UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended July 31, 2020
OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number: 001-36568

HEALTHEQUITY, INC.

(Exact name of registrant as specified in its charter)

Delaware	**52-2383166**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

15 West Scenic Pointe Drive
Suite 100
Draper, Utah 84020
(Address of principal executive offices) (Zip code)

(801**)** 727-1000
(Registrant's telephone Number, including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, par value $0.0001 per share	HQY	The NASDAQ Global Select Market

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 ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☑ No ☐

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

Large accelerated filer	☑	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
	.	Emerging growth Company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of September 1, 2020, there were 76,863,514 shares of the registrant's common stock outstanding.

HealthEquity, Inc. and subsidiaries
Form 10-Q quarterly report

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Part I. Financial information
Item 1. Financial statements

HealthEquity, Inc. and subsidiaries
Condensed consolidated balance sheets

(in thousands, except par value)	July 31, 2020	January 31, 2020
	(unaudited)	
Assets		
Current assets		
Cash and cash equivalents	$ 268,910	$ 191,726
Accounts receivable, net of allowance for doubtful accounts of $1,954 and $1,216 as of July 31, 2020 and January 31, 2020, respectively	70,235	70,863
Other current assets	43,982	34,711
Total current assets	383,127	297,300
Property and equipment, net	34,528	33,486
Operating lease right-of-use assets	95,095	83,178
Intangible assets, net	783,106	783,279
Goodwill	1,333,808	1,332,631
Deferred tax asset	59	18
Other assets	34,658	35,089
Total assets	$ 2,664,381	$ 2,564,981
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	$ 11,708	$ 3,980
Accrued compensation	36,435	50,121
Accrued liabilities	37,424	46,372
Current portion of long-term debt	54,688	39,063
Operating lease liabilities	13,521	12,401
Total current liabilities	153,776	151,937
Long-term liabilities		
Long-term debt, net of issuance costs	952,898	1,181,615
Operating lease liabilities, non-current	79,304	68,017
Other long-term liabilities	8,210	2,625
Deferred tax liability	129,857	130,492
Total long-term liabilities	1,170,269	1,382,749
Total liabilities	1,324,045	1,534,686
Commitments and contingencies (see Note 6)		
Stockholders' equity		
Preferred stock, $0.0001 par value, 100,000 shares authorized, no shares issued and outstanding as of July 31, 2020 and January 31, 2020, respectively	—	—
Common stock, $0.0001 par value, 900,000 shares authorized, 76,872 and 71,051 shares issued and outstanding as of July 31, 2020 and January 31, 2020, respectively	8	7
Additional paid-in capital	1,127,136	818,774
Accumulated earnings	213,192	211,514
Total stockholders' equity	1,340,336	1,030,295
Total liabilities and stockholders' equity	$ 2,664,381	$ 2,564,981

See accompanying notes to condensed consolidated financial statements.

HealthEquity, Inc. and subsidiaries
Condensed consolidated statements of operations and comprehensive income (loss) (unaudited)

	Three months ended July 31,		Six months ended July 31,	
(in thousands, except per share data)	2020	2019	2020	2019
Revenue				
Service revenue	$ 103,805	$ 26,282	$ 215,076	$ 53,090
Custodial revenue	46,909	43,614	93,808	85,566
Interchange revenue	25,325	16,727	57,166	35,019
Total revenue	176,039	86,623	366,050	173,675
Cost of revenue				
Service costs	65,246	19,745	136,259	40,394
Custodial costs	4,998	4,209	10,043	8,332
Interchange costs	4,011	4,229	9,890	8,756
Total cost of revenue	74,255	28,183	156,192	57,482
Gross profit	101,784	58,440	209,858	116,193
Operating expenses				
Sales and marketing	12,167	8,391	23,622	17,361
Technology and development	30,654	11,645	61,732	22,550
General and administrative	20,493	9,262	39,491	17,971
Amortization of acquired intangible assets	19,077	1,494	37,779	2,985
Merger integration	10,365	2,784	23,135	2,784
Total operating expenses	92,756	33,576	185,759	63,651
Income from operations	9,028	24,864	24,099	52,542
Other income (expense)				
Interest expense	(8,895)	(67)	(21,158)	(130)
Other income (expense), net	(824)	(1,061)	(1,588)	22,602
Total other income (expense)	(9,719)	(1,128)	(22,746)	22,472
Income (loss) before income taxes	(691)	23,736	1,353	75,014
Income tax provision (benefit)	(543)	4,370	(325)	13,826
Net income (loss) and comprehensive income (loss)	$ (148)	$ 19,366	$ 1,678	$ 61,188
Net income per share:				
Basic	$ 0.00	$ 0.30	$ 0.02	$ 0.97
Diluted	$ 0.00	$ 0.30	$ 0.02	$ 0.94
Weighted-average number of shares used in computing net income per share:				
Basic	72,343	64,220	71,669	63,289
Diluted	72,343	65,583	72,971	64,785

See accompanying notes to condensed consolidated financial statements.

HealthEquity, Inc. and subsidiaries
Condensed consolidated statements of stockholders' equity (unaudited)

(in thousands)	Three months ended July 31, 2020	Three months ended July 31, 2019	Six months ended July 31, 2020	Six months ended July 31, 2019
Total stockholders' equity, beginning balance	$ 1,040,650	$ 529,299	$ 1,030,295	$ 477,079
Common stock:				
Beginning balance	7	6	7	6
Issuance of common stock upon exercise of stock options, and for restricted stock	—	—	—	—
Other issuance of common stock	1	1	1	1
Ending balance	8	7	8	7
Additional paid-in capital:				
Beginning balance	827,303	315,621	818,774	305,223
Issuance of common stock upon exercise of stock options, and for restricted stock	1,618	2,281	2,751	6,651
Other issuance of common stock	286,777	458,494	286,777	458,494
Stock-based compensation	11,438	7,590	18,834	13,618
Ending balance	1,127,136	783,986	1,127,136	783,986
Accumulated earnings				
Beginning balance	213,340	213,672	211,514	171,850
Net income (loss)	(148)	19,366	1,678	61,188
Ending balance	213,192	233,038	213,192	233,038
Total stockholders' equity, ending balance	$ 1,340,336	$ 1,017,031	$ 1,340,336	$ 1,017,031

See accompanying notes to condensed consolidated financial statements.

HealthEquity, Inc. and subsidiaries
Condensed consolidated statements of cash flows (unaudited)

	Six months ended July 31,	
(in thousands)	**2020**	**2019**
Cash flows from operating activities:		
Net income	$ 1,678	$ 61,188
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	56,106	9,722
Stock-based compensation	18,834	13,618
Amortization of debt issuance costs	2,533	31
Gains on marketable equity securities	—	(27,285)
Other non-cash items	1,925	—
Deferred taxes	(568)	7,868
Changes in operating assets and liabilities:		
Accounts receivable	(152)	(1,689)
Other assets	(3,187)	(4,962)
Operating lease right-of-use assets	5,563	1,286
Accounts payable	6,047	(1,083)
Accrued compensation	(13,854)	(5,926)
Accrued liabilities and other current liabilities	(6,017)	4,942
Operating lease liabilities, non-current	(5,723)	(1,210)
Other long-term liabilities	5,477	331
Net cash provided by operating activities	68,662	56,831
Cash flows from investing activities:		
Purchases of property and equipment	(8,987)	(3,492)
Purchases of software and capitalized software development costs	(21,787)	(9,518)
Acquisition of intangible member assets	(24,922)	(1,736)
Purchases of marketable securities	—	(53,845)
Net cash used in investing activities	(55,696)	(68,591)
Cash flows from financing activities:		
Proceeds from follow-on equity offering, net of payments for offering costs	287,318	458,881
Principal payments on long-term debt	(215,625)	—
Settlement of client-held funds obligation, net	(10,292)	—
Proceeds from exercise of common stock options	2,817	6,564
Net cash provided by financing activities	64,218	465,445
Increase in cash and cash equivalents	77,184	453,685
Beginning cash and cash equivalents	191,726	361,475
Ending cash and cash equivalents	$ 268,910	$ 815,160

See accompanying notes to condensed consolidated financial statements.

HealthEquity, Inc. and subsidiaries
Condensed consolidated statements of cash flows (unaudited) (continued)

	Six months ended July 31,	
(in thousands)	**2020**	**2019**
Supplemental cash flow data:		
Interest expense paid in cash	$ 17,659	$ 101
Income taxes paid in cash, net of refunds received	798	9,119
Supplemental disclosures of non-cash investing and financing activities:		
Purchases of property and equipment included in accounts payable or accrued liabilities	$ 1,104	$ 3
Purchases of software and capitalized software development costs included in accounts payable, accrued liabilities, or accrued compensation	1,262	487
Purchases of intangible member assets	58	6,500
Additions to goodwill due to measurement period adjustments	1,177	—
Exercise of common stock options receivable	66	87
Follow-on equity offering costs accrued during the period	540	386
Debt issuance costs accrued during the period	—	345

See accompanying notes to condensed consolidated financial statements.

HealthEquity, Inc. and subsidiaries
Notes to condensed consolidated financial statements

Note 1. Summary of business and significant accounting policies

Business

HealthEquity, Inc. ("HealthEquity" or the "Company") was incorporated in the state of Delaware on September 18, 2002. HealthEquity is a leader in administering health savings accounts (“HSAs”) and complementary consumer-directed benefits (“CDBs”), which empower consumers to access tax-advantaged healthcare savings while also providing corporate tax advantages for employers.

Principles of consolidation

The condensed consolidated financial statements include the accounts of HealthEquity and its direct and indirect subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Basis of presentation

The accompanying condensed consolidated financial statements as of July 31, 2020 and for the three and six months ended July 31, 2020 and 2019 are unaudited and have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") and the applicable rules and regulations of the Securities and Exchange Commission ("SEC") regarding interim financial reporting. In the opinion of management, the interim data includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods. Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Therefore, these condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2020. The fiscal year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP.

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

Follow-on equity offering

In July 2020, the Company closed a follow-on public offering of 5,290,000 shares of common stock at a public offering price of $56.00 per share, less the underwriters' discount. The Company received net proceeds of approximately $286.8 million after deducting underwriting discounts and commissions of approximately $8.9 million and other offering expenses payable by the Company of approximately $0.6 million. The Company used $200.0 million of such proceeds to repay debt under its term loan facility.

Significant accounting policies

There have been no material changes in the Company’s significant accounting policies as compared to the significant accounting policies described in the Company’s Annual Report on Form 10-K for the fiscal year ended January 31, 2020.

Recently adopted accounting pronouncements

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments,* which requires financial assets measured at amortized cost be presented at the net amount expected to be collected. This ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company adopted the new standard as of February 1, 2020 using the modified retrospective transition method. The adoption of this standard did not have a material effect on the Company’s condensed consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement* (“ASU 2018-13”), which amends ASC 820, "Fair Value Measurement." ASU 2018-13 modifies the disclosure requirements for fair value measurements by removing, modifying and adding certain disclosures. This ASU is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The Company adopted the new standard as of February 1, 2020. The adoption of this standard did not have a material effect on the Company’s condensed consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* as part of its overall simplification initiative to reduce costs and complexity of applying accounting standards while maintaining or improving the usefulness of the information provided to users of financial statements. The Company adopted the new standard as of February 1, 2020. The Company retrospectively adopted the provision related to the classification of taxes partially based on income, and prospectively adopted the provisions related to intraperiod tax allocation and interim recognition of enactment of tax laws. The adoption of this standard did not have a material effect on the Company's current- or prior-period condensed consolidated financial statements.

Note 2. Net income per share

The following table sets forth the computation of basic and diluted net income per share:

	Three months ended July 31,		Six months ended July 31,	
(in thousands, except per share data)	**2020**	**2019**	**2020**	**2019**
Numerator (basic and diluted):				
Net income (loss)	$ (148)	$ 19,366	$ 1,678	$ 61,188
Denominator (basic):				
Weighted-average common shares outstanding	72,343	64,220	71,669	63,289
Denominator (diluted):				
Weighted-average common shares outstanding	72,343	64,220	71,669	63,289
Weighted-average dilutive effect of stock options and restricted stock units	—	1,363	1,302	1,496
Diluted weighted-average common shares outstanding	72,343	65,583	72,971	64,785
Net income per share:				
Basic	$ 0.00	$ 0.30	$ 0.02	$ 0.97
Diluted	$ 0.00	$ 0.30	$ 0.02	$ 0.94

For the three months ended July 31, 2020 and 2019, approximately 2.1 million and 0.3 million shares, respectively, attributable to stock options and restricted stock units were excluded from the calculation of diluted earnings per share as their inclusion would have been anti-dilutive.

For the six months ended July 31, 2020 and 2019, approximately 0.6 million and 0.3 million shares, respectively, attributable to stock options and restricted stock units were excluded from the calculation of diluted earnings per share as their inclusion would have been anti-dilutive.

Note 3. Business combination

Acquisition of WageWorks

On August 30, 2019, the Company closed the acquisition (the "Acquisition") of WageWorks, Inc. ("WageWorks") for $51.35 per share in cash, or approximately $2.0 billion to WageWorks stockholders. The Company financed the transaction through a combination of $816.9 million cash on hand plus net borrowings of approximately $1.22 billion, after deducting lender fees of approximately $30.5 million, under a term loan facility.

The Acquisition was accounted for under the acquisition method of accounting for business combinations. Consideration paid was allocated to the tangible and intangible assets acquired and liabilities assumed based on their fair values as of the Acquisition date. The initial allocation of the consideration paid was based on a preliminary valuation and is subject to potential adjustment during the measurement period (up to one year from the Acquisition date). Balances subject to adjustment primarily include the valuations of acquired assets (tangible and intangible) and liabilities assumed, as well as tax-related matters. The Company expects the allocation of the consideration transferred to be finalized within the measurement period.

The following table summarizes the Company's current allocation of the consideration paid in the Acquisition:

(in millions)	Initial Allocation	Adjustments	Updated Allocation
Cash and cash equivalents	$ 406.8	$ (14.5)	$ 392.3
Other current assets	56.5	1.0	57.5
Property, plant, and equipment	26.6	—	26.6
Operating lease right-of-use assets	42.5	—	42.5
Intangible assets	715.3	—	715.3
Goodwill	1,330.5	(1.3)	1,329.2
Other assets	5.9	—	5.9
Client-held funds obligation	(237.5)	17.1	(220.4)
Other current liabilities	(69.1)	(3.4)	(72.5)
Other long-term liabilities	(26.7)	—	(26.7)
Deferred tax liability	(128.7)	1.1	(127.6)
Total consideration paid	$ 2,122.1	$ —	$ 2,122.1

Adjustments to the initial allocation are based on more detailed information obtained about the specific assets acquired, liabilities assumed, and tax-related matters.

Note 4. Supplemental financial statement information

Selected condensed consolidated balance sheet and condensed consolidated statement of operations and comprehensive income components consist of the following:

Property and equipment

Property and equipment consisted of the following as of July 31, 2020 and January 31, 2020:

(in thousands)	July 31, 2020	January 31, 2020
Leasehold improvements	$ 22,112	$ 19,240
Furniture and fixtures	9,194	7,929
Computer equipment	26,621	22,074
Property and equipment, gross	57,927	49,243
Accumulated depreciation	(23,399)	(15,757)
Property and equipment, net	$ 34,528	$ 33,486

Depreciation expense for the three months ended July 31, 2020 and 2019 was $4.1 million and $1.0 million, respectively, and $8.0 million and $1.8 million for the six months ended July 31, 2020 and 2019, respectively.

Contract balances

The Company does not recognize revenue in advance of invoicing its customers and therefore has no related contract assets. The Company records a receivable when revenue is recognized prior to payment and the Company has unconditional right to payment. Alternatively, when payment precedes the related services, the Company records a contract liability, or deferred revenue, until its performance obligations are satisfied. As of July 31, 2020 and January 31, 2020, the balance of deferred revenue was $11.5 million and $3.7 million, respectively. The balances are related to cash received in advance for an interchange revenue arrangement, other up-front fees and other commuter deferred revenue, and are generally recognized within twelve months, with the exception of the interchange arrangement, which is recognized over a term of approximately ten years. During the three and six months ended July 31, 2020, approximately $0.6 million and $1.4 million of revenue, respectively, was recognized that was included in the balance of deferred revenue as of January 31, 2020.

Leases

The components of operating lease costs were as follows:

(in thousands)	Three months ended July 31, 2020	2019	Six months ended July 31, 2020	2019
Operating lease expense	$ 3,925	1,086	8,249	2,160
Sublease income	(450)	—	(900)	—
Net operating lease expense	$ 3,475	$ 1,086	$ 7,349	$ 2,160

Supplemental cash flow information related to the Company's operating leases was as follows:

(in thousands)	Six months ended July 31, 2020	2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 6,468	$ 1,829
Operating lease right-of-use assets obtained in exchange for new operating lease obligations	$ 17,480	$ 199

Other income (expense), net

Other income (expense), net, consisted of the following:

(in thousands)	Three months ended July 31, 2020	2019	Six months ended July 31, 2020	2019
Interest income	$ 76	$ 1,884	$ 676	$ 3,227
Gain on equity securities	—	3,774	—	27,285
Acquisition gains (costs)	28	(6,596)	(66)	(7,780)
Other expense	(928)	(123)	(2,198)	(130)
Total other income (expense), net	$ (824)	$ (1,061)	$ (1,588)	$ 22,602

Note 5. Intangible assets and goodwill

Intangible assets

The gross carrying amount and associated accumulated amortization of intangible assets were as follows as of July 31, 2020 and January 31, 2020:

(in thousands)	July 31, 2020	January 31, 2020
Amortizable intangible assets:		
Software and software development costs	$ 100,908	$ 76,221
Acquired HSA portfolios	117,750	92,770
Acquired customer relationships	601,381	601,381
Acquired developed technology	96,925	96,925
Acquired trade names	12,300	12,300
Amortizable intangible assets, gross	929,264	879,597
Accumulated amortization	(146,946)	(98,851)
Total amortizable intangible assets, net	782,318	780,746
Acquired in process software development costs	788	2,533
Total intangible assets, net	$ 783,106	$ 783,279

During the three months ended July 31, 2020 and 2019, the Company expensed a total of $10.3 million and $3.8 million, respectively, and $20.6 million and $7.7 million for the six months ended July 31, 2020 and 2019, respectively, in software development costs primarily related to the post-implementation and operation stages of its proprietary software.

Amortization expense for the three months ended July 31, 2020 and 2019 was $24.5 million and $4.0 million, respectively, and $48.1 million and $7.9 million for the six months ended July 31, 2020 and 2019, respectively.

Goodwill

During the three months ended July 31, 2020, goodwill increased by $1.2 million due to measurement period adjustments. There were no additional changes to the goodwill carrying value during the three and six months ended July 31, 2020 and 2019.

Note 6. Commitments and contingencies

Commitments

The Company's principal commitments consist of a term loan facility, operating lease obligations for office space, data storage facilities, and other leases, a processing services agreement with a vendor, and contractual commitments related to network infrastructure, equipment, and certain maintenance agreements under long-term, non-cancelable commitments. Except for the $200 million principal prepayment on our term loan facility, there were no material changes during the three and six months ended July 31, 2020, outside of the ordinary course of business, in our commitments from those disclosed in our Annual Report on Form 10-K for the fiscal year ended January 31, 2020.

Contingencies

In the normal course of business, the Company enters into contracts and agreements that contain a variety of representations and warranties and provide for general indemnifications. The Company's exposure under these agreements is unknown because it involves claims that may be made against the Company in the future, but have not yet been made. The Company accrues a liability for such matters when it is probable that future expenditures will be made and such expenditures can be reasonably estimated.

Legal matters

WageWorks is pursuing affirmative claims against the Office of Personnel Management ("OPM") to obtain payment for services provided by WageWorks between March 1, 2016 and August 31, 2016 pursuant to its contract with OPM. In connection with WageWorks' claims against OPM, OPM has also claimed that an erroneous statement in a certificate signed by a former executive officer constituted a violation of the False Claims Act and moved to dismiss part of WageWorks' claim against OPM as a result. As with all legal proceedings, no assurance can be provided as to the outcome of these matters or if WageWorks or OPM will be successful.

On March 9, 2018, a putative class action was filed in the U.S. District Court for the Northern District of California (the "Securities Class Action"). On May 16, 2019, a consolidated amended complaint was filed by the lead plaintiffs asserting claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, against WageWorks, its former Chief Executive Officer and its former Chief Financial Officer on behalf of purchasers of WageWorks common stock between May 6, 2016 and March 1, 2018. The complaint also alleges claims under the Securities Act of 1933, as amended, arising from WageWorks' June 19, 2017 common stock offering against those same defendants, as well as the members of its board of directors at the time of that offering.

On June 22, 2018 and September 6, 2018, two derivative lawsuits were filed against certain of WageWorks' former officers and directors and WageWorks (as nominal defendant) in the Superior Court of the State of California, County of San Mateo. The actions were consolidated. On July 23, 2018, a similar derivative lawsuit was filed against certain former WageWorks' officers and directors and WageWorks (as nominal defendant) in the U.S. District Court for the Northern District of California (together, the "Derivative Suits"). The allegations in the Derivative Suits relate to substantially the same facts as those underlying the Securities Class Action described above. The plaintiffs seek unspecified damages and fees and costs.

Plaintiffs in the Superior Court action filed an amended consolidated complaint on October 28, 2019, naming as defendants certain former officers and directors of WageWorks and alleging a direct claim of "inseparable fraud/breach of fiduciary duty" on behalf of a class. WageWorks was not named as a party in that complaint. On June 24, 2020, the court granted the defendants' motion to dismiss the amended complaint. The plaintiffs subsequently filed a notice of appeal.

WageWorks voluntarily contacted the San Francisco office of the SEC Division of Enforcement regarding the restatement of WageWorks' financial statements and related independent investigation. WageWorks is providing information and documents to the SEC and continues to cooperate with the SEC's investigation into these matters. The U.S. Attorney's Office for the Northern District of California also opened an investigation. WageWorks has provided documents and information to the U.S. Attorney's Office and continues to cooperate with any inquiries by the U.S. Attorney's Office regarding the matter.

WageWorks previously entered into indemnification agreements with its former directors and officers and, pursuant to these indemnification agreements, is covering the defense of its former directors and officers in the legal proceedings described above.

The Company and its subsidiaries are involved in various other litigation, governmental proceedings and claims, not described above, that arise in the normal course of business. While it is not possible to determine the ultimate outcome or the duration of such litigation, governmental proceedings or claims, the Company believes, based on current knowledge, that such litigation, proceedings and claims will not have a material impact on the Company's financial position, results of operations and cash flows for the period.

The Company maintains liability insurance coverage that is intended to cover the legal matters described above; however, it is possible that claims may be denied by our insurance carriers or could exceed the amount of our applicable insurance coverage, we may be required by our insurance carriers to contribute to the payment of claims, and our insurance coverage may not continue to be available to us on acceptable terms or in sufficient amounts.

As required under GAAP, the Company records a provision for contingent losses when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Based on currently available information, the Company does not believe that any liabilities relating to these matters are probable or that the amount of any resulting loss is estimable. However, litigation is subject to inherent uncertainties and the Company's view of these matters may change in the future. Were an unfavorable outcome to occur, there exists the possibility of a material adverse impact on the Company's financial position, results of operations and cash flows for the period in which the unfavorable outcome occurs, and potentially in future periods.

Note 7. Income taxes

The Company follows FASB Accounting Standards Codification 740-270, *Income Taxes - Interim Reporting*, for the computation and presentation of its interim period tax provision. Accordingly, management estimated the effective annual tax rate and applied this rate to the year-to-date pre-tax book income to determine the interim benefit or provision for income taxes. For the three and six months ended July 31, 2020, the Company recorded an income tax benefit of $0.5 million and $0.3 million, respectively. This resulted in an effective income tax benefit rate of 78.6% and 24.0% for the three and six months ended July 31, 2020, respectively, compared with an effective income tax expense rate of 18.4% for each of the three and six months ended July 31, 2019. For the three and six months ended July 31, 2020 and 2019, the net impact of discrete tax items caused a 62.9 and 57.4 percentage point benefit and a 4.8 and 4.6 percentage point benefit, respectively, to the effective income tax rate primarily due to the excess tax benefit on stock-based compensation expense recognized in the provision for income taxes relative to pre-tax book income. Due to significantly lower pre-tax book income during the six months ended July 31, 2020, such excess tax benefit had a greater impact on the effective income tax rate.

As of July 31, 2020 and January 31, 2020, the Company's total gross unrecognized tax benefit was $9.8 million and $9.4 million, respectively. As of July 31, 2020 and January 31, 2020, a net unrecognized tax benefit of $0.6 million and $0.5 million, respectively, was recorded in the condensed consolidated balance sheets. If recognized, $9.0 million of the total gross unrecognized tax benefits would affect the Company's effective tax rate as of July 31, 2020.

The Company files income tax returns with U.S. federal and state taxing jurisdictions and is not currently under examination with any jurisdiction. As a result of the Company's net operating loss carryforwards and tax credit carryforwards, the Company remains subject to examination by one or more jurisdictions for tax years after 2000.

Note 8. Indebtedness

As of July 31, 2020, long-term debt consisted of the following:

(in millions)		**July 31, 2020**
Term loan facility	$	1,026.6
Less: unamortized loan issuance costs (1)		19.0
Long-term debt, net of issuance costs	$	1,007.6

(1) In addition to the $19.0 million of unamortized issuance costs related to the term loan facility, $5.7 million of unamortized issuance costs related to our revolving credit facility are included within other assets on the July 31, 2020 condensed consolidated balance sheet.

In connection with the closing of the Acquisition, on August 30, 2019, the Company entered into a credit facility (the "Credit Agreement") that provided for:

(i) a five-year senior secured term loan A facility (the “Term Loan Facility”), in an aggregate principal amount of $1.25 billion, the proceeds of which were used to finance the Acquisition, to refinance substantially all outstanding indebtedness of HealthEquity and WageWorks and to pay related fees and expenses; and

(ii) a five-year senior secured revolving credit facility (the “Revolving Credit Facility” and, together with the Term Loan Facility, the “Credit Facilities”), in an aggregate principal amount of up to $350.0 million, which may be used for working capital and general corporate purposes, including acquisitions and other investments. No amounts were drawn under the Revolving Credit Facility as of July 31, 2020.

Borrowings under the Credit Facilities bear interest at an annual rate equal to, at the option of HealthEquity, either (i) LIBOR (adjusted for reserves) plus a margin ranging from 1.25% to 2.25% or (ii) an alternate base rate plus a margin ranging from 0.25% to 1.25%, with the applicable margin determined by reference to a leverage-based pricing grid set forth in the Credit Agreement. As of July 31, 2020, the stated interest rate was 2.16% and the effective interest rate was 2.70%. The Company is also required to pay certain fees to the lenders, including, among others, a quarterly commitment fee on the average unused amount of the Revolving Credit Facility at a rate ranging from 0.20% to 0.40%, with the applicable rate also determined by reference to a leverage-based pricing grid set forth in the Credit Agreement.

The loans made under the Term Loan Facility are required to be repaid as described in the following table:

Fiscal year ending January 31, (in millions)		**Principal payments**
Remaining 2021	$	23.4
2022		62.5
2023		70.3
2024		101.6
2025 (1)		768.8
Total principal payments	$	1,026.6

(1) The amount required to be repaid in 2025 reflects the $200.0 million prepayment made in July 2020 with proceeds from the follow-on offering.

The Credit Agreement contains customary affirmative and negative covenants, including covenants that limit, among other things, the ability of the Company to incur additional indebtedness, create liens, merge or dissolve, make investments, dispose of assets, engage in sale and leaseback transactions, make distributions and dividends and prepayments of junior indebtedness, engage in transactions with affiliates, enter into restrictive agreements, amend documentation governing junior indebtedness, modify its fiscal year and modify its organizational documents, in each case, subject to customary exceptions, thresholds, qualifications and “baskets.” In addition, the Credit Agreement contains financial performance covenants, which require the Company to maintain (i) a maximum total net leverage ratio, measured as of the last day of each fiscal quarter, of no greater than 5.00 to 1.00, which steps down to 4.50 to 1.00 beginning with the fiscal quarter ending July 31, 2021 (subject to a customary “acquisition holiday” provision that allows the maximum total net leverage ratio to increase to 5.00 to 1.00 for the four fiscal quarter period ending on or following the date of a permitted acquisition by the Company in excess of $100.0 million), and (ii) a minimum interest coverage ratio, measured as of the last day of each fiscal quarter, of no less than 3.00 to 1.00. The Company was in compliance with all covenants under the Credit Agreement as of July 31, 2020, and for the period then ended.

The obligations of HealthEquity under the Credit Agreement are required to be unconditionally guaranteed by WageWorks and each of the Company's subsequently acquired or organized direct and indirect domestic subsidiaries and are secured by security interests in substantially all assets of HealthEquity and the guarantors, in each case, subject to certain customary exceptions.

Note 9. Stock-based compensation

The following table shows a summary of stock-based compensation in the Company's condensed consolidated statements of operations and comprehensive income (loss) during the periods presented:

	Three months ended July 31,		Six months ended July 31,	
(in thousands)	2020	2019	2020	2019
Cost of revenue	$ 2,065	$ 1,010	$ 3,528	$ 1,869
Sales and marketing	1,818	1,158	2,776	2,166
Technology and development	2,493	1,930	5,410	3,429
General and administrative	5,062	3,492	7,120	6,154
Total stock-based compensation expense	$ 11,438	$ 7,590	$ 18,834	$ 13,618

Stock award plans

Incentive Plan. The Company grants stock options, restricted stock units ("RSUs"), and restricted stock awards ("RSAs") under the HealthEquity, Inc. 2014 Equity Incentive Plan (as amended and restated, the "Incentive Plan"), which provided for the issuance of stock awards to the directors and team members of the Company to purchase up to an aggregate of 2.6 million shares of common stock.

In addition, under the Incentive Plan, the number of shares of common stock reserved for issuance under the Incentive Plan automatically increases on February 1 of each year, beginning as of February 1, 2015 and continuing through and including February 1, 2024, by 3% of the total number of shares of the Company’s capital stock outstanding on January 31 of the preceding fiscal year, or a lesser number of shares determined by the board of directors. As of July 31, 2020, 6.4 million shares were available for grant under the Incentive Plan.

WageWorks Incentive Plan. At the closing of the Acquisition, and in accordance with the merger agreement related to the Acquisition, certain RSUs with respect to WageWorks common stock, granted under WageWorks, Inc. 2010 Equity Incentive Plan (the "WageWorks Incentive Plan"), were replaced by the Company and converted into RSUs with respect to 0.5 million shares of common stock of the Company. No additional shares were issued under the WageWorks Incentive Plan, and the period during which the remaining 5.3 million shares were available to be utilized expired on May 26, 2020.

Stock options

A summary of stock option activity is as follows:

	Outstanding stock options				
(in thousands, except for exercise prices and term)	Number of options	Range of exercise prices	Weighted-average exercise price	Weighted-average contractual term (in years)	Aggregate intrinsic value
Outstanding as of January 31, 2020	2,040	$0.10 - 82.39	$ 30.35	5.90	$ 74,009
Granted	16	$66.06	$ 66.06		
Exercised	(116)	$0.10 - 44.53	$ 23.65		
Forfeited	(7)	$25.45 - 44.53	$ 34.31		
Outstanding as of July 31, 2020	1,933	$0.10 - 82.39	$ 31.04	5.40	$ 43,958
Vested and expected to vest as of July 31, 2020	1,933		$ 31.04	5.40	$ 43,958
Exercisable as of July 31, 2020	1,596		$ 26.12	5.00	$ 41,916

Restricted stock units and restricted stock awards

A summary of RSU and RSA activity is as follows:

	RSUs and PRSUs		RSAs and PRSAs	
(in thousands, except weighted-average grant date fair value)	Shares	Weighted-average grant date fair value	Shares	Weighted-average grant date fair value
Outstanding as of January 31, 2020	1,380	$ 63.33	235	$ 61.91
Granted	1,166	57.00	14	74.81
Vested	(416)	53.84	(10)	62.80
Forfeited	(222)	68.35	(32)	62.41
Outstanding as of July 31, 2020	1,908	$ 60.95	207	$ 62.66

Performance restricted stock units and awards. In March 2018, the Company awarded 227,760 performance-based RSAs ("PRSAs"). The Company records stock-based compensation related to PRSAs when it is considered probable that the performance conditions will be met. The underlying shares were issued at 200% of the target level of achievement at the grant date. In March 2020, the Compensation Committee modified the awards by deeming the performance condition related to two-thirds of the awards to be achieved at 100% and creating a new performance condition related to the remaining one-third of the awards to reflect the state of the Company after the Acquisition of WageWorks. The new performance condition is based on the achievement of certain financial criteria measured on January 31, 2021. The modification affected 10 team members and did not result in an adjustment to stock-based compensation expense. The PRSAs cliff vest upon approval by the Compensation Committee. The modified performance condition for the one-third tranche allows for a range of vesting from 0% to 200% based on the level of achievement of the performance condition, and the Company believes it is probable that the PRSAs will vest at least in part. As the underlying shares were issued at grant date, they are subject to clawback based on actual Company performance.

In March 2019, the Company awarded 129,963 PRSUs. The Company records stock-based compensation related to PRSUs when it is considered probable that the performance conditions will be met. In March 2020, the Compensation Committee modified the awards by deeming the performance condition related to one-third of the awards to be achieved at 100% and creating new performance conditions related to the remaining two-thirds of the awards to reflect the state of the Company after the Acquisition of WageWorks. The new performance conditions are based on the achievement of certain financial criteria measured on January 31, 2021 and 2022. The modification affected 12 team members and resulted in incremental stock-based compensation expense of $6.6 million, which will be recognized over the remaining service period, adjusted for the level of achievement of the performance conditions and any forfeitures. Prior to the modification, the Company did not believe the PRSUs were likely to vest, and as a result, $2.9 million of previously recorded stock-based compensation expense was reversed during the three months ended April 30, 2020. The PRSUs cliff vest upon approval by the Compensation Committee. The modified performance conditions for the two-thirds tranche allow for a range of vesting from 0% to 200% based on the level of achievement of the new performance conditions, and the Company believes it is probable that the PRSUs will vest at least in part.

During the six months ended July 31, 2020, the Company awarded 277,950 PRSUs subject to a market condition based on the Company's total shareholder return ("TSR") relative to the Russell 2000 index as measured on January 31, 2023. The Company used a Monte Carlo simulation to determine that the grant date fair value of the awards was approximately $20.8 million. Compensation expense is recorded if the service condition is met regardless of whether the market condition is satisfied. The market condition allows for a range of vesting from 0% to 200% based on the level of performance achieved. The PRSUs cliff vest upon approval by the Compensation Committee.

Note 10. Fair value

Fair value measurements are made at a specific point in time, based on relevant market information. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Accounting standards specify a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1—quoted prices in active markets for identical assets or liabilities;

- Level 2—inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3—unobservable inputs based on the Company's own assumptions.

Level 1 instruments are valued based on publicly available daily net asset values. Level 1 instruments consist primarily of cash and cash equivalents. The carrying value of cash and cash equivalents approximate fair values as of July 31, 2020 due to the short-term nature of these instruments.

Our long-term debt is considered a Level 2 instrument and is recorded at book value in our condensed consolidated financial statements. Our long-term debt reprices frequently due to variable interest rate terms and entails no significant changes in credit risk. As a result, we believe the fair value of our long-term debt approximates carrying value.

Item 2. Management's discussion and analysis of financial condition and results of operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. Statements that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements are often identified by the use of words such as, but not limited to, "anticipate," "believe," "can," "continue," "could," "estimate," "expect," "intend," "may," "plan," "project," "seek," "should," "target," "will," "would" and similar expressions or variations intended to identify forward-looking statements. Such statements include, but are not limited to, statements concerning the impact of the ongoing COVID-19 pandemic on the Company, the anticipated synergies and other benefits of the acquisition of WageWorks, health savings accounts and other tax-advantaged consumer-directed benefits, tax and other regulatory changes, market opportunity, our future financial and operating results, our investment and acquisition strategy, our sales and marketing strategy, management's plans, beliefs and objectives for future operations, technology and development, economic and industry trends or trend analysis, expectations about seasonality, opportunity for portfolio purchases and other acquisitions, operating expenses, anticipated income tax rates, capital expenditures, cash flows and liquidity. These statements are based on the beliefs and assumptions of our management based on information currently available to us. Such forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled "Risk factors" included in our Annual Report on Form 10-K for the fiscal year ended January 31, 2020, this Quarterly Report on Form 10-Q, and our other reports filed with the SEC. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such events.

Overview

We are a leader and an innovator in providing technology-enabled services platforms that empower consumers to make healthcare saving and spending decisions. Consumers and employers use our platforms to manage tax-advantaged health savings accounts ("HSAs") and other consumer-directed benefits ("CDBs") offered by employers, flexible spending accounts and health reimbursement arrangements ("FSAs" and "HRAs"), Consolidated Omnibus Budget Reconciliation Act ("COBRA") administration, commuter and other benefits, compare treatment options and pricing, evaluate and pay healthcare bills, receive personalized benefit information, access remote and telemedicine benefits, earn wellness incentives, and receive investment advice to grow their tax-advantaged healthcare savings.

The core of our offerings is the HSA, a financial account through which consumers spend and save long-term for healthcare expenses on a tax-advantaged basis. As of July 31, 2020, we administered 5.4 million HSAs, with balances totaling $12.2 billion, which we call HSA Assets. Also, as of July 31, 2020, we administered 7.1 million complementary CDBs. We refer to the aggregate number of HSAs and other CDBs on our platforms as Total Accounts, of which we had 12.5 million as of July 31, 2020.

We reach consumers primarily through relationships with their employers, which we call Clients. We reach Clients primarily through a sales force that calls on Clients directly, relationships with benefits brokers and advisors, and integrated partnerships with a network of health plans, benefits administrators, benefits brokers and consultants, and retirement plan recordkeepers, which we call Network Partners.

We have grown our share of the growing HSA market from 4% in calendar year 2010 to 16% in 2020, including by 2% as a result of the acquisition (the "Acquisition") of WageWorks, Inc. ("WageWorks") on August 30, 2019. According to Devenir, today we are the largest HSA provider by accounts and second largest by assets. In addition, we believe we are the largest provider of other CDBs. We seek to differentiate ourselves through our proprietary technology, product breadth, ecosystem connectivity, and service-driven culture. Our proprietary technology is designed to help consumers optimize the value of their HSAs and other CDBs, as they gain confidence and skill in their management of financial responsibility for lifetime healthcare.

Our ability to engage consumers is enhanced by our platforms' capacity to securely share data in both directions with others in the health, benefits, and retirement ecosystems, which we call Ecosystem Partners. Our commuter benefits offering also leverages connectivity to an ecosystem of mass transit, ride hailing, and parking providers. These strengths reflect our "DEEP Purple" culture of remarkable service to customers and teammates, achieved by driving excellence, ethics, and process into everything we do.

We earn revenue primarily from three sources: service, custodial, and interchange. We earn service revenue mainly from fees paid by Clients on a recurring per-account per-month basis. We earn custodial revenue mainly from HSA Assets held at our members' direction in federally insured cash deposits, insurance contracts or mutual funds, and from investment of Client-held funds. We earn interchange revenue mainly from fees paid by merchants on payments that our members make using our physical payment cards and virtual platforms. See "Key components of our results of operations" for additional information on our sources of revenue, including regarding the adverse impacts caused by the ongoing COVID-19 pandemic.

Acquisition of WageWorks

On August 30, 2019, we completed the Acquisition of WageWorks and paid approximately $2.0 billion in cash to WageWorks stockholders, financed through net borrowings of approximately $1.22 billion under a new term loan facility and approximately $816.9 million of cash on hand.

We expect the Acquisition to enable us to increase the number of our employer sales opportunities, the conversion of these opportunities to Clients, and the value of Clients in generating members, HSA Assets and complementary CDBs. WageWorks' historic strength of selling to employers directly and through health benefits brokers and advisors complements our distribution through health plans, benefit administrators and retirement record-keeping partners. With WageWorks' CDB capabilities, we are working to provide employers with a single partner for both HSAs and other CDBs, which is preferred by the vast majority of employers according to research conducted for us by Aite Group. For Clients that partner with us in this way, we believe we can produce more value by encouraging both CDB participants to contribute to HSAs and HSA-only members to take advantage of tax savings available through other CDBs. Accordingly, we believe that there are significant opportunities to expand the scope of services that we provide to our Clients.

The Acquisition has significantly increased the number of our Total Accounts, HSA Assets, Client-held funds, Adjusted EBITDA, total revenue, total cost of revenue, operating expenses, and other financial results. These increases are reflected in the period-over-period results described in this report.

Key factors affecting our performance

We believe that our future performance will be driven by a number of factors, including those identified below. Each of these factors presents both significant opportunities and significant risks to our future performance. See also "Results of Operations - Revenue" for information relating to the ongoing COVID-19 pandemic and also the section entitled "Risk factors" included in our Annual Report on Form 10-K for the fiscal year ended January 31, 2020, this Quarterly Report on Form 10-Q and our other reports filed with the SEC.

WageWorks integration

On August 30, 2019, we completed the Acquisition of WageWorks. We are continuing our multi-year integration effort that we expect will produce long-term cost savings and revenue synergies. We identified near-term opportunities of approximately $50 million in annualized ongoing net synergies, which we achieved by the end of the second quarter of fiscal 2021. In light of this progress, the Company raised its net synergy target to $80 million, to be achieved over the next 18 months. Furthermore, we anticipate generating additional revenue synergies over the longer-term as our combined distribution channels and existing client base take advantage of the broader platform and service offerings and as we continue to drive member engagement. We estimate non-recurring costs to achieve these synergies of approximately $80 million to $100 million realized within 24 to 36 months of the closing of the Acquisition, resulting from investment in technology platforms, back-office systems and platform integration, as well as rationalization of cost of operations. As of July 31, 2020, we had incurred a total of approximately $55 million of non-recurring merger integration costs related to the Acquisition.

Structural change in U.S. health insurance

We derive revenue primarily from healthcare-related saving and spending by consumers in the U.S., which are driven by changes in the broader healthcare industry, including the structure of health insurance. The average premium for employer-sponsored health insurance has risen by 22% since 2014 and 54% since 2009, resulting in increased participation in HSA-qualified health plans and HSAs and increased consumer cost-sharing in health insurance more generally. We believe that continued growth in healthcare costs and related factors will spur continued growth in HSA-qualified health plans and HSAs and may encourage policy changes making HSAs or similar vehicles available to new populations such as individuals in Medicare. However, the timing and impact of these and other developments in U.S. healthcare are uncertain. Moreover, changes in healthcare policy, such as proposed "Medicare for all" plans, could materially and adversely affect our business in ways that are difficult to predict.

Trends in U.S. tax law

Tax law has a profound impact on our business. Our offerings to members, Clients, and Network Partners consist primarily of services enabled, mandated, or advantaged by provisions of U.S. tax law and regulations. We believe that the present direction of U.S. tax policy is favorable to our business, as evidenced for example by recent regulatory action and bipartisan policy proposals to expand the availability of HSAs. However, changes in tax policy are speculative, and may affect our business in ways that are difficult to predict.

Our client base

Our business model is based on a B2B2C distribution strategy, meaning that we attract Clients and Network Partners to reach consumers to increase the number of our members with HSA accounts and complementary CDBs. We believe that there are significant opportunities to expand the scope of services that we provide to our current Clients.

Broad distribution footprint

We believe we have a diverse distribution footprint to attract new Clients and Network Partners. Our sales force calls on enterprise and regional employers in industries across the U.S., as well as potential Network Partners from among health plans, benefits administrators, and retirement plan record keepers.

Product breadth

We are the largest custodian and administrator of HSAs (by number of accounts), as well as a market-share leader in each of the major categories of complementary CDBs, including FSAs and HRAs, COBRA and commuter benefits administration. Our Clients and their benefits advisors increasingly seek HSA providers that can deliver an integrated offering of HSAs and complementary CDBs. With our newly acquired CDB capabilities, we can provide employers with a single partner for both HSAs and complementary CDBs, which is preferred by the vast majority of employers, according to research conducted for us by Aite Group. We believe that the combination of HSA and complementary CDB offerings significantly strengthens our value proposition to employers, health benefits brokers and consultants, and Network Partners as a leading single-source provider.

Our proprietary technology platforms

We believe that innovations incorporated in our technology that enable consumers to make healthcare saving and spending decisions and maximize the value of their tax-advantaged benefits differentiate us from our competitors and drive our growth. We are building on these innovations by combining our HSA platform with WageWorks' complementary CDB offerings, giving us a full suite of CDB products, and adding to our solutions set and leadership position within the HSA sector. We intend to continue to invest in our technology development to enhance our platforms' capabilities and infrastructure, while maintaining a focus on data security and the privacy of our customers' data. For example, we are making significant investments in our platforms' architecture and related platform infrastructure to improve our transaction processing capabilities and support continued account and transaction growth, as well as in data-driven personalized engagement to help our members spend less, save more, and build wealth for retirement.

Our “DEEP Purple” service culture

The successful healthcare consumer needs education and guidance delivered by people as well as technology. We believe that our "DEEP Purple" culture, which we define as Driving Excellence, Ethics, and Process while providing remarkable service, is a significant factor in our ability to attract and retain customers and to address nimbly, opportunities in the rapidly changing healthcare sector. We make significant efforts to promote and foster DEEP Purple within our workforce. We invest in and intend to continue to invest in human capital through technology-enabled training, career development, and advancement opportunities.

Interest rates

As a non-bank custodian, we contract with federally insured banks, credit unions, and insurance company partners, which we collectively call our Depository Partners, to hold custodial cash assets on behalf of our members. We earn a material portion of our total revenue from interest paid to us by these partners. The lengths of our agreements with Depository Partners generally range from three to five years and may have fixed or variable interest rate terms. The terms of new and renewing agreements may be impacted by the then-prevailing interest rate environment, which in turn is driven by macroeconomic factors and government policies over which we have no control. Such factors, and the response of our competitors to them, also determine the amount of interest retained by our members. We believe that diversification of Depository Partners, varied contract terms and other factors reduce our exposure to short-term fluctuations in prevailing interest rates and mitigate the short-term impact of sustained increases or declines in prevailing interest rates on our custodial revenue. Over longer periods, sustained shifts in prevailing interest rates affect the amount of custodial revenue we can realize on custodial assets and the interest retained by our members.

We expect our custodial revenue to continue to be adversely affected by the interest rate cuts by the Federal Reserve associated with the ongoing COVID-19 pandemic and other market conditions that have caused interest rates to decline significantly and, as a result, funds that we place with our Depository Partners in this environment will receive lower interest rates than we originally expected.

Interest on our long-term debt changes frequently due to variable interest rate terms, and as a result, our interest expense is expected to fluctuate based on changes in prevailing interest rates.

Our competition and industry

Our direct competitors are HSA custodians and other CDB providers. Many of these are state or federally chartered banks and other financial institutions for which we believe technology-based healthcare services are not a core business. Certain of our direct competitors have chosen to exit the market despite increased demand for these services. This has created, and we believe will continue to create, opportunities for us to leverage our technology platforms and capabilities to increase our market share. However, some of our direct competitors (including well-known mutual fund companies such as Fidelity Investments and healthcare service companies such as United Health Group's Optum) are in a position, should they choose, to devote more resources to the development, sale, and support of their products and services than we have at our disposal. In addition, numerous indirect competitors, including benefits administration technology and service providers, partner with banks and other HSA custodians to compete with us. Our Network Partners may also choose to offer competitive services directly, as some health plans have done. Our success depends on our ability to predict and react quickly to these and other industry and competitive dynamics.

As a result of the outbreak of the COVID-19 virus, we have seen an adverse impact on sales opportunities, with some opportunities delayed and most now being held virtually. As an increasing number of companies go out of business, the number of our Clients and potential Clients is adversely affected. Increased unemployment may mean that fewer of our members contribute to HSAs, FSAs or other CDBs. We have seen a significant decline in the use of commuter benefits due to many of our members working from home during the outbreak or other impacts from the outbreak, which has negatively impacted both our interchange revenue and service revenue. We have also seen a decline in interchange revenue across all other products. The extent to which the COVID-19 virus will negatively impact our business is highly uncertain and cannot be accurately predicted.

Regulatory environment

Federal law and regulations, including the Affordable Care Act, the Internal Revenue Code, the Employee Retirement Income Security Act and Department of Labor regulations, and public health regulations that govern the provision of health insurance and provide the tax advantages associated with our products, play a pivotal role in determining our market opportunity. Privacy and data security-related laws such as the Health Insurance Portability and Accountability Act, or HIPAA, and the Gramm-Leach-Bliley Act, laws governing the provision of investment advice to consumers, such as the Investment Advisers Act of 1940, or the Advisers Act, the USA PATRIOT Act, anti-money laundering laws, and the Federal Deposit Insurance Act, all play a similar role in determining our competitive landscape. In addition, state-level regulations also have significant implications for our business in some cases. For example, our subsidiary HealthEquity Trust Company is regulated by the Wyoming Division of Banking, and several states are considering, or have already passed, new privacy regulations that can affect our business. Various states also have laws and regulations that impose additional restrictions on our collection, storage, and use of personally identifiable information. Privacy regulation in particular has become a priority issue in many states, including California, which in 2018 enacted the California Consumer Privacy Act broadly regulating California residents' personal information and providing California residents with various rights to access and control their data. We have also seen an increase in regulatory changes related to our products due to government responses to the COVID-19 pandemic and may continue to see additional regulatory changes. Our ability to predict and react quickly to relevant legal and regulatory trends and to correctly interpret their market and competitive implications is important to our success.

Our acquisition strategy

In addition to the WageWorks acquisition, we have a successful history of acquiring HSA portfolios from competitors who have chosen to exit the industry and complementary assets and businesses that strengthen our platform. We seek to continue this growth strategy and are regularly engaged in evaluating different opportunities. We have developed an internal capability to source, evaluate, and integrate acquired HSA portfolios. We intend to continue to thoughtfully pursue acquisitions of complementary assets and businesses that we believe will strengthen our platform.

Key financial and operating metrics

Our management regularly reviews a number of key operating and financial metrics to evaluate our business, determine the allocation of our resources, make decisions regarding corporate strategies and evaluate forward-looking projections and trends affecting our business. We discuss certain of these key financial metrics, including revenue, below in the section entitled “Key components of our results of operations.” In addition, we utilize other key metrics as described below.

Total Accounts

The following table sets forth our HSAs, CDBs, and Total Accounts as of and for the periods indicated:

(in thousands, except percentages)	July 31, 2020	July 31, 2019	% Change	January 31, 2020
HSAs	5,384	4,163	29 %	5,344
New HSAs from Sales - Quarter-to-date	108	126	(14)%	379
New HSAs from Sales - Year-to-date	213	215	(1)%	724
New HSAs from Acquisitions - Year-to-date	—	—	n/a	757
HSAs with investments	284	187	52 %	220
CDBs	7,090	680	943 %	7,437
Total Accounts	12,474	4,843	158 %	12,781
Average Total Accounts - Quarter-to-date	12,416	4,797	159 %	12,603
Average Total Accounts - Year-to-date	12,602	4,739	166 %	8,013

The number of our HSAs and CDBs are key metrics because our revenue is driven by the amount we earn from them. The number of our HSAs increased by approximately 1.2 million, or 29%, from July 31, 2019 to July 31, 2020, including 757,000 HSAs acquired through the Acquisition of WageWorks and other HSA portfolio acquisitions. The remainder of the increase was due to further penetration into existing Network Partners and the addition of new Network Partners. The number of our CDBs increased by approximately 6.4 million from July 31, 2019 to July 31, 2020, driven by the CDBs acquired through the Acquisition of WageWorks.

HSAs are individually owned portable healthcare accounts. As HSA members transition between employers or health plans, they may no longer be enrolled in a high deductible health plan that qualifies them to continue to make contributions to their HSA.

HSA Assets

The following table sets forth our HSA Assets as of and for the periods indicated:

(in millions, except percentages)	July 31, 2020	July 31, 2019	% Change	January 31, 2020
HSA cash with yield (1)	$ 8,626	$ 6,460	34 %	$ 8,301
HSA cash without yield (2)	344	—	n/a	383
Total HSA cash	8,970	6,460	39 %	8,684
HSA investments with yield (1)	3,046	2,056	48 %	2,495
HSA investments without yield (2)	195	—	n/a	362
Total HSA investments	3,241	2,056	58 %	2,857
Total HSA Assets	12,211	8,516	43 %	11,541
Average daily HSA cash with yield - Year-to-date	8,332	6,404	30 %	6,937
Average daily HSA cash with yield - Quarter-to-date	$ 8,380	$ 6,402	31 %	$ 7,791

(1) HSA Assets that generate custodial revenue.
(2) HSA Assets that do not generate custodial revenue.

Our HSA Assets, which are our HSA members' assets for which we are the custodian or administrator, or from which we generate custodial revenue, consist of the following components: (i) cash deposits, which are deposits with our Depository Partners or other custodians, (ii) custodial cash deposits invested in annuity contracts with our insurance company partners, and (iii) investments in mutual funds through our custodial investment fund partners. We have begun to transition HSA cash without yield to HSA cash with yield and intend to transition the majority of the remaining balance over the course of fiscal 2021. Measuring our HSA Assets is important because our custodial revenue is directly affected by average daily custodial balances for HSA Assets that are revenue generating.

Our total HSA Assets increased by $3.7 billion, or 43%, from July 31, 2019 to July 31, 2020, including $1.7 billion of HSA Assets acquired through the Acquisition of WageWorks and other HSA portfolio acquisitions and $2.0 billion from existing HSA members and new HSA members.

Our HSA investment assets increased by $1.2 billion, or 58%, from July 31, 2019 to July 31, 2020, reflecting the Acquisition of WageWorks and our strategy of helping our HSA members build wealth and invest for retirement.

Client-held funds

(in millions, except percentages)	July 31, 2020	July 31, 2019	% Change	January 31, 2020
Client-held funds (1)	$ 840	$ —	n/a	$ 779
Average daily Client-held funds - Year-to-date (1)	861	—	n/a	382
Average daily Client-held funds - Quarter-to-date (1)	891	—	n/a	727

(1) Client-held funds that generate custodial revenue. The Company did not hold material Client-held funds prior to the Acquisition.

Our Client-held funds are interest-earning deposits from which we generate custodial revenue. These deposits are amounts remitted by Clients and held by us on their behalf to pre-fund and facilitate administration of CDBs. We deposit the Client-held funds with our Depository Partners in interest-bearing, demand deposit accounts that have a floating interest rate and no set term or duration.

Our total Client-held funds increased by $840 million from July 31, 2019 to July 31, 2020, due to the Acquisition of WageWorks.

Adjusted EBITDA

We define Adjusted EBITDA, which is a non-GAAP financial metric, as adjusted earnings before interest, taxes, depreciation and amortization, amortization of acquired intangible assets, stock-based compensation expense, merger integration expenses, acquisition costs, gains and losses on marketable equity securities, and certain other non-operating items. We believe that Adjusted EBITDA provides useful information to investors and analysts in understanding and evaluating our operating results in the same manner as our management and our board of directors because it reflects operating profitability before consideration of non-operating expenses and non-cash expenses, and serves as a basis for comparison against other companies in our industry.

The following table presents a reconciliation of net income (loss), the most comparable GAAP financial measure, to Adjusted EBITDA for the periods indicated:

	Three months ended July 31,		Six months ended July 31,	
(in thousands)	2020	2019	2020	2019
Net income (loss)	$ (148)	$ 19,366	$ 1,678	$ 61,188
Interest income	(76)	(1,884)	(676)	(3,227)
Interest expense	8,895	67	21,158	130
Income tax provision (benefit)	(543)	4,370	(325)	13,826
Depreciation and amortization	9,522	3,455	18,327	6,737
Amortization of acquired intangible assets	19,077	1,494	37,779	2,985
Stock-based compensation expense	11,438	7,590	18,834	13,618
Merger integration expenses	10,365	2,784	23,135	2,784
Acquisition costs (gains)	(28)	6,596	66	7,780
Gain on marketable equity securities	—	(3,774)	—	(27,285)
Other (1)	1,500	579	3,034	1,030
Adjusted EBITDA	$ 60,002	$ 40,643	$ 123,010	$ 79,566

(1) For the three months ended July 31, 2020 and 2019, Other consisted of amortization of incremental costs to obtain a contract of $569 and $456, non-income-based taxes of $390 and $108, and other costs of $541 and $15, respectively. For the six months ended July 31, 2020 and 2019, Other consisted of amortization of incremental costs to obtain a contract of $834 and $900, non-income-based taxes of $832 and $121, and other costs of $1,368 and $9, respectively.

The following table further sets forth our Adjusted EBITDA as a percentage of revenue:

	Three months ended July 31,				Six months ended July 31,			
(in thousands, except percentages)	2020	2019	$ Change	% Change	2020	2019	$ Change	% Change
Adjusted EBITDA	$ 60,002	$ 40,643	$ 19,359	48 %	$ 123,010	$ 79,566	$ 43,444	55 %
As a percentage of revenue	34 %	47 %			34 %	46 %		

Our Adjusted EBITDA increased by $19.4 million, or 48%, from $40.6 million for the three months ended July 31, 2019 to $60.0 million for the three months ended July 31, 2020. The increase in Adjusted EBITDA was driven by the Acquisition and by the overall growth of our business.

Our Adjusted EBITDA increased by $43.4 million, or 55%, from $79.6 million for the six months ended July 31, 2019 to $123.0 million for the three months ended July 31, 2020. The increase in Adjusted EBITDA was driven by the Acquisition and by the overall growth of our business.

Our use of Adjusted EBITDA has limitations as an analytical tool, and it should not be considered in isolation or as a substitute for analysis of our results as reported under GAAP.

Key components of our results of operations

Acquisition of WageWorks

As the Acquisition closed on August 30, 2019, WageWorks' results of operations are included in our consolidated results of operations for the three and six months ended July 31, 2020, but are not included in our consolidated results of operations for the three and six months ended July 31, 2019. In addition, the results of operations attributable to WageWorks may not be directly comparable to WageWorks' results of operations reported by WageWorks prior to the Acquisition.

Revenue

We generate revenue from three primary sources: service revenue, custodial revenue, and interchange revenue.

Service revenue. We earn service revenue from the fees we charge our Network Partners, Clients, and members for the administration services we provide in connection with the HSAs and other CDBs we offer. With respect to our Network Partners and Clients, our fees are generally based on a fixed tiered structure for the duration of the relevant service agreement and are paid to us on a monthly basis. We recognize revenue on a monthly basis as services are rendered to our members and Clients. As a result of the WageWorks Acquisition, service revenue now comprises a majority of our revenue.

Custodial revenue. We earn custodial revenue primarily from our HSA Assets deposited with our Depository Partners and with our insurance company partners, Client-held funds deposited with our Depository Partners, and recordkeeping fees we earn in respect of mutual funds in which our members invest. We deposit HSA cash with our Depository Partners pursuant to contracts that (i) generally have terms ranging from three to five years, (ii) provide for a fixed or variable interest rate payable on the average daily cash balances deposited with the relevant Depository Partner, and (iii) have minimum and maximum required deposit balances. We deposit the Client-held funds with our Depository Partners in interest-bearing, demand deposit accounts that have a floating interest rate and no set term or duration. We earn custodial revenue on HSA Assets and Client-held funds that is based on the interest rates offered to us by these Depository Partners. In addition, once a member's HSA cash balance reaches a certain threshold, the member is able to invest his or her HSA Assets in mutual funds through our custodial investment partner. We earn a recordkeeping fee, calculated as a percentage of custodial investments. We have begun to transition HSA cash without yield to HSA cash with yield and intend to transition the majority of the remaining balance over the course of fiscal 2021.

Interchange revenue. We earn interchange revenue each time one of our members uses one of our payment cards to make a purchase. This revenue is collected each time a member "swipes" our payment card to pay expenses. We recognize interchange revenue monthly based on reports received from third parties, namely, the card-issuing banks and card processors.

Cost of revenue

Cost of revenue includes costs related to servicing accounts, managing Client and Network Partner relationships and processing reimbursement claims. Expenditures include personnel-related costs, depreciation, amortization, stock-based compensation, common expense allocations (such as office rent, supplies, and other overhead expenses), new member and participant supplies, and other operating costs related to servicing our members. Other components of cost of revenue include interest retained by members on HSA cash and interchange costs incurred in connection with processing card transactions for our members.

Service costs. Service costs include the servicing costs described above. Additionally, for new accounts, we incur on-boarding costs associated with the new accounts, such as new member welcome kits, the cost associated with issuance of new payment cards, and costs of marketing materials that we produce for our Network Partners.

Custodial costs. Custodial costs are comprised of interest retained by our HSA members, in respect of HSA cash with yield, and fees we pay to banking consultants whom we use to help secure agreements with our Depository Partners. Interest retained by HSA members is calculated on a tiered basis. The interest rates retained by HSA members can change based on a formula or upon required notice.

Interchange costs. Interchange costs are comprised of costs we incur in connection with processing payment transactions initiated by our members. Due to the substantiation requirement on FSA/HRA-linked payment card transactions, payment card costs are higher for FSA/HRA card transactions. In addition to fixed per card fees, we are assessed additional transaction costs determined by the amount of the transaction.

Gross profit and gross margin

Our gross profit is our total revenue minus our total cost of revenue, and our gross margin is our gross profit expressed as a percentage of our total revenue. Our gross margin has been and will continue to be affected by a number of factors, including interest rates, the amount we charge our Network Partners, Clients, and members, the mix of our sources of revenue, how many services we deliver per account, and payment processing costs per account.

Operating expenses

Sales and marketing. Sales and marketing expenses consist primarily of personnel and related expenses for our sales and marketing staff, including sales commissions for our direct sales force, external agent/broker commission expenses, marketing expenses, depreciation, amortization, stock-based compensation, and common expense allocations.

Technology and development. Technology and development expenses include personnel and related expenses for software development and delivery, information technology, data management, product, and security. Technology and development expenses also include software engineering services, the costs of operating our on-demand technology infrastructure, depreciation, amortization of capitalized software development costs, stock-based compensation, and common expense allocations.

General and administrative. General and administrative expenses include personnel and related expenses of, and professional fees incurred by our executive, finance, legal, internal audit, corporate development, compliance, and people departments. They also include depreciation, amortization, stock-based compensation, and common expense allocations.

Amortization of acquired intangible assets. Amortization of acquired intangible assets results primarily from intangible assets acquired in connection with business combinations. The assets include acquired customer relationships, acquired developed technology, and acquired trade names and trademarks, which we amortize over the assets' estimated useful lives, estimated to be 10-15 years, 2-5 years, and 3 years, respectively. We also acquired intangible HSA portfolios from third-party custodians. We amortize these assets over the assets' estimated useful life of 15 years. We evaluate our acquired intangible assets for impairment annually, or at a triggering event.

Merger integration. Merger integration expenses include personnel and related expenses, including severance, professional fees, and technology-related expenses directly related to the integration activities to merge operations as a result of the Acquisition.

Interest expense

Interest expense consists of accrued interest expense and amortization of deferred financing costs associated with our credit agreement. Interest on our long-term debt changes frequently due to variable interest rate terms, and as a result, our interest expense is expected to fluctuate based on changes in prevailing interest rates.

Other expense, net

Other expense, net, primarily consists of acquisition costs, gains and losses on marketable equity securities, and non-income-based taxes, less interest income earned on corporate cash.

Income tax provision

We are subject to federal and state income taxes in the United States based on a calendar tax year-end through December 31, 2019; however, beginning January 31, 2020, the Company will report for federal and state income tax purposes using a January 31 year-end, consistent with the financial reporting fiscal year. We use the asset and liability method to account for income taxes, under which current tax liabilities and assets are recognized for the estimated taxes payable or refundable on the tax returns for the current fiscal year. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, net operating loss carryforwards, and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted statutory tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled. Valuation allowances are established when necessary to reduce net deferred tax assets to the amount expected to be realized. As of July 31, 2020, we have recorded an overall net deferred tax liability with the exception of an insignificant amount of federal capital losses recorded as a net deferred tax asset on our condensed consolidated balance sheet.

Comparison of the three and six months ended July 31, 2020 and 2019

Impact of Acquisition

The comparability of our operating results is impacted by our Acquisition of WageWorks on August 30, 2019. Revenue and expense attributable to WageWorks generally may not be separately identifiable due to the integration of WageWorks into our existing operations.

Revenue

The following table sets forth our revenue for the periods indicated:

(in thousands, except percentages)	Three months ended July 31, 2020	2019	$ Change	% Change	Six months ended July 31, 2020	2019	$ Change	% Change
Service revenue	$ 103,805	$ 26,282	$ 77,523	295 %	$ 215,076	$ 53,090	$ 161,986	305 %
Custodial revenue	46,909	43,614	3,295	8 %	93,808	85,566	8,242	10 %
Interchange revenue	25,325	16,727	8,598	51 %	57,166	35,019	22,147	63 %
Total revenue	$ 176,039	$ 86,623	$ 89,416	103 %	$ 366,050	$ 173,675	$ 192,375	111 %

Service revenue. The $77.5 million, or 295%, increase in service revenue from the three months ended July 31, 2019 to the three months ended July 31, 2020 was primarily due to the inclusion of service revenue associated with the CDBs added through the Acquisition, partially offset by the negative impact of the COVID-19 pandemic on service revenues related to commuter benefits and other CDBs.

The $162.0 million, or 305%, increase in service revenue from the six months ended July 31, 2019 to the six months ended July 31, 2020 was primarily due to the inclusion of service revenue associated with the CDBs added through the Acquisition, partially offset by the negative impact of the COVID-19 pandemic on service revenues related to commuter benefits and other CDBs.

The number of our HSAs increased by approximately 1.2 million, or 29%, from July 31, 2019 to July 31, 2020, including 757,000 HSAs acquired through the Acquisition of WageWorks and other HSA portfolio acquisitions. The remainder of the increase was due to further penetration into existing Network Partners and the addition of new Network Partners.

The number of our CDBs increased by approximately 6.4 million, or 943%, from July 31, 2019 to July 31, 2020, primarily due to the Acquisition of WageWorks, partially offset by a decrease in commuter benefit accounts due to the impact of COVID-19 pandemic and local governments restrictions around the country.

Service revenue as a percentage of our total revenue increased primarily due to the service revenue contributed by CDBs added through the Acquisition of WageWorks.

Custodial revenue. The $3.3 million, or 8%, increase in custodial revenue from the three months ended July 31, 2019 to the three months ended July 31, 2020 was primarily due to the $2.0 billion, or 31%, increase in the year-over-year average daily balance of HSA cash with yield. The increase was partially offset by a decrease in yield from 2.54% for the three months ended July 31, 2019 to 2.10% for the three months ended July 31, 2020, which was due in part to the interest rate cuts made by the Federal Reserve in response to the COVID-19 pandemic and due to the lower yield on HSA cash with yield added through the Acquisition.

The $8.2 million, or 10%, increase in custodial revenue from the six months ended July 31, 2019 to the six months ended July 31, 2020 was primarily due to the $1.9 billion, or 30%, increase in the year-over-year average daily balance of HSA cash with yield. The increase was partially offset by a decrease in yield from 2.55% for the six months ended July 31, 2019 to 2.11% for the six months ended July 31, 2020, which was due in part to the interest rate cuts made by the Federal Reserve in response to the COVID-19 pandemic and due to the lower yield on HSA cash with yield added through the Acquisition.

Custodial revenue as a percentage of our total revenue decreased primarily due to the inclusion of WageWorks' financial results following the Acquisition, which included relatively less custodial revenue.

We have begun to transition HSA cash without yield to HSA cash with yield and intend to transition the majority of the remaining balance over the course of fiscal 2021. This cash is being placed with our Depository Partners at prevailing interest rates, which we expect will generate additional custodial revenue.

Interchange revenue. The $8.6 million, or 51%, increase in interchange revenue from the three months ended July 31, 2019 to the three months ended July 31, 2020 was primarily due to the inclusion of interchange revenue associated with the CDBs added through the Acquisition and an increased average interchange rate. The increase was partially offset by a decrease in spend per CDB, primarily with respect to FSA and commuter benefit accounts, as well as lower healthcare spending partially attributable to the restrictions imposed by local governments around the country in connection with the COVID-19 pandemic.

The $22.1 million, or 63%, increase in interchange revenue from the six months ended July 31, 2019 to the six months ended July 31, 2020 was primarily due to the inclusion of interchange revenue associated with the CDBs added through the Acquisition and an increased average interchange rate. The increase was partially offset by a decrease in spend per CDB, primarily with respect to FSA and commuter benefit accounts, as well as lower healthcare spending partially attributable to the restrictions imposed by local governments around the country in connection with the COVID-19 pandemic.

Interchange revenue as a percentage of our total revenue decreased primarily due to the inclusion of WageWorks' financial results following the Acquisition, which included relatively less interchange revenue.

Total revenue. Total revenue increased by $89.4 million, or 103%, from the three months ended July 31, 2019 to the three months ended July 31, 2020, and by $192.4 million, or 111% from the six months ended July 31, 2019 to the six months ended July 31, 2020, due to the impact of the Acquisition and related realized net revenue synergies.

Impact of COVID-19. Our business has been adversely affected by the recent outbreak of the COVID-19 virus, and we expect that it will continue to be adversely affected, including as a result of the associated interest rate cuts by the Federal Reserve and other market conditions that have caused interest rates to decline significantly. As a result, funds that we place with our Depository Partners in this environment receive lower interest rates than we originally expected. Sales opportunities have also been impacted, with some opportunities delayed and most now being held virtually. In addition, we will likely be required to support our Clients' open enrollment activities virtually. As an increasing number of companies go out of business, the number of our Clients and potential Clients is adversely affected. Increased unemployment may mean that fewer of our members contribute to HSAs, FSAs or other CDBs. We may be unable to meet our service level commitments to our Clients as a result of disruptions to our work force and disruptions to third party contracts that we rely on to provide our services. Our financial results related to certain of our products have also been adversely affected, such as commuter benefits, due to many of our members working from home during the outbreak and other impacts from the outbreak. Clients may be unable to pay fees required under contracts and exercise "force majeure" or similar defenses, which would negatively impact our financial results. The extent to which the COVID-19 virus will continue to negatively impact our business remains highly uncertain and as a result may have a material adverse impact on our business and financial results.

Cost of revenue

The following table sets forth our cost of revenue for the periods indicated:

	Three months ended July 31,				Six months ended July 31,			
(in thousands, except percentages)	2020	2019	$ Change	% Change	2020	2019	$ Change	% Change
Service costs	$ 65,246	$ 19,745	$ 45,501	230 %	$ 136,259	$ 40,394	$ 95,865	237 %
Custodial costs	4,998	4,209	789	19 %	10,043	8,332	1,711	21 %
Interchange costs	4,011	4,229	(218)	(5)%	9,890	8,756	1,134	13 %
Total cost of revenue	$ 74,255	$ 28,183	$ 46,072	163 %	$ 156,192	$ 57,482	$ 98,710	172 %

Service costs. The $45.5 million, or 230%, increase in service costs from the three months ended July 31, 2019 to the three months ended July 31, 2020 was primarily due to the Acquisition and the resulting higher volume of accounts being serviced, including additional hiring of personnel to implement and support our new Network Partners and HSAs, increases in stock-based compensation expense, and increases in other expenses.

The $95.9 million, or 237%, increase in service costs from the six months ended July 31, 2019 to the six months ended July 31, 2020 was primarily due to the Acquisition and the resulting higher volume of accounts being serviced, including additional hiring of personnel to implement and support our new Network Partners and HSAs, increases in stock-based compensation expense, and increases in other expenses.

Custodial costs. The $0.8 million, or 19%, increase in custodial costs from the three months ended July 31, 2019 to the three months ended July 31, 2020 was due to an increase in the average daily balance of HSA cash with yield, which increased from $6.4 billion for the three months ended July 31, 2019 to $8.4 billion for the three months ended July 31, 2020. The increase was partially offset by a lower average interest rate paid on HSA cash with yield, which decreased from 0.23% for the three months ended July 31, 2019 to 0.20% for the three months ended July 31, 2020.

The $1.7 million, or 21%, increase in custodial costs from the six months ended July 31, 2019 to the six months ended July 31, 2020 was due to an increase in the average daily balance of HSA cash with yield, which increased from $6.4 billion for the six months ended July 31, 2019 to $8.3 billion for the six months ended July 31, 2020. The increase was partially offset by a lower average interest rate paid on HSA cash with yield, which decreased from 0.24% for the six months ended July 31, 2019 to 0.20% for the six months ended July 31, 2020.

Interchange costs. The $0.2 million, or 5%, decrease in interchange costs from the three months ended July 31, 2019 to the three months ended July 31, 2020 was due to a decrease in card spend per account as a result of the local government restrictions in response to the COVID-19 pandemic, partially offset by an overall increase in average Total Accounts, which increased primarily due to accounts added through the Acquisition of WageWorks.

The $1.1 million, or 13%, increase in interchange costs from the six months ended July 31, 2019 to the six months ended July 31, 2020 was due to an overall increase in average Total Accounts, which increased primarily due to accounts added through the Acquisition of WageWorks, partially offset by a decrease in card spend per account as a result of the local government restrictions in response to the COVID-19 pandemic.

Total cost of revenue. As we continue to add Total Accounts, we expect that our cost of revenue will increase in dollar amount to support our Network Partners, Clients, and members. Cost of revenue will continue to be affected by a number of different factors, including our ability to scale our service delivery, Network Partner implementation, account management functions, and the impact of the COVID-19 pandemic.

Operating expenses

The following table sets forth our operating expenses for the periods indicated:

	Three months ended July 31,				Six months ended July 31,			
(in thousands, except percentages)	**2020**	**2019**	**$ Change**	**% Change**	**2020**	**2019**	**$ Change**	**% Change**
Sales and marketing	$ 12,167	$ 8,391	$ 3,776	45 %	$ 23,622	$ 17,361	$ 6,261	36 %
Technology and development	30,654	11,645	19,009	163 %	61,732	22,550	39,182	174 %
General and administrative	20,493	9,262	11,231	121 %	39,491	17,971	21,520	120 %
Amortization of acquired intangible assets	19,077	1,494	17,583	1,177 %	37,779	2,985	34,794	1,166 %
Merger integration	10,365	2,784	7,581	272 %	23,135	2,784	20,351	731 %
Total operating expenses	$ 92,756	$ 33,576	$ 59,180	176 %	$ 185,759	$ 63,651	$ 122,108	192 %

Sales and marketing. The $3.8 million, or 45%, increase in sales and marketing expense from the three months ended July 31, 2019 to the three months ended July 31, 2020 was primarily due to increased staffing, increases in other expenses, and higher stock-based compensation expense resulting from the Acquisition.

The $6.3 million, or 36%, increase in sales and marketing expense from the six months ended July 31, 2019 to the six months ended July 31, 2020 was primarily due to increased staffing, increases in other expenses, and higher stock-based compensation expense resulting from the Acquisition.

We expect our sales and marketing expenses to increase for the foreseeable future as we continue to increase the size of our sales and marketing organization and expand into new markets. On an annual basis, we expect our sales and marketing expenses to remain steady as a percentage of our total revenue. However, our sales and marketing expenses may fluctuate as a percentage of our total revenue from period to period due to the seasonality of our total revenue and the timing and extent of our sales and marketing expenses.

Technology and development. The $19.0 million, or 163%, increase in technology and development expense from the three months ended July 31, 2019 to the three months ended July 31, 2020 was primarily due to increased personnel-related expense, increases in professional fees, increased stock-based compensation expense, increases in amortization and depreciation, and other increases resulting from the Acquisition, which were partially offset by increases in capitalized development.

The $39.2 million, or 174%, increase in technology and development expense from the six months ended July 31, 2019 to the six months ended July 31, 2020 was primarily due to increased personnel-related expense, increases in professional fees, increased stock-based compensation expense, increases in amortization and depreciation, and other increases resulting from the Acquisition, which were partially offset by increases in capitalized development.

We expect our technology and development expenses to increase for the foreseeable future as we continue to invest in the development and security of our proprietary platforms. On an annual basis, we expect our technology and development expenses to increase as a percentage of our total revenue pursuant to our growth initiatives. Our technology and development expenses may fluctuate as a percentage of our total revenue from period to period due to the seasonality of our total revenue and the timing and extent of our technology and development expenses.

General and administrative. The $11.2 million, or 121%, increase in general and administrative expense from the three months ended July 31, 2019 to the three months ended July 31, 2020 was primarily due to increased personnel-related expense, increases in professional fees, and increased stock-based compensation expense resulting from the Acquisition.

The $21.5 million, or 120%, increase in general and administrative expense from the six months ended July 31, 2019 to the six months ended July 31, 2020 was primarily due to increased personnel-related expense, increases in professional fees, and increased stock-based compensation expense resulting from the Acquisition.

We expect our general and administrative expenses to increase for the foreseeable future due to the additional demands on our legal, compliance, accounting, and insurance functions that we incur as we continue to grow our business, as well as other costs associated with being a public company. On an annual basis, we expect our general and administrative expenses to remain steady as a percentage of our total revenue over the near term pursuant to our growth initiatives. Our general and administrative expenses may fluctuate as a percentage of our total revenue from period to period due to the seasonality of our total revenue and the timing and extent of our general and administrative expenses.

Amortization of acquired intangible assets. The $17.6 million increase in amortization of acquired intangible assets from the three months ended July 31, 2019 to the three months ended July 31, 2020 was due to identified intangible assets acquired through the Acquisition of WageWorks.

The $34.8 million increase in amortization of acquired intangible assets from the six months ended July 31, 2019 to the six months ended July 31, 2020 was due to identified intangible assets acquired through the Acquisition of WageWorks.

Merger integration. The $10.4 million and $23.1 million in merger integration expense for the three and six months ended July 31, 2020, respectively, was due to personnel and related expenses, including expenses incurred in conjunction with the migration of accounts, severance, professional fees, technology-related, and facilities expenses directly related to the Acquisition of WageWorks. We expect integration expenses totaling $80 million to $100 million in the aggregate to continue for 24 to 36 months following the closing of the Acquisition, which closed on August 30, 2019. As of July 31, 2020, we had incurred a total of approximately $55 million of non-recurring merger integration costs related to the Acquisition of WageWorks.

Interest expense

The $8.9 million and $21.2 million in interest expense for the three and six months ended July 31, 2020 consists primarily of interest accrued under our term loan facility and amortization of financing costs. We expect interest expense to decrease as a result of the principal repayments made under our term loan facility.

Other income (expense), net

The $0.2 million change in other income (expense), net, from expense of $1.1 million during the three months ended July 31, 2019 to expense of $0.8 million during the three months ended July 31, 2020 was primarily due to a $6.6 million decrease in acquisition costs and a $3.8 million non-recurring gain in connection with our equity investment in WageWorks during the three months ended July 31, 2019. The remainder of the change was due to a decrease in interest income of $1.8 million and an increase in other expense of $0.8 million.

The $24.2 million change in other income (expense), net, from income of $22.6 million during the six months ended July 31, 2019 to expense of $1.6 million during the six months ended July 31, 2020 was primarily due to a $27.3 million non-recurring gain in connection with our equity investment in WageWorks during the three months ended July 31, 2019 and a $7.7 million decrease in acquisition costs. The remainder of the change was due to a decrease in interest income of $2.6 million and an increase in other expense of $2.1 million.

Income tax provision

Income tax benefit for the three and six months ended July 31, 2020 was $0.5 million and $0.3 million as compared to income tax provision of $4.4 million and $13.8 million for the three and six months ended July 31, 2019. The decrease in the tax provision for the three and six months ended July 31, 2020 compared to the three and six months ended July 31, 2019 was $4.9 million and $14.1 million, respectively. The change was primarily due to a significant decrease in pre-tax book income coupled with a decrease in excess tax benefits on stock-based compensation expense recognized in the provision for income taxes.

Our effective income tax benefit rate for the three and six months ended July 31, 2020 was 78.6% and 24.0%, respectively, compared to a provision of 18.4% for each of the three and six months ended July 31, 2019. The 97.0 and 42.4 percentage point decrease for the three and six months ended July 31, 2020 compared to the three and six months ended July 31, 2019 was primarily due to the impact of excess tax benefits on stock-based compensation expense recognized in the provision for income taxes relative to pre-tax book income.

Seasonality

Seasonal concentration of our growth combined with our recurring revenue model create seasonal variation in our results of operations. Revenue results are seasonally impacted due to ancillary service fees, timing of HSA contributions, and timing of card spend. Cost of Revenue is seasonally impacted as a significant number of new and existing Network Partners bring us new HSAs and CDBs beginning in January of each year concurrent with the start of many employers' benefit plan years. Before we realize any revenue from these new accounts, we incur costs related to implementing and supporting our new Network Partners and new accounts. These costs of services relate to activating accounts and hiring additional staff, including seasonal help to support our member support center.

These expenses begin to ramp up during our third fiscal quarter, with the majority of expenses incurred in our fourth fiscal quarter.

Liquidity and capital resources

Cash and cash equivalents overview

Our principal source of liquidity is our current cash and cash equivalents balances, collections from our service, custodial, and interchange revenue activities, and availability under our revolving credit facility described below. We rely on cash provided by operating activities to meet our short-term liquidity requirements, which primarily relate to the payment of corporate payroll and other operating costs, payments under our term loan facility, and capital expenditures.

As of July 31, 2020 and January 31, 2020, cash and cash equivalents were $268.9 million and $191.7 million, respectively. Cash and cash equivalents as of July 31, 2020 included approximately $286.8 million of net proceeds we received from our follow-on public offering in July 2020 from the sale of 5,290,000 shares of our common stock, less the $200.0 million we used to prepay long-term debt.

Capital resources

We have a “shelf” registration statement on Form S-3 on file with the SEC. This shelf registration statement, which includes a base prospectus, allows us at any time to offer any combination of securities described in the prospectus in one or more offerings. Unless otherwise specified in a prospectus supplement accompanying the base prospectus, we would use the net proceeds from the sale of any securities offered pursuant to the shelf registration statement for general corporate purposes, including, but not limited to, working capital, sales and marketing activities, general and administrative matters and capital expenditures, and if opportunities arise, for the acquisition of, or investment in, assets, technologies, solutions or businesses that complement our business. Pending such uses, we may invest the net proceeds in interest-bearing securities. In addition, we may conduct concurrent or other financings at any time.

In July 2020, we closed a follow-on public offering of 5,290,000 shares of common stock at a public offering price of $56.00 per share, less the underwriters' discount. We received net proceeds of approximately $286.8 million after deducting underwriting discounts and commissions of approximately $8.9 million and other offering expenses payable of approximately $0.6 million.

Our credit agreement includes a five-year senior secured revolving credit facility in an aggregate principal amount of up to $350.0 million, which may be used for working capital and general corporate purposes, including the financing of acquisitions and other investments. For a description of the terms of the credit agreement, refer to Note 8—Indebtedness. We were in compliance with all covenants under the credit agreement as of July 31, 2020, and for the period then ended.

Use of cash

We used a portion of the net proceeds from the follow-on public offering to prepay $200.0 million under our term loan facility, with the remaining proceeds to be used for general corporate purposes, which may include additional prepayments under our term loan facility or potential acquisitions.

Capital expenditures for the six months ended July 31, 2020 and 2019 were $30.8 million and $13.0 million, respectively. We expect to continue our current level of increased capital expenditures for the remainder of the fiscal year ending January 31, 2021 as we continue to devote a significant amount of our capital expenditures to improving the architecture and functionality of our proprietary systems. Costs to improve the architecture of our proprietary systems include computer hardware, personnel and related costs for software engineering and outsourced software engineering services.

We believe our existing cash, cash equivalents, and revolving credit facility will be sufficient to meet our operating and capital expenditure requirements for at least the next 12 months. To the extent these current and anticipated future sources of liquidity are insufficient to fund our future business activities and requirements, we may need to raise additional funds through public or private equity or debt financing. In the event that additional financing is required, we may not be able to raise it on favorable terms, if at all.

The following table shows our cash flows from operating activities, investing activities, and financing activities for the stated periods:

	Six months ended July 31,	
(in thousands)	2020	2019
Net cash provided by operating activities	$ 68,662	$ 56,831
Net cash used in investing activities	(55,696)	(68,591)
Net cash provided by financing activities	64,218	465,445
Decrease in cash and cash equivalents	77,184	453,685
Beginning cash and cash equivalents	191,726	361,475
Ending cash and cash equivalents	$ 268,910	$ 815,160

Cash flows from operating activities. Net cash provided by operating activities during the six months ended July 31, 2020 resulted from net income of $1.7 million, plus depreciation and amortization expense of $56.1 million, stock-based compensation expense of $18.8 million, and amortization of debt issuance costs of $2.5 million, partially offset by non-cash items and working capital changes totaling $10.5 million.

Net cash provided by operating activities during the six months ended July 31, 2019 resulted from net income of $61.2 million, plus depreciation and amortization expense of $9.7 million, stock-based compensation expense of $13.6 million, and gains on marketable equity securities of $27.3 million, partially offset by non-cash items and working capital changes totaling $0.4 million.

Cash flows from investing activities. Net cash used in investing activities for the six months ended July 31, 2020 resulted from $9.0 million in purchases of property and equipment, $21.8 million in software and capitalized software development, and $24.9 million in acquisitions of intangible member assets.

Cash flows used in investing activities during the six months ended July 31, 2019 was primarily the result of purchases of marketable equity securities of $53.8 million. In addition, we invested $9.5 million in software and capitalized software development, $3.5 million in purchases of property and equipment, and $1.7 million in acquisitions of intangible member assets.

Cash flows from financing activities. Net cash provided by financing activities during the six months ended July 31, 2020 resulted primarily from $287.3 million of net proceeds from our follow-on public offering of 5,290,000 shares of common stock, which does not include accrued offering costs of $0.5 million, and the exercise of stock options of $2.8 million, partially offset by $215.6 million of principal payments on our long-term debt and $10.3 million used in the settlement of Client-held funds obligation.

Cash flows provided by financing activities during the six months ended July 31, 2019 resulted primarily from $458.9 million of proceeds from our follow-on public offering of 7,762,500 shares of our common stock and the exercise of stock options of $6.6 million.

Contractual obligations

Except for the $200.0 million prepayment under our term loan facility, there were no material changes during the three and six months ended July 31, 2020, outside of the ordinary course of business, in our contractual obligations from those disclosed in our Annual Report on Form 10-K for the fiscal year ended January 31, 2020.

Off-balance sheet arrangements

As of July 31, 2020, other than outstanding letters of credit issued under our revolving credit facility, we did not have any off-balance sheet arrangements. The majority of the standby letters of credit expire within one year. However, in the ordinary course of business, we will continue to renew or modify the terms of the letters of credit to support business requirements. The letters of credit are contingent liabilities, supported by our revolving credit facility, and are not reflected on our condensed consolidated balance sheets.

Critical accounting policies and significant management estimates

Our management's discussion and analysis of financial condition and results of operations are based upon our unaudited condensed consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these unaudited condensed consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, we evaluate our critical accounting policies and estimates. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable in the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Our significant accounting policies are more fully described in Note 1 of the accompanying unaudited condensed consolidated financial statements and in Note 1 to our audited consolidated financial statements contained in our Annual Report on Form 10-K for the fiscal year ended January 31, 2020. There have been no significant or material changes in our critical accounting policies during the six months ended July 31, 2020, as compared to those disclosed in "Management's discussion and analysis of financial condition and results of operations – Critical accounting policies and significant management estimates" in our Annual Report on Form 10-K for the fiscal year ended January 31, 2020.

Recent accounting pronouncements

See Note 1. Summary of business and significant accounting policies within the interim financial statements included in this Form 10-Q for further discussion.

Item 3. Qualitative and quantitative disclosures about market risk

Market risk

Concentration of market risk. We derive a substantial portion of our revenue from providing services to tax-advantaged healthcare account holders. A significant downturn in this market or changes in state and/or federal laws impacting the preferential tax treatment of healthcare accounts such as HSAs could have a material adverse effect on our results of operations. During the six months ended July 31, 2020 and 2019, no one customer accounted for greater than 10% of our total revenue. We monitor market and regulatory changes regularly and make adjustments to our business if necessary.

Inflation. Inflationary factors may adversely affect our operating results. Although we do not believe that inflation has had a material impact on our financial position or results of operations to date, a high rate of inflation in the future may have an adverse effect on our ability to maintain current levels of expenses as a percentage of revenue if our revenue does not correspondingly increase with inflation.

Concentration of credit risk

Financial instruments, which potentially subject us to concentrations of credit risk, consist primarily of cash and cash equivalents. We maintain our cash and cash equivalents in bank and other depository accounts, which frequently may exceed federally insured limits. Our cash and cash equivalents as of July 31, 2020 were $268.9 million, of which $2.3 million was covered by federal depository insurance. We have not experienced any material losses in such accounts and believe we are not exposed to any significant credit risk with respect to our cash and cash equivalents. Our accounts receivable balance as of July 31, 2020 was $70.2 million. We have not experienced any significant write-offs to our accounts receivable and believe that we are not exposed to significant credit risk with respect to our accounts receivable; however, the extent to which the ongoing COVID-19 pandemic will negatively impact our credit risk is highly uncertain and cannot be accurately predicted. We continue to monitor our credit risk and place our cash and cash equivalents with reputable financial institutions.

Interest rate risk

HSA Assets and Client-held funds. Our HSA Assets consists of custodial HSA funds we hold in custody on behalf of our members. As of July 31, 2020, we had HSA Assets of approximately $12.2 billion. As a non-bank custodian, we contract with our Depository Partners and insurance company partners to hold custodial cash assets on behalf of our members, and we earn a significant portion of our total revenue from interest paid to us by these partners. The contract terms generally range from three to five years and have either fixed or variable interest rates. As our HSA Assets increase and existing contracts expire, we seek to enter into new contracts with Depository Partners, the terms of which are impacted by the then-prevailing interest rate environment. The diversification of deposits among Depository Partners and varied contract terms substantially reduces our exposure to short-term fluctuations in prevailing interest rates and mitigates the short-term impact of a sustained increase or decline in prevailing interest rates on our custodial revenue. A sustained decline in prevailing interest rates may negatively affect our business by reducing the size of the interest rate yield, or yield, available to us and thus the amount of the custodial revenue we can realize. Conversely, a sustained increase in prevailing interest rates can increase our yield. An increase in our yield would increase our custodial revenue as a percentage of total revenue. In addition, if our yield increases, we expect the spread to also increase between the interest offered to us by our Depository Partners and the interest retained by our members, thus increasing our profitability. However, we may be required to increase the interest retained by our members in a rising prevailing interest rate environment. Changes in prevailing interest rates are driven by macroeconomic trends and government policies over which we have no control, such as the interest rate cuts by the Federal Reserve associated with the ongoing COVID-19 pandemic.

Our Client-held funds are interest earning deposits from which we generate custodial revenue. As of July 31, 2020, we had Client-held funds of approximately $840.0 million. These deposits are amounts remitted by Clients and held by us on their behalf to pre-fund and facilitate administration of our other CDBs. These deposits are held with Depository Partners. We deposit the Client-held funds with our Depository Partners in interest-bearing, demand deposit accounts that have a floating interest rate and no set term or duration. A sustained decline in prevailing interest rates may negatively affect our business by reducing the size of the yield available to us and thus the amount of the custodial revenue we can realize from Client-held funds. Changes in prevailing interest rates are driven by macroeconomic trends and government policies over which we have no control.

Cash and cash equivalents. We consider all highly liquid investments purchased with an original maturity of three months or less to be unrestricted cash equivalents. Our unrestricted cash and cash equivalents are held in institutions in the U.S. and include deposits in a money market account that is unrestricted as to withdrawal or use. As of July 31, 2020, we had unrestricted cash and cash equivalents of $268.9 million. Due to the short-term nature of these instruments, we believe that we do not have any material exposure to changes in the fair value of our cash and cash equivalents as a result of changes in interest rates.

Credit agreement. As of July 31, 2020, we had $1.03 billion outstanding under our term loan facility and no amounts drawn under our revolving credit facility. Our overall interest rate sensitivity under these credit facilities is primarily influenced by any amounts borrowed and the prevailing interest rates on these instruments. The interest rate on our term loan credit facility and revolving credit facility is variable and was 2.16 percent at July 31, 2020. Accordingly, we may incur additional expense if interest rates increase in future periods. For example, a one percent increase in the interest rate on the amount outstanding under our credit facilities at July 31, 2020 would result in approximately $10.2 million of additional interest expense over the next 12 months.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of July 31, 2020, the end of the period covered by this Quarterly Report on Form 10-Q. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to provide reasonable assurance that the information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to provide reasonable assurance that the information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Based on such evaluation, and subject to the below exclusion, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of July 31, 2020, the Company's disclosure controls and procedures were effective at the reasonable assurance level.

In accordance with interpretive guidance issued by SEC staff, companies are allowed to exclude acquired businesses from the assessment of internal control over financial reporting during the first year after completion of an acquisition and from the assessment of disclosure controls and procedures to the extent subsumed in such internal control over financial reporting (the “Internal Controls Guidance”). In accordance with the Internal Controls Guidance, as the Company acquired WageWorks on August 30, 2019, management's evaluation and conclusion as to the effectiveness of the Company's disclosure controls and procedures as of July 31, 2020 excluded the portion of disclosure controls and procedures that are subsumed by internal control over financial reporting of WageWorks. WageWorks’ assets represented approximately 11% of the Company’s consolidated total assets, excluding the effects of purchase accounting, and its revenues represented approximately 49% of the Company's consolidated total revenues, each as of and for the quarter ended July 31, 2020.

Material Weaknesses in Internal Control over Financial Reporting

Management determined the following material weaknesses existed as of July 31, 2020, all of which were disclosed previously by WageWorks in Item 9A of its Annual Report on Form 10-K for the year ended December 31, 2018.

Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring Activities

There was an inadequate open flow, transparency, communication and dissemination of relevant and pertinent information from former WageWorks senior management concerning a complex transaction with the federal government that contributed to an ineffective control environment driven by the tone at the top. WageWorks management’s failure to timely communicate all pertinent information resulted in an environment which led to errors in the WageWorks financial statements as of the fiscal year ended December 31, 2018.

It was noted that WageWorks did not maintain effective internal control over financial reporting related to the following areas: control environment, risk assessment, control activities information and communication, and monitoring activities:

- WageWorks did not have processes and controls to ensure there were adequate mechanisms and oversight to ensure accountability for the performance of internal control over financial reporting responsibilities and to ensure corrective actions were appropriately prioritized and implemented in a timely manner.
- WageWorks did not effectively execute a strategy to attract, develop and retain a sufficient complement of qualified resources with an appropriate level of knowledge, experience, and training in certain areas important to financial reporting.
- There was not an adequate assessment of changes in risks by management that could significantly impact internal control over financial reporting or an adequate determination and prioritization of how those risks should be managed.
- WageWorks did not have adequate management oversight of accounting and financial reporting activities in implementing certain accounting practices to conform to its policies and GAAP.
- WageWorks did not have adequate management oversight around completeness and accuracy of data material to financial reporting.
- There was a lack of robust, established and documented accounting policies and insufficiently detailed procedures to put these policies into effective action.
- WageWorks was not focused on a commitment to competency as it relates to creating priorities, allocating adequate resources and establishing cross functional procedures around managing complex contracts and non-routine transactions as well as managing change and attracting, developing and retaining qualified resources.

These deficiencies in WageWorks' internal control over financial reporting contributed to the following identified material weaknesses:

A. *Accounting Close and Financial Reporting*

WageWorks had inadequate or ineffective senior accounting leadership and corresponding process level and monitoring controls in the area of accounting close and financial reporting specifically, but not exclusively, around the review of account reconciliations, account estimates and related cut-off, and monitoring of the accounting close cycle and some areas of related sub-processes such as equity. WageWorks also did not have effective business processes and controls to conduct an effective review of manual data feeds into journal entries for platforms which were not integrated with the main enterprise resource planning system.

WageWorks did not have robust, established and documented accounting policies that were implemented effectively, which led to adjustments in areas such as, but not exclusive to, impairment of internally developed software (IDS) and unclaimed liability. As a result of these adjustments, the accounts related to amortization of IDS, fixed assets, and operating expenses as they relate to interest and penalties were impacted.

WageWorks also did not have a robust process around managing change and corresponding assessment and implementation of accounting policies. Furthermore, it also resulted in the delayed assessment and design of controls for the timely implementation of controls around Accounting Standard 606 (ASC 606) for Revenue Recognition, which was effective January 2018. These gaps resulted in several adjustments in the WageWorks financial statements as of the fiscal year ended December 31, 2018.

B. *Contract to Cash Process*

WageWorks did not have effective controls around the contract-to-cash life cycle. The root cause of these gaps were due to inadequate or ineffective process level controls around billing set-up during customer implementation, managing change to existing customer billing terms and conditions, timely termination of customers, implementing complex and/or non-standard billing arrangements which require manual intervention or manual controls for billing to customers, processing timely adjustments, lack of robust, established and documented policies to assess collectability and reserve for revenue, bad debts and accounts receivable, and availability of customer contracts.

These gaps resulted in several adjustments in revenue, accounts receivable, and accounts receivable reserves in the WageWorks financial statements as of the fiscal year ended December 31, 2018.

C. *Risk Assessment and Management of Change*

WageWorks did not maintain an effective risk assessment and monitoring process to manage the expansion of its business. Hence, there were inadequate and ineffective business and financial reporting control activities associated with change and growth in the business. Among other areas, the assessment of the control environment and the design of manual controls around financial system implementations was not performed adequately.

As a result, WageWorks did not properly estimate, reserve and record certain transactions that resulted in errors in the WageWorks financial statements as of the fiscal year ended December 31, 2018.

D. *Review of New, Unusual or Significant Transactions and Contracts*

WageWorks did not have adequate risk assessment controls to continuously formally assess the financial reporting risks associated with executing new, significant or unusual transactions, contracts or business initiatives. As a result, WageWorks did not adequately identify and analyze changes in the business and hence implement effective process level controls and monitoring controls that were responsive to these changes and aligned with financial reporting objectives. This failure to identify and analyze changes occurred in connection with the integration of acquisitions and the monitoring and recording of certain revenues associated with a complex government contract. As a result, WageWorks did not properly account for certain transactions including revenue and customer obligation accounts, which resulted in errors in the WageWorks financial statements as of the fiscal year ended December 31, 2018.

E. *Manual Reconciliations of High-Volume Standard Transactions*

WageWorks did not have effective business processes and controls as well as resources with adequate training and support to conduct an effective review of manual reconciliations including the complex data feeds into the reconciliations of high-volume standard transactions. This resulted in several errors mainly to balance sheet classifications around accounts receivable, customer obligations and other related accounts as of December 31, 2018.

F. *Information Technology General Controls (ITGC)*

WageWorks did not have effective controls related to information technology general controls (ITGCs) in the areas of logical access and change-management over certain information technology (IT) systems that supported its financial reporting processes. WageWorks' business process controls (automated and manual) that are dependent on the affected ITGCs were also deemed ineffective because they could have been adversely impacted. WageWorks believed that these control deficiencies were a result of IT control processes having an inadequate risk-assessment process to identify and assess changes in business environment which would impact IT environments related to internal control over financial reporting. Hence, the control design, implementation, and documentation were not enhanced to adapt to the changing business environment. There was also insufficient training of IT personnel on how to design and implement ITGCs.

These material weaknesses and other deficiencies could result in a misstatement of the aforementioned account balances or disclosures that would result in a material misstatement to the annual or interim condensed consolidated financial statements that would not be prevented or detected.

Integration and Remediation Efforts

The Company continues to assess the impact of the Acquisition on its internal control over financial reporting, including the impact of the integration of WageWorks into existing operations at the consolidated Company. As part of this assessment, the Company has continued to evaluate its internal control environment to ensure that it has appropriate controls in place to mitigate the risks of a material misstatement to its consolidated financial statements associated with WageWorks.

In light of the previously disclosed material weaknesses in WageWorks' internal control over financial reporting, the Company has continued to utilize a third-party internal controls specialist, dedicated certain senior finance and accounting leadership team members to work on remediation efforts, and continued to develop a plan to address the deficiencies associated with the disclosed material weaknesses.

In partial response to the material weaknesses associated with accounting close and financial reporting and review of new, unusual or significant transactions and contracts, the Company has incorporated certain WageWorks processes into the Company's existing controls that address the monitoring of the accounting close cycle and the evaluation of accounting policies, including the identification, review and assessment of new, unusual or significant transactions. Additionally, in partial response to material weaknesses in the areas of control environment, risk assessment, control activities, information and communication, and monitoring activities, the Company has incorporated certain WageWorks processes into the Company's existing entity level controls. The Company will continue to monitor these recently implemented changes to ensure they are operating effectively to address the above material weaknesses.

Changes in Internal Control Over Financial Reporting

Other than the remediation efforts described above, there were no changes in the Company's internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the quarter ended July 31, 2020 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II—Other Information

Item 1. Legal Proceedings

From time-to-time, we may be subject to various legal proceedings and claims that arise in the normal course of our business activities. Our wholly owned subsidiary, WageWorks, is party to certain pending material litigation and other legal proceedings. Except for such matters, as of the date of this Quarterly Report on Form 10-Q, we were not a party to any litigation whereby the outcome of such litigation, if determined adversely to us, would individually or in the aggregate be reasonably expected to have a material adverse effect on our results of operations, cash flows or financial position. For a description of these legal proceedings, see Note 6—Commitments and contingencies of the Notes to condensed consolidated financial statements.

Item 1A. Risk factors

The risks described in “Risk factors” in our Annual Report on Form 10-K for the fiscal year ended January 31, 2020 could materially and adversely affect our business, financial condition and results of operations. Except as described below, there have been no material changes in such risks. These risk factors do not identify all risks that we face, and our operations could also be affected by factors that are not presently known to us or that we currently consider to be immaterial to our operations.

The ongoing COVID-19 pandemic has materially impacted our business and may continue to materially impact our business.

Our business has been, and may continue to be, materially and adversely affected by the current outbreak of the COVID-19 virus. The Federal Reserve’s interest rate cut in response to the economic impact of the COVID-19 pandemic and other interest rate market conditions have caused interest rates to decline significantly. As a result, the funds that we place with our depository partners in this environment have been, and are likely to continue to be, placed at, lower interest rates than we originally expected. In addition, stock market volatility, such as a decline in the stock market, decreases HSA investment assets and the related fees we earn from HSA investment assets, and any future declines will also have a negative impact. We have also seen an increase in regulatory changes related to our products due to government responses to the COVID-19 pandemic and may continue to see additional regulatory changes, which changes require substantial time and costs for us to ensure compliance.

Our financial results related to certain of our products have also been adversely affected. For example, we have seen a significant decline in the use of commuter benefits and our members' spend on healthcare, which has negatively impacted both our interchange revenue and service revenue. We have also seen a decline in interchange revenue across all other products. Going forward, some Clients may be unable to pay fees required under contracts and exercise "force majeure" or similar defenses, which would negatively impact our financial results.

In addition, as an increasing number of companies go out of business, the number of our Clients and potential Clients would be adversely affected. Increased unemployment may mean that fewer of our members utilize HSAs, FSAs or other CDBs. Regulatory changes related to our products, such as COBRA, have created uncertainty and additional workload on our team members, which could reduce our operational efficiency and result in additional costs. In the event our financial results continue to be severely impacted or the impact worsens, it may make it more difficult for us to comply with the financial covenants in our credit agreement, which could result in a breach of the financial covenants and the acceleration of our outstanding debt by our lenders.

As a result of the ongoing pandemic, substantially all of our team members are working from home. Sales opportunities have been impacted by the lack of travel and in-person meetings, with some opportunities delayed and most now being held virtually, and we will be supporting the open enrollment activities of our Clients virtually. We may be unable to meet our service level commitments to our Clients as a result of disruptions to our work force and disruptions to third-party contractors that we rely on to provide our services. Our team members may be less efficient at home, and it may take additional time for us to pursue significant business initiatives. The risk of cybersecurity breaches and incidents, and the potential impact of these on our operations, is also higher while our team members log in to our network remotely.

The extent to which the COVID-19 pandemic will continue to negatively impact our business remains highly uncertain and, as a result, may continue to have a material and adverse impact on our business and financial results.

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Item 6. Exhibits

		Incorporate by reference			
Exhibit no.	Description	Form	File No.	Exhibit	Filing Date
10.1+	Transition and Separation Agreement between the Company and Darcy Mott, dated June 25, 2020.				
31.1+	Certification of the Principal Executive Officer Pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				
31.2+	Certification of the Principal Financial Officer Pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				
32.1*#	Certification of the Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				
32.2*#	Certification of the Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				
101.INS	XBRL Instance document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.				
101.SCH	Inline XBRL Taxonomy schema linkbase document				
101.CAL	Inline XBRL Taxonomy calculation linkbase document				
101.DEF	Inline XBRL Taxonomy definition linkbase document				
101.LAB	Inline XBRL Taxonomy labels linkbase document				
101.PRE	Inline XBRL Taxonomy presentation linkbase document				
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended July 31, 2020, formatted in Inline XBRL.				

\+ Filed herewith.

* Furnished herewith.

\# These certifications are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference in any filing the registrant makes under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, irrespective of any general incorporation language in any filings.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	HEALTHEQUITY, INC.	
Date: September 9, 2020	By:	/s/ Darcy Mott
	Name:	Darcy Mott
	Title:	Executive Vice President and Chief Financial Officer

HealthEquity, Inc.
15 W. Scenic Pointe Drive
Draper, Utah 84020

June 25, 2020

Darcy Mott

BY ELECTRONIC DELIVERY
Re: Transition and Separation

Dear Darcy,

This letter agreement (this "***Agreement***") sets forth our collective understanding with respect to your continued employment with HealthEquity, Inc. (the "***Company***") from and after the date hereof and the transition of your duties to a new Chief Financial Officer, effective as of March 31, 2021 (the "***Transition Date***"). Reference is made to that certain (i) Employment Agreement, by and between you and the Company, dated as of June 10, 2014 (the "***Employment Agreement***"), and (ii) Confidentiality, Non-Interference, and Invention Assignment Agreement, executed by you on June 10, 2014 (the "***Restrictive Covenant Agreement***").

1. Transition. Between the date hereof through the Transition Date, unless your employment is terminated by you or the Company in accordance with the terms of the Employment Agreement, you will continue to serve as Executive Vice President and Chief Financial Officer of the Company. Effective as of the Transition Date, you will resign as Executive Vice President and Chief Financial Officer of the Company and continue as a Special Advisor to the Company, reporting to the Chief Executive Officer of the Company. Between the date hereof and the Transition Date (the "***Transition Period***"), you agree to perform your duties on a full-time basis from either your home office or the Company's offices in Draper, Utah, as reasonably requested by the Company from time to time. Following the Transition Date and while serving as Special Advisor, you will be expected to devote no less than one-half of your business time to the Company. Further, during the Transition Period and while employed as a Special Advisor, you agree to cooperate with members of management, your direct reports and other employees of the Company, its direct and indirect subsidiary companies and affiliates (collectively, the "***Company Group***") to facilitate an orderly transition to a new Chief Financial Officer, provide information, answer questions and provide guidance as reasonably requested by your team members relating to any matter on which you will have worked prior to your last date of employment with the Company or of which you have knowledge.

You hereby acknowledge and agree that the appointment of a new Chief Financial Officer of the Company on the Transition Date, or the resulting change in your duties or responsibilities, shall not serve as a basis for you to resign for Good Reason under your Employment Agreement or any other arrangement with the Company (including any equity award agreement). Accordingly, by signing this Agreement, you are agreeing that you are not entitled to any severance or other benefits under your Employment Agreement or any other arrangement (including, without limitation, any equity award agreement) in connection with such appointment. The foregoing relates only to the transition contemplated hereunder and does not does not alter, amend or waive any other provision or right that you may have, or relate to any other or future events or changes in facts or circumstances, under your Employment Agreement, any other arrangement or any other benefit to which you may be entitled.

Further, effective as of the Transition Date, you hereby acknowledge and agree that your Employment Agreement shall be deemed terminated and, following such date, your employment as a Special Advisor to the Company shall be at will, which means that either you or the Company may terminate your employment with or without cause or notice, and that upon any subsequent termination of your employment from the Special Advisor position with or without cause, no further payments by the Company to you will be due other than accrued but unpaid base salary through the date of your termination, any other accrued benefits to which you may be entitled pursuant to the terms of the Company's benefit plans in which you participate at the time of such termination, reimbursement for any reasonable business expenses incurred in accordance with the Company's expense reimbursement policy prior to the date of such termination and timely submitted to the Company and, subject to your execution and non-revocation of the Release, the Consideration (each, as defined below).

2. Compensation. During the Transition Period, you will continue to be paid your current salary (at an annual rate of $400,000) and, effective as of the Transition Date and you assuming the Special Advisor position, your base salary will be reduced to $350,000, in each case, payable in accordance with the Company's regular payroll practices. In addition, while employed by the Company during the Transition Period and thereafter, you will continue to participate in all employee benefit plans sponsored by or through any member of the Company Group in which you are eligible to participate as of the date hereof (as such plans may be amended, the "***Benefit Plans***") in accordance with the terms and conditions of such Benefit Plans. In addition, subject to your continued employment as Chief Financial Officer through the Transition Date, you will continue to remain eligible for an annual incentive bonus in accordance with the terms and conditions of the Company's Executive Bonus Plan for fiscal year ending January 31, 2021 and will be eligible to earn a pro-rated annual bonus for fiscal year ending January 31, 2022, pro-rated based on the number of days in such fiscal year that you serve as Chief Financial Officer (the "***Pro-Rata 2022 Bonus***"), in each case, in accordance with the terms and conditions of the Company's executive bonus plan for the applicable fiscal year. For the avoidance of doubt, you hereby acknowledge and agree that you are not expected to receive any equity-based incentive awards for fiscal year ending January 31, 2022 and that, while serving as Special Advisor, you shall no longer be eligible to earn any incentive bonus.

3. Treatment of Equity Awards; Payment of Pro-Rata 2022 Bonus. Upon any termination of your employment with the Company other than for Cause (as defined in your Employment Agreement) following the Transition Date, and subject to your (A) remaining employed with the Company through the Transition Date, (B) execution and non-revocation of the release of claims attached hereto as Exhibit A (the "***Release***") within 21 days following such termination, and (C) continued compliance with this Agreement and the Restrictive Covenant Agreement (as modified herein), the Company will provide you with the following benefits (collectively, the "***Consideration***"):

(a) Each of the options and restricted stock unit awards granted to you pursuant to the Company's 2014 Equity Incentive Plan (the "***Plan***"), whether subject to solely service based vesting conditions or service and performance based vesting conditions, will remain outstanding and become exercisable, vest and/or settle at the same time as such awards would have otherwise become exercisable, vested and/or settled had you remained in continuous service with the Company, with any restricted stock unit awards subject to performance based vesting conditions ("***PRSUs***") vesting based on actual achievement of the applicable performance metric; provided, that, upon the occurrence of a Change in Control (as defined in the Plan), the exercisability, vesting and/or settlement of any then unvested options and restricted stock unit awards held by you shall immediately accelerate, with any then unvested PRSUs granted to you prior to March 31, 2020 vesting at 100% of target and any then unvested PRSUs granted to you on March 31, 2020 vesting based on actual performance;

(b) Subject to Section 9(c) of the Plan, each of your vested options shall remain exercisable until the earlier to occur of (x) any violation or attempted violation, by you of the Restrictive Covenants (as defined below), and (y) the expiration date of each such option as set forth in the applicable option agreement governing such options; and

(c) Subject to the achievement of the applicable performance conditions for fiscal year ending January 31, 2022, as determined by the Compensation Committee of the Board of Directors of the Company, payment of the Pro-Rata Bonus, such amount to be paid at the same time it would otherwise be paid to you had no termination occurred, but in no event later than April 15, 2022.

For the avoidance of doubt, any termination of your employment to occur prior to the Transition Date shall be governed by the terms and conditions set forth in your Employment Agreement, as modified by paragraph 1 above.

4. Modification of Restrictive Covenant Agreement. You hereby acknowledge and agree that the execution of this Agreement does not alter your obligations to any member of the Company Group under the Restrictive Covenant Agreement, and notwithstanding anything set forth in the Restrictive Covenant Agreement to the contrary, effective as of the date hereof, the Restrictive Covenant Agreement is hereby amended such that the terms "Post-Termination Non-Compete Period" and "Post-Termination Non-Interference Period" shall mean the period commencing on your last date of employment with the Company Group and ending on the thirty-six month anniversary of such termination of employment. You further hereby acknowledge that your continued compliance with obligations set forth in your Restrictive Covenant Agreement, as modified herein (the "***Restrictive Covenants***"), is a condition of your receiving the Consideration described in paragraph 3 and upon any breach of the Restrictive Covenants, the Company shall be entitled to an immediate refund of any Consideration already received by you and may clawback any of the shares or proceeds in respect of shares delivered to or received by you in connection with the exercise, vesting or settlement of such options or restricted stock unit awards, as applicable, or subsequent sale of the corresponding shares of common stock of the Company. You understand that the Defend Trade Secrets Act provides that you may not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that is made in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney, and solely for the purpose of reporting or investigating a suspected violation of law; or that is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. In the event that you file a lawsuit for retaliation by any member of the Company Group for reporting a suspected violation of law, you may disclose the trade secret to your attorney and use the trade secret information in the court proceeding, if you file any document containing the trade secret under seal and do not disclose the trade secret, except pursuant to court order.

5. Taxes. Amounts provided hereunder are subject to withholding for all applicable taxes, including but not limited to income, employment, and social insurance taxes, as shall be required by law.

6. Governing Law. EXCEPT WHERE PREEMPTED BY FEDERAL LAW, THE VALIDITY, INTERPRETATION, CONSTRUCTION, AND PERFORMANCE OF THIS AGREEMENT IS GOVERNED BY AND IS TO BE CONSTRUED UNDER THE LAWS OF THE STATE OF UTAH APPLICABLE TO AGREEMENTS MADE AND TO BE PERFORMED IN THAT STATE, WITHOUT REGARD TO CONFLICT OF LAWS RULES. ANY DISPUTE OR CLAIM ARISING OUT OF OR RELATING TO THIS AGREEMENT OR CLAIM OF BREACH HEREOF SHALL BE BROUGHT EXCLUSIVELY IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF UTAH, TO THE EXTENT FEDERAL JURISDICTION EXISTS, AND IN ANY

COURT SITTING IN SALT LAKE CITY, UTAH, BUT ONLY IN THE EVENT FEDERAL JURISDICTION DOES NOT EXIST, AND ANY APPLICABLE APPELLATE COURTS. BY EXECUTION OF THIS AGREEMENT, THE PARTIES HERETO, AND THEIR RESPECTIVE AFFILIATES, CONSENT TO THE EXCLUSIVE JURISDICTION OF SUCH COURTS, AND WAIVE ANY RIGHT TO CHALLENGE JURISDICTION OR VENUE IN SUCH COURT WITH REGARD TO ANY SUIT, ACTION, OR PROCEEDING UNDER OR IN CONNECTION WITH THIS AGREEMENT. EACH PARTY TO THIS AGREEMENT ALSO HEREBY WAIVES ANY RIGHT TO TRIAL BY JURY IN CONNECTION WITH ANY SUIT, ACTION, OR PROCEEDING UNDER OR IN CONNECTION WITH THIS AGREEMENT.

7. Entire Agreement. Except as otherwise expressly provided or referenced herein, this Agreement and the Release constitute the entire agreement between you and the Company with respect to the subject matter hereof and supersede any and all prior agreements or understandings between you and the Company with respect to the subject matter hereof, whether written or oral. This Agreement will bind the heirs, personal representatives, successors and permitted assigns of both you and the Company, and will inure to the benefit of each of you and the Company and their respective heirs, successors and permitted assigns. This Agreement may be amended or modified only by a written instrument executed by you and the Company.

8. Construction. The section or paragraph headings or titles herein are for convenience of reference only and shall not be deemed a part of this Agreement. The parties hereto acknowledge and agree that each party has reviewed and negotiated the terms and provisions of this Agreement and has had the opportunity to contribute to its revision. Accordingly, the rule of construction to the effect that ambiguities are resolved against the drafting party, shall not be employed in the interpretation of this Agreement. Rather, the terms of this Agreement shall be construed in a reasonable manner to effect the intentions of both parties hereto and not in favor or against either party.

9. Section 409A. Payments and/or benefits under this Agreement are intended to be exempt from, or comply with, Section 409A of the Internal Revenue Code of 1986, as amended ("***Section 409A***"), and this Agreement will be interpreted to achieve this result. For purposes of this Agreement, each payment in a series of payments hereunder shall be deemed to be a separate payment for purposes of Section 409A. In no event shall the Company or any of its affiliates be liable for any additional tax, interest, or penalties that may be imposed on you as a result of Section 409A or any damages for failing to comply with Section 409A (other than for withholding obligations or other obligations applicable to employers, if any, under Section 409A).

Notwithstanding any provision in this Agreement to the contrary, any payment and the delivery of any shares otherwise required to be made hereunder to you at any date as a result of the termination of your employment shall be delayed for such period of time as may be necessary to meet the requirements of Section 409A(a)(2)(B)(i) of the Code (the "***Delay Period***"). On the first business day following the expiration of the Delay Period, you shall be paid and/or issued, in a single lump sum, an amount equal to the aggregate amount of all payments and/or shares delayed pursuant to the preceding sentence, and any remaining payments and/or share issuances not so delayed shall continue to be paid and/or delivered pursuant to the payment schedule set forth herein.

10. Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument, and electronically delivered copies of executed counterparts shall be deemed to be originals for all purposes.

* * *

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date set forth below.

HEALTHEQUITY, INC.

By: /s/ Jon Kessler
Name: Jon Kessler
Title: President and CEO
Dated: June 25, 2020

Agreed and accepted:
/s/ Darcy Mott

Darcy Mott
Dated: June 25, 2020

[*Signature Page to D. Mott Transition Agreement*]

Exhibit A

RELEASE OF CLAIMS

As used in this Release of Claims (this “***Release***”), the term “claims” will include all claims, covenants, warranties, promises, undertakings, actions, suits, causes of action, obligations, debts, accounts, attorneys’ fees, judgments, losses, and liabilities, of whatsoever kind or nature, in law, in equity, or otherwise.

For and in consideration of the agreement by HealthEquity, Inc. (the “***Company***”) to provide me with the Consideration (as defined in that certain letter agreement, dated June 25, 2020, with the Company (my “***Transition Agreement***”)), and other good and valuable consideration, I, Darcy Mott, for and on behalf of myself and my heirs, administrators, executors, and assigns, effective as of the date on which this Release becomes effective pursuant to its terms, do fully and forever release, remise, and discharge each of the Company, and its respective direct and indirect parents, subsidiaries and affiliates, and their respective successors and assigns, together with their respective current and former officers, directors, partners, members, shareholders, employees, and agents (collectively, and with the Company, the “***Group***”), from any and all claims whatsoever up to the date hereof that I had, may have had, or now have against the Group, whether known or unknown, for or by reason of any matter, cause, or thing whatsoever, including any claim arising out of or attributable to my employment or the termination of my employment with the Company, whether for tort, breach of express or implied employment contract, intentional infliction of emotional distress, wrongful termination, unjust dismissal, defamation, libel, or slander, or under any federal, state, or local law dealing with discrimination based on age, race, sex, national origin, handicap, religion, disability, or sexual orientation. The release of claims in this Release includes, but is not limited to, all claims arising under the Age Discrimination in Employment Act of 1967 (the “***ADEA***”), Title VII of the Civil Rights Act of 1964, the Americans with Disabilities Act of 1990, the Civil Rights Act of 1991, the Family and Medical Leave Act of 1993, the Employee Retirement Income Security Act of 1974, the Worker Adjustment and Retraining Notification Act of 1988 and the Equal Pay Act of 1963, each as may be amended from time to time, and all other federal, state, and local laws, the common law, and any other purported restriction on an employer’s right to terminate the employment of employees. I intend this Release contained herein to be a general release of any and all claims to the fullest extent permissible by law and for the provisions regarding the release of claims against the Group to be construed as broadly as possible, and hereby incorporate in this Release similar federal, state or other laws, all of which I also hereby expressly waive.

I understand and agree that claims or facts in addition to or different from those which are now known or believed by me to exist may hereafter be discovered, but it is my intention to fully and forever release, remise and discharge all claims which I had, may have had, or now have against the Group, whether known or unknown, suspected or unsuspected, asserted or unasserted, contingent or noncontingent, without regard to the subsequent discovery or existence of such additional or different facts. Without limiting the foregoing, by signing this Release, I expressly waive and release any provision of law that purports to limit the scope of a general release.

I acknowledge and agree that as of the date I execute this Release, I have no knowledge of any facts or circumstances that give rise or could give rise to any claims under any of the laws listed in the preceding paragraphs.

By executing this Release, I specifically release all claims relating to my employment and its termination under the ADEA, a United States federal statute that, among other things, prohibits discrimination on the basis of age in employment and employee benefit plans.

Notwithstanding any provision of this Release to the contrary, by executing this Release, I am not releasing (i) any claims relating to my rights under the Transition Agreement, (ii) any claims that cannot be waived by law, or (iii) my right of indemnification as provided by, and in accordance with the terms of, the Company's by-laws or a Company insurance policy providing such coverage, as any of such may be amended from time to time.

I expressly acknowledge and agree that I –

- Am able to read the language, and understand the meaning and effect, of this Release;

- Have no physical or mental impairment of any kind that has interfered with my ability to read and understand the meaning of this Release or its terms, and that I am not acting under the influence of any medication, drug, or chemical of any type in entering into this Release;

- Am specifically agreeing to the terms of the release contained in this Release because the Company has agreed to provide me the Consideration in consideration for my agreement to accept it in full settlement of all possible claims I might have or ever have had, and because of my execution of this Release;

- Acknowledge that, but for my execution of this Release, I would not be entitled to the Consideration;

- Understand that, by entering into this Release, I do not waive rights or claims under the ADEA that may arise after the date I execute this Release;

- Had or could have had twenty-one (21) calendar days from the date of my termination of employment (the "***Release Expiration Date***") in which to review and consider this Release, and that if I execute this Release prior to the Release Expiration Date, I have voluntarily and knowingly waived the remainder of the review period;

- Have not relied upon any representation or statement not set forth in this Release or my Transition Agreement made by the Company or any of its representatives;

- Was advised to consult with my attorney regarding the terms and effect of this Release; and

- Have signed this Release knowingly and voluntarily.

I represent and warrant that I have not previously filed, and to the maximum extent permitted by law agree that I will not file, a complaint, charge, or lawsuit against any member of the Group regarding any of the claims released herein. If, notwithstanding this representation and warranty, I have filed or file such a complaint, charge, or lawsuit, I agree that I shall cause such complaint, charge, or lawsuit to be dismissed with prejudice and shall pay any and all costs required in obtaining dismissal of such complaint, charge, or lawsuit, including without limitation the attorneys' fees of any member of the Group against whom I have filed such a complaint, charge, or lawsuit. This paragraph shall not apply, however, to a claim of age discrimination under the ADEA or to any non-waivable right to file a charge with the United States Equal Employment Opportunity Commission (the "***EEOC***") or similar state agency; *provided*, *however*, that if the EEOC or similar state agency were to pursue any claims relating to my employment with the Company, I agree that I shall not be entitled to recover any monetary damages or any other remedies or benefits as a result and that this Release and the Transition Agreement will control as the exclusive remedy and full settlement of all such claims by me.

I hereby agree to waive any and all claims to re-employment with the Company or any other member of the Group and affirmatively agree not to seek further employment with the Company or any other member of the Group. I acknowledge that if I re-apply for or seek employment with the Company or any other member of the Group, the Company's or any other member of the Group's refusal to hire me based on this provision will provide a complete defense to any claims arising from my attempt to apply for employment.

Notwithstanding anything contained herein to the contrary, this Release will not become effective or enforceable prior to the expiration of the period of seven (7) calendar days immediately following the date of its execution by me (the "***Revocation Period***"), during which time I may revoke my acceptance of this Release by notifying the Company and the Board of Directors of the Company, in writing, delivered to the Company at its principal executive office, marked for the attention of its Chief Executive Officer. To be effective, such revocation must be received by the Company no later than 11:59 p.m. on the seventh (7^{th}) calendar day following the execution of this Release. Provided that this Release is executed and I do not revoke it during the Revocation Period, the eighth (8^{th}) calendar day following the date on which this Release is executed shall be its effective date. I acknowledge and agree that if I revoke this Release during the Revocation Period, this Release will be null and void and of no effect, and neither the Company nor any other member of the Group will have any obligations to provide me the Consideration.

The provisions of this Release shall be binding upon my heirs, executors, administrators, legal personal representatives, and assigns. If any provision of this Release shall be held by any court of competent jurisdiction to be illegal, void, or unenforceable, such provision shall be of no force or effect. The illegality or unenforceability of such provision, however, shall have no effect upon and shall not impair the enforceability of any other provision of this Release.

EXCEPT WHERE PREEMPTED BY FEDERAL LAW, THE VALIDITY, INTERPRETATION, CONSTRUCTION, AND PERFORMANCE OF THIS RELEASE IS GOVERNED BY AND IS TO BE CONSTRUED UNDER THE LAWS OF THE STATE OF

UTAH APPLICABLE TO AGREEMENTS MADE AND TO BE PERFORMED IN THAT STATE, WITHOUT REGARD TO CONFLICT OF LAWS RULES. ANY DISPUTE OR CLAIM ARISING OUT OF OR RELATING TO THIS RELEASE OR CLAIM OF BREACH HEREOF SHALL BE BROUGHT EXCLUSIVELY IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF UTAH, TO THE EXTENT FEDERAL JURISDICTION EXISTS, AND IN ANY COURT SITTING IN SALT LAKE CITY, UTAH, BUT ONLY IN THE EVENT FEDERAL JURISDICTION DOES NOT EXIST, AND ANY APPLICABLE APPELLATE COURTS. BY EXECUTION OF THIS RELEASE, I CONSENT TO THE EXCLUSIVE JURISDICTION OF SUCH COURTS, AND WAIVE ANY RIGHT TO CHALLENGE JURISDICTION OR VENUE IN SUCH COURT WITH REGARD TO ANY SUIT, ACTION, OR PROCEEDING UNDER OR IN CONNECTION WITH THIS RELEASE. FURTHER, I HEREBY WAIVE ANY RIGHT TO TRIAL BY JURY IN CONNECTION WITH ANY SUIT, ACTION, OR PROCEEDING UNDER OR IN CONNECTION WITH THIS RELEASE.

* * *

I, __________________, have executed this Release of Claims on the date set forth below:

____
Darcy Mott
Date:

Exhibit 31.1

Certification of Principal Executive Officer
Pursuant to
Exchange Act Rules 13a-14(a) and 15d-14(a),
as Adopted Pursuant to
Section 302 of Sarbanes-Oxley Act of 2002

I, Jon Kessler, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of HealthEquity, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 9, 2020

By:	/s/ Jon Kessler
Name:	Jon Kessler
Title:	*Chief Executive Officer* *(Principal Executive Officer)*

Exhibit 31.2

Certification of Principal Financial Officer
pursuant to
Exchange Act Rules 13a-14(a) and 15d-14(a),
as adopted pursuant to
Section 302 of Sarbanes-Oxley Act of 2002

I, Darcy Mott, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of HealthEquity, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: September 9, 2020

By:	/s/ Darcy Mott
Name:	Darcy Mott
Title:	*Executive Vice President and Chief Financial Officer (Principal Financial Officer)*

Exhibit 32.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, Jon Kessler, the Chief Executive Officer (Principal Executive Officer) of HealthEquity, Inc. (the "Company"), hereby certify that, to my knowledge:

1. Our Quarterly Report on Form 10-Q for the quarter ended July 31, 2020 (the "Report"), of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 9, 2020

By: /s/ Jon Kessler

Name: Jon Kessler
Title: *Chief Executive Officer*
(Principal Executive Officer)

Exhibit 32.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, Darcy Mott, Executive Vice President and Chief Financial Officer (Principal Financial Officer) of HealthEquity, Inc. (the “Company”), hereby certify that, to my knowledge:

1. Our Quarterly Report on Form 10-Q for the quarter ended July 31, 2020 (the “Report”), of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 9, 2020

By:	/s/ Darcy Mott
Name:	Darcy Mott
Title:	*Executive Vice President and Chief Financial Officer* *(Principal Financial Officer)*