3-SIGMA VALUE

Q2 2013:
The Hidden Fee Business Model

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Imagine enrolling in a two-year degree program at a community college or at one of the for-profit schools owned by Career Education (CECO) or American Public Education (APEI) for example. You receive a fulfillment package in the mail, on your school's letterhead, in a school envelope, requesting you choose the disbursement method for your Title IV funds (mostly Stafford Loans and Pell Grants). You are given 3 options. Number 1 - activate the enclosed personalized pre-loaded HigherOneAccount Card immediately and at no cost. Number 2 - direct deposit to an existing account in three days at a cost, requiring the filling out and faxing of a form. Number 3 - paper check, in which case you won't see the funds for maybe weeks.

It's no surprise that many in-coming students, especially those who are under-banked, peel off and activate the card. In fact, the leading supplier of these pre-paid disbursement cards, a company called HigherOne Holdings, Inc (ONE), boasts ~50% penetration of student populations at customer institutions despite the fact that most in-coming students already have a bank account.

Higher One (ONE)'s business model is based on charging fees on the disbursement of Title IV financial aid, an unseemly and unsustainable model that is already under scrutiny by the DOE and Congress. The regulatory risk is substantial and this revenue stream is moribund. Acknowledging reality, management acquired a handful of companies to diversify revenue away from financial aid disbursement, including most recently a distressed division of Sallie Mae (SLM) called Campus Solutions, which provides college back office and other student payment services. Despite being the only bidder for Campus Solutions, Higher One paid $47.5 million for a business that generated $24 million of revenue in 2012 and <u>lost</u> $10 million. In 2013, the business has deteriorated to $15 million revenue on an annualized basis while losses mount.

After 8 years as CEO of Higher One, Dean Hatten resigned unexpectedly in 2012. In his place, the CFO was elevated and the entire management team has since turned over. They've added several positions to the senior management team including a new CFO, Chief Marketing Officer, Chief Compliance Officer, and a Vice President of Product Management. Plus, over 100 new employees joined the Company via the recent acquisitions. They are all working hard with the regulators to prevent rather than facilitate fraud, and to innovate for students. Unfortunately, good intentions fall prey to reality, and the reality here is that in the face of regulatory uncertainty, Higher One management drained its bank account and leveraged its balance sheet to acquire under-performing businesses in the name of diversification.

SHORT: Higher One Holdings, Inc (ONE)

ONE Capitalization as of 6/30/13			
Share Price as of 6/30/13			$11.64
x FD Shares Out.			48.4
= Market Capitalization			563.2
- Cash & S-T Investments			7.1
+ Total Debt			121.3
= Enterprise Value (EV)			677.4
	2012A	2013E	2014E
Revenue	198	213	212
EV / Revenue	3.4x	3.2x	3.2x
EBITDA	68	57	34
EV / EBITDA	10.0x	12.0x	19.9x
EPS	0.61	0.47	0.29
P/E	19.2x	24.6x	40.1x

Higher One Holdings, Inc. (ONE) (the "Company") went public in June 2010 at the height of FPE-mania[1]. However, it was hardly a hot IPO as the underwriters priced ONE at $12, well below the $15 to $17 marketed range. Since then, the stock price has ranged from a high of $20 to a low of $9. We believe it could be worth zero.

Higher One sells 3 products:

1. OneDisburse Refund Management – this is a pre-paid financial aid disbursement card. Schools include the card in their financial aid packages, thereby explicitly endorsing the product. OneDisburse account revenue equaled $150 million in 2012 (76% of total revenue of $198 million).

2. CASHNet Payment Suite – this is a series of e-payment solutions for campuses and students. Higher One acquired CASHNet in 2009 based on the idea of cross-selling the product (12%

[1] See separate report titled The Student Debt Bubble for an analysis of the role of the for-profit education (FPE) sector in the student debt bubble.

of total revenue), and then added NetPay, a comparable service, as part of the Campus Solutions acquisition. The e-payments business is lower margin than OneAccount transaction fees because interchange fees generated by e-payment services are a cost, rather than a source of revenue. In contrast, Higher One keeps the interchange fees in OneAccount transactions in exchange for the deposits.

3. Higher Education Institution Services – mostly subscription fees paid by OneDisburse clients for the Campus Labs Data Analytics Suite, acquired in 2012[2], and more recently, Campus Solutions products. Products include data analytics, compliance, course evaluations, and other.

According to Higher One's brand new CFO[3], Campus Solutions "*was a pretty profitable business over the last couple of years, the business has turned around or, I should say, gone the other way*." Higher One acquired Campus Solutions from Sallie Mae (SLM) for $47.25 million, equal to 2x 2012 revenue of $24 million. Campus Solutions <u>lost</u> $10 million on a pre-tax basis in 2012. Since then, revenue has deteriorated to $10 million revenue guidance for 8 months in 2013, which equals only $15 million annualized, down significantly from $24 million.

According to Higher One co-founder Miles Lassiter, "*Sallie Mae was looking to divest its business, and we thought we were the logical owner for it*." In fact, Higher One was the only bidder and still managed to grossly overpay. The acquisition was defense not offense. They fear new competition. Because they have no technological advantage, no intellectual property. They cling to the false hope of a first-mover advantage.

Higher One's value proposition is simple and straightforward: lower cost – a HigherOneAccount Card is cheaper than a prepaid debit card which is cheaper than a bank account…as long as all contingent fees are excluded. If a student loses his card one time ($20.00) then the all-in-cost of a Higher One account surpasses the alternatives.

[2] Higher One paid $38 million cash plus 150,000 warrants plus an earn-out. Higher One drew down its credit line to fund the purchase.

[3] The new CFO and COO were introduced on Higher One's first quarter 2013 conference call. The CEO resigned in 2012, succeeded by the CFO.

Revenue Analysis

The composition of OneDisburse account revenue is a list of excess fees that are bound to be competitively squeezed and regulated out. They include: interchange fees (40% of OneAccount revenue)[4], out-of-network ATM surcharge fees of $2.50 (40%), and fees from insufficient funds ($29 per returned check), inactivity fees ($19 monthly abandoned account fee), card replacement ($20), and PIN surcharge fees (combined 20%).

At the top of the list of revenue at risk is the out-of-network ATM surcharge fee of $2.50, accounting for over 30% of Higher One's total revenue. Adopted by students on 600 campuses across the country, HigherOne has installed only ~800 ATM machines in total, equal to an overly-efficient 1.3 ATMs per campus[5]. Reports of long lines and broken machines, of machines quickly running out of cash, compelling students to go out of network to access cash, has led HigherOne to <u>offer</u> $5 per day to any OneAccount customer who must access cash at another bank's ATM. According to the Company, a student must request a credit through its online self-help tool called Easy Help, or they can call customer care to request a refund.

Other egregious fees under regulatory attack include fees from insufficient funds ($29 per returned check, subject to regulations on overdraft fees), inactivity fees ($19 monthly abandoned account fee, eliminated in 2013), card replacement ($20), and PIN surcharge fees. All of these fees, and the ATM surcharges, and interchange fees representing another 30%+ of Higher One's revenue, <u>all of it</u> is money skimmed off the distribution of Title IV funds, in other words skimmed off the taxpayer.

Higher One is a company that enabled the student debt bubble, the resolution of which will invariably change the flawed way in which taxpayer funds are distributed to students. Higher One management believes they are well-positioned to aid the DOE in fraud protection, which is theoretically true, except for the fact that they outsource everything, and therefore own nothing. There is no intellectual property. R&D is only 2-4% of revenue. From 2009 through 2012 (4 years), Higher One spent a <u>total</u> of $12.5 million on research and development (R&D) – equal to a miniscule 2.1% of revenue.

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[4] In 2012, Higher One (ONE) signed a new exclusive agreement with payment network provider MasterCard (MA) for the issuance and marketing of debit cards through 2017.

[5] As of December 31, 2012.

<u>No Intellectual Property</u>

Higher One is not a technology company, but a services company. Gross Margin in the most recent quarter was a bottom of the barrel 55%, which means they outsource everything technology related. **Fiserv (FISV)** provides the back-end account and transaction data processing for OneAccounts and OneCards – Higher One pays a monthly fee. **MasterCard (MA)** provides the payment network via an exclusive relationship. Fiserv is a principal debit licensee of MasterCard. **Comerica (CMA)** and **Global Payments (GPN)** provide transaction processing and banking services for payment processing related to the SmartPay feature of Higher One's ePayment service. The primary function of Global Payments is to route credit card authorization requests and to settle credit card transactions. Comerica provides acquiring sponsorship in the card payment networks related to the SmartPay service. **Terremark (acquired by Verizon)** and **Neospire (Hosting.com)** provide web and application hosting services in secure data centers. Finally, **TeleTech (TTEC)** provides customer care services to student account holders.

In the second quarter of 2013, R&D jumped to $2.44 million ($10 million annual run rate), reflecting recent acquisitions that are already significantly underperforming expectations. Higher One has already booked two separate credits to the amount to be paid under the earn-out related to the acquisition of the Campus Labs Data Analytics Suite (acquired less than a year ago). In the first quarter of 2013, Higher One recorded a $7.6 million credit, and then in Q2, apparently the fundamentals at Campus Labs deteriorated further and Higher One booked an additional $5.3 million credit. Higher One paid $38 million cash up front for Campus Labs, which was generating ~$10 million of annual revenue at the time (3.8x). Combined with the $47.25 million cash paid for Campus Solutions, Higher One has spent over $85 million on acquisitions in the past year, an amount that is 7x the amount Higher One spent cumulatively on R&D through 2012 ($85.75M vs. $12.5M).

Most importantly, Higher One is not a bank. It partners with banks which provide FDIC-insured deposit services for OneAccounts. Higher One keeps the interchange fees while the banks keep any income earned (NIM) on deposits. Banks with less than $10 billion in assets are exempt from the debit card interchange fee standards written in the Dodd-Frank Wall Street Reform and Consumer Protection Act of July 10, 2010, although fees will continue to be set by the networks (Visa/MasterCard). Additionally, the Dodd-Frank Act permits merchants to offer a discount or other incentive to encourage the use of one form of payment over another; and, as implemented by the Federal Reserve Board's final rule, prohibits an issuer or payment card network from restricting the number of payment card networks over which an electronic debit transaction may be processed to fewer than two unaffiliated networks, or restricting the ability of a merchant to direct the routing of electronic debit transactions over any of the networks that an issuer has enabled to process the electronic debit transactions. Translation – fees will be under constant pressure from the coupling of technology innovation and regulatory reform.

Regulatory Risks

In April 2012, the Department of Education (DoE) announced a negotiated rule-making process ("neg-reg") with topics including financial aid fraud in electronic disbursements and the consideration of student choice in the receipt of refunds in view of the costs associated with various options. In April 2013, the DoE added additional topics to the existing neg reg including the potential for shortening the time frame in which an institution must distribute student refunds.

The following is taken from ONE's 2011 10-K:

"Under the Department of Education regulations, a third party servicer that contracts with a Title IV institution acts in the nature of a fiduciary in the administration of Title IV programs. Among other requirements, **the regulations provide that a third-party servicer is jointly and severally liable with its client institution for any liability to 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."

Two public hearings of the DoE's Rulemaking Committee in May 2012 followed a report published by the US Public Interest Research Group (PIRG) called "The Campus Debit Card Trap" that specifically names Higher One as a bad actor in terms of egregious fees, aggressive push marketing, and insufficient ATM access, among other issues. The announcement for the hearings included the following, "*We are interested in whether students should have a greater role in deciding to accept debit cards or other banking services provided through an institutionally-controlled process or contracted provider, particularly in view of the costs and fees associated with the use of those cards and services*."

In addition to the Department of Education, Congress is pursuing the Company. In January 2013, U.S. Representative George Miller of California, who is the top Democrat on the House Committee on Education and the Workforce, sent a letter to Higher One requesting information about students' ability to use ATMs that the company maintains free of charge. Mr. Miller wrote that he is "*deeply concerned*" that students who use Higher One debit cards to access their financial-aid money are not able to do so without incurring the company's fees. He wrote that the company had a limited supply of fee-free ATMs on California campuses, which he said "*raises important questions about the adequacy of fee-free access to student aid*," particularly on large campuses or for nontraditional students. He requested a list of ATMs the company maintains on campuses in California, to provide details about ATMs it maintains on campuses across the country, and to describe its policies to refund fees charged to students when the machines are inaccessible or fail.

In response to the growing chorus of dissent, Higher One recently launched two new products, OneAccount Flex and OneAccount Premier. Both accounts waive many of the line item fees in return for a monthly service fee and additional savings if more deposits are made each month. While it's too early to tell if the new products will attract deposits, it is clear that new regulations will lower OneAccount's penetration rate, and lower revenue per account.

In the case that Higher One is prohibited from pre-mailing its debit cards in a university envelope (a Downside scenario) then adoption (defined as active OneAccounts as a percentage of SSE[6]) will decline meaningfully, to what level, who knows, but, what we do know is that any move substantially below 50% represents a level of under-utilization that will eviscerate earnings and destroy this company.

[6] SSE stands for Signed School Enrollment, representing the total student enrollment at all colleges that are contracted for the OneDisburse product.

Financial & Valuation Analysis

At 3-Sigma Value, we begin every financial analysis with the identification of the key *drivers of value*. In the case of Higher One, we identify 10 drivers, as follows (the first 5 are revenue drivers):

1. **OneDisburse SSE** – Higher One has grown its card business by selling directly to colleges. The total student enrollment at all colleges that are contracted for the OneDisburse product is referred to as Signed School Enrollment (SSE). SSE was 4.8 million at the end of the second quarter of 2013, up 1.9% year-over-year. Growth in SSE has decelerated every year going back to 2009 as the market is quickly saturated.

2. **OneAccount Penetration (active accounts as a % of SSE)** – the percentage of students who choose OneAccount has plateaued in the mid-40% range (45.4% in 2012). Between new competition, new technology, and new regulations, it is unlikely Higher One will be able to maintain its level of penetration. Therefore, only in an Upside Case Operating Scenario does Higher One maintain ~45% penetration of SSE (Base Case scenarios = mid 30% range by 2015).

3. **Account Revenue per OneAccount** – this measure of ARPU is in free-fall as Higher One eliminates hidden fees to comply with new regulations. Base Case scenarios revolve around *negative* 10%, with ARPU dropping from $75.34 in 2012 to ~$67.50 in 2013.

4. **# of Payment Suite Clients** – for the last two quarters (Q1 and Q2 2013), Higher One has added ~30 payment suite clients per quarter. Base Case scenarios add a constant number of new payment suite clients per quarter.

5. **Payment Transaction Revenue per Payment Suite Client & Higher Ed Institution Revenue per Payment Suite Client** – we expect the average amounts paid by payment suite clients to continue increasing as existing clients are cross-sold and up-sold new software-based products from the Campus Labs and Campus Solutions acquisitions.

Higher One Holdings (ONE) - Base Case: Scenario 1							
	Fiscal Year Ended December,						
	2009	2010	2011	2012	2013E	2014E	2015E
Revenue:							
I. Account Revenue - OneAccount transaction fees: interchange (40%), ATM surcharge fee of $2.50 (40%), and fees from nonsufficient funds ($29 per returned check, in decline due to regs on overdraft fees), inactivity fees ($19 monthly abandoned account fee), card replacement ($20), and PIN surcharge fees (combined 20%).							
OneDisburse SSE - Beginning of Period	1,604.6	2,330.8	3,281.0	4,169.0	4,642.0	4,949.6	5,257.3
Increase (Decrease)	726.2	950.2	888.0	473.0	307.6	307.6	307.6
OneDisburse SSE - End of Period	2,330.8	3,281.0	4,169.0	4,642.0	4,949.6	5,257.3	5,564.9
OneDisburse SSE - Average	1,967.7	2,805.9	3,725.0	4,405.5	4,795.8	5,103.4	5,411.1
% Change - YoY	45.3%	40.8%	27.1%	11.3%	6.6%	6.2%	5.9%
Active OneAccounts - Beginning of Period	553.9	1,004.0	1,618.0	1,997.0	2,004.0	2,234.0	1,765.5
Increase (Decrease)	450.1	614.0	379.0	7.0	230.0	-468.5	168.5
Active OneAccounts - End of Period	1,004.0	1,618.0	1,997.0	2,004.0	2,234.0	1,765.5	1,934.0
Active OneAccounts - Average	779.0	1,311.0	1,807.5	2,000.5	2,119.0	1,999.7	1,849.7
% Change - YoY	81.3%	61.2%	23.4%	0.4%	11.5%	-21.0%	9.5%
Penetration (Active Accts as % of SSE)	39.6%	46.7%	48.5%	45.4%	44.2%	39.2%	34.2%
Account Revenue per Avg OneAccount	87.98	86.59	78.89	75.34	67.46	64.43	57.69
% Change - YoY		-1.6%	-8.9%	-4.5%	-10.5%	-4.5%	-10.5%
Payment Suite Clients - Beginning of Period	29.0	1,949.3	2,460.0	2,617.0	3,067.8	3,098.5	3,189.5
Increase (Decrease)	1,920.3	510.7	157.0	450.8	30.7	120.0	120.0
Payment Suite Clients - End of Period	1,949.3	2,460.0	2,617.0	3,067.8	3,098.5	3,189.5	3,309.5
Payment Suite Clients - Average	989.2	2,204.7	2,538.5	2,842.4	3,083.2	3,144.0	3,249.5
% Change - YoY	6621.7%	26.2%	6.4%	17.2%	1.0%	2.9%	3.8%
Payment Transaction Revenue per Avg Payment Suite Client	1,706.5	7,140.4	7,379.6	8,150.8	9,574.7	10,075.0	10,955.0
% Change - YoY		318.4%	3.3%	10.5%	17.5%	5.2%	8.7%
Higher Ed Inst Revenue per Avg Payment Suite Client	5,191.3	5,689.3	6,544.8	7,393.7	10,552.8	11,237.2	13,637.8
% Change - YoY		9.6%	15.0%	13.0%	42.7%	6.5%	21.4%
Total Account Revenue	**68.5**	**113.5**	**142.6**	**150.7**	**143.0**	**128.8**	**106.7**
% of Total Revenue	88.3%	78.3%	80.9%	76.2%	67.0%	60.8%	52.6%
II. Payment Transaction Revenue - convenience fees from CASHNet Smartpay. Lower margin because interchange fees generated by ePayement services are a cost, rather than revenue as in OneAccounts where ONE keeps the interchange fees in exchange for deposits.							
Payment Transaction Revenue	1.7	15.7	18.7	23.2	29.5	31.7	35.6
% of Total Revenue	2.2%	10.9%	10.6%	11.7%	13.8%	14.9%	17.6%
III. Higher Education Institution Revenue - mostly subscription fees paid by OneDisburse clients							
Higher Education Institution Revenue	5.1	12.5	16.6	21.0	32.5	35.3	44.3
% of Total Revenue	6.6%	8.7%	9.4%	10.6%	15.2%	16.7%	21.9%
IV. Sallie Mae's (SLM) Campus Solutions					7.5	15.0	15.0
V. Other Revenue - volume-based incentive fees from Mastercard							
Other Revenue	2.3	3.2	3.1	2.8	1.0	1.1	1.1
Less Customer Credit Plan	0.0	0.0	-4.7	0.0	0.0	0.0	0.0
Total Revenue	**77.6**	**145.0**	**176.3**	**197.7**	**213.5**	**211.9**	**202.7**

6. **Gross Margin –** GM plummeted 229 bps in the first quarter of 2013 and another 76 bps in the second quarter as the revenue mix shifts from high-margin disbursements to low margin transaction processing. A portion of this ongoing margin pressure will be offset by economies of scale and other supply-chain improvements.

7. **Operating Expenses: R&D, S&M, & G&A –** Base Case scenarios assume operating expenses are basically frozen effective Q2 2013. This is potentially the most conservative Base Case assumption in the model as management has indicated it will spend more money to integrate acquisitions and grow, not less money.

   In addition, it is important to note that Higher One understates its operating expenses by capitalizing software development. In 2012, Higher One capitalized $2.9 million of software development, an amount that nearly equals the $3.6 million spent on research and development. We add capitalized software development to R&D in order to more accurately reflect expenses and profit.

8. **Taxes** – guidance is 38%.

9. **WACC** – 9.8%.

10. **Terminal Value Multiple** – Higher One is a prepaid debit card vendor whose clients are exclusively colleges and students. **Green Dot (GDOT)** is a vertically integrated general purpose reloadable (GPR) card solution focused on distribution via national retailers. It trades around 20x EPS / 10x EBITDA. **NetSpend (NTSP)**, another prepaid debit card vendor who dominates the payroll-funded prepaid card vertical, was acquired in February 2013 by **Total System Services (TSS)** for 20.5x 2013 EPS / 12x 2013 EBITDA. **Blackhawk Network Holdings (HAWK)**, a subsidiary of Safeway that provides prepaid gift cards, prepaid mobile handsets and wireless cards, and other prepaid financial services products, was the beneficiary of a recent IPO in April 2013 in which the Company was valued at 21.3x 2013E non-GAAP[7] EPS / 13.7x 2013E EBITDA. Other transaction processors, including merchant processors, fleet cards, money transfer and ATM providers trade at a range of multiples impacted by company-specific factors. While we believe Higher One should trade at a multiple that reflects its underlying growth and return on equity (5-6x), we do consider take-out scenarios in which the Company is acquired for 10x.

[7] 2013E GAAP EPS = 0.71, equals 32.4x. The difference between GAAP and non-GAAP is mostly employee stock option expense.

Higher One (ONE) - Valuation Summary								
		PV of Terminal Value as a Multiple of 2015E EBITDA				Equity Value		
Discount Rate (WACC)	Discounted Cash Flows	5.0x	6.0x	10.0x	Net Debt	5.0x	6.0x	10.0x
7.8%	$66	$119	$142	$237	$114	$70	$94	$189
8.8%	$65	$115	$139	$231	$114	$66	$89	$182
9.8%	$64	$112	$135	$225	$114	$62	$84	$174
10.8%	$63	$109	$131	$219	$114	$58	$80	$167
11.8%	$62	$106	$128	$213	$114	$54	$75	$161
Probability-weighted DCF-based Target Price Calculation						Equity Value Per Share		
Base (6x, WACC)			$1.75	60.0%	$1.05	1.45	1.95	3.91
Upside (10x)			$17.41	10.0%	$1.74	1.37	1.84	3.75
Downside (5x)			$0.00	30.0%	$0.00	1.28	1.75	3.60
Probability-weighted Target Price					**$2.79**	1.20	1.65	3.46
					-76.0%	1.12	1.56	3.32
P/E Sanity Check						% Upside (Downside)		
Base (12x)			$2.70	60.0%	$1.62	-87.5%	-83.3%	-66.4%
Upside (20x)			$23.52	10.0%	$2.35	-88.3%	-84.2%	-67.8%
Downside (10x)			$0.00	30.0%	$0.00	-89.0%	-85.0%	-69.0%
Probability-weighted Target Price					**$3.97**	-89.7%	-85.8%	-70.3%
Average of DCF and P/E-based Valuation Methodologies					**$3.38**	-90.4%	-86.6%	-71.5%
					-71.0%			

Higher One leveraged up its balance sheet to fund a $100 million stock buyback completed in the first quarter of 2013 – a short-sighted tactic offering temporary stock price support in return for an accelerated demise. Higher One's balance sheet is now larded with debt[8]. In Base Case Scenario 1, EBITDA in 2015 erodes to around $30 million. This cash flow, assuming it is stabilized, is worth no more than 5x or 6x, translating to $150-$180 million of enterprise value. Paying off the $114 million of net debt leaves stockholders with $36-$66 million of market capitalization, or ~$1 per share. Employing 3-Sigma Value's proprietary scenario-based valuation framework, we derive a probability-weighted target price of $3.38.

Other Considerations

In addition to the fact that Higher One is jointly and severally liable with its college clients for violations of the federal regulations that govern the disbursement of financial aid refunds, some public higher education institution clients are prohibited by state law from contractually indemnifying Higher One for liability resulting from these violations. Secondly, Higher One

[8] In October 2012, Higher One entered into a five-year, $200 million senior secured revolving credit facility. As of June 30, 2013, there was $112 million in borrowings outstanding at a weighted average interest rate of 2.2%.

bears responsibility for overdrawn accounts, which are largely a result of maintenance assessments and late postings. And thirdly, there is settlement risk in the case of insolvency of a school client. Finally, Higher One recently moved into its lavish new corporate headquarters at an absurd cost of $33 million – a universal red flag.

Final Thoughts

Higher One has no competitive advantage beyond incumbency. If students were given the option of an electronic submission process for direct deposit into an existing bank account – as opposed to the current requirement that students fill out and fax a form (option Number 2) – an an idea the Company rejects, then OneAccount penetration would plummet.

The Company touts its incumbency position as its principal competitive strength – first-mover advantage. Unfortunately, Higher One has spent little on R&D and has no proprietary technology, with no ability to integrate campus-based payment services with its OneAccount refund disbursement cards. HigherOne offers a picture ID but no other security-related services. And there are typically one or two in-network ATMs per campus that are usually mobbed or out-of-service. This forces many students to pay the surcharge for out-of-network ATM access. ATM fees accounted for around $60 million in 2012, or ~40% of Account Revenue. In a Downside Case, this source of revenue is gone.

"*We are about more than just refunds, you can use us in school and beyond*," said Mike Lasater, COO, on Higher One's first quarter 2012 earnings conference call. Higher One desperately needs to increase the portion of its revenue that is not derived from Title IV financial aid disbursements, which is why the new management team leveraged the balance sheet to acquire Campus Labs and Campus Solutions. Higher One has a brand new management team learning on the job under intense new competition from large banks seeking a direct relationship with their customers. **US Bank (USB)**, **Wells Fargo (WFC)**, and **PNC Bank (PNC)** are three examples of powerful new competition who, despite signing fewer schools, are signing much larger, leading schools such as PNC at the University of Pennsylvania. Banks are local institutions capable of marketing directly to college students. Higher One is a middle man. It is only a matter of time until this card is cancelled.