

Higher One Holdings, Inc.
Form S-1
March 24, 2010
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As filed with the Securities and Exchange Commission on March 24, 2010

Registration No. 333-

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM S-1 REGISTRATION STATEMENT

Under

THE SECURITIES ACT OF 1933

HIGHER ONE HOLDINGS, INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

7389
(Primary Standard Industrial
Classification Code Number)
25 Science Park

26-3025501
(I.R.S. Employer

Identification No.)

New Haven, Connecticut 06511

(203) 776-7776

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

Thomas D. Kavanaugh, Esq.

General Counsel

Higher One Holdings, Inc.

25 Science Park

New Haven, Connecticut 06511

(203) 776-7776

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

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

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

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

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

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

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Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Proposed maximum aggregate offering price(1)(2)	Amount of registration Fee
Common Stock, par value \$.001 per share	\$ 100,000,000	\$ 7,130

- (1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o) under the Securities Act.
- (2) Includes (i) shares of common stock to be offered by the registrant and the selling stockholders in this offering and (ii) shares of common stock that may be purchased by the underwriters from the selling stockholders upon the exercise of the underwriters' option to purchase additional shares.

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

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

Subject to Completion. Dated March 24, 2010.

Shares

Higher One Holdings, Inc.

Common Stock

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

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

Prior to this offering, there has been no public market for the common stock. It is currently estimated that the initial public offering price per share will be between \$ _____ and \$ _____. Higher One intends to list the common stock on The NASDAQ Global Select Market under the symbol _____.

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

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

	Per Share	Total
Initial public offering price	\$	\$

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Underwriting discount	\$	\$
Proceeds, before expenses, to Higher One Holdings, Inc.	\$	\$
Proceeds, before expenses, to the selling stockholders	\$	\$
To the extent that the underwriters sell more than _____ shares of common stock, the underwriters have the option to purchase up to an additional _____ shares from selling stockholders at the initial public offering price less the underwriting discount.		

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

Goldman, Sachs & Co.

UBS Investment Bank

Piper Jaffray

**Raymond James
JMP Securities**

William Blair & Company

Prospectus dated _____, 2010.

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

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PROSPECTUS SUMMARY

The following summary highlights information appearing elsewhere in this prospectus. This summary does not contain all of the information you should consider before investing in our common stock. You should read this entire prospectus carefully. In particular, you should read the sections entitled Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and the notes relating to those statements included elsewhere in this prospectus. Unless the context otherwise requires, in the prospectus, references to the company, Higher One, we, us, or our refer to Higher One Holdings, Inc. and its consolidated subsidiaries.

Our Company

We are a leading provider of technology and payment services to the higher education industry. We provide the most comprehensive suite of disbursement and payment solutions specifically designed for higher education institutions and their students. We also provide campus communities with convenient and student-oriented banking services, which include extensive user-friendly features.

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

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

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

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

We have experienced significant growth since our inception in 2000, which we believe demonstrates the benefits and convenience our products provide to our customers, as well as the complementary nature of our higher education institution services and student services. As of December 31, 2009, 367 campuses serving approximately 2.3 million students had purchased the OneDisburse service and 255 campuses serving approximately 1.9 million students had contracted to

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use one or more of our payment products and services. From 2003 through 2009, our disbursement services and our student banking services have experienced consistent annual growth. Since our initial product launch in 2002 and as of December 31, 2009, we have completed disbursement transactions with a total cash value of approximately \$10.8 billion. In addition, as of December 31, 2009, we had approximately 1 million OneAccounts, representing growth in the number of OneAccounts of 81% from December 31, 2008.

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

Investment Highlights

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

Most Comprehensive Suite of Products and Services. We believe that none of our competitors can match our ability to provide solutions to higher education institutions' financial services needs, including compliance monitoring, while simultaneously meeting the retail banking needs of students. We believe that our unique ability to provide a one-stop shop to higher education institutions and their students deepens our relationships with current higher education institutional clients and enhances our attractiveness to other potential clients.

Diversified Client Base. Our higher education institutional client base is very diverse, spanning colleges, universities and other higher education institutions in 46 states, with no single campus responsible for more than 4% of our revenue in 2009. We believe our profile among higher education institutional clients enhances our efforts to attract new clients and our experience and stability provides an avenue for references and referrals. These benefits are significant due to the generally long sales cycle and the desire of customers to find a stable and experienced provider.

Focus on Customer Service and Satisfaction. We believe our multi-pronged approach to customer service, supported by our approximately 200 after-sales customer service employees, allows us to provide superior customer service and makes us an industry-leader in customer satisfaction. Our after-sales service for higher education institutional clients is focused on person-to-person assistance with our technology and software solutions. Our after-sales service for our student banking customers is designed to provide cost-effective technology-based customer service through a variety of media, including SMS text messaging, Internet and telephone. We believe that our over 97% retention rate since 2003 demonstrates the level of our client and customer satisfaction.

Predictable Revenue Streams. We believe we have a recurring and predictable revenue stream and can forecast near-term future revenues with a meaningful degree of reliability due to our stable client base. The majority of our revenue each year is generated through existing relationships with higher education institutions and their campus communities. For example, in 2009, excluding revenue generated by our recent acquisition of CASHNet, we generated over 90% of our revenue from contracts signed in prior years. This, coupled with our over 97% retention rate since 2003, provides a relatively stable and predictable revenue stream. Additionally, we believe the vast majority of our approximately 1 million OneAccount users are

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students who exhibit common spending habits and demonstrate similar patterns of financial activity. Our focus on higher education enables us to understand this demographic and its spending habits and patterns, which allows us to better forecast near-term future revenues from OneAccounts. This visibility allows us to appropriately manage our expenses and investments.

Scalable Business Model. Our scalable technology and infrastructure permits us to significantly expand our business in a cost-effective manner. Our products and services are based on a combination of our proprietary software applications, third-party technology and infrastructure solutions and business processes that can be used for multiple clients without significant cost implications. Moreover, our historical experience is that the relative expense associated with servicing additional higher education clients and student customers has decreased as our business has expanded. Our total revenue for the years ended December 31, 2007, 2008 and 2009 were approximately \$28.0 million, \$44.0 million and \$75.5 million, respectively, while the ratio of our expenses to our total revenue for those years was approximately 84.9%, 77.4% and 70.0%, respectively.

Experienced Management Team With A Proven Track Record. Our senior management team, which includes two of our three founders, has been with us for an average of eight years and is primarily responsible for our company's rapid growth. Their leadership, combined with their deep and specialized understanding of our industry, have been and continue to be essential components of our growth and success in providing our higher education institutional clients with efficient, technology-driven solutions.

Our Strategy

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

Expand the Number of Contracted Higher Education Institutions. Although we have significantly expanded our higher education institutional client base, there remains a large majority of higher education institutions that are potential clients. We believe that we have only accessed 12% and 10% of the potential market for our disbursement products and payment products, respectively, and that a large proportion of the remaining potential clients still rely primarily on inefficient in-house disbursement and payment solutions and would benefit from our industry-leading suite of electronic products and services. We expect our dedicated sales force to leverage our deep experience in providing the higher education industry with cost-saving disbursement and payment services as we continue to add to our client base.

Increase OneAccount Usage. We are focused on increasing the number of OneAccount users at our higher education institutional clients, as well as encouraging OneAccount holders to increase their use of their accounts. We believe there is a significant opportunity to achieve revenue growth by increasing our penetration and usage rates from students at our existing OneDisburse clients. While we have achieved an increasing penetration rate, partially through our joint marketing efforts with our higher education institutional clients, we intend to expand and enhance our efforts in order to reach a greater proportion of the campus communities.

Cross-Sell Our Existing Products and Services. We intend to cross-sell our products and services through bundled packages and pricing. By building on our successful cross-selling experience, we intend to pursue the cross-selling opportunities presented by our recent acquisition of CASHNet in November 2009. At the time of the acquisition, only 4% of our

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combined clients were clients of both Higher One and CASHNet, creating an expansive cross-selling opportunity for us.

Enhance and Extend Our Products and Services. We intend to continue to anticipate and monitor customer and client needs and to respond by introducing new products and services and upgrading or modifying our existing offerings to take advantage of market opportunities. We also expect to meet the changing demands of our market by developing and offering new products and services, such as our Payroll and Financial Intelligence products launched in recent years.

Pursue Strategic Partnerships and Opportunistic Acquisitions. We intend to selectively consider acquisitions of, and investments in, companies or joint ventures that offer complementary products and services that further develop our business or broaden the scope of our products and services into new areas or strengthen the products and services available to existing clients. We believe each acquisition expands our sales opportunities by allowing us to leverage the existing client relationships of the acquired companies.

Our Industry

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

We believe the higher education industry is one of the most stable and least cyclical industries in the United States. Most higher education institutions are potential clients, as these institutions face increasing pressure to reduce expenses, improve the quality of services provided to students and streamline regulatory compliance in their disbursement and payment systems. In addition, we believe that institutions and their students are increasingly attracted to the convenience, security and enhanced services associated with electronic payment systems that meet and comply with applicable regulations.

Risk Factors

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

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

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

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

the convenience fees that we charge are subject to change;

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

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

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

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

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

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

Our Corporate History and Other Information

Higher One, Inc. was founded in 2000 in New Haven, Connecticut by Mark Volchek, Miles Lasater and Sean Glass. In July 2008, Higher One, Inc. formed Higher One Holdings, Inc., which is now the holding company for all of our operations. In November 2009, we acquired Informed Decisions Corporation, which we renamed Higher One Payments, Inc. and which does business as CASHNet. CASHNet is a leader in providing cashiering and payment solutions for higher education.

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

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The Offering

Common stock offered by us	shares
Common stock offered by the selling stockholders	
	shares
Common stock to be outstanding after this offering	
	shares
Use of proceeds	We estimate that the net proceeds to us from this offering will be approximately \$ million. We will not receive any proceeds from the sale of shares by the selling stockholders. We intend to use \$ million of the net proceeds we receive from this offering for the repayment of amounts outstanding under our senior secured revolving credit facility, or Credit Facility, and \$ million to satisfy our post-closing obligations under the CASHNet stock purchase agreement dated November 19, 2009. We intend to use the remaining net proceeds to pursue our strategic objectives and for general corporate purposes. See Use of Proceeds.
Dividends	We do not anticipate paying any cash dividends in the foreseeable future.
Proposed NASDAQ Global Select Market symbol	
Risk Factors	See Risk Factors beginning on page 11 and other information included in this prospectus for a discussion of factors that you should carefully consider before investing in our common stock.
The number of shares of common stock that will be outstanding after this offering in the table above includes	shares of restricted stock issued but not yet vested under our 2000 Stock Option Plan and excludes shares of common stock issuable upon exercise of outstanding stock options with a weighted average exercise price of \$ per share, of which were vested as of , 2010.

Except as otherwise noted, all information in this prospectus:

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

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

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

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You should read the data set forth below in conjunction with our consolidated financial statements and related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations and other financial information included elsewhere in this prospectus. We derived the summary financial data as of December 31, 2008 and 2009 and for each of the three years ended December 31, 2007, 2008 and 2009 from our audited consolidated financial statements and the related notes appearing elsewhere in this prospectus. We derived the summary financial data as of December 31, 2007 from our audited financial statements and the related notes not included in this prospectus. Our historical results are not necessarily indicative of our results for any future period.

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

Consolidated Statement of Income Data

	2007	Historical Year Ended December 31, 2008 2009		Pro Forma 2009 (unaudited)
	(in thousands, except share and per share amounts)			
Revenue	\$ 27,978	\$ 44,006	\$ 75,517	\$ 92,549
Cost of revenue	11,140	16,302	24,440	36,494
Gross margin	16,838	27,704	51,077	56,055
Operating expenses	12,625	17,753	28,396	35,436
Income from operations	4,213	9,951	22,681	20,619
Other income (expense)	(569)	(26)	(537)	(1,436)
Income before income taxes	3,644	9,925	22,144	19,183
Income tax expense	1,362	3,547	7,925	6,423
Net income	2,282	6,378	14,219	12,760
Less: Net income allocable to participating securities	1,808	5,102	11,477	10,299
Net income available to common shareholders	\$ 474	\$ 1,276	\$ 2,742	\$ 2,461
Net income per common share:				
Basic	\$ 0.13	\$ 0.37	\$ 0.88	\$ 0.79
Diluted	\$ 0.12	\$ 0.34	\$ 0.80	\$ 0.72
Weighted average common shares outstanding:				
Basic	3,652,611	3,435,464	3,099,377	3,099,377
Diluted	19,033,687	18,652,916	17,802,709	17,802,709

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	2007	2008	As of December 31, 2009 Actual	2009 As Adjusted(1)
			(in thousands)	
Cash and cash equivalents	\$ 9,755	\$ 1,488	\$ 3,339	
Total assets	18,423	13,662	59,904	
Total debt and capital lease obligations, including current maturities	1,172	18,934	27,647	
Total liabilities	22,675	25,402	52,800	
Total stockholders' equity	(4,252)	(11,740)	7,104	

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

Consolidated Other Data

	Year Ended December 31,		
	2007	2008	2009
	(in thousands)		
Adjusted EBITDA(1)	\$ 5,473	\$ 13,141	\$ 30,516
Adjusted net income(2)	\$ 2,434	\$ 7,725	\$ 18,091
Number of students enrolled at OneDisburse client higher education institutions at end of period	1,011	1,605	2,331
Number of students enrolled at payment transaction client higher education institutions at end of period	3	30	1,949
Number of OneAccounts at end of period	359	554	1,004

- (1) We define adjusted EBITDA as net income before interest, taxes, depreciation and amortization and warrant fair value adjustment, adjusted to eliminate stock-based customer acquisition expense related to our grant of common stock in connection with our acquisition of EduCard in 2008, stock-based compensation expense and a nonrecurring milestone bonus paid to non-executive employees in 2009 upon our reaching a particular long-term operational target. Adjusted EBITDA should not be considered as an alternative to net income, operating income or any other measure of financial performance calculated and presented in accordance with United States generally accepted accounting principles, or GAAP. Our adjusted EBITDA may not be comparable to similarly titled measures of other organizations because other organizations may not calculate adjusted EBITDA in the same manner as we do. We prepare and present adjusted EBITDA to eliminate the effect of items that we do not consider indicative of our core operating performance. You are encouraged to evaluate our adjustments and the reasons we consider them appropriate.

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

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

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

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

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

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

	Year Ended December 31,		
	2007	2008	2009
	(in thousands)		
Net income	\$ 2,282	\$ 6,378	\$ 14,219
Interest income	(291)	(152)	(4)
Interest expense	115	357	558
Other income		(234)	(17)
Income tax expense	1,362	3,547	7,925
Depreciation and amortization	1,114	1,452	2,969
Warrant fair value adjustment	745	55	
EBITDA	5,327	11,403	25,650
Stock-based customer acquisition expense		1,240	2,385
Stock-based compensation expense	146	498	1,387
Milestone bonus			1,094
Adjusted EBITDA	\$ 5,473	\$ 13,141	\$ 30,516

- (2) We define adjusted net income as net income, adjusted to eliminate (a) stock-based compensation expense related to incentive stock option grants and (b) after giving effect to tax adjustments, stock-based compensation expense related to non-qualified stock option grants, stock-based customer acquisition expense related to our grant of common stock in connection with our acquisition of EduCard in 2008, a non-recurring milestone bonus paid to non-executive employees in 2009 upon our reaching a particular long-term operational target and amortization expenses related to intangible assets and financing costs. Adjusted net income should not be considered as an alternative to net income, operating income or any other measure of financial performance calculated and presented in accordance with GAAP. Our adjusted net income may not be comparable to similarly titled measures of other organizations because other organizations

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may not calculate adjusted net income in the same manner as we do. We prepare adjusted net income to eliminate the effect of items that we do not consider indicative of our core operating performance. You are encouraged to evaluate our adjustments and the reasons we consider them appropriate.

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

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

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

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

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

	Year Ended December 31,		
	2007	2008 (in thousands)	2009
Net income	\$ 2,282	\$ 6,378	\$ 14,219
Stock-based customer acquisition expense		1,240	2,385
Stock-based compensation expense ISO	128	312	610
Stock-based compensation expense NQO	18	186	777
Milestone bonus expense			1,094
Amortization of intangibles	21	153	710
Amortization of finance costs		31	113
Total pre-tax adjustments	167	1,922	5,689
Tax rate	37.4%	35.7%	35.8%
Tax adjustment	15	575	1,817
Adjusted net income	\$ 2,434	\$ 7,725	\$ 18,091

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RISK FACTORS

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

Risks Related to Our Business

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

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

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

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

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

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

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

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payments are generally free, which could reduce the interchange fees remitted to us. Students may also become less willing to pay convenience fees when using our payment transaction services. If our fees are reduced as described above, our business, results of operations and prospects for future growth could be materially and adversely affected.

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

In 2009, approximately 88% of our revenue was generated from interchange fees, ATM fees, non-sufficient fund fees, other banking services fees and convenience fees. These fees, as well as the financial services industry in general, could undergo substantial change in the near future. Legislation passed by the U.S. House of Representatives, or House Bill, would further increase regulation and oversight of the financial services industry and impose restrictions on the ability of firms within the industry to conduct business consistent with historical practices. For example, under the House Bill, a Consumer Financial Protection Agency would be established to regulate any person engaged in a financial activity in connection with a consumer financial product or service, including those that process financial services products and services. The U.S. Senate is expected to consider its version of this legislation, or Senate Bill shortly. Although it is unclear at this time whether the Senate Bill will provide for a separate Consumer Financial Protection Agency, it is expected that the Senate Bill will include some consumer protection measures.

In addition, in 2009, the U.S. House of Representatives introduced a bill seeking to regulate interchange fees by allowing merchants to collectively seek to lower their interchange costs by exempting such action from the U.S. antitrust laws. Individual state legislatures are also reviewing interchange fees, and legislators in a number of states have proposed bills that purport to limit interchange fees or merchant discount rates or to prohibit their application to portions of a transaction.

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

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

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

Most credit and debit card associations and networks permit us to charge convenience fees to students, parents or other payers who make online payments to our higher education institutional clients through the SmartPay feature of our ePayment product using a credit or debit card. In 2009,

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

In addition, certain states, including California, New York, Florida and Texas, have laws that generally prohibit merchants from charging fees to customers when they use credit cards to make payments. State authorities have generally interpreted and applied these laws in a manner which has allowed us to charge convenience fees for online payments made with our ePayment product in many of these states. If one or more states alter their interpretation or application of these laws in a manner that restricts our ability to charge convenience fees or a change in the interpretation or application of these laws diminishes ability to retain existing or attract new ePayment clients, our business, financial condition and results of operations could be materially and adversely affected.

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

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

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

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

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

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

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

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

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

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

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

In addition, while we are not directly subject to banking regulations, some of our products and services are regulated, and we therefore rely on the ability of The Bancorp Bank to comply with applicable banking and financial service requirements. Its failure to do so could cause an interruption in the banking services we provide or require us to seek alternative solutions or relationships, either of which could materially and adversely affect our business. See **Legal and Regulatory Risks**. We are subject to substantial federal and state governmental regulation that could change and thus force us to make modifications to our business. Compliance with the various complex laws and regulations is costly and time consuming, and failure to comply could have a material adverse effect on our business. Additionally, increased regulatory requirements on our services may increase our costs, which could materially and adversely affect our business, financial condition and results of operations.

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

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

Accordingly, we depend, in part, on the services, technology and software of these and other third-party service providers. In the event that these service providers fail to maintain adequate levels of support, do not provide high quality service, discontinue their lines of business, terminate our contractual arrangements or cease or reduce operations, we may be required to pursue new third-party relationships, which could materially disrupt our operations and could divert management's time and resources. We may also be unable to establish comparable new third-party relationships on as favorable terms or at all, which could materially and adversely affect our business, financial condition and results of operations.

Even if we are able to obtain replacement technology, software or services there may be a disruption or delay in our ability to operate our business or to provide our products and services, and the replacement technology, software or services might be more expensive than those we have currently. The process of transitioning services and data from one provider to another can be complicated, time consuming and may lead to significant disruptions in our business. If we are unable to complete a transition to a new provider on a timely basis, or at all, we could be forced to temporarily or permanently discontinue certain services, which could disrupt services to our customers and adversely affect our business, financial condition and results of operations. In addition, any failure by third-party service providers to maintain adequate internal controls could negatively affect our internal control over financial reporting, which could impact the preparation and quality of our financial statements.

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

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

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

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

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

In addition, a significant incident of fraud or an increase in fraud levels generally involving our products, such as our OneCards, could result in reputational damage to us, which could reduce the use of our products and services. Such incidents of fraud could also lead to regulatory intervention, which could increase our compliance costs. See **Legal and Regulatory Risks** We are subject to substantial federal and state governmental regulation that could change and thus force us to make modifications to our business. Compliance with the various complex laws and regulations is costly and time consuming, and failure to comply could have a material adverse effect on our business. Additionally, increased regulatory requirements on our services may increase our costs, which could materially and adversely affect our business, financial condition and results of operations. Accordingly, account data breaches and related fraudulent activity could have a material adverse effect on our future growth prospects, business, financial condition and results of operations.

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

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

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

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

Maintaining and developing the Higher One and CASHNet brand is critical to expanding and maintaining our base of higher education institution clients and student OneAccount holders. We believe the importance of brand recognition will increase as competition in our market further intensifies. Maintaining and developing our brand will depend largely on our ability to continue to provide high-quality products and services at cost effective and competitive prices, as well as after-sale customer service. While we intend to continue investing in our brand, we cannot predict the success of these investments. If we fail to maintain and enhance our brand, if we incur excessive expenses in this effort or if our reputation is otherwise tainted, including by association with the wider financial services industry, we may be unable to maintain loyalty among our existing customers or attract new customers, which could materially and adversely affect our business, financial condition and results of operations.

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

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

the diversion of management's time and resources from our core business;

our ability to retain or replace key personnel of the acquired business, including management and key sales force members;

our ability to maintain relationships with the customers of the acquired business;

our ability to integrate common disclosure controls and procedures, internal controls over financial reporting and accounting policies;

the assumption of disclosed and undisclosed liabilities, including tax liabilities;

the indemnification agreements with the sellers of the acquired business may be unenforceable or insufficient to cover tax or other liabilities;

our ability to educate and train a combined sales force and cross-sell the combined products and services to our combined client base;

our ability to integrate the combined products, services and technology;

flaws in the acquired business's technology;

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inaccuracies in the acquired business books and records and any weaknesses in its internal controls;

the existence of intellectual property infringement claims;

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

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

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

As a result of these risks, we may not be able to achieve the expected benefits of any acquisition. If we are unsuccessful in integrating CASHNet or completing an acquisition that we may pursue in the future, we would be required to reevaluate our growth strategy and we may have incurred substantial expenses and devoted significant management time and resources in seeking to complete and integrate the acquisition. Even if we are successful in completing and integrating an acquired business, the acquired businesses may not perform as we expect or enhance the value of our business as a whole.

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

The continued rapid expansion and development of our business may place a significant strain upon our management and administrative, operational and financial infrastructure. As of December 31, 2009, we had approximately 1 million OneAccounts, representing growth of 81.2% from December 31, 2008. In 2009, our total revenue, adjusted EBITDA, adjusted net income and net income were approximately \$75.5 million, \$30.5 million, \$18.1 million and \$14.2 million, respectively, which represents three-year compounded annual growth rates over 2006 of approximately 68%, 192%, 74% and 62%, respectively. See Summary Summary Consolidated Financial Data for definitions of adjusted EBITDA and adjusted net income and reconciliations to net income. Our growth strategy contemplates further increasing the number of our higher education institutional clients and student banking customers at relatively similar growth rates, however, the rate at which we have been able to establish relationships with our customers in the past may not be indicative of the rate at which we will be able to establish additional customer relationships in the future.

Our success will depend in part upon the ability of our executive officers to manage growth effectively. Our ability to grow also depends upon our ability to successfully hire, train, supervise, and manage new employees, obtain financing for our capital needs, expand our systems effectively, allocate our human resources optimally, maintain clear lines of communication between our operational functions and our finance and accounting functions, and manage the pressures on our management and administrative, operational and financial infrastructure. There can be no assurance that we will be able to accurately anticipate and respond to the changing demands we will face as we continue to expand our operations or that we will be able to manage growth effectively or to achieve further growth at all. If our business does not continue to grow or if we fail to manage any future growth effectively our business, financial condition and results of operations could be materially and adversely affected.

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

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

the individual decision-making processes of each higher education institutional client, which typically include extensive and lengthy evaluations and require us to spend substantial time, effort and money educating each client about the value of our products and services;

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the budgetary constraints and priorities and budget cycle of each higher education institutional client; and

the reluctance of higher education staff to change or modify existing processes and procedures.

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

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

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

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

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

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

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

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

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opportunities. The loss of any of our executive officers or founders could have a material adverse effect on our ability to manage our company, growth prospects, business financial condition and results of operations.

Our success depends in part on our ability to identify, recruit and retain skilled sales, management and technical personnel.

Our future success depends upon our continued ability to identify, attract, hire and retain highly qualified personnel, including skilled technical, management, product and technology and sales and marketing personnel, all of whom are in high demand and are often subject to competing offers. Competition for qualified personnel in the technology industry is intense and there can be no assurance that we will be able to hire or retain a sufficient number of qualified personnel to meet our requirements, or that we will be able to do so at salary, benefit and other compensation costs that are acceptable to us. A loss of a substantial number of qualified employees, or an inability to attract, retain and motivate additional highly skilled employees required for the expansion of our business, could have a material adverse effect on our business and growth prospects.

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

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

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

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

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

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

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

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

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

We may incorporate open source software into our products. While the terms of many open source software licenses have not been interpreted by U.S. or foreign courts, such licenses could be construed in a manner that imposes conditions or restrictions on our ability to offer our products and services. In such event, we could be required to make the source code for certain of our proprietary software available to third parties, which may include competitors, to seek licenses from third parties, to re-engineer, or to discontinue the offering of our products or services, or we could become subject to other consequences, any of which could adversely affect our business, revenues and operating expenses.

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

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

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

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

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

We may need or seek additional financing in the future to refinance our existing indebtedness, fund our operations, fund acquisitions, develop additional products and services or implement other projects. As of December 31, 2009, Higher One, Inc. had \$18.0 million outstanding under its Credit Facility. Given the state of the current credit environment resulting from, among other things, the general weakening of the global economy, it may be difficult to refinance our existing indebtedness or obtain any additional financing on acceptable terms, which could have an adverse effect on our business, financial condition and results of operations. In addition, if, as a result of the current conditions in the credit markets, the lender under our current credit agreement or any other lender under any future credit agreement is unable to fund borrowings under that agreement, our liquidity could be adversely affected.

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

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

create liens;

make investments and acquisitions;

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incur additional debt;

transfer all or substantially all of our assets or enter into merger or consolidation transactions;

dispose of assets;

pay dividends or make any other distributions with respect to our stock;

issue stock, warrants, options or other rights to purchase stock or securities convertible into or exchangeable for shares of stock;

engage in any material line of business substantially different from the lines of business we currently conduct or any business substantially related or incidental thereto; and

enter into transactions with affiliates.

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

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

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

We, Higher One Holdings, Inc., conduct all of our operations through our subsidiaries. Accordingly, our main cash source is dividends and other distributions from these subsidiaries. The ability of each subsidiary to make distributions depends on the funds that a subsidiary has from its operations in excess of the funds necessary for its operations, obligations or other business plans. Since our subsidiaries are wholly owned by us, our claims will generally rank junior to all other obligations of the subsidiaries. If our operating subsidiaries are unable to make distributions, our growth may slow after the proceeds of this offering are exhausted, unless we are able to obtain additional debt or equity financing. In the event of a subsidiary's liquidation, there may not be assets sufficient for us to recoup our investment in the subsidiary.

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Legal and Regulatory Risks

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

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

regulations promulgated by the United States Department of Education regarding the handling of student financial aid funds received by institutions on behalf of their students under Title IV of the Higher Education Act, or Title IV;

the Family Educational Rights and Privacy Act, or FERPA;

the Electronic Fund Transfer Act and Regulation E promulgated thereunder;

the USA PATRIOT Act and related anti-money laundering requirements; and

certain federal rules regarding safeguarding personal information, including rules implementing the privacy provisions of the Gramm-Leach-Bliley Act of 1999, or GLBA.

Higher Education Regulations

Because of the services we provide to some institutions with regard to the handling of Title IV funds, the Department of Education may deem us to be a third-party servicer under the Title IV regulations. Those regulations require a third-party servicer annually to submit a compliance audit conducted by outside independent auditors that covers the servicer's Title IV activities. Accordingly, each year we submit a Compliance Attestation Examination of the Title IV Student Financial Assistance Programs audit to the Department of Education, which includes a report by an independent audit firm. We also provide this audit report to clients upon request to help them fulfill their compliance audit obligations as Title IV participating institutions.

If we were deemed to be a third-party servicer, certain other Title IV regulations would apply to our business. These include, for example, regulations making a third-party servicer jointly and severally liable with its client institution for any liability to the Department of Education arising out of the servicer's violation of Title IV or its implementing regulations, which could subject us to material fines related to acts or omissions of entities beyond our control. The Department of Education is also empowered to limit, suspend or terminate the violating servicer's eligibility to act as a third-party servicer and to impose significant civil penalties on the violating servicer. In the event the Department of Education concluded that we were a third-party servicer, had violated Title IV or its implementing regulations and should be subject to one or more of these sanctions, our business and results of operations could be material and adversely affected. There is limited enforcement and interpretive history of Title IV regulations.

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

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contact information, student identification numbers and the amount of students' credit balances. We believe that our higher education institutional clients may disclose this information to us pursuant to one or more exceptions to FERPA disclosure prohibition. However, if we do not fall into one of these exceptions or if future changes to legislation or regulations required student consent before our higher education institutional clients could disclose this information to us, a sizeable number of students may cease using our products and services, which could materially and adversely affect our business, financial condition and results of operations.

Additionally, as we are indirectly subject to FERPA, we may not permit the transfer of any personally identifiable information to another party other than in a manner in which an educational institution may disclose it. In the event that we re-disclose student information in violation of this requirement, FERPA requires our clients to suspend our access to any such information for a period of five years. Any such suspension could have a material adverse effect on our business, financial condition or results of operations. We may also be subject to similar state laws and regulations that restrict higher education institutions from disclosing certain personally identifiable information of students. For example, an Illinois law passed in 2009 prohibits certain public higher education institutions in Illinois from providing personally identifiable information of students to businesses that issue credit or debit cards.

Banking Regulations

The Bancorp Bank, our bank partner, is an insured depository institution and funds held at our bank partner are insured by the FDIC up to applicable limits. As an insured depository institution, our bank partner is subject to comprehensive government regulation and, in the course of making its services available to our customers, we are required to assist the bank in complying with certain of its regulatory obligations. In particular, the anti-money laundering provisions of the USA PATRIOT Act require that customer identifying information be obtained and verified whenever a bank account is established. For example, because we facilitate the opening of deposit accounts at The Bancorp Bank on behalf of our customers, we assist the bank in collecting the basic customer identification information that is necessary to open an account. In addition, both we and the bank are subject to the laws and regulations enforced by the Office of Foreign Assets Control, which prohibit U.S. persons from engaging in transactions with certain prohibited persons. As a service provider to an insured depository institution, we are required under federal law to agree to submit to examination by our bank partner's primary federal regulator, which is currently the FDIC. We also are subject to audit by our bank partner to ensure that we comply with our obligations to it appropriately. Failure to comply with our responsibilities properly could negatively affect our operations. Our bank partner is required under its agreement with us to, and we rely on our bank partner's ability to, comply with state and federal banking regulations. Our failure to comply with any of the laws or regulations applicable to our business and the services we provide or the failure of our bank partner to maintain regulatory compliance could result in significant disruptions to our business and have a material adverse effect on our business, financial condition and results of operations.

The Bancorp Bank provides demand deposit services for OneAccounts through a private label relationship. We provide processing services for these OneAccounts for The Bancorp Bank. These services are subject to, among other things, the requirements of the Electronic Fund Transfer Act and the Federal Reserve Board's Regulation E, which govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of ATMs, debit cards and other electronic banking services. We may assist our bank partner with fulfilling its compliance obligations pursuant to these requirements. See Business Government Regulation. Failure to comply with applicable regulations could materially and adversely affect our business, financial condition and results of operations.

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

Privacy and Data Regulation

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

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

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

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

New legislation and regulations in this area have been proposed, both at the federal and state level. Such measures, including pending Federal legislation, would potentially impose additional obligations on us, including requiring that we provide notifications to consumers and government authorities in the event of a data breach or unauthorized access or disclosure, beyond what state law already requires. The interpretation of pending legislation and regulations, as well as some of the existing laws and regulations, is evolving and, therefore, these laws and regulations may be applied inconsistently. Under some interpretations, it is possible that our current data protection policies and

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practices may be deemed inconsistent with legal requirements, and breaches in the security of our technology systems and infrastructure could result in a violation of these laws and regulations. These laws and regulations could cause us to incur substantial costs or require us to change our business practices in a manner materially adverse to our business.

Compliance

We monitor our compliance through a robust internal audit program. Our full-time internal auditor works with a third-party internal audit firm to conduct annual reviews to ensure compliance with the regulatory requirements described above. The costs of these audits and the costs of complying with the applicable regulatory requirements are significant. Increased regulatory requirements on our products and services, such as in connection with the matters described above, could materially increase our costs or reduce revenue.

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

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

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

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

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Risks Related to our Common Stock

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

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

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

Our common stock price may experience significant volatility.

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

changes in our revenues or earnings estimates or recommendations by securities analysts;

publication of research reports about us or our industry by securities analysts;

speculation in the press or investment community;

sales of common stock by institutional shareholders;

changes in accounting principles; and

general market or economic conditions, including factors unrelated to our performance.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Provisions contained in our second amended and restated certificate of incorporation and bylaws, our credit agreement and Delaware law could delay or prevent entirely a merger or acquisition that our stockholders consider favorable. These provisions may also discourage acquisition proposals or have the effect of delaying or preventing entirely a change in control, which could harm our stock price.

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

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

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

We will incur increased costs as a result of being a public company.

As a public company, we will incur significant levels of legal, accounting and other expenses that we did not incur as a privately owned corporation. The Sarbanes-Oxley Act of 2002, or Sarbanes-Oxley, and related rules of the SEC and The NASDAQ Global Select Market corporate governance practices for public companies impose significant requirements relating to disclosure controls and procedures and internal control over financial reporting. We expect that compliance with these public company requirements will increase our costs, place additional demands on our finance and accounting staff and on our financial, accounting and information systems and may require additional resources. We expect that we will be required to expend considerable time and resources complying with public company regulations.

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

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

Our auditors have not conducted an audit of our internal control over financial reporting. Any failure to remediate material weaknesses noted by us or our independent registered public accounting firm or to implement required new or improved controls or difficulties encountered in their implementation could cause us to fail to meet our reporting obligations or result in material misstatements in our financial statements. If our management or our independent registered public accounting firm were to conclude in their reports that our internal control over financial reporting was not effective, investors could lose confidence in our reported financial information and the trading price of our common stock could decrease significantly.

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FORWARD-LOOKING STATEMENTS

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

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

substantial and increasing competition in the industries in which we do business and the growth of our industry

competitive pressures related to the fees that we charge;

increasingly intense legislative and regulatory scrutiny of fees charged for financial services;

changes in the convenience fees that we charge in connection with payment transactions are subject to change;

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

our ability to maintain and develop our brand in a cost-effective manner;

the outsourcing of critical operations, including reliance on our bank partner for certain banking services;

our ability to maintain adequate security measures for our data systems;

the length and unpredictability of the sales cycle for signing potential higher education institutional clients;

liability to our customers or loss of customers if we provide poor service or if our systems or products experience failures and our ability to limit our liabilities by contract or through insurance;

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

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

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

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

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

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

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USE OF PROCEEDS

We estimate that the net proceeds to us from our sale of _____ shares of common stock in this offering, after deducting underwriting discounts, commissions and other estimated offering expenses payable by us, will be approximately \$ _____ million (based on the midpoint of the range shown on the cover page of this prospectus). We will not receive any proceeds from the sale of shares by the selling stockholders. In addition, we will not participate in the sale of additional shares relating to the underwriters' option to purchase additional shares from the selling stockholders.

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

We also intend to use \$ _____ million of the net proceeds we receive from this offering for certain post-closing costs related to our acquisition of CASHNet. We intend to use the remaining net proceeds to pursue our strategic objectives and for general corporate purposes.

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

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DILUTION

If you invest in our common stock, your interest will be diluted by the amount by which the initial offering price per share paid by the purchasers of common stock in this offering exceeds the net tangible book value per share of our common stock following this offering. As of December 31, 2009, our net tangible book value was approximately \$ _____ million, or \$ _____ per share of common stock. Net tangible book value per share equals total consolidated tangible assets minus total consolidated liabilities and preferred stock divided by the number of shares of our common stock outstanding.

Our net tangible book value as of December 31, 2009 would have been approximately \$ _____ million, or \$ _____ per share of common stock, after giving effect to:

the sale by us of common stock in this offering, at an assumed initial public offering price of \$ _____ per share (the midpoint of the range on the cover page of this prospectus), after deducting the underwriting discounts and commissions and estimated offering expenses payable by us; and

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

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

The following table illustrates this per share dilution:

Assumed initial public offering price per share
Net tangible book value per share as of December 31, 2009
Increase in net tangible book value per share attributable to this offering
Net tangible book value per share after this offering
Dilution per share to new investors

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

The following table summarizes, as of December 31, 2009, the difference between existing stockholders and new investors with respect to the number of shares of common stock purchased from us, the total consideration paid to us for these shares and the average price per share paid by our existing stockholders and to be paid by the new investors in this offering. The calculation below reflecting the effect of shares purchased by new investors is based on an assumed initial public offering price of \$ _____ per share (the midpoint of the range on the cover page of this prospectus), before deducting underwriting discounts and commissions and estimated offering expenses payable by us.

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

Total

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

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DIVIDEND POLICY

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

CAPITALIZATION

The following table sets forth our capitalization as of December 31, 2009:

on an actual basis; and

on an as adjusted basis to reflect:

the sale by us of common stock in this offering, at an initial public offering price of \$ per share, after deducting the underwriting discounts and commissions and estimated offering expenses payable by us;

the use of \$ million of the net proceeds of this offering for the repayment of amounts outstanding under our Credit Facility;

the use of \$ million of the net proceeds of this offering for certain post-closing costs related to our acquisition of CASHNet; and

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

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

In thousands, except share and per share amounts	As of December 31, 2009	
	Actual	As Adjusted
Cash and cash equivalents	\$ 3,339	
Total debt and capital lease obligations, including current maturities	27,647	
Convertible preferred stock:		
Series A Convertible Preferred Stock, \$0.001 par value; 1,012,314 shares authorized, 417,049 issued and outstanding, actual; no shares authorized, issued or outstanding, as adjusted	313	
Series B Convertible Preferred Stock, \$0.001 par value; 1,622,078 shares authorized, 1,086,784 issued and outstanding, actual; no shares authorized, issued or outstanding, as adjusted	882	
Series C Convertible Preferred Stock, \$0.001 par value; 4,315,216 shares authorized, 2,522,554 issued and outstanding, actual; no shares authorized, issued or outstanding, as adjusted	3,478	
Series C-1 Convertible Preferred Stock, \$0.001 par value; 3,250,000 shares authorized, 2,180,633 issued and outstanding, actual; no shares authorized, issued or outstanding, as adjusted	2,085	
Series D Convertible Preferred Stock, \$0.001 par value; 3,999,999 shares authorized, 1,313,604 issued and outstanding, actual; no shares authorized, issued or outstanding, as adjusted	2,254	
Series E Convertible Participating Preferred Stock, \$0.001 par value; 5,454,545 shares authorized, 5,454,545 issued and outstanding, actual; no shares authorized, issued or outstanding, as adjusted	71,942	
Total convertible preferred stock	80,954	
Stockholders' equity:		
Common stock, \$0.001 par value, 30,000,000 shares authorized, 4,092,255 issued and outstanding; shares authorized, issued and outstanding, pro forma	4	
Additional paid-in capital	4,625	
(Accumulated deficit) retained earnings	(78,479)	
Total stockholders' equity	7,104	
Total capitalization	\$ 38,090	

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UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

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

The pro forma adjustments and allocation of purchase price of the acquisition are preliminary and are based on management's estimates of the fair value of the assets acquired and liabilities assumed. The final purchase price allocation will be completed after asset and liability valuations are finalized. This final valuation will be based on the actual net tangible and intangible assets that exist as of the date of the completion of the transactions. Any final adjustments may change the allocations of the purchase price, which could affect the fair value assigned to the assets and liabilities and could result in a change to the unaudited pro forma condensed combined financial information.

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

Table of Contents**Higher One Holdings, Inc. and CASHNet****Unaudited Pro Forma Condensed Combined Statement of Operations****For the Year Ended December 31, 2009****(in thousands)**

	Higher One Historical Year Ended December 31, 2009 (audited)	+ (Plus: CASHNet Historical Year Ended March 31, 2009 (audited)(A)	- Less: CASHNet Nine Months Ended December 31, 2008 (unaudited)	+ Plus: CASHNet Six Months Ended September 30, 2009 (unaudited)	+ Plus: CASHNet October 1, 2009 to November 19, 2009 (unaudited)) = Sub-total CASHNet January 1, 2009 November 19, 2009 (unaudited)	Pro Forma Adjustments (unaudited)	Pro Forma Year Ended December 31, 2009 (unaudited)
Revenue:								
Account revenue	\$ 66,440	\$	\$	\$	\$	\$	\$	\$ 66,440
Payment transaction revenue	1,688	10,220	7,136	6,979	1,407	11,470		13,158
Higher education institution revenue	5,135	4,168	2,948	2,858	902	4,980		10,115
Other revenue	2,254	528	404	318	140	582		2,836
Total revenue	75,517	14,916	10,488	10,155	2,449	17,032		92,549
Cost of revenue	24,440	11,307	7,953	6,978	1,991	12,323	(269)(B)(C)	36,494
Gross margin	51,077	3,609	2,535	3,177	458	4,709	269	56,055
Operating expenses:								
General and administrative	18,143	1,775	1,259	1,074	391	1,981	1,427(D)(F)	21,551
Product development	2,287						1,126(B)	3,413
Sales and marketing	7,966	2,831	2,214	1,537	352	2,506		10,472
Total operating expenses	28,396	4,606	3,473	2,611	743	4,487	2,553	35,436
Income from operations	22,681	(997)	(938)	566	(285)	222	(2,284)	20,619
Interest income	(4)	(30)		2	(38)	(68)		(72)
Interest expenses	558	6	4	2	1	5	860(E)	1,423
Other	(17)	40	3	50	15	102		85
Net income before income taxes	22,144	(1,013)	(945)	514	(263)	183	(3,144)	19,183
Income tax expense (benefit)	7,925	(195)	(112)		(272)	(355)	(1,147)(G)	6,423
Net income	14,219	(818)	(833)	514	9	538	(1,997)	12,760
Less: Net income allocable to participating securities	11,477							10,299
Net income available to common shareholders	\$ 2,742							\$ 2,461
Net income per common share								

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Basic	\$	0.88	\$	0.79
Diluted	\$	0.80	\$	0.72
Weighted average common shares outstanding				
Basic		3,099,377		3,099,377
Diluted		17,802,709		17,802,709

Table of Contents**Notes to Unaudited Pro Forma Condensed Combined Statement of Operations**

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

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

- (B) Reflects adjustment to reclassify CASHNet's product development costs from cost of revenue to product development costs to conform to our classification of such costs.
- (C) Reflects adjustments for increased intangible asset amortization associated with acquired identified intangible assets in connection with the acquisition.
- (D) Reflects adjustments for increased intangible asset amortization associated with acquired identified intangible assets in connection with the acquisition.
- (E) Reflects interest expense adjustments for (i) increased interest expense attributable to the incremental \$17,250 borrowing we made under our Credit Facility to pay for the acquisition at an assumed interest rate equal the adjusted Eurodollar rate plus a margin of between 1.75% and 3.75% per annum (depending on Higher One, Inc.'s funded debt to EBITDA ratio), and (ii) increased interest expense attributable to accretion on the acquisition payable at an assumed fixed discount rate of 5.0%. The interest rate on our Credit Facility is variable and the effect on interest expense of a change in interest rates of 0.125% would have been \$45 for the year ended December 31, 2009.
- (F) Reflects an adjustment to reduce expenses for the \$125 of one-time transaction costs we incurred directly as a result of the acquisition.
- (G) Reflects an adjustment to income tax equal to our statutory income tax rate of 36.5% applied to the pro forma adjustments.

Table of Contents**SELECTED CONSOLIDATED FINANCIAL DATA**

You should read the data set forth below in conjunction with our consolidated financial statements and related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations and other financial information included elsewhere in this prospectus. We derived the selected financial data as of December 31, 2008 and 2009 and for each of the three years ended December 31, 2007, 2008 and 2009 from our audited consolidated financial statements and the related notes appearing elsewhere in this prospectus. We derived the selected financial data as of and for the years ended December 31, 2005 and 2006 and as of December 31, 2007 from our audited financial statements and the related notes not included in this prospectus. Our historical results are not necessarily indicative of our results for any future period.

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

Consolidated Statement of Income Data

	2005	2006	Historical Year Ended December 31, 2007 2008		2009	Pro Forma 2009
			(in thousands, except share and per share amounts)			(unaudited)
Revenue	\$ 8,973	\$ 16,006	\$ 27,978	\$ 44,006	\$ 75,517	\$ 92,549
Cost of revenue	3,920	6,569	11,140	16,302	24,440	36,494
Gross margin	5,053	9,437	16,838	27,704	51,077	56,055
Operating expenses	5,973	9,268	12,625	17,753	28,396	35,436
Income from operations	(920)	169	4,213	9,951	22,681	20,619
Other (expense) income	(1)	(503)	(569)	(26)	(537)	(1,436)
Income before income taxes	(921)	(334)	3,644	9,925	22,144	19,183
Income tax (benefit) expense	(47)	(3,689)	1,362	3,547	7,925	6,423
Net income	(874)	3,355	2,282	6,378	14,219	12,760
Less: Net income allocable to participating securities		2,657	1,808	5,102	11,477	10,299
Net income available to common shareholders	\$ (874)	\$ 698	\$ 474	\$ 1,276	\$ 2,742	\$ 2,461
Net income per common share:						
Basic	\$ (0.25)	\$ 0.19	\$ 0.13	\$ 0.37	\$ 0.88	\$ 0.79
Diluted	\$ (0.25)	\$ 0.18	\$ 0.12	\$ 0.34	\$ 0.80	\$ 0.72
Weighted average common shares outstanding:						
Basic	3,556,438	3,642,363	3,652,611	3,435,464	3,099,377	3,099,377
Diluted	3,556,438	18,600,615				