

HIGHER ONE HOLDINGS, INC.

INDEX TO REPORT ON FORM 10-Q

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2015

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

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

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

(unaudited)

	September 30, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 27,785	\$ 40,022
Investments in marketable securities	251	249
Accounts receivable	12,581	8,929
Income receivable	8,624	9,053
Deferred tax assets	11,338	3,719
Prepaid expenses and other current assets	5,408	7,805
Total current assets	65,987	69,777
Deferred costs	6,133	4,187
Fixed assets, net	43,374	46,768
Intangible assets, net	51,637	56,255
Goodwill	67,403	67,403
Loan receivable related to New Markets Tax Credit financing	7,633	7,633
Other assets	3,092	2,523
Restricted cash	2,728	2,725
Total assets	\$ 247,987	\$ 257,271
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 2,044	\$ 3,339
Accrued expenses	50,423	25,872
Deferred revenue	31,930	25,174
Total current liabilities	84,397	54,385
Deferred revenue and other non-current liabilities	4,443	4,019
Loan payable and deferred contribution related to New Markets Tax Credit financing	8,638	8,871
Debt	59,000	94,000
Deferred tax liabilities	961	3,814
Total liabilities	157,439	165,089
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Common stock, \$.001 par value; 200,000,000 shares authorized; 59,893,737 shares issued and 47,980,711 shares outstanding at September 30, 2015; 59,570,839 shares issued and	60	60

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47,657,813 shares outstanding at December 31, 2014

Additional paid-in capital	189,746	185,588
Treasury stock, 11,913,026 shares at September 30, 2015 and December 31, 2014	(137,899)	(137,899)
Retained earnings	38,641	44,433
Total stockholders' equity	90,548	92,182
Total liabilities and stockholders' equity	\$ 247,987	\$ 257,271

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

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

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

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenue:				
Account revenue	\$26,654	\$31,468	\$88,523	\$99,475
Payment transaction revenue	19,055	18,197	47,497	42,652
Higher education institution revenue	10,486	9,929	30,891	28,958
Other revenue	167	181	558	723
Gross revenue	56,362	59,775	167,469	171,808
Less: allowance for customer restitution	(21,880)	-	(21,880)	(8,750)
Revenue	34,482	59,775	145,589	163,058
Cost of revenue	27,817	28,182	77,479	76,878
Gross margin	6,665	31,593	68,110	86,180
Operating expenses:				
General and administrative	18,098	16,617	54,417	48,343
Product development	2,040	1,555	6,120	5,517
Sales and marketing	4,196	4,577	12,638	13,756
Restructuring charge	334	-	574	-
Total operating expenses	24,668	22,749	73,749	67,616
Income (loss) from operations	(18,003)	8,844	(5,639)	18,564
Interest income	23	20	63	73
Interest expense	(1,262)	(828)	(3,894)	(2,443)
Other income (loss)	77	(198)	1,357	1,561
Net income (loss) before income taxes	(19,165)	7,838	(8,113)	17,755
Income tax expense (benefit)	(6,510)	2,922	(2,321)	6,900
Net income (loss)	\$(12,655)	\$4,916	\$(5,792)	\$10,855
Net income (loss) available to common stockholders:				
Basic	\$(12,655)	\$4,916	\$(5,792)	\$10,855
Diluted	\$(12,655)	\$4,916	\$(5,792)	\$10,855
Weighted average shares outstanding:				
Basic	47,783,217	47,258,495	47,605,164	47,180,830
Diluted	47,783,217	47,710,262	47,605,164	48,104,873
Net income (loss) available to common stockholders per common share:				
Basic	\$(0.26)	\$0.10	\$(0.12)	\$0.23
Diluted	\$(0.26)	\$0.10	\$(0.12)	\$0.23

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

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

(In thousands of dollars, except share amounts)

(unaudited)

	Common Stock		Additional	Treasury	Retained	Total
	Shares	Amount	Paid-in	Stock	Earnings	Stockholders'
			Capital			Equity
Balance at December 31, 2014	47,657,813	\$ 60	\$ 185,588	\$(137,899)	\$ 44,433	\$ 92,182
Stock-based compensation	-	-	4,928	-	-	4,928
Reversal of tax benefit related to options	-	-	(1,115)	-	-	(1,115)
Exercise of stock options	322,898	-	345	-	-	345
Net income	-	-	-	-	(5,792)	(5,792)
Balance at September 30, 2015	47,980,711	\$ 60	\$ 189,746	\$(137,899)	\$ 38,641	\$ 90,548

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

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

(In thousands of dollars)

(unaudited)

	Nine Months Ended September 30, 2015	2014
Cash flows from operating activities		
Net income (loss)	\$ (5,792)	\$ 10,855
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	16,429	14,124
Amortization of deferred finance costs	1,657	368
Stock-based compensation	4,877	3,426
Deferred income taxes	(11,569)	810
Income tax benefit related to exercise of stock options	(120)	(47)
Other (income) loss	(236)	42
Loss on disposal of fixed assets	118	90
Changes in operating assets and liabilities:		
Accounts receivable	(3,652)	(3,235)
Income receivable	429	(5,087)
Deferred costs	(396)	(2,103)
Prepaid expenses and other current assets	2,397	(2,051)
Other assets	(569)	(91)
Accounts payable	(1,295)	(1,636)
Accrued expenses	24,245	(1,713)
Deferred revenue	6,412	7,151
Net cash provided by operating activities	32,935	20,903

Cash flows from investing activities

Purchases of fixed assets	(2,471)	(2,858)
Additions to internal use software	(3,699)	(4,173)
Amounts received from restricted cash	-	25
Proceeds from disposition of equity method investment	-	3,581
Proceeds from development related subsidies	-	3,468
Net cash provided by (used in) investing activities	(6,170)	43

Cash flows from financing activities

Proceeds from line of credit	-	15,000
Repayments of line of credit	(35,000)	(10,000)
Payment of deferred financing costs	(4,467)	-
Tax benefit related to exercise of stock options	120	47
Proceeds from exercise of stock options	345	184
Net cash provided by (used in) financing activities	(39,002)	5,231
Net change in cash and cash equivalents	(12,237)	26,177
Cash and cash equivalents at beginning of period	40,022	6,268
Cash and cash equivalents at end of period	\$ 27,785	\$ 32,445

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

Higher One Holdings, Inc.

Notes to Condensed Consolidated Financial Statements

(unaudited)

1. Nature of Business and Organization

Higher One Holdings, Inc., or HOH, is a leading provider of technology, data analytics and payment services to the higher education industry. HOH, through its subsidiaries, provides a comprehensive suite of disbursement, payment and data analytics solutions specifically designed for higher education institutions and their students. We have developed and acquired proprietary software-based solutions to provide these services. HOH is incorporated in Delaware and maintains its headquarters in New Haven, Connecticut. HOH has a wholly-owned subsidiary, Higher One, Inc., or HOI, which has two wholly-owned subsidiaries, Higher One Machines, Inc., or HOMI, and Higher One Real Estate, Inc., or Real Estate Inc. HOI and HOMI together own 99.99% of Higher One Financial Technology Private Limited, or HOFTPL. Real Estate Inc. has a 98% ownership interest in Higher One Real Estate SP, LLC, or Real Estate LLC. HOMI and HOFTPL perform certain of our operational support functions. Real Estate Inc. and Real Estate LLC were each formed to hold and operate certain of our real estate.

2. Significant Accounting Policies

Basis of Presentation and Consolidation

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

The unaudited condensed consolidated financial statements have been prepared on a consistent basis with the audited consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2014, and in the opinion of management, include all normal recurring adjustments that are necessary for the statement of our interim period results reported herein. The December 31, 2014 condensed consolidated balance sheet data included in this Form 10-Q was derived from our audited financial statements but does not include all disclosures required by GAAP. Due to seasonal fluctuations and other factors, the results of operations for the three or nine months ended September 30, 2015 are not necessarily indicative of the results to be expected for the full year.

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

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

Goodwill and Intangible Assets

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

Higher One Holdings, Inc.

Notes to Condensed Consolidated Financial Statements

(unaudited)

As further described in Note 7, we have three reportable segments: Disbursements, Payments and Data Analytics, which are organized according to the type of service that each offers to our target markets – higher education institutions and their students. Each of these business units is also an operating segment and a reporting unit for purposes of our goodwill impairment testing. The excess of fair value over carrying value varies by reporting unit. The fair value of the disbursements reporting unit exceeded its carrying value by approximately 40% as of March 31, 2015 and is the reporting unit most susceptible to impairment in the future. As further described in Note 9, on October 14, 2015, we entered into an asset purchase agreement for the sale of substantially all of the assets of our data analytics business.

Income Taxes

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

The effective tax rates for the nine months ended September 30, 2015 and 2014 were 28.6% and 38.9%, respectively. Our effective tax rate decreased from the prior year primarily as a result of the allowance for customer restitution described in Note 6, which results in a pretax loss, the tax benefit on which is diminished by permanent differences between book and tax income.

Basic and Diluted Net Income (Loss) Available to Common Stockholders per Common Share

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

treasury-stock method assumes that the options or warrants are exercised at the beginning of the period (or date of issue, if later), and that we use those proceeds to purchase common stock for treasury at the average price for the reporting period.

The effect of stock options and warrants to purchase our common stock totaling 6,211,240 and 6,223,862 were not included in the computation of diluted net income (loss) per common share for the three months ended September 30, 2015 and 2014, respectively, as their effect would be anti-dilutive. The effect of stock options and warrants to purchase our common stock totaling 6,211,240 and 4,214,539 were not included in the computation of diluted net income (loss) per common share for the nine months ended September 30, 2015 and 2014, respectively, as their effect would be anti-dilutive. Anti-dilutive securities are securities that upon conversion or exercise increase earnings per share (or reduce the loss per share). In periods when we recognize a net loss, we exclude the impact of outstanding stock awards from the diluted loss per share calculation as their inclusion would have an anti-dilutive effect.

Comprehensive Income (Loss)

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

Higher One Holdings, Inc.

Notes to Condensed Consolidated Financial Statements

(unaudited)

Other Arrangements

We accept payments on behalf of educational institutions and subsequently remit these payments to the education institutions. The amounts received are maintained in segregated accounts for the benefit of either the institution or the payer. There were approximately \$256.2 million and \$127.3 million of such funds as of September 30, 2015 and December 31, 2014, respectively. These deposits are not our funds and therefore are not included in the accompanying condensed consolidated balance sheets.

Recent Accounting Pronouncements

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

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

In June 2014, the FASB issued Accounting Standards Update No. 2014-12, *Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*, which updated the accounting standards related to stock compensation. The update clarifies the accounting for share-based payments with a performance target that could be achieved after the requisite service period. Specifically,

the update specifies that the performance target should not be reflected in estimating the grant-date fair value of the award. Instead, the probability of achieving the performance target should impact vesting of the award. The standard will be effective for interim and annual periods beginning after December 15, 2015 and early adoption is permitted. We do not expect the adoption of this standard to have a significant impact on our consolidated financial statements or disclosures.

In April 2015, the FASB issued Accounting Standard Update No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the associated debt liability. In August 2015, the FASB issued Accounting Standards Update No. 2015-15, *Interest – Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements*,” which provides additional guidance to ASU No. 2015-03, which did not address presentation or subsequent measurement of debt issuance costs related to line-of-credit arrangements. ASU 2015-15 noted that the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. This standard will be effective for fiscal periods beginning after December 15, 2015 and early adoption is permitted. We do not believe this standard will have a significant impact on our consolidated financial statements or disclosures.

Higher One Holdings, Inc.**Notes to Condensed Consolidated Financial Statements****(unaudited)****3. Investments in Marketable Securities and Fair Value Measurements**

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

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Fair values at September 30, 2015				
Assets:				
Certificate of deposit	\$ 251	\$ -	\$ 251	\$ -
Fair values at December 31, 2014				
Assets:				
Certificate of deposit	\$ 249	\$ -	\$ 249	\$ -

We had no unrealized gains or losses from investments as of September 30, 2015 or December 31, 2014, and there is no material difference between the amortized cost and fair value of the securities we held. The carrying amounts of our cash equivalents, accounts receivable, accounts payable and accrued expenses approximate fair value because of the short-term nature of these instruments. The carrying amount of our debt outstanding under our Credit Facility (defined in Note 5 below) approximates fair value as a result of our amendment to the credit facility in February 2015. Our loan receivable related to our New Markets Tax Credit financing is a debt instrument that we classify as held to maturity and is recorded at amortized cost. The carrying value of both our loan receivable and loan payable related to our New Markets Tax Credit financing approximates fair value as of September 30, 2015. The fair value of our loan payable and loan receivable related to our New Markets Tax Credit financing was estimated using discounted cash flow analysis based on rates for similar types of arrangements and are considered Level 3 measurements.

4. Real Estate Development Project

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

In connection with the project, we provided separate guarantees to each of two departments of the state of Connecticut. One guaranty relates to our obligation to repay a grant if we fail to meet certain criteria, including a specified minimum average employment level in Connecticut for the years 2015 – 2018. The other guaranty relates to our obligation to repay sales and use tax exemptions if we fail to meet certain criteria, including a minimum employment threshold. The maximum potential amount of repayments for these guarantees is approximately \$7.0 million. As of September 30, 2015, we have a liability of \$2.0 million recorded which represents our best estimate of expected repayments resulting from these guarantees. A portion of the liability (\$1.8 million) is recorded within deferred revenue and other non-current liabilities as it would not be due until 2019 and the remaining balance (\$0.2 million) is recorded in accrued expenses in our condensed consolidated balance sheets as of both September 30, 2015 and December 31, 2014.

Higher One Holdings, Inc.

Notes to Condensed Consolidated Financial Statements

(unaudited)

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

5. Credit Facility

In October 2012, HOI entered into a five-year, \$200.0 million, senior secured revolving credit facility, or the Credit Facility. The Credit Facility contains certain affirmative covenants, including covenants to furnish the lenders with financial statements and other financial information and to provide the lenders notice of material events and information regarding collateral. The Credit Facility also contains certain negative covenants that, among other things, restrict our ability, subject to certain exceptions, to incur additional indebtedness, grant liens on our assets, undergo fundamental changes, make investments, sell assets, make restricted payments, change the nature of our business and engage in transactions with our affiliates. The maturity of the Credit Facility could be accelerated upon a change of control or if we experience a material adverse change in our operations, condition or prospects.

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

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

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

requires us to maintain consolidated EBITDA, as defined in the Credit Facility, as amended, on a consolidated basis for the prior four fiscal quarters of at least the following amounts (i) \$45.0 million as of March 31, 2015 and June 30, 2015, (ii) \$40.0 million as of September 30, 2015 and December 31, 2015, and (iii) \$35.0 million as of March 31, 2016 and all future evaluation periods;

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

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

allow for the exclusion from the computation of consolidated EBITDA of up to \$75.0 million of income statement charges related to certain regulatory matters, as defined; and

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

Higher One Holdings, Inc.

Notes to Condensed Consolidated Financial Statements

(unaudited)

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

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

allows for the sale of substantially all of the assets of the Campus Labs business, as further described in Note 9 and requires us to pay down outstanding loans under the Credit Facility by an amount equal to \$30.0 million upon the sale of the Campus Labs business;

the revolving credit facility was reduced to \$75.0 million, with \$35.0 million of such facility reserved only for the resolution of the certain regulatory matters, as defined. The revolving credit facility subsequently reduces to \$65.0 million and \$55.0 million as of June 30, 2016 and December 31, 2016, respectively;

requires us to maintain a debt to consolidated EBITDA ratio, or leverage ratio, of 2.00 to 1.00 or less as of December 31, 2015 and all future evaluation periods;

requires us to maintain consolidated EBITDA, as defined in the Credit Facility, as amended, on a consolidated basis for the prior four fiscal quarters of at least \$25.0 million as of December 31, 2015 and all future evaluation periods; and

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

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

October 16, 2017. In connection with the February 2015 amendment, we paid down the outstanding balance of the Credit Facility by \$35 million, expensed approximately \$0.4 million of previously deferred financing costs and incurred new financing costs of approximately \$4.5 million in February 2015, which are included in deferred costs as of September 30, 2015 in the accompanying condensed consolidated balance sheet.

As of September 30, 2015, there were \$59.0 million in borrowings outstanding, at a weighted average interest rate of 4.2%, under the Credit Facility. We are in compliance with all of the applicable affirmative, negative and financial covenants of the Credit Facility. As of September 30, 2015, our trailing twelve month consolidated EBITDA (as defined in the Credit Facility) was \$53.7 million.

Higher One Holdings, Inc.

Notes to Condensed Consolidated Financial Statements

(unaudited)

6. Commitments and Contingencies

From time to time we are subject to litigation relating to matters in the ordinary course of business, as well as regulatory examinations, information gathering requests, inquiries and investigations. In accordance with applicable accounting guidance, we establish a liability for a matter of the type described below if and when it presents loss contingencies that are both probable and reasonably estimable.

Department of Education

In early 2014, the Department of Education, or ED, formed a negotiated rulemaking committee to discuss and work toward revising existing regulations to potentially address, among other things, consumer safeguards regarding debit and prepaid cards associated with Title IV Cash Management, marketing of financial products by institutions and their preferred banks or contractors, ATM access and availability, revenue sharing arrangements, and the potential for a government-sponsored debit or prepaid card solution. On May 18, 2015, ED published its Notice of Proposed Rulemaking, or NPRM, on program integrity and improvement issues in the Federal Register. ED may publish these proposed rules in their current form or in a different form that may be more adverse to our business. Any rules substantially similar to those proposed could have a material adverse effect on our business. Should ED publish final rules in the Federal Register by November 1, 2015, we believe new Title IV Cash Management regulations would likely not go into effect until July 1, 2016.

Regulatory Examinations and Other Matters

On May 9, 2014, the Federal Reserve Banks of Chicago (the responsible Reserve Bank for a former bank partner) and Philadelphia (the responsible Reserve Bank for a current bank partner) notified us that the Staff of the Board of Governors of the Federal Reserve System intended to recommend that the Board of Governors of the Federal Reserve System, or the Board of Governors, seek an administrative order against us with respect to asserted violations of the Federal Trade Commission Act. The cited violations relate to our activities with both a former and current bank partner and our marketing and disclosure practices related to the process by which students may select the OneAccount option for financial aid refund. On September 24, 2015, the Staff of the Board of Governors of the Federal Reserve System provided a revised notification to us with respect to those asserted violations of the Federal Trade Commission Act. We are in discussions with the Staff of the Board of Governors and the Reserve Banks on this

matter. The Staff of the Board of Governors has asserted that any administrative order may seek damages, including customer restitution and civil money penalties and changes to certain of our business practices.

In April 2015, the San Francisco Regional Office of the FDIC (the responsible Regional Office for a current bank partner) notified us it was prepared to recommend to the Director of the Division of Depositor and Consumer Protection that administrative enforcement action be taken against us for alleged violations of the Federal Trade Commission Act principally relating to our marketing and enrollment practices related to the OneAccount. We have responded to the FDIC's notification and we believe that these allegations are similar and related to the Federal Reserve Board allegations previously disclosed and discussed above. On September 24, 2015, the San Francisco Regional Office of the FDIC provided a revised notification to us regarding those alleged violations of the Federal Trade Commission Act. Any such enforcement action could result in orders to pay restitution and civil money penalties and changes to certain of our business practices.

Higher One Holdings, Inc.

Notes to Condensed Consolidated Financial Statements

(unaudited)

During the year ended December 31, 2014, we recorded a liability of \$8.75 million related to these matters. The liability, which continued to be recorded at \$8.75 million through June 30, 2015, reflected the minimum amount we expected to pay related to these matters. During the three months ended September 30, 2015, we recorded an additional charge of \$21.9 million related to these matters, bringing the total liability to \$30.6 million, as a result of an updated assessment of the minimum amount we expect to pay related to these matters. Each of these amounts is shown as an allowance for customer restitution on our condensed consolidated statement of operations in the period in which the charge was incurred and is related to our disbursements segment. The total liability of \$30.6 million is recorded within accrued expenses on our condensed consolidated balance sheets. While we believe that it is probable that we will have a loss related to these regulatory matters, in view of the inherent difficulty of predicting the outcomes of regulatory matters, we cannot predict the eventual outcomes of these pending matters, the timing of the ultimate resolution of these matters or an exact amount of loss associated with these matters. The liability recorded at September 30, 2015, reflects the minimum amount we expect to pay related to these matters, although there is a reasonable possibility that the liability will increase in future periods. The ultimate amount of restitution or civil money penalties is subject to many uncertainties and therefore impossible to predict, however we believe our exposure related to these matters is approximately \$70.0 million in total. As disclosed in “Note 5 – Credit Facility” of our condensed consolidated financial statements, we amended our Credit Facility in February 2015. The amendment allows, among other things, for the payment of up to \$75.0 million in connection with the resolution of the regulatory matters described above.

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

Consumer Class Action

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

of the federal Department of Education, or ED, and violations of the federal Electronic Funds Transfer Act) and various common law claims.

In October 2013, we reached an agreement in principle on the key terms of a settlement that would resolve all of the above class action litigation that was filed against us in 2012. In February 2014, we executed a settlement agreement, the terms of which included a payment of \$15.0 million to a settlement fund, an agreement to pay the cost of notice to the class, and an agreement to make and/or maintain certain practice changes. We made the payment of \$15.0 million to the settlement fund in February 2014. On December 15, 2014, the Court granted final approval of the settlement. No appeals of the judgment were filed, and the settlement has now become final.

During the year ended December 31, 2013, we recorded an accrual of \$16.3 million to reflect the estimated cost of the resolution, inclusive of additional legal and other administrative costs, based on the agreement in principle. This estimate is not materially different than our current cost estimate based on the final, approved settlement agreement.

Securities Class Action

On May 27, 2014, a putative class action captioned Brian Perez v. Higher One Holdings, Inc., No. 3:14-cv-755-AWT, was filed by HOH shareholder Brian Perez in the United States District Court for the District of Connecticut. On December 17, 2014, Mr. Perez was appointed lead plaintiff. On January 20, 2015, Mr. Perez filed an amended complaint. HOH former shareholder Robert Lee was added as a named plaintiff in the amended complaint. HOH and certain employees and board members have been named as defendants. Mr. Perez and Mr. Lee generally allege that HOH and the other named defendants made certain misrepresentations in public filings and other public statements in violation of the federal securities laws and seek an unspecified amount of damages. Mr. Perez and Mr. Lee seek to represent a class of any person who purchased HOH securities between August 7, 2012 and August 6, 2014. All defendants have moved to dismiss the Complaint. In response, Plaintiffs have filed an opposition brief opposing dismissal. HOH intends to vigorously defend itself against these allegations. HOH is currently unable to predict the outcome of this lawsuit and therefore cannot determine the likelihood of loss nor estimate a range of possible loss.

Higher One Holdings, Inc.

Notes to Condensed Consolidated Financial Statements

(unaudited)

Derivative Actions

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

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

Cybersecurity Subpoena

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

TouchNet

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

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

Higher One Holdings, Inc.

Notes to Condensed Consolidated Financial Statements

(unaudited)

7. Segments

As a result of changes instituted by our chief operating decision maker in 2015, including the type of financial information being reviewed on a regular basis and the way in which resource allocation decisions are made, we now have three reportable segments, Disbursements, Payments and Data Analytics, which are organized according to the type of service that each offers to our target markets – higher education institutions and their students. Each of our reportable segments is also an operating segment and a reporting unit. The Disbursements segment includes our Refund Management® disbursement service, which is offered to higher education institution clients, and the OneAccount, an FDIC-insured online checking account that is offered to students, as well as faculty, staff and alumni. The Payments segment includes our CASHNet® payment processing suite and our Campus Solutions suite, both of which enable higher education institutions to accept online payments, automate certain billing and processing functions and offer tuition payment plans. The Data Analytics segment offers our Campus Labs analytics solutions suite for assessment in higher education, which combine data collection, reporting, organization and campus-wide integration.

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

Higher One Holdings, Inc.**Notes to Condensed Consolidated Financial Statements****(unaudited)**

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenue				
Disbursements (1)	\$6,314	\$33,202	\$71,050	\$95,083
Payments	23,789	22,889	61,921	57,455
Data Analytics	4,379	3,684	12,618	10,520
Total revenues	\$34,482	\$59,775	\$145,589	\$163,058
Depreciation and amortization				
Disbursements	\$2,442	\$2,224	\$7,190	\$5,573
Payments	2,311	2,413	6,901	6,793
Data Analytics	810	599	2,338	1,757
Total depreciation and amortization	\$5,563	\$5,236	\$16,429	\$14,123
Income (loss) from operations				
Disbursements	\$(22,324)	\$4,434	\$(14,868)	\$11,966
Payments	3,795	3,566	7,491	4,868
Data Analytics	526	844	1,738	1,730
Total income (loss) from operations	(18,003)	8,844	(5,639)	18,564
Interest income	23	20	63	73
Interest expense	(1,262)	(828)	(3,894)	(2,443)
Other income	77	(198)	1,357	1,561
Net income (loss) before income taxes	\$(19,165)	\$7,838	\$(8,113)	\$17,755

(1) Disbursements revenue has been reduced by \$21.9 million for the allowance for potential customer restitution for the three months and nine months ended September 30, 2015, respectively, and by \$8.75 million for the nine months ended September 30, 2014.

Higher One Holdings, Inc.**Notes to Condensed Consolidated Financial Statements****(unaudited)****8. Restructuring Charge**

In April 2015, we entered into an agreement with a third-party service provider to operate our customer care center in order to provide live-agent, chat and interactive voice response services for our disbursements line of business, including the OneAccount product. In connection with this agreement, we plan to reduce our employee workforce across our customer care department. We began the transition to the third-party service provider in July 2015 and expect to substantially complete the employee reduction by November 2015. However, the timing of this transition and of certain employee reductions may vary. We estimate we will recognize costs of up to \$1.0 million during fiscal year 2015, consisting of severance and other employee-related benefits. Such costs are expected to be substantially accrued and paid through the end of the first quarter of 2016.

For the three and nine months ended September 30, 2015 we recognized restructuring charges of \$0.3 and \$0.6 million, respectively, which is included in restructuring charges in the accompanying condensed consolidated statements of operations.

The restructuring liability is included in accrued expenses as of September 30, 2015. The following table summarizes the activities associated with restructuring liabilities for the nine months ended September 30, 2015.

	Severance and employee-related benefits
January 1, 2015 restructuring liability	\$ -
Restructuring charges incurred	574
Amounts paid	(63)
September 30, 2015 restructuring liability	\$ 511

9. Subsequent Event - Agreement to Sell Campus Labs Assets

On October 14, 2015, we entered into an Asset Purchase Agreement with CL NewCo, Inc., or NewCo, an affiliate of Leeds Equity Partners, for the sale of substantially all of the assets of our data analytics business, or Campus Labs.

Pursuant to the terms of the Asset Purchase Agreement, NewCo agreed to acquire Campus Labs for a total cash purchase price of approximately \$91 million. This purchase price is subject to certain closing adjustments including adjustments for working capital. The working capital adjustments will be determined at the time of closing, but may reduce the purchase price by \$5 million to \$7 million. The transaction is subject to necessary regulatory approvals and is expected to close by the end of November 2015.

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

The information contained in this section should be read in conjunction with our audited consolidated financial statements and related notes as included in our annual report on Form 10-K for the year ended December 31, 2014 and information contained elsewhere in such annual report on Form 10-K and in this quarterly report on Form 10-Q. The discussion contains forward-looking statements (as defined in the Private Securities Litigation Reform Act of 1995) involving risks, uncertainties and assumptions that could cause our results to differ materially from expectations. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words “believes,” “anticipates,” “plans,” “expects,” “should” and similar expressions are intended to identify forward-looking statements. Factors that might cause these differences include those described under “Risk Factors” and elsewhere in the annual report on Form 10-K and in this quarterly report on Form 10-Q. The forward-looking statements included in this quarterly report on Form 10-Q are made only as of the date of this report. We do not undertake any obligation to update or supplement any forward-looking statements to reflect subsequent events or circumstances, except as required by law. We cannot assure you that projected results will be achieved or that anticipated events will occur.

Overview

General

Based on market share and the number of campuses using our products and services, we believe we are a leading provider of technology-based refund disbursement, payment processing and data analytics services to higher education institutions and their students. We believe that none of our competitors match our ability to provide solutions for higher education institutions' financial services needs, including compliance monitoring. Consequently, we provide the most comprehensive suite of disbursement and payment solutions specifically designed for higher education institutions and their students. We also provide campus communities with convenient, cost-competitive and student-oriented banking services, which include extensive user-friendly features.

Our products and services for our higher education institution clients consist of our Disbursement solutions suite, including our Refund Management® disbursement service, our CASHNet® payment processing suite and our Campus Labs® analytics solutions suite. Through our bank partners, we offer the OneAccount, which includes an FDIC-insured checking account, a debit MasterCard® ATM card and other retail banking services, to the students of our higher education institution clients that use our Refund Management disbursement service.

As of September 30, 2015, more than 800 campuses servicing approximately 4.9 million students purchased our Refund Management disbursement service. In total, there are more than 1,900 campuses servicing approximately 13 million students contracted to use at least one of our services. As of September 30, 2015, we also serviced approximately 2.0 million OneAccounts.

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

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

Department of Education

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

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

ED may publish these proposed rules in their current form or in a different form that may be more adverse to our business. Any rules substantially similar to those proposed could have a material adverse effect on our business. Should ED publish final rules in the Federal Register by November 2, 2015, we believe new Title IV Cash Management regulations would likely not go into effect until July 1, 2016.

Regulatory Matters

On May 9, 2014, the Federal Reserve Banks of Chicago (the responsible Reserve Bank for a former bank partner) and Philadelphia (the responsible Reserve Bank for a current bank partner) notified us that the Staff of the Board of Governors of the Federal Reserve System intended to recommend that the Board of Governors of the Federal Reserve System, or the Board of Governors, seek an administrative order against us with respect to asserted violations of the Federal Trade Commission Act. The cited violations relate to our activities with both a former and current bank partner and our marketing and disclosure practices related to the process by which students may select the OneAccount option for financial aid refund. On September 24, 2015, the Staff of the Board of Governors of the Federal Reserve System provided a revised notification to us with respect to those asserted violations of the Federal

Trade Commission Act. We are in discussions with the Staff of the Board of Governors and the Reserve Banks on this matter. The Staff of the Board of Governors has asserted that any administrative order may seek damages, including customer restitution and civil money penalties and changes to certain of our business practices.

In April 2015, the San Francisco Regional Office of the FDIC (the responsible Regional Office for a current bank partner) notified us it was prepared to recommend to the Director of the Division of Depositor and Consumer Protection that administrative enforcement action be taken against us for alleged violations of the Federal Trade Commission Act principally relating to our marketing and enrollment practices related to the OneAccount. We have responded to the FDIC's notification and we believe that these allegations are similar and related to the Federal Reserve Board allegations previously disclosed and discussed above. On September 24, 2015, the San Francisco Regional Office of the FDIC provided a revised notification to us regarding those alleged violations of the Federal Trade Commission Act.

During the year ended December 31, 2014, we recorded a liability of \$8.75 million related to these matters. The liability, which continued to be recorded at \$8.75 million through June 30, 2015, reflected the minimum amount we expected to pay related to these matters. During the three months ended September 30, 2015, we recorded an additional charge of \$21.9 million related to these matters, bringing the total liability to \$30.6 million, as a result of an updated assessment of the minimum amount we expect to pay related to these matters. Each of these amounts is shown as an allowance for customer restitution on our condensed consolidated statement of operations in the period in which the charge was incurred and is related to our disbursements segment. The total liability of \$30.6 million is recorded within accrued expenses on our condensed consolidated balance sheets. While we believe that it is probable that we will have a loss related to these regulatory matters, in view of the inherent difficulty of predicting the outcomes of regulatory matters, we cannot predict the eventual outcomes of these pending matters, the timing of the ultimate resolution of these matters or an exact amount of loss associated with these matters. The liability recorded at September 30, 2015, reflects the minimum amount we expect to pay related to these matters, although there is a reasonable possibility that the liability will increase in future periods. The ultimate amount of restitution or civil money penalties is subject to many uncertainties and therefore impossible to predict, however we believe our exposure related to these matters is approximately \$70.0 million in total. As disclosed in “Note 5 – Credit Facility” of our condensed consolidated financial statements, we amended our Credit Facility in February 2015. The amendment allows, among other things, for the payment of up to \$75.0 million in connection with the resolution of the regulatory matters described above.

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

Operating Segments and Reporting Units

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

Agreement to Sell Campus Labs Assets

On October 14, 2015, we entered into an Asset Purchase Agreement with CL NewCo, Inc., or NewCo, an affiliate of Leeds Equity Partners, for the sale of substantially all of the assets of our data analytics business, or Campus Labs.

Pursuant to the terms of the Asset Purchase Agreement, NewCo agreed to acquire Campus Labs for a total cash purchase price of approximately \$91 million. This purchase price is subject to certain closing adjustments including adjustments for working capital. The working capital adjustments will be determined at the time of closing, but may reduce the purchase price by \$5 million to \$7 million. The transaction is subject to necessary regulatory approvals and is expected to close by the end of November 2015.

We expect to receive proceeds, net of expenses and taxes, of between \$55 million and \$60 million from the transaction. As a condition of an amendment to our Credit Facility to allow for the sale of the Campus Labs assets, we will be required to repay \$30 million of the outstanding amount on the Credit Facility when the sale of Campus Labs is complete. Refer to "Note 5 - Credit Facility" for additional information on the terms of the October amendment to our Credit Facility.

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

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

	Three Months Ended September 30, (unaudited)					2015 % of	2014 % of		
	2015	2014	\$ Change	% Change		Gross Revenue	Gross Revenue		
	(in thousands)								
Revenue:									
Account revenue	\$26,654	\$31,468	\$(4,814)	(15.3 %)	47.3 %	52.6 %			
Payment transaction revenue	19,055	18,197	858	4.7 %	33.8 %	30.4 %			
Higher education institution revenue	10,486	9,929	557	5.6 %	18.6 %	16.6 %			
Other revenue	167	181	(14)	(7.7 %)	0.3 %	0.3 %			
Gross revenue	56,362	59,775	(3,413)	(5.7 %)	100.0 %	100.0 %			
Less: allowance for customer restitution	(21,880)	-	(21,880)	100.0 %	(38.8 %)	-			
Revenue	34,482	59,775	(25,293)	(42.3 %)	61.2 %	100.0 %			
Cost of revenue	27,817	28,182	(365)	(1.3 %)	49.4 %	47.1 %			
Gross profit	6,665	31,593	(24,928)	(78.9 %)	11.8 %	52.9 %			
Operating expenses:									
General and administrative	18,098	16,617	1,481	8.9 %	32.1 %	27.8 %			
Product development	2,040	1,555	485	31.2 %	3.6 %	2.6 %			
Sales and marketing	4,196	4,577	(381)	(8.3 %)	7.4 %	7.7 %			
Restructuring charge	334	-	334	100.0 %	0.6 %	-			
Total operating expenses	24,668	22,749	1,919	8.4 %	43.8 %	38.1 %			
Income (loss) from operations	(18,003)	8,844	(26,847)	(303.6 %)	(31.9 %)	14.8 %			
Interest income	23	20	3	15.0 %	0.0 %	-			
Interest expense	(1,262)	(828)	(434)	52.4 %	(2.2 %)	(1.4 %)			
Other income	77	(198)	275	(138.9 %)	0.1 %	(0.3 %)			
Net income (loss) before income taxes	(19,165)	7,838	(27,003)	(344.5 %)	(34.0 %)	13.1 %			
Income tax expense (benefit)	(6,510)	2,922	(9,432)	(322.8 %)	(11.6 %)	4.9 %			
Net income (loss)	\$(12,655)	\$4,916	\$(17,571)	(357.4 %)	(22.5 %)	8.2 %			

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

Three Months Ended September 30, (unaudited)									
	2015	2014	\$	%		2015%		2014%	
			Change	Change		of		of	
						Gross		Gross	
						Revenue		Revenue	
	(in thousands)								
Disbursements	\$28,194	\$33,202	\$ (5,008)	(15.1 %)		50.0 %		55.5 %	
Payments	23,789	22,889	900	3.9 %		42.2 %		38.3 %	
Data Analytics	4,379	3,684	695	18.9 %		7.8 %		6.2 %	
Gross Revenue	\$56,362	\$59,775	\$ (3,413)	(-5.7 %)		100.0 %		100.0 %	

Revenue

Disbursements Revenue

The decrease in disbursements gross revenue during the three months ended September 30, 2015 was primarily due to a decrease in account revenue. The decrease in account revenue is a result of fewer OneAccounts and also fewer dollars spent by OneAccounts compared to the prior year, both of which had the effect of reducing interchange revenue and service fee revenue. There was an approximate 17% decrease in the total dollars deposited into OneAccounts compared to the same period in the prior year, which led to a similar decrease in amounts spent from OneAccounts. The amounts deposited and spent from OneAccounts typically move by similar amounts, but may vary by several percentage points from one reporting period to the next depending on specific deposit and spending behavior. The decrease in dollars deposited into OneAccounts was the result of fewer financial aid refunds being deposited to OneAccounts and fewer OneAccounts, partially offset by an increase in the amount of non-financial aid deposits made into OneAccounts. We experienced an approximate 5% increase in amounts deposited to OneAccounts from non-financial aid refund sources. Deposits from non-financial aid refund sources constituted approximately 14% of all deposits made to OneAccounts during the three months ended September 30, 2015, an increase from 11% during the comparable prior year period.

The higher education institution revenue earned from our Refund Management services was \$1.4 million during the three months ended September 30, 2015, compared to \$1.6 million during the three months ended September 30 2014.

As further described in “Note 6 – Commitments and Contingencies” to our condensed consolidated financial statements and the “Regulatory Matters” section within “*Management’s Discussion and Analysis of Financial Condition and Results of Operations – Overview*,” we recorded a liability of \$21.9 million during the three months ended September 30, 2015, related to the potential requirement to provide restitution to certain OneAccount customers, which has been recorded as a reduction of our revenue.

Payments Revenue

The increase in payments revenue was due to higher payment transaction revenue, primarily due to an increase in the dollar volume of transactions processed through the SmartPay payment module during the three months ended September 30, 2015. The increase in payment transaction volume was primarily due to increases in volume at higher education institution clients that were processing payments during each of the three months ended September 30, 2015 and 2014. A portion of the higher revenue from the SmartPay payment module was offset by lower revenue associated with our tuition payment plan services.

Higher education institution revenue in the payments line of business was \$4.7 million during each of the three months ended September 30, 2015 and 2014.

Data Analytics Revenue

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

Cost of Revenue

During the three months ended September 30, 2015, our gross margin percentage decreased, largely as a result of the allowance for customer restitution recorded in the three months ended September 30, 2015, described above. Excluding the impact of the allowance for customer restitution, our non-GAAP gross margin percentage would have been 50.6% during the three months ended September 30, 2015, compared to 52.9% in the three months ended September 30, 2014. The decrease in our non-GAAP gross margin percentage was primarily due to lower gross margin percentage in the disbursements line of business, including the OneAccount.

While gross revenue associated with our disbursements line of business decreased \$5.0 million as described above, our cost of revenue to support that line of business decreased by \$0.9 million to \$15.2 million during the three months ended September 30, 2015, from \$16.1 million in the comparable prior year period. The gross margin percentage for the disbursements line of business, excluding the impact of the allowance for customer restitution, was 46.1% during the three months ended September 30, 2015, compared to 51.6% in the comparable prior year period. The decrease in transaction volumes in OneAccounts led to a decrease in certain costs of revenue; however, those decreases were partially offset in other areas, primarily higher customer service related costs.

Our cost of revenue to support the payments line of business increased to approximately \$12.1 million during the three months ended September 30, 2015, from \$11.7 million in the comparable prior year period. The gross margin percentage for the payments line of business was 49.1% during the three months ended September 30, 2015, compared to 48.8% in the comparable prior year period. The increase in costs was primarily related to the growth of SmartPay transaction volume described above in “Revenue – *Payments Revenue*.”

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

General and Administrative Expense

The increase in general and administrative expenses was primarily attributable to the following two factors: (i) increases in depreciation and amortization totaling approximately \$0.7 million, including amortization related to internal use software, and (ii) our total personnel costs increased by approximately \$0.3 million, including a \$0.2 million increase in stock-based compensation expenses.

Product Development Expense

The increase in product development expense was primarily due to higher personnel costs, most of which related to product development for the data analytics line of business.

Sales and Marketing Expense

The decrease in sales and marketing expense was due primarily to amortization expense of approximately \$0.3 million recorded during the three months ended September 30, 2014, which related to a marketing software platform which was no longer being utilized at that time.

Restructuring Charge

In April 2015, we entered into an agreement with a third-party service provider to operate our customer care center in order to provide live-agent, chat and interactive voice response services for our disbursements line of business, including the OneAccount. In connection with this agreement, we plan to reduce our employee workforce across our customer care department. We began the transition to the third-party service provider in July 2015 and expect to substantially complete the employee reduction by November 2015. However, the timing of this transition and of certain employee reductions may vary. We estimate we will recognize costs of up to \$1.0 million during fiscal year 2015, consisting of severance and other employee-related benefits. Such costs are expected to be substantially accrued and paid through the end of the first quarter of 2016. For the three months ended September 30, 2015 we recognized restructuring charges of \$0.3 million related to the plan described above. We expect to realize cost savings of approximately \$4.0 million in 2016 through this arrangement.

Interest Expense

Our interest expense increased compared to the prior period due primarily to additional amortization of deferred financing costs. As a result of the February 2015 amendment to our credit facility, the interest expense associated with our deferred financing costs increased by \$0.4 million to \$0.5 million during the three months ended September 30, 2015. The average interest rate during the three months ended September 30, 2015 was 4.2%, an increase from 2.4% for the three months ended September 30, 2014. These increases were partially offset by lower amounts outstanding on our Credit Facility; the average amount outstanding on our Credit Facility was \$59.0 million during the three months ended September 30, 2015, compared to an average of \$94.0 million during the three months ended September 30, 2014.

Other Income (Loss)

Our other income (loss) during the three months ended September 30, 2014 included a loss of \$0.3 million related to the disposition of our interest in FC Winchester Lofts Master Tenant, LLC.

Income Tax Expense

We recorded an income tax benefit during the three months ended September 30, 2015 as a result of our net loss before income taxes. The change in income tax expense (benefit) was primarily due to the decrease in net income before taxes. The effective tax rates for the three months ended September 30, 2015 and 2014 were 34.0% and 37.3%,

respectively. Our effective tax rate is expected to be between 28% and 32% for the 2015 fiscal year. The decrease in our expected effective tax rate from the rate disclosed in our most recent Form 10-Q and the decrease in rate compared to the prior year period are due primarily to the allowance for customer restitution described above, which results in a pretax loss, the tax benefit on which is diminished by permanent differences between book and tax income.

Results of Operations for the Nine Months Ended September 30, 2015 and 2014

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

Nine Months Ended September 30, (unaudited)									
	2015	2014	\$ Change	% Change		2015% of Gross Revenue		2014% of Gross Revenue	
	(in thousands)								
Revenue:									
Account revenue	\$88,523	\$99,475	\$(10,952)	(11.0 %)		52.9 %		57.9 %	
Payment transaction revenue	47,497	42,652	4,845	11.4 %		28.4 %		24.8 %	
Higher education institution revenue	30,891	28,958	1,933	6.7 %		18.4 %		16.9 %	
Other revenue	558	723	(165)	(22.8 %)		0.3 %		0.4 %	
Gross revenue	167,469	171,808	(4,339)	(2.5 %)		100.0 %		100.0 %	
Less: allowance for customer restitution	(21,880)	(8,750)	(13,130)	150.1 %		(13.1 %)		(5.1 %)	
Revenue	145,589	163,058	(17,469)	(10.7 %)		86.9 %		94.9 %	
Cost of revenue	77,479	76,878	601	0.8 %		46.3 %		44.7 %	
Gross profit	68,110	86,180	(18,070)	(21.0 %)		40.7 %		50.2 %	
Operating expenses:									
General and administrative	54,417	48,343	6,074	12.6 %		32.5 %		28.1 %	
Product development	6,120	5,517	603	10.9 %		3.7 %		3.2 %	
Sales and marketing	12,638	13,756	(1,118)	(8.1 %)		7.5 %		8.0 %	
Restructuring charge	574	-	574	100.0 %		0.3 %		-	
Total operating expenses	73,749	67,616	6,133	9.1 %		44.0 %		39.4 %	
Income (loss) from operations	(5,639)	18,564	(24,203)	(130.4 %)		(3.4 %)		10.8 %	
Interest income	63	73	(10)	(13.7 %)		0.0 %		0.0 %	
Interest expense	(3,894)	(2,443)	(1,451)	59.4 %		(2.3 %)		(1.4 %)	
Other income	1,357	1,561	(204)	(13.1 %)		0.8 %		0.9 %	
Net income (loss) before income taxes	(8,113)	17,755	(25,868)	(145.7 %)		(4.8 %)		10.3 %	
Income tax expense (benefit)	(2,321)	6,900	(9,221)	(133.6 %)		(1.4 %)		4.0 %	
Net income (loss)	\$(5,792)	\$10,855	\$(16,647)	(153.4 %)		(3.5 %)		6.3 %	

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

**Nine Months Ended September 30,
(unaudited)**

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	2015	2014	\$	%		2015%	2014%		
			Change	Change		of	of		
						Gross	Gross		
						Revenue	Revenue		
	(in thousands)								
Disbursements	\$92,930	\$103,833	\$(10,903)	(10.5 %)		55.5 %	60.4 %		
Payments	61,921	57,455	4,466	7.8 %		37.0 %	33.4 %		
Data Analytics	12,618	10,520	2,098	19.9 %		7.5 %	6.1 %		
Gross Revenue	\$167,469	\$171,808	\$(4,339)	(-2.5 %)		100.0 %	100.0 %		

Revenue

Disbursements Revenue

The decrease in disbursements revenue during the nine months ended September 30, 2015 was primarily due to a decrease in account revenue. The decrease in account revenue is a result of fewer OneAccounts and fewer dollars spent by OneAccounts, which had the effect of reducing both interchange revenue and service fee revenue when compared to the same period in the prior year. There was an approximate 11% decrease in total dollars deposited into OneAccounts compared to the same period in the prior year, which led to a similar decrease in amounts spent from OneAccounts. The amounts deposited and spent from OneAccounts typically move by similar amounts, but may vary by several percentage points from one reporting period to the next depending on specific deposit and spending behavior. The decrease in dollars deposited into OneAccounts was the result of fewer financial aid refunds being deposited to OneAccounts and fewer OneAccounts, partially offset by an increase in the amount of non-financial aid deposits made into OneAccounts. We experienced an approximate 7% increase in amounts deposited to OneAccounts from non-financial aid refund sources. Deposits from non-financial aid refund sources constituted approximately 17% of all deposits made to OneAccounts during the nine months ended September 30, 2015, an increase from 14% during the comparable prior year period.

The higher education institution revenue earned from our Refund Management services was \$4.0 million during the nine months ended September 30, 2015, compared to \$3.9 million during the nine months ended September 30 2014.

As further described in “Note 6 – Commitments and Contingencies” to our condensed consolidated financial statements and the “Regulatory Matters” section within “*Management’s Discussion and Analysis of Financial Condition and Results of Operations – Overview*,” we recorded a liability of \$21.9 million and \$8.75 million during the nine months ended September 30, 2015 and 2014, respectively, related to the potential requirement to provide restitution to certain OneAccount customers.

Payments Revenue

The increase in payments revenue was due to higher payment transaction revenue, primarily due to an increase in the dollar volume of transactions processed through the SmartPay payment module during the nine months ended September 30, 2015. The increase in payment transaction volume was primarily due to increases in volume at higher education institution clients that were processing payments during each of the nine months ended September 30, 2015 and 2014.

Higher education institution revenue in the payments line of business was \$14.4 million during each of the nine months ended September 30, 2015 and 2014. We ceased providing disbursement services to those clients on the Campus Solutions refund disbursement platform in the fourth quarter of 2014 and therefore earned no revenue related to these services during the nine months ended September 30, 2015, compared to approximately \$0.6 million during the nine months ended September 30, 2014. Offsetting that decrease is revenue associated with new services provided to higher education institution clients over the last twelve months.

Data Analytics Revenue

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

Cost of Revenue

During the nine months ended September 30, 2015, our gross margin percentage decreased, largely as a result of the allowance for customer restitution recorded in the nine months ended September 30, 2015, described above. Excluding the impact of the allowance for customer restitution, our non-GAAP gross margin percentage would have been 53.7% during the nine months ended September 30, 2015, compared to 55.3% in the nine months ended September 30, 2014. The decrease in our non-GAAP gross margin percentage was primarily due to a decrease in gross margin percentage in the disbursements line of business, including the OneAccount.

While gross revenue associated with our disbursements line of business decreased \$10.9 million as described above, our cost of revenue to support that line of business decreased only \$0.8 million during the nine months ended September 30, 2015. The gross margin percentage for the disbursements line of business, excluding the impact of the allowance for customer restitution, was 51.3% during the nine months ended September 30, 2015, compared to 55.6% in the comparable prior year period. While the decrease in transaction volumes in OneAccounts led to a decrease in certain costs of revenue, those decreases were partially offset in other areas, primarily higher customer service related costs.

Our cost of revenue to support the payments line of business increased to approximately \$30.7 million during the nine months ended September 30, 2015, from \$29.5 million in the comparable prior year period. The gross margin percentage for the payments line of business was 50.3% during the nine months ended September 30, 2015, compared to 48.6% in the comparable prior year period. The increase in costs was primarily related to the growth of SmartPay transaction volume described above in “Revenue – *Payments Revenue*.” This increase in costs was partially offset by a decrease in costs associated with supporting the Campus Solutions refund disbursement platform, which were \$1.2 million during the nine months ended September 30, 2014.

Our cost of revenue to support the data analytics line of business increased to \$1.4 million during the nine months ended September 30, 2015, compared to \$1.2 million during the nine months ended September 30, 2014. The majority of the data analytics costs are related to amortization of acquisition-related intangible assets.

General and Administrative Expense

The increase in general and administrative expenses was primarily attributable to the following two factors: (i) our total personnel costs increased by approximately \$2.7 million, including a \$1.2 million increase in stock-based compensation expenses, and (ii) increases in depreciation and amortization totaling approximately \$2.5 million, including amortization related to internal use software.

Product Development Expense

The increase in product development expense was primarily due to an increase of amortization expense of approximately \$0.5 million related to the acceleration of amortization of a software platform no longer being utilized. In addition, higher personnel costs were offset by a decrease in transition-related product development expenses associated with the Campus Solutions acquisition which we incurred only in the prior year period.

Sales and Marketing Expense

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

Restructuring Charge

In April 2015, we entered into an agreement with a third-party service provider to operate our customer care center in order to provide live-agent, chat and interactive voice response services for our disbursements line of business, including the OneAccount product. In connection with this agreement, we plan to reduce our employee workforce across our customer care department. We began the transition to the third-party service provider in July 2015 and expect to substantially complete the employee reduction by November 2015. However, the timing of this transition and of certain employee reductions may vary. We estimate we will recognize costs of up to \$1.0 million during fiscal year 2015, consisting of severance and other employee-related benefits. Such costs are expected to be substantially accrued and paid through the end of the first quarter of 2016. For the nine months ended September 30, 2015, we recognized restructuring charges of \$0.6 million related to the plan described above. We expect to realize cost savings of approximately \$4.0 million in 2016 through this arrangement.

Interest Expense

Our interest expense increased compared to the prior period due primarily to additional amortization of deferred financing costs. As a result of the February 2015 amendment to our credit facility, the interest expense associated with our deferred financing costs increased by \$1.3 million to \$1.7 million during the nine months ended September 30, 2015. The average interest rate during the nine months ended September 30, 2015 was 3.8%, an increase from 2.4% for the nine months ended September 30, 2014. These increases were partially offset by lower amounts outstanding on our Credit Facility; the average amount outstanding on our Credit Facility was \$64.4 million during the nine months ended September 30, 2015, compared to an average of \$94.5 million during the nine months ended September 30, 2014.

Other Income

Our other income during the nine months ended September 30, 2015 includes a payment of \$1.1 million related to a settlement and licensing agreement with TouchNet, and its successor company Heartland Payment Systems, which resolved our complaints against TouchNet and their counterclaim against us. During the nine months ended September 30, 2014, we recorded other income of \$1.6 million as a result of an agreement related to the resolution of certain escrow balances that were part of the acquisition of the Campus Solutions business. We also recorded other loss of \$0.3 million during the nine months ended September 30, 2014 as a result of the disposition of our interest in FC Winchester Lofts Master Tenant, LLC.

Income Tax Expense

The change in income tax expense (benefit) was primarily due to the decrease in net income before taxes. The effective tax rates for the nine months ended September 30, 2015 and 2014, were 28.6% and 38.9%, respectively. Our effective tax rate is expected to be between 28% and 32% for the 2015 fiscal year. The decrease in our expected effective tax rate from the rate disclosed in our most recent Form 10-Q and the decrease in rate compared to the prior year period are due primarily to the result of the allowance for customer restitution described above, which results in a pretax loss, the tax benefit on which is diminished by permanent differences between book and tax 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 defined below. As of September 30, 2015, we had \$27.8 million in cash and cash equivalents, \$0.3 million in available-for-sale investments and approximately \$81.0 million in borrowing capacity available under our Credit Facility, \$35.0 million of which is restricted as described below. Our primary liquidity requirements are for working capital, capital expenditures, product development expenses and general corporate needs. As of September 30, 2015, we had a working capital deficit of \$18.4 million.

Senior Secured Revolving Credit Facility

In October 2012, we entered into a five-year senior secured revolving credit facility, or the Credit Facility. We amended the Credit Facility in February, June and October 2015, which modified certain of the financial covenants and other terms of the agreement, including the amount available for borrowing, as described in “Note 5 – Credit Facility” of our notes to consolidated financial statements. In connection with the February 2015 amendment, we paid down the outstanding balance of the Credit Facility by \$35 million, expensed approximately \$0.4 million of previously deferred financing costs and incurred new financing costs of approximately \$4.5 million in February 2015, which are included in deferred costs as of September 30, 2015 in the accompanying condensed consolidated balance sheet. The Credit Facility permits the issuance of letters of credit of up to \$20.0 million and swing line loans of up to \$10.0 million to fund working capital needs. Loans drawn under the Credit Facility are payable in a single maturity on October 16, 2017. As of September 30, 2015, we had \$59.0 million in borrowings outstanding, at a weighted average interest rate of 4.2%, under the Credit Facility. In connection with the October 2015 amendment, we are required to pay down the outstanding balance of the Credit Facility by \$30.0 million upon the sale of the Campus Labs business. We expect to record an expense of approximately \$1.9 million during the three months ended December 31, 2015 to write-off deferred financing costs in connection with the October 2015 amendment.

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

The Credit Facility contains certain affirmative covenants including covenants to furnish the lenders with financial statements and other financial information and to provide the lenders notice of material events and information regarding collateral. The Credit Facility also contains certain negative covenants that, among other things, restrict our ability, subject to certain exceptions, to incur additional indebtedness, grant liens on our assets, undergo fundamental changes, make investments, sell assets, make restricted payments, change the nature of our business and engage in transactions with our affiliates. The maturity of the Credit Facility could be accelerated upon a change of control or if we experience a material adverse change in our operations, condition or prospects. In addition, the Credit Facility contains certain financial covenants in addition to the covenants described above, including a requirement to maintain a fixed charge coverage ratio of at least 1.25 to 1.00. We were in compliance with each of the applicable affirmative, negative and financial covenants of the Credit Facility as of September 30, 2015. As of September 30, 2015, our trailing twelve month consolidated EBITDA was \$53.7 million. Our leverage ratio was 1.10 to 1.00 as of September 30, 2015.

Cash Flows

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

	Nine Months Ended		
	September 30,		
	2015	2014	\$
	Change		
	(unaudited)		
	(in thousands)		
Net cash provided by (used in):			
Operating activities	\$32,935	\$20,903	\$12,032
Investing activities	(6,170)	43	(6,213)
Financing activities	(39,002)	5,231	(44,233)
Change in cash and cash equivalents	\$(12,237)	\$26,177	\$(38,414)
Cash and cash equivalents, end of period	\$27,785	\$32,445	\$(4,660)

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

The change in cash provided by (used in) investing activities primarily relates to cash provided by investing activities during the nine months ended September 30, 2014, as a result of (1) \$3.6 million related to the disposition of an equity method investment and (2) \$3.5 million associated with state historic tax credits generated by the construction of our headquarters. In addition, our purchases of fixed assets and internal use software development costs decreased by a total of \$0.9 million during the nine months ended September 30, 2015, compared to the prior year period.

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

We believe that our cash flows from operations, together with our existing liquidity sources, will be sufficient to fund our operations and anticipated capital expenditures over the next twelve months. As described in “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Overview” we may be required to pay material customer restitution and civil money penalties related to certain regulatory proceedings. Please refer to the “Regulatory Matters” section within “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Overview” for the impact that such regulatory matters may have on our liquidity.

Non-GAAP Supplemental Financial and Operating Information

	Three Months Ended September 30, 2015 2014		Nine Months Ended September 30, 2015 2014	
	(unaudited)			
	(in thousands)			
Adjusted EBITDA	\$11,211	\$14,959	\$39,478	\$44,820
Adjusted net income	\$4,191	\$6,969	\$16,220	\$21,674
Number of students enrolled at OneDisburse client higher education institutions at end of period	4,918	5,018	4,918	5,018
Number of OneAccounts at end of period	2,038	2,190	2,038	2,190

We define adjusted EBITDA as net income before interest, income taxes and depreciation and amortization, or EBITDA, further adjusted to remove the effects of stock-based compensation expense, the receipt of a settlement amount from Sallie Mae, Inc. related to our Campus Solutions acquisition, the allowance for customer restitution and a restructuring charge. Neither EBITDA nor adjusted EBITDA should be considered an alternative to net income, operating income or any other measure of financial performance calculated and presented in accordance with GAAP. Our EBITDA and adjusted EBITDA may not be comparable to similarly titled measures of other organizations because other organizations may not calculate EBITDA and adjusted EBITDA in the same manner as we do. In addition, adjusted EBITDA may not be identical to the corresponding measure used in our various agreements, in particular our Credit Facility.

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

	Three Months Ended September 30, 2015 2014		Nine Months Ended September 30, 2015 2014	
	(unaudited)			
Net income (loss)	\$(12,655)	\$4,916	\$(5,792)	\$10,855
Interest income	(23)	(20)	(63)	(73)
Interest expense	1,262	828	3,894	2,443
Income tax expense	(6,510)	2,922	(2,321)	6,900
Depreciation and amortization	5,563	5,235	16,429	14,123
EBITDA	(12,363)	13,881	12,147	34,248
Restructuring charge	334	-	574	-
Stock-based compensation expense	1,360	1,078	4,877	3,426
Allowance for customer restitution	21,880	-	21,880	8,750
Campus Solutions settlement received	-	-	-	(1,604)
Adjusted EBITDA	\$11,211	\$14,959	\$39,478	\$44,820

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

	Three Months Ended September 30, 2015 2014		Nine Months Ended September 30, 2015 2014	
	(unaudited)			
	(in thousands)			
Disbursements	\$3,084	\$7,142	\$18,759	\$28,317
Payments	6,561	6,317	15,949	12,818
Data Analytics	1,566	1,500	4,770	3,685
Total Adjusted EBITDA	\$11,211	\$14,959	\$39,478	\$44,820

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

Our adjusted net income may not be comparable to similarly titled measures of other organizations because other organizations may not calculate adjusted net income in the same manner as we do.

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

	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2015	
	2015	2014	2015	2014
Net income (loss)	\$(12,655)	\$4,916	\$(5,792)	\$10,855
Restructuring charge	334	-	574	-
Release of state tax valuation allowance	-	-	(285)	-
Allowance for customer restitution	21,880	-	21,880	8,750
Campus Solutions settlement received	-	-	-	(1,604)
Stock-based compensation expense - incentive stock option grants	205	328	698	1,045
Stock-based compensation expense - non-qualified stock option grants	1,155	750	4,179	2,381
Amortization of acquisition related intangible assets	1,820	1,931	5,459	5,997
Amortization of deferred finance costs	499	123	1,657	368
Total pre-tax adjustments	25,893	3,132	34,162	16,937
Tax rate	35.2 %	38.5 %	36.0 %	38.5 %
Less: tax adjustment (a)	9,047	1,079	12,150	6,118
Adjusted net income	\$4,191	\$6,969	\$16,220	\$21,674

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

Contractual Obligations

Except for the decrease in the amount owed under our Credit Facility, there have been no material changes to our contractual commitments from those disclosed in our annual report on Form 10-K for the year ended December 31, 2014.

Off-Balance Sheet Arrangements

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

liquidity, capital expenditures or capital resources.

Critical Accounting Policies

The significant accounting policies and basis of preparation of our consolidated financial statements are described in “Note 2 – Significant Accounting Policies” of our notes to consolidated financial statements included in each of our Annual Report on Form 10-K for the year ended December 31, 2014 and in this Quarterly Report on Form 10-Q. Under accounting principles generally accepted in the United States, we are required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and disclosure of contingent assets and liabilities in our financial statements. Actual results could differ materially from those estimates.

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

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

For a complete discussion of these critical accounting policies, refer to “Critical Accounting Policies” within “Item 7 - Management’s Discussion and Analysis of Financial Condition and Results of Operations” included within our annual report on Form 10-K for the year ended December 31, 2014. As of September 30, 2015, there have been no material changes to any of the Critical Accounting Policies described above, except for changes to our accounting policy for goodwill and intangible assets summarized below.

Goodwill and Intangible Assets

As of December 31, 2014, we had one operating segment and reporting unit for purposes of our goodwill testing as a result of the integrated way that the entire business was managed at that point in time. We performed the annual impairment test as of October 31, 2014 and determined that the fair value of our reporting unit at the time exceeded its carrying value by more than 30%. As we only had one operating segment and one reporting unit at that time, we primarily relied on the indicated fair value of the enterprise from the trading price of our common stock.

As a result of changes in our operating segments and reporting units in 2015, we now have three operating segments, which are also reporting units. As a result of the change in our operating segments, we have compared the fair value of our reporting units to the carrying value of our reporting units and determined that there was no impairment of goodwill. However, the excess of fair value compared to carrying value does vary by reporting unit. The fair value of the disbursements reporting unit exceeded its carrying value by approximately 40% at the time of our change in reporting units and is the reporting unit most susceptible to impairment in the future. The fair value of the disbursements reporting unit could fall below the carrying value of the reporting unit in the future, leading to a potential material impairment charge in a future period. The amount of goodwill in the disbursements reporting unit subject to a potential future impairment is approximately \$11 million. The key assumptions that drive the fair value of the reporting unit include the number of higher education institutions utilizing our Refund Management disbursement services, the number of OneAccounts and the related amount of deposit and spending volume in the OneAccounts. Those key assumptions could change in the future, particularly depending on the conclusion of those matters described above in Management’s Discussion and Analysis of Financial Condition and Results of Operations “Overview – Department of Education” and “Overview – Regulatory Matters.”

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

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our principal market risk relates to interest rate sensitivity, which is the risk that future changes in interest rates will reduce our net income or net assets. Our Credit Facility accrues interest at a rate equal to a base rate plus a margin of 3% or London Interbank Offered Rate plus a margin of 4%. Based upon a sensitivity analysis at October 1, 2015, assuming average outstanding borrowings during the three months ended September 30, 2015 of \$59.0 million, a hypothetical 50 basis point increase in interest rates would result in an increase in interest expense of approximately \$0.3 million for an annual period.

Item 4. Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act) as of September 30, 2015. Based on this evaluation, our principal executive officer and principal financial officer concluded that, as of September 30, 2015, our disclosure controls and procedures were effective to provide reasonable assurance that information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure, and ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There has been no change in our internal controls over financial reporting during the three months ended September 30, 2015 identified in connection with the evaluation required by Rules 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this report that has materially affected, or is reasonable likely to materially affect, our internal controls over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

The following information supplements and amends our discussion set forth under Part I, Item 3. “Legal Proceedings” in our Annual Report on Form 10-K for the year ended December 31, 2014.

As described in “Note 5 – Credit Facility” and “Note 6 – Commitments and Contingencies” to our condensed consolidated financial statements and the “Regulatory Matters” section within “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Overview”, the Federal Reserve Banks of Chicago and Philadelphia and the San

San Francisco Regional Office of the FDIC have each notified us of potential violations of the Federal Trade Commission Act relating to marketing and disclosure practices related to the OneAccount during the period it was offered by certain of our current or former bank partners. Please refer to the aforementioned sections for relevant information concerning this matter.

In addition, see “Note 6 – Commitments and Contingencies” to our condensed consolidated financial statements for other developments related to our legal proceedings.

Item 1A. Risk Factors

There have been no material changes to our risk factors from those disclosed in our annual report on Form 10-K for the year ended December 31, 2014, other than the following:

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

As a payments processor to higher education institutions that takes payment instructions from institutions and their constituents, including students and employees, and gives them to our Bank Partners, we are directly or indirectly subject to a variety of federal and state laws and regulations. Our contracts with most of our higher education institution clients and our Bank Partners require us to comply with applicable laws and regulations, including but not limited to, where applicable:

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

Higher Education Regulations

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

Under ED’s regulations, a third party servicer that contracts with a Title IV institution acts in the nature of a fiduciary in the administration of Title IV programs. Among other requirements, the regulations provide that a third-party servicer is jointly and severally liable with its client institution for any liability to ED arising out of the servicer’s violation of Title IV or its implementing regulations, which could subject us to material fines related to acts or omissions of entities beyond our control. ED is also empowered to limit, suspend or terminate the violating servicer’s eligibility to act as a third-party servicer and to impose significant civil penalties on the violating servicer. Additionally, on behalf of our higher education institution clients, we are required to comply with ED’s cash management regulations regarding payment of financial aid credit balances to students and providing bank accounts to students that may be used for receiving such payments. In the event ED concluded that we had violated Title IV or its implementing regulations and should be subject to one or more of these sanctions, our business and results of operations could be materially and adversely affected. There is limited enforcement and interpretive history of Title IV regulations.

On May 1, 2012, ED published in the Federal Register a notice of intent to establish a negotiated rulemaking committee to draft proposed regulations designed to prevent fraud through the use of electronic fund transfers to students' bank accounts, ensure proper use of federal financial aid funds, address the use of debit cards and other banking products for disbursing federal financial aid funds, and improve and streamline campus' financial aid programs. We provided written and oral comments at a hearing held by ED in connection with the negotiated rulemaking process and have provided additional information to ED. On April 16, 2013, ED announced additional topics for consideration, and in early 2014, formed a negotiated rulemaking committee. Our Chief Operating Officer was selected by ED to serve on the committee as a primary negotiator. The committee convened in February, March, April and May of 2014 to discuss and work toward revising existing regulations to potentially address, among other things, consumer safeguards regarding debit and prepaid cards associated with Title IV Cash Management (including fees associated with such debit and prepaid cards), marketing of financial products (including sending unsolicited cards to students and co-branding of the card and materials) by institutions and their preferred banks or contractors, ATM access and availability, revenue sharing arrangements, and the potential for a government-sponsored debit or prepaid card solution. The negotiated rulemaking committee concluded its efforts in May 2014 and a consensus was not reached on any proposed regulations. Several of the views expressed at the negotiated rulemaking committee sessions were unfavorable to certain of our current business practices.

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

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

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

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

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

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

Regulation of OneAccounts

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

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

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

Money Transmitter Regulations. Because our technology services are provided in connection with the financial products of our bank partners, our activities are occasionally reviewed by regulatory agencies to ensure that we do not impermissibly engage in activities that require licensing at the state or federal level. In the ordinary course of business, we receive letters and inquiries concerning the nature of our business as it applies to state “money transmitter” licensing and regulations from different state regulatory agencies. If a state agency were to conclude that we are required to be licensed as a “money transmitter,” we may need to undergo a costly licensing process in that state, and failure to comply could be a violation of state and potentially federal law.

Privacy and Data Regulation

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

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

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

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

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

Compliance

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

It is impossible to determine the extent of the impact of any new laws, regulations or initiatives that may be proposed, or whether any of the proposals will become law. The imposition of any new laws or regulations could make compliance more difficult and expensive and affect the manner in which we conduct business. In addition, many of these laws and regulations are evolving, unclear and inconsistent across various jurisdictions. If we were deemed to be in violation of any laws or regulations that are currently in place or that may be promulgated in the future, including but not limited to those described above, we could be exposed to financial liability and negative publicity or forced to change our business practices or stop offering some of our products and services. We also could face significant legal fees, delays in extending our product and services offerings and damage to our reputation that could harm our business and reduce demand for our products and services. Even if we are not required to change our business practices, we could be required to obtain licenses or regulatory approvals that could cause us to incur substantial legal fees, costs and delays.

