Higher One Holdings, Inc.
Form 10-Q
November 08, 2013
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 September 30, 2013.
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	¨ (Do not check if a smaller reporting company)	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 November 6, 2013, there were 47,025,243 shares of common stock, par value $0.001 per share, outstanding.

HIGHER ONE HOLDINGS, INC.
INDEX TO REPORT ON FORM 10-Q
FOR QUARTER ENDED SEPTEMBER 30, 2013

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

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

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

	September 30, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$11,830	$13,031
Investments in marketable securities	247	247
Accounts receivable, net	10,104	4,860
Income receivable	7,306	7,466
Deferred tax assets	19	37
Prepaid expenses and other current assets	14,139	10,890
Restricted cash	250	2,000
Total current assets	43,895	38,531
Deferred costs	4,188	4,665
Fixed assets, net	52,879	52,686
Intangible assets, net	58,867	38,143
Goodwill	66,548	47,000
Loan receivable related to New Markets Tax Credit financing	7,633	7,633
Other assets	1,066	740
Restricted cash	2,500	1,500
Total assets	$237,576	$190,898
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$3,122	$3,756
Accrued expenses	31,974	12,526
Contingent consideration, current portion	-	2,230
Deferred tax liabilities	-	356
Deferred revenue	22,014	16,027
Total current liabilities	57,110	34,895
Deferred revenue and other non-current liabilities	2,349	2,517
Loan payable and deferred contribution related to New Markets Tax Credit financing	9,258	9,490
Debt	100,000	80,000
Contingent consideration, non-current portion	-	3,520
Deferred tax liabilities	3,982	2,764
Total liabilities	172,699	133,186
Commitments and contingencies (Note 7)		
Stockholders' equity:		
	60	59

Common stock, $0.001 par value; 200,000,000 shares authorized; 58,914,697 shares issued and 47,001,671 shares outstanding at September 30, 2013; 58,045,404 shares issued and 46,660,781 shares outstanding at December 31, 2012		
Additional paid-in capital	179,511	174,218
Treasury stock, 11,913,026 and 11,384,623 shares at September 30, 2013 and December 31, 2012, respectively	(137,899)	(131,903)
Retained earnings	23,205	15,338
Total stockholders' equity	64,877	57,712
Total liabilities and stockholders' equity	$237,576	$190,898

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 September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Revenue:				
Account revenue	$33,234	$35,660	$102,541	$112,803
Payment transaction revenue	14,615	8,342	27,402	17,843
Higher education institution revenue	9,008	5,946	23,874	14,597
Other revenue	255	1,279	698	2,678
Revenue	57,112	51,227	154,515	147,921
Cost of revenue	24,999	21,838	65,193	60,303
Gross margin	32,113	29,389	89,322	87,618
Operating expenses:				
General and administrative	16,404	11,902	43,069	34,205
Product development	2,822	1,380	7,161	3,371
Sales and marketing	4,884	3,182	12,723	8,995
Litigation settlement and related costs	16,320	-	16,320	-
Merger and acquisition related	(326)	1,042	(4,791)	1,042
Total operating expenses	40,104	17,506	74,482	47,613
Income (loss) from operations	(7,991)	11,883	14,840	40,005
Interest income	19	23	58	87
Interest expense	(857)	(185)	(2,252)	(402)
Other income	406	77	561	232
Net income (loss) before income taxes	(8,423)	11,798	13,207	39,922
Income tax expense (benefit)	(2,929)	4,480	5,340	15,164
Net income (loss)	$(5,494)	$7,318	$7,867	$24,758
Net income (loss) available to common stockholders:				
Basic	$(5,494)	$7,318	$7,867	$24,758
Diluted	$(5,494)	$7,318	$7,867	$24,758
Weighted average shares outstanding:				
Basic	46,907,493	54,511,509	46,630,343	54,837,154
Diluted	46,907,493	57,246,289	48,360,447	57,903,692
Net income (loss) available to common stockholders per common share:				
Basic	$(0.12)	$0.13	$0.17	$0.45
Diluted	$(0.12)	$0.13	$0.16	$0.43

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.
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Higher One Holdings, Inc.
Condensed Consolidated Statement of Changes in Stockholders' Equity
(In thousands of dollars, except shares)
(unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Total Stockholders' Equity
Balance at December 31, 2012	46,660,781	$ 59	$ 174,218	$ (131,903)	$ 15,338	$ 57,712
Stock-based compensation	-	-	3,384	-	-	3,384
Issuance of restricted stock	70,882	-	-	-	-	-
Tax benefit related to options	-	-	796	-	-	796
Repurchase of common stock	(528,403)	-	-	(5,996)	-	(5,996)
Exercise of stock options	798,411	1	1,113	-	-	1,114
Net income	-	-	-	-	7,867	7,867
Balance at September 30, 2013	47,001,671	$ 60	$ 179,511	$ (137,899)	$ 23,205	$ 64,877

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

Higher One Holdings, Inc.
Condensed Consolidated Statements of Cash Flows
(In thousands of dollars)
(unaudited)

	Nine months ended September 30, 2013	2012
Cash flows from operating activities		
Net income	$7,867	$24,758
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,587	7,336
Amortization of deferred finance costs	332	102
Non-cash fair value adjustment of contingent consideration	(5,750)	310
Stock-based compensation	3,261	3,226
Deferred income taxes	880	(1,755)
Income tax benefit related to exercise of stock options	(796)	(2,796)
Other income	(232)	(233)
Loss on disposal of fixed assets	8	35
Changes in operating assets and liabilities:		
Accounts receivable	(4,474)	(2,624)
Income receivable	160	(3,029)
Deferred costs	(920)	(703)
Prepaid expenses and other current assets	51	12,997
Other assets	(337)	(114)
Accounts payable	(634)	799
Accrued expenses	20,363	(3,566)
Deferred revenue	5,819	3,708
Net cash provided by operating activities	36,185	38,451
Cash flows from investing activities		
Purchases of available for sale investment securities	-	(11,230)
Proceeds from sales and maturities of available for sale investment securities	-	26,728
Purchases of fixed assets, net of changes in payables of ($153) and ($11,799), respectively	(4,563)	(22,499)
Cash paid for acquired businesses	(47,250)	(37,280)
Additions to internal use software	(2,237)	(2,061)
Amounts received from restricted cash	2,000	-
Deposits to restricted cash	(1,250)	(2,615)
Proceeds from development related subsidies	-	330
Net cash used in investing activities	(53,300)	(48,627)
Cash flows from financing activities		
Proceeds from line of credit	52,000	30,000
Repayments of line of credit	(32,000)	-
Excess tax benefit related to stock options	796	2,796
Proceeds from exercise of stock options	1,114	2,939
Purchases of common stock	(5,996)	(37,600)
Net cash provided by (used in) financing activities	15,914	(1,865)
Net change in cash and cash equivalents	(1,201)	(12,041)
Cash and cash equivalents at beginning of period	13,031	39,085

Cash and cash equivalents at end of period	$11,830	$27,044

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

Higher One Holdings, Inc.
Notes to Condensed Consolidated 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 and has 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. The terms “we,” “us,” “our,” the “Company” or “Higher One,” unless the context otherwise requires, mean Higher One Holdings, Inc. and its subsidiaries.

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, 2012, 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, 2012 condensed consolidated balance sheet data was derived from 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 and nine months ended September 30, 2013 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. All material 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.

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 year (or date of issue if later), and that we use those proceeds to purchase common stock for treasury at the average price for the reporting period.

The effect of stock options and warrants to purchase our common stock totaling 6,734,803 and 2,022,512 were not included in the computation of diluted net income (loss) per common share for the three months ended September 30, 2013 and 2012, respectively, as their effect would be anti-dilutive. The dilutive effect of stock options and warrants totaling 4,293,387 and 1,936,438 were not included in the computation of diluted net income per common share for the nine months ended September 30, 2013 and 2012, 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 antidilutive effect.

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

Comprehensive Income

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

Restricted Cash and Other Arrangements

During the three months ended September 30, 2013, we deposited $1.3 million in a restricted cash account with a former bank partner.

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 payor. There were approximately $368.2 million and $251.8 million of such funds as of September 30, 2013 and December 31, 2012, 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 2012 or during the nine months ended September 30, 2013 which had a material impact on our consolidated financial position, results of operations or liquidity. There are no new accounting standards issued but not yet effective which we expect to have a material impact on our consolidated financial position, results of operations, liquidity or disclosure.

3. Investments in Marketable Securities and Fair Value Measurements

The following table reflects the assets and liabilities carried at fair value measured on a recurring basis (in thousands):

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Fair values at September 30, 2013				
Assets:				
Certificate of deposit	$247	$ –	$ 247	$ –
Contingently returnable escrow receivable	3,300	–	–	3,300
Total Assets	$3,547	$ –	$ 247	$ 3,300
Liabilities:				
Contingent consideration	$–	$ –	$ –	$ –

Fair values at December 31, 2012				
Assets:				
Certificate of deposit	$247	$ –	$ 247	$ –
Liabilities:				
Contingent consideration	$5,750	$ –	$ –	$ 5,750

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

A summary of the activity of the fair value of the measurements using unobservable inputs (Level 3 Assets and Liabilities) for the nine months ended September 30, 2013, is as follows (in thousands):

	Beginning Value of Level 3 Measurements	New Level 3 Measurements	Gain Recognized in Earnings	Ending Fair Value of Level 3 Measurements
Contingently returnable escrow receivable	$ -	$ 3,300	$ -	$ 3,300
Contingent consideration	$ 5,750		$ (5,750)	$ -

Our contingently returnable escrow receivable is valued using probability-weighted, future possible expected outcomes. The unobservable input utilized in the determination of this receivable is our estimation of which clients subject to the escrow agreement will assign their contracts to us (refer to "Note 8 - Business Combinations" for additional information related to this arrangement). The range of amounts which we may receive from escrow is between $0 and $4.5 million. All amounts are expected to be distributed out of escrow by December 2013. The contingently returnable escrow receivable is included in prepaid expenses and other current assets in the condensed consolidated balance sheet.

Our contingent consideration liability is valued using probability-weighted, future possible expected outcomes and an appropriate discount rate. The unobservable input utilized in the determination of this liability is our estimation of the range of revenues which will be achieved by the Campus Labs business during 2013. The approximate range of revenues utilized to estimate the contingent consideration liability was below $12.5 million as of September 30, 2013, which is below the minimum threshold for payout. During the three months ending September 30, 2013, we adjusted the range of revenues utilized to estimate the contingent consideration liability to reflect our current best estimates regarding the revenue to be earned by the Campus Labs business during 2013. The $5.8 million adjustment recognized in earnings during the nine months ended September 30, 2013 was recorded in the merger and acquisition related line item in the consolidated statement of operations. The contingent consideration liability is sensitive to changes in our estimate of revenues to be achieved by the Campus Labs business during 2013. For each $0.2 million increase or decrease in the estimated revenues to be achieved by the Campus Labs business during 2013, the contingent consideration liability would increase or decrease by approximately $0.7 million (undiscounted).

We had no unrealized gains or losses from investments as of December 31, 2012 or September 30, 2013 and there is no difference between the amortized cost and fair value of the securities we held. The carrying amounts of our cash equivalents, accounts receivable, accounts payable and accrued expenses approximates fair value because of the short-term nature of these instruments. The carrying amount of our debt outstanding under our credit facility approximates fair value because we recently entered into this loan agreement and is a Level 2 measurement. Our loan receivable related to New Markets Tax Credit financing is a debt instrument that we classify as held to maturity and is recorded at amortized cost. The carrying value of both our loan receivable and loan payable related to New Markets Tax Credit financing approximates fair value as of September 30, 2013. Our loan payable and loan receivable related to New Markets Tax Credit financing was estimated using discounted cash flow analysis based on rates for similar types of arrangements and are considered Level 3 measurements.

4. Real Estate Development Project

At the end of 2011, we moved our headquarters into two commercial buildings located in New Haven, Connecticut. We have provided two guarantees related to this real estate development project. We provided a guaranty to the State of Connecticut Department of Economic and Community Development related to our obligation to repay the amounts which were granted to us if we fail to meet certain criteria. The maximum potential amount of future payments of this guaranty is approximately $5.9 million. We also provided a guaranty related to tax credits that are expected to be generated by an investment made by an unrelated entity into the real estate development project. In the event that we cause either a recapture or disallowance of the tax credits expected to be generated under this program, we will be required to repay the disallowed or recaptured tax credits plus an amount sufficient to pay the taxes on such repayment, to the counterparty of the guaranty agreement. This guaranty will remain in place through 2018. The maximum potential amount of future payments of this guaranty is approximately $6.0 million.

We currently believe that the requirement to make a payment under either of the guaranties described above is remote and we have thus not recorded any liability on our balance sheet in connection with these guaranties.

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

5. Credit Facility

On October 16, 2012, HOI entered into a five-year, $200.0 million, senior secured revolving credit facility, or the Credit Facility. As of September 30, 2013, there were $100.0 million in borrowings outstanding, at a weighted average interest rate of 2.4%, under the Credit Facility. We amended the Credit Facility in November 2013 to exclude from our financial covenant calculations the loss related to the settlement of class action lawsuits (refer to "Note 7 - Commitments and Contingencies" for additional information regarding the class action lawsuits). We are in compliance with all of the applicable affirmative, negative and financial covenants of the Credit Facility. The amount available to be drawn under the Credit Facility may be increased by an additional $100.0 million upon our request and the agreement of the lenders party to the Credit Facility. The Credit Facility permits the issuance of letters of credit of up to $20.0 million and swing line loans of up to $10.0 million to fund working capital needs. Loans drawn under the Credit Facility are payable in a single maturity on October 16, 2017.

6. Capital Stock

Treasury Stock

On August 1, 2012, our board of directors authorized a share repurchase program pursuant to which we were permitted to repurchase up to $100.0 million of our issued and outstanding shares of common stock through August 15, 2013. During the nine months ended September 30, 2013, we purchased 528,403 shares of our common stock at a cost of $6.0 million. All shares repurchased were held in treasury as of September 30, 2013. We do not have an authorized share repurchase program as of September 30, 2013.

7. Commitments and Contingencies

From time to time we are subject to litigation relating to matters in the ordinary course of business, as well as regulatory examinations, information gathering requests, inquiries and investigations.

We are a defendant in a series of putative class action lawsuits. The cases are as follows: Ashley Parker, et al. v. Higher One Holdings, Inc. et al., filed on July 3, 2012 in the United States District Court for the Northern District of Mississippi, Eastern Division; Jeanette Price et al. v. Higher One Holdings, Inc. et al., filed on July 27, 2012 in the United States District Court for the District of Connecticut; John Brandon Kent et al. v. Higher One Holdings, Inc. et al., filed on August 17, 2012 in the United States District Court for the Middle District of Alabama, Northern Division; Jonathan Lanham et al. v. Higher One Holdings, Inc. et al., filed on October 2, 2012 in the United States District Court for the Western District of Kentucky, Louisville Division; Aisha DeClue et al. v. Higher One, Inc., et al., filed on November 5, 2012 in the St. Louis County Circuit Court of Missouri; and Jill Massey et al. v. Higher One Holdings, Inc. et al., filed on November 6, 2012 in the United States District Court for the Southern District of Illinois, East Saint Louis Division. We filed a motion with the Judicial Panel on Multidistrict Litigation, or JPML, asking the Panel to transfer to a single court the first three cases named above (and any additional tag-along cases) for coordinated or consolidated pretrial proceedings. On December 11, 2012 and December 21, 2012, the JPML ruled in our favor and the Parker, Kent, Price, Lanham, and Massey actions were transferred to the District of Connecticut. This consolidated case is captioned In re Higher One OneAccount Marketing and Sales Practices Litigation, or the MDL. Plaintiffs have since filed a consolidated amended complaint in the MDL. It generally alleges, among other things, violations of state consumer protection statutes (predicated, in part, on alleged violations of Department of Education rules and violations of the federal Electronic Funds Transfer Act) and various common law claims. On April 22, 2013, we filed a motion to dismiss the case. On December 21, 2012, Higher One removed the DeClue case to the United States District Court for the Eastern District of Missouri. On December 27, 2012, the JPML issued a conditional transfer order with respect to the DeClue action, which the DeClue plaintiffs have opposed. The JPML overruled that opposition and the DeClue case has been transferred to the District of Connecticut to proceed as part of the MDL. In DeClue, plaintiff has filed a motion to remand the case to state court, but the court has stayed any briefing on this motion until the MDL Court lifts the stay and enters a scheduling order.

In October 2013,we reached an agreement in principle on the key terms of a preliminary settlement that would resolve the MDL. The terms of the preliminary settlement include a payment of approximately $15.0 million and an agreement to make and/or maintain certain practice changes. The parties remain in negotiations and a final settlement agreement is contingent upon (a) reaching agreement on the remaining terms, (b) obtaining corporate approvals of the final agreement, and (c) court approval. There can be no assurance that these conditions will be satisfied as contemplated in the agreement in principle.

During the quarter ended September 30, 2013, we recorded an accrual for an estimated charge of $16.3 million to reflect our current estimate of the resolution, inclusive of additional legal and other administrative costs, based on the agreement in principle. While this estimate is consistent with our view of the current exposure based on the agreement in principle, the actual loss or range of such loss could vary materially from the current estimate if the settlement is not finalized and approved.

Higher One Holdings, Inc.
Notes to Condensed Consolidated Statements
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In February 2009 and September 2010, Higher One, Inc. filed two separate complaints against TouchNet Information Systems, Inc., or TouchNet, in the United States District Court for the District of Connecticut alleging patent infringement related to TouchNet's offering for sale and sales of its “eRefund” product in violation of two of our patents. In the complaints, we sought judgments that TouchNet has infringed two of our patents, a judgment that TouchNet pay damages and interest on damages to compensate us for infringement, an award of our costs in connection with these actions and an injunction barring TouchNet from further infringing our patents. TouchNet answered the complaint and asserted a number of defenses and counterclaims, including that it does not infringe our patent, that our patent is invalid or unenforceable and certain allegations of unfair competition and state and federal antitrust violations. In addition, TouchNet's counterclaims sought dismissal of our claims with prejudice, declaratory judgment that TouchNet does not infringe our patent and that our patent is invalid or unenforceable, as well as an award of fees and costs related to the action, and an injunction permanently enjoining us from suing TouchNet regarding infringement of our patent. The parties are currently in the discovery stage of the proceeding. Although we intend to pursue the matter vigorously, there can be no assurances of our success in these proceedings.

In accordance with applicable accounting guidance, we establish a liability for these matters if and when they were to present loss contingencies that were both probable and reasonably estimable.

8. Business Combinations

On August 7, 2012, we acquired substantially all of the assets of Campus Labs, LLC, or Campus Labs. The Campus Labs business provides specialized, comprehensive assessment programs that combine data collection, reporting, organization, and campus-wide integration for higher education institutions. The net assets and results of operations of the acquired assets of Campus Labs, LLC are included in our consolidated financial statements from August 8, 2012.

On May 7, 2013, we entered into an Asset Purchase Agreement with Sallie Mae, Inc., or Sallie Mae, to purchase substantially all of the assets of Sallie Mae’s Campus Solutions business, or Campus Solutions, for consideration of approximately $47.3 million in cash, $5.2 million of which was deposited into escrow and will be released to Sallie Mae or us depending on the assignment of certain client contracts. We recorded a contingently returnable escrow receivable of $3.3 million at the time of the acquisition which was the fair value of the amount we expect to receive from the amounts deposited in escrow. The purchase consideration is also subject to certain post-closing adjustments, including working capital adjustments.

We completed the acquisition on May 7, 2013, and used borrowing available under our Credit Facility to pay the purchase price and related transaction costs. The Campus Solutions business provides refund disbursement and payment processing solutions, including tuition payment plans, to education institutions. The acquisition of the Campus Solutions business significantly increases the number of our higher education institution clients to whom we provide refund disbursement and payment processing services. The net assets and results of operations of the Campus Solutions business are included in our consolidated financial statements beginning May 8, 2013. Assets acquired and liabilities assumed were recorded at their fair values as of May 7, 2013.

Under the acquisition method of accounting, the total fair value of consideration transferred was allocated to Campus Solution’s net tangible and intangible assets based on their estimated fair values as of May 7, 2013. The preliminary allocation of fair value of consideration transferred was allocated as follows (in thousands):

Assets acquired:

	May 7, 2013
Accounts receivable	$770
Contingently returnable escrow receivable	3,300
Fixed assets	92
Intangible assets	23,540
Goodwill	19,548
Total assets acquired and fair value of consideration transferred	$47,250

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

The preliminary purchase price allocations for the Campus Solutions acquisition were based upon a preliminary valuation and our estimates and assumptions for these acquisitions are subject to change as we obtain additional information for our estimates during the respective measurement periods. The primary areas of those purchase price allocations that are not yet finalized relate to the contingently returnable escrow receivable, working capital accounts, identifiable intangible assets and residual goodwill.

The following methods and inputs were utilized to determine fair value for the respective items:

Item	Valuation technique	Inputs
Contingently returnable escrow receivable	Probability-weighted future possible outcomes	Estimate of the contracts that will be assigned to us and the amount to be paid from escrow to us for each such contract
Completed technology	Income approach – relief from royalty	Estimated future revenue attributable to technology completed as of the acquisition date, royalty rate and discount rate
Customer relationships	Income approach – excess earnings	Estimated future revenues attributable to existing higher education institution clients as of the acquisition date, estimated income associated with such revenue, royalty rate and discount rate

The acquired intangible assets will be amortized each year based on a straight-line method over the estimated useful life of the asset.