Higher One Holdings, Inc.
Form 10-Q
May 11, 2015
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q
(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2015.
or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to .
Commission File Number: 001-34779

HIGHER ONE HOLDINGS, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware	26-3025501
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

115 Munson Street
New Haven, CT 06511
(Address of Principal Executive Offices)(Zip Code)
(203) 776-7776
(Registrant's Telephone Number, Including Area Code)
N/A
(Former Name, Former Address and Former Fiscal Year, If Changes Since Last Report)

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

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

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

Large accelerated filer	Accelerated filer	x
Non-accelerated filer	Smaller reporting company	

(Do not check if a
smaller reporting
company)

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

As of May 7, 2015, there were 47,831,813 shares of common stock, par value $0.001 per share, outstanding.

HIGHER ONE HOLDINGS, INC.
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FOR THE THREE MONTHS ENDED MARCH 31, 2015

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

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

Higher One Holdings, Inc.
Condensed Consolidated Balance Sheets
(In thousands of dollars, except share and per share amounts)
(unaudited)

	March 31, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$14,982	$40,022
Investments in marketable securities	250	249
Accounts receivable, net	12,033	8,929
Income receivable	6,950	9,053
Deferred tax assets	3,836	3,719
Prepaid expenses and other current assets	4,791	7,805
Total current assets	42,842	69,777
Deferred costs	7,663	4,187
Fixed assets, net	45,394	46,768
Intangible assets, net	54,920	56,255
Goodwill	67,403	67,403
Loan receivable related to New Markets Tax Credit financing	7,633	7,633
Other assets	3,162	2,523
Restricted cash	2,725	2,725
Total assets	$231,742	$257,271
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$3,598	$3,339
Accrued expenses	28,843	25,872
Deferred revenue	23,207	25,174
Total current liabilities	55,648	54,385
Deferred revenue and other non-current liabilities	3,921	4,019
Loan payable and deferred contribution related to New Markets Tax Credit financing	8,794	8,871
Debt	59,000	94,000
Deferred tax liabilities	3,831	3,814
Total liabilities	131,194	165,089
Commitments and contingencies (Note 6)		
Stockholders’ equity:		
Common stock, $0.001 par value; 200,000,000 shares authorized; 59,744,839 shares issued and 47,831,813 shares outstanding at March 31, 2015; 59,570,839 shares issued and 47,657,813 shares outstanding at December 31, 2014	60	60
Additional paid-in capital	187,094	185,588
Treasury stock, 11,913,026 shares at March 31, 2015 and December 31, 2014	(137,899)	(137,899)

Retained earnings	51,293	44,433
Total stockholders' equity	100,548	92,182
Total liabilities and stockholders' equity	$231,742	$257,271

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.
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Higher One Holdings, Inc.
Condensed Consolidated Statements of Operations
(In thousands of dollars, except share and per share amounts)
(unaudited)

	Three Months Ended March 31, 2015	2014
Revenue:		
Account revenue	$37,528	$41,662
Payment transaction revenue	17,324	14,620
Higher education institution revenue	10,426	9,979
Other revenue	240	295
Revenue	65,518	66,556
Cost of revenue	28,190	27,594
Gross margin	37,328	38,962
Operating expenses:		
General and administrative	18,583	15,711
Product development	1,771	2,192
Sales and marketing	4,163	4,474
Total operating expenses	24,517	22,377
Income from operations	12,811	16,585
Interest income	20	19
Interest expense	(1,380)	(823)
Other income	77	78
Net income before income taxes	11,528	15,859
Income tax expense	4,668	6,149
Net income	$6,860	$9,710
Net income available to common stockholders:		
Basic	$6,860	$9,710
Diluted	$6,860	$9,710
Weighted average shares outstanding:		
Basic	47,355,845	47,082,397
Diluted	47,820,951	48,340,468
Net income available to common stockholders per common share:		
Basic	$0.14	$0.21
Diluted	$0.14	$0.20

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

Higher One Holdings, Inc.
Condensed Consolidated Statement of Changes in Stockholders' Equity
(In thousands of dollars, except share amounts)
(unaudited)

	Common Stock		Additional Paid-in	Treasury	Retained	Total Stockholders'
	Shares	Amount	Capital	Stock	Earnings	Equity
Balance at December 31, 2014	47,657,813	$ 60	$ 185,588	$ (137,899)	$ 44,433	$ 92,182
Stock-based compensation	–	–	2,216	–	–	2,216
Reversal of tax benefit related to options	–	–	(925)	–	–	(925)
Exercise of stock options	174,000	–	215	–	–	215
Net income	–	–	–	–	6,860	6,860
Balance at March 31, 2015	47,831,813	$ 60	$ 187,094	$ (137,899)	$ 51,293	$ 100,548

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.
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Higher One Holdings, Inc.
Condensed Consolidated Statements of Cash Flows
(In thousands of dollars)
(unaudited)

	Three Months Ended March 31, 2015			2014		
Cash flows from operating activities						
Net income	$	6,860		$	9,710	
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation and amortization		5,170			4,455	
Amortization of deferred finance costs		659			123	
Stock-based compensation		2,198			1,558	
Deferred income taxes		(945	)		5,014	
Income tax benefit related to exercise of stock options		(15	)		(3	)
Other income		(77	)		(78	)
Loss on disposal of fixed assets		10			32	
Changes in operating assets and liabilities:						
Accounts receivable		(3,104	)		(2,249	)
Income receivable		2,103			(2,863	)
Deferred costs		(119	)		(1,354	)
Prepaid expenses and other current assets		3,014			126	
Other assets		(639	)		(26	)
Accounts payable		259			(849	)
Accrued expenses		2,860			(13,391	)
Deferred revenue		(2,065	)		(1,615	)
Net cash provided by (used by) operating activities		16,169			(1,410	)
Cash flows from investing activities						
Purchases of fixed assets		(629	)		(1,157	)
		(1,354	)		(1,265	)

Additions to internal use software				
Amounts received from restricted cash		–		25
Proceeds from development related subsidies		–		3,468
Net cash (used in) provided by investing activities		(1,983)		1,071
Cash flows from financing activities				
Proceeds from line of credit		–		15,000
Repayments of line of credit		(35,000)		(10,000)
Payment of deferred financing costs		(4,456)		–
Excess tax benefit related to stock options		15		3
Proceeds from exercise of stock options		215		19
Net cash (used in) provided by financing activities		(39,226)		5,022
Net change in cash and cash equivalents		(25,040)		4,683
Cash and cash equivalents at beginning of period		40,022		6,268
Cash and cash equivalents at end of period	$	14,982	$	10,951

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.
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Higher One Holdings, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

1. Nature of Business and Organization

Higher One Holdings, Inc., or HOH, is a leading provider of technology, data analytics and payment services to the higher education industry. HOH, through its subsidiaries, provides a comprehensive suite of disbursement, payment and data analytics solutions specifically designed for higher education institutions and their students. We have developed and acquired proprietary software-based solutions to provide these services. HOH is incorporated in Delaware and maintains its headquarters in New Haven, Connecticut. HOH has a wholly-owned subsidiary, Higher One, Inc., or HOI, which has two wholly-owned subsidiaries, Higher One Machines, Inc., or HOMI, and Higher One Real Estate, Inc., or Real Estate Inc. HOI and HOMI together own 99% of Higher One Financial Technology Private Limited, or HOFTPL. Real Estate Inc. has a 98% ownership interest in Higher One Real Estate SP, LLC, or Real Estate LLC. HOMI and HOFTPL perform certain of our operational support functions. Real Estate Inc. and Real Estate LLC were each formed to hold and operate certain of our real estate.

2. Significant Accounting Policies

Basis of Presentation and Consolidation

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

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

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

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

Goodwill and Intangible Assets

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

As a result of changes instituted by our chief operating decision maker (and as further described in Note 7), we now have three reportable segments: Disbursements, Payments and Data Analytics, which are organized according to the type of service that each offers to our target markets – higher education institutions and their students. Each of these business units is also an operating segment and a reporting unit for purposes of our goodwill impairment testing.As a result of the change in our operating segments and reporting units, we have compared the fair value of our reporting units to the carrying value of our reporting units and determined that there was no impairment of goodwill.

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

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

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

The effect of stock options and warrants to purchase our common stock totaling 5,063,524 and 4,175,053 were not included in the computation of diluted net income per common share for the three months ended March 31, 2015 and 2014, respectively, as their effect would be anti-dilutive. Anti-dilutive securities are securities that upon conversion or exercise increase earnings per share (or reduce the loss per share). In periods when we recognize a net loss, we exclude the impact of outstanding stock awards from the diluted loss per share calculation as their inclusion would have an anti-dilutive effect.

Comprehensive Income

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

Other Arrangements

We accept payments on behalf of educational institutions and subsequently remit these payments to the education institutions. The amounts received are maintained in segregated accounts for the benefit of either the institution or the payer. There were approximately $165.7 million and $127.3 million of such funds as of March 31, 2015 and December 31, 2014, respectively. These deposits are not our funds and therefore are not included in the accompanying condensed consolidated balance sheets.

Recent Accounting Pronouncements

There were no accounting standards adopted during 2014 or during the three months ended March 31, 2015 which had a material impact on our consolidated financial position, results of operations or liquidity.

In May 2014, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, No. 2014-09, Revenue From Contracts With Customers, that outlines a single model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The ASU is based on the principle that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to fulfill a contract. Entities have the option of using either a full retrospective or a modified retrospective approach for the adoption of the new standard. This standard is currently effective for fiscal periods beginning after December 15, 2016; however, in April 2015, the FASB proposed a one-year deferral of the effective date of this standard and early adoption is prohibited. We are currently assessing the impact that this standard will have on our consolidated financial statements.

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

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

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

3. Investments in Marketable Securities and Fair Value Measurements

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

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