serves on our board of directors. The cash-settled restricted stock units are measured based on the closing price of our stock at the end of each reporting period and resulted in approximately \$1.2 million of expense recorded during the three months ended March 31, 2016.

5. Real Estate Development Project

In 2011 and 2012, we completed a project that developed two previously existing commercial buildings located in New Haven, Connecticut into our new corporate headquarters.

In connection with this project, we provided separate guarantees to each of two departments of the state of Connecticut. One guaranty relates to our obligation to repay a grant if we fail to meet certain criteria, including a specified minimum average employment level in Connecticut for the years 2015 – 2018. The other guaranty relates to our obligation to repay sales and use tax exemptions if we fail to meet certain criteria, including a minimum employment threshold. The maximum potential amount of repayments for these guarantees is approximately \$7.0 million. As of March 31, 2016 and December 31, 2015, an aggregate liability of \$3.4 million is recorded related to

these guarantees. Of the \$3.4 million, \$3.2 million is recorded within deferred revenue and other non-current liabilities, as it would not be due until 2019, and the remainder is included in accrued expenses in our condensed consolidated balance sheet.

In December 2011, we consummated a financing transaction related to the federal New Markets Tax Credit, or NMTC, program which provided funding for our real estate development project. The NMTC program is designed to encourage new or increased investments into operating businesses and real estate projects located in low-income communities. In connection with this transaction, HOI provided a loan of \$7.6 million to an unrelated third party. We consider this loan to be a debt instrument held to maturity which is recorded at amortized cost and the value as of March 31, 2016 approximates fair value. The loan bears interest at 1.0% which is payable quarterly and matures in December 2041. Repayments on the loan commence in December 2019.

Also in connection with this transaction, Real Estate LLC entered into a loan agreement and borrowed \$7.6 million from an unrelated third party. Real Estate LLC's loan bears interest at approximately 1.1% which is payable quarterly and matures in December 2041. Repayments on the loan commence in December 2019. This loan is secured by the real estate development project. In addition to the loan agreement, Real Estate Inc. admitted a new member into Real Estate LLC. The new member contributed \$2.2 million of capital in exchange for a 2% interest in Real Estate LLC. We have presented this contribution on the consolidated balance sheet as a deferred contribution as a result of our expectation that we will re-acquire this interest in December 2018 through the exercise of a put option for a nominal price by the counterparty to this agreement or through a fair value call option that we can exercise.

In connection with the NMTC transaction, we provided a guaranty related to our actions or inactions which cause either a NMTC disallowance or recapture event. In the event that we cause either a recapture or disallowance of the tax credits expected to be generated under this program, then we will be required to repay the disallowed or recaptured tax credits, plus an amount sufficient to pay the taxes on such repayment, to the counterparty of the agreement. This guaranty remains in place through 2018. The maximum potential amount of future payments under this guaranty is approximately \$6.0 million. We currently believe that the likelihood of us being required to make a payment under this guaranty is remote.

6. Credit Facility

In October 2012, HOI entered into a five-year, \$200.0 million, senior secured revolving credit facility, or the Credit Facility. As a result of amendments we executed in 2015, the Credit Facility has a maximum capacity of \$64.5 million as of March 31, 2016. The revolving credit facility capacity subsequently reduces to \$54.5 million and \$44.5 million as of June 30, 2016 and December 31, 2016, respectively.

The Credit Facility permits the issuance of letters of credit of up to \$20.0 million and swing line loans of up to \$10.0 million to fund working capital needs. Loans drawn under the Credit Facility are payable in a single maturity on October 16, 2017.

As of March 31, 2016, there were \$29.0 million in borrowings outstanding, at a weighted average interest rate of 4.4%, under the Credit Facility. The Credit Facility contains certain affirmative covenants, including covenants to furnish the lenders with financial statements and other financial information and to provide the lenders notice of material events and information regarding collateral. The Credit Facility also contains certain negative covenants that, among other things, restrict our ability, subject to certain exceptions, to incur additional indebtedness, grant liens on our assets, undergo fundamental changes, make investments, sell assets, make restricted payments, change the nature of our business and engage in transactions with our affiliates. Acceleration of repayment of the Credit Facility could also occur upon a change of control or if we experience a material adverse change in our operations, condition or prospects. The Credit Facility, as amended, also contains certain financial covenants that require us to maintain EBITDA, as defined in the Credit Facility, on a consolidated basis for the prior four fiscal quarters of at least \$25.0 million, a debt to EBITDA ratio of 2.00 to 1.00 or less, and a fixed charge coverage ratio of at least 1.25 to 1.00. We were in compliance with each of the applicable debt covenants in the Credit Facility, as amended, as of March 31, 2016. As of March 31, 2016, our trailing twelve month consolidated EBITDA (as defined in the Credit Facility) was \$39.0 million.

7. Commitments and Contingencies

From time to time, we are subject to litigation relating to matters in the ordinary course of business, as well as regulatory examinations, information gathering requests, inquiries and investigations.

Department of Education

In early 2014, the Department of Education formed a negotiated rulemaking committee to revise existing regulations to potentially address, among other things, consumer safeguards regarding debit and prepaid cards associated with Title IV Cash Management, marketing of financial products by institutions and their preferred banks or contractors, ATM access and availability, revenue sharing arrangements, and the potential for a government-sponsored debit or prepaid card solution. Final rules relating to Title IV Cash Management were published in the Federal Register on October 30, 2015. The Final Rules included, among others, provisions related to (i) restrictions on the ability of higher education institutions and third party servicers like the Company to market financial products to students, including sending unsolicited debit cards to students, (ii) prohibitions on the assessment of certain types of account fees on student accountholders and (iii) requirements related to ATM access for student accountholders all of which become effective as of July 1, 2016. Although the complete impact of the Final Rules are unknown, there could be a significant negative impact on the disbursements business, including related to OneAccounts, including reductions in service fees earned on OneAccounts and a decrease in the number of OneAccounts.

Regulatory Examinations and Other Matters

On May 9, 2014, the Federal Reserve Banks of Chicago (the responsible Reserve Bank for a former bank partner) and Philadelphia (the responsible Reserve Bank for a current bank partner) notified us that the Staff of the Board of Governors of the Federal Reserve System intended to recommend that the Board of Governors of the Federal Reserve System, or the Board of Governors, seek an administrative order against us with respect to asserted violations of the Federal Trade Commission Act.

In April 2015, the San Francisco Regional Office of the FDIC (the responsible Regional Office for a current bank partner) notified us it was prepared to recommend to the Director of the Division of Depositor and Consumer Protection that administrative enforcement action be taken against us for alleged violations of the Federal Trade Commission Act principally relating to our marketing and enrollment practices concerning OneAccounts.

On December 23, 2015, the Board of Governors issued to HOI an Order to Cease and Desist and Order of Assessment of Civil Money Penalty Issued Upon Consent Pursuant to the Federal Deposit Insurance Act, as Amended (“Fed Order”), related to the Board of Governors matter discussed above. Pursuant to the terms of the Fed Order, HOI is required to, among other things: (1) continue to take all action necessary to correct all violations previously cited by the Board of Governors and prevent the recurrence of similar violations; (2) submit to the Philadelphia Reserve Bank an acceptable written plan to enhance the consumer compliance risk management program to ensure that the marketing, processing, and servicing of student financial aid-related deposit or loan products or services by Higher One comply with all consumer protection laws and regulations; (3) deposit \$24.0 million into a qualified settlement fund for purposes of providing restitution of certain OneAccount fees to consumers, as provided by the Fed Order, and submit to the Philadelphia Reserve Bank an acceptable written plan to provide for the restitution; and (4) pay a civil money penalty of \$2.2 million.

On December 23, 2015, the FDIC issued to HOI a Consent Order, Order for Restitution and Order to Pay Civil Money Penalty (“FDIC Order”). Pursuant to the terms of the FDIC Order, HOI is required to, among other things: (1) continue to correct and eliminate all violations of law previously cited by the FDIC and prevent the recurrence of similar violations; (2) review its Compliance Management System as it relates to its student financial aid-related deposit or loan products and revise, develop and/or implement changes as necessary to ensure such products and services comply with all applicable consumer protection laws; (3) deposit \$31.0 million into a segregated deposit account for the purpose of providing restitution of certain OneAccount fees to consumers, as provided by the FDIC Order; and submit to the Regional Director of the FDIC for non-objection a plan to provide restitution; and (4) pay a civil money penalty of \$2.2 million. Concurrent to HOI entering this FDIC Order, the FDIC lifted a Consent Order issued in 2012.

As a result of the FDIC Order and Fed Order, we recorded an allowance for customer restitution of approximately \$46.3 million during the year ended December 31, 2015, representing the difference between the total amount of restitution of \$55.0 million and the amount accrued as of December 31, 2014 of \$8.75 million. In addition, we

recorded expenses of approximately \$6.0 million during the year ended December 31, 2015, representing the civil money penalty and our estimate of costs to administer the distribution of restitution funds. The total amount of restitution was deposited in a qualified settlement trust and the total civil money penalties were paid during the year ended December 31, 2015.

In July 2014, we received a civil investigative demand from the Office of the Attorney General of the Commonwealth of Massachusetts (the "Massachusetts Attorney General") pursuant to the Commonwealth's Consumer Protection Act. The Massachusetts Attorney General has informed us that its investigation relates to our debt collection practices. We have provided information requested by the civil investigative demand, which included information and records about us and certain of our business practices, particularly as they relate to Massachusetts residents, institutions of higher education and students. We cannot predict whether we will become subject to any other action by the Massachusetts Attorney General or any other state agencies.

Consumer Class Action

HOI and HOH were defendants in a series of putative class action lawsuits filed in 2012. The Judicial Panel on Multidistrict Litigation transferred all of these cases to the District of Connecticut for coordinated or consolidated pretrial proceedings. The proceedings are referred to as the "In re Higher One OneAccount Marketing and Sales Practices Litigation" or the "MDL." Plaintiffs filed a consolidated amended complaint in the MDL that generally alleged, among other things, violations of state consumer protection statutes (predicated, in part, on alleged violations of ED rules and violations of the federal Electronic Funds Transfer Act) and various common law claims.

In October 2013, we reached an agreement in principle on the key terms of a settlement that would resolve all of the above class action litigation. In February 2014, we executed a settlement agreement, the terms of which included a payment of \$15.0 million to a settlement fund, an agreement to pay the cost of notice to the class, and an agreement to make and/or maintain certain practice changes. We made the payment of \$15.0 million to the settlement fund in February 2014. On June 2, 2014, the court issued an order preliminarily approving the settlement, directing that notice of the settlement be sent to the class, setting relevant filing deadlines, and scheduling a final fairness hearing. On December 15, 2014, the Court granted final approval of the settlement and entered judgment. No appeals of the judgment were filed, and the settlement has now become final.

During the year ended December 31, 2013, we recorded an accrual of \$16.3 million to reflect the estimated cost of the resolution, inclusive of additional legal and other administrative costs, based on the agreement in principle. During the three months ended March 31, 2016, we recorded a reduction of our general and administrative expenses of \$0.7 million, reflecting amounts from the settlement that were returned to us as a reduction of the administrative costs of the settlement.

Securities Class Action

On May 27, 2014, a putative class action captioned Brian Perez v. Higher One Holdings, Inc., No. 3:14-cv-755-AWT, was filed by HOH shareholder Brian Perez in the United States District Court for the District of Connecticut. On

December 17, 2014, Mr. Perez was appointed lead plaintiff. On January 20, 2015, Mr. Perez filed an amended complaint. HOH former shareholder Robert Lee was added as a named plaintiff in the amended complaint. HOH and certain employees and board members have been named as defendants. Mr. Perez and Mr. Lee generally allege that HOH and the other named defendants made certain misrepresentations in public filings and other public statements in violation of the federal securities laws and seek an unspecified amount of damages. Mr. Perez and Mr. Lee seek to represent a class of any person who purchased HOH securities between August 7, 2012 and August 6, 2014. All defendants have moved to dismiss the Complaint. In response, Plaintiffs have filed an opposition brief opposing dismissal. HOH intends to vigorously defend itself against these allegations. HOH is currently unable to predict the outcome of this lawsuit and therefore cannot determine the likelihood of loss nor estimate a range of possible loss.

Derivative Actions

On March 6, 2015, HOH shareholder Jason Sabel filed a derivative action in the United States District Court for the District of Connecticut captioned *Jason Sabel, derivatively on behalf of Higher One Holdings, Inc. v. Sheinbaum, et al.*, No. 13:15-cv-00346, against certain of HOH's directors and executive officers and HOH as a nominal defendant. Mr. Sabel is seeking to remedy alleged breaches of certain fiduciary duties by named directors and executive officers that allegedly occurred from approximately February 2014 to the date of the filing. This action relates to the allegations in *Perez v. Higher One Holdings, Inc.*, the securities class action described above. On April 17, 2015, the parties filed a joint motion to stay the action pending the outcome of the motion to dismiss the securities class action.

On May 5, 2015, HOH shareholder Bobby Clay filed a derivative action in the United States District Court for the District of Connecticut captioned *Bobby Clay, derivatively on behalf of Higher One Holdings, Inc. v. Sheinbaum, et al.*, No. 3:15-cv-00666, against certain of HOH's directors and executive officers and HOH as a nominal defendant. Mr. Clay's allegations are substantively the same as those in the *Sabel* case. On July 29, 2015, the cases were consolidated and a motion to stay was granted. HOH is currently unable to predict the outcome of the *Sabel* and *Clay* lawsuits.

Labor Class Action

On December 28, 2015, Patricia Hall, formerly an employee of Higher One Machines, Inc. filed a class action captioned *Patricia Hall, individually, and on behalf of others similarly situated v. Higher One Machines, Inc., Higher One, Inc., and Higher One Holdings, Inc., No. 5:15-cv-00670-F*, in the United States District Court for the Eastern District of North Carolina. Ms. Hall generally alleges that Higher One, Inc., and the other named defendants, willfully violated the Fair Labor Standards Act and the North Carolina Wage and Hour Act and breached her employment contract for failing to compensate her for her daily breaks and the time it took her to log-on to and sign-off from various databases and systems that she needed to access to perform the functions of her employment.

Ms. Hall seeks to represent a nationwide class and a North Carolina class of current and former hourly home-based customer care agents who worked for Higher One, Inc. at any time from 2012 through 2015. Ms. Hall served Higher One, Inc. and the other named defendants with her complaint, but a response has not been filed at this time. Since the filing of the action, the parties have submitted the matter to private mediation. We have recorded an estimated loss of approximately \$1.0 million related to this matter, which is included in general and administrative expenses during the three months ended March 31, 2016 and is recorded in accrued expenses as of March 31, 2016.

8. Restructuring

In April 2015, we entered into an agreement with a third-party service provider to operate our customer care center in order to provide live-agent, chat and interactive voice response services for our disbursements line of business, including the business of servicing OneAccounts. In connection with this agreement, we reduced our employee workforce across our customer care department. We began the transition to the third-party service provider in July 2015 and the transition was substantially completed by the end of 2015. We recorded a restructuring charge totaling approximately \$0.7 million during the year ended December 31, 2015, consisting of severance and other employee-related benefits.

The restructuring liability is included in accrued expenses as of March 31, 2016 and will be paid during the three months ended June 30, 2016. The following table summarizes the activities associated with restructuring liabilities for the three months ended March 31, 2016.

	Severance and employee- related benefits
December 31, 2015 restructuring liability	\$ 142
Amounts paid	(42)
March 31, 2016 restructuring liability	\$ 100

9. Segments

As a result of changes instituted by our chief operating decision maker (in our case, our chief executive officer) in 2015, including the type of financial information being reviewed on a regular basis and the way in which resource allocation decisions are made, we began to disclose three reportable segments during 2015: disbursements, payments and data analytics. During the year ended December 31, 2015, we disposed of our data analytics segment and the results of that segment have been reflected in discontinued operations. The remaining reportable segments are organized according to the type of service that each offers to our target markets – higher education institutions and their students. Each of our reportable segments is also an operating segment and a reporting unit. The Disbursements segment includes our Refund Management® disbursement service, which is offered to higher education institution clients, and the OneAccount, an FDIC-insured online checking account that is offered to students, as well as faculty, staff and alumni. The Payments segment includes our CASHNet® payment processing suite and our Campus Solutions suite, both of which enable higher education institutions to accept online payments, automate certain billing and processing functions and offer tuition payment plans.

We allocate all revenue and all operating expenses to these two reportable segments. Shared costs, such as legal, finance, human resources and other corporate services are allocated in their entirety to the segments. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. Segment assets and liabilities are not reviewed by the chief operating decision maker and therefore are not allocated to the reportable segments. Segment income from operations excludes interest, taxes, and other income, which are not allocated to any particular business segment. All of our material identifiable assets and substantially all of our clients and customers are located in the United States.

A summary of our segments for the three months ended March 31, 2016 and 2015 is as follows (in thousands):

	Three Months Ended March 31,	
	2016	2015
Revenue		
Disbursements	\$32,145	\$39,211
Payments	23,406	22,297
Total revenues	\$55,551	\$61,508
Depreciation and amortization		
Disbursements	\$2,292	\$2,161
Payments	2,281	2,296
Total depreciation and amortization	\$4,573	\$4,457
Income from operations		
Disbursements	\$3,833	\$8,527
Payments	3,495	3,021
Total income from continuing operations	7,328	11,548
Interest income	20	20
Interest expense	(603)	(1,144)
Other income	77	77
Net income before income taxes from continuing operations	\$6,822	\$10,501

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The information contained in this section should be read in conjunction with our audited consolidated financial statements and related notes as included in our annual report on Form 10-K for the year ended December 31, 2015 and information contained elsewhere in such annual report on Form 10-K and in this quarterly report on Form 10-Q. The discussion contains forward-looking statements (as defined in the Private Securities Litigation Reform Act of 1995) involving risks, uncertainties and assumptions that could cause our results to differ materially from expectations. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words “believes,” “anticipates,” “plans,” “expects,” “should” and similar expressions are intended to identify forward-looking statements. Factors that might cause these differences include those described under “Risk Factors” and elsewhere in the annual report on Form 10-K and in this quarterly report on Form 10-Q. The forward-looking statements included in this quarterly report on Form 10-Q are made only as of the date of this report. We do not undertake any obligation to update or supplement any forward-looking statements to reflect subsequent events or circumstances, except as required by law. We cannot assure you that projected results will be achieved or that anticipated events will occur.

Overview

General

Based on market share and the number of campuses using our products and services, we believe we are a leading provider of technology-based payment processing services and refund disbursement to higher education institutions and their students. We also provide campus communities with convenient, cost-competitive and student-oriented banking services, which include extensive user-friendly features.

Our products and services for our higher education institution clients include our CASHNet® Payment Processing suite and our Refund Management disbursement service. Through our bank partners, we offer the OneAccount, which includes an FDIC-insured checking account, a debit MasterCard® ATM card and other retail banking services, to the students of our higher education institution clients that use our Refund Management disbursement service.

As of March 31, 2016, more than 800 campuses serving approximately 5.0 million students purchased our Refund Management disbursement service. In total, there are more than 1,400 campuses servicing over 8 million students contracted to use at least one of our services. As of December 31, 2015, we also serviced approximately 2.0 million OneAccounts.

Data Analytics Business Divestiture

On October 14, 2015, we entered into an Asset Purchase Agreement, the Campus Labs Asset Purchase Agreement, with CL NewCo, Inc., an affiliate of Leeds Equity Partners, for the sale of substantially all of the assets of our data analytics business. On November 25, 2015, we completed that sale pursuant to the terms of the Campus Labs Asset Purchase Agreement. Pursuant to the terms of the Campus Labs Asset Purchase Agreement, the parties agreed upon a purchase price of \$91.0 million, subject to adjustment to reflect changes in certain working capital items prior to the closing. At the closing, the purchase price was reduced by \$4.0 million to reflect estimated closing date net working capital.

At the time of closing, (1) we received total cash consideration of approximately \$55.2 million, (2) the buyer paid \$30 million on our behalf to reduce the amount outstanding under our credit facility, and (3) the buyer deposited \$1.9 million into an escrow account for potential indemnification claims and a future working capital adjustment. In April 2016, \$0.5 million of the amount in escrow was released to the buyer to resolve the working capital adjustment. The financial results of the data analytics business are reported as discontinued operations for the three months ended March 31, 2016 and 2015.

Planned Disposition of Disbursements Business

On December 15, 2015, we entered into an Asset Purchase Agreement with Customers Bank (“Bank”) and Customers Bancorp, Inc. (“Bancorp”, and together with Bank, “Customers”), under which Customers agreed to purchase substantially all of the assets and assume certain of the liabilities of our Refund Management® disbursement service, including the business of servicing OneAccounts. Customers is one of our current bank partners. The disposition of the disbursements business was approved by our shareholders on April 4, 2016. We expect the disposition of the disbursements business to be completed in the second quarter of 2016. Our revenue, gross margin and earnings are expected to decrease in 2016 after the disposition of the disbursements business. The disbursements business generated 57.9% and 63.7% of our revenue during the three months ended March 31, 2016 and 2015, respectively.

Department of Education

In early 2014, the Department of Education formed a negotiated rulemaking committee to revise existing regulations to potentially address, among other things, consumer safeguards regarding debit and prepaid cards associated with Title IV Cash Management, marketing of financial products by institutions and their preferred banks or contractors, ATM access and availability, revenue sharing arrangements, and the potential for a government-sponsored debit or prepaid card solution. Final rules relating to Title IV Cash Management were published in the Federal Register on October 30, 2015. The Final Rules included, among others, provisions related to (i) restrictions on the ability of higher education institutions and third party servicers like the Company to market financial products to students, including sending unsolicited debit cards to students, (ii) prohibitions on the assessment of certain types of account fees on student accountholders and (iii) requirements related to ATM access for student accountholders, all of which will become effective as of July 1, 2016. Although the complete impact of the Final Rules are unknown, there could be a significant negative impact on the disbursements business, including related to OneAccounts, including reductions in service fees earned on OneAccounts and a decrease in the number of OneAccounts.

Results of Operations for the Three Months Ended March 31, 2016 and 2015

The following tables summarize key components of our results of operations for the periods indicated, both in dollars and as a percentage of total revenue:

	Three Months Ended March 31, (unaudited)				2016%	2015%		
	2016	2015	\$ Change	% Change	of Revenue	of Revenue		
	(in thousands)							
Revenue:								
Account revenue	\$30,704	\$37,528	\$(6,824)	(18.2%)	55.3	%	61.0	%
Payment transaction revenue	18,215	17,324	891	5.1	%	32.8	%	28.2
Higher education institution revenue	6,471	6,416	55	0.9	%	11.6	%	10.4
Other revenue	161	240	(79)	(32.9%)	0.3	%	0.4	%
Revenue	55,551	61,508	(5,957)	(9.7%)	100.0	%	100.0	%
Cost of revenue	25,931	27,747	(1,816)	(6.5%)	46.7	%	45.1	%
Gross profit	29,620	33,761	(4,141)	(12.3%)	53.3	%	54.9	%
Operating expenses:								
General and administrative	17,327	17,541	(214)	(1.2%)	31.2	%	28.5	%
Product development	1,757	1,405	352	25.1	%	3.2	%	2.3
Sales and marketing	2,787	3,267	(480)	(14.7%)	5.0	%	5.3	%
Costs related to planned disposal of disbursements business	421	-	421	100.0	%	0.8	%	0.0
Total operating expenses	22,292	22,213	79	0.4	%	40.1	%	36.1
Income from operations	7,328	11,548	(4,220)	(36.5%)	13.2	%	18.8	%
Interest income	20	20	-	0.0	%	0.0	%	0.0
Interest expense	(603)	(1,144)	541	(47.3%)	(1.1%)		(1.9%)	
Other income	77	77	-	0.0	%	0.1	%	0.1
Net income before income taxes from continuing operations	6,822	10,501	(3,679)	(35.0%)	12.3	%	17.1	%
Income tax expense from continuing operations	3,053	4,335	(1,282)	(29.6%)	5.5	%	7.0	%
Income from continuing operations	3,769	6,166	(2,397)	(38.9%)	6.8	%	10.0	%
Discontinued operations:								
Income from discontinued operations	-	1,027	(1,027)	(100.0%)				
Loss on disposal	(32)	-	(32)	100.0	%			
Income tax (expense) benefit	12	(333)	345	(103.6%)				
Income (loss) from discontinued operations	(20)	694	(714)	(102.9%)				
Net income	\$3,749	\$6,860	\$(3,111)	(45.3%)	6.7	%	11.2	%

The following table summarizes our revenue by segment:

Three Months Ended March 31, (unaudited)									
	2016	2015	\$	%	% of	% of			
	(in thousands)								
			Change	Change	Revenue	Revenue			
Disbursements	\$32,145	\$39,211	\$(7,066)	(18.0)	%	57.9	%	63.7	%
Payments	23,406	22,297	1,109	5.0	%	42.1	%	36.3	%
Revenue	55,551	61,508	(5,957)	(9.7)	%	100.0	%	100.0	%

Three Months Ended March 31, 2016 Compared to the Three Months Ended March 31, 2015

Revenue

Disbursements Revenue

The decrease in disbursements revenue during the three months ended March 31, 2016, was primarily due to a decrease in account revenue, as a result of fewer dollars spent from OneAccount holders, which had the effect of reducing both interchange revenue and service fee revenue when compared to the same period in the prior year. There was an approximate 18% decrease in the total dollars deposited into OneAccounts compared to the same period in the prior year, which led to a similar decrease in amounts spent from OneAccounts. The amounts deposited and spent from OneAccounts typically move by similar amounts, but may vary by several percentage points from one reporting period to the next depending on specific deposit and spending behavior. The decrease in dollars deposited into OneAccounts was the result of fewer financial aid refunds being deposited to OneAccounts, as well as a decrease in the amount of non-financial aid deposits made into OneAccounts. We experienced an approximate 8% decrease in amounts deposited to OneAccounts from non-financial aid refund sources. Deposits from non-financial aid refund sources constituted approximately 16% of all deposits made to OneAccounts during the three months ended March 31, 2016, an increase from 15% during the comparable prior year period.

The higher education institution revenue earned from our Refund Management services was \$1.3 million during the three months ended March 31, 2016, compared to \$1.5 million during the three months ended March 31, 2015.

Payments Revenue

The increase in payments revenue was due to higher payment transaction revenue, primarily due to an increase in the dollar volume of transactions processed through the SmartPay payment module during the three months ended March 31, 2016. The increase in payment transaction volume was primarily due to increases in volume at higher education institution clients that were processing payments during each of the three months ended March 31, 2016 and March 31, 2015.

Higher education institution revenue in the payments line of business was \$5.2 million during the three months ended March 31, 2016, compared to \$4.9 million during the three months ended March 31, 2015. An increase in higher education institution revenue related to our CASHNet suite offset declines in the Campus Solutions suite.

Cost of Revenue

During the three months ended March 31, 2016, our gross margin percentage decreased to 53.3% from 54.9%, largely as a result of a decrease in margin associated with our Disbursements business.

The cost of revenue associated with our disbursements line of business decreased to \$14.6 million during the three months ended March 31, 2016, compared to \$16.7 million during the three months ended March 31, 2015. The gross margin percentage for the disbursements line of business was 54.5% and 57.3% during the three months ended March 31, 2016 and 2015, respectively.

Our cost of revenue to support the payments line of business increased to approximately \$11.3 million during the three months ended March 31, 2016, compared to \$11.0 million during the three months ended March 31, 2015. The increase in costs was primarily related to the growth of SmartPay transaction volume described above in “Revenue – Payments Revenue.” The gross margin percentage for the payments line of business was 51.6% and 50.6% during the three months ended March 31, 2016 and 2015, respectively.

General and Administrative Expense

The decrease in general and administrative expenses is primarily related to decreases in professional service fees during the three months ended March 31, 2016, compared to the three months ended March 31, 2015.

Product Development Expense

The increase in product development expense is primarily the result of additional product development efforts and resources related to the payments line of business. In part, this increase is the result of a re-allocation of resources that had previously focused on other functions within the company.

Sales and Marketing Expense

The decrease in sales and marketing expense was due to decreases in both personnel related costs as well as discretionary external marketing costs, including tradeshows.

Costs related to planned disposal of disbursements business

Our costs related to the planned disposal of the disbursements business represents legal and other professional fees incurred in connection with the our agreement to sell the assets of the disbursements business, including the preparation and review of proxy materials related to the shareholder authorization of the sale of the business.

Interest Expense

Our interest expense during the three months ended March 31, 2016 decreased compared to the three months ended March 31, 2015, primarily due to a write-off of deferred financing costs in 2015. As a result of an amendment that we entered into in February 2015, the total capacity of our Credit Facility decreased from \$200 million to \$140 million. As a result of that decrease, we expensed approximately \$0.4 million of deferred financing costs. The average interest rate during the three months ended March 31, 2016 was 4.4%, an increase from 3.1% during the three months ended March 31, 2015. The average amount outstanding on our Credit Facility was \$29.0 million during the three months ended March 31, 2016, compared to an average of \$75.3 million during the three months ended March 31, 2015. The interest expense associated with \$30.0 million of the credit facility, or approximately \$0.2 million, has been recorded as an expense in discontinued operations during the three months ended March 31, 2015.

Income Tax Expense

The change in income tax expense was primarily due to the decrease in net income before taxes. The effective tax rates on income from continuing operations for the three months ended March 31, 2016 and 2015 were 44.8% and 41.3%, respectively. The increase in the effective tax rate is the result of a decrease in our estimate of full year income before taxes for 2016, compared to 2015. The estimated full year income before taxes we have utilized does not take into account the expected disposition of the disbursements business in the second quarter of 2016, and as a result, our actual effective tax rate for 2016 may differ materially from our current estimate. The decrease in estimated full year income before taxes results in non-deductible items, including incentive stock compensation expenses and certain disallowed executive compensation expense, having an unfavorable impact on our estimated tax rate for the year.

Discontinued Operations

During the three months ended March 31, 2015, we recognized income from discontinued operations, net of tax of \$0.7 million. During the three months ended March 31, 2016, we recorded a loss from discontinued operations as a result of a post-closing working capital adjustment.

Liquidity and Capital Resources

Sources of Liquidity

Our primary sources of liquidity are cash flows from operations and borrowings under our Credit Facility, as defined below. As of March 31, 2016, we had \$35.0 million in cash and cash equivalents and approximately \$35.5 million in borrowing capacity available under our Credit Facility. The available capacity under our Credit Facility decreases by \$10.0 million as of June 30, 2016 and by an additional \$10.0 million as of December 31, 2016. Our primary liquidity requirements are for working capital, capital expenditures, product development expenses and general corporate needs. As of March 31, 2016, we had working capital of \$17.0 million.

Senior Secured Revolving Credit Facility

In October 2012, we entered into a five-year senior secured revolving credit facility, or the Credit Facility. We have amended the Credit Facility several times since October 2012. The amendments to the Credit Facility modified certain of the financial covenants, decreased the maximum amount available under the Credit Facility and modified other terms of the agreement. As of March 31, 2016, we had \$29.0 million in borrowings outstanding, at a weighted average interest rate of 4.4%, under the Credit Facility. The Credit Facility permits the issuance of letters of credit of up to \$20.0 million and swing line loans of up to \$10.0 million to fund working capital needs. Loans drawn under the Credit Facility are payable in a single maturity on October 16, 2017.

Each of HOH, HOMI, Real Estate Inc. and Real Estate LLC, or together with HOI, the Loan Obligors, is a guarantor of HOI's obligations under the Credit Facility. Loans drawn under the Credit Facility are secured by a perfected first priority security interest in all of the capital stock of HOI and its domestic subsidiaries, and substantially all of each Loan Obligor's tangible and intangible assets, including intellectual property. We pay a commitment fee of 0.5% on the daily average undrawn portion of revolving commitments under the Credit Facility, which accrues and is payable quarterly in arrears.

The Credit Facility contains certain affirmative covenants including covenants to furnish the lenders with financial statements and other financial information and to provide the lenders notice of material events and information regarding collateral. The Credit Facility also contains certain negative covenants that, among other things, restrict our ability, subject to certain exceptions, to incur additional indebtedness, grant liens on our assets, undergo fundamental changes, make investments, sell assets, make restricted payments, change the nature of our business and engage in transactions with our affiliates. In addition, the Credit Facility contains certain financial covenants in addition to the covenants described above, including a requirement to maintain a fixed charge coverage ratio of at least 1.25 to 1.00. We were in compliance with each of the applicable affirmative, negative and financial covenants of the Credit Facility as of March 31, 2016. As of March 31, 2016, our trailing twelve month consolidated EBITDA was \$39.0 million. Our leverage ratio was 0.7 to 1.0 as of March 31, 2016.

Cash Flows

The following table presents information regarding our cash flows and cash and cash equivalents for the three months ended March 31, 2016 and 2015:

	Three Months Ended March 31,		
	2016	2015	\$ Change
	(unaudited)		
	(in thousands)		
Net cash provided by (used in):			
Operating activities	\$9,033	\$16,169	\$(7,136)
Investing activities	(885)	(1,983)	1,098
Financing activities	8	(39,226)	39,234
Change in cash and cash equivalents	8,156	(25,040)	33,196
Cash and cash equivalents, end of period	\$35,024	\$14,982	\$20,042

The decrease in net cash provided by operating activities was primarily the result of lower earnings during the three months ended March 31, 2016 and an unfavorable change in working capital balances, including accrued expenses. During the three months ended March 31, 2015, the change in accrued expenses was a source of cash as a result of the timing of our tax payments, whereas during the three months ended March 31, 2016, the change in accrued expenses was a use of cash as a result of the payment of 2015's incentive compensation, which exceeded the payment of 2014's incentive compensation.

The decrease in cash used in investing activities relates to the elimination of internal-use software projects related to the data analytics business, which was a use of approximately \$0.4 million during the three months ended March 31, 2015, and lower overall capital expenditure requirements during the three months ended March 31, 2016.

The change in cash provided by (used in) financing activities primarily relates to the cash used to pay down the balance on our credit facility in connection with the amendment to that credit facility in February 2015 which totaled \$39.5 million.

We believe that our cash flows from operations, together with our existing liquidity sources, will be sufficient to fund our operations and anticipated capital expenditures over the next twelve months.

Supplemental Financial and Operating Information

	Three Months Ended March 31, 2016 2015 (unaudited) (in thousands)	
Adjusted EBITDA from continuing operations	\$14,925	\$18,110
Adjusted net income from continuing operations	\$6,580	\$8,689
Number of students enrolled at Refund Management client higher education institutions at end of period	5,038	5,096
Number of OneAccounts at end of period	1,959	2,179

We define adjusted EBITDA from continuing operations as income from continuing operations before interest, income taxes and depreciation and amortization, or EBITDA from continuing operations, further adjusted to remove the effects of stock-based compensation expense, transaction costs incurred in preparation of the sale of the disbursements business and amounts related to certain legal settlements. Neither EBITDA from continuing operations nor adjusted EBITDA from continuing operations should be considered an alternative to income from continuing operations, operating income or any other measure of financial performance calculated and presented in accordance with GAAP. Our EBITDA from continuing operations and adjusted EBITDA from continuing operations may not be comparable to similarly titled measures of other organizations, because other organizations may not calculate EBITDA from continuing operations and adjusted EBITDA from continuing operations in the same manner as we do. In addition, adjusted EBITDA from continuing operations may not be identical to the corresponding measure used in our various agreements, in particular our Credit Facility.

The following table presents a reconciliation of net income from continuing operations, the most comparable GAAP measure, to EBITDA from continuing operations and adjusted EBITDA from continuing operations for each of the periods indicated:

	Three Months Ended	
	March 31, 2016	2015
	(unaudited)	
	(in thousands)	
Income from continuing operations	\$3,769	\$6,166
Interest income	(20)	(20)
Interest expense	603	1,144
Income tax expense	3,053	4,335
Depreciation and amortization	4,573	4,457
EBITDA from continuing operations	11,978	16,082
Stock-based compensation expense	2,284	2,028
Disbursements transaction costs	421	-
Impact of legal settlements, net	242	-
Adjusted EBITDA from continuing operations	\$14,925	\$18,110

The following table presents adjusted EBITDA from continuing operations for each of our three lines of business for each of the periods indicated:

	Three Months Ended March 31, 2016 2015 (unaudited) (in thousands)	
Disbursements	\$8,187	\$12,069
Payments	6,738	6,041
Adjusted EBITDA from continuing operations	\$14,925	\$18,110

We define adjusted net income from continuing operations as income from continuing operations, adjusted to eliminate (a) stock-based compensation expense related to incentive stock option grants and (b) after giving effect to tax adjustments, (1) transaction costs incurred in preparation of the sale of the disbursements business, (2) amounts related to certain legal settlements (3) stock-based compensation expense related to non-qualified stock option, restricted and cash-settled stock units, and (4) amortization expenses related to acquisition-related intangible assets and deferred financing costs. Adjusted net income from continuing operations should not be considered as an alternative to income from continuing operations, operating income or any other measure of financial performance calculated and presented in accordance with GAAP. Our adjusted net income from continuing operations may not be comparable to similarly titled measures of other organizations, because other organizations may not calculate adjusted net income from continuing operations in the same manner as we do.

The following table presents a reconciliation of income from continuing operations, the most comparable GAAP measure, to adjusted net income from continuing operations for each of the periods indicated:

	Three Months Ended March 31, 2016 2015 (unaudited) (in thousands)	
Income from continuing operations	\$3,769	\$6,166
Disbursements transaction costs	421	-
Impact of legal settlements, net	242	-
Stock-based compensation expense - non-qualified stock option grants and restricted and cash-settled stock units	2,148	1,795
Amortization of acquisition-related intangible assets	1,270	1,270
Amortization of deferred finance costs	270	659
Total pre-tax adjustments	4,351	3,724
Tax rate (a)	38.5 %	38.5 %
Tax adjustment	1,675	1,434
Adjustments, net of tax	2,676	2,290
Stock-based compensation expense - incentive stock option grants	135	233
Total after-tax adjustments	135	233
Adjusted net income from continuing operations	\$6,580	\$8,689

(a) We have tax effected, utilizing an estimated statutory rate, all of the pre-tax adjustments, except for stock-based compensation expense for incentive stock options, which is generally not tax deductible.

Contractual Obligations

There have been no material changes to our contractual commitments from those disclosed in our annual report on Form 10-K for the year ended December 31, 2015.

Off-Balance Sheet Arrangements

We are not a party to any material off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Critical Accounting Policies

The significant accounting policies and basis of preparation of our consolidated financial statements are described in “Note 2 – Significant Accounting Policies” of our notes to consolidated financial statements included in each of our Annual Report on Form 10-K for the year ended December 31, 2015 and in this Quarterly Report on Form 10-Q. Under accounting principles generally accepted in the United States, we are required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and disclosure of contingent assets and liabilities in our financial statements. Actual results could differ materially from those estimates.

We believe the judgments, estimates and assumptions associated with the following critical accounting policies have the greatest potential impact on our consolidated financial statements:

- Provision for OneAccount losses
- Goodwill, intangible assets and Operating Segments
- Loss contingencies
- Stock-based compensation
- Income taxes
- Revenue

For a complete discussion of these critical accounting policies, refer to “Critical Accounting Policies” within “Item 7 - Management’s Discussion and Analysis of Financial Condition and Results of Operations” included within our annual report on Form 10-K for the year ended December 31, 2015. As of March 31, 2016, there have been no material changes to any of the Critical Accounting Policies described above.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our principal market risk relates to interest rate sensitivity, which is the risk that future changes in interest rates will reduce our net income or net assets. Our Credit Facility accrues interest at a rate equal to a base rate plus a margin of 3% or London Interbank Offered Rate plus a margin of 4%. Based upon a sensitivity analysis at April 1, 2016, assuming average outstanding borrowings during the three months ended March 31, 2016 of \$29.0 million, a hypothetical 50 basis point increase in interest rates would result in an increase in interest expense of approximately \$0.1 million for an annual period.

Item 4. Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the

Securities Exchange Act of 1934, as amended, or the Exchange Act) as of March 31, 2016. Based on this evaluation, our principal executive officer and principal financial officer concluded that, as of March 31, 2016, our disclosure controls and procedures were effective to provide reasonable assurance that information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure, and ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There has been no change in our internal controls over financial reporting identified in connection with the evaluation required by Rules 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this report that has materially affected, or is reasonable likely to materially affect, our internal controls over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

The following information supplements and amends our discussion set forth under Part I, Item 3. “Legal Proceedings” in our Annual Report on Form 10-K for the year ended December 31, 2015.

Refer to “Note 7 – Commitments and Contingencies” to our condensed consolidated financial statements for developments and information related to our legal proceedings.

Item 1A. Risk Factors

There have been no material changes to our risk factors from those disclosed in our annual report on Form 10-K for the year ended December 31, 2015, other than the following:

We are subject to substantial federal and state governmental regulation that could change and thus force us to make modifications to our business. Compliance with the various complex laws and regulations is costly and time consuming, and failure to comply could have a material adverse effect on our business. Additionally, increased regulatory requirements on our services may increase our costs, which could materially and adversely affect our business, financial condition and results of operations.

As a payments processor to higher education institutions we take payment instructions from institutions and their constituents, including students and employees, and gives them to our Bank Partners. Accordingly, we are directly or indirectly subject to a variety of federal and state laws and regulations. Our contracts with most of our higher education institution clients and our Bank Partners require us to comply with applicable laws and regulations, including:

Title IV of the Higher Education Act of 1965, or Title IV;
the Family Educational Rights and Privacy Act of 1975, or FERPA;
the Electronic Fund Transfer Act and Regulation E;
the USA PATRIOT Act and related anti-money laundering requirements; and
certain federal rules regarding safeguarding personal information, including rules implementing the privacy provisions of Gramm-Leach-Bliley Act of 1999, or GLBA.

Higher Education Regulations

Third-Party Servicer. Because of the services we provide to some institutions with regard to the handling of Title IV funds, we are considered a “third-party servicer” under the Title IV regulations. Those regulations require a third-party servicer annually to submit a compliance audit conducted by outside independent auditors that cover the servicer’s Title IV activities. Each year we submit a “Compliance Attestation Examination of the Title IV Student Financial Assistance Programs” audit to ED, which includes a report by an independent audit firm. This yearly compliance audit submission to ED provides comfort to our higher education institution clients that we are in compliance with the third-party servicer regulations that may apply to us. We also provide this compliance audit report to clients upon request to help them fulfill their compliance audit obligations as Title IV participating institutions.

Under ED’s regulations, a third party servicer that contracts with a Title IV institution acts in the nature of a fiduciary in the administration of Title IV programs. Among other requirements, the regulations provide that a third-party servicer is jointly and severally liable with its client institution for any liability to ED arising out of the servicer’s violation of Title IV or its implementing regulations, which could subject us to material fines related to acts or omissions of entities beyond our control. ED is also empowered to limit, suspend or terminate the violating servicer’s eligibility to act as a third-party servicer and to impose significant civil penalties on the violating servicer.

Additionally, on behalf of our higher education institution clients, we are required to comply with ED’s cash management regulations regarding payment of financial aid credit balances to students and providing bank accounts to students that may be used for receiving such payments. In the event ED concluded that we had violated Title IV or its implementing regulations and should be subject to one or more of these sanctions, our business and results of operations could be materially and adversely affected. There is limited enforcement and interpretive history of Title IV regulations.

In 2012, ED published in the Federal Register a notice of intent to establish a negotiated rulemaking committee to draft proposed regulations designed to prevent fraud through the use of electronic fund transfers to students’ bank accounts, ensure proper use of federal financial aid funds, address the use of debit cards and other banking products for disbursing federal financial aid funds, and improve and streamline campus’ financial aid programs. In 2013, ED announced additional topics for consideration, and in early 2014, formed a negotiated rulemaking committee. The negotiated rulemaking committee concluded its efforts in May 2014 and a consensus was not reached on any proposed regulations. On May 18, 2015, ED published its Notice of Proposed Rulemaking, or NPRM on program integrity and improvement issues. Final rules relating to Title IV Cash Management were published in the Federal Register on October 30, 2015. The Final Rules included, among others, provisions related to (i) restrictions on the ability of higher education institutions and third party servicers like the Company to market financial products to students including sending unsolicited debit cards to students, (ii) prohibitions on the assessment of certain types of account fees on student accountholders and (iii) requirements related to ATM access for student accountholders that would become effective as of July 1, 2016. Although the complete impact of the Final Rules are unknown, there could be a significant negative impact on the disbursement business, including related to OneAccounts.

In connection with the new requirements under the Title IV regulations related to ATM access, in the second quarter 2016 we moved away from ATMs owned by Higher One to a nationwide ATM network which provides our OneAccount accountholders surcharge-free access to 55,000 ATMs worldwide. Given the potential significance of this change, there could be a negative impact on our accountholder and higher education institution client relationships and, in turn, the disbursement business, including the OneAccounts.

FERPA. Our higher education institution clients are subject to FERPA, which provides, with certain exceptions, that an educational institution that receives any federal funding under a program administered by ED may not have a policy or practice of disclosing education records or “personally identifiable information” from education records, other than directory information, to third parties without the student’s or parent’s written consent. Our higher education institution clients that use the Refund Managements disbursement services disclose to us certain non-directory information concerning their students, including contact information, student identification numbers and the amount of students’ credit balances. Additionally, our higher education institution clients that use Campus Labs® products also share personally identifiable information with us. We believe that our higher education institution clients may disclose this information to us without the students’ or their parents’ consent pursuant to one or more exceptions under FERPA. However, if ED asserts that we do not fall into one of these exceptions or if future changes to legislation or regulations require student consent before our higher education institution clients can disclose this information to us, a sizeable number of students may cease using our products and services, which could materially and adversely affect our business, financial condition and results of operations.

Additionally, as we are indirectly subject to FERPA, we may not permit the transfer of any personally identifiable information to another party other than in a manner in which a higher education institution may disclose it. In the event that we re-disclose student information in violation of this requirement, FERPA requires our clients to suspend our access to any such information for a period of five years. Any such suspension could have a material adverse effect on our business, financial condition and results of operations

State Laws. We may also be subject to similar state laws and regulations, including those that restrict higher education institutions from disclosing certain personally identifiable information of students. State attorneys general and other enforcement agencies may monitor our compliance with state and federal laws and regulations that affect our business, including those pertaining to higher education and banking, and conduct investigations of our business that are time consuming and expensive and could result in fines and penalties that have a material adverse effect on our business, financial condition and results of operations. In July 2014, we received a civil investigative demand from the Office of the Attorney General of the Commonwealth of Massachusetts pursuant to the Commonwealth’s Consumer Protection Act. The Massachusetts Attorney General has informed us that its investigation relates to our debt collection practices. We provided the information requested by the civil investigative demand, which included information and records about our company and certain of our business practices, particularly as they relate to Massachusetts residents, institutions of higher education located in Massachusetts, and students who attended those institutions. We cannot predict whether we will become subject to any action by the Massachusetts Attorney General or any other state agencies.

Additionally, individual state legislatures may propose and enact new laws that restrict or otherwise affect our ability to offer our products and services as we currently do, which could have a material adverse effect on our business, financial condition and results of operations. For example, legislation has been introduced in the State of Oregon which may further regulate the disbursement of financial aid refunds and associated financial products and services.

Regulation of OneAccounts

Anti-Money Laundering; USA PATRIOT ACT; Office of Foreign Assets Control. Our Bank Partners are insured depository institutions and funds held by them are insured by the FDIC up to applicable limits. As insured depository institutions, our Bank Partners are subject to comprehensive government regulation and supervision and, in the course of making their services available to our customers, we are required to assist our bank partners in complying with certain of their regulatory obligations. In particular, the anti-money laundering provisions of the USA PATRIOT Act require that customer identifying information be obtained and verified whenever a checking account is established. For example, because we facilitate the opening of checking accounts at our Bank Partners on behalf of our customers, we assist our bank partners in collecting the customer identification information that is necessary to open an account. In addition, both we and our Bank Partners are subject to the laws and regulations enforced by the Office of Foreign Assets Control, or OFAC, which prohibit U.S. persons from engaging in transactions with certain prohibited persons. Our failure to comply with any of these laws or regulators could materially and adversely affect our business, financial position and results of operations.

Compliance; Audit. As a service provider to insured depository institutions, we are required under applicable federal and state laws to submit to examination by our Bank Partners' regulators. We also are subject to audit by our Bank Partners to ensure that we comply with our obligations to them appropriately. Failure to comply with our responsibilities properly could negatively affect our operations. Our Bank Partners are required under our respective agreements to comply with state and federal banking regulations. The failure of our bank partners to maintain regulatory compliance could result in significant disruptions to our business and have a material adverse effect on our business, financial condition and results of operations.

Electronic Fund Transfer Act; Regulation E. Our Bank Partners provide depository services for OneAccounts through a private label relationship. We provide processing services for OneAccounts for our Bank Partners. These services are subject to, among other things, the requirements of the Electronic Fund Transfer Act and the CFPB's Regulation E, which govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of ATMs, debit cards and certain other electronic banking services. We may assist our bank partners with fulfilling their compliance obligations pursuant to these requirements. See "Fees for financial services are subject to increasingly intense legislative and regulatory scrutiny, which could have a material adverse effect on our business, financial condition, results of operations and prospects for future growth" in our Annual Report on Form 10-K for the year ended December 31, 2015 for additional discussion. Failure to comply with applicable regulations could materially and adversely affect our business, financial condition and results of operations.

Money Transmitter Regulations. Our products and services are occasionally reviewed by regulatory agencies to ensure that we do not impermissibly engage in activities that require licensing at the state or federal level. In the ordinary course of business, we receive letters and inquiries concerning the nature of our business as it applies to state "money transmitter" licensing and regulations from different state regulatory agencies. In light of the increasing importance of the payments business to the overall finances of the Company as well as the impending sale of the disbursements business, we are currently analyzing the "money transmitter" licensing requirements and regulations at

both the state and federal level with respect to our payments products. If it were to be determined that we are required to be licensed as a “money transmitter,” we may need to undergo a costly licensing process, and failure to comply could be a violation of state and potentially federal law. Failure to comply with applicable regulations could materially and adversely affect our business, financial condition and results of operations.

Privacy and Data Regulation

We are subject to laws and regulations relating to the collection, use, retention, security and transfer of personally identifiable information and data regarding our customers and their financial information. In addition, we are bound by our own privacy policies and practices concerning the collection, use and disclosure of user data, which are posted on our website.

In conjunction with the disbursement, payroll and tuition payment services we make available through our Bank Partners, we collect certain information from our customers (such as bank account and routing numbers) to transmit to our bank partners. Our bank partners use this information to execute the funds transfers requested by our customers, which are effected primarily by means of ACH networks and other wire transfer systems, such as FedWire. To the extent the data required by these electronic funds networks change, the information that we will be required to request from our clients may also change.

We are subject, either directly or by virtue of our contractual relationship with our bank partners, to the privacy and security standards of the GLBA privacy regulations, as well as certain state data protection laws and regulations. The GLBA privacy regulations require that we develop, implement and maintain a written comprehensive information security program prescribing safeguards that are appropriate to our size and complexity, the nature and scope of our activities and the sensitivity of any personally identifiable information we access for processing purposes or otherwise maintain. As a service provider of our bank partners, we also are limited in our use and disclosure of the personal information we receive from our bank partners, which we may use and disclose only for the purposes for which it was provided to us and consistent with the bank's own data privacy and security obligations. We also are subject to the standards set forth in guidance on data security issued by the Federal Financial Institution Examination Council, as well as the data security standards imposed by the card associations, including Visa, Inc., and MasterCard. In addition, we are subject to similar data security breach laws enacted by a number of states.

Any failure or perceived failure by us to comply with any legal or regulatory requirements or orders or other federal or state privacy or consumer protection-related laws and regulations, or with our own privacy policies, could result in fines, sanctions, litigation, negative publicity, limitation of our ability to conduct our business and injury to our reputation, any of which could materially and adversely affect our business, financial condition and results of operations.

New legislation and regulations in this area have been proposed, both at the federal and state level. Such measures, including pending Federal legislation, would potentially impose additional obligations on us, including requiring that we provide notifications to consumers and government authorities in the event of a data breach or unauthorized access or disclosure, beyond what state law already requires. These laws and regulations could cause us to incur substantial costs or require us to change our business practices any of which could materially and adversely affect our business, financial condition and results of our operations

Compliance

We monitor our compliance through (i) an internal audit program, led by our vice president of internal audit, (ii) our compliance management system, led by our chief compliance officer and (iii) a risk management program, led by our chief risk officer. Our internal audit team works with a third-party internal audit firm to conduct annual reviews to ensure compliance with the regulatory requirements described above. The costs of these audits and the costs of complying with the applicable regulatory requirements are significant. Increased regulatory requirements on our products and services, such as in connection with the matters described above, could materially increase our costs or reduce revenue.

It is impossible to determine the extent of the impact of any new laws, regulations or initiatives that may be proposed, or whether any of the proposals will become law. The imposition of any new laws or regulations could make compliance more difficult and expensive and affect the manner in which we conduct business. In addition, many of

these laws and regulations are evolving, unclear and inconsistent across various jurisdictions. If we were deemed to be in violation of any laws or regulations that are currently in place or that may be promulgated in the future, including those described above, we could be exposed to financial liability and negative publicity or forced to change our business practices or stop offering some of our products and services. We also could face significant legal fees, delays in extending our product and services offerings and damage to our reputation that could harm our business and reduce demand for our products and services. Even if we are not required to change our business practices, we could be required to obtain licenses or regulatory approvals that could cause us to incur substantial legal fees, costs and delays.

We rely on our Bank Partners for certain banking services, and a change in the relationships, or difficulties implementing our program, with our Bank Partners or their failure to comply with certain banking regulations could materially and adversely affect our business.

As the provider of FDIC-insured depository services for all OneAccounts, as well as other banking functions, our bank partners provide third-party services that are critical to our student-oriented banking services. Within the past few years, we have experienced turnover with respect to our bank partners, which presents certain risks and uncertainties. For example, on February 8, 2013, we agreed to a mutual termination with Cole Taylor of our Deposit Processing Services Agreement to be effective August 30, 2013. On July 11, 2013, we entered into an agreement with Customers Bank under which it currently provides deposit services as a bank partner. In connection with transitioning bank partners, we made certain changes to our practices and operations, and could be required to make further changes in the future. Should we encounter any difficulties in on-boarding, retaining or transitioning bank partners, we may not be able to continue offering the OneAccount in the same manner as we do now, which could have a material adverse effect on our business, financial condition and results of operations. Further, in the future, if we are not able to transition the functions performed by our then current bank partners to another financial institution, or, to the extent necessary, replace a current bank partner, we may not be able to continue offering the OneAccount in the same manner as we do now, which could have a material adverse effect on our business, financial condition and results of operations. Additionally, if any material adverse event were to affect any of our bank partners or future bank partners, including, a significant decline in financial condition, a decline in the quality of service, loss of deposits, a change in deposit classification related to the OneAccounts, inability to comply with applicable banking and financial service regulatory requirements, systems failure or inability to pay us fees, our business, financial condition and results of operations could be materially and adversely affected. There is also a risk that the terms of our services agreement with future bank partners may not be as favorable to us as our current agreements. The aggregate impact of any of these risks could have a material adverse effect on our business, financial condition and results of operations.

We depend on key members of management and the loss of their services could have a material adverse effect on our business.

We have historically depended on the efforts, skill and reputations of our senior executive team, including Marc Sheinbaum (Chief Executive Officer and President) Casey McGuane (Chief Operating Officer), Robert Reach (Chief Sales Officer) and Christopher Wolf (Chief Financial Officer). We do not currently maintain key person life insurance policies with respect to our executive officers. None of our executive officers have entered into employment agreements with us that would prevent them from terminating their involvement with us at any time and/or pursuing other opportunities. The loss of any of our executive officers or other members of management could have a material adverse effect on our ability to manage our company, growth prospects, business, financial condition and results of operations. In addition, our success also depends on our ability to continue to attract, manage, and retain other qualified management, as well as technical and operational personnel. We may not be able to continue to attract and retain such personnel in the future, which could adversely impact our business.

Pursuant to the Disbursements Asset Purchase Agreement, Mr. McGuane will be offered employment by the Buyer or one of its affiliates as of the closing date of the transaction contemplated thereby. We may not be able to attract or retain a qualified successor, which could adversely impact our business.

We outsource critical operations, which exposes us to risks related to our third-party vendors, and we have begun to in-source certain technology functions, which exposes us to other risks.

We have entered into contracts with third-party vendors to provide critical services, technology and software in our operations. These outsourcing partners include: Fiserv, which provides back-end account and transaction data processing for OneAccounts; MasterCard, which provides the payment network for our debit MasterCard ATM cards, as well as for certain other transactions; and BMO Harris and Global Payments, which provide transaction processing and banking services for payment processing related to the SmartPay feature of our ePayment service, Ubiquity Global Services, which provides live-agent, chat and IVR services for the disbursements business, including the OneAccount and ATM National, LLC. doing business as Allpoint, which provides our OneAccount cardholders access to a nationwide ATM network. In the event that these service providers fail to maintain adequate levels of support, do not provide high quality service, discontinue their lines of business, terminate our contractual arrangements or cease or reduce operations, we may be required to pursue new third-party relationships, which could materially disrupt our operations and our ability to provide our products and services, and could divert management's time and resources. Replacement technology or services provided by replacement third-party vendors could be more expensive than those we have currently, while the process of transitioning services and data from one provider to another can be complicated and time consuming. If we are unable to complete a transition to a new provider on a timely basis, or at all, we could be forced to temporarily or permanently discontinue certain services, which could disrupt services to our customers and materially and adversely affect our business, financial condition and results of operations. We may be unable to establish comparable new third-party relationships on as favorable terms or at all, which could materially and adversely affect our business, financial condition and results of operations. With respect to the technology and operational support functions that we have in-sourced to date or that we seek to in-source, we may encounter difficulty or delays in developing and supporting an appropriate infrastructure to be able to perform these functions ourselves. We may also not realize the full value of our investments in these projects.

The transaction contemplated by the Disbursements Asset Purchase Agreement may not be completed or may be delayed if the conditions to closing are not satisfied or waived.

The transaction contemplated by the Disbursements Asset Purchase Agreement may not be completed or may be delayed because the conditions to closing, including consents from certain third parties, may not be satisfied or waived. If the transaction contemplated by the Disbursements Asset Purchase Agreement is not completed, we may have difficulty recouping the costs incurred in connection with negotiating the transaction contemplated by the Disbursements Asset Purchase Agreement, our relationships with our clients, customers, suppliers and employees may be damaged, and our business may be harmed.

If the transaction contemplated by the Disbursements Asset Purchase Agreement is consummated, we will be reliant on Bank to provide certain transition services to us.

Pursuant to the terms of a Transition Services Agreement between HOI and Bank, following the consummation of the transaction contemplated by the Disbursements Asset Purchase Agreement, Bank will provide certain transition services to us for a period that may extend as late as June 30, 2017. These services will include specified banking operations, litigation and regulatory support services, information technology, finance and client operations services as will be set forth in an annex to the Transition Services Agreement. If Bank fails to provide these services as required by the Transition Services Agreement, we would be required to perform these services ourselves or attempt to find another third-party service provider to do so. We may be unable to perform these services ourselves or find another third-party service provider to do so, or not on the same terms as provided in the Transition Services Agreement, which could adversely impact our business.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

On May 6, 2016, Higher One Holdings, Inc. (the “Company”) entered into identical severance agreements (the “Severance Agreements”) with Marc Sheinbaum, Chief Executive Officer of the Company; Christopher Wolf, Chief Financial Officer of the Company; Robert Reach, Chief Sales Officer of the Company; and Thomas Kavanaugh, General Counsel of the Company (each such individual, an “Executive”). The Severance Agreements reflect the terms of the Company Executive Severance Policy, effective August 6, 2015 (previously disclosed in the Company Form 10-Q filed on August 7, 2015), other than with respect to the termination of an Executive’s employment in connection with an asset sale and with one adjustment to the calculation and timing of annual bonus payments for the year of termination in connection with a change in control or a liquidation of the Company. As set forth in and subject to the terms of the Severance Agreements, an Executive terminated in connection in with a change in control or a liquidation of the Company will receive a pro rata portion of his target bonus amount as soon as practicable following the triggering event. The Severance Agreements provide for offsets in the event of conflict with other severance plans, agreements or policies of the Company including, but not limited to, Mr. Sheinbaum’s employment agreement.

The foregoing summary does not constitute a complete summary of the terms of the Severance Agreements, and reference is made to the complete text of the form of Severance Agreement that is attached hereto as Exhibit 10.1. The form of Severance Agreement is incorporated herein by reference.

Item 6. Exhibits

Exhibit

Number	Description
10.1	* Form of Severance Agreement
31.1	* Certificate of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).
31.2	* Certificate of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).
32.1	*(1) Certificate of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).
32.2	*(1) Certificate of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).
101.INS	*(2)XBRL Instance Document
101.SCH	*(2)XBRL Taxonomy Extension Schema
101.CAL	*(2)XBRL Taxonomy Calculation Linkbase
101.DEF	*(2)XBRL Taxonomy Extension Definition Linkbase
101.LAB	*(2)XBRL Taxonomy Extension Label Linkbase
101.PRE	*(2)XBRL Taxonomy Extension Presentation Linkbase

* Filed herewith

(1) The material contained in Exhibit 32.1 and Exhibit 32.2 is not deemed “filed” with the SEC and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language contained in such filing, except to the extent that the registrant specifically incorporates it by reference.

(2) Pursuant to Rule 406T of Regulation S-T, the XBRL related information in Exhibits 101 to this Quarterly Report on Form 10-Q shall not be deemed to be “filed” for purposes of Section 18 of the Exchange Act of 1934, as amended, or otherwise subject to liability under that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such filing.

SIGNATURE

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

Date: May 6, 2016

Higher One Holdings, Inc.

/s/ Christopher Wolf
Christopher Wolf
Executive Vice President and Chief Financial Officer

(Duly authorized officer and principal financial officer)

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