Higher One Holdings, Inc.
Form S-1/A
May 26, 2010
Table of Contents

As filed with the Securities and Exchange Commission on May 25, 2010

Registration No. 333-165673

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Amendment No. 2

to

FORM S-1

REGISTRATION STATEMENT

Under

THE SECURITIES ACT OF 1933

HIGHER ONE HOLDINGS, INC.

(Exact name of Registrant as specified in its charter)

Delaware	7389	26-3025501
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

25 Science Park

New Haven, Connecticut 06511

(203) 776-7776

(Address, including zip code, and telephone number, including area code, of Registrant s principal executive office)

Thomas D. Kavanaugh, Esq.

General Counsel

Higher One Holdings, Inc.

25 Science Park

New Haven, Connecticut 06511

(203) 776-7776

(Name, address, including zip code, and telephone number, including area code, of agent for service)

David Lopez, Esq.

Cleary Gottlieb Steen & Hamilton LLP

One Liberty Plaza

New York, NY 10006

(212) 225-2000

Jay Clayton, Esq.

Sullivan & Cromwell LLP

125 Broad Street

New York, NY 10004-2498

(212) 558-4000

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

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

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

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

Table of Contents

The information in this preliminary prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion. Dated May 25, 2010.

Shares

Higher One Holdings, Inc.

Common Stock

This is an initial public offering of shares of common stock of Higher One Holdings, Inc.

Higher One Holdings, Inc. is offering of the shares to be sold in this offering. The selling stockholders identified in this prospectus are offering an additional shares. Higher One Holdings, Inc. will not receive any of the proceeds from the sale of the shares being sold by the selling stockholders.

Prior to this offering, there has been no public market for the common stock. It is currently estimated that the initial public offering price per share will be between $ and $. Higher One Holdings, Inc. intends to list the common stock on the New York Stock Exchange under the symbol ONE .

See Risk Factors beginning on page 11 to read about factors you should consider before buying shares of our common stock.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

	Per Share	Total
Initial public offering price	$	$

Underwriting discount	$	$
Proceeds, before expenses, to Higher One Holdings, Inc.	$	$
Proceeds, before expenses, to the selling stockholders	$	$

To the extent that the underwriters sell more than shares of common stock, the underwriters have the option to purchase up to an additional shares from the selling stockholders at the initial public offering price less the underwriting discount.

The underwriters expect to deliver the shares against payment in New York, New York on , 2010.

Goldman, Sachs & Co.

UBS Investment Bank

Piper Jaffray **Raymond James** **William Blair & Company**

JMP Securities

Prospectus dated , 2010.

Table of Contents

TABLE OF CONTENTS

Prospectus

	Page
Prospectus Summary	1
Risk Factors	11
Forward-Looking Statements	31
Use of Proceeds	32
Dilution	33
Dividend Policy	34
Capitalization	34
Unaudited Pro Forma Condensed Combined Financial Information	36
Selected Consolidated Financial Data	39
Management s Discussion and Analysis of Financial Condition and Results of Operations	43
Business	69
Management	89
Executive Compensation	94
Principal and Selling Stockholders	115
Certain Relationships and Related Party Transactions	118
Shares Eligible for Future Sale	121
Description of Capital Stock	124
Material U.S. Federal Tax Considerations to Non-U.S. Holders	127
Underwriting	130
Validity of Common Stock	134
Experts	134
Additional Information	134
Index to Consolidated Financial Statements	F-1

We are responsible for the information contained in this prospectus. We have not authorized anyone to give you any other information, and we take no responsibility for any other information that others may give you. We are not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should not assume that the information contained in this prospectus is accurate as of any date other than the date of this prospectus.

Table of Contents

PROSPECTUS SUMMARY

The following summary contains a brief overview of the key aspects of the offering that are the most significant. For a more complete understanding of the information that you may consider important before investing in our common stock, we encourage you to read this entire prospectus carefully. In particular, you should read the sections entitled Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and the notes relating to those statements included elsewhere in this prospectus.

Our Company

We are a leading provider of technology and payment services to the higher education industry. We believe, based on our experience in the industry, that 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 and student-oriented banking services, which include extensive user-friendly features.

The disbursement of financial aid and other refunds to students is a highly regulated, resource-consuming and recurrent obligation of higher education institutions. The student disbursement process remains mainly paper-based, costly and inefficient at most higher education institutions. These institutions are facing increasing pressure to improve administrative efficiency and the quality of service provided to students, to streamline regulatory compliance in respect of financial aid refunds, and to reduce expenses.

We believe our products provide significant benefits to both higher education institutions as well as their campus communities, including students. For our higher education institution customers, we offer our OneDisburse® Refund Management® disbursement service. Our disbursement service facilitates financial aid and other refunds to students, while simultaneously enhancing the ability of our higher education institutional clients to comply with the federal regulations applicable to financial aid transactions. By using our refund disbursement solutions, our clients save on the cost of handling disbursements, improve related business processes, increase the speed with which students receive their refunds and ensure compliance with applicable regulations.

For students and other campus community members, we offer our OneAccount service that includes a Federal Deposit Insurance Corporation-insured deposit account provided by our bank partner, a OneCard, which is a debit MasterCard® ATM card, and other retail banking services. OneAccount is cost competitive and tailored to the campus communities that we serve, providing students with convenient and faster access to disbursement funds.

We also offer payment transaction services which are primarily software-as-a service solutions that facilitate electronic payment transactions allowing higher education institutions to receive easy and cost effective electronic payments from students, parents and others for essential education-related financial transactions. Features of our payment services include online bill presentment and online payment capabilities for tuition and other fees.

We have experienced significant growth since our inception in 2000, which we believe demonstrates the benefits and convenience our products provide to our customers, as well as the complementary nature of our higher education institution services and student services. As of March 31, 2010, 402 campuses serving approximately 2.7 million students had purchased the OneDisburse service and 293 campuses serving approximately 2.2 million students had contracted to

use one or more of our payment products and services. From 2003 through 2009, our disbursement services and our student banking services have experienced consistent annual growth. Since our initial product launch in 2002 and as of March 31, 2010, we have completed disbursement transactions with a total cash value of approximately $13.6 billion. In addition, as of March 31, 2010, we had approximately 1.2 million OneAccounts, representing growth in the number of OneAccounts of 84% from March 31, 2009.

In 2009, our total revenue, adjusted EBITDA, adjusted net income and net income were approximately $75.5 million, $30.5 million, $18.1 million and $14.2 million, respectively, which represents three-year compounded annual growth rates over 2006 of approximately 68%, 192%, 74% and 62%, respectively. See Summary Summary Consolidated Financial Data for definitions of adjusted EBITDA and adjusted net income and reconciliations to net income. In 2009, excluding revenue generated by our recent acquisition of CASHNet, we generated over 90% of our revenue from contracts signed in prior years.

Investment Highlights

We believe that an investment in our common stock benefits from the following key factors:

Most Comprehensive Suite of Products and Services. We believe that none of our competitors can match our ability to provide solutions to higher education institutions financial services needs, including compliance monitoring, while simultaneously meeting the retail banking needs of students.

Diversified Client Base. Our higher education institutional client base is very diverse, spanning colleges, universities and other higher education institutions in 46 states, with no single campus accounting for more than 4% of our revenue in 2009.

Focus on Customer Service and Satisfaction. We believe we provide superior customer service. Our after-sales service for higher education institutional clients is focused on person-to-person assistance with our technology and software solutions. Our after-sales service for our student banking customers is designed to provide cost-effective technology-based customer service. We believe that our over 97% retention rate since 2003 among our higher education institutional clients, including clients of CASHNet, demonstrates the level of our client and customer satisfaction.

Predictable Revenue Streams. The majority of our revenue each year is generated through existing relationships with higher education institutions and their campus communities. For example, in 2009, excluding revenue generated by our recent acquisition of CASHNet, we generated over 90% of our revenue from contracts signed in prior years. This, coupled with our over 97% retention rate since 2003 among our higher education institutional clients, including clients of CASHNet, provides a relatively stable and predictable revenue stream. This visibility allows us to appropriately manage our expenses and investments.

Scalable Business Model. Our scalable technology and infrastructure permits us to significantly expand our business in a cost-effective manner. Our products and services are based on a combination of our proprietary software applications, third-party technology and infrastructure solutions and business processes that can be used for multiple clients without significant cost implications.

Experienced Management Team With A Proven Track Record. Our senior management team, which includes two of our three founders, has been with us for an average of eight years and is primarily responsible for our company s rapid growth.

Table of Contents

Our Strategy

We believe that there is a significant opportunity to continue to achieve significant future growth. We intend to continue to increase revenue and profitability by strengthening our position as a leading provider of technology and payment services to the higher education industry. Key elements of our growth strategy include:

- **Expand the Number of Contracted Higher Education Institutions.** We continue to add to our client base. We believe that as of March 31, 2010 we have only accessed 14% and 12% of the potential market for our disbursement products and payment products, respectively, and that a large proportion of the remaining potential clients still rely primarily on inefficient in-house disbursement and payment solutions and would benefit from our industry-leading suite of electronic products and services.

- **Increase OneAccount Usage.** We are focused on increasing the number of OneAccount users at our higher education institutional clients, as well as encouraging OneAccount holders to increase their use of their accounts and increasing our penetration and usage rates among students at our existing OneDisburse clients.

- **Cross-Sell Our Existing Products and Services.** We intend to cross-sell our products and services though bundled packages and pricing, particularly by pursuing the cross-selling opportunities presented by our acquisition of CASHNet in November 2009. At the time of the acquisition, there was only a 6% overlap of students enrolled at clients using both Higher One and CASHNet products and services.

- **Enhance and Extend Our Products and Services.** We intend to continue to anticipate and monitor customer and client needs and to respond by developing and introducing new products and services and upgrading or modifying our existing offerings.

- **Pursue Strategic Partnerships and Opportunistic Acquisitions.** We intend to selectively consider acquisitions of, and investments in, companies or joint ventures that offer complementary products and services.

Risk Factors

We face risks in operating our business, including risks that may prevent us from achieving our business objectives or that may materially and adversely affect our business, financial condition and operating results. You should carefully consider these risks, including the risks discussed in the section entitled Risk Factors beginning on page 11, before investing in our company. Risks relating to our business and industry include:

- we may face substantial and increasing competition in the industries in which we do business;

- the fees that we generate are subject to competitive pressures and are subject to change;

- fees for financial services are subject to increasingly intense legislative and regulatory scrutiny;

- the convenience fees that we charge are subject to change;

- we depend on the availability of financial aid and the current government financial aid regime that relies on the outsourcing of financial aid disbursements through higher education institutions;

we depend on our relationship with higher education institutions and, in turn, student usage of our products and services for future growth of our business;

- we outsource critical operations, including certain banking services, which exposes us to risks related to our third-party vendors;

- we may face breaches of security measures, unauthorized access to or disclosure of data relating to our clients, fraudulent activity and infrastructure failures;

- our disbursement services to higher education institutions is an emerging and uncertain business; and

- we depend on a strong brand and a failure to maintain and develop our brand in a cost-effective manner may hurt our ability to expand our customer base.

Our Corporate History and Other Information

Higher One, Inc. was founded in 2000 in New Haven, Connecticut by Mark Volchek, Miles Lasater and Sean Glass. In July 2008, Higher One, Inc. formed Higher One Holdings, Inc., which is now the holding company for all of our operations. In November 2009, we acquired Informed Decisions Corporation, which we renamed Higher One Payments, Inc. and which does business as CASHNet. CASHNet is a leader in providing cashiering and payment solutions for higher education. On March 26, 2010, our stockholders and board of directors approved a 3-for-1 stock split of our common stock subject to and contingent upon the consummation of this offering.

Our principal executive offices are located at 25 Science Park, New Haven, Connecticut 06511. Our telephone number at that location is (203) 776-7776. We maintain a website at www.higherone.com on which we will post all reports we file with the Securities and Exchange Commission under Section 13(a) of the Securities Exchange Act of 1934, as amended, after the closing of this offering. We also will post on this site our key corporate governance documents, including our board committee charters, our ethics policy and our principles of corporate governance. Information on our website is not a part of this prospectus and should not be relied upon in determining whether to make an investment decision.

Table of Contents

The Offering

Common stock offered by us	shares
Common stock offered by the selling stockholders	shares
Common stock to be outstanding after this offering	shares
Use of proceeds	We estimate that the net proceeds to us from this offering, after deducting underwriting discounts and commissions and estimated offering expenses payable by us, will be approximately $ million, assuming an initial offering price of $ per share, the mid-point of the range of prices set forth on the cover of this prospectus. We will not receive any proceeds from the sale of shares by the selling stockholders. We intend to use $ million of the net proceeds we receive from this offering for the repayment of amounts outstanding under our senior secured revolving credit facility and $ million to satisfy our post-closing obligations under the CASHNet stock purchase agreement dated November 19, 2009. We intend to use the remaining net proceeds to pursue our strategic objectives and for general corporate purposes. See Use of Proceeds.
Dividends	We do not anticipate paying any cash dividends in the foreseeable future.
Proposed New York Stock Exchange symbol	ONE
Risk Factors	See Risk Factors beginning on page 11 and other information included in this prospectus for a discussion of factors that you should carefully consider before investing in our common stock.

The number of shares of common stock that will be outstanding after this offering in the table above includes shares of restricted stock issued but not yet vested under our 2000 Stock Option Plan and excludes shares of common stock issuable upon exercise of outstanding stock options with a weighted average exercise price of $ per share, of which were vested as of , 2010.

Except as otherwise noted, all information in this prospectus:

- assumes that the underwriters do not exercise their option to purchase up to additional shares of common stock from the selling stockholders;

Table of Contents

- assumes a 3-for-1 stock split of our common stock subject to and contingent upon the consummation of this offering;

- assumes our second amended and restated certificate of incorporation and amended and restated bylaws have become effective; and

- gives effect to the conversion of all outstanding shares of our convertible preferred stock that were outstanding prior to this offering into an aggregate of 12,975,169 shares of our common stock.

Summary Consolidated Financial Data

You should read the data set forth below in conjunction with our consolidated financial statements and related notes and Management s Discussion and Analysis of Financial Condition and Results of Operations and other financial information included elsewhere in this prospectus. We derived the summary financial data as of December 31, 2008 and 2009 and for each of the three years ended December 31, 2007, 2008 and 2009 from our audited consolidated financial statements and the related notes appearing elsewhere in this prospectus. We derived the summary financial data as of December 31, 2007 from our audited financial statements and the related notes not included in this prospectus. The summary financial data as of March 31, 2010 and for the three months ended March 31, 2009 and 2010 have been derived from our unaudited financial statements and related notes appearing elsewhere in this prospectus which, in the opinion of our management, have been prepared on the same basis as the audited financial statements and include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of our operating results and financial position as of those dates and for those periods. The summary financial data for the three months ended March 31, 2010 are not necessarily indicative of our results for the year ending December 31, 2010 and our historical results are not necessarily indicative of our results for any future period.

The pro forma income statement data for the year ended December 31, 2009 set forth below gives pro forma effect to our acquisition of CASHNet in November 2009 as if the acquisition had occurred on January 1, 2009. The pro forma financial data was derived from our Unaudited Pro Forma Financial Information included elsewhere in this prospectus. The pro forma summary financial data is not necessarily indicative of our results for any future period.

Table of Contents

Consolidated Statement of Income Data

	Historical			Pro Forma	Historical Three Months Ended March 31,	
	Year Ended December 31,					
	2007	2008	2009	2009 (unaudited)	2009 (unaudited)	2010 (unaudited)
	(in thousands, except share and per share amounts)					
Revenue	$ 27,978	$ 44,006	$ 75,517	$ 92,549	$ 17,235	$ 37,568
Cost of revenue	11,140	16,302	24,440	36,494	4,740	11,237
Gross margin	16,838	27,704	51,077	56,055	12,495	26,331
Operating expenses	12,625	17,753	28,396	35,436	6,021	12,672
Income from operations	4,213	9,951	22,681	20,619	6,474	13,659
Other income (expense)	(569)	(26)	(537)	(1,436)	(161)	(228)
Income before income taxes	3,644	9,925	22,144	19,183	6,313	13,431
Income tax expense	1,362	3,547	7,925	6,908	2,267	5,167
Net income	2,282	6,378	14,219	12,275	4,046	8,264
Less: Effect of redemption of preferred stock		80,744(2)				
Less: Net income allocable to participating securities	1,808	(2)	11,477	9,907	3,311	6,552
Net income (loss) available to common shareholders	$ 474	$ (74,366)(2)	$ 2,742	$ 2,368	$ 735	1,712
Net income (loss) per common share:						
Basic(1)	$ 0.04	$ (7.22)(2)	$ 0.29	$ 0.25	$ 0.09	$ 0.17
Diluted(1)	0.04	(7.22)(2)	0.27	0.23	0.08	0.15
Weighted average common shares outstanding:						
Basic(1)	10,957,833	10,306,392	9,298,131	9,298,131	8,642,007	10,129,902
Diluted(1)	57,090,867	10,306,392	53,150,890	53,150,890	52,340,281	54,871,662

(1) Assumes a 3-for-1 stock split of our common stock subject to and contingent upon the consummation of this offering.

(2) These amounts have been restated. Please see Note 17 to the consolidated financial statements included elsewhere in this prospectus.

Table of Contents

Consolidated Balance Sheet Data

	As of December 31,			As of March 31,	
	2007	2008	2009	2010 Actual	2010 As Adjusted (1)
		(in thousands)		(unaudited)	
Cash and cash equivalents	$ 9,755	$ 1,488	$ 3,339	$ 10,621	
Total assets	18,423	13,665	58,695	66,683	
Total debt and capital lease obligations, including current maturities	1,172	18,934	27,647	18,489	
Total liabilities	22,675	25,402	51,589	48,324	
Total stockholders equity	(4,252)	(11,737)	7,106	18,359	

(1) Gives effect to (a) the sale by us of common stock in this offering at an assumed initial public offering price of $ per share, the mid-point of the range of prices set forth on the cover of this prospectus, after deducting the underwriting discounts and commissions and estimated offering expenses payable by us, (b) the use of $ million of the net proceeds of this offering for the repayment of amounts outstanding under our Credit Facility and (c) the use of $ million of the net proceeds of this offering for certain post-closing costs related to our acquisition of CASHNet. See Use of Proceeds.

Consolidated Other Data

	Year Ended December 31,			Three Months Ended March 31,	
	2007	2008	2009	2009	2010
		(in thousands)		(unaudited)	
Adjusted EBITDA(1)	$ 5,473	$ 13,140	$ 30,516	$ 8,106	$ 17,935
Adjusted net income(2)	2,434	7,725	18,091	4,831	10,565
Number of students enrolled at OneDisburse client higher education institutions at end of period	1,011	1,605	2,331	1,830	2,663
Number of students enrolled at payment transaction client higher education institutions at end of period	3	29	1,949	29	2,202
Number of OneAccounts at end of period	359	554	1,004	656	1,207

(1) We define adjusted EBITDA as net income before interest, taxes and depreciation and amortization, or EBITDA, adjusted to eliminate warrant fair value adjustment related to remeasuring the preferred stock warrant liabilities to fair market value each period, stock-based customer acquisition expense related to our grant of common stock in connection with our acquisition of EduCard in 2008, stock-based compensation expense and a nonrecurring milestone bonus paid to non-executive employees in 2009 upon our reaching a particular long-term operational target. EBITDA and adjusted EBITDA 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 United States generally accepted accounting principles. 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. We prepare and present adjusted EBITDA to eliminate the effect of items that we do not consider indicative of our core operating performance. You are encouraged to evaluate our adjustments and the reasons we consider them appropriate.

Table of Contents

We believe adjusted EBITDA is useful to our board of directors, management and investors in evaluating our operating performance for the following reasons:

adjusted EBITDA is widely used by investors to measure a company s operating performance without regard to certain items, such as interest expense, income tax expense, depreciation and amortization, warrant fair value adjustment, stock-based expenses and certain nonrecurring items, that can vary substantially from company to company and from period to period depending upon their financing and accounting methods, the book value of their assets, their capital structures and the method by which their assets were acquired;

securities analysts use adjusted EBITDA as a supplemental measure to evaluate the overall operating performance of companies;

because non-cash equity grants made at a certain price and point in time do not necessarily reflect how our business is performing at any particular time, stock-based customer acquisition expense and stock-based compensation expense are not key measures of our core operating performance; and

because the milestone bonus was a nonrecurring expense that we recorded upon reaching a particular long-term operational target that we do not expect to incur again in the near-term, the milestone bonus does not necessarily reflect how our business is performing at any particular time and is therefore not a key measure of our core operating performance.

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:

	Year Ended December 31,			Three Months Ended March 31,	
	2007	2008	2009	2009	2010
	(in thousands)			(unaudited)	
Net income	$ 2,282	$ 6,378	$ 14,219	$4,046	$ 8,264
Interest income	(291)	(152)	(4)		(1)
Interest expense	115	357	558	161	229
Income tax expense	1,362	3,547	7,925	2,267	5,167
Depreciation and amortization	1,114	1,452	2,969	570	1,626
EBITDA	4,582	11,582	25,667	7,044	15,285
Other income		(234)	(17)		
Warrant fair value adjustment	745	55			
Stock-based customer acquisition expense		1,239	2,385	619	1,801
Stock-based compensation expense	146	498	1,387	293	849
Milestone bonus			1,094	150	
Adjusted EBITDA	$ 5,473	$ 13,140	$ 30,516	$ 8,106	$ 17,935

(2) We define adjusted net income as net income, adjusted to eliminate (a) stock-based compensation expense related to incentive stock option grants and (b) after giving effect to tax adjustments, stock-based compensation expense related to non-qualified stock option grants, stock-based customer acquisition expense related to our grant of common stock in connection with our acquisition of EduCard in 2008, a non-recurring milestone bonus paid to non-executive employees in 2009 upon our reaching a particular long-term operational target and amortization expenses related to intangible assets and financing costs. 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. We prepare adjusted net income to eliminate the effect of items that we do not consider indicative of our core operating performance. You are encouraged to evaluate our adjustments and the reasons we consider them appropriate.

We believe adjusted net income is useful to our board of directors, management and investors in evaluating our operating performance for the following reasons:

- because non-cash equity grants made at a certain price and point in time do not necessarily reflect how our business is performing at any particular time, stock-based customer acquisition expense and stock-based compensation expense are not key measures of our core operating performance;

- because the milestone bonus was a nonrecurring expense that we recorded upon reaching a particular long-term operational target that we do not expect to incur again in the near-term, the milestone bonus does not necessarily reflect how our business is performing at any particular time and is therefore not a key measure of our core operating performance; and

- amortization expenses can vary substantially from company to company and from period to period depending upon their financing and accounting methods, the fair value and average expected life of their acquired intangible assets, their capital structures and the method by which their assets were acquired.

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

	Year Ended December 31,			Three Months Ended March 31,	
	2007	2008	2009	2009	2010
		(in thousands)		(unaudited)	
Net income	$ 2,282	$ 6,378	$ 14,219	$ 4,046	$ 8,264
Stock-based customer acquisition expense		1,239	2,385	619	1,801
Stock-based compensation expense ISO	128	312	610	112	437
Stock-based compensation expense NQO	18	186	777	181	412
Milestone bonus expense			1,094	150	
Amortization of intangibles	21	153	710	76	767
Amortization of finance costs		31	113	22	51
Total pre-tax adjustments	167	1,921	5,689	1,160	3,468
Tax rate	37.4%	35.7%	35.9%	35.9%	38.5%
Tax adjustment(1)	15	574	1,823	376	1,167
Adjusted net income	$ 2,434	$ 7,725	$ 18,085	$ 4,830	$ 10,565

(1) We have tax effected all the pre-tax adjustments except for stock-based compensation expense for incentive stock options, which are generally not tax deductible.

RISK FACTORS

An investment in our common stock involves a number of risks. You should carefully consider the following information about these risks, together with the other information contained in this prospectus, before investing in our common stock. If any of the following risks actually materializes, our business, financial condition and operating results could be materially and adversely affected. As a result, the trading price of our common stock could decline and you could lose all or part of your investment.

Risks Related to Our Business

Our operating results may suffer because of substantial and increasing competition in the industries in which we do business.

The market for our products and services is competitive, continually evolving and, in some cases, subject to rapid technological change. Our disbursement services compete against all forms of payment, including paper-based transactions (principally cash and checks), electronic transactions such as wire transfers and Automated Clearing House, or ACH, payments and other electronic forms of payment, including card-based payment systems. Many competitors, including Sallie Mae, TouchNet Information Systems, Inc. and Nelnet, Inc., provide payment software, products and services that compete with those we offer. In addition, our OneAccount and OneCard products and services, which we provide through our bank partner, also compete with banks active in the higher education market, including U.S. Bancorp and Wells Fargo & Company. Future competitors may begin to focus on higher education institutions in a manner similar to us.

Many of our competitors have substantially greater financial and other resources than we have, may in the future offer a wider range of products and services and may use advertising and marketing strategies that achieve broader brand recognition or acceptance. In addition, our competitors may develop new products, services or technologies that render our products, services or technologies obsolete or less marketable. If we cannot continue to compete effectively against our competitors, our business, financial condition and results of operations will be materially and adversely affected.

The fees that we generate through our relationships with higher education institutions and their campus communities are subject to competitive pressures and are subject to change, which may materially and adversely affect our revenue and profitability.

We generate revenue from, among other sources, the banking services fees charged to our OneAccount holders, interchange fees related to purchases made through our OneCard debit and ATM cards, which our bank partner charges and remits to us, convenience fees from processing tuition payments on behalf of students, fees charged to our higher education institution clients and service fees that we receive from our bank partner based on amounts deposited in OneAccounts and prevailing interest rates.

In an increasingly price-conscious and competitive market, it is possible that to maintain our competitive position with higher education institutions, we may have to decrease the fees we charge institutions for our services. Similarly, in order to maintain our competitive position with our OneAccount holders, we may need to work with our bank partner to reduce banking services fees charged to our OneAccount holders.

MasterCard could reduce the interchange rates, which it unilaterally sets and adjusts from time to time, and upon which our interchange revenue is dependent. In addition, our OneAccount holders may modify their spending habits and increase their use of ACH relative to their use of OneCards, as ACH payments are generally free, which could reduce the interchange fees remitted to us. Students may

also become less willing to pay convenience fees when using our payment transaction services. If our fees are reduced as described above, our business, results of operations and prospects for future growth could be materially and adversely affected.

Fees for financial services are subject to increasingly intense legislative and regulatory scrutiny, which could have a material adverse effect on our business, financial conditions, results of operations and prospects for future growth.

In 2009, approximately 88% of our revenue was generated from interchange fees, ATM fees, non-sufficient fund fees, other banking services fees and convenience fees. These fees, as well as the financial services industry in general, is expected to undergo substantial change in the near future. Financial reform legislation was passed in the U.S. House of Representatives and the U.S. Senate and will now have to be reconciled. This legislation would further increase regulation and oversight of the financial services industry and impose restrictions on the ability of firms within the industry to conduct business consistent with historical practices. For example, under the legislation, a consumer financial protection agency would be established to regulate any person engaged in a financial activity in connection with a consumer financial product or service, including those that process financial services products and services. While there are differences between the House and Senate versions of the bill, the new agency would have regulatory authority for the laws to which we and The Bancorp Bank are subject and, depending on how the bills are reconciled, may have direct supervisory authority over us. Additionally, the Senate bill would, subject to certain exemptions, create limits on debit card interchange fees tied to the cost of processing the transaction, which would have the likely result of decreasing revenue to debit card issuers and processors. As currently proposed, these restrictions would only apply to debit card issuers with assets in excess of $10 billion. While the House bill did not include proposed limits on debit card interchange fees, a separate House bill introduced in 2009 sought similar restrictions. Federal and state regulatory agencies also propose and adopt changes to their regulations or change the manner in which existing regulations are applied.

In addition to the above changes, individual state legislatures are also reviewing interchange fees, and legislators in a number of states have proposed bills that purport to limit interchange fees or merchant discount rates or to prohibit their application to portions of a transaction.

The Federal Reserve Board recently amended Regulation E to limit the ability of financial institutions, effective July 1, 2010, to assess an overdraft fee for paying ATM and one-time debit card transactions that overdraw a consumer s account, unless the consumer affirmatively consents, or opts in, to the institution s payment of overdrafts for these services. In the absence of such a consent, a financial institution may not assess an overdraft fee on a consumer for an ATM or one-time debit card transaction.

Federal and state legislatures and regulatory agencies also frequently propose and adopt changes to their laws and regulations or change the manner in which existing laws and regulations are applied. We cannot predict the substance or impact of pending or future legislation or regulation, or the application thereof, but such measures could affect how we and our bank partner operate and could significantly reduce the interchange fees, ATM fees, non-sufficient fund fees, other banking services fees and convenience fees charged in respect of our services and that drive our financial results. These regulatory and legislative changes could also increase our costs, impede the efficiency of our internal business processes or limit our ability to pursue business opportunities in an efficient manner. The occurrence of any of these risks could materially and adversely affect our business, financial condition and results of operations.

The convenience fees that we charge in connection with payment transactions are subject to change.

Most credit and debit card associations and networks permit us to charge convenience fees to students, parents or other payers who make online payments to our higher education institutional clients through the SmartPay feature of our ePayment product using a credit or debit card. In 2009, these convenience fees accounted for substantially all of our payment transaction revenue, which is a trend we

expect to continue going forward. While the majority of credit and debit card associations and networks routinely permit merchants and other third parties to charge these fees, it is not a ubiquitous practice in the payment industry. If these credit and debit card associations and networks change their policies in permitting merchants and other third-parties to charge these fees or otherwise restrict our ability to do so, our business, financial condition and results of operations could be materially and adversely affected.

There are risks associated with charging convenience fees.

Through our SmartPay service, which we acquired in connection with our acquisition of CASHNet in 2009, some of our higher education institutional clients charge convenience fees to students, parents or other payers who make online payments using a credit or debit card. In light of the ongoing legislative efforts at financial regulatory reform, we recently examined the laws and regulations related to convenience fees. We found that these laws and regulations vary from state to state and certain states, including California, Florida, Massachusetts, New York and Texas, have laws that to varying degrees prohibit the imposition of a surcharge on a credit or debit cardholder who elects to use a credit or debit card in lieu of payment by cash, check or other means. The penalties for violating these laws vary from state to state and include, in certain circumstances, fines that could be significant.

We are not aware of any enforcement or civil action against a higher education institution or a third party service provider for charging convenience fees. We have nevertheless begun working with our higher education institutional clients to ensure that we can continue to provide the services they demand, while ensuring we are in compliance with these laws and regulations prospectively. The affected revenues to the Company are not significant. However, if one or more states or other parties initiates an action against us, we could be subject to a claim for significant fines or damages. Moreover, the institution of any such action could disrupt our operations or result in negative publicity, which could diminish our ability to attract new and retain existing clients, and could materially and adversely affect our prospects, business, financial condition and results of operations.

Our business depends on the current government financial aid regime that relies on the outsourcing of financial aid disbursements through higher education institutions.

In general, the U.S. federal government distributes financial aid to students through higher education institutions as intermediaries. Following the receipt of financial aid funds and the payment of tuition and other expenses, higher education institutions have typically processed refund disbursements to students by preparing and distributing paper checks. Our OneDisburse service provides our higher education institutional clients an electronic system for improving the administrative efficiency of this refund disbursement process. If the government, through legislation or regulatory action, restructured the existing financial aid regime in such a way that reduced or eliminated the intermediary role played by higher education financial institutions or limited or regulated the role played by service providers such as us, our business, results of operations and prospects for future growth could be materially and adversely affected.

We depend on our relationship with higher education institutions and, in turn, student usage of our products and services for future growth of our business.

Our future growth depends, in part, on our ability to enter into agreements with higher education institutions. While we have experienced significant growth since 2002 in the number of our higher education institutional clients, our contracts with these clients can generally be terminated at will and, therefore, there can be no assurance that we will be able to maintain these clients. We may also be unable to maintain our agreements with these clients on terms and conditions acceptable to us. In addition, we may not be able to continue to establish new relationships with higher education institutional clients at our historical growth rate or at all. The termination of our current client contracts or our inability to continue to attract new clients could have a material adverse effect on our business, financial condition and results of operations.

Table of Contents

Not only are establishing new client relationships and maintaining current ones critical to our business, but they are also essential components of our strategy for maximizing student usage of our products and services and attracting new student customers. A reduction in enrollment, a failure to attract and maintain student customers, as well as any future demographic trends that reduce the number of higher education students could materially and adversely affect our capability for both revenue and cash generation and, as a result, could have a material adverse effect on our business, financial condition and results of operations.

A change in the availability of financial aid, as well as budget constraints, could materially and adversely affect our financial performance by reducing demand for our services.

The higher education industry depends heavily upon the ability of students to obtain financial aid. As part of our contracts with our higher education institutional clients that use OneDisburse, students   financial aid and other refunds are sent to us for disbursement. The fees that we charge most of our OneDisburse clients are based on the number of financial aid disbursements that we make to students. In addition, our relationships with OneDisburse higher education institutional clients provide us with a market for OneAccounts, from which we derive a significant proportion of our revenues. Consequently, a change in the availability of financial aid that restricted client use of our OneDisburse product or otherwise limited our ability to attract new higher education institutional clients could materially and adversely affect our financial performance. Future legislative and executive branch efforts to reduce the U.S. federal budget deficit or worsening economic conditions may require the government to severely curtail its financial aid spending, which could materially and adversely affect our business, financial condition and results of operation.

Global economic and other conditions may adversely affect trends in consumer spending, which could materially and adversely affect our business, financial condition and results of operation.

A decrease in consumer confidence due to the weakening of the global economy may cause decreased spending among our student customers and may decrease the use of our OneAccount and OneCard products and services. Increases in college tuition alongside stagnation or reduction in available financial aid may also restrict spending among college students and the size of disbursements, reducing the use of our OneAccount and OneCard products and services and demand for our disbursement services, which could materially and adversely affect our business, financial condition and results of operation.

We rely on our bank partner for certain banking services, and a change in relationship with our bank partner or its failure to comply with certain banking regulations could materially and adversely affect our business.

As the provider of Federal Deposit Insurance Corporation, or FDIC, -insured depository services for all of our OneAccounts, as well as other banking functions, such as supplying cash for our ATM machines, The Bancorp Bank, our bank partner, provides third-party services that are critical to our student-oriented banking services. If any material adverse event were to affect The Bancorp Bank, including a significant decline in its financial condition, a decline in the quality of its service, loss of deposits, its inability to comply with applicable banking and financial service regulatory requirements, systems failure or its inability to pay us fees, our business, financial condition and results of operations could be materially and adversely affected. If we were required to change banking partners, we could not accurately predict the success of such change or that the terms of our agreement with a new banking partner would be as favorable to us, especially in light of the recent consolidation in the banking industry, which has rendered the market for FDIC-insured retail banking services less competitive.

Table of Contents

We outsource critical operations, which exposes us to risks related to our third-party vendors.

We have entered into contracts with third-party vendors to provide critical services, technology and software in our operations. These outsourcing partners include: Fiserv, which provides back-end account and transaction data processing for OneAccounts and OneCards; MasterCard, which provides the payment network for our OneCards, as well as for certain other transactions; Comerica Incorporated and Global Payments, which provide transaction processing and banking services for payment processing related to the SmartPay feature of our ePayment service; and Terremark and Neospire, which provide web and application hosting services in secure data centers. See Business Key Relationships with Third Parties.

Accordingly, we depend, in part, on the services, technology and software of these and other third-party service providers. In the event that these service providers fail to maintain adequate levels of support, do not provide high quality service, discontinue their lines of business, terminate our contractual arrangements or cease or reduce operations, we may be required to pursue new third-party relationships, which could materially disrupt our operations and our ability to provide our products and services, and could divert management s time and resources. Replacement technology or services provided by replacement third-party vendors could be more expensive than those we have currently, while the process of transitioning services and data from one provider to another can be complicated and time consuming. If we are unable to complete a transition to a new provider on a timely basis, or at all, we could be forced to temporarily or permanently discontinue certain services, which could disrupt services to our customers and adversely affect our business, financial condition and results of operations. We may also be unable to establish comparable new third-party relationships on as favorable terms or at all, which could materially and adversely affect our business, financial condition and results of operations.

Termination of, or changes to, the MasterCard association registration could materially and adversely affect our business, financial condition and results of operations.

We and our bank partner, which issues our OneCards, are subject to MasterCard association rules that could subject us to a variety of fines or penalties that may be levied by MasterCard for acts or omissions by us or businesses that work with us. The termination of the card association registration held by us or our bank partner or any changes in card association or other network rules or standards, including interpretation and implementation of existing rules or standards, that increase the cost of doing business or limit our ability to provide our products and services could materially and adversely affect our business, financial condition and results of operation.

Breaches of security measures, unauthorized access to or disclosure of data relating to our clients, fraudulent activity, and infrastructure failures could materially and adversely affect our reputation or harm our business.

Our higher education institution clients and student OneAccount holders disclose to us certain personally identifiable information, including student contact information, identification numbers and the amount of credit balances, which they expect we will maintain confidentially. It is possible that hackers, customers or employees acting unlawfully or contrary to our policies, or other individuals, could improperly access our or our vendors systems and obtain or disclose data about our customers. Further, because customer data may also be collected, stored, or processed by third party vendors, it is possible that these vendors could intentionally or negligently disclose data about our clients or customers.

We rely to a large extent upon sophisticated information technology systems, databases, and infrastructure, and take reasonable steps to protect them. However, due to their size, complexity, content and integration with or reliance on third party systems they are potentially vulnerable to breakdown, malicious intrusion, natural disaster and random attack, all of which pose a risk that sensitive data may be exposed to unauthorized persons or to the public.

Table of Contents

A breach of our information systems could lead to fraudulent activity, including with respect to our OneCards, such as identity theft, losses on the part of our banking customers, additional security costs, negative publicity and damage to our reputation and brand. In addition, our customers could be subject to scams that may result in the release of sufficient information concerning themselves or their accounts to allow others unauthorized access to their accounts or our systems (e.g., phishing and smishing). Claims for compensatory or other damages may be brought against us as a result of a breach of our systems or fraudulent activity. If we are unsuccessful in defending against any resulting claims against us, we may be forced to pay damages, which could materially and adversely affect our profitability.

In addition, a significant incident of fraud or an increase in fraud levels generally involving our products, such as our OneCards, could result in reputational damage to us, which could reduce the use of our products and services. Such incidents of fraud could also lead to regulatory intervention, which could increase our compliance costs. See Legal and Regulatory Risks 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. Accordingly, account data breaches and related fraudulent activity could have a material adverse effect on our future growth prospects, business, financial condition and results of operations.

A disruption to our systems or infrastructure could damage our reputation, expose us to legal liability, cause us to lose customers and revenue, result in the unintentional disclosure of confidential information or require us to expend significant efforts and resources or incur significant expense to eliminate these problems and address related data and security concerns. The harm to our business could be even greater if such an event occurs during a period of disproportionately heavy demand for our products or services or traffic on our systems or networks.

Providing disbursement services to higher education institutions is an emerging and uncertain business; if the market for our products does not continue to develop, we will not be able to grow this portion of our business.

Our success will depend, in part, on our ability to generate revenues by providing financial transaction services to higher education institutions and their students. The market for these services has only recently developed and the viability and profitability of this market is unproven. Our business will be materially and adversely affected if we do not develop and market products and services that achieve and maintain market acceptance. Outsourcing disbursement services may not become as widespread in the higher education industry as we anticipate, and our products and services may not achieve continued commercial success. In addition, higher education institutional clients could discontinue using our services and return to in-house disbursement and payment solutions. If outsourcing disbursement services do not become widespread or if institutional clients return to their prior methods of disbursement, our growth prospects, business, financial condition and results of operations could be materially and adversely affected.

Our business depends on a strong brand and a failure to maintain and develop our brand in a cost-effective manner may hurt our ability to expand our customer base.

Maintaining and developing the Higher One and CASHNet brand is critical to expanding and maintaining our base of higher education institution clients and student OneAccount holders. We believe the importance of brand recognition will increase as competition in our market further intensifies. Maintaining and developing our brand will depend largely on our ability to continue to

provide high-quality products and services at cost effective and competitive prices, as well as after-sale customer service. While we intend to continue investing in our brand, we cannot predict the success of these investments. If we fail to maintain and enhance our brand, if we incur excessive expenses in this effort or if our reputation is otherwise tainted, including by association with the wider financial services industry, we may be unable to maintain loyalty among our existing customers or attract new customers, which could materially and adversely affect our business, financial condition and results of operations.

Our business will suffer if we fail to successfully integrate acquired businesses and technologies or to appropriately assess the risks in particular transactions.

We have in the past acquired, and may in the future acquire, businesses, technologies, services, product lines and other assets. For example, in November 2009 we acquired CASHNet, which provides payment services to higher education institutions, and have begun to integrate its operations with our business. The successful integration of CASHNet into our operations, along with any other businesses that we acquire in the future, on a cost-effective basis, may be critical to our future performance. If we do not successfully integrate a strategic acquisition, or if the benefits of the transaction do not meet the expectations of financial or industry analysts, the market price of our common stock may decline. The amount and timing of the expected benefits of any acquisition, including potential synergies between our current business and the acquired business, are subject to significant risks and uncertainties. These risks and uncertainties include, but are not limited to:

- the diversion of management s time and resources from our core business;
- our ability to retain or replace key personnel of the acquired business, including management and key sales force members;
- our ability to maintain relationships with the customers of the acquired business;
- our ability to integrate common disclosure controls and procedures, internal controls over financial reporting and accounting policies;
- the assumption of disclosed and undisclosed liabilities, including tax liabilities;
- the indemnification agreements with the sellers of the acquired business may be unenforceable or insufficient to cover tax or other liabilities;
- our ability to educate and train a combined sales force and cross-sell the combined products and services to our combined client base;
- our ability to integrate the combined products, services and technology;
- flaws in the acquired business technology;
- inaccuracies in the acquired business books and records and any weaknesses in its internal controls;
- the existence of intellectual property infringement claims;

- our ability to coordinate organizations that are geographically diverse and that have different business cultures;

- our ability to integrate common legal, compliance, operational, financial and informational processes and systems; and

- our ability to comply with the regulatory requirements applicable to the acquired business.

As a result of these risks, we may not be able to achieve the expected benefits of any acquisition. If we are unsuccessful in integrating CASHNet or completing an acquisition that we may pursue in the future, we would be required to reevaluate our growth strategy and we may have incurred substantial

expenses and devoted significant management time and resources in seeking to complete and integrate the acquisition. Even if we are successful in completing and integrating an acquired business, the acquired businesses may not perform as we expect or enhance the value of our business as a whole.

Failure to manage future growth effectively could have a material adverse effect on our business, financial condition and results of operations.

The continued rapid expansion and development of our business may place a significant strain upon our management and administrative, operational and financial infrastructure. As of March 31, 2010, we had approximately 1.2 million OneAccounts, representing growth of 84% from March 31, 2009. In 2009, our total revenue, adjusted EBITDA, adjusted net income and net income were approximately $75.5 million, $30.5 million, $18.1 million and $14.2 million, respectively, which represents three-year compounded annual growth rates over 2006 of approximately 68%, 192%, 74% and 62%, respectively. See Summary Summary Consolidated Financial Data for definitions of adjusted EBITDA and adjusted net income and reconciliations to net income. Our growth strategy contemplates further increasing the number of our higher education institutional clients and student banking customers at relatively similar growth rates, however, the rate at which we have been able to establish relationships with our customers in the past may not be indicative of the rate at which we will be able to establish additional customer relationships in the future.

Our success will depend in part upon the ability of our executive officers to manage growth effectively. Our ability to grow also depends upon our ability to successfully hire, train, supervise, and manage new employees, obtain financing for our capital needs, expand our systems effectively, control increasing costs, allocate our human resources optimally, maintain clear lines of communication between our operational functions and our finance and accounting functions, and manage the pressures on our management and administrative, operational and financial infrastructure. There can be no assurance that we will be able to accurately anticipate and respond to the changing demands we will face as we continue to expand our operations or that we will be able to manage growth effectively or to achieve further growth at all. Similarly, there can be no assurance that we will be able to effectively control the increasing costs and manage the additional demands placed on our finance and accounting staff and on our financial, accounting and information systems caused by our need to comply with public company requirements, such as those relating to disclosure controls and procedures and internal control over financial reporting. If our business does not continue to grow or if we fail to effectively manage any future growth or the increased costs and administrative burdens of being a public company, our business, financial condition and results of operations could be materially and adversely affected.

The length and unpredictability of the sales cycle for signing potential higher education institutional clients could delay new sales of our products and services, which could materially and adversely affect our business, financial condition and results of operations.

The sales cycle between our initial contact with a potential higher education institutional client and the signing of a contract with that client can be lengthy. As a result of this lengthy sales cycle, our ability to forecast accurately the timing of revenues associated with new sales is limited. Our sales cycle varies widely due to significant uncertainties, over which we have little or no control, including:

- the individual decision-making processes of each higher education institutional client, which typically include extensive and lengthy evaluations and require us to spend substantial time, effort and money educating each client about the value of our products and services;
- the budgetary constraints and priorities and budget cycle of each higher education institutional client; and
- the reluctance of higher education staff to change or modify existing processes and procedures.

In addition, there is no guarantee that a potential client will sign a contract with us even after we spend substantial time, effort and money on the potential client. A delay in our ability or a failure to enter into new contracts with potential higher education institutional clients could materially and adversely affect our business, financial condition and results of operations.

Our business and future success may suffer if we are unable to cross-sell our products and services.

A significant component of our growth strategy is dependent on our ability to cross-sell products and services to new and existing customers. In particular, we expect our ability to successfully cross- sell our disbursement services to our payment services clients and our payment services to our disbursement services clients, to be a material part of this strategy. We may not be successful in cross-selling our products and services because our customers may find our additional products and services unnecessary or unattractive. Our failure to sell additional products and services to new and existing customers could have a material adverse effect on our prospects, business, financial condition and results of operations.

Our ability to generate revenue could suffer if we do not continue to update and improve our existing products and services and develop new ones.

The industry for electronic financial transactions, including disbursement services, is generally subject to rapid and significant technological changes, including continuing developments of technologies in the areas of smart cards, radio frequency and proximity payment devices (such as contactless cards), electronic commerce and mobile commerce, among others. While we cannot predict how these technological changes will affect our business, we believe that disbursement services to the higher education industry will be subject to a similar degree of technological change and that new services and technologies for the industry will emerge in the medium-term. As a result, these new services and technologies may be superior to, or render obsolete, the technologies we currently use in our products and services. In addition, the products and services we develop may not be able to compete with the alternatives available to our customers. Our future success will depend, in part, on our ability to adapt to technological changes and evolving industry standards.

We make substantial investments in improving our products and services, but we have no assurance that our investments will be successful. Our growth prospects, business, financial condition and results of operations will be materially and adversely affected if we do not develop products and services that achieve broad market acceptance with our current and potential customers.

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

We substantially depend on the efforts, skill and reputations of our founders and senior management team including: Dean Hatton (President and CEO), Mark Volchek (Founder and CFO), Miles Lasater (Founder and COO), Casey McGuane (Chief Service Officer) and Robert Reach (Chief Sales Officer). We do not currently maintain key person life insurance policies with respect to our executive officers. None of our executive officers have entered into employment agreements with us, leaving them free to terminate their involvement with us at any time and/or to pursue other opportunities. The loss of any of our executive officers or founders could have a material adverse effect on our ability to manage our company, growth prospects, business financial condition and results of operations.

We may be liable to our customers or lose customers if we provide poor service or if our systems or products experience failures.

We must fulfill our contractual obligations with respect to our products and services and maintain high quality service to meet the expectations of our customers. Failure to meet these expectations or fulfill our contractual obligations could cause us to lose customers and bear additional liability.

Table of Contents

Because of the large amount of data we collect and manage, hardware failures and errors in our systems could result in data loss or corruption or cause the information that we collect to be incomplete or contain significant inaccuracies. For example, errors in our processing systems could delay disbursements or cause disbursements to be made in the wrong amounts or to the wrong person. Our systems may also experience service interruptions as a result of undetected errors or defects in our software, fire, natural disasters, power loss, disruptions in long distance or local telecommunications access, fraud, terrorism, accident or other similar reason, in which case we may experience delays in returning to full service, especially with regard to our data centers and customer service call centers. If problems such as these occur, our customers may seek compensation, withhold payments, seek full or partial refunds, terminate their agreements with us or initiate litigation or other dispute resolution procedures. In addition, we may be subject to claims made by third parties also affected by any of these problems.

Our ability to limit our liabilities by contract or through insurance may be ineffective or insufficient to cover our future liabilities.

We attempt to limit, by contract, our liability for damages arising from our negligence, errors, mistakes or security breaches. Contractual limitations on liability, however, may not be enforceable or may otherwise not provide sufficient protection to us from liability for damages. We maintain liability insurance coverage, including coverage for errors and omissions. It is possible, however, that claims could exceed the amount of our applicable insurance coverage, if any, or that this coverage may not continue to be available on acceptable terms or in sufficient amounts. Even if these claims do not result in liability to us, investigating and defending against them could be expensive and time consuming and could divert management s attention away from our operations. In addition, negative publicity caused by these events may delay market acceptance of our products and services, any of which could materially and adversely affect reputation and our business.

If we are unable to protect or enforce our intellectual property rights, we may lose a competitive advantage and incur significant expenses.

Our business depends on certain registered and unregistered intellectual property rights and proprietary information. We rely on a combination of patent, copyright, trademark and trade secret laws, as well as nondisclosure agreements and technical measures (such as the password protection and encryption of our data and systems) to protect our technology and intellectual property rights, including our proprietary software. Existing laws afford only limited protection for our intellectual property rights. Intellectual property rights or registrations granted to us may provide an inadequate competitive advantage to us or be too narrow to protect our products and services. Similarly, there is no guarantee that our pending applications for intellectual property protection will result in registrations or issued patents or sufficiently protect our rights. The protections outlined above may not be sufficient to prevent unauthorized use, misappropriation or disclosure of our intellectual property or technology and may not prevent our competitors from copying, infringing, or misappropriating our products and services. We cannot be certain that others will not independently develop, design around or otherwise acquire equivalent or superior technology or intellectual property rights. If we are unable to adequately protect our intellectual property rights, our business and growth prospects could be materially and adversely affected.

One or more of our issued patents or pending patent applications may be categorized as so-called business method patents. The general validity of software patents and business method patents has been challenged in a number of jurisdictions, including the United States. The United States Supreme Court is currently considering a case that may impact the scope of patent eligible subject matter as relates to software and business methods. Our patents may become less valuable or unenforceable if software or business methods are found to be a non-patentable subject matter or if additional requirements are imposed that our patents do not meet.

From time to time, we seek to enforce our intellectual property rights against third parties, such as through our current litigation against TouchNet. See Business Legal Proceedings. The fact that we have intellectual property rights, including registered intellectual property, may not guarantee success in our attempts to enforce these rights against third parties. Our ability and potential success in enforcing our rights is also subject to general litigation risks, as well as uncertainty as to the enforceability of our intellectual property rights. When we seek to enforce our rights, we may be subject to claims that our intellectual property rights are invalid, otherwise unenforceable, or are licensed to the party against whom we are asserting the claim. In addition, our assertions of intellectual property rights may result in the other party seeking to assert various claims against us, including its own alleged intellectual property rights, claims of unfair competition, or other claims. Furthermore, enforcing our intellectual property and other proprietary rights can be expensive. Any increase in the unauthorized use of our intellectual property could make it more expensive or less profitable to do business and consequently harm our operating results.

Intellectual property infringement claims against us could be costly and time-consuming to defend and if we are unsuccessful in our defense could have a material adverse effect on our business, financial condition and results of operations.

Third parties may assert, including by means of counter-claims against us as a result of the assertion of our intellectual property rights, that our products, services or technology, or the operation of our business, violate their intellectual property rights. As the number of competitors in our industry increases and the functionality of technology offerings further overlap, such claims and counter-claims could become more common. We cannot be certain that we do not or will not infringe third parties intellectual property rights.

Any intellectual property claim against us, regardless of its merit, could result in significant liabilities to our business. Depending on the nature of such claim, our business may be disrupted, our management s attention and other company resources may be diverted and we may be required to redesign our products and services or to enter into royalty or licensing agreements in order to obtain the rights to use necessary technologies, which may not be available on terms acceptable to us, if at all. If we cannot redesign our products and services or license necessary technologies, we may be subject to the risk of injunctive relief and/or significant damage awards, which are complex, subjective and hard to predict, and subsequently we may not be able to offer or sell a particular product or service, or a family of products or services.

Any intellectual property claim against us could be expensive and time consuming to defend. Insurance may not cover or be insufficient for such claim, or may not be available on terms acceptable to us. A claim brought against us that is uninsured or underinsured could result in unanticipated costs, thereby reducing our operating results. Even if we have an indemnification arrangement with a third party to indemnify us against an intellectual property claim, such indemnifying party may be unable or fail to uphold its contractual obligations to us. If any infringement or other intellectual property claim that is brought against us is successful, our business, operating results and financial condition could be materially and adversely affected.

General economic conditions may adversely affect our ability to raise capital in the future.

We may need or seek additional financing in the future to refinance our existing indebtedness, fund our operations, fund acquisitions, develop additional products and services or implement other projects. As of March 31, 2010, Higher One, Inc. had $10.5 million outstanding under its senior secured revolving credit facility, or Credit Facility. Given the state of the current credit environment resulting from, among other things, the general weakening of the global economy, it may be difficult to refinance our existing indebtedness or obtain any additional financing on acceptable terms, which could have an adverse effect on our business, financial condition and results of operations. In addition, if, as a result of the

current conditions in the credit markets, the lender under our current credit agreement or any other lender under any future credit agreement is unable to fund borrowings under that agreement, our liquidity could be adversely affected.

The terms of our credit agreement may restrict our current and future operations, which would adversely affect our ability to respond to changes in our business and to manage our operations.

Our credit agreement contains, and any future indebtedness of ours would likely contain, a number of restrictive covenants that impose significant operating and financial restrictions on us, including restrictions on our ability to, among other things:

- create liens;
- make investments and acquisitions;
- incur additional debt;
- transfer all or substantially all of our assets or enter into merger or consolidation transactions;
- dispose of assets;
- pay dividends or make any other distributions with respect to our stock;
- issue stock, warrants, options or other rights to purchase stock or securities convertible into or exchangeable for shares of stock;
- engage in any material line of business substantially different from the lines of business we currently conduct or any business substantially related or incidental thereto; and
- enter into transactions with affiliates.

Our ability to comply with these covenants may be affected by events beyond our control, and any material deviations from our forecasts could require us to seek waivers or amendments of covenants or alternative sources of funding. We cannot assure you that such waivers, amendments or alternative sources of funding could be obtained, or if obtained, would be on terms acceptable to us.

Our credit agreement also requires us to maintain certain liquidity levels and financial ratios, including a maximum total leverage ratio and a minimum interest coverage ratio. A failure by us to comply with the covenants or financial ratios contained in our credit agreement could result in an event of default which could adversely affect our ability to respond to changes in our business and manage our operations. An event of default would also occur under our credit agreement if we undergo a change of control or if we experience a material adverse change in our operations, condition or prospects. In the event of any default under our credit agreement, the lender could elect to declare all amounts outstanding to be due and payable and require us to apply all of our available cash to repay these amounts. The acceleration of indebtedness under our credit agreement could have a material adverse effect on our business, financial condition and results of operations.

As a holding company, our main source of cash is distributions from our operating subsidiaries.

We, Higher One Holdings, Inc., conduct all of our operations through our subsidiaries. Accordingly, our main cash source is dividends and other distributions from these subsidiaries. The ability of each subsidiary to make distributions depends on the funds that a subsidiary has from its

operations in excess of the funds necessary for its operations, obligations or other business plans. Since our subsidiaries are wholly owned by us, our claims will generally rank junior to all other obligations of the subsidiaries. If our operating subsidiaries are unable to make distributions, our growth may slow after the proceeds of this offering are exhausted, unless we are able to obtain additional debt or equity financing. In the event of a subsidiary s liquidation, there may not be assets sufficient for us to recoup our investment in the subsidiary.

Table of Contents

Legal and Regulatory Risks

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 partner, we are directly or indirectly subject to a variety of federal and state laws and regulations. Our contracts with most of our higher education institutional clients and our bank partner require us to comply with applicable laws and regulations, including, where applicable:

- regulations promulgated by the United States Department of Education regarding the handling of student financial aid funds received by institutions on behalf of their students under Title IV of the Higher Education Act, or Title IV;
- the Family Educational Rights and Privacy Act, or FERPA;
- the Electronic Fund Transfer Act and Regulation E promulgated thereunder;
- 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 the 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, the Department of Education may deem us to be 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 covers the servicer s Title IV activities. Although we do not believe that there is a material risk that we will be deemed a third-party servicer, each year we submit a Compliance Attestation Examination of the Title IV Student Financial Assistance Programs audit to the Department of Education, which includes a report by an independent audit firm. We also provide this audit report to clients upon request to help them fulfill their compliance audit obligations as Title IV participating institutions.

If we were deemed to be a third-party servicer, certain other Title IV regulations would apply to our business. These include, for example, regulations making a third-party servicer jointly and severally liable with its client institution for any liability to the Department of Education 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. The Department of Education 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. In the event the Department of Education concluded that we were a third-party servicer, 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 material and adversely affected. There is limited enforcement and interpretive history of Title IV regulations.

FERPA. Our higher education institutional clients are subject to FERPA, which prohibits educational institutions that receive any federal funding from disclosing certain personally identifiable information of any student to third parties without the student s consent, subject to certain exceptions. Our higher education institutional clients disclose to us certain information concerning their students,

Table of Contents

including contact information, student identification numbers and the amount of students credit balances. We believe that our higher education institutional clients may disclose this information to us pursuant to one or more exceptions to FERPA disclosure prohibition. However, if we do not fall into one of these exceptions or if future changes to legislation or regulations required student consent before our higher education institutional clients could 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 an educational 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 or results of operations.

State Laws. We may also be subject to similar state laws and regulations that restrict higher education institutions from disclosing certain personally identifiable information of students. For example, an Illinois law passed in 2009 prohibits certain public higher education institutions in Illinois from providing personally identifiable information of students to businesses that issue credit or debit cards.

Regulation of OneAccounts

Anti-Money Laundry; USA PATRIOT ACT; OFAC. The Bancorp Bank, our bank partner, is an insured depository institution and funds held at our bank partner are insured by the FDIC up to applicable limits. As an insured depository institution, our bank partner is subject to comprehensive government regulation and, in the course of making its services available to our customers, we are required to assist the bank in complying with certain of its 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 bank account is established. For example, because we facilitate the opening of deposit accounts at The Bancorp Bank on behalf of our customers, we assist the bank in collecting the basic customer identification information that is necessary to open an account. In addition, both we and The Bancorp Bank are subject to the laws and regulations enforced by the Office of Foreign Assets Control, which prohibit U.S. persons from engaging in transactions with certain prohibited persons. Our failure to comply with any of these laws or rights could materially and adversely affect or business, financial credit and results of operations.

Compliance; Audit. As a service provider to an insured depository institution, we are required under federal law to agree to submit to examination by our bank partner s primary federal regulator, which is currently the FDIC. We also are subject to audit by our bank partner to ensure that we comply with our obligations to it appropriately. Failure to comply with our responsibilities properly could negatively affect our operations. Our bank partner is required under its agreement with us to, and we rely on our bank partner s ability to, comply with state and federal banking regulations. The failure of our bank partner 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. The Bancorp Bank provides demand deposit services for OneAccounts through a private label relationship. We provide processing services for these OneAccounts for The Bancorp Bank. These services are subject to, among other things, the requirements of the Electronic Fund Transfer Act and the Federal Reserve Board 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 other electronic banking services. We may assist our bank partner with fulfilling its 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 and Business Government Regulation. 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 partner, 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 certain of our websites.

In conjunction with the disbursement, payroll and tuition payment services we make available through our bank partner, it is necessary to collect certain information from our customers (such as bank account and routing numbers) to transmit to the bank. The bank uses 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 partner, 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 The Bancorp Bank, we also are limited in our use and disclosure of the personal information we receive from the bank, 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 International. In addition, we are subject to similar data security breach laws enacted by a number of states. Several other states are considering similar legislation.

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

Table of Contents

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. The interpretation of pending legislation and regulations, as well as some of the existing laws and regulations, is evolving and, therefore, these laws and regulations may be applied inconsistently. Under some interpretations, it is possible that our current data protection policies and practices may be deemed inconsistent with legal requirements, and breaches in the security of our technology systems and infrastructure could result in a violation of these laws and regulations. These laws and regulations could cause us to incur substantial costs or require us to change our business practices in a manner materially adverse to our business.

Compliance

We monitor our compliance through a robust internal audit program. Our full-time internal auditor 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 adverse 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 costs and delays.

Current and future litigation against us could be costly and time-consuming to defend.

We are from time to time subject to legal proceedings and claims that arise in the ordinary course of business. Litigation may result in substantial costs and may divert management s attention and resources, which may materially and adversely affect our business, financial condition and results of operations. In addition, legal claims that have not yet been asserted against us may be asserted in the future. Insurance may not cover such claims, be sufficient for one or more such claims, or continue to be available on terms acceptable to us.

In particular, a third party may assert that our technology violates its intellectual property rights. As the number of products in our industry increases and the functionality of these products further overlap, infringement claims could become more common. Any claims, regardless of their merit, could be expensive and time consuming to defend, require us to redesign our products, divert management s attention and other company resources and require us to enter into royalty or licensing agreements in order to obtain the right to use necessary technologies, which may not be available on terms acceptable to us, if at all. A claim brought against us that is uninsured or underinsured could result in unanticipated costs, thereby reducing our operating results and leading analysts or potential investors to reduce their expectations of our performance resulting in a reduction in the trading price of our stock. See Business Legal Proceedings.

Table of Contents

Risks Related to our Common Stock

There is no prior public market for our common stock and an active trading market may not develop, leading to a decline in our stock price.

Prior to this offering, there has been no public trading market for shares of our common stock. Although we intend to apply to list our common stock on the New York Stock Exchange, it is possible that, after this offering, an active trading market will not develop or continue. As a result, shareholders may have difficulty selling their shares or selling their shares at a certain price. In addition, the initial public offering price or future price of our common stock may not reflect our actual financial performance.

The initial public offering price per share of our common stock will be determined by agreement among us and the representative of the underwriters and may not be indicative of the price at which the shares of our common stock will trade in the public market after this offering.

Our common stock price may experience significant volatility.

The stock market in general, and the market for technology-related stocks in particular, have been highly volatile in the recent past. As a result, the market price of our common stock is likely to be similarly volatile, and investors in our common stock may experience a decrease in the value of their stock, including decreases unrelated to our operating performance or prospects. The price of our common stock could be subject to wide fluctuations in response to a number of factors, including those described in this Risk Factors section of this prospectus and others such as:

- changes in our revenues or earnings estimates or recommendations by securities analysts;
- publication of research reports about us or our industry by securities analysts;
- speculation in the press or investment community;
- sales of common stock by institutional shareholders;
- changes in accounting principles; and
- general market or economic conditions, including factors unrelated to our performance.

In the past, securities class action litigation has often been instituted against companies following periods of volatility in their stock price. This type of litigation could result in substantial costs and divert our management s attention and resources.

The concentration of our capital stock ownership with insiders upon the completion of this offering will likely limit your ability to influence corporate matters.

We anticipate that our founders, senior executive officers, directors and principal stockholders will together beneficially own approximately percent of our common stock outstanding after this offering. As a result, these stockholders, acting together, will have control over most matters that require approval by our stockholders, including the election of directors and approval of significant corporate transactions. Corporate action might be taken even if other stockholders, including those who purchase shares in this offering, oppose them. This concentration of ownership might also have the effect of delaying or preventing a change of control of our company that other stockholders may view as beneficial.

Table of Contents

A substantial number of shares of our common stock will be eligible for sale in the near future, which could cause our common stock price to decline significantly.

The market price of our common stock could decline as a result of sales of a large number of shares in the market after the offering or the perception that these sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us or you to sell our equity or equity-related securities in the future. If our existing stockholders sell, or indicate an intention to sell, substantial amounts of our common stock in the public market after the -day contractual lock-up and other legal restrictions on resale discussed in this prospectus lapse, the trading price of our common stock could decline below the initial public offering price. Based on shares outstanding as of , 2010, upon completion of this offering, we will have outstanding shares of common stock, assuming no exercise of the underwriters option to purchase additional shares. The shares of common stock offered in this offering will be freely tradable without restriction under the Securities Act of 1933, as amended, or the Securities Act, except for any shares of our common stock that may be held or acquired by our directors, executive officers and other affiliates, as that term is defined in the Securities Act, which will be restricted securities under the Securities Act. Restricted securities may not be sold in the public market unless the sale is registered under the Securities Act or an exemption from registration is available. Goldman, Sachs & Co. may, in its sole discretion, permit our officers, directors, employees and current stockholders who are subject to the -day contractual lock-up to sell shares prior to the expiration of the lock-up agreements.

After the lock-up agreements pertaining to this offering expire days from the date of this prospectus or earlier waiver by Goldman, Sachs & Co., up to an additional shares will be eligible for sale in the public market, subject to prior registration or qualification for an exemption from registration, including, in the case of shares held by affiliates, compliance with the volume restrictions and other securities laws. If these additional shares are sold, or if it is perceived that they will be sold, in the public market, the trading price of our common stock could decline.

If you invest in this offering, you will experience immediate and substantial dilution.

We expect that the initial public offering price of our common stock will be substantially higher than the net tangible book value per share of our outstanding common stock. As a result, assuming an initial public offering price of $ per share, which is the midpoint of the price range on the front cover of this prospectus, investors purchasing common stock in this offering will incur immediate and substantial dilution of $ per share in the net tangible book value of the common stock. This means that the investors who purchase shares:

- will pay a price per share that substantially exceeds the per share value of our assets after subtracting our liabilities; and

- will have contributed approximately % of the total amount of our equity funding since inception but will only own % of the shares outstanding.

In addition, options and warrants issued in the past have per-share exercise prices substantially below the initial public offering price per share. As of , 2010, there were shares of common stock issuable upon exercise of outstanding options, other than those that will be exercised prior to the completion of the offering. To the extent these outstanding options or warrants are ultimately exercised, there will be further dilution to investors in this offering. See Dilution.

Table of Contents

We do not intend to pay dividends on our common stock in the foreseeable future, and, because of restrictive covenants in our credit agreement and because we are a holding company, we may be unable to pay dividends.

We have never declared or paid any cash dividends on our common stock and do not currently intend to do so for the foreseeable future. In addition, our current credit agreement prohibits us from paying dividends. Furthermore, because we are a holding company, any future dividend payments would depend on the cash flow of our subsidiaries. See As a holding company, our main source of cash is distributions from our operating subsidiaries. Accordingly, we may not be able to pay dividends even if our board of directors would otherwise deem it appropriate.

We currently intend to invest our future earnings, if any, to fund our growth. Therefore, you are not likely to receive any dividends on your common stock for the foreseeable future and the success of an investment in shares of our common stock will depend upon any future appreciation in its value. There is no guarantee that shares of our common stock will appreciate in value or even maintain the price at which our stockholders have purchased their shares. For the foregoing reasons, you will not be able to rely on dividends on our common stock to receive a return on your investment.

Anti-takeover provisions in our charter documents, Delaware law and our credit agreement could delay or prevent entirely a takeover attempt or a change in control.

Provisions contained in our second amended and restated certificate of incorporation and amended and restated bylaws may make the acquisition of our company more difficult without the approval of our board of directors. These provisions:

- establish a classified board of directors so that not all members of our board of directors are elected at one time;
- authorize the issuance of undesignated preferred stock, the terms of which may be established and the shares of which may be issued without stockholder approval;
- prohibit stockholder action by written consent, which requires all stockholder action to be taken at a meeting of our stockholders;
- provide that our board of directors is expressly authorized to make, alter or repeal our amended and restated bylaws; and
- establish advance notice requirements for nominations for elections to our board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings.

These anti-takeover and other provisions under Delaware law could discourage, delay or prevent a transaction involving a change in control of our company, even if doing so would benefit our stockholders.

Further, we will be governed by Section 203 of the General Corporation Law of the State of Delaware, which prohibits a corporation from engaging in any business combination with any interested stockholder for a period of three years following the time that the stockholder became an interested stockholder, except under certain circumstances including upon receipt of prior board approval.

See Description of Capital Stock Certain Certificate of Incorporation and Bylaw Provisions.

In addition, an event of default would occur under our credit agreement if we undergo a change of control without the consent of our lender.

Table of Contents

Failure to establish and maintain effective internal controls over financial reporting may lead investors to lose confidence in our financial data.

Maintaining effective internal controls over financial reporting is necessary for us to produce reliable financial reports and is important in helping to prevent financial fraud. We are in the process of evaluating how to document and test our internal control procedures to satisfy the requirements of Section 404 of Sarbanes-Oxley and the related rules of the SEC, which require, among other things, our management to assess annually the effectiveness of our internal control over financial reporting and our independent registered public accounting firm to issue a report on our internal control over financial reporting beginning with our Annual Report on Form 10-K for the year ending December 31, 2011. During the course of this documentation and testing, we may identify deficiencies that we may be unable to remedy before the requisite deadline for those reports.

For example, in connection with the preparation of our quarterly financial statements as of and for the three months ended March 31, 2010, we concluded that we had a material weakness in our internal control over financial reporting that resulted in a misstatement of our earnings per share computation for the year ended December 31, 2008. Specifically, in our computation of net income available to common stockholders per common share, we did not deduct from net income the difference between (i) the fair value of the consideration transferred to the preferred stockholders as part of our 2008 stock tender offer and (ii) the carrying amount of the preferred stock repurchased (net of issuance costs) to arrive at income available to common stockholders in accordance with ASC 260-10-S99. As a result, we determined that we did not maintain effective controls over the accounting for, and calculation of, net income available to common stockholders per common share, indicating a material weakness with respect to our ability to properly monitor and account for non-routine transactions, and to apply GAAP in transactions subject to complex accounting pronouncements. For further information, please see Note 17 to our consolidated financial statements included elsewhere in this prospectus.

We are in the process of remediating this material weakness by, among other things, expanding our current finance and accounting staff, formalizing our accounting policies and internal controls documentation and strengthening supervisory reviews by our management. If we fail to fully remediate this material weakness or fail to otherwise maintain effective internal controls over financial reporting in the future, it could result in a material misstatement of our financial statements that would not be prevented or detected on a timely basis and which could cause investors to lose confidence in our financial information and/or cause the price of our common stock to decline.

Table of Contents

FORWARD-LOOKING STATEMENTS

Some of the statements contained in this prospectus constitute forward-looking statements. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts, such as statements regarding our future financial condition or results of operations, our prospects and strategies for future growth, the development and introduction of new products, and the implementation of our marketing and branding strategies. In many cases, you can identify forward-looking statements by terms such as may, will, should, expects, plans, anticipates, believes, estimates, predicts, negative of these terms or other comparable terminology.

The forward-looking statements contained in this prospectus reflect our current views about future events and are subject to risks, uncertainties, assumptions and changes in circumstances that may cause events or our actual activities or results to differ significantly from those expressed in any forward-looking statement. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future events, results, actions, levels of activity, performance or achievements. Readers are cautioned not to place undue reliance on these forward-looking statements. A number of important factors could cause actual results to differ materially from those indicated by the forward-looking statements, including, but not limited to, those factors described in Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations. These factors include without limitation:

- substantial and increasing competition in the industries in which we do business and the growth of our industry
- competitive pressures related to the fees that we charge;
- increasingly intense legislative and regulatory scrutiny of fees charged for financial services;
- changes in the convenience fees that we charge in connection with payment transactions are subject to change;
- risks associated with convenience fees;
- availability of financial aid and dependence on the current government financial aid regime that relies on the outsourcing of financial aid disbursements through higher education institutions;
- our ability to maintain and develop our brand in a cost-effective manner;
- the outsourcing of critical operations, including reliance on our bank partner for certain banking services;
- our ability to maintain adequate security measures for our data systems;
- the length and unpredictability of the sales cycle for signing potential higher education institutional clients;
- liability to our customers or loss of customers if we provide poor service or if our systems or products experience failures and our ability to limit our liabilities by contract or through insurance;

- our ability to cross-sell products and services and integrate acquired businesses and technologies;

- our ability to update and improve our existing products and services, develop new ones and manage future growth effectively;

- our reliance on our founders and other key members of executive management and our ability to identify, recruit and retain skilled personnel;

- our ability to protect and enforce our intellectual property rights; and

- the impact of governmental laws and regulations and the outcomes of legal proceedings.

The forward-looking statements contained in this prospectus reflect our views and assumptions only as of the date of this prospectus. We undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events.

Table of Contents

USE OF PROCEEDS

We estimate that the net proceeds to us from our sale of shares of common stock in this offering, after deducting underwriting discounts, commissions and estimated offering expenses payable by us, will be approximately $ million (assuming an initial public offering price of $ per share, the mid-point of the range of prices shown on the cover page of this prospectus). We will not receive any proceeds from the sale of shares by the selling stockholders. In addition, we will not participate in the sale of additional shares relating to the underwriters option to purchase additional shares from the selling stockholders.

We intend to use $ million of the net proceeds we receive from this offering for the repayment of amounts outstanding under our Credit Facility dated as of August 26, 2008, and amended as of July 15, 2009 and November 19, 2009. Loans drawn under our senior secured revolving credit facility are payable in a single maturity on December 31, 2010 and bear interest at the Eurodollar rate plus an applicable margin that ranges between 1.75% and 3.75% per annum depending on Higher One, Inc. s funded debt to EBITDA ratio.

We also intend to use $ million of the net proceeds we receive from this offering for certain post-closing costs related to our acquisition of CASHNet. We intend to use the remaining net proceeds for general corporate purposes and to pursue our strategic objectives, such as developing new products, enhancing and upgrading existing products and selectively considering strategic acquisitions and investments.

A $1.00 change, up or down, in the midpoint of the range shown on the cover page of this prospectus would change our estimated net proceeds by $ million. Similarly, a change in the number of shares of common stock we sell would increase or decrease our net proceeds. We believe that our intended use of proceeds would not be affected by changes in either our initial public offering price or the number of shares of common stock we sell.

Table of Contents

DILUTION

If you invest in our common stock, your interest will be diluted by the amount by which the initial offering price per share paid by the purchasers of common stock in this offering exceeds the net tangible book value per share of our common stock following this offering. As of March 31, 2010, our net tangible book value was approximately $ million, or $ per share of common stock. Net tangible book value per share equals total consolidated tangible assets minus total consolidated liabilities divided by the number of shares of our common stock outstanding.

Our net tangible book value as of March 31, 2010 would have been approximately $ million, or $ per share of common stock, after giving effect to the sale by us of common stock in this offering, at an assumed initial public offering price of $ per share (the mid-point of the range of prices on the cover page of this prospectus), after deducting the underwriting discounts and commissions and estimated offering expenses payable by us.

This represents an immediate increase in the net tangible book value of $ per share to existing stockholders and an immediate dilution in the net tangible book value of $ per share to the investors who purchase our common stock in this offering. Sales of shares by our selling stockholders in this offering do not affect our net tangible book value.

The following table illustrates this per share dilution:

Assumed initial public offering price per share	
Net tangible book value per share as of March 31, 2010	
Increase in net tangible book value per share attributable to this offering	
Net tangible book value per share after this offering	
Dilution per share to new investors	

A $1.00 increase or decrease in the assumed initial public offering price of $ per share would increase or decrease, as applicable, the net proceeds to us from this offering by approximately $ million, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the underwriting discounts and commissions and estimated offering expenses payable by us.

The following table summarizes, as of March 31, 2010, the difference between existing stockholders and new investors with respect to the number of shares of common stock purchased from us, the total consideration paid to us for these shares and the average price per share paid by our existing stockholders and to be paid by the new investors in this offering. The calculation below reflecting the effect of shares purchased by new investors is based on an assumed initial public offering price of $ per share (the mid-point of the range of prices on the cover page of this prospectus), before deducting underwriting discounts and commissions and estimated offering expenses payable by us.

	Shares Purchased		Total Consideration		Average Price
	Number	Percent	Amount	Percent	Per Share
Existing stockholders					
New investors					
Total					

The share information in the table above includes shares of restricted stock issued but not yet vested under our 2000 Stock Option Plan and excludes shares of common stock issuable upon exercise of outstanding stock options with a weighted average exercise price of $ per share, of which were vested as of , 2010.

Table of Contents

DIVIDEND POLICY

We currently anticipate that we will retain any future earnings for use in our business. As a result, we do not anticipate paying any cash dividends in the foreseeable future. Any future determination to pay dividends will be at the discretion of our board of directors and will be dependent on then-existing conditions, including our financial condition and results of operation, capital requirements, contractual restrictions, business prospects and other factors that our board of directors considers relevant. Furthermore, because we are a holding company, any dividend payments would depend on cash flow from our subsidiaries. Our credit agreement, however, generally prohibits us from paying dividends. Accordingly, we may not be able to pay dividends even if our board of directors would otherwise deem them appropriate.

CAPITALIZATION

The following table sets forth our capitalization as of March 31, 2010:

- on an actual basis; and
- on an as adjusted basis to reflect:
  - the sale by us of shares of common stock in this offering, at an assumed initial public offering price of $ per share (the mid-point of the range of prices set forth on the cover of this prospectus), after deducting the underwriting discounts and commissions and estimated offering expenses payable by us;
  - the use of $ million of the net proceeds of this offering for the repayment of amounts outstanding under our Credit Facility;
  - the use of $ million of the net proceeds of this offering for certain post-closing costs related to our acquisition of CASHNet; and
  - the conversion of all outstanding shares of our convertible preferred stock that were outstanding prior to this offering into an aggregate of 12,975,169 shares of our common stock.

Table of Contents

You should read this table in conjunction with the sections of this prospectus captioned Use of Proceeds, Selected Financial Data and Management s Discussion and Analysis of Financial Condition and Results of Operations, as well as the audited consolidated financial statements and related notes included elsewhere in this prospectus.

In thousands, except share and per share amounts	As of March 31, 2010 Actual	As Adjusted
Cash and cash equivalents	$ 10,621	
Total debt and capital lease obligations, including current maturities	$ 18,489	$
Convertible preferred stock:		
Series A Convertible Preferred Stock, $0.001 par value; 1,012,314 shares authorized, 417,049 issued and outstanding, actual; no shares authorized, issued or outstanding, as adjusted	313	
Series B Convertible Preferred Stock, $0.001 par value; 1,622,078 shares authorized, 1,086,784 issued and outstanding, actual; no shares authorized, issued or outstanding, as adjusted	882	
Series C Convertible Preferred Stock, $0.001 par value; 4,315,216 shares authorized, 2,522,554 issued and outstanding, actual; no shares authorized, issued or outstanding, as adjusted	3,478	
Series C-1 Convertible Preferred Stock, $0.001 par value; 3,250,000 shares authorized, 2,180,633 issued and outstanding, actual; no shares authorized, issued or outstanding, as adjusted	2,085	
Series D Convertible Preferred Stock, $0.001 par value; 3,999,999 shares authorized, 1,313,604 issued and outstanding, actual; no shares authorized, issued or outstanding, as adjusted	2,254	
Series E Convertible Participating Preferred Stock, $0.001 par value; 5,454,545 shares authorized, 5,454,545 issued and outstanding, actual; no shares authorized, issued or outstanding, as adjusted	71,942	
Total convertible preferred stock	80,954	
Stockholders equity:		
Common stock, $.001 par value, 90,000,000 shares authorized, 12,276,765 issued and outstanding; shares authorized, issued and outstanding, pro forma(1)	13	
Additional paid-in capital	7,612	
(Accumulated deficit) retained earnings	(70,220)	
Total stockholders equity	18,359	
Total capitalization	$ 36,848	

(1) Assumes a 3-for-1 stock split of our common stock subject to and contingent upon the consummation of this offering.

Table of Contents

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

The following unaudited pro forma condensed combined statements of operations for the year ended December 31, 2009 are based on our historical consolidated financial statements and give effect to our acquisition of Informed Decision Corporation, which we renamed Higher One Payments, Inc. and which does business as CASHNet, on November 19, 2009 as if it had occurred on January 1, 2009 and the assumptions and adjustments described in the accompanying notes to the unaudited pro forma condensed combined financial information.

This unaudited pro forma condensed combined financial information is presented for informational purpose only and has been derived from, and should be read in conjunction with, our historical consolidated financial statements, including the notes thereto. The pro forma adjustments, as described in the accompanying notes, are based on current available information and certain adjustments that we believe are reasonable. They are not necessarily indicative of our consolidated financial position or results of operations that would have occurred had the acquisition taken place on the date indicated, nor are they necessarily indicative of our future consolidated results of operations.

Table of Contents

Higher One Holdings, Inc. and CASHNet

Unaudited Pro Forma Condensed Combined Statement of Operations

For the Year Ended December 31, 2009

(in thousands)

	Higher One Historical Year Ended December 31, 2009 (audited)	+ (Plus: CASHNet Historical Year Ended March 31, 2009 (audited)(A)	- Less: CASHNet Nine Months Ended December 31, 2008 (unaudited)	+ Plus: CASHNet Six Months Ended September 30, 2009 (unaudited)	+ Plus: CASHNet October 1, 2009 to November 19, 2009 (unaudited)	) = Sub-total CASHNet January 1, 2009 November 19, 2009 (unaudited)	Pro Forma Adjustments (unaudited)	Pro Forma Year Ended December 31, 2009 (unaudited)
Revenue:								
Account revenue	$ 66,440	$	$	$	$	$	$	$ 66,440
Payment transaction revenue	1,688	10,220	7,136	6,979	1,407	11,470		13,158
Higher education institution revenue	5,135	4,168	2,948	2,858	902	4,980		10,115
Other revenue	2,254	528	404	318	140	582		2,836
Total revenue	75,517	14,916	10,488	10,155	2,449	17,032		92,549
Cost of revenue	24,440	11,307	7,953	6,978	1,991	12,323	(269)(B)(C)	36,494
Gross margin	51,077	3,609	2,535	3,177	458	4,709	269	56,055
Operating expenses:								
General and administrative	18,143	1,775	1,259	1,074	391	1,981	1,427(D)(F)	21,551
Product development	2,287						1,126(B)	3,413
Sales and marketing	7,966	2,831	2,214	1,537	352	2,506		10,472
Total operating expenses	28,396	4,606	3,473	2,611	743	4,487	2,553	35,436
Income from operations	22,681	(997)	(938)	566	(285)	222	(2,284)	20,619
Interest income	(4)	(30)			(38)	(68)		(72)
Interest expenses	558	6	4	2	1	5	860(E)	1,423
Other	(17)	40	3	50	15	102		85
Net income (loss) before income taxes	22,144	(1,013)	(945)	514	(263)	183	(3,144)	19,183
Income tax expense (benefit)	7,925	(195)	(112)		(272)	(355)	(662)(G)	6,908
Net income (loss)	14,219	$ (818)	$ (833)	$ 514	$ 9	$ 538	$ (2,482)	12,275
Less: Net income allocable to participating securities	11,477							9,907
Net income available to common shareholders	$ 2,742							$ 2,368
Net income per common share								

Basic	$ 0.29	$ 0.25
Diluted	0.27	0.23
Weighted average common shares outstanding		
Basic	9,298,131	9,298,131
Diluted	53,150,890	53,150,890

Table of Contents

Notes to Unaudited Pro Forma Condensed Combined Statement of Operations

(A) Reflects the historical results of operations of CASHNet for its year ended March 31, 2009. On November 19, 2009, we purchased all of the shares of outstanding capital stock of CASHNet for a purchase price of $27,489. The purchase price was allocated to net tangible and intangible assets based on their estimated fair values on the date of acquisition. The fair value of the intangible assets, consisting of customer relationships, developed software, trademarks and non-competes, was estimated at $20,880, based on an independent appraisal and was determined through either an income approach or a relief from royalty approach. The intangible assets are amortized on a straight line basis over lives ranging from 5 to 10 years, the estimated lives of the assets. The remainder of the purchase price was allocated to goodwill.

Of the total purchase price, $17,889 was paid upon closing (excluding cash acquired), and pursuant to the purchase agreement, we are required to pay initial post-closing payments of $10,000. The initial post closing payments call for four quarterly payments of $1,750 each on or before March 31, June 30, September 30 and December 31, 2010. A final post closing payment of $3,000 is to be paid on or before December 31, 2010, but is subject to an escrow deposit reduction in regard to any applicable indemnification adjustments. This acquisition payable was discounted and recorded at its estimated fair value of $9,600, based on an estimated discount rate of 5.0%. The payable is being accreted to its principle amount through maturity on an effective interest rate method.

(B) Reflects adjustment to reclassify CASHNet s product development costs from cost of revenue to product development costs to conform to our classification of such costs.

(C) Reflects adjustments for increased intangible asset amortization associated with acquired identified intangible assets in connection with the acquisition.

(D) Reflects adjustments for increased intangible asset amortization associated with acquired identified intangible assets in connection with the acquisition.

(E) Reflects interest expense adjustments for (i) increased interest expense attributable to the incremental $17,250 borrowing we made under our Credit Facility to pay for the acquisition at an assumed interest rate equal the adjusted Eurodollar rate plus a margin of between 1.75% and 3.75% per annum (depending on Higher One, Inc. s funded debt to EBITDA ratio), and (ii) increased interest expense attributable to accretion on the acquisition payable at an assumed fixed discount rate of 5.0%. The interest rate on our Credit Facility is variable and the effect on interest expense of a change in interest rates of 0.125% would have been $45 for the year ended December 31, 2009.

(F) Reflects an adjustment to reduce expenses for the $125 of one-time transaction costs we incurred directly as a result of the acquisition.

(G) Reflects an adjustment to income taxes required to adjust the total income tax expense to an amount that would have been recorded if the companies filed a consolidated tax return and the acquisition had occurred on January 1, 2009.

Table of Contents

SELECTED CONSOLIDATED FINANCIAL DATA

You should read the data set forth below in conjunction with our consolidated financial statements and related notes and Management s Discussion and Analysis of Financial Condition and Results of Operations and other financial information included elsewhere in this prospectus. We derived the selected financial data as of December 31, 2008 and 2009 and for each of the three years ended December 31, 2007, 2008 and 2009 from our audited consolidated financial statements and the related notes appearing elsewhere in this prospectus. We derived the selected financial data as of and for the years ended December 31, 2005 and 2006 and as of December 31, 2007 from our audited financial statements and the related notes not included in this prospectus. The selected financial data as of March 31, 2010 and for the three months ended March 31, 2009 and 2010 have been derived from our unaudited financial statements and related notes appearing elsewhere in this prospectus which, in the opinion of our management, have been prepared on the same basis as the audited financial statements and include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of our operating results and financial position as of those dates and for those periods. The selected financial data for the three months ended March 31, 2010 are not necessarily indicative of our results for the year ending December 31, 2010 and our historical results are not necessarily indicative of our results for any future period.

The pro forma income statement data for the year ended December 31, 2009 set forth below gives pro forma effect to our acquisition of CASHNet in November 2009 as if the acquisition occurred on January 1, 2009. The pro forma financial data was derived from our Unaudited Proforma Financial Information included elsewhere in this prospectus. The pro forma summary financial data is not necessarily indicative of our results for any future period.

Table of Contents

Consolidated Statement of Income Data

	Historical					Pro Forma	Historical	
	Year Ended December 31,						Three Months Ended March 31,	
	2005	2006	2007	2008	2009	2009	2009	2010
	(in thousands, except share and per share amounts)							
						(unaudited)	(unaudited)	(unaudited)
Revenue	$ 8,973	$ 16,006	$ 27,978	$ 44,006	$ 75,517	$ 92,549	$ 17,235	$ 37,568
Cost of revenue	3,920	6,569	11,140	16,302	24,440	36,494	4,740	11,237
Gross margin	5,053	9,437	16,838	27,704	51,077	56,055	12,495	26,331
Operating expenses	5,973	9,268	12,625	17,753	28,396	35,436	6,021	12,672
Income from operations	(920)	169	4,213	9,951	22,681	20,619	6,474	13,659
Other (expense) income	(1)	(503)	(569)	(26)	(537)	(1,436)	(161)	(228)
Income before income taxes	(921)	(334)	3,644	9,925	22,144	19,183	6,313	13,431
Income tax (benefit) expense	(47)	(3,689)	1,362	3,547	7,925	6,908	2,267	5,167
Net income	(874)	3,355	2,282	6,378	14,219	12,275	4,046	8,264
Less: Effect of redemption of preferred stock				80,744(2)				
Less: Net income allocable to participating securities		2,657	1,808	(2)	11,477	9,907	3,311	6,552
Net income (loss) available to common shareholders	$ (874)	$ 698	$ 474	$ (74,366)(2)	$ 2,742	$ 2,368	$ 735	$ 1,712
Net income (loss) per common share:								
Basic(1)	$ (0.08)	$ 0.06	$ 0.04	$ (7.22)(2)	$ 0.29	$ 0.25	$ 0.09	$ 0.17
Diluted(1)	(0.08)	0.06	0.04	(7.22)(2)	0.27	0.23	0.08	0.15
Weighted average common shares outstanding:								
Basic(1)	10,669,314	10,927,089	10,957,833	10,306,392	9,298,131	9,298,131	8,642,007	10,129,902
Diluted(1)	10,669,314	55,801,845	57,090,867	10,306,392	53,150,890	53,150,890	52,340,281	54,871,662

(1) Assumes a 3-for-1 stock split of our common stock subject to and contingent upon the consummation of this offering.
(2) These amounts have been restated. Please see Note 17 to the consolidated financial statements included elsewhere in this prospectus.

Table of Contents

Consolidated Balance Sheet Data

	As of December 31, (in thousands)					As of March 31,
	2005	2006	2007	2008	2009	2010 (unaudited)
Cash and cash equivalents	$ 4,786	$ 5,770	$ 9,755	$ 1,488	$ 3,339	$ 10,621
Total assets	8,203	13,974	18,423	13,665	58,695	66,683
Total debt and capital lease obligations, including current maturities	879	950	1,172	18,934	27,647	18,489
Total liabilities	18,377	20,740	22,675	25,402	51,589	48,324
Total stockholders (deficit) equity	(10,174)	(6,766)	(4,252)	(11,737)	7,106	18,359

Consolidated Other Data

	Year Ended December 31, (in thousands)					Three Months Ended March 31, (in thousands) (unaudited)	
	2005	2006	2007	2008	2009	2009	2010
Adjusted EBITDA(1)	$ (106)	$ 1,223	$ 5,473	$ 13,140	$ 30,516	$ 8,106	$ 17,935
Adjusted net income (loss)(2)	(780)	3,429	2,434	7,725	18,085	4,830	10,565
Number of students enrolled at OneDisburse client higher education institutions at end of period	380	675	1,011	1,605	2,331	1,830	2,663
Number of students enrolled at payment transaction client higher education institutions at end of period			3	29	1,949	29	2,202
Number of OneAccounts at end of period	126	207	359	554	1,004	656	1,207

(1) The following table presents a reconciliation of net income, the most comparable generally accepted accounting principles, or GAAP, measure, to EBITDA and adjusted EBITDA for each of the periods indicated:

	Year Ended December 31, (in thousands)					Three Months Ended March 31, (in thousands) (unaudited)	
	2005	2006	2007	2008	2009	2009	2010
Net income (loss)	$ (874)	$ 3,355	$ 2,282	$ 6,378	$ 14,219	$ 4,046	$ 8,264
Interest income	(139)	(223)	(291)	(152)	(4)		(1)
Interest expense	140	93	115	357	558	161	229
Income tax expense	(47)	(3,689)	1,362	3,547	7,925	2,267	5,167
Depreciation and amortization	814	1,002	1,114	1,452	2,969	570	1,626
EBITDA	(106)	538	4,582	11,582	25,667	7,044	15,285
Other income				(234)	(17)		
Warrant fair value adjustment		633	745	55			
Stock-based customer acquisition expense				1,239	2,385	619	1,801
Stock-based compensation expense		52	146	498	1,387	293	849
Milestone bonus					1,094	150	
Adjusted EBITDA	$ (106)	$ 1,223	$ 5,473	$ 13,140	$ 30,516	$ 8,106	$ 17,935

See Summary Summary Consolidated Financial Data for definition of EBITDA and adjusted EBITDA.

Table of Contents

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

	Year Ended December 31, (in thousands)					Three Months Ended March 31, (in thousands) (unaudited)	
	2005	2006	2007	2008	2009	2009	2010
Net income (loss)	$ (874)	$ 3,355	$ 2,282	$ 6,378	$ 14,219	$ 4,046	$ 8,264
Stock-based customer acquisition expense				1,239	2,385	619	1,801
Stock-based compensation expense ISO		52	128	312	610	112	437
Stock-based compensation expense NQO			18	186	777	181	412
Milestone bonus expense					1,094	150	
Amortization of intangibles	99	35	21	153	710	76	767
Amortization of finance costs				31	113	22	51
Total pre-tax adjustments	99	87	167	1,921	5,689	1,160	3,468
Tax rate	5.1%	37.4%	37.4%	35.7%	35.9%	35.9%	38.5%
Tax adjustment	5	13	15	574	1,823	376	1,167
Adjusted net income (loss)	$ (780)	$ 3,429	$ 2,434	$ 7,725	$ 18,085	$ 4,830	$ 10,565

See Summary Summary Consolidated Financial Data for definition of adjusted net income.

Table of Contents

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 consolidated financial statements and related notes and the information contained elsewhere in this prospectus under the captions Risk Factors, Selected Consolidated Financial Data and Business. The discussion contains forward-looking statements involving risks, uncertainties and assumptions that could cause our results to differ materially from expectations. Factors that might cause these differences include those described under Risk Factors, Forward-Looking Statements, and elsewhere in this prospectus.

Overview

We believe that based on market share and the number of campuses employing our products, we are a leading provider of technology and payment services to the higher education industry. We believe that none of our competitors can match our ability to provide solutions for higher education institutions financial services needs, including compliance monitoring, and, consequently, that 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 institutional clients include our OneDisburse® Refund Management® disbursement service and our suite of payment transaction products and services. Through our bank partner, we offer our OneAccount service to the students of our higher education institutional clients, which includes an FDIC-insured deposit account, a OneCard, which is a debit MasterCard® ATM card, and other retail banking services.

As of March 31, 2010, 406 campuses serving approximately 2.7 million students had purchased the OneDisburse service and 293 campuses serving approximately 2.2 million students had contracted to use one or more of our payment products and services. We also had approximately 1.2 million OneAccounts.

For the year ended December 31, 2009:

- total revenue was approximately $75.5 million, representing three-year compounded annual growth of approximately 68%;
- adjusted EBITDA was approximately $30.5 million, representing three-year compounded annual growth of approximately 192%;
- adjusted net income was approximately $18.1 million, representing three-year compounded annual growth of approximately 74%; and
- net income was approximately $14.2 million, representing three-year compounded annual growth of approximately 62%.

See Summary Summary Consolidated Financial Data for definitions of EBITDA and adjusted EBITDA and adjusted net income and reconciliations to net income.

In addition, as of December 31, 2009, the number of OneAccounts had increased by a compounded annual growth rate of 69% compared to December 31, 2006.

We expect our growth to continue in the future and that our strategy will continue to offer significant opportunity for expansion. Our growth strategy includes the following elements:

- Expand the number of contracted higher education institutions;

43

Table of Contents

- Increase OneAccount adoption and usage rates;
- Cross-sell our products to existing clients to increase the number of institutions using each product;
- Enhance our products and services to create new sources of revenue; and
- Pursue strategic partnerships and opportunistic acquisitions.

See Business Our Strategy.

Assessing the Performance of our Business

In evaluating our results, we consider a variety of operating and financial measures. The key metrics that we use to determine how our business is performing include: (i) total number of students enrolled at our higher education institutional clients; (ii) number of active OneAccounts; (iii) total revenue; (iv) adjusted EBITDA; (v) adjusted net income; and (vi) net income. See Summary Summary Consolidated Financial Data for definitions of adjusted EBITDA and adjusted net income and reconciliations to net income.

Our primary source of revenue is fees generated from use of OneAccounts. Our historical experience is that fees earned per OneAccount are relatively consistent across the majority of our student and other banking customers. Consequently, the primary factor affecting our revenue is the number of active OneAccounts, which, in turn, is significantly affected by the total number of students enrolled at a higher education institutional client. See Revenue.

In each of the last three years, increases in total revenue combined with decreases in expenses as a percentage of total revenue have caused our adjusted EBITDA, adjusted net income and net income to increase.

Revenue

We derive revenue primarily from fees charged for the transactions that we facilitate for our higher education institutional clients and our banking customers. Most of these fees are charged on a per transaction basis and, accordingly, transaction volumes significantly affect our revenue growth. Transaction volumes are generally a function of the number of students enrolled at each of our higher education institutional clients, as larger student populations lead to greater numbers of active OneAccounts and related banking transactions, as well as other transactions such as OneDisburse-based disbursements and payment transactions.

Generally, we negotiate with our higher education institutional clients the fee rates we charge them. Fees charged to our banking and payment transaction customers are generally set by a schedule and apply unilaterally to all customers. Fees charged for OneAccount services are collected by our bank partner as incurred and subsequently remitted to us. Fees charged on payment transaction are charged as incurred and retained by us, while fees charged in respect of our OneDisburse product are billed to our higher education institutional clients and subsequently collected from them.

We believe our revenue stream is relatively stable, recurring and predictable, as the majority of our revenue each year is generated through existing relationships with higher education institutions and their campus communities. For example, in 2009, excluding revenue generated by our recent acquisition of CASHNet, we generated over 90% of our revenue from contracts signed in prior years. In addition, our experience is that OneAccount, disbursement and payment transaction volumes and patterns are generally similar from one period to another, resulting in a large degree of predictability.

Table of Contents

Our over 97% retention rate since 2003 among our higher education institutional clients, including clients of CASHNet, also helps to ensure a relatively stable, recurring and predictable revenue stream.

We divide our revenue into four categories: account revenue, payment transaction revenue, higher education institution revenue and other revenue.

Account Revenue

We generate revenue from active OneAccounts, which are opened and funded by students and other members of the campus community. The OneAccount offered to our customers has no monthly fee or minimum balance requirement. We earn fees for services based on a fee schedule, including (i) interchange fees; (ii) ATM fees; (iii) non-sufficient fund, or NSF, fees; and (iv) other fees. These fees are either charged by our bank partner and remitted to us or we charge them to our clients directly.

Our bank partner charges merchants interchange fees for point-of-sale, or POS, purchases made with OneCards and remits these fees to us. The amount of the fee generally depends on the size of the transaction, the merchant where the purchase is made and the network through which the transaction is processed.

We earn ATM fees from transactions effected through our ATMs with cards other than OneCards. We also earn fees from ATM transactions effected by OneAccount holders using their OneCards at ATMs outside of our ATM network. In line with current market trends, the per transaction ATM fee that we charge increased from $2.00/transaction to $2.50/transaction on May 1, 2010. We anticipate that this fee increase will both increase total revenue and result in ATM fees contributing a greater proportion to account and total revenue, however, there can be no assurance that such fee increase will be sustained or that our total revenue will increase.

Our bank partner charges NSF fees and remits them to us when OneAccount holders attempt to withdraw or transfer money from their OneAccounts in excess of their deposited funds. These NSF fees are primarily assessed on electronic transfers from, and checks drawn on, accounts in excess of available funds. Historically, our bank partner also assessed these fees on overdrafts on debit card transactions. However, the Federal Reserve Board recently amended Regulation E to limit the ability of financial institutions, effective July 1, 2010, to assess an overdraft fee for paying ATM and one-time debit card transactions that overdraw a consumer s account, unless the consumer affirmatively consents, or opts in, to the institution s payment of overdrafts for these services. In the absence of debit card-related NSF fees, we expect the amount of total NSF fees per OneAccount that our bank partner remits to us to decrease substantially. Although it is difficult to assess the implications of the new regulation before it comes into effect, we expect, based on current practice and technology, that the Federal Reserve Board s amendment to Regulation E will result in a decrease in our total revenue of less than 12%. We expect, however, that this decrease in total revenue will be partially offset by a reduction in our provision for operational losses due to the anticipated reduction in our estimated overdraft liability and the amount of our estimated uncollectible fees. See Notes 2 and 7 to our consolidated financial statements included elsewhere in this prospectus. We also believe that the expected decrease in total revenue will be more than offset in future periods by the increase in the number of OneAccounts and the revenues derived therefrom.

We earn other fees for banking services provided to OneAccount holders, including fees for effecting wire transfers, replacing lost OneCards, processing international transactions, processing stop payment requests, over-the-counter cash withdrawals using OneCards, issuing official checks and electronic bill pay features.

Our historical experience has been that revenue per OneAccount has been generally stable and predictable across periods and that account revenue generally increases proportionally with increases in the number of OneAccounts. Accordingly, the primary influence on account revenue growth has been, and is expected to continue to be, the number of active OneAccounts. Growth in the number

of accounts is tied to growth in the number of students enrolled at our OneDisburse higher education institutional clients, which expands as new clients contract to use this product. For example, of the students at higher education institutions that became OneDisburse clients in 2007, the average percentage of students that maintain OneAccounts increased from 37% in 2007 to 76% in 2009.

The number of OneAccounts has risen in each of the last three years, which has led to a compounded annual growth rate of 74% in account revenue over this period. While we expect the number of OneAccounts to continue to grow in the near-term, there is a possibility that further legislative and regulatory changes will be enacted in the near-term that may reduce account revenue. See Risk Factors Risks Related to Our Business Fees for financial services are subject to increasingly intense legislative and regulatory scrutiny, which could have a material adverse effect on business, financial conditions, results of operations and prospects for future growth.

Payment Transaction Revenue

We generate payment transaction revenue through convenience fees charged to students, parents or other payers who make online payments to our higher education institutional clients through the SmartPay feature of our ePayment product using a credit or debit card. As this fee is assessed on a per transaction basis, growth in payment transaction revenue is primarily influenced by transaction volumes. We acquired ePayment when we purchased CASHNet in November 2009 and believe that due to the convenience it offers payers and the relatively low implementation cost to higher education institutions, it will become increasingly popular among our existing clients, as well as new clients going forward.

Higher Education Institution Revenue

Our higher education institutional clients pay fees for the products and services they purchase from us. We charge our clients: (i) an annual subscription fee based on the size of their student population; (ii) a per-transaction fee; or (iii) a combination of both. For certain payment transaction products, we also charge an implementation fee, which is deferred and recognized over the estimated client relationship period, which we estimate to be five years. Historically, revenue from higher education institutions has been primarily comprised of card and transaction fees related to our OneDisburse product. However, with our acquisition of CASHNet in November 2009, we expect that, based on our results of operations for the first three months of 2010, going forward the composition of our higher education institution revenue will change substantially, with a large proportion of this revenue stream to be derived from our payment products-related revenue. As the change in the composition of higher education institution revenue will be driven primarily by the addition of our recently added CASHNet operations, we do not anticipate the change will materially affect our existing operations.

The number of students enrolled at client institutions and the number of campuses under contract are significant drivers of our higher education institution revenue. As we have expanded the number of our institutional clients over the last three years, our higher education institution revenue has grown by a compounded annual rate of 61%. We expect that assuming our institutional client base grows, our higher education institution revenue will also increase.

Other Revenue

Other revenue consists of two main components: a marketing incentive fee paid by MasterCard International Incorporated based on transaction volumes and new OneCard issuances and processing fees paid by our bank partner based on prevailing interest rates and the total amount of deposits held in our OneAccounts. Because the amount of the processing fee is in part a function of prevailing interest rates, this revenue stream has historically fluctuated in accordance with interest rate movements. Since 2008, fees paid by our bank partner have been relatively small due to low interest rates. If prevailing interest rates rise our processing fee will also increase. Currently, this revenue stream is immaterial to our overall results of operations.

Cost and Expenses

Employee compensation and related expenses represent our largest single expense. We allocate compensation and other related expenses, including stock-based compensation, to product development, sales and marketing and general and administrative expenses. While we expect the number of our employees to increase over time, we believe the economies of scale in our business model will allow us to grow our compensation and related expenses at a lower rate than revenue. We expect that since our products and services are technology enabled, as our business grows, the number of new employees needed to service an expanded clientele will decrease relative to the corresponding increase in revenue due to economies of scale.

Other costs and expenses include outsourced managed hosting, data processing, ATM-related expenses, professional services, office lease payments, travel and amortization and depreciation for hardware and software purchases.

The following summarizes our cost of revenue and certain significant operating expenses:

Cost of Revenue

Cost of revenue consists primarily of data processing expenses, interchange expenses related to SmartPay and ATM transactions, uncollectible fees and write-offs and customer service expenses. These expenses are shared across the different revenue categories and we are not able to meaningfully allocate such costs between separate categories of revenue. Consequently, all costs and expenses applicable to our revenue are included in the cost of revenue category in our statements of operations. These expenses generally move in line with the number of active OneAccounts and transaction volumes for our banking and payment transactions services.

General and Administrative

General and administrative expenses include finance, legal, compliance, facility and administration costs, as well as components of operational costs such as ATM cash services and maintenance, data center costs and costs associated with our information technology. These costs include employee compensation and related expenses, as well as fees for professional services. Following this offering, we expect we will incur additional general and administrative expenses as a result of our obligations to comply with the ongoing obligations of a public company, including the Securities and Exchange Commission s, or the SEC s, ongoing reporting obligations, director and officer liability insurance and other expenses. We also expect other factors affecting general and administrative expenses to increase going forward due to the expected enlargement of our work force and the general growth of our business.

Product Development

Product development expenses include costs associated with defining and specifying new features and ongoing enhancements for our proprietary technology platform and other aspects of our service offerings. Product development costs primarily relate to employee compensation.

Sales and Marketing

Sales and marketing expenses include costs of acquiring new institutional clients and educating their students about our services in order to improve the adoption and usage rates of our OneAccount and our other student-oriented products and services. The majority of our sales and marketing expenses are comprised of employee compensation. Each of our sales representatives earns: (i) a

base salary; (ii) sales commissions, which are earned upon the signing of a contract with a higher education institutional client; and (iii) generally, certain trailing commissions, which are based on account performance. Having nearly doubled the number of our sales and marketing personnel with our acquisition of CASHNet, we expect that beginning in 2010, our sales and marketing expense will increase significantly as a result of increases in employee compensation allocated to this segment. For example, in the first quarter of 2010, our sales and marketing expenses more than doubled compared to the same period in 2009. We do not anticipate this increase to adversely affect our results of operations, as sales and marketing expenses as a percentage of revenue are expected to remain relatively unchanged due to the introduction of CASHNet revenues, as well as growth in the number of OneAccounts.

CASHNet Acquisition

In November of 2009, we acquired Informed Decision Corporation dba CASHNet, a leader in providing cashiering and payment solutions in higher education. This transaction provided us with our suite of payment transaction products and services, the capability to offer our higher education institutional clients a full complement of services and nearly doubled the number of campuses with which we have relationships. In addition, we expect to realize certain short-term operational efficiencies through the combination of administrative functions, while on a long-term basis, the acquisition created an expansive cross-selling opportunity for us, because at the time of the acquisition there was only a 6% overlap of students enrolled at institutions that were clients of both Higher One and CASHNet.

We purchased CASHNet for $27.5 million, which was financed by cash and debt. At closing, we paid an initial payment of $17.6 million that was funded with $9.9 million of available cash and $7.7 million of borrowings under our existing credit line. The remaining non-interest bearing post-closing payment of $10 million is due to the former shareholders in quarterly payments through 2010. As a result of the timing of the transaction and the requirement under our existing credit line that we borrow based an a 30-day LIBOR rate with two business days advanced notice, the actual adjusted purchase price and cash needs were unknown to us in advance, resulting in excess borrowings to ensure we had sufficient cash to close the transaction. We borrowed a total of $17.25 million, resulting in the incurrence of an additional interest expense of $60,000. Our borrowing costs related to the transaction were $74,000 in interest expense on the borrowings under our existing credit line.

In acquiring CASHNet, we purchased its payment transaction suite of products and services, such as ePayment, eBill, MyPaymentPlan, eMarket and Cashiering, which we did not previously offer. Please see Business Products and Services Payment Suite for more information.

For the year ended December 31, 2009, we generated revenue and incurred expenses related to these products and services for 42 days from the date of the acquisition to year end. On a pro forma basis, however, these products and services accounted for substantially all of our payment transaction revenue and approximately half of higher education institution revenue in 2009.

In 2010, we expect that our payment transaction revenue, higher education institution revenue, cost of revenue and other costs and expenses will all increase to reflect a full year of revenue, costs and expenses related to CASHNet. We further expect that going forward, the majority of our payment transaction revenue and higher education institution revenue will be derived from our acquired payment transaction products and services. See Unaudited Pro Forma Condensed Combined Financial Information.

Table of Contents

Results of Operations for the Three Months Ended March 31, 2009 and 2010

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

	Three Months Ended March 31,	
	2009	2010
	(in thousands) (unaudited)	
Account revenue	$ 15,680	$ 30,440
Payment transaction revenue	4	3,844
Higher education institution revenue	1,148	2,677
Other revenue	403	607
Total revenue	17,235	37,568
Cost of revenue	4,740	11,237
Gross margin	12,495	26,331
General and administrative expense	3,678	7,799
Product development expense	517	969
Sales and marketing expense	1,826	3,904
Income from operations	6,474	13,659
Interest and other expense, net	161	229
Interest and other income, net		(1)
Income before income taxes	6,313	13,431
Income tax expense	2,267	5,167
Net income	$ 4,046	$ 8,264

	Three Months Ended March 31,	
	2009	2010
	(% of total revenue)	
Account revenue	91.0%	81.0%
Payment transaction revenue	0.0%	10.2%
Higher education institution revenue	6.7%	7.1%
Other revenue	2.3%	1.6%
Total revenue	100.0%	100.0%
Cost of revenue	27.5%	29.9%
Gross margin	72.5%	70.1%
General and administrative expense	21.3%	20.8%
Product development expense	3.0%	2.6%
Sales and marketing expense	10.6%	10.4%
Income from operations	37.6%	36.5%
Interest and other expense, net	0.9%	0.6%

Interest and other income, net	0.0%	(0.0)%
Income before income taxes	36.7%	35.9%
Income tax expense	13.2%	13.8%
Net income	23.5%	22.1%

Table of Contents

Three Months Ended March 31, 2010 Compared to the Three Months Ended March 31, 2009

Total Revenue

Total revenue increased 118.0%, or $20.3 million, to $37.6 million for the three months ended March 31, 2010 from $17.2 million for the three months ended March 31, 2009. The increase in total revenue was comprised of an increase of 94.1% in account revenue, an increase of 133.2% in higher education institution revenue, an increase of 50.6% in other revenue and the inclusion of $3.8 million of payment transaction revenue, primarily generated from our CASHNet payment transaction products.

Account revenue

Account revenue increased 94.1%, or $14.8 million, to $30.4 million for the three months ended March 31, 2010 from $15.7 million for the three months ended March 31, 2009. The increase in account revenue was primarily due to an increase of 84.0% in the number of OneAccounts compared to the first three months of 2009, which resulted in increases in interchange fees relating to POS purchases made with our OneCards, ATM fees and NSF fees that our bank partner remitted to us. Our historical experience has been that account revenue generated per OneAccount has been generally stable across periods, with total account revenue generally increasing proportionally with increases in the number of OneAccounts.

Payment Transaction Revenue

Payment transaction revenue was $3.8 million for the three months ended March 31, 2010, which was generated primarily from our CASHNet payment transaction products.

Higher Education Institution Revenue

Higher education institution revenue increased 113.2%, or $1.5 million to $2.7 million for the three months ended March 31, 2010 from $1.1 million for the three months ended March 31, 2009. The inclusion of subscription revenue earned on our CASHNet payment transaction product suite accounted for 96.9% of the total increase in higher education institution revenue compared to the same period in 2009. The increase in higher education institution revenue was also due in part to an increase of 34.3% in transaction fees related to our OneDisburse product due mainly to an increase in the number of higher education institutional clients using this product compared to the same period in 2009. These increases were partially offset by a decrease of 4.1% in card fees.

Other Revenue

Other revenue increased 50.6%, or $0.2 million, to $0.6 million for the three months ended March 31, 2010 from $0.4 million for the three months ended March 31, 2009. The increase in other revenue was primarily due to an increase of 53.3% in the marketing incentive fees paid to us by MasterCard due to higher MasterCard issuance incentives and an increase of 25.0% in processing fees that our bank partner paid to us, which resulted primarily from an increase in OneAccount deposits compared to the same period in 2009.

Cost of Revenue

Cost of revenue increased 137.1%, or $6.5 million, to $11.2 million for the three months ended March 31, 2010 from $4.7 million for the three months ended March 31, 2009. This increase was comprised of an increase of $1.4 million or 93.9% in data processing expenses, an increase of $1.3 million or 131.6% in uncollectible fees and write-offs, an increase of $0.7 million or 91.4% in customer service expenses and an increase of $0.1 million or 41.8% in card issuance expenses, which were partially offset by a decrease of $0.1 million or 11.6% in interchange expenses. The growth in these expenses was primarily due to an increase of 84.0% in the number of active OneAccounts and a

related increase in transaction volume for our banking services. The inclusion of costs related to our payment transaction products and services accounted for $3.0 million or 45.7% of the total increase in cost of revenues.

General and Administrative Expense

General and administrative expense increased 112.0%, or $4.1 million, to $7.8 million for the three months ended March 31, 2010 from $3.7 million for the three months ended March 31, 2009. The increase in general and administrative expense was primarily due to increases of $1.7 million or 85.3% and $0.5 million or 190.2% in employee compensation and stock-based compensation, respectively. The compensation expenses related to CASHNet employees accounted for $1.0 million of the increase in employee compensation costs.

Product Development Expense

Product development expense increased 87.4%, or $0.5 million, to $1.0 million for the three months ended March 31, 2010 from $0.5 million for the three months ended March 31, 2009. The increase in product development expense was primarily due to an increase of $0.6 million or 146.9% in costs related to employee compensation allocated to product development expense. The compensation expenses related to CASHNet employees accounted for $0.3 million of the increase in employee compensation costs.

Sales and Marketing Expense

Sales and marketing expense increased 113.8%, or $2.1 million, to $3.9 million for the three months ended March 31, 2010 from $1.8 million for the three months ended March 31, 2009. The increase in sales and marketing expense was primarily due to an increase of $1.0 million or 140.7% in costs related to employee compensation allocated to sales and marketing expense and an increase of $1.1 million or 191.1% in the non-cash, stock-based sales acquisition expense related to the vesting of certain shares held by Kevin Jones during the three months ended March 31, 2010. The compensation expenses related to CASHNet employees accounted for $0.4 million of the increase in employee compensation costs.

Net Income

Net income increased 105.6%, or $4.3 million, to $8.3 million for the three months ended March 31, 2010 from $4.0 million for the three months ended March 31, 2009. The increase in net income was primarily due to increases of 94.1% and 133.2% in account revenue and higher education institution revenue, respectively, during the three months ended March 31, 2010, as well as the inclusion of $3.8 million in payment transaction revenue generated by our payment transaction products and services. These increases were partially offset by increases of $6.5 million, $4.1 million, $0.5 million and $2.1 million in costs of revenue, general and administrative expense, product development expense and sales and marketing expense, respectively.

Table of Contents

Results of Operations for the Years Ended December 31, 2007, 2008 and 2009

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:

	Year Ended December 31,		
	2007	2008	2009
	(in thousands)		
Account revenue	$ 22,458	$ 37,570	$ 66,440
Payment transaction revenue		29	1,688
Higher education institution revenue	1,907	3,220	5,135
Other revenue	3,613	3,187	2,254
Total revenue	27,978	44,006	75,517
Cost of revenue	11,140	16,302	24,440
Gross margin	16,838	27,704	51,077
General and administrative expense	8,507	11,725	18,143
Product development expense	1,148	1,629	2,287
Sales and marketing expense	2,970	4,399	7,966
Income from operations	4,213	9,951	22,681
Interest and other expense, net	860	412	558
Interest and other income, net	(291)	(386)	(21)
Income before income taxes	3,644	9,925	22,144
Income tax expense	1,362	3,547	7,925
Net income	$ 2,282	$ 6,378	$ 14,219

	Year Ended December 31,		
	2007	2008	2009
	(% of total revenue)		
Account revenue	80.3%	85.4%	88.0%
Payment transaction revenue	0.0%	0.1%	2.2%
Higher education institution revenue	6.8%	7.3%	6.8%
Other revenue	12.9%	7.2%	3.0%
Total revenue	100.0%	100.0%	100.0%
Cost of revenue	39.8%	37.0%	32.4%
Gross margin	60.2%	63.0%	67.6%
General and administrative expense	30.4%	26.6%	24.0%
Product development expense	4.1%	3.7%	3.0%
Sales and marketing expense	10.6%	10.0%	10.5%
Income from operations	15.1%	22.7%	30.1%
Interest and other expense, net	3.1%	0.9%	0.7%
Interest and other income, net	(1.0)%	(0.9)%	(0.0)%
Income before income taxes	13.0%	22.7%	29.4%
Income tax expense	4.9%	8.1%	10.5%

Net income	8.1%	14.6%	18.9%

Table of Contents

Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

Total Revenue

Total revenue increased 72%, or $31.5 million, to $75.5 million for the year ended December 31, 2009 from $44.0 million for the year ended December 31, 2008. The increase in total revenue was comprised of an increase of 76.8% in account revenue and an increase of 59.5% in higher education institution revenue, which were partially offset by a decrease of 29.3% in other revenue. Payment transaction revenue was $1.7 million for the year ended December 31, 2009, which was primarily generated by the inclusion of 42 days of CASHNet revenue.

Account revenue

Account revenue increased 76.8%, or $28.9 million, to $66.4 million for the year ended December 31, 2009 from $37.6 million for the year ended December 31, 2008. The increase in account revenue was primarily due to an increase of 81.2% in the number of OneAccounts compared to the previous year, which resulted in increases in interchange fees that our bank partner remitted to us and relating to POS purchases made with our OneCards, ATM fees and NSF fees that our bank partner remitted to us.

Payment Transaction Revenue

Payment transaction revenue was $1.7 million for the year ended December 31, 2009, which was primarily generated by the inclusion of 42 days of revenue generated by our CASHNet payment transaction products from the consummation of the acquisition in November 2009 to year end. See CASHNet Acquisition.

Higher Education Institution Revenue

Higher education institution revenue increased 59.5%, or $1.9 million, to $5.1 million for the year ended December 31, 2009 from $3.2 million for the year ended December 31, 2008. The increase in higher education institution revenue was primarily due to an increase of 33.1% in card fees and an increase of 55.3% in transaction fees related to our OneDisburse product due mainly to an increase in the number of higher education institutional clients using this product compared to the previous year. The inclusion of 42 days of revenue generated by the payment transaction products and services that we acquired when we purchased CASHNet in November 2009 also accounted for 33.7% of the total increase in higher education institution revenue.

Other Revenue

Other revenue decreased 29.3%, or $0.9 million, to $2.3 million for the year ended December 31, 2009 from $3.2 million for the year ended December 31, 2008. The decrease in other revenue was primarily due to a decrease of 83.5% in the processing fees that our bank partner pays to us caused by a decline in prevailing interest rates during the year ended December 31, 2009. This decrease was partially offset by an increase of 64.4% in the marketing incentive fees that MasterCard paid to us.

Cost of Revenue

Cost of revenue increased 49.9%, or $8.1 million, to $24.4 million for the year ended December 31, 2009 from $16.3 million for the year ended December 31, 2008. This increase was comprised of an increase of $1.7 million or 32.5% in data processing expenses, an increase of $0.8 million or 48.9% in interchange expenses, an increase of $1.2 million or 24.3% in uncollectible fees and write-offs, an increase of $1.8 million or 84.6% in customer service expenses and an increase of $0.6 million or 33.3% in card issuance expenses. The growth in these expenses was primarily due to an increase of 81.2% in the number of active OneAccounts and the related increase in transaction

volume for our banking services. The inclusion of 42 days of costs related to our recently acquired payment transaction products and services accounted for $1.4 million or 17.1% of the total increase in cost of revenue.

General and Administrative Expense

General and administrative expense increased 54.7%, or $6.4 million, to $18.1 million for the year ended December 31, 2009 from $11.7 million for the year ended December 31, 2008. The increase in general and administrative expense was primarily due to an increase of $1.7 million or 28.8% in employee compensation and an increase of $0.8 million or 210.7% in fees for professional services during the year ended December 31, 2009, which increased in part as a result of the inclusion of 42 days of expenses related to our recently acquired payment transaction products and services, as well as an increase of $0.9 million or 178.5% in stock-based compensation.

Product Development Expense

Product development expense increased 40.4%, or $0.7 million, to $2.3 million for the year ended December 31, 2009 from $1.6 million for the year ended December 31, 2008. The increase in product development expense was primarily due to an increase of $0.7 million or 40.4% in costs related to employee compensation allocated to product development expense during the year ended December 31, 2009.

Sales and Marketing Expense

Sales and marketing expense increased 81.1%, or $3.6 million, to $8.0 million for the year ended December 31, 2009 from $4.4 million for the year ended December 31, 2008. The increase in sales and marketing expense was primarily due to an increase of $1.9 million or 82.5% in costs related to employee compensation allocated to sales and marketing expense and an increase of $1.1 million or 92.4% in the non-cash expense related to the vesting of certain shares held by Kevin Jones during the year ended December 31, 2009.

Net Income

Net income increased 123.0%, or $7.8 million, to $14.2 million for the year ended December 31, 2009 from $6.4 million for the year ended December 31, 2008. The increase in net income was primarily due to an increase of 76.8% in account revenue and an increase of 59.5% in higher education institution revenue during the year ended December 31, 2009. In addition, the increase in net income for the year was partially the result of the $1.7 million payment transaction revenue generated by our recently acquired payment transaction products and services. These increases were partially offset by an increase of $8.1 million in costs of revenue, an increase of $6.4 million in general and administrative expense, an increase of $0.7 million in product development expense and an increase of $3.6 million in sales and marketing expense and during the year ended December 31, 2009. The increase in net income was also partially offset by an increase in income tax expense of $4.4 million resulting from an increase in taxable income in 2009, an increase in interest and other expense, net of $0.1 million resulting from increased borrowings under our Credit Facility and a decrease in interest and other income of $0.4 million resulting from a gain on capital lease buyouts from 2008 that did not recur in 2009.

Year Ended December 31, 2008 Compared to Year Ended December 31, 2007

Total Revenue

Total revenue increased 57.3%, or $16.0 million, to $44.0 million for the year ended December 31, 2008 from $28.0 million for the year ended December 31, 2007. The increase in total

revenue was comprised of an increase of 67.3% in account revenue and an increase of 68.9% in higher education institution revenue, which were partially offset by a decrease of 11.8% in other revenue.

Account revenue

Account revenue increased 67.3%, or $15.1 million, to $37.6 million for the year ended December 31, 2008 from $22.5 million for the year ended December 31, 2007. The increase in account revenue was primarily due to an increase of 54.3% in the number of OneAccounts compared to the previous year, which resulted in an increase in interchange fees that our bank partner remitted to us, an increase in ATM fees and an increase in NSF fees that our bank partner remitted to us.

Payment Transaction Revenue

In the year ended December 31, 2008, we recorded a de minimus amount of payment transaction revenue related to fees generated by a pilot payment transaction product. We discontinued marketing this product in 2009, when we replaced it with CASHNet s products and services. See CASHNet Acquisition.

Higher Education Institution Revenue

Higher education institution revenue increased 68.9%, or $1.3 million, to $3.2 million for the year ended December 31, 2008 from $1.9 million for the year ended December 31, 2007. The increase in higher education institution revenue was primarily due to an increase of 40.4% in card fees and an increase of 63.3% in transaction fees related to our OneDisburse product due mainly to an increase in the number of higher education institutional clients using this product compared to the previous year.

Other Revenue

Other revenue decreased 11.8%, or $0.4 million, to $3.2 million for the year ended December 31, 2008 from $3.6 million for the year ended December 31, 2007. The decrease in other revenue was primarily due to a decrease of 28.7% in the processing fees that our bank partner paid to us caused by a decline in prevailing interest rates during the year ended December 31, 2008. This decrease was partially offset by an increase of 42.0% in the marketing incentive fees that MasterCard paid to us.

Cost of Revenue

Cost of revenue increased 46.3%, or $5.2 million, to $16.3 million for the year ended December 31, 2008 from $11.1 million for the year ended December 31, 2007. This increase was comprised of an increase of $1.1 million or 28.2% in data processing expenses, an increase of $0.2 million or 15.9% in interchange expenses, an increase of $2.4 million or 91.8% in uncollectible fees and write-offs, an increase of $0.8 million or 54.9% in customer service expenses and an increase of $0.6 million or 48.2% in card fulfillment expenses. The growth in these expenses was primarily due to an increase of 54.3% in the number of OneAccounts and a related increase in transaction volume for our banking services during the year ended December 31, 2008.

General and Administrative Expense

General and administrative expense increased 37.8%, or $3.2 million, to $11.7 million for the year ended December 31, 2008 from $8.5 million for the year ended December 31, 2007. The increase in general and administrative expense was primarily due to an increase of $1.1 million or 24.5% in employee compensation, an increase of $0.4 million or 240.8% in stock-based compensation, offset by a decrease of $0.1 million or 22.9% in fees for professional services during the year ended December 31, 2008.

Product Development Expense

Product development expense increased 41.9%, or $0.5 million, to $1.6 million for the year ended December 31, 2008 from $1.1 million for the year ended December 31, 2007. The increase in product development expense was primarily due to an increase of $0.5 million or 41.9% in costs related to employee compensation allocated to product development expense during the year ended December 31, 2008.

Sales and Marketing Expense

Sales and marketing expense increased 48.1%, or $1.4 million, to $4.4 million for the year ended December 31, 2008 from $3.0 million for the year ended December 31, 2007. The increase in sales and marketing expense was primarily due to an increase of $0.1 million or 6.0% in costs related to employee compensation allocated to sales and marketing expense. The increase was also due to $1.2 million in non-cash expense related to the vesting of certain shares held by Kevin Jones during the year ended December 31, 2008.

Net Income

Net income increased 179.5%, or $4.1 million, to $6.4 million for the year ended December 31, 2008 from $2.3 million for the year ended December 31, 2007. The increase in net income was primarily due to an increase of $15.1 million or 67.3% in account revenue and an increase of $1.3 million or 68.9% in higher education institution revenue during the year ended December 31, 2008, which were partially offset by an increase of $5.2 million or 46.3% in costs of revenue, an increase of $0.5 million or 41.9% in product development expense, an increase of $1.4 million or 48.1% in sales and marketing expense and an increase of $3.2 million or 37.8% in general and administrative expense during the year ended December 31, 2008. The increase in net income for the year ended December 31, 2008 was also partially due to a decrease in interest and other expense, net of $0.4 million from the buyout of capital leases and an increase in interest and other income, net of $0.1 million resulting from bank interest on operating cash reserves, partially offset by an increase in income tax expense of $2.2 million resulting from an increase in taxable income in 2008.

Quarterly Results of Operations and Seasonality

Our revenue fluctuates as a result of seasonal factors related to the academic year. A large proportion of our revenue is either directly or indirectly dependent on academic financial aid received by students. Higher education institutional clients typically disburse financial aid refunds to students at the start of each academic semester. Distribution of financial aid disbursements through our OneDisburse service indirectly generates revenue through deposits of financial aid into OneAccounts, which generates account revenue, and directly generates revenue through our higher education institution clients use of the OneDisburse service, which generates higher education institution revenue.

While revenue fluctuates over the course of the year, our fixed expenses remain relatively constant, resulting in wide disparities in our adjusted net income and net income from quarter to quarter. Accordingly, in 2009, the second quarter accounted for the smallest proportion of our revenue but an equal proportion of our expenses, which resulted in only minor second quarter income. This is primarily because the majority of financial aid is disbursed at other times of the year and higher education institutions tend to enroll fewer new students in the second fiscal quarter. We expect that this trend will continue going forward.

The following tables set forth our unaudited quarterly results of operations for 2009 and for the quarter ended March 31, 2010. The information for each of these periods has been prepared on the same basis as the audited financial statements included elsewhere in this prospectus. This information

includes all adjustments, which consist only of normal and recurring adjustments, management considers necessary for the fair presentation of such data. This data should be read in conjunction with the audited financial statements included elsewhere in this prospectus. The results of operations for historical periods are not necessarily indicative of results for any future period.

	2009 Quarter Ended					2010 Quarter Ended
	Mar. 31,	June 30,	Sept. 30,	Dec. 31,	Total	Mar. 31,
	(unaudited) (in thousands)					
Total revenue	$ 17,235	$ 12,464	$ 20,503	$ 25,315	$ 75,517	$ 37,568
Net income	4,046	413	4,793	4,967	14,219	8,264
Adjusted EBITDA(1)	8,106	2,997	9,077	10,336	30,516	17,935
Adjusted net income(2)	4,830	1,549	5,528	6,178	18,085	10,565

	2009 Quarter Ended			
	Mar. 31,	June 30,	Sept. 30,	Dec. 31,
	(unaudited) (% of annual amount)			
Total revenue	22.8%	16.5%	27.2%	33.5%
Net income	28.5%	2.9%	33.7%	34.9%
Adjusted EBITDA(1)	26.6%	9.8%	29.7%	33.9%
Adjusted net income(2)	26.7%	8.6%	30.6%	34.2%

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

	2009 Quarter Ended					2010 Quarter Ended
	Mar. 31,	June 30,	Sept. 30,	Dec. 31,	Total	Mar. 31,
	(unaudited) (in thousands)					
Net income	$ 4,046	$ 413	$ 4,793	$ 4,967	$ 14,219	$ 8,264
Interest income		(1)	(1)	(2)	(4)	(1)
Interest expense	161	120	113	164	558	229
Income tax expense	2,267	252	2,596	2,810	7,925	5,167
Depreciation and amortization	570	684	633	1,082	2,969	1,626
EBITDA	7,044	1,468	8,134	9,020	25,667	15,285
Other income				(17)	(17)	
Stock-based customer acquisition expense	619	1,050	227	489	2,385	1,801
Stock-based compensation expense	293	329	341	424	1,387	849
Milestone bonus	150	150	375	419	1,094	
Adjusted EBITDA	$ 8,106	$ 2,997	$ 9,077	$ 10,336	$ 30,516	$ 17,935

See Summary Summary Consolidated Financial Data for definition of EBITDA and adjusted EBITDA.

Table of Contents

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

	2009 Quarter Ended					2010 Quarter Ended
	Mar. 31,	June 30,	Sept. 30,	Dec. 31,	Total	Mar. 31,
			(unaudited) (in thousands)			
Net income	$ 4,046	$ 413	$ 4,793	$ 4,967	$ 14,219	$ 8,264
Stock-based customer acquisition expense	619	1,050	227	489	2,385	1,801
Stock-based compensation expense ISO	112	140	152	206	610	437
Stock-based compensation expense NQO	181	189	189	218	777	412
Milestone bonus expense	150	150	375	419	1,094	
Amortization of intangibles	76	143	86	405	710	767
Amortization of finance costs	22	22	32	37	113	51
Total pre-tax adjustments	1,160	1,694	1,061	1,774	5,689	3,468
Tax rate	35.9%	35.9%	35.9%	35.9%	35.9%	38.5%
Tax adjustment	376	558	326	563	1,823	1,167
Adjusted net income	$ 4,830	$ 1,549	$ 5,528	$ 6,178	$ 18,085	$ 10,565

See Summary Summary Consolidated Financial Data for definition of adjusted net income.

Liquidity and Capital Resources

Sources of Liquidity

Our primary sources of liquidity are cash flows from operations and borrowings under our Credit Facility. As of March 31, 2010, we had $10.6 million in cash and cash equivalents and $14.5 million available under our Credit Facility. Our primary liquidity requirements are for working capital, capital expenditures, product development expenses and general corporate needs. As of March 31, 2010, we had negative working capital of $19.8 million, which resulted primarily from the $10.5 million of outstanding borrowings under our Credit Facility and the $8.0 million acquisition payable related to our post-closing obligations under the CASHNet stock purchase agreement dated November 19, 2009.

We intend to use $ million of the net proceeds we receive from this offering for the repayment of amounts outstanding under our Credit Facility, and $ million to satisfy our post-closing obligations under the CASHNet stock purchase agreement. We intend to use the remaining net proceeds we receive from this offering to further our strategic objectives and for general corporate purposes. See Use of Proceeds.

Senior Secured Revolving Credit Facility

Higher One, Inc. entered into a senior secured revolving credit facility dated as of August 26, 2008 that was subsequently amended as of July 15, 2009 and November 19, 2009. We refer to the credit facility, as amended, as the Credit Facility. Higher One, Inc. is the borrower under the Credit Facility and each of Higher One Holdings, Inc. and Higher One Machines, Inc. guaranteed Higher One, Inc. s obligations thereunder. We refer to these guarantors, together with Higher One, Inc., as the Loan Obligors.

Table of Contents

Higher One, Inc. has the option to increase the current $25 million amount available under the Credit Facility to up to $50 million. The Credit Facility is also secured by a perfected first priority security interest in all of the capital stock of Higher One, Inc. and Higher One Machines, Inc. and substantially all of each Loan Obligor s tangible and intangible assets, other than intellectual property. Each of the Loan Obligors has also granted to the administrative agent under the Credit Facility a negative pledge of the intellectual property of Higher One, Inc. and Higher One Machine, Inc., including patents and trademarks that are pending and are acquired in the future.

As of March 31, 2010, Higher One, Inc. had $10.5 million outstanding under the Credit Facility. The loans drawn under the Credit Facility are payable in a single maturity on December 31, 2010.

Amounts outstanding under the Credit Facility accrue interest at a rate equal to the adjusted Eurodollar rate plus a margin of between 1.75% and 3.75% per annum (depending on Higher One, Inc. s funded debt to EBITDA ratio). Interest is payable on the last day of each interest period selected by Higher One, Inc. under the Credit Facility and, in any event, at least quarterly. The average effective interest rates on the loans drawn under the Credit Facility for the year ended December 31, 2009 was 2.4%.

In addition, Higher One, Inc. pays a commitment fee equal to 0.25% on the daily average undrawn portion of revolving commitments under the Credit Facility, which accrues and is payable quarterly in arrears. If the loans that are drawn and outstanding are equal to or less than the total revolving commitments, then the applicable commitment fee rate increases to 0.375%. Higher One, Inc. also pays certain agent fees.

The Credit Facility contains certain affirmative covenants including, among other things, 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 Higher One, Inc. s ability, subject to certain exceptions, to incur additional indebtedness, grant liens on its assets, undergo fundamental changes, make investments, sell assets, make restricted payments, change the nature of its business and engage in transactions with its affiliates.

In addition, the Credit Facility contains certain financial covenants that require Higher One, Inc. to maintain certain liquidity levels, a funded debt to EBITDA ratio not to exceed 2.00 to 1.00, an interest coverage ratio of at least 3.50 to 1.00 and a debt service coverage ratio of at least 1.25 to 1.00.

As of March 31, 2010, Higher One, Inc. was in compliance with all covenants under the amended Credit Facility.

Cash Flows

The following table presents information regarding our cash flows, cash and cash equivalents for the years ended December 31, 2007, 2008 and 2009:

	Year Ended December 31,			Three Months Ended March 31,	
	2007	**2008**	**2009**	**2009**	**2010**
		(in thousands)		**(unaudited)**	
Net cash provided by (used for)					
Operating activities	$ 4,368	$ 9,962	$ 20,656	$ 5,698	$ 17,326
Investing activities	(179)	(3,340)	(18,731)	(274)	(2,878)
Financing activities	(204)	(14,889)	(74)	(3,495)	(7,166)
Increase (decrease) in cash and cash equivalents	3,985	(8,267)	1,851	1,929	7,282
Cash and cash equivalents, end of period	$ 9,755	$ 1,488	$ 3,339	$ 3,417	$ 10,621

Table of Contents

Operating Activities

Net cash provided by operating activities was $17.3 million for the three months ended March 31, 2010 compared to $5.7 million for the three months ended March 31, 2009. The $11.6 million increase was primarily comprised of an increase of $4.2 million in net income and a $7.4 million increase in adjustments to reconcile net income to net cash, including a $1.1 million increase in depreciation and amortization and stock-based sales acquisition expense, and a $5.4 million increase in accrued expenses. Net cash provided by operating activities was $20.7 million for the year ended December 31, 2009 compared to $10.0 million for the year ended December 31, 2008. The $10.7 million increase from 2008 to 2009 was primarily comprised of an increase of $7.8 million in net income, an increase of $1.5 million in depreciation and amortization, a decrease of $1.6 million in income receivable, an increase of $1.1 million in stock-based customer acquisition expense and an increase of $0.9 million in stock-based compensation, which were partially offset by a deferred income tax benefit of $0.8 million in 2009 compared to a deferred income tax expense of $1.8 million in 2008. The increase in depreciation and amortization was primarily attributable to increased tangible and intangible asset purchases and increased deferred implementation costs, the decrease in income receivable was attributable to an increase in our receipt of cash owed to us, the increase in stock-based customer acquisition expense was primarily attributable to increased vesting of certain shares acquired by Kevin Jones in connection with our acquisition of EduCard in 2008, and the increase in stock-based compensation was primarily attributable to an increase in the strike price of options and additional grants of options. The income tax benefit in 2009 was primarily the result of the increased vesting of certain shares acquired by Kevin Jones described above.

Net cash provided by operating activities was $10.0 million for the year ended December 31, 2008 compared to $4.4 million for the year ended December 31, 2007. The $5.6 million increase from 2007 to 2008 was primarily comprised of an increase of $4.1 million in net income, an increase of $1.6 million in accrued expenses and a stock-based customer acquisition expense of $1.2 million in 2008 compared to none in 2007, which were partially offset by an increase of $0.8 million in income receivable and an increase of $0.8 million in deferred costs. The increase in accrued expenses was primarily attributable to increased data processing costs as a result of increased revenues and increased compensation costs. The stock-based customer acquisition expense in 2008 was related to the grant and vesting of certain shares acquired by Kevin Jones described above. The increase in income receivable was primarily attributable to an increase in the marketing incentive fees that MasterCard paid to us and the increase in deferred costs was primarily attributable to an increase in the number of higher education institutional clients compared to the previous year.

Investing Activities

Net cash used for investing activities was $2.9 million for the three months ended March 31, 2010 compared to $0.3 million for the same period in 2009. Net cash used for investing activities for the three months ended March 31, 2010 related to our additional payments related to our acquisition of CASHNet and our purchase of fixed assets, net of disposals, including computers, software and ATM equipment. Net cash used for investing activities was $18.7 million for the year ended December 31, 2009, $3.3 million for the year ended December 31, 2008 and $0.2 million for the year ended December 31, 2007. Net cash used for investing activities for 2009 primarily related to our acquisition of CASHNet in November 2009, as well as our purchase of fixed assets, including computers, software and ATM equipment. Net cash used for investing activities for 2008 primarily related to our acquisition of EduCard in June 2008, as well as our purchase of fixed assets, net of disposals, including computers, software and ATM equipment. We did not have any significant investing activities in 2007.

We expect that our capital expenditures for 2010 will be approximately $6.7 million, related primarily to computer and phone equipment, as well as ATM equipment. We believe that our cash flow

from operations, together with our existing liquidity sources and the net proceeds from this offering, will be sufficient to fund our operations and anticipated capital expenditures over at least the next 24 months.

Financing Activities

Net cash used in financing activities was $7.2 million for the three months ended March 31, 2010 compared to $3.5 million during the same period of 2009. Net cash used in financing activities for the three months ended March 31, 2010 primarily related to the reduction of outstanding debt under our credit facility, which was partially offset by proceeds received from the exercise of employee stock option. Net cash used in financing activities was less than $0.1 million for the year ended December 31, 2009, $14.9 million for the year ended December 31, 2008 and $0.2 million for the year ended December 31, 2007. Net cash used in financing activities for 2009 primarily related to repayments under our Credit Facility, partially offset by proceeds from the issuance of debt and from notes payable relating to borrowings under this Credit Facility. Net cash used in financing activities for 2008 primarily related to the completion of our tender offer to purchase certain outstanding capital stock in August 2008, which was partially offset by the proceeds from our sale of preferred stock in August 2008 and borrowings under our Credit Facility. We did not have any significant financing activities in 2007.

Contractual Obligations

The following table summarizes our contractual obligations as of March 31, 2010 and the effect such obligations are expected to have on our liquidity and cash flows in future periods.

		Payments Due by Period			
	Total	Less Than 1 Year	1 to 3 Years	3 to 5 Years	5+ Years
	(in thousands)				
Long-term debt obligations(1)(2)	$ 10,500	$ 10,500	$ 0	$ 0	$ 0
Operating lease obligations(3)	1,633	1,094	537	2	0
Total contractual obligations(4)	$ 12,133	$ 11,594	$ 537	$ 2	$ 0

(1) As of March 31, 2010, we had $10.5 million outstanding under our Credit Facility. The loans drawn under the Credit Facility are payable in a single maturity on December 31, 2010. We intend to use $ million of the net proceeds of this offering for the repayment of the amounts outstanding under our Credit Facility.

(2) Excludes estimated interest payments on amounts outstanding under the Credit Facility, which accrue interest at a rate equal to the adjusted Eurodollar rate plus a margin of between 1.75% and 3.75% per annum (depending on Higher One, Inc. s funded debt to EBITDA ratio). The average effective interest rate on the loans drawn under the Credit Facility for the year ended December 31, 2009 was 2.4%.

(3) We lease certain property in New Haven, Connecticut and Alameda, California under non-cancelable operating leases. The lease in New Haven is currently due to expire on July 31, 2011 and the lease in Alameda is due to expire on April 30, 2010. The leases generally contain renewal provisions for varying periods of time. We have extended the lease in Alameda to July 31, 2010, at which time we intend to relocate the office to another location in Alameda or Oakland, California.

(4) Excludes the use of $ million of the net proceeds of this offering that we intend to use to satisfy our post-closing obligations under the CASHNet stock purchase agreement dated November 19, 2009.

Table of Contents

Off-Balance Sheet Arrangements

We are not a party to any off-balance sheet arrangements.

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 an adjusted Eurodollar rate plus a margin of between 1.75% and 3.75% per annum (depending on Higher One, Inc. s funded debt to EBITDA ratio). The average effective interest rate on the loans drawn under the Credit Facility for the year ended December 31, 2009 was 2.4%. Based upon a sensitivity analysis at January 1, 2010, assuming average outstanding borrowings during the year ended December 31, 2010 of $10.0 million, a hypothetical 50 basis point increase in interest rates would result in an increase in interest expense of $0.05 million.

In addition, we receive processing fees paid from our bank partner, based on prevailing interest rates and the total deposits held in our OneAccounts. Since 2008, fees paid by our bank partner have been relatively small because of depressed interest rates. A change in interest rates would affect the amount of processing fees that we earn and therefore would have an effect on our revenue, cash flows and results of operations.

Critical Accounting Policies

Provision for Operational Losses

We have entered into an agreement with The Bancorp Bank to hold all deposit accounts opened by OneAccount holders. Although those deposit funds are held by The Bancorp Bank, we are liable to the bank for any uncollectible accountholder overdrafts and any other losses due to fraud or theft. We provide reserves for our estimated overdraft liability and our estimated uncollectible fees to The Bancorp Bank. The provision for these reserves is included within the costs of revenue on the consolidated financial statements included in this prospectus. Such reserve is based upon an analysis of outstanding overdrafts and historical repayment rates. For the years ended December 31, 2007, 2008 and 2009, we provided for additional reserves for operational losses related to uncollectible accountholder overdrafts of $2.6 million, $4.6 million and $5.5 million, respectively. If the financial condition of the accountholders were to deteriorate, thereby reducing their ability to make payments, additional reserves would be required.

Goodwill and Intangible Assets

Goodwill represents costs in excess of the fair value of consideration transferred over the fair values assigned to the underlying net identifiable assets of acquired businesses. Annual impairment testing of goodwill is assessed in accordance with ASC 350, Intangibles Goodwill and Other, or ASC 350, which compares carrying values of the reporting units to fair values and, when appropriate, the carrying value of these assets is reduced to fair value.

Our goodwill balance is entirely attributable to our acquisition of CASHNet on November 19, 2009. As there were no significant changes to the business that occurred during the period between the acquisition date and the March 31, 2010 balance sheet date, we did not consider that a goodwill impairment analysis was necessary. In future periods, we will perform an annual goodwill impairment analysis as of October 31, or whenever events or changes in circumstances indicate that an impairment may have occurred.

Table of Contents

Reporting units are determined in accordance with ASC 280 Segment Reporting and ASC 350 Intangibles Goodwill and Other . We evaluate reporting units by first identifying their operating segments under ASC 280. We then evaluate each operating segment to determine if it includes one or more components that constitute a business. If there are components within an operating segment that meet the definition of a business, those components must be evaluated to determine if they must be aggregated into one or more reporting units. When determining if it is appropriate to aggregate a newly acquired operating segment with our existing operating segment, we evaluate the seller s historical results for the newly acquired company and its future prospects. This evaluation generally includes the newly acquired operating segment s budget and the actions that our management expects to take with respect to the recently acquired operating segment, as well as an evaluation of the likelihood that such actions will be implemented. If, after evaluating the future prospects, we determine that the two segments are economically similar within a reasonable period of time, the two operating segments would be aggregated.

Impairment may result from, among other things, deterioration in the performance of the acquired business, adverse market conditions, adverse changes in applicable laws or regulations, including changes that restrict the activities of the acquired business, and a variety of other circumstances. Actual cash flows arising from a particular reporting unit could vary from projected cash flows, which could imply different carrying values from those established at the date of acquisition, and which could result in impairment of such assets. If it is determined that an impairment has occurred, we would record a write-down of the carrying value and charge the impairment as an operating expense in the period the determination is made. During 2008 and 2009, we were not required to record any impairment on goodwill or indefinite-lived intangibles. As of December 31, 2009, there are no reporting units that are at risk of failing step one of the goodwill impairment test.

Stock-Based Compensation

We account for stock-based compensation expense in accordance with FASB ASC 718, *Compensation Stock Compensation* , or ASC 718, which requires the measurement and recognition of compensation expense for share-based awards based on the estimated fair value on the date of grant. The fair value of each option is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions for stock options granted during the years ended December 31, 2007, 2008 and 2009 and the three months ended March 2010:

	2007	2008	2009	Three Months Ended 3/31/10
Expected term(1)	6.0 6.5 years	6.3 6.5 years	5.8 6.3 years	6.2 6.3 years
Expected volatility(2)	28.6%	40.2%	50.7%	51.7%
Risk-free rate(3)	4.4% - 5.0%	2.4% - 3.4%	2.2% - 3.2%	3.0%
Expected dividends(4)	None	None	None	None

(1) Expected term is the period of time that the equity grants are expected to remain outstanding. We calculate the expected life of the options as prescribed under the provisions of ASC 718. We generally use the midpoint between the end of the vesting period and the contractual life of the grant to estimate option exercise timing.

(2) Expected volatility is a measure of the amount by which a financial variable such as a share price has fluctuated (historical volatility) or is expected to fluctuate (expected volatility) during a period. We based our estimated volatility on the historical volatility of a peer group of publicly traded companies, which includes companies that are in the same industry or are competitors.

(3) Risk-free rate is the average U.S. Treasury rate at the time of grant having a term that most closely approximates the expected term of the option.

(4) We have never declared or paid dividends on our common stock and do not anticipate paying dividends in the foreseeable future.

These options expire ten years from the date of grant. Options for our employees vest over periods ranging from one month to five years, with the majority vesting as follows: one-fifth of the granted options vest one year from the date of grant; the remaining four-fifths vest at a rate of 1/48 per month over the remaining four years of the vesting period. The board grants primarily incentive stock options, but occasionally grants nonqualified stock options to key members of management.

The amount of stock based compensation expense we recognize during a period is based on the portion of the awards that are ultimately expected to vest. We estimate option forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates.

Restricted stock is a stock award that entitles the holder to receive shares of our common stock as the award vests over time. The board has not granted restricted stock awards prior to 2009 when it granted a total of 43,344 shares to its executive officers. These awards vest over four years starting on the first anniversary of the grant. The fair value of each restricted stock award is estimated using the intrinsic value method that is based on the fair value price on the date of grant. Compensation expense for restricted stock awards is recognized ratably over the vesting period on a straight-line basis.

Generally, employees have received stock option grants when joining the company and then may have received periodic awards thereafter in the discretion of the board, although the timing of additional awards has previously not been made according to any established policy. The board intended all options to be granted with an exercise price equal to or greater than the per share fair value of our common stock underlying those options on the date of grant. On each of the grant dates during 2007, 2008, 2009 and in March 2010, the fair value of common stock underlying stock options granted was either estimated by the board on a contemporaneous basis with input from management and an independent valuation firm or was determined not to have increased since a prior valuation. Given the absence of a public trading market, our board considered numerous objective and subjective factors to determine the best estimate of the fair value of our common stock at each meeting at which stock option grants were approved. These factors included, but were not limited to, the following:

- developments in our business;
- issuances of our preferred stock;
- the rights and preferences of our convertible preferred stock relative to our common stock;
- independent valuations of our common stock;
- the lack of marketability of our common stock;
- the likelihood of achieving a liquidity event, given prevailing market conditions;
- the per share value of any recent preferred stock financing and the amount of convertible preferred stock liquidation preferences;
- our current and historical operating performance and current financial condition;
- our operating and financial projections;

- the stock price performance of a peer group comprised of selected publicly-traded companies identified as being comparable to us; and
- economic conditions and trends in the broad market for stocks.

If we had made different assumptions and estimates, the amount of our recognized and to be recognized stock-based compensation expense could have been materially different. We believe that the board used reasonable methodologies, approaches and assumptions in determining the fair value of our common stock.

Table of Contents

We requested periodic valuation reports from an independent valuation firm, prepared consistent with the methods outlined in the American Institute of Certified Public Accountants Practice Guide, Valuation of Privately-Held-Company Equity Securities Issued as Compensation in each of fiscal years 2007, 2008, 2009, and 2010. Each valuation recommended a fair value of our common stock on a minority, non-marketable basis as of the date of the report.

In valuing our common stock, our independent valuation firm determined our business enterprise value using two valuation approaches, an income approach and a market approach.

The income approach estimates the present value of future estimated debt-free cash flows, based upon forecasted revenue and costs. These discounted cash flows are added to the present value of our estimated enterprise terminal value, the multiple of which is derived from comparable company market data. These future cash flows are discounted to their present values using a rate corresponding to our estimated weighted average cost of capital. The discount rate is derived from an analysis of the weighted average cost of capital of our publicly-traded peer group as well as cost of capital studies for similar stage companies as of the valuation date and is adjusted to reflect the risk inherent in our cash flows.

The market approach estimates the fair value of a company by applying to that company the market multiples of comparable publicly-traded companies. A multiple of key metrics implied by the enterprise values or acquisition values of our publicly-traded peers is calculated. Based on the range of these observed multiples, size of the company, company specific factors such as growth and margins, and professional judgment a appropriate adjustment to the publicly-traded companies median multiple is applied our metrics in order to derive an indication of value.

After determining a business enterprise value indication under each approach, the enterprise value is allocated to debt holders and then to each of our classes of stock using a liquidation analysis that takes into consideration each class of shareholder s rights and preferences to proceeds. Under each of the value indications based on the shareholder agreements, the preferred shareholders would automatically convert to common shareholders. The two per share value indications were weighted to determine the concluded fair value of a share of common stock on a minority, non-marketable basis.

Grants in 2009 and 2010

With respect to equity grants made in 2009 and March 2010, the key assumptions in the common stock valuations recommended by an independent valuation firm were as follows:

Date of Valuation	Discounted Cash Flows Method / Guideline Public Company Weighting	Discount for Lack of Marketability	Discounted Cash Flow Discount Rate	Common Stock Value
December 31, 2008	75% / 25%	30%	20%	$ 3.43
June 30, 2009	75% / 25%	30%	20%	5.56
November 19, 2009	75% / 25%	20%	25%	10.80
March 15, 2010	75% / 25%	15%	23%	13.93

For purposes of the December 2008 and June 2009 valuations, the comparable publicly-traded companies utilized in the market approach consisted of Alliance Data Systems Corporation, CyberSource Corp., Mastercard Incorporated, TNS Inc. and Total Systems Services, Inc. The list was expanded to include Visa, Inc. in the November 2009 valuation report and to include Financial Engines, Inc. in the March 2010 valuation report.

We have set forth in the table below information regarding stock options granted in 2009 and March 2010. Following the table, we have described the significant factors contributing to our determinations of fair market value and setting of option exercise prices throughout this period.

Date of Grant	Number of Options Granted	Exercise Price	Option Fair Value
January 27, 2009	100,500	$ 4.59	$ 2.34
March 19, 2009	11,500	4.59	2.34
May 21, 2009	19,250	4.59	2.39
July 23, 2009	21,750	5.67	2.99
September 24, 2009	20,750	5.67	2.97
November 6, 2009	27,250	5.67	2.97
December 4, 2009	213,250	10.80	5.59
March 26, 2010	126,000	13.94	7.42

January, March and May 2009. On January 27, 2009, the board granted options with a strike price of $4.59 per share. We had received a valuation recommendation from the independent valuation firm of $3.43 as of December 30, 2008. However, the board had previously granted options in the second half of 2008 with a strike price of $4.59 per share. This price had been set based upon the per share sale price of Series E Convertible Preferred Shares to Lightyear Capital in August 2008. The board decided to grant options in January at the same strike price despite the lower third party stock valuation. The board continued to grant options on March 19 and May 21 utilizing the $4.59 strike price based upon the company s determination that the fair market value of the common stock had not increased above such price as a result of intervening events or changed financial conditions.

July through November 2009. On July 23, 2009, our board determined a fair market value of our common stock of $5.67 for purposes of setting exercise prices for options granted on that day. This determination was based on the factors described above, as well as the independent valuation firm s valuation recommendation of $5.56 in its June 30, 2009 report. The higher price in the report was a result of an increase in our enterprise value as determined under both the discounted cash flow method and the guideline public company method described above. In addition the terminal exit multiple increased based on the guideline public company multiple increase. The increase in value under the guideline public company method resulted primarily from an increase in the relevant multiple. The increase in value is reflected in the increase in revenue and adjusted EBITDA, which exceeded our 2009 plan. The board continued to grant options on September 24 and November 6 using the $5.67 strike price based on our determination that the fair market value of our common stock had not increased above such price as a result of intervening events or changed financial conditions.

December 2009. On December 4, 2009, the board determined a fair market value of our common stock of $10.80 for purposes of setting exercise prices for options granted on that day. This determination was based on the factors described above as well as the independent valuation firm s valuation recommendation of $10.80 in its November 19, 2009 report. Several factors contributed to the significant increase in value from the prior valuation in June 2009 including an increase in public comparables (42%), the value built by the company in the intervening six months as reflected in the increase in its revenue and adjusted EBITDA in excess of its 2009 business plan, the increased potential for an IPO based upon the stabilization of the financial markets and feedback from the company s investment bank and the increase in revenue and adjusted EBITDA as well as market and long-term growth potential resulting from its acquisition of CASHNet.

Table of Contents

March 2010. On March 26, 2010, the board determined a fair market value of our common stock of $13.94 for purposes of setting exercise prices for options granted on that day. This determination was based on the factors described above as well as the independent valuation firm s valuation recommendation of $13.94 in its March 15, 2010 report. Several factors contributed to the increase in value from the prior valuation in November 2009. The company built value in the intervening period as reflected in its exceeding the first two months of 2010 s operating plan in both revenue and adjusted EBITDA, in the significant growth in the trailing twelve month financials as of the valuation date compared to those as of October 2009 (32% revenue growth and 35% adjusted EBITDA grown) and significant new sales through the valuation date (49% of entire 2010 operating plan). In addition, the IPO liquidity potential continued to increase based upon feedback from the company s investment bank. Lastly, the acquisition of CASHNet continued to contribute to higher than projected actuals compared to the operating plan by adding new revenue and adjusted EBITDA to the combined financial projections, increasing the company s addressable market with university payments and the company s long-term growth potential and allowing for better than anticipated synergies and cross-selling.

Income Taxes

Deferred tax assets and liabilities are determined based on temporary differences between the financial reporting bases and the tax bases of assets and liabilities. Deferred tax assets are also recognized for tax net operating loss carry-forwards. These deferred tax assets and liabilities are measured using the enacted tax rates and laws that will be in effect when such amounts are expected to reverse or be utilized. The realization of total deferred tax assets is contingent upon the generation of future taxable income. Valuation allowances are provided to reduce such deferred tax assets to amounts more likely than not to be ultimately realized.

Income tax provision or benefit includes U.S. federal, and state and local income taxes and is based on pre-tax income or loss. In determining the estimated annual effective income tax rate, we analyze various factors, including projections of our annual earnings and taxing jurisdictions in which the earnings will be generated, the impact of state and local taxes and our ability to use tax credits and net operating loss carry-forwards.

We follow the provisions of FASB ASC 740, *Income Taxes*, or ASC 740. ASC 740 clarifies the accounting for uncertainty in income taxes. It prescribes that a company should use a more-likely-than-not recognition threshold based on the technical merits of the tax position taken. Tax positions that meet the more-likely-than-not recognition threshold should be measured as the largest amount of the tax benefits, determined on a cumulative probability basis, which is more likely than not to be realized upon ultimate settlement in the financial statements. We recognize interest and penalties related to income tax matters in income tax expense. All tax years are subject to examination. All of our unrecognized tax benefit liability would affect our effective tax rate if recognized. We do not expect our unrecognized tax benefit liability to change significantly over the next 12 months.

Business Combinations

We follow the provisions of FASB ASC 805, *Business Combinations*, or ASC 805, (Prior authoritative literature: SFAS No. 141R, Business Combinations), which requires the acquiring entity in a business combination to recognize all the assets acquired and liabilities assumed in the transaction and establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed in a business combination. Certain provisions of this standard will, among other things, affect the determination of acquisition-date fair value of consideration paid in a business combination (including contingent consideration); exclude transaction costs from acquisition accounting; and change accounting practices for acquired contingencies, acquisition-related restructuring costs, in-process research and development, indemnification assets, and tax benefits. ASC 805 is effective for business combinations and adjustments to an acquired entity s deferred tax asset and liability balances occurring after December 31, 2008.

Table of Contents

Recent Accounting Pronouncements

In October 2009, the FASB issued Accounting Standards Update, or ASU, No. 2009-13 *Multiple-Deliverable Revenue Arrangements*. This ASU establishes the accounting and reporting guidance for arrangements including multiple revenue-generating activities. This ASU provides amendments to the criteria for separating deliverables, measuring and allocating arrangement consideration to one or more units of accounting. The amendments in this ASU also establish a selling price hierarchy for determining the selling price of a deliverable. Significantly enhanced disclosures are also required to provide information about a vendor s multiple-deliverable revenue arrangements, including information about the nature and terms, significant deliverables and its performance within arrangements. The amendments also required providing information about the significant judgments made and changes to those judgments and about how the application of the relative selling-price method affects the timing or amount of revenue recognition. The amendments in this ASU are effective prospectively for revenue arrangements entered into or materially modified in the fiscal years beginning on or after June 15, 2010. Early adoption is permitted. We are currently evaluating this new ASU.

In October 2009, the FASB issued ASU No. 2009-14, *Certain Revenue Arrangements That Include Software Elements.* This ASU changes the accounting model for revenue arrangements that include both tangible products and software elements that are essential to the functionality, and scopes these products out of current software revenue guidance. The new guidance will include factors to help companies determine what software elements are considered essential to the functionality. The amendments will now subject software-enabled products to other revenue guidance and disclosure requirements, such as guidance surrounding revenue arrangements with multiple-deliverables. The amendments in this ASU are effective prospectively for revenue arrangements entered into or materially modified in the fiscal years beginning on or after June 15, 2010. Early adoption is permitted. We are currently evaluating this new ASU.

Internal Controls Over Financial Reporting

In connection with the preparation of our quarterly financial statements as of and for the three months ended March 31, 2010, we concluded that we had a material weakness in our internal control over financial reporting that resulted in a misstatement of our earnings per share computation for the year ended December 31, 2008. Specifically, in our computation of net income available to common stockholders per common share, we did not deduct from net income the difference between (i) the fair value of the consideration transferred to the preferred stockholders as part of our 2008 stock tender offer and (ii) the carrying amount of the preferred stock repurchased (net of issuance costs) to arrive at income available to common stockholders in accordance with ASC 260-10-S99. As a result, we determined that we did not maintain effective controls over the accounting for, and calculation of, net income available to common stockholders per common share, indicating a material weakness with respect to our ability to properly monitor and account for non-routine transactions, and to apply GAAP in transactions subject to complex accounting pronouncements. For further information, please see Note 17 to our consolidated financial statements included elsewhere in this prospectus.

We were not required to perform a computation of earnings per share for the year ended December 31, 2008 at the time we initially prepared our financial statements for that year, as we were a private company. This computation was retrospectively undertaken in connection with the preparation of the consolidated financial statements included elsewhere in this prospectus. We are in the process of remediating this material weakness by, among other things, expanding our current finance and accounting staff, formalizing our accounting policies and internal controls documentation and strengthening supervisory reviews by our management.

Table of Contents

BUSINESS

Overview

We are a leading provider of technology and payment services to the higher education industry. We believe, based on our experience in the industry, that 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 and student-oriented banking services, which include extensive user-friendly features.

The disbursement of financial aid and other refunds to students is a highly regulated, resource-consuming and recurrent obligation of higher education institutions. The student disbursement process remains mainly paper-based, costly and inefficient at most higher education institutions. These institutions are facing increasing pressure to improve administrative efficiency and the quality of service provided to students, to streamline regulatory compliance in respect of financial aid refunds, and to reduce expenses.

We believe our products provide significant benefits to both higher education institutions as well as their campus communities, including students. For our higher education institution customers, we offer our OneDisburse® Refund Management® disbursement service. Our disbursement service facilitates financial aid and other refunds to students, while simultaneously enhancing the ability of our higher education institutional clients to comply with the federal regulations applicable to financial aid transactions. By using our refund disbursement solutions, our clients save on the cost of handling disbursements, improve related business processes, increase the speed with which students receive their refunds and ensure compliance with applicable regulations.

For students and other campus community members, we offer our OneAccount service that includes an FDIC-insured deposit account provided by our bank partner, a OneCard, which is a debit MasterCard® ATM card, and other retail banking services. OneAccount is cost competitive and tailored to the campus communities that we serve, providing students with convenient and faster access to disbursement funds.

We also offer payment transaction services which are primarily software-as-a service solutions that facilitate electronic payment transactions allowing higher education institutions to receive easy and cost effective electronic payments from students, parents and others for essential education-related financial transactions. Features of our payment services include online bill presentment and online payment capabilities for tuition and other fees.

We have experienced significant growth since our inception in 2000, which we believe demonstrates the benefits and convenience our products provide to our customers as well as the complementary nature of our higher education institution services and student services. As of March 31, 2010, 402 campuses serving approximately 2.7 million students had purchased the OneDisburse service and 293 campuses serving approximately 2.2 million students had contracted to use one or more of our payment products and services. As set forth in the charts below, from 2003 through 2009, our disbursement services and our student banking services have experienced consistent annual growth. Since our initial product launch in 2002 and as of March 31, 2010, we have completed disbursement transactions with a total cash value of approximately $13.6 billion. In addition, as of March 31, 2010, we had approximately 1.2 million OneAccounts, representing growth in the number of OneAccounts of 84% from March 31, 2009.

Source: Higher One Holdings, Inc.

The majority of our revenue each year is generated through existing relationships with higher education institutions and their campus communities, which is primarily derived from:

- Fees that we receive for providing banking and other services to OneAccount holders, including interchange fees that our bank partner charges and remits to us, ATM fees for out of network withdrawals, NSF fees that our bank partner charges and remits to us and other banking service fees charged to process transactions outside basic OneAccount usage;
- convenience fees from processing tuition payments on behalf of students;
- fees charged to our higher education institutional clients; and
- service fees that we receive from our bank partner based on amounts deposited in OneAccounts and prevailing interest rates.

For the year ended December 31, 2009, our:

- total revenue was approximately $75.5 million, representing three-year compounded annual growth of approximately 68%;
- adjusted EBITDA was approximately $30.5 million, representing three-year compounded annual growth of approximately 192%;
- adjusted net income was approximately $18.1 million, representing three-year compounded annual growth of approximately 74%; and
- net income was approximately $14.2 million, representing three-year compounded annual growth of approximately 62%.

Table of Contents

See Summary Summary Consolidated Financial Data for definitions of adjusted EBITDA and adjusted net income and reconciliations to net income.

In 2009, excluding revenue generated by our recent acquisition of CASHNet, we generated over 90% of our revenue from contracts signed in prior years.

Our Industry

The higher education industry in the United States consists of colleges, universities and other higher education providers. With nearly seven thousand higher education institutions in the United States accepting new students each year and providing finance and payments functions that serve their campus communities, the higher education payments industry is both large and stable. As an industry innovator focused on the needs of higher education institutional clients, we believe we are well positioned to capitalize on several key industry trends and to increase our market share in this large and underserved industry.

Stable Enrollment at Higher Education Institutions

According to estimates by the United States Department of Education National Center for Education Statistics, or the NCES, in the 2008-2009 school year, the U.S. higher education industry consisted of more than 6,500 institutions serving more than 18.6 million students. We believe the higher education industry is one of the most stable and least cyclical industries in the United States. According to the NCES, over 2.5 million new students enter U.S. higher education institutions each year and, as reflected in the chart set forth below, the total enrollment in U.S. higher education institutions is expected to increase to almost 19.7 million students by 2013.

Source for total US student enrollment: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System, Fall Enrollment Survey (IPEDS-EF:93 99), and Spring 2001 through Spring 2008; Enrollment in Degree-Granting Institutions Model, 1973 2007; and First-Time Freshmen Model, 1975-2007. (Total US student enrollment figures prepared as of January 2009. 2006-2007 figures are actual and 2008-2013 figures are estimated projections.)

Source for enrollment at OneDisburse and payment suite clients: Higher One Holdings, Inc. (All enrollment at OneDisburse and payment suite client figures are actual.)

Table of Contents

Increasing Pressure on Institutions to Become More Efficient

We believe that most higher education institutions continue to use inefficient and more costly disbursement and payment systems. For example, we estimate that OneDisburse serves only 14% of students at higher education institutions, while our payment products serve only 12% of these students. As a result, we believe that a large portion of the remaining 86% and 88% of institutions, respectively, are potential clients, as these institutions face increasing pressure to reduce expenses, improve the quality of services provided to students and streamline regulatory compliance in their disbursement and payment systems.

Trend Toward Electronic Payments

We believe that higher education institutions will follow the general commercial and governmental trend away from traditional paper-based payment systems towards electronic-based disbursement and payment systems. Institutions and their students are increasingly attracted to the convenience, security and enhanced services associated with electronic payment systems that meet and comply with complex new regulations. We believe that students are also drawn to electronic and online payments for enhanced security and ease of use.

According to The Nilson Report, there has been a shift from paper-based payments to card-based payments in the United States. In particular, debit and prepayment card transactions have increased from 11% of total payment volumes in 2003 to 19% in 2008 and, The Nilson Report projects, they will further increase their share of total payment volumes to 25% in 2013.

	2003A		2008A		2013E	
	Volume	Share	Volume ($ in billions)	Share	Volume	Share
Checks	$ 2,114	35%	$ 1,609	21%	$ 1,290	14%
Cash	1,272	21	1,636	21	1,847	20
Other Paper(1)	115	2	112	1	91	1
Paper	$ 3,501	58%	$ 3,357	43%	$ 3,228	36%
Credit Cards	$ 1,418	23%	$ 2,062	26%	$ 2,181	24%
Debit Cards	583	10	1,330	17	2,066	23
Prepaid Cards	69	1	153	2	200	2
EBT Cards	20	0	37	1	40	0
Cards	$ 2,091	35%	$ 3,582	46%	$ 4,486	49%
Preauthorized Payments	$ 276	5%	$ 487	6%	$ 604	7%
Remote Payments	169	3	416	5	696	8
Electronic	$ 445	8%	$ 903	11%	$ 1,300	15%