Higher One Holdings, Inc.
Form 10-Q
August 07, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015.

or

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

For the transition period from to .

Commission File Number: 001-34779

HIGHER ONE HOLDINGS, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**26-3025501**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer 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	x
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company	

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

As of August 5, 2015, there were 47,980,711 shares of common stock, par value $0.001 per share, outstanding.

HIGHER ONE HOLDINGS, INC.

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FOR THE THREE MONTHS ENDED JUNE 30, 2015

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)

	June 30, 2015	**December 31, 2014**
Assets		
Current assets:		
Cash and cash equivalents	$16,760	$40,022
Investments in marketable securities	250	249
Accounts receivable	16,881	8,929
Income receivable	6,409	9,053
Deferred tax assets	3,757	3,719
Prepaid expenses and other current assets	5,311	7,805
Total current assets	49,368	69,777
Deferred costs	6,910	4,187
Fixed assets, net	44,040	46,768
Intangible assets, net	53,272	56,255
Goodwill	67,403	67,403
Loan receivable related to New Markets Tax Credit financing	7,633	7,633
Other assets	3,176	2,523
Restricted cash	2,725	2,725
Total assets	$234,527	$257,271
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$2,448	$3,339
Accrued expenses	24,962	25,872
Deferred revenue	30,503	25,174
Total current liabilities	57,913	54,385
Deferred revenue and other non-current liabilities	4,238	4,019
Loan payable and deferred contribution related to New Markets Tax Credit financing	8,716	8,871
Debt	59,000	94,000
Deferred tax liabilities	2,839	3,814
Total liabilities	132,706	165,089
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Common stock, $0.001 par value; 200,000,000 shares authorized; 59,887,737 shares issued and 47,974,711 shares outstanding at June 30, 2015; 59,570,839 shares issued and	60	60

47,657,813 shares outstanding at December 31, 2014		
Additional paid-in capital	188,364	185,588
Treasury stock, 11,913,026 shares at June 30, 2015 and December 31, 2014	(137,899)	(137,899)
Retained earnings	51,296	44,433
Total stockholders' equity	101,821	92,182
Total liabilities and stockholders' equity	$234,527	$257,271

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

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Higher One Holdings, Inc.

Condensed Consolidated Statements of Operations

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

(unaudited)

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2015	**2014**	**2015**	**2014**
Revenue:				
Account revenue	$24,341	$26,345	$61,869	$68,007
Payment transaction revenue	11,118	9,835	28,442	24,455
Higher education institution revenue	9,979	9,050	20,405	19,029
Other revenue	151	247	391	542
Gross revenue	45,589	45,477	111,107	112,033
Less: allowance for customer restitution	-	(8,750)	-	(8,750)
Revenue	45,589	36,727	111,107	103,283
Cost of revenue	21,472	21,102	49,662	48,696
Gross margin	24,117	15,625	61,445	54,587
Operating expenses:				
General and administrative	17,736	16,015	36,319	31,726
Product development	2,309	1,770	4,080	3,962
Sales and marketing	4,279	4,705	8,442	9,179
Restructuring charge	240	-	240	-
Total operating expenses	24,564	22,490	49,081	44,867
Income (loss) from operations	(447)	(6,865)	12,364	9,720
Interest income	20	34	40	53
Interest expense	(1,252)	(792)	(2,632)	(1,615)
Other income	1,203	1,681	1,280	1,759
Net income (loss) before income taxes	(476)	(5,942)	11,052	9,917
Income tax expense (benefit)	(479)	(2,171)	4,189	3,978
Net income (loss)	$3	$(3,771)	$6,863	$5,939
Net income (loss) available to common stockholders:				
Basic	$3	$(3,771)	$6,863	$5,939
Diluted	$3	$(3,771)	$6,863	$5,939
Weighted average shares outstanding:				
Basic	47,671,734	47,198,922	47,514,662	47,141,355
Diluted	47,951,435	47,198,922	47,887,604	48,189,411
Net income (loss) available to common stockholders per common share:				
Basic	$0.00	$(0.08)	$0.14	$0.13
Diluted	$0.00	$(0.08)	$0.14	$0.12

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	Amount	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Total Stockholders' Equity
Balance at December 31, 2014	47,657,813	$ 60	$ 185,588	$ (137,899)	$ 44,433	$ 92,182
Stock-based compensation	-	-	3,556	-	-	3,556
Reversal of tax benefit related to options	-	-	(1,117)	-	-	(1,117)
Exercise of stock options	316,898	-	337	-	-	337
Net income	-	-	-	-	6,863	6,863
Balance at June 30, 2015	47,974,711	$ 60	$ 188,364	$ (137,899)	$ 51,296	$ 101,821

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)

	Six Months Ended June 30, 2015			2014		
Cash flows from operating activities						
Net income	$	6,863		$	5,939	
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation and amortization		10,866			8,887	
Amortization of deferred finance costs		1,158			245	
Stock-based compensation		3,517			2,348	
Deferred income taxes		(2,110	)		5,259	
Income tax benefit related to exercise of stock options		(118	)		(17	)
Other income		(155	)		(155	)
Loss on disposal of fixed assets		29			84	
Changes in operating assets and liabilities:						
Accounts receivable		(7,952	)		(5,226	)
Income receivable		2,644			(697	)
Deferred costs		(277	)		(1,807	)
Prepaid expenses and other current assets		2,494			(5,111	)
Other assets		(653	)		(86	)
Accounts payable		(891	)		(1,132	)
Accrued expenses		(930	)		(5,375	)
Deferred revenue		5,175			5,067	
Net cash provided by operating activities		19,660			8,223	

Cash flows from investing activities						
Purchases of fixed assets		(1,369	)		(2,334	)
Additions to internal use software		(2,541	)		(2,754	)
Amounts received from restricted cash		-			25	
Proceeds from development related subsidies		-			3,468	
Net cash used in investing activities		(3,910	)		(1,595	)
Cash flows from financing activities						
Proceeds from line of credit		-			15,000	
Repayments of line of credit		(35,000	)		(10,000	)
Payment of deferred financing costs		(4,467	)		-	
Tax benefit related to exercise of stock options		118			17	
Proceeds from exercise of stock options		337			146	
Net cash (used in) provided by financing activities		(39,012	)		5,163	
Net change in cash and cash equivalents		(23,262	)		11,791	
Cash and cash equivalents at beginning of period		40,022			6,268	
Cash and cash equivalents at end of period	$	16,760		$	18,059	

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

Higher One Holdings, Inc., or HOH, is a leading provider of technology, data analytics and payment services to the higher education industry. HOH, through its subsidiaries, provides a comprehensive suite of disbursement, payment and data analytics 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 99.99% 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.

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, 2014, 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, 2014 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 or six months ended June 30, 2015 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.

Goodwill and Intangible Assets

Goodwill represents the excess of the fair value of consideration transferred over the fair values assigned to the underlying net identifiable assets of acquired businesses. We test goodwill for impairment annually on October 31, or whenever events or changes in circumstances indicate that impairment may have occurred, by comparing its fair value to its carrying value. Impairment may result from, among other things, deterioration in the performance of an acquired business, adverse market conditions, adverse changes in applicable laws or regulations, including changes that restrict the activities of an acquired business, and a variety of other circumstances.

Higher One Holdings, Inc.

Notes to Condensed Consolidated Financial Statements

(unaudited)

As further described in Note 7 we now have three reportable segments: Disbursements, Payments and Data Analytics, which are organized according to the type of service that each offers to our target markets – higher education institutions and their students. Each of these business units is also an operating segment and a reporting unit for purposes of our goodwill impairment testing. The excess of fair value over carrying value varies by reporting unit. The fair value of the disbursements reporting unit exceeded its carrying value by approximately 40% at the time of our change in reporting units and is the reporting unit most susceptible to impairment in the future.

Income Taxes

On June 30, 2015, the state of Connecticut enacted changes to its corporate tax laws, including a mandatory unitary tax filing requirement for all Connecticut companies effective January 1, 2016. As a result of the tax law changes, it is now more likely than not that we will utilize certain net operating loss carry forwards for which we previously had recorded a valuation allowance. We have recorded an income tax benefit of approximately $0.3 million during the three months ended June 30, 2015 due to the tax law changes.

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 reporting 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 5,039,152 and 6,541,026 were not included in the computation of diluted net income per common share for the three months ended June 30, 2015 and 2014, respectively, as their effect would be anti-dilutive. The effect of stock options and warrants to purchase our common stock totaling 4,135,205 and 4,318,103 were not included in the computation of diluted net income per common share for the six months ended June 30, 2015 and 2014, 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

There are no comprehensive income items other than net income. There are no recorded unrealized gains or losses on the investments in marketable securities as of the balance sheet dates. Comprehensive income equals net income for all periods presented.

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 for the benefit of either the institution or the payer. There were approximately $96.3 million and $127.3 million of such funds as of June 30, 2015 and December 31, 2014, respectively. These deposits are not our funds and therefore are not included in the accompanying condensed consolidated balance sheets.

Recent Accounting Pronouncements

There were no accounting standards adopted during 2014 or during the six months ended June 30, 2015 which had a material impact on our consolidated financial position, results of operations or liquidity.

Higher One Holdings, Inc.

Notes to Condensed Consolidated Financial Statements

(unaudited)

In May 2014, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or 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, including significant judgments and changes in judgments and assets recognized from costs incurred to fulfill a contract. 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 June 2014, the FASB issued Accounting Standards Update No. 2014-12, *Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*, which updated the accounting standards related to stock compensation. The update clarifies the accounting for share-based payments with a performance target that could be achieved after the requisite service period. Specifically, the update specifies that the performance target should not be reflected in estimating the grant-date fair value of the award. Instead, the probability of achieving the performance target should impact vesting of the award. The standard will be effective for interim and annual periods beginning after December 15, 2015 and early adoption is permitted. We do not expect the adoption of this standard to have a material effect on our financial condition or results of operations.

In April 2015, the FASB issued Accounting Standard Update No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs,* which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the associated debt liability. This standard will be effective for fiscal periods beginning after December 15, 2015 and early adoption is permitted. We do not believe this standard will have a significant impact on our consolidated financial statements or disclosures.

3. Investments in Marketable Securities and Fair Value Measurements

The following table reflects the assets carried at fair value measured on a recurring basis (in thousands). There were no liabilities carried at fair value measured on a recurring basis at either June 30, 2015 or December 31, 2014:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Fair values at June 30, 2015				
Assets:				
Certificate of deposit	$ 250	$ —	$ 250	$ —
Fair values at December 31, 2014				
Assets:				
Certificate of deposit	$ 249	$ —	$ 249	$ —

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Higher One Holdings, Inc.

Notes to Condensed Consolidated Financial Statements

(unaudited)

We had no unrealized gains or losses from investments as of June 30, 2015 or December 31, 2014, and there is no material 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 in footnote 5 below) approximates fair value as a result of our amendment to the credit facility in February 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 June 30, 2015. 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.

4. Real Estate Development Project

At the end of 2011, we completed a real estate development project and moved our headquarters into two commercial buildings located in New Haven, Connecticut. During the six months ended June 30, 2014, we received a payment of $3.5 million associated with state historic tax credits which were generated by the project.

In connection with the 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 June 30, 2015, we have a liability of $1.7 million recorded which represents our best estimate of expected repayments resulting from these guarantees. A portion of the liability ($1.5 million) is recorded within deferred revenue and other non-current liabilities as it would not be due until 2019 and the remaining balance ($0.2 million) is recorded in accrued expenses in our condensed consolidated balance sheets as of both June 30, 2015 and December 31, 2014.

We also provided a guaranty related to tax credits that are expected to be generated by an investment made by an unrelated entity into the real estate development project. In the event that we cause a recapture or disallowance of the tax credits expected to be generated under this program, 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 guaranty agreement. This guaranty will remain in place through 2018. The maximum potential amount of future payments under this guaranty is approximately $6.0 million. We currently believe that the requirement to make a payment under this guaranty is remote and we have thus not recorded any liability on our condensed consolidated balance sheet in connection with this guaranty.

5. Credit Facility

In October 2012, HOI entered into a five-year, $200.0 million, senior secured revolving credit facility, or 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. The maturity of the Credit Facility could be accelerated upon a change of control or if we experience a material adverse change in our operations, condition or prospects.

Higher One Holdings, Inc.

Notes to Condensed Consolidated Financial Statements

(unaudited)

We amended the Credit Facility in February 2015, which modified certain of the financial covenants and other terms of the agreement as follows:

the revolving credit facility was reduced to $140.0 million, with $35.0 million of such facility reserved only for the resolution of the certain regulatory matters, as defined. The revolving credit facility subsequently reduces to $130.0 million and $120.0 million as of December 31, 2015 and 2016, respectively;

requires us to maintain a debt to consolidated EBITDA ratio, or leverage ratio, of 2.75 to 1.00 or less for the evaluation periods from March 31, 2015 through September 30, 2016, and of 2.50 to 1.00 or less thereafter;

requires us to maintain consolidated EBITDA, as defined in the Credit Facility, as amended, on a consolidated basis for the prior four fiscal quarters of at least the following amounts (i) $45.0 million as of March 31, 2015 and June 30, 2015, (ii) $40.0 million as of September 30, 2015 and December 31, 2015, and (iii) $35 million as of March 31, 2016 and all future evaluation periods;

allow, at our option, amounts outstanding under the October 2012 Facility to accrue interest at a rate equal to either (i) the London Interbank Offered Rate, or LIBOR, plus a margin of 4% or (ii) a fluctuating base rate tied to the federal funds rate, the administrative agent's prime rate and LIBOR, plus a margin of 3%;

allow for the payment of up to $75 million related to the settlement of certain regulatory matters, as defined;

allow for the exclusion from the computation of consolidated EBITDA of up to $75 million of income statement charges related to certain regulatory matters, as defined; and

automatically and permanently reduce the revolving credit facility, dollar for dollar up to a maximum reduction in the revolving credit facility of $20.0 million, to the extent that the loss related to those certain regulatory matters is less than $70.0 million.

We also amended the Credit Facility in June 2015. Under the Credit Facility, as constituted prior to the effectiveness of the June 2015 amendment, if more than half of the incumbent Board was replaced in any twelve month period through a contested election or threatened contested election, the lenders were entitled to declare a default and cause the principal and any accrued interest on any outstanding loans to become immediately due and payable. This type of provision is sometimes referred to as a Dead Hand Proxy Put. The June 2015 amendment removes the Dead Hand Proxy Put from the Credit Facility by amending the definition of Change of Control.

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. In connection with the February 2015 Amendment, we paid down the outstanding balance of the Credit Facility by $35 million, expensed approximately $0.4 million of previously deferred financing costs and incurred new financing costs of approximately $4.5 million in February 2015, which are included in deferred costs as of June 30, 2015 in the accompanying condensed consolidated balance sheet.

As of June 30, 2015, there were $59.0 million in borrowings outstanding, at a weighted average interest rate of 4.2%, under the Credit Facility. We are in compliance with all of the applicable affirmative, negative and financial covenants of the Credit Facility. As of June 30, 2015, our trailing twelve month consolidated EBITDA (as defined in the Credit Facility) was $57.7 million.

6. 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, or ED, formed a negotiated rulemaking committee to discuss and work toward revising 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. On May 18, 2015, ED published its Notice of Proposed Rulemaking, or NPRM, on program integrity and improvement issues in the Federal Register. ED may publish these proposed rules in their current form or in a different form that may be more adverse to our business. Any rules substantially similar to those proposed could have a material adverse effect on our business. Should ED publish final rules in the Federal Register by November 1, 2015, we believe new Title IV Cash Management regulations would likely not go into effect until July 1, 2016.

Higher One Holdings, Inc.

Notes to Condensed Consolidated Financial Statements

(unaudited)

Regulatory Examinations and Other Matters

As previously disclosed, the Federal Reserve Bank of Chicago notified us and a former bank partner of potential violations of the Federal Trade Commission Act relating to marketing and disclosure practices related to the OneAccount during the period it was offered by such former bank partner. 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. The cited violations relate to our activities with both a former and current bank partner and our marketing and disclosure practices related to the process by which students may select the OneAccount option for financial aid refund. We are in discussions with the Staff of the Board of Governors and the Reserve Banks on this matter. The Staff of the Board of Governors has asserted that any administrative order may seek damages, including customer restitution and civil money penalties, totaling as much as $35 million, and changes to certain of our business practices.

Approximately 55% of the OneAccounts are held at our bank partner regulated by the FDIC and we may need to provide restitution to those OneAccounts held at that bank partner. As previously disclosed, in the event we do provide restitution to these OneAccounts on the same basis as an order from the Board of Governors, it is reasonably possible that our loss related to this matter will increase accordingly and increase our total exposure by an additional amount of approximately $35 million, or approximately $70 million in total. Related to this matter, following a recently conducted compliance examination, the San Francisco Regional Office of the FDIC notified us that it is 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 related to the OneAccount. Any such enforcement action could result in orders to pay restitution and civil money penalties. We have responded to the FDIC's notification and we believe that these allegations are similar and related to the Federal Reserve Board allegations previously disclosed and discussed above.

During the year ended December 31, 2014, we recorded a liability of $8.75 million related to these matters, which was shown as an allowance for customer restitution on our consolidated statement of operations. While we believe that it is probable that we will have a loss related to these regulatory matters, in view of the inherent difficulty of predicting the outcomes of regulatory matters, we cannot predict the eventual outcomes of these pending matters, the timing of the ultimate resolution of these matters or an exact amount of loss associated with these matters. The liability, which was recorded at June 30, 2014, and continues to be recorded at June 30, 2015, reflects the minimum amount we expect to pay related to these matters, although there is a reasonable possibility that the liability will increase in future periods. The ultimate amount of restitution or civil money penalties is subject to many uncertainties and therefore impossible to predict. As disclosed in “Note 5 – Credit Facility” of our consolidated financial statements, we amended our Credit Facility in February 2015. The amendment allows, among other things, for the payment of up to $75 million in connection with the resolution of the regulatory matters described above.

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 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, institutes 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.

Higher One Holdings, Inc.

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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 rules of the federal Department of Education, or ED, 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 that was filed against us in 2012. 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 December 15, 2014, the Court granted final approval of the settlement. 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. This estimate is not materially different than our current cost estimate based on the final, approved settlement agreement.

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.

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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 the motion to stay was granted. HOH is currently unable to predict the outcome of the *Sabel* and *Clay* lawsuits.

Cybersecurity subpoena

The SEC previously informed us that it opened an investigation on January 20, 2015 into the adequacy of our disclosures of cybersecurity risks. In connection with this investigation into the adequacy of our disclosures, the SEC issued us a subpoena, on January 22, 2015, seeking documents related to our cybersecurity, including, among other things, documents related to cybersecurity policies, procedures, practices and training materials; risk assessments, audits, tests or reviews; monetary and other resources allocated to cybersecurity; any cybersecurity incidents and any costs or damages associated with cybersecurity incidents; and insurance policies that cover or mitigate our cybersecurity risk. We are complying with the subpoena and have produced responsive documents to the SEC. We are not aware of any issue or event that caused the SEC to open the investigation, but responding to an investigation of this type can be both costly and time-consuming and at this time we are unable to estimate either the likelihood of a favorable or unfavorable outcome of this matter or our potential cost or exposure.

TouchNet

In February 2009 and September 2010, Higher One, Inc. filed two separate complaints against TouchNet Information Systems, Inc., or TouchNet, in the United States District Court for the District of Connecticut alleging patent infringement related to TouchNet's offering for sale and sales of its "eRefund" product in violation of two of our patents. In the complaints, we sought judgments that TouchNet has infringed two of our patents, a judgment that TouchNet pay damages and interest on damages to compensate us for infringement, an award of our costs in connection with these actions and an injunction barring TouchNet from further infringing our patents. TouchNet answered the complaint and asserted a number of defenses and counterclaims, including that it does not infringe our patent, that our patent is invalid or unenforceable and certain allegations of unfair competition and state and federal antitrust violations. In addition, TouchNet's counterclaims sought dismissal of our claims with prejudice, declaratory judgment that TouchNet does not infringe our patent and that our patent is invalid or unenforceable, as well as an award of fees and costs related to the action, and an injunction permanently enjoining us from suing TouchNet regarding infringement of our patent.

On June 29, 2015, we entered into an agreement with TouchNet, and its successor company Heartland Payment Systems, which resolved our complaints against TouchNet and their counterclaim against us. Pursuant to the terms of the agreement: (i) we were paid $1.1 million, (ii) we provided TouchNet and Heartland Payment Systems a license to use the patents described above, and (iii) both we and TouchNet agreed to dismiss each of our complaints against one another. We recorded the $1.1 million due from TouchNet as other income during the three months ended June 30, 2015.

In accordance with applicable accounting guidance, we establish a liability for a matter of the type described above if and when it presents loss contingencies that are both probable and reasonably estimable.

7. Segments

As a result of changes instituted by our chief operating decision maker 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 now have three reportable segments, Disbursements, Payments and Data Analytics, which 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. The Data Analytics segment offers our Campus Labs analytics solutions suite for assessment in higher education, which combine data collection, reporting, organization and campus-wide integration.

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We allocate all revenue and all operating expenses to these three 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 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.

A summary of our segments for the three and six months ended June 30, 2015 and 2014 is as follows (in thousands):

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2015	**2014**	**2015**	**2014**
Revenue				
Disbursements	$25,525	$18,736	$64,736	$61,881
Payments	15,835	14,504	38,132	34,566
Data Analytics	4,229	3,487	8,239	6,836
Total revenues	$45,589	$36,727	$111,107	$103,283
Depreciation and amortization				
Disbursements	$2,614	$1,712	$4,748	$3,349
Payments	2,310	2,141	4,590	4,380
Data Analytics	772	579	1,528	1,158
Total depreciation and amortization	$5,696	$4,432	$10,866	$8,887
Income (loss) from operations				
Disbursements	$(1,449)	$(7,099)	$7,456	$7,532
Payments	449	(248)	3,696	1,302
Data Analytics	553	482	1,212	886
Total income (loss) from operations	(447)	(6,865)	12,364	9,720
Interest income	20	34	40	53
Interest expense	(1,252)	(792)	(2,632)	(1,615)
Other income	1,203	1,681	1,280	1,759

Net income (loss) before income taxes	$(476)	$(5,942)	$11,052	$9,917

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Higher One Holdings, Inc.

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8. Restructuring Charge

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 OneAccount product. In connection with this agreement, we plan to reduce our employee workforce across our customer care department. We began the transition to the third-party service provider in July 2015 and expect to substantially complete the employee reduction by November 2015. However, the timing of this transition and of certain employee reductions may vary. We estimate we will recognize costs of approximately $1.0 million during fiscal year 2015, consisting of severance and other employee-related benefits. Such costs are expected to be substantially accrued and paid through the end of the first quarter of 2016.

For the three months ended June 30, 2015 we recognized restructuring charges of $0.2 million related to the plan described above, which is included in restructuring charges for the three and six months ended June 30, 2015 in the accompanying condensed consolidated statements of operations.

There were no restructuring activities prior to the three months ended June 30, 2015. The restructuring liability is included in accrued expenses as of June 30, 2015. The following table summarizes the activities associated with restructuring liabilities for the three months ended June 30, 2015.

	Severance and employee-related benefits	
April 1, 2015 restructuring liability	$	-
Charges		240
June 30, 2015 restructuring liability	$	240

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, 2014 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 refund disbursement, payment processing and data analytics services to higher education institutions and their students. We believe that none of our competitors match our ability to provide solutions for higher education institutions' financial services needs, including compliance monitoring. Consequently, we provide the most comprehensive suite of disbursement and payment solutions specifically designed for 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 consist of our Disbursement solutions suite, including our Refund Management® disbursement service, our CASHNet® payment processing suite and our Campus Labs® analytics solutions suite. 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 June 30, 2015, more than 800 campuses servicing approximately 5.0 million students purchased our Refund Management disbursement service. In total, there are more than 1,900 campuses servicing approximately 13 million students contracted to use at least one of our services. As of June 30, 2015, we also serviced approximately 2.0 million OneAccounts.

Our revenue fluctuates as a result of seasonal factors related to the academic year. A large portion of our revenue is either directly or indirectly dependent on academic financial aid received by students and in turn the number of students enrolled at our higher education institution clients. Higher education institutions typically disburse financial aid refunds to students at the start of each academic term. Distribution of financial aid disbursements through our Refund Management disbursement service (1) indirectly generates revenue through deposits of financial aid into OneAccounts, which generates account revenue, and (2) directly generates revenue through our higher education institution clients' use of the Refund Management disbursement service, which generates higher education institution revenue.

While revenue fluctuates over the course of our fiscal year, many of our expenses remain relatively constant, resulting in disparities in our net income and adjusted net income from quarter to quarter. Typically, the second quarter accounts for the smallest proportion of our revenues. This is primarily because the majority of financial aid is disbursed outside of this time period and higher education institutions tend to enroll more new students during the first and third fiscal quarters. We expect this trend to continue going forward.

Department of Education

In early 2014, the Department of Education, or ED, formed a negotiated rulemaking committee. Our Chief Operating Officer was selected by ED to serve on the committee as a primary negotiator. The committee convened in February, March, April and May of 2014 to discuss and work toward revising existing regulations to potentially address, among other things, consumer safeguards regarding debit and prepaid cards associated with Title IV Cash Management (including fees associated with such debit and prepaid cards), marketing of financial products (including sending unsolicited cards to students and co-branding of the card and materials) 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. The negotiated rulemaking committee concluded its efforts in May 2014 and a consensus was not reached on any proposed regulations. Several of the views expressed at the sessions were unfavorable to certain of our current business practices.

On May 18, 2015, ED published its Notice of Proposed Rulemaking, or NPRM, on program integrity and improvement issues in the Federal Register. When ED published its NPRM the public comment period opened and remained opened until July 2, 2015 and we afforded ourselves of that opportunity to comment. Our comments focused on the provisions of the NPRM relating to cash management and campus debit cards including but not limited to the requirement of a 30-day across-the-board fee moratorium following each disbursement, imposed on top of other proposed fee restrictions, which could make providing accounts offered by third party servicers unviable and the confirmation of ED having the authorization to pay Title IV credit balances directly to students and parents which creates the risk of federalization of the disbursement process, thus discouraging private sector investment and innovation.

ED may publish these proposed rules in their current form or in a different form that may be more adverse to our business. Any rules substantially similar to those proposed could have a material adverse effect on our business. Should ED publish final rules in the Federal Register by November 1, 2015, we believe new Title IV Cash Management regulations would likely not go into effect until July 1, 2016.

Regulatory Matters

The Federal Reserve Bank of Chicago notified us and a former bank partner of potential violations of the Federal Trade Commission Act relating to marketing and disclosure practices related to the OneAccount during the period it was offered by such former bank partner. 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. The cited violations relate to our activities with both a former and current bank partner and our marketing and disclosure practices related to the process by which students may select the OneAccount option for financial aid refund. We are in discussions with the Staff of the Board of Governors and the Reserve Banks on this matter. The Staff of the Board of Governors has asserted that any administrative order may seek damages, including customer restitution and civil money penalties, totaling as much as $35 million, and changes to certain of our business practices.

Approximately 55% of the OneAccounts are held at our bank partner regulated by the FDIC and we may need to provide restitution to those OneAccounts held at that bank partner. As previously disclosed, in the event we do provide restitution to these OneAccounts on the same basis as an order from the Board of Governors, it is reasonably possible that our loss related to this matter will increase accordingly and increase our total exposure by an additional amount of approximately $35 million, or approximately $70 million in total. Related to this matter, following a recently conducted compliance examination, the San Francisco Regional Office of the FDIC notified us that it is 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 related to the OneAccount. Any such enforcement action could result in orders to pay restitution and civil money penalties. We have responded to the FDIC's notification and we believe that these allegations are similar and related to the Federal Reserve Board allegations previously disclosed and discussed above.

During the year ended December 31, 2014, we recorded a liability of $8.75 million related to these matters, which was shown as an allowance for customer restitution on our consolidated statement of operations. While we believe that it is probable that we will have a loss related to these regulatory matters, in view of the inherent difficulty of predicting the outcomes of regulatory matters, we cannot predict the eventual outcome of these pending matters, the timing of the ultimate resolution of these matters or an exact amount of loss associated with these matters. The liability, which was recorded at June 30, 2014, and continues to be recorded at June 30, 2015, reflects the minimum amount we expect to pay related to these matters, although there is a reasonable possibility that the liability will increase in future periods. The ultimate amount of restitution or civil money penalties is subject to many uncertainties and therefore impossible to predict. As disclosed in "Note 5 – Credit Facility" of our consolidated financial statements, we amended our Credit Facility in February 2015. The amendment allows, among other things, for the payment of up to $75 million in connection with the resolution of the regulatory matters described above.

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. However, we may be required to pay material customer restitution and civil money penalties related to certain regulatory proceedings as described above. While the ultimate amounts of customer restitution or civil money penalties are subject to many uncertainties and therefore are impossible to predict, we believe that our cash flows from operations and liquidity sources available through our Credit Facility, as amended, will allow us to pay such customer restitution and civil money penalties.

Operating Segments and Reporting Units

As a result of changes in our operating segments and reporting units in 2015, we now have three operating segments, which are also reporting units. We compared the fair value of our reporting units to the carrying value of our reporting units at the time of the change in our operating segments and determined that there was no impairment of goodwill. However, the excess of fair value over carrying value does vary by reporting unit and the goodwill related to our Disbursements reporting unit could be susceptible to impairment in the future, particularly depending on the conclusion of those matters described above in “Overview – Department of Education” and “Overview – Regulatory Matters.” An adverse conclusion to either or both of those matters could reduce the fair value of our reporting unit below the carrying value of the reporting unit and lead to an impairment charge in a future period. Also refer to “Critical Accounting Policies – Goodwill and Intangible Assets” below for additional information related to certain circumstances that could lead to an impairment of goodwill for the Disbursements reporting unit.

Results of Operations for the Three Months Ended June 30, 2015 and 2014

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 June 30, (unaudited)					
	2015	2014	$ Change	% Change	2015% of Gross Revenue	2014% of Gross Revenue
	(in thousands)					
Revenue:						
Account revenue	$24,341	$26,345	$(2,004)	(7.6%)	53.4%	57.9%
Payment transaction revenue	11,118	9,835	1,283	13.0%	24.4%	21.6%
Higher education institution revenue	9,979	9,050	929	10.3%	21.9%	19.9%
Other revenue	151	247	(96)	(38.9%)	0.3%	0.5%
Gross revenue	45,589	45,477	112	0.2%	100.0%	100.0%
Less: allowance for customer restitution	-	(8,750)	8,750	(100.0%)	0.0%	(19.2%)
Revenue	45,589	36,727	8,862	24.1%	100.0%	80.8%
Cost of revenue	21,472	21,102	370	1.8%	47.1%	46.4%
Gross profit	24,117	15,625	8,492	54.3%	52.9%	34.4%
Operating expenses:						
General and administrative	17,736	16,015	1,721	10.7%	38.9%	35.2%
Product development	2,309	1,770	539	30.5%	5.1%	3.9%
Sales and marketing	4,279	4,705	(426)	(9.1%)	9.4%	10.3%
Restructuring charge	240	-	240	100.0%	0.5%	0.0%
Total operating expenses	24,564	22,490	2,074	9.2%	53.9%	49.5%
Income (loss) from operations	(447)	(6,865)	6,418	(93.5%)	(1.0%)	(15.1%)
Interest income	20	34	(14)	(41.2%)	0.0%	0.1%
Interest expense	(1,252)	(792)	(460)	58.1%	(2.7%)	(1.7%)
Other income	1,203	1,681	(478)	(28.4%)	2.6%	3.7%
Net income (loss) before income taxes	(476)	(5,942)	5,466	(92.0%)	(1.0%)	(13.1%)
Income tax expense (benefit)	(479)	(2,171)	1,692	(77.9%)	(1.1%)	(4.8%)
Net income (loss)	$3	$(3,771)	$3,774	(100.1%)	0.0%	(8.3%)

The following table summarizes our revenue by our different lines of business:

Three Months Ended June 30,
(unaudited)

	2015	2014	$ Change	% Change	2015% of Gross Revenue	2014% of Gross Revenue
	(in thousands)					
Gross Revenue:						
Disbursements	$25,525	$27,486	$(1,961)	-7.1 %	56.0 %	60.4 %
Payments	15,835	14,504	1,331	9.2 %	34.7 %	31.9 %
Data Analytics	4,229	3,487	742	21.3 %	9.3 %	7.7 %
Gross Revenue	$45,589	$45,477	$112	0.2 %	100.0 %	100.0 %

Revenue

Disbursements Revenue

The decrease in disbursements revenue during the three months ended June 30, 2015, was primarily due to a decrease in account revenue. The decrease in account revenue is a result of fewer dollars spent by OneAccounts, 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 7% 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 though 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 and fewer OneAccounts, partially offset by an increase in the amount of non-financial aid deposits made into OneAccounts. We experienced an approximate 7% increase in amounts deposited to OneAccounts from non-financial aid refund sources. Deposits from non-financial aid refund sources constituted approximately 26% of all deposits made to OneAccounts during the three months ended June 30, 2015, an increase from 23% during the comparable prior year period.

The higher education institution revenue earned from our Refund Management services was $1.0 million during the three months ended June 30, 2015, compared to $0.9 million during the three months ended June 30 2014.

As further described in "Note 6 – Commitments and Contingencies" to our condensed consolidated financial statements and the "Regulatory Matters" section within "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Overview,*" we recorded a liability of $8.75 million during the three months ended June 30, 2014, related to the potential requirement to provide restitution to certain OneAccount customers.

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 June 30, 2015. 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 June 30, 2015 and 2014.

Higher education institution revenue in the payments line of business was $4.7 million during the three months ended June 30, 2015, an increase of approximately $0.1 million from the same period in the prior year. The increase is primarily the result of new services provided to higher education institution clients over the last twelve months offset by a decrease due to our decision to no longer provide disbursement services to those clients of the Campus Solutions business which did not sign contracts to use Higher One's Refund Management disbursement services. We ceased providing disbursement services to those clients on the Campus Solutions refund disbursement platform in the fourth quarter of 2014 and therefore earned no revenue related to these services during the three months ended June 30, 2015, compared to approximately $0.2 million during the three months ended June 30, 2014.

Data Analytics Revenue

The increase in data analytics revenue was due primarily to sales of Campus Labs modules to new higher education institution clients over the past twelve months.

Cost of Revenue

During the three months ended June 30, 2015, our gross margin percentage increased, largely as a result of the allowance for customer restitution recorded in the three months ended June 30, 2014, described above. Excluding the impact of the allowance for customer restitution, our non-GAAP gross margin percentage would have been 53.6% during the three months ended June 30, 2014, compared to 52.9% in the three months ended June 30, 2015. The decrease in our non-GAAP gross margin percentage was primarily due to higher costs to support the disbursements line of business, including the OneAccount.

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While gross revenue associated with our disbursements line of business decreased $2.0 million as described above, our cost of revenue to support that line of business decreased to $13.4 million during the three months ended June 30, 2015, from $13.5 million in the comparable prior year period. The decrease in transaction volumes in OneAccounts led to a decrease in certain costs of revenue; however, those decreases were offset in other areas, primarily due to higher customer service related costs.

Our cost of revenue to support the payments line of business increased to approximately $7.6 million during the three months ended June 30, 2015, from $7.2 million in the comparable prior year period. The increase in costs was primarily related to the growth of SmartPay transaction volume described above in "Revenue – *Payments Revenue*." This increase was partially offset by a net decrease in costs associated with the Campus Solutions contracts that were assigned to us and with the Campus Solutions refund disbursement platform of approximately $0.3 million compared to the three months ended June 30, 2014.

Our cost of revenue to support the data analytics line of business increased to $0.5 million during the three months ended June 30, 2015, compared to $0.4 million during the three months ended June 30, 2014. The majority of the data analytics cost of revenue are related to amortization of acquisition-related intangible assets.

General and Administrative Expense

The increase in general and administrative expenses was primarily attributable to the following two factors: (i) increases in depreciation and amortization totaling approximately $0.8 million, including amortization related to internal use software, and (ii) our total personnel costs increased by approximately $0.7 million, including a $0.4 million increase in stock-based compensation expenses.

Product Development Expense

The increase in product development expense was primarily due to an increase of amortization expense, of approximately $0.5 million, related to the acceleration of amortization of a software platform no longer being utilized. In addition, higher personnel costs were offset by a decrease in transition-related product development expenses associated with the Campus Solutions acquisition which we incurred in the prior year period, but not in the current year period.

Sales and Marketing Expense

The decrease in sales and marketing expense was due primarily to decreases in tradeshow costs external marketing costs, including a decrease in costs related to branding efforts that took place during the three months ended June 30, 2014.

Restructuring Charge

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 OneAccount product. In connection with this agreement, we plan to reduce our employee workforce across our customer care department. We began the transition to the third-party service provider in July 2015 and expect to substantially complete the employee reduction by November 2015. However, the timing of this transition and of certain employee reductions may vary. We estimate we will recognize costs of approximately $1.0 million during fiscal year 2015, consisting of severance and other employee-related benefits. Such costs are expected to be substantially accrued and paid through the end of the first quarter of 2016. For the three months ended June 30, 2015 we recognized restructuring charges of $0.2 million related to the plan described above. We expect to realize cost savings of approximately $4.0 million in 2016 through this arrangement.

Interest Expense

Our interest expense increased compared to the prior period due primarily to additional amortization of deferred financing costs. As a result of the February 2015 amendment to our credit facility, the interest expense associated with our deferred financing costs increased by $0.4 million to $0.5 million during the three months ended June 30, 2015. The average interest rate during the three months ended June 30, 2015 was 4.2%, an increase from 2.3% for the three months ended June 30, 2014. However, the average amount outstanding on our Credit Facility was $59.0 million during the three months ended June 30, 2015, compared to an average of $94.0 million during the three months ended June 30, 2014.

Other Income

Our other income during the three months ended June 30, 2015 includes a payment of $1.1 million which was due to us as of June 30, 2015, and collected by us in July 2015, related to a settlement and licensing agreement with TouchNet, and its successor company Heartland Payment Systems, which resolved our complaints against TouchNet and their counterclaim against us. During the three months ended June 30, 2014 we recorded other income of $1.6 million as a result of an agreement related to the resolution of certain escrow balances that were part of the acquisition of the Campus Solutions business.

Income Tax Expense

The change in income tax expense was primarily due to the decrease in the net loss before taxes. The effective tax rates for the three months ended June 30, 2015 and 2014, were 100.7% and 36.5%, respectively. The increase in the effective tax rate is primarily the result of a $0.3 million discrete benefit recognized during the three months ended June 30, 2015, associated with the reduction of a portion of the valuation allowance that had previously been recorded against certain state net operating losses. As a result of recent tax law changes enacted in the State of Connecticut, it is now more likely than not that an income tax benefit will be derived from the utilization of these net operating losses. Our effective tax rate is expected to be between 38% and 40% for the 2015 fiscal year.

Results of Operations for the Six Months Ended June 30, 2015 and 2014

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:

	Six Months Ended June 30, (unaudited)					
	2015	2014	$ Change	% Change	2015% of Gross Revenue	2014% of Gross Revenue
	(in thousands)					
Revenue:						
Account revenue	$61,869	$68,007	$(6,138)	-9.0%	55.7%	60.7%
Payment transaction revenue	28,442	24,455	3,987	16.3%	25.6%	21.8%
Higher education institution revenue	20,405	19,029	1,376	7.2%	18.4%	17.0%
Other revenue	391	542	(151)	(27.9%)	0.4%	0.5%
Gross revenue	111,107	112,033	(926)	(0.8%)	100.0%	100.0%
Less: allowance for customer restitution	-	(8,750)	8,750	(100.0%)	0.0%	-7.8%
Revenue	111,107	103,283	7,824	7.6%	100.0%	92.2%
Cost of revenue	49,662	48,696	966	2.0%	44.7%	43.5%
Gross profit	61,445	54,587	6,858	12.6%	55.3%	48.7%
Operating expenses:						

General and administrative	36,319	31,726	4,593	14.5 %	32.7 %	28.3 %
Product development	4,080	3,962	118	3.0 %	3.7 %	3.5 %
Sales and marketing	8,442	9,179	(737)	-8.0 %)	7.6 %	8.2 %
Restructuring charge	240	-	240	100.0 %	0.2 %	0.0 %
Total operating expenses	49,081	44,867	4,214	9.4 %	44.2 %	40.0 %
Income (loss) from operations	12,364	9,720	2,644	27.2 %	11.1 %	8.7 %
Interest income	40	53	(13)	-24.5 %	0.0 %	0.0 %
Interest expense	(2,632)	(1,615)	(1,017)	63.0 %	-2.4 %	-1.4 %
Other income	1,280	1,759	(479)	-27.2 %	1.2 %	1.6 %
Net income (loss) before income taxes	11,052	9,917	1,135	11.4 %	9.9 %	8.9 %
Income tax expense (benefit)	4,189	3,978	211	5.3 %	3.8 %	3.6 %
Net income (loss)	$6,863	$5,939	$924	15.6 %	6.2 %	5.3 %

The following table summarizes our revenue by our different lines of business:

	Six Months Ended June 30, (unaudited)					
	2015	**2014**	**$ Change**	**% Change**	**2015% of Gross Revenue**	**2014% of Gross Revenue**
	(in thousands)					
Gross Revenue:						
Disbursements	$64,736	$70,631	$(5,895)	(8.3%)	58.3%	63.0%
Payments	38,132	34,566	3,566	10.3%	34.3%	30.9%
Data Analytics	8,239	6,836	1,403	20.5%	7.4%	6.1%
Gross Revenue	$111,107	$112,033	$(926)	(0.8%)	100.0%	100.0%

Revenue

Disbursements Revenue

The decrease in disbursements revenue during the six months ended June 30, 2015, was primarily due to a decrease in account revenue. The decrease in account revenue is a result of fewer dollars spent by OneAccounts, 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 7% 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 though 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 and fewer OneAccounts, partially offset by an increase in the amount of non-financial aid deposits made into OneAccounts. We experienced an approximate 7% increase in amounts deposited to OneAccounts from non-financial aid refund sources. Deposits from non-financial aid refund sources constituted approximately 18% of all deposits made to OneAccounts during the six months ended June 30, 2015, an increase from 15% during the comparable prior year period.

The higher education institution revenue earned from our Refund Management services was $2.5 million during the six months ended June 30, 2015, compared to $2.4 million during the six months ended June 30 2014.

As further described in “Note 6 – Commitments and Contingencies” to our condensed consolidated financial statements and the “Regulatory Matters” section within “*Management’s Discussion and Analysis of Financial Condition and Results of Operations – Overview,*” we recorded a liability of $8.75 million during the six months ended June 30, 2014, related to the potential requirement to provide restitution to certain OneAccount customers.

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 six months ended June 30, 2015. 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 six months ended June 30, 2015 and2014.

Higher education institution revenue in the payments line of business was $9.6 million during the six months ended June 30, 2015, a decrease of approximately $0.1 million from the same period in the prior year. The decrease is the result of our decision to no longer provide disbursement services to those clients of the Campus Solutions business which did not sign contracts to use Higher One’s Refund Management disbursement services. We ceased providing disbursement services to those clients on the Campus Solutions refund disbursement platform in the fourth quarter of 2014 and therefore earned no revenue related to these services during the six months ended June 30, 2015, compared to approximately $0.5 million during the six months ended June 30, 2014. Offsetting that decrease is revenue associated with new services provided to higher education institution clients over the last twelve months

Data Analytics Revenue

The increase in data analytics revenue was due primarily to sales of Campus Labs modules to new and previously existing higher education institution clients over the past twelve months. Slightly more than half of the revenue increase is due to revenue earned at higher education institutions which were not Data Analytics clients during the same period in the prior year.

Cost of Revenue

During the six months ended June 30, 2015, our gross margin percentage increased, largely as a result of the allowance for customer restitution recorded in the six months ended June 30, 2014, described above. Excluding the impact of the allowance for customer restitution, our non-GAAP gross margin percentage would have been 56.5% during the six months ended June 30, 2014, compared to 55.3% in the six months ended June 30, 2015. The decrease in our non-GAAP gross margin percentage was primarily due to higher costs to support the disbursements line of business, including the OneAccount.

While gross revenue associated with our disbursements line of business decreased $5.9 million as described above, our cost of revenue to support that line of business was $30.1 million during each of the six months ended June 30, 2015 and 2014. While the decrease in transaction volumes in OneAccounts led to a decrease in certain costs of revenue, those decreases were offset in other areas, primarily due to higher customer service related costs.

Our cost of revenue to support the payments line of business increased to approximately $18.6 million during the six months ended June 30, 2015, from $17.8 million in the comparable prior year period. The increase in costs was primarily related to the growth of SmartPay transaction volume described above in "Revenue – *Payments Revenue.*" This increase in costs was partially offset by a decrease in costs associated with supporting the Campus Solutions refund disbursement platform, which were $1.2 million during the six months ended June 30, 2014.

Our cost of revenue to support the data analytics line of business increased to $0.9 million during the six months ended June 30, 2015, compared to $0.8 million during the six months ended June 30, 2014. The majority of the data analytics costs are related to amortization of acquisition-related intangible assets.

General and Administrative Expense

The increase in general and administrative expenses was primarily attributable to the following two factors: (i) our total personnel costs increased by approximately $2.4 million, including a $1.0 million increase in stock-based compensation expenses, and (ii) increases in depreciation and amortization totaling approximately $1.7 million, including amortization related to internal use software.

Product Development Expense

The increase in product development expense was primarily due to an increase of amortization expense, of approximately $0.5 million, related to the acceleration of amortization of a software platform no longer being utilized. In addition, higher personnel costs were offset by a decrease in transition-related product development expenses associated with the Campus Solutions acquisition which we incurred in the prior year period, but not in the current year period.

Sales and Marketing Expense

The decrease in sales and marketing expense was due primarily to decreases in tradeshow costs and external advertising and marketing costs, including a decrease in costs related to branding efforts that took place during the six months ended June 30, 2014.

Restructuring Charge

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 OneAccount product. In connection with this agreement, we plan to reduce our employee workforce across our customer care department. We began the transition to the third-party service provider in July 2015 and expect to substantially complete the employee reduction by November 2015. However, the timing of this transition and of certain employee reductions may vary. We estimate we will recognize costs of approximately $1.0 million during fiscal year 2015, consisting of severance and other employee-related benefits. Such costs are expected to be substantially accrued and paid through the end of the first quarter of 2016. For the six months ended June 30, 2015 we recognized restructuring charges of $0.2 million related to the plan described above. We expect to realize cost savings of approximately $4.0 million in 2016 through this arrangement.

Interest Expense

Our interest expense increased compared to the prior period due primarily to additional amortization of deferred financing costs. As a result of the February 2015 amendment to our credit facility, the interest expense associated with our deferred financing costs increased by $0.9 million to $1.2 million during the six months ended June 30, 2015. The average interest rate during the six months ended June 30, 2015 was 3.6%, an increase from 2.3% for the six months ended June 30, 2014. However, the average amount outstanding on our Credit Facility was $67.1 million during the six months ended June 30, 2015, compared to an average of $94.8 million during the six months ended June 30, 2014.

Other Income

Our other income during the six months ended June 30, 2015 includes a payment of $1.1 million which was due to us as of June 30, 2015, and collected by us in July 2015, related to a settlement and licensing agreement with TouchNet, and its successor company Heartland Payment Systems, which resolved our complaints against TouchNet and their counterclaim against us. During the six months ended June 30, 2014, we recorded other income of $1.6 million as a result of an agreement related to the resolution of certain escrow balances that were part of the acquisition of the Campus Solutions business.

Income Tax Expense

The change in income tax expense was primarily due to the increase in net income before taxes. The effective tax rates for the six months ended June 30, 2015 and 2014, were 37.9% and 40.1%, respectively. The decrease in the effective tax rate is primarily the result of a $0.3 million discrete benefit recognized in the six months ended June 30, 2015, associated with the reduction of a portion of the valuation allowance that had previously been recorded against certain state net operating losses. As a result of recent tax law changes enacted in the State of Connecticut, it is now more likely than not that an income tax benefit will be derived from the utilization of these net operating losses. Our effective tax rate is expected to be between 38% and 40% for the 2015 fiscal year.

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 June 30, 2015, we had $16.8 million in cash and cash equivalents, $0.3 million in available-for-sale investments and approximately $81.0 million in borrowing capacity available under our Credit Facility, $35.0 million of which is restricted as described below. Our primary liquidity requirements are for working capital, capital expenditures, product development expenses and general corporate needs. As of June 30, 2015, we had a working capital deficit of $8.5 million.

Senior Secured Revolving Credit Facility

In October 2012, we entered into a five-year senior secured revolving credit facility in an amount of $200.0 million, or the Credit Facility. We amended the Credit Facility in February and June 2015, which modified certain of the financial covenants and other terms of the agreement, including the amount available for borrowing, as described in "Note 5 – Credit Facility" of our notes to consolidated financial statements. In connection with the February 2015 Amendment, we paid down the outstanding balance of the Credit Facility by $35 million, expensed approximately $0.4 million of previously deferred financing costs and incurred new financing costs of approximately $4.5 million in February 2015, which are included in deferred costs as of June 30, 2015 in the accompanying condensed consolidated balance sheet. As of June 30, 2015, we had $59.0 million in borrowings outstanding, at a weighted average interest rate of 2.4%, 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. The maturity of the Credit Facility Acceleration could be accelerated upon a change of control or if we experience a material adverse change in our operations, condition or prospects. 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 June 30, 2015. As of June 30, 2015, our trailing twelve month consolidated EBITDA was $57.7 million. Our leverage ratio was 1.02 to 1.00 as of June 30, 2015.

Cash Flows

The following table presents information regarding our cash flows and cash and cash equivalents for the six months ended June 30, 2015 and 2014:

	Six Months Ended June 30,		
	2015	**2014**	**$ Change**
	(unaudited) (in thousands)		
Net cash provided by (used in):			
Operating activities	$19,660	$8,223	$11,437

Investing activities	(3,910)	(1,595)	(2,315)
Financing activities	(39,012)	5,163	(44,175)
Change in cash and cash equivalents	$(23,262)	$11,791	$(35,053)
Cash and cash equivalents, end of period	$16,760	$18,059	$(1,299)

The increase in net cash provided by operating activities was primarily the result of changes in working capital balances during the six months ended June 30, 2015, compared to the prior year. The consumer class action litigation settlement of $15.0 million was paid in cash during the six months ended June 30, 2014. This payment is a significant component of the overall change in working capital balances and increase in cash provided by operating activities compared to the prior year. Also, our income receivable balance has decreased from the prior year due to an acceleration in the settlement of the revenue proceeds associated with the Campus Solutions business compared to the prior year.

The change in cash used in investing activities primarily relates to the receipt of $3.5 million associated with state historic tax credits generated by the construction of our headquarters during the six months ended June 30, 2014. In addition, our purchases of fixed assets decreased by $1.0 million during the six months ended June 30, 2015, compared to the prior year period.

The change in cash provided by (used in) financing activities primarily relates to the cash used to repay debt in connection with the February 2015 amendment to our credit facility described above which totaled $39.5 million. In the prior year, we had net borrowings of $5.0 million on our Credit Facility.

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. As described in "Management's Discussion and Analysis of Financial Condition and Results of Operations – Overview" we may be required to pay material customer restitution and civil money penalties related to certain regulatory proceedings. Please refer to the "Regulatory Matters" section within "Management's Discussion and Analysis of Financial Condition and Results of Operations – Overview" for the impact that such regulatory matters may have on our liquidity.

Non-GAAP Supplemental Financial and Operating Information

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2015	**2014**	**2015**	**2014**
	(unaudited) (in thousands)			
Adjusted EBITDA	$8,011	$7,184	$28,267	$29,860
Adjusted net income	$2,178	$2,485	$12,029	$14,705
Number of students enrolled at Refund Management disbursement service clients at end of period	5,026	5,119	5,026	5,119
Number of OneAccounts at end of period	2,007	2,088	2,007	2,088

We define adjusted EBITDA as net income before interest, income taxes and depreciation and amortization, or EBITDA, further adjusted to remove the effects of stock-based compensation expense, the receipt of a settlement amount from Sallie Mae, Inc. related to our Campus Solutions acquisition, the allowance for customer restitution recorded and a restructuring charge. Neither EBITDA nor adjusted EBITDA should be considered an alternative to net income, operating income or any other measure of financial performance calculated and presented in accordance with

GAAP. Our EBITDA and adjusted EBITDA may not be comparable to similarly titled measures of other organizations because other organizations may not calculate EBITDA and adjusted EBITDA in the same manner as we do. In addition, adjusted EBITDA 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, the most comparable GAAP measure, to EBITDA and adjusted EBITDA for each of the periods indicated:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2015	**2014**	**2015**	**2014**
	(unaudited)			
Net income (loss)	$3	$(3,771)	$6,863	$5,939
Interest income	(20)	(34)	(40)	(53)
Interest expense	1,252	792	2,632	1,615
Income tax expense	(479)	(2,171)	4,189	3,978
Depreciation and amortization	5,696	4,432	10,866	8,887
EBITDA	6,452	(752)	24,510	20,366
Restructuring charge	240	-	240	-
Stock-based compensation expense	1,319	790	3,517	2,348
Allowance for customer restitution	-	8,750	-	8,750
Campus Solutions settlement received	-	(1,604)	-	(1,604)
Adjusted EBITDA	$8,011	$7,184	$28,267	$29,860

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

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2015	**2014**	**2015**	**2014**
	(unaudited)			
	(in thousands)			
Disbursements	$3,299	$3,894	$15,675	$21,174
Payments	3,189	2,183	9,388	6,501
Data Analytics	1,523	1,107	3,204	2,185
Total Adjusted EBITDA	$8,011	$7,184	$28,267	$29,860

We define adjusted net income as net income, adjusted to eliminate (a) stock-based compensation expense related to incentive stock option grants and the release of a state tax valuation allowance and (b) after giving effect to tax adjustments, (1) stock-based compensation expense related to non-qualified stock option and restricted stock grants, (2) amortization expenses related to acquired intangible assets and financing costs, (3) the receipt of a settlement amount from Sallie Mae, Inc. related to our Campus Solutions acquisition, (4) the allowance for customer restitution recorded and (5) a restructuring charge. Adjusted net income should not be considered as an alternative to net income, operating income or any other measure of financial performance calculated and presented in accordance with GAAP. Our adjusted net income may not be comparable to similarly titled measures of other organizations because other organizations may not calculate adjusted net income in the same manner as we do.

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

	Three Months Ended		**Six Months Ended**	
	June 30,		**June 30,**	
	2015	**2014**	**2015**	**2014**
	(unaudited)			
Net income (loss)	$3	$(3,771)	$6,863	$5,939
Restructuring charge	240	-	240	-
Release of state tax valuation allowance	(285)	-	(285)	-
Allowance for customer restitution	-	8,750	-	8,750
Campus Solutions settlement received	-	(1,604)	-	(1,604)
Stock-based compensation expense - incentive stock option grants	196	292	493	717
Stock-based compensation expense - non-qualified stock option grants	1,123	498	3,024	1,631
Amortization of acquisition related intangible assets	1,820	1,931	3,639	4,066
Amortization of deferred finance costs	499	122	1,158	245
Total pre-tax adjustments	3,593	9,989	8,269	13,805
Tax rate	38.5 %	38.5 %	38.5 %	38.5 %
Less: tax adjustment (a)	1,418	3,733	3,103	5,039
Adjusted net income	$2,178	$2,485	$12,029	$14,705

(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 are generally not tax deductible and the release of state tax valuation allowance.

Contractual Obligations

Except for the decrease in the amount owed under our Credit Facility, 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, 2014.

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, 2014 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 operational losses	- Stock-based compensation
- Goodwill and intangible assets	- Income taxes
- Business combinations	- Revenue
- Loss contingencies	

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, 2014. As of June 30, 2015, there have been no material changes to any of the Critical Accounting Policies described above, except for changes to our accounting policy for goodwill and intangible assets summarized below.

Goodwill and Intangible Assets

As of December 31, 2014, we had one operating segment and reporting unit for purposes of our goodwill testing as a result of the integrated way that the entire business was managed at that point in time. We performed the annual impairment test as of October 31, 2014 and determined that the fair value of our reporting unit at the time exceeded its carrying value by more than 30%. As we only had one operating segment and one reporting unit at that time, we primarily relied on the indicated fair value of the enterprise from the trading price of our common stock. As a result of changes in our operating segments and reporting units in 2015, we now have three operating segments, which are also reporting units. As a result of the change in our operating segments, we have compared the fair value of our reporting units to the carrying value of our reporting units and determined that there was no impairment of goodwill. However, the excess of fair value compared to carrying value does vary by reporting unit. The fair value of the disbursements reporting unit exceeded its carrying value by approximately 40% at the time of our change in reporting units and is the reporting unit most susceptible to impairment in the future. The fair value of the disbursements reporting unit could fall below the carrying value of the reporting unit in the future, leading to a potential material impairment charge in a future period. The amount of goodwill in the disbursements reporting unit subject to a potential future impairment is between $10 and $15 million. The key assumptions that drive the fair value of the reporting unit include the number of higher education institution utilizing our Refund Management disbursement services, the number of OneAccounts and the related amount of deposit and spending volume in the OneAccounts. Those key assumptions could change in the future, particularly depending on the conclusion of those matters described above in Management’s Discussion and

Analysis of Financial Condition and Results of Operations “Overview – Department of Education” and “Overview – Regulatory Matters.”

We assess the impairment of identifiable intangible assets and goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important which could trigger an impairment review include the following:

- significant underperformance relative to historical or projected future operating results;
- significant changes in the manner of our use of the acquired assets or the strategy for our overall business;
- an adverse conclusion of either of the matters described above in Management’s Discussion and Analysis of Financial Condition and Results of Operations “Overview – Department of Education” and “Overview – Regulatory Matters”; and
- significant negative industry or economic trends.

When we determine that the carrying value of intangible assets may not be recoverable based upon the existence of one or more of the above indicators of potential impairment, we assess whether an impairment has occurred based on whether net book value of the assets exceeds related projected undiscounted cash flows from these assets. We consider a number of factors, including past operating results, budgets, economic projections, market trends and product development cycles in estimating future cash flows. Differing estimates and assumptions as to any of the factors described above could result in an impairment charge which would have a material and adverse effect on our results of operations.

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 July 1, 2015, assuming average outstanding borrowings during the three months ended June 30, 2015 of $59.0 million, a hypothetical 50 basis point increase in interest rates would result in an increase in interest expense of approximately $0.3 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 June 30, 2015. Based on this evaluation, our principal executive officer and principal financial officer concluded that, as of June 30, 2015, 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 during the three months ended June 30, 2015 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, 2014.

As described in "Note 5 – Credit Facility" and "Note 6 – Commitments and Contingencies" to our condensed consolidated financial statements and the "Regulatory Matters" section within "Management's Discussion and Analysis of Financial Condition and Results of Operations – Overview", the Federal Reserve Banks of Chicago and Philadelphia and the San Francisco Regional Office of the FDIC have each notified us of potential violations of the Federal Trade Commission Act relating to marketing and disclosure practices related to the OneAccount during the period it was offered by certain of our current or former bank partners. Please refer to the aforementioned sections for relevant information concerning this matter.

In addition, see "Note 6 – Commitments and Contingencies" to our condensed consolidated financial statements for other developments 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, 2014, 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 that takes payment instructions from institutions and their constituents, including students and employees, and gives them to our Bank Partners, 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 but not limited to, where applicable:

- 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. In addition, the 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.

On May 1, 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. We provided written and oral comments at a hearing held by ED in connection with the negotiated rulemaking process and have provided additional information to ED. On April 16, 2013, ED announced additional topics for consideration, and in early 2014, formed a negotiated rulemaking committee. Our Chief Operating Officer was selected by ED to serve on the committee as a primary negotiator. The committee convened in February, March, April and May of 2014 to discuss and work toward revising existing regulations to potentially address, among other things, consumer safeguards regarding debit and prepaid cards associated with Title IV Cash Management (including fees associated with such debit and prepaid cards), marketing of financial products (including sending unsolicited cards to students and co-branding of the card and materials) 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. The negotiated rulemaking committee concluded its efforts in May 2014 and a consensus was not reached on any proposed regulations. Several of the views expressed at the negotiated rulemaking committee sessions were unfavorable to certain of our current business practices.

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On May 18, 2015, ED published its Notice of Proposed Rulemaking, or NPRM on program integrity and improvement issues in the Federal Register. See 80 FED REG 28484-28536. When ED published its NPRM the public comment period opened and remained opened until July 2, 2015 and we afforded ourselves of that opportunity. Our comments focused on the provisions of the NPRM relating to cash management and campus debit cards with emphasis on five proposed sections that we strongly believe must be addressed to avoid doing substantial harm to students and institutions participating in the Title IV programs in addition to potentially having a material adverse affect on our business. Our five significant concerns related to the following: (i) the limited student information that the NPRM would allow institutions to provide to third party disbursement servicers would be insufficient to allow such servicers to carry out the disbursement process accurately and securely; (ii) the requirement of a 30-day across-the-board fee moratorium following each disbursement, imposed on top of other proposed fee restrictions could make providing accounts offered by third party servicers unviable; (iii) the proposal to have deposits to an existing account presented “prominently as the first and default option” would steer students to accounts that may very well be inferior to accounts offered by third party servicers, in terms of cost, features, and security; (iv) requiring a paper check option to be affirmatively offered to students would inevitably result in an increase in the number of credit balance disbursements made via check, which is less secure, more expensive and a less financially responsible means for students to receive their funds; and (v) authorizing ED to step in and pay Title IV credit balances directly to students and parents creates the risk of federalization of the disbursement process, thus discouraging private sector investment and innovation. Additionally, the NPRM also would prohibit the sending of certain access devices, including debit cards in the same manner that we currently provide debit cards to our students. ED may publish these proposed rules in their current form or in a different form that may be more adverse to our business. Should ED publish final rules in the Federal Register by November 1, 2015, we believe new Title IV Cash Management regulations would likely not go into effect until July 1, 2016.

In the event that the proposed rules are published in their current form or in a form which would further alter, restrict or prohibit our ability to offer and provide our services to higher education institutions and students in the manner that we currently provide them than the proposed rules would, our business, financial condition and results of operations could be materially and adversely affected.

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 affects 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 passed in the State of Oregon which further regulates 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 regulations could materially and adversely affect our business, financial condition and results of operations.

Compliance; Audit. As a service provider to insured depository institutions, we are required under applicable federal and state laws to agree 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, and we rely on our Bank Partners' ability 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 additional discussion. Failure to comply with applicable regulations could materially and adversely affect our business, financial condition and results of operations.

Money Transmitter Regulations. Because our technology services are provided in connection with the financial products of our bank partners, our activities 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. If a state agency were to conclude that we are required to be licensed as a “money transmitter,” we may need to undergo a costly licensing process in that state, and failure to comply could be a violation of state and potentially federal law.

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 but not limited to 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.

Reviews, examinations and enforcement actions by regulatory authorities under banking and consumer protection laws and regulations, and possible changes to those laws and regulations by legislative or regulatory action, may result in changes to our business practices or may expose us to the risk of fines, restitution and litigation.

Our operations and the operations of our Bank Partners are subject to the jurisdiction and examination of federal, state and local regulatory authorities, including the FDIC, which is WEX Bank's primary federal regulator, the OCC, which is Axiom's primary federal regulator, and the Federal Reserve Bank, which is Customers Bank and Cole Taylor's primary federal regulator. Our business practices, including the terms of our products, are reviewed and approved by our Bank Partners and subject to both periodic and special reviews by such regulatory authorities, which can range from investigations into specific consumer complaints or concerns to broader inquiries into our practices generally.

We and our Bank Partners are subject to ongoing and routine examination by the FDIC, OCC and Federal Reserve Bank. If, as part of any ongoing or future examination or review, the regulatory authorities conclude that we are not complying with applicable laws or regulations, they could request or impose a wide range of remedies, including, but not limited to, requiring changes to the terms of our products (such as decreases in fees or changes to the manner in which OneAccounts are marketed to students), the imposition of fines or penalties or the institution of enforcement proceedings or other similar actions against us alleging that our current or past practices constitute unfair or deceptive acts or practices. As part of an enforcement action, the regulators can seek restitution for affected customers and impose civil money penalties. In addition, negative publicity relating to any specific inquiry or investigation or any related fine could adversely affect our stock price, our relationships with various industry participants, including our Bank Partners, or our ability to attract new clients and retain existing clients, which could have a material adverse effect on our business, financial condition and results of operations.

In February 2011, the New York Regional Office of the FDIC notified us that it was prepared to recommend to the Director of FDIC Supervision that an enforcement action be taken against us for alleged violations of certain applicable laws and regulations principally relating to our compliance management system and policies and practices for past overdraft charging on persistently delinquent accounts, collections and transaction error resolution. We responded to the FDIC's notification and voluntarily initiated a plan in December 2011, which provided credits to certain current and former customers that were previously assessed certain insufficient fund fees. As a result of this plan, we recorded a reduction in our revenue of approximately $4.7 million in 2011. On August 8, 2012, we received a Consent Order, Order for Restitution, and Order to Pay Civil Money Penalty, or the Consent Order, dated August 7, 2012, issued by the FDIC to settle such alleged violations. Pursuant to the terms of the Consent Order, we neither admitted nor denied any charges when agreeing to the terms of the Consent Order. Under the terms of the Consent Order, we were required to, among other things, review and revise our compliance management system and, to date, we have substantially revised our compliance management system. Additionally, the Consent Order provided for restrictions on the charging of certain fees. The Consent Order further provided that we shall make restitution to less than 2% of our customers since 2008 for fees previously assessed, which restitution has been completed through the voluntary customer credit plan described above, and we paid a civil money penalty of $0.1 million. We remain subject to the jurisdiction and examination of the FDIC and further action could be taken to the extent we do not comply with the terms of the Consent Order or if the FDIC were to identify additional violations of certain applicable laws and regulations.

Consistent with the FDIC's continuing supervision over us, following a recently conducted compliance examination, the San Francisco Regional Office of the FDIC notified us that it is 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 related to the OneAccount. Any such enforcement action could result in orders to pay restitution and civil money penalties. We have responded to the FDIC's notification and we believe that these allegations are similar and related to the Federal Reserve Board allegations previously disclosed and discussed below.

The Federal Reserve Bank of Chicago notified us and a former bank partner of potential violations of the Federal Trade Commission Act relating to marketing and disclosure practices related to the OneAccount during the period it was offered by such former bank partner. 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. The cited violations relate to our activities with both a former and current bank partner and our marketing and disclosure practices related to the process by which students may select the OneAccount option for financial aid refund. We are in discussions with the Staff of the Board of Governors and the Reserve Banks on this matter. The Staff of the Board of Governors has asserted that any administrative order may seek damages, including customer restitution and civil money penalties, totaling as much as $35 million, and changes to certain of our business practices.

Approximately 55% of the OneAccounts are held at our bank partner regulated by the FDIC and we will need to consider voluntarily providing restitution to those OneAccounts held at that bank partner. In the event we do provide restitution to these OneAccounts on the same basis as an order from the Board of Governors or if the FDIC were to elect to seek a similar administrative action against us as has been proposed by the staff of the Board of Governors, it is reasonably possible that our loss related to this matter will increase accordingly and increase our total exposure by an additional restitution amount of approximately $35 million, or approximately $70 million in total.

During the year ended December 31, 2014, we recorded a liability of $8.75 million related to these matters, which was shown as a reduction of revenue on our consolidated statement of operations. While we believe that it is probable that we will have a loss related to these regulatory matters, in view of the inherent difficulty of predicting the outcomes of regulatory matters, we cannot predict the eventual outcome of these pending matters, the timing of the ultimate resolution of these matters or an exact amount of loss associated with these matters. The liability reflects the minimum amount we expect to pay related to these matters, although there is a reasonable possibility that the liability will increase in future periods. The ultimate amount of restitution or civil money penalties is subject to many uncertainties and therefore impossible to predict. As disclosed in "Note 5 – Credit Facility" of our consolidated financial statements, we amended our Credit Facility in February 2015. The amendment allows, among other things, for the payment of up to $75 million in connection with the resolution of the regulatory matters described above.

Any enforcement action arising out of these matters could include demands for civil money penalties, changes to certain of our business practices, and customer restitution. An action instituted against us that results in significant changes to our practices, the imposition on us of fines or penalties, or an obligation for us to pay restitution or civil money penalties could have a material adverse effect on our business, financial condition and results of operations.

Please also refer to the "Regulatory Matters" section within, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Overview" of this quarterly report on Form 10-Q for information related to the notifications that we received from the Staff of the Board of Governors of the Federal Reserve System and the San Francisco Regional Office of the FDIC, each of which asserted violations of the Federal Trade Commission Act.

In a separate regulatory matter, we are currently considering the merits of voluntarily refunding certain fees previously assessed to accountholders as a result of a separate compliance examination which was completed in 2013.

Additionally, since 2012, we have received and responded to inquiries and information requests from certain federal legislators and regulatory agencies. These requests sought information related to our financial aid refund processing and the related services which we provide to students. Certain federal legislators have also sent communications regarding similar matters to various federal agencies, including ED and the CFPB. These inquiries or others could lead to further action by these or other governmental actors or agencies, including the introduction of legislation or new regulations, which could have a material adverse effect on our business, financial condition and results of operations.

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 August 6, 2015, the Compensation Committee of the Board of Directors of the Company adopted the Higher One Holdings, Inc. Executive Severance Policy, effective August 6, 2015 (the "Policy"), to provide certain severance payments to designated officers and other key executives and employees of the Company in the event of a qualifying termination of employment. In the event a participant's employment at the Company is terminated (i) by the Company without cause (other than as a result of death or disability) or (ii) by the participant for good reason (in each case a "qualifying termination"), the participant will continue to receive his or her base salary, payable in equal monthly installments over the next 12 months, a prorated annual bonus and reimbursement of COBRA payments (if applicable) for 12 months following termination (the "severance payments"). The severance payments are conditioned upon the participant's execution of a general release of the Company and compliance with certain restrictive covenants for up to 12 months following termination (the "release and covenant conditions"). In the event of a participant's qualifying termination within 75 days prior to or 12 months following a change in control of the Company, the participant's unvested equity awards will immediately vest and be settled as set forth in their grant agreements and stock options will remain outstanding until the earlier of (i) the 12 month anniversary of the termination of the participant's employment with the Company and (ii) the tenth anniversary date of the option grant and the participant will receive the severance payments, in each case, subject to satisfaction of the release and covenant conditions. In the event of a sale of assets of the Company in connection with which the participant ceases to be employed by the Company, depending upon the participant's employment with the acquirer of the assets upon and for 12 months following the sale (or lack of employment at such time or during such period), the participant may receive accelerated vesting of Company equity awards and/or severance payments as described in the Policy and the stock options may remain outstanding until the earlier of (i) the 12 month anniversary of the termination of the participant's employment with the Company and (ii) the tenth anniversary date of the option grant. The Policy provides for offsets in the event of conflict with other severance plans or agreements of the Company and for potential cutback of benefits in the event any excise taxes would become due under Section 4999 of the Internal Revenue Code. On August 6, the Compensation Committee also designated each of Marc Sheinbaum, President and Chief Executive Officer Christopher Wolf, Executive Vice President and Chief Financial Officer, Casey McGuane, Chief Operating Officer, and Robert Reach, Chief Sales Officer, as participants under the Policy.

The foregoing summary does not constitute a complete summary of the terms of the Policy, and reference is made to the complete text of the Policy attached hereto as Exhibit 10.2. The Policy is incorporated herein by reference.

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Item 6. Exhibits

Exhibit Number		Description
10.1	*	Master Reaffirmation and Amendment No. 4 to Loan Documents dated as of June 17, 2015 among Higher One, Inc., its subsidiaries, Bank of America, N.A. and other lenders party
10.2	*	Higher One Holdings, Inc. Executive Severance Policy
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.

SIGNATURES

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: August 7, 2015

Higher One Holdings, Inc.

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

(Duly authorized officer and principal financial officer)