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

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# Form 8-K

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**CURRENT REPORT**
**Pursuant to Section 13 or 15(d) of**
**The Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported)
**July 8, 2019**

**Commission File Number: 001-36568**

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# HEALTHEQUITY, INC.

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| **Delaware** | **7389** | **52-2383166** |
|---|---|---|
| (State or other jurisdiction of incorporation or organization) | (Primary Standard Industrial Classification Code Number) | (I.R.S. Employer Identification Number) |

**15 West Scenic Pointe Drive**
**Suite 100**
**Draper, Utah 84020**
**(801) 727-1000**
(Address, including Zip Code, and Telephone Number, including Area Code, of Registrant's Principal Executive Offices)

**Not Applicable**
(Former name or former address, if changed since last report)

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Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2):

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (17 CFR §230.405) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR §240.12b-2). Emerging growth company o

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. o

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 |

**Item 8.01 Other Events**

As previously announced, on June 27, 2019, HealthEquity, Inc., a Delaware corporation ("HealthEquity"), and WageWorks, Inc., a Delaware corporation ("WageWorks"), entered into an Agreement and Plan of Merger (the "Merger Agreement") with Pacific Merger Sub Inc., a Delaware corporation and a wholly owned subsidiary of HealthEquity ("Merger Sub"), pursuant to which Merger Sub will merge with and into WageWorks (the "Merger"), with WageWorks surviving the Merger and becoming a wholly owned subsidiary of HealthEquity. The Merger is currently expected to close by the end of 2019. Consummation of the Merger is subject to the satisfaction or waiver of customary closing conditions, including adoption of the Merger Agreement by WageWorks's stockholders and the expiration or termination of the waiting period under the United States Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. The Merger is not subject to any financing condition.

HealthEquity is filing (i) as Exhibit 99.1 to this Current Report on Form 8-K, WageWorks's audited consolidated financial statements for the fiscal years ended December 31, 2018 and 2017, and for each of the years in the three-year period ended December 31, 2018, (ii) as Exhibit 99.2, WageWorks's interim unaudited condensed consolidated financial statements as of the fiscal quarter ended March 31, 2019, and for the three months ended March 31, 2019 and 2018, (iii) as Exhibit 99.3, Management's Discussion and Analysis of Financial Condition and Results of Operations of WageWorks for the year ended December 31, 2018, (iv) as Exhibit 99.4, Management's Discussion and Analysis of Financial Condition and Results of Operations of WageWorks for the three months ended March 31, 2019 and 2018, (v) as Exhibit 99.5, certain material risks related to WageWorks's business, financial condition and future results and information related to material pending litigation, (vi) as Exhibit 99.6, information related to WageWorks's business and operations and (vii) as Exhibit 99.7, unaudited pro forma combined condensed financial information of HealthEquity.

Also included in this Current Report on Form 8-K (i) as Exhibit 23.1, is the consent of BDO USA, LLP, an independent registered public accounting firm, with respect to the audited consolidated financial statements of WageWorks as of and for each of the two years in the period ended December 31, 2018, and (ii) as Exhibit 23.2, is the consent of Macias, Gini & O'Connell, LLP, an independent registered public accounting firm with respect to the audited consolidated financial statements of WageWorks, Inc., for the year ended December 31, 2016.

Forward-Looking Statements

This Form 8-K and the exhibits attached hereto and incorporated herein by reference contain "forward-looking statements" within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, including but not limited to, statements regarding the proposed transaction between HealthEquity and WageWorks, the synergies from the proposed transaction, the combined company's future operating results, HealthEquity's expectations regarding debt repayment, projections as to the closing date of the proposed transaction, the anticipated benefits of the proposed transaction, future opportunities for HealthEquity upon closing of the proposed transaction, the product offerings of HealthEquity if the proposed transaction is consummated, and the ability of HealthEquity to deliver value to stakeholders. Forward-looking statements reflect current expectations regarding future events, results or outcomes, and are typically identified by words such as "estimate," "project," "predict," "will," "would," "should," "could," "may," "might," "anticipate," "plan," "intend," "believe," "expect," "aim," "goal," "target," "objective," "likely" or similar expressions that convey the prospective nature of events or outcomes. Factors that could cause actual results to differ include, but are not limited to: the conditions to the completion of the proposed transaction, including the receipt of all required regulatory approvals and approval of the stockholders of WageWorks; HealthEquity's ability to finance the proposed transaction and its ability to generate sufficient cash flows to service and repay such debt; the ability of HealthEquity to successfully integrate WageWorks operations with those of HealthEquity; that such integration may be more difficult, time-consuming or costly than expected; that operating costs, customer loss and business disruption (including, without limitation, difficulties in maintaining relationships with employees, customers or suppliers) may be greater than expected following the proposed transaction or the public announcement of the proposed transaction; and the retention of certain key employees of WageWorks may be difficult. Although HealthEquity and WageWorks believe the expectations reflected in the forward-looking statements are reasonable, we can give you no assurance these expectations will prove to be correct. Actual events, results and outcomes may differ materially from expectations due to a variety of known and unknown risks, uncertainties and other factors, including those described above. For a detailed discussion of other risk factors, please refer to the risks detailed in HealthEquity's and WageWorks's respective filings with the Securities and Exchange Commission, including, without limitation, each company's most recent Annual Report on Form 10-K and subsequent periodic and current reports. Neither HealthEquity nor WageWorks undertakes any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Forward-looking statements should not be relied upon as representing views as of any date subsequent to the date of this Form 8-K.

**Item 9.01 Financial Statements and Exhibits**

(d) Exhibits.

The following exhibits are being filed as part of this report:

| Exhibit No. | Description |
|---|---|
| 23.1 | Consent of BDO USA, LLP in respect of WageWorks, Inc. for the years ended December 31, 2018 and 2017. |
| 23.2 | Consent of Macias, Gini & O'Connell, LLP in respect of WageWorks, Inc. for the year ended December 31, 2016. |
| 99.1 | Audited consolidated financial statements of WageWorks, Inc. as of December 31, 2018 and 2017 and for each of the years in the three-year period ended December 31, 2018. |
| 99.2 | Interim unaudited condensed consolidated financial statements of WageWorks, Inc. as of March 31, 2019 and for the three months ended March 31, 2019 and 2018. |
| 99.3 | Management's Discussion and Analysis of Financial Condition and Results of Operations of WageWorks, Inc. for the year ended December 31, 2018. |
| 99.4 | Management's Discussion and Analysis of Financial Condition and Results of Operations of WageWorks, Inc. for the three months ended March 31, 2019 and 2018. |
| 99.5 | Information related to certain material risks related to WageWorks, Inc.'s business, financial condition and future results and information related to material pending litigation. |
| 99.6 | Information related to WageWorks, Inc.'s business and operations. |
| 99.7 | Unaudited pro forma combined condensed financial information of HealthEquity. |

**SIGNATURES**

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

| | **HealthEquity, Inc.** | | |
|---|---|---|---|
| Date: July 8, 2019 | By: | /s/ Darcy Mott | |
| | | Name: | Darcy Mott |
| | | Title: | Executive Vice President and Chief Financial Officer |

**Exhibit 23.1**

Consent of Independent Registered Public Accounting Firm

HealthEquity, Inc.
Draper, Utah

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-227231) and Form S-8 (No. 333-197778, 333-204421, 333-210867, 333-218937, 333-225827, 333-232399) of HealthEquity, Inc. of our reports dated May 29, 2019, relating to the consolidated financial statements of WageWorks, Inc. (the “Company”) and the effectiveness of WageWorks Inc.’s internal control over financial reporting appearing in this Current Report on Form 8-K of HealthEquity, Inc.

Our report on the effectiveness of internal control over financial reporting expresses an adverse opinion on the effectiveness of the Company’s internal control over financial reporting as of December 31, 2018.

/s/ BDO USA, LLP

San Jose, California
July 8, 2019

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**Exhibit 23.2**

**Consent of Independent Registered Public Accounting Firm**

HealthEquity, Inc.
Draper, Utah

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-227231) and Form S-8 (No. 333-197778, 333-204421, 333-210867, 333-218937, 333-225827, 333-232399) of HealthEquity, Inc. of our report dated March 18, 2019, with respect to the consolidated statements of income, comprehensive income, stockholders' equity, and cash flows of WageWorks, Inc. (the "Company") for the year ended December 31, 2016, appearing in this Current Report on Form 8-K of HealthEquity, Inc.

/s/ Macias, Gini & O'Connell, LLP

Newport Beach, California

July 8, 2019

**EXHIBIT 99.1**

**WageWorks, Inc. and Subsidiaries**
**Index to Consolidated Financial Statements**


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## Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors
WageWorks, Inc.
San Mateo, California

**Opinion on the Consolidated Financial Statements**

We have audited the accompanying consolidated balance sheets of WageWorks, Inc. (the “Company”) and subsidiaries as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, stockholders’ equity, and cash flows for each of the two years in the period ended December 31, 2018, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries at December 31, 2018 and 2017, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) and our report dated May 29, 2019 expressed an adverse opinion thereon.

**Change in Accounting Principles**

As discussed in Notes 1 and 2 to the consolidated financial statements, the Company has changed its accounting method for recognizing revenue from contracts with customers in fiscal year 2018 due to the adoption of Topic 606, Revenue from Contracts with Customers.

As discussed in Notes 1 and 14 to the consolidated financial statements, the Company has changed its accounting method for recording excess tax benefits from employee share-based payments in fiscal year 2017 due to the adoption of ASU 2016-09, Improvement to Employee Share-Based Payment Accounting.

**Basis for Opinion**

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ BDO USA, LLP

We have served as the Company’s auditor since 2018.
San Jose, California
May 29, 2019

## Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors
WageWorks, Inc.
San Mateo, California

**Opinion on Internal Control over Financial Reporting**

We have audited WageWorks, Inc.'s (the "Company's") internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework(2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). In our opinion, the Company did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

We do not express an opinion or any other form of assurance on management's statements referring to any corrective actions taken by the Company after the date of management's assessment.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company and subsidiaries as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2018, and the related notes (collectively referred to as "the financial statements") and our report dated May 29, 2019 expressed an unqualified opinion thereon.

**Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Item 9A, Management's Report on Internal Control over Financial Reporting". Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of internal control over financial reporting in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. Several material weaknesses regarding management's failure to design and maintain controls have been identified and described in management's assessment. The material weaknesses related to 1) the control environment, due to material weaknesses related to a) an inadequate or ineffective senior accounting leadership, b) an insufficient complement of qualified resources with an appropriate level of knowledge, experience and training important to the Company's financial reporting requirements, c) inadequate mechanisms and oversight to ensure accountability for the performance of controls; 2) risk assessment, as the Company did not have an adequate assessment of changes in risks by management that could significantly impact internal control over financial reporting and did not effectively design controls in response to the risks of material misstatement; 3) control activities and information and communication, specifically between the accounting department and other operating departments necessary to support the proper functioning of internal controls; and 4) monitoring controls, as the Company did not maintain an internal audit function sufficient to monitor control activities. The control environment material weaknesses contributed to additional material weaknesses in the control activities of the Company as the Company did not design and maintain effective controls over a) accounting close and financial reporting; b) contract to cash process, c) risk assessment and management of change, as well as the review, approval, and documentation related to the application of generally accepted accounting principles, d) review of new, unusual or significant transactions and contracts, e) manual reconciliations of high-volume standard transactions, and f) information technology general controls (ITGCs) in the areas of logical access and change management. The risk assessment material weakness contributed to an additional material weakness as the

Company did not design effective controls over certain business processes, including controls over the preparation, analysis, and review of closing adjustments required to assess the appropriateness of certain account balances at period end.

These material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2018 consolidated financial statements, and this report does not affect our report dated May 29, 2019 on those consolidated financial statements.

**Definition and Limitations of Internal Control over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ BDO USA, LLP

San Jose, California

May 29, 2019

## Report of Independent Registered Public Accounting Firm

To The Board of Directors and Stockholders
WageWorks, Inc.

### Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of income, comprehensive income, stockholders' equity, and cash flows of WageWorks, Inc. (the "Company") and subsidiaries for the year ended December 31, 2016, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the results of operations of the Company and subsidiaries and their cash flows for the year ended December 31, 2016**,** in conformity with accounting principles generally accepted in the United States of America.

### Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. We were not engaged to perform an audit of the Company's internal control over financial reporting. As part of our audit, we were required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ Macias, Gini & O'Connell, LLP
We have served as the Company's auditor since 2018.
Newport Beach, California
March 18, 2019

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**WAGEWORKS, INC.**
**Consolidated Balance Sheets**
**(In thousands, except per share amount)**

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 898,426 | $ 779,345 |
| Restricted cash | 333 | 332 |
| Short-term investments | 222,205 | 195,534 |
| Receivables, net | 101,297 | 107,547 |
| Prepaid expenses and other current assets | 23,662 | 29,271 |
| Total current assets | 1,245,923 | 1,112,029 |
| Property and equipment, net | 76,920 | 68,742 |
| Goodwill | 297,409 | 297,409 |
| Acquired intangible assets, net | 130,095 | 155,369 |
| Deferred tax assets, net | 1,482 | 10,143 |
| Other assets | 33,324 | 8,291 |
| **Total assets** | **$ 1,785,153** | **$ 1,651,983** |
| **Liabilities and Stockholders' Equity** | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | $ 99,854 | $ 89,977 |
| Customer obligations | 762,100 | 695,368 |
| Other current liabilities | 1,757 | 628 |
| Total current liabilities | 863,711 | 785,973 |
| Long-term debt, net of financing costs | 244,693 | 244,915 |
| Other non-current liabilities | 11,608 | 8,845 |
| Total liabilities | 1,120,012 | 1,039,733 |
| Commitments and contingencies (Note 15) | | |
| Stockholders' Equity: | | |
| Common stock, $0.001 par value (authorized 1,000,000 shares; 40,333 shares issued and 39,853 shares outstanding at December 31, 2018; 40,251 shares issued and 39,771 shares outstanding at December 31, 2017) | 41 | 41 |
| Additional paid-in capital | 582,521 | 562,131 |
| Treasury stock at cost (480 shares at December 31, 2018 and 2017) | (22,309) | (22,309) |
| Accumulated other comprehensive loss | (754) | (354) |
| Retained earnings | 105,642 | 72,741 |
| Total stockholders' equity | 665,141 | 612,250 |
| **Total liabilities and stockholders' equity** | **$ 1,785,153** | **$ 1,651,983** |

See accompanying Notes to the Consolidated Financial Statements.

**WAGEWORKS, INC.**
**Consolidated Statements of Income**
**(In thousands, except per share amounts)**

| | Year Ended December 31, 2018 | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| **Revenues:** | | | |
| Healthcare | $ 274,861 | $ 274,815 | $ 195,108 |
| COBRA | 106,161 | 111,607 | 73,765 |
| Commuter | 75,936 | 72,874 | 70,215 |
| Other | 15,226 | 16,799 | 16,473 |
| Total revenues | 472,184 | 476,095 | 355,561 |
| **Operating expenses:** | | | |
| Cost of revenues (excluding amortization of internal use software) | 154,804 | 173,661 | 129,046 |
| Technology and development | 53,079 | 56,362 | 44,719 |
| Sales and marketing | 73,092 | 64,111 | 57,083 |
| General and administrative | 101,577 | 72,150 | 60,324 |
| Amortization and impairment | 41,456 | 37,890 | 37,175 |
| Employee termination and other charges | 3,792 | 1,489 | 1,147 |
| Total operating expenses | 427,800 | 405,663 | 329,494 |
| Income from operations | 44,384 | 70,432 | 26,067 |
| **Other income (expense):** | | | |
| Interest income | 5,849 | 1,147 | 406 |
| Interest expense | (10,087) | (7,293) | (2,717) |
| Other income (expense), net | (31) | (316) | 1,075 |
| Income before income taxes | 40,115 | 63,970 | 24,831 |
| Income tax provision | (14,145) | (9,583) | (8,929) |
| **Net income** | **$ 25,970** | **$ 54,387** | **$ 15,902** |
| Net income per share: | | | |
| Basic | $ 0.65 | $ 1.41 | $ 0.44 |
| Diluted | $ 0.64 | $ 1.38 | $ 0.43 |
| Shares used in computing net income per share: | | | |
| Basic | 39,846 | 38,447 | 36,404 |
| Diluted | 40,434 | 39,415 | 37,210 |

See accompanying Notes to the Consolidated Financial Statements.

**WAGEWORKS, INC.**
**Consolidated Statements of Comprehensive Income**
**(In thousands)**

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| **Net income** | $ 25,970 | $ 54,387 | $ 15,902 |
| **Other comprehensive loss, net of tax** | | | |
| Net unrealized loss on investments, net of tax | (400) | (354) | — |
| Other comprehensive loss, net of tax | (400) | (354) | — |
| **Total comprehensive income** | **$ 25,570** | **$ 54,033** | **$ 15,902** |

See accompanying Notes to the Consolidated Financial Statements.

**WAGEWORKS, INC.**
**Consolidated Statements of Stockholders' Equity**
**(In thousands)**

| | Common stock | | Additional paid-in capital | Treasury stock at cost | Accumulated other comprehensive loss | Retained earnings (accumulated deficit) | Total stockholders' equity |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | | | | | |
| Balance at Balance at December 31, 2015 | 35,936 | $ 36 | $ 343,166 | $ (5,003) | $ — | $ (1,230) | $ 336,969 |
| Exercise of stock options | 926 | 1 | 16,069 | — | — | — | 16,070 |
| Issuance of common stock under Employee Stock Purchase Plan | 53 | — | 2,194 | — | — | — | 2,194 |
| Issuance of restricted stock units, net of shares withheld for employee taxes | 213 | — | (6,108) | — | — | — | (6,108) |
| Tax benefit from the exercise of stock options | — | — | 14,806 | — | — | — | 14,806 |
| Treasury stock acquired | (226) | — | — | (9,371) | — | — | (9,371) |
| Stock-based compensation | — | — | 27,180 | — | — | — | 27,180 |
| Net income | — | — | — | — | — | 15,902 | 15,902 |
| Balance at December 31, 2016 | 36,902 | $ 37 | $ 397,307 | $ (14,374) | $ — | $ 14,672 | $ 397,642 |
| Exercise of stock options | 810 | 2 | 14,267 | — | — | — | 14,269 |
| Public stock offering, net of issuance costs | 1,955 | 2 | 130,787 | — | — | — | 130,789 |
| Issuance of common stock under Employee Stock Purchase Plan | 48 | — | 2,681 | — | — | — | 2,681 |
| Issuance of restricted stock units, net of shares withheld for employee taxes | 191 | — | (9,019) | — | — | — | (9,019) |
| Treasury stock acquired | (135) | | — | (7,935) | — | — | (7,935) |
| Stock-based compensation | — | — | 25,649 | — | — | — | 25,649 |
| Capitalized stock-based compensation | — | — | 459 | — | — | — | 459 |
| Other comprehensive loss, net of tax | — | — | — | — | (354) | — | (354) |
| Excess tax benefit cumulative-effect adjustment - adoption ASU 2016-09 | — | — | — | — | — | 3,682 | 3,682 |
| Net income | — | — | — | — | — | 54,387 | 54,387 |
| Balance at December 31, 2017 | 39,771 | $ 41 | $ 562,131 | $ (22,309) | $ (354) | $ 72,741 | $ 612,250 |
| Exercise of stock options | 54 | — | 1,395 | — | — | — | 1,395 |
| Issuance of common stock under Employee Stock Purchase Plan | 18 | — | 869 | — | — | — | 869 |
| Issuance of restricted stock units, net of shares withheld for employee taxes | 10 | — | (281) | — | — | — | (281) |
| Stock-based compensation | — | — | 18,088 | — | — | — | 18,088 |
| Capitalized stock-based compensation | — | — | 319 | — | — | — | 319 |
| Other comprehensive loss, net of tax | — | — | — | — | (400) | — | (400) |
| ASC 606 cumulative-effect adjustment (Note 2) | — | — | — | — | — | 6,931 | 6,931 |
| Net income | — | — | — | — | — | 25,970 | 25,970 |
| Balance at December 31, 2018 | 39,853 | $ 41 | $ 582,521 | $ (22,309) | $ (754) | $ 105,642 | $ 665,141 |

See accompanying Notes to the Consolidated Financial Statements.

**WAGEWORKS, INC.**
**Consolidated Statements of Cash Flows**
**(In thousands)**

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| **Cash flows from operating activities:** | | | |
| Net income | $ 25,970 | $ 54,387 | $ 15,902 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation | 14,011 | 11,384 | 8,696 |
| Amortization and impairment | 41,456 | 37,889 | 37,175 |
| Amortization of debt issuance costs | 578 | 418 | 159 |
| Amortization of contract costs | 2,844 | — | — |
| Provision for doubtful accounts | 1,034 | 558 | 947 |
| Stock-based compensation expense | 18,088 | 25,649 | 27,180 |
| Loss on disposal of fixed assets | 306 | 123 | 273 |
| Accrued interest on debt securities | (493) | (237) | — |
| Deferred taxes | 6,408 | 9,336 | (5,853) |
| Excess tax benefit related to stock-based compensation arrangements | — | — | (14,806) |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | 5,216 | (14,692) | (22,088) |
| Prepaid expenses and other current assets | 5,609 | (9,514) | 7,901 |
| Other assets | (18,558) | (3,145) | (699) |
| Accounts payable and accrued expenses | 8,276 | 17,387 | 9,488 |
| Customer obligations | 66,732 | 86,988 | 207,559 |
| Other liabilities | 1,178 | 1,278 | (2,892) |
| **Net cash provided by operating activities** | 178,655 | 217,809 | 268,942 |
| **Cash flows from investing activities:** | | | |
| Purchases of property and equipment | (33,535) | (36,787) | (28,319) |
| Purchases of short-term investments | (157,672) | (208,656) | — |
| Proceeds from sales of short-term investments | 16,049 | 5,398 | — |
| Proceeds from maturities of short-term investments | 114,910 | 7,500 | — |
| Cash consideration for business acquisitions, net of cash acquired | — | — | (233,965) |
| Purchases of intangible assets | (209) | (4,658) | (21,120) |
| **Net cash used in investing activities** | (60,457) | (237,203) | (283,404) |
| **Cash flows from financing activities:** | | | |
| Proceeds from long-term debt | — | — | 169,900 |
| Proceeds from public stock offering | — | 135,387 | — |
| Payment of underwriting discounts, commissions and other costs associate with the public offering | — | (4,598) | — |
| Proceeds from exercise of common stock options | 1,395 | 14,267 | 16,070 |
| Proceeds from issuance of common stock under Employee Stock Purchase Plan | 869 | 2,681 | 2,194 |
| Payment of debt issuance / amendment costs | (800) | (1,851) | (207) |
| Payments of debt principal | — | (2,500) | — |
| Payment of contingent consideration | — | — | (750) |
| Payment for treasury stock acquired | — | (7,935) | (9,371) |
| Payment of capital lease obligations | (299) | (302) | (381) |
| Taxes paid related to net share settlement of stock-based compensation arrangements | (281) | (9,019) | (6,108) |
| Excess tax benefit related to stock-based compensation arrangements | — | — | 14,806 |
| **Net cash provided by financing activities** | 884 | 126,130 | 186,153 |
| Net increase in cash and cash equivalents, unrestricted and restricted | 119,082 | 106,736 | 171,691 |
| Cash and cash equivalents, unrestricted and restricted, at beginning of the year | 779,677 | 672,941 | 501,250 |
| **Cash and cash equivalents, unrestricted and restricted, at end of the year** | **$ 898,759** | **$ 779,677** | **$ 672,941** |
| **Supplemental cash flow disclosure:** | | | |
| Cash paid during the year for: | | | |
| Interest | $ 8,859 | $ 6,462 | $ 1,825 |
| Taxes | $ 2,412 | $ 2,958 | $ 5,534 |
| **Noncash financing and investing activities:** | | | |
| Property and equipment, accrued but not paid | $ 4,472 | $ 2,325 | $ 2,412 |
| Property and equipment purchased under capital lease obligations | $ 142 | $ 263 | $ 835 |
| Capitalized stock-based compensation | $ 319 | $ 459 | $ — |

See accompanying Notes to the Consolidated Financial Statements.

## Note 1. Summary of Business and Significant Accounting Policies

***Business***

WageWorks, Inc., (together with its subsidiaries, "WageWorks" or the "Company") was incorporated in the state of Delaware in 2000. The Company is a leader in administering Consumer-Directed Benefits ("CDBs"), which empower employees to save money on taxes while also providing corporate tax advantages for employers.

The Company operates as a single reportable segment on an entity level basis, and considers itself to operate under one operating and reporting segment with healthcare, transit and other employer sponsored programs representing a group of similar products lines. The Company believes that it engages in a single business activity and operates in a single economic environment.

***Principles of Consolidation***

The consolidated financial statements include the accounts of WageWorks, Inc., and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

***Use of Estimates***

In preparing the consolidated financial statements and related disclosure in conformity with United States ("U.S.") generally accepted accounting principles ("GAAP"), including all adjustments as a result of the Company's restatement, and pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"), the Company must make estimates and judgments that affect the amounts reported in the consolidated financial statements and accompanying notes. Estimates are used for, but not limited to allocation of purchase consideration to acquired assets and liabilities from business combinations, revenue recognition, allowances for doubtful accounts, useful lives for depreciation and amortization, loss contingencies, income taxes, the assumptions used for stock-based compensation including attainment of performance-based awards, the assumptions used for software and web site development cost classification, and recoverability and impairments of goodwill and long-lived assets. Actual results may be materially different from those estimates. In making its estimates, the Company considers the current economic and legislative environment.

***Cash, Cash Equivalents, and Restricted Cash***

The Company considers all highly liquid investments with an original maturity of 90 days or less to be cash equivalents. Cash and cash equivalents consist of cash on deposit with banks and money market funds, stated at cost, as well as commercial paper with an original maturity of less than 90 days as further described under Marketable Securities below. To the extent the Company's contracts do not provide for any restrictions on the Company's use of cash that it receives from clients, the cash is recorded as cash and cash equivalents.

The majority of the Company's cash and cash equivalents represent funding and pre-funding balances received from customers for which the Company has a corresponding current obligation. In all cases where we have collected cash from a customer but not fulfilled services (primarily the payment of participant healthcare claims and commuter benefits), the Company recognizes a related liability to its customers, classified as customer obligations in the accompanying consolidated balance sheets.

Restricted cash represents cash used to collateralize standby letters of credit which were issued to the benefit of a third party to secure a contract with the Company.

The following table summarizes the Company’s cash and cash equivalents at December 31, 2018 and 2017 (in thousands):

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Cash and cash equivalents, unrestricted | $ 898,426 | $ 779,345 |
| Cash and cash equivalents, restricted | 333 | 332 |
| Total unrestricted and restricted cash and cash equivalents | $ 898,759 | $ 779,677 |

***Marketable Securities***

The Company determines the classification of its investments in marketable securities at the time of purchase and accounts for them as available-for-sale. Marketable securities of highly liquid investments with stated maturities of three months or less when purchased are classified as cash equivalents and those with stated maturities of between three months and one year as short-term investments. Marketable securities with maturities beyond twelve months are also included in short-term investments within current assets as the Company intends for its investments to support current operations and other strategic initiatives. These securities are reported at fair value, which includes the accrued interest of interest-bearing securities. Unrealized gains and losses, net of taxes, are included in accumulated other comprehensive loss as a component of stockholders’ equity, except for unrealized losses determined to be other-than-temporary which will be recorded within other income (expense). Realized gains and losses on the sale of marketable securities are recorded in other income (expense).

***Fair Value of Financial Instruments***

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and we consider counterparty credit risk in our assessment of fair value. Carrying amounts of financial instruments, including cash equivalents, accounts receivable, accounts payable, and accrued liabilities, approximate their fair values as of the balance sheet dates because of their short maturities. The carrying value of the Company’s debt under the credit facility is estimated to approximate fair value as the variable interest rate approximates the market rate for debt securities with similar terms and risk characteristics. The determination of the fair value of the Company’s marketable securities is further explained in Note 5 Investments and Fair Value Measurements.

The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Company determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.
- Level 2 Inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 Inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

***Receivables***

Receivables represent both trade receivables from customers in relation to fees for the Company's services and unpaid amounts for benefit services provided by third-party vendors, such as transit agencies and healthcare providers for which the Company records a receivable for funding until the payment is received from the customer and a corresponding customer obligations liability until the Company disburses the balances to the vendors. The Company provides for an allowance for doubtful accounts by specifically identifying accounts with a risk of collectability and providing an estimate of the loss exposure. The Company reviews its allowance for doubtful accounts on a quarterly basis. Account balances are written off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Write-offs for 2018, 2017 and 2016 were not significant.

The Company offsets on a customer by customer basis unpaid amounts for benefit services and customer obligation balances for financial reporting presentation. Additionally, the Company offsets outstanding trade and non-trade receivables, including any debit or credit memos, against any prefund balances after plan year close or upon termination of services both based on the completion of a full reconciliation with the customer.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation on computer and equipment and furniture and fixtures is calculated on a straight-line basis over the estimated useful lives of those assets, ranging from three to five years. Leasehold improvements are amortized on a straight-line basis over the shorter of their estimated useful life or the lease term. When events or circumstances suggest an asset's life is different than initially estimated, management reassesses the useful life of the asset and recognizes future depreciation prospectively over the revised life.

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation / amortization are removed from their respective accounts, and any gain or loss on such sale or disposal is reflected in operating expenses.

Maintenance and repairs are expensed as incurred. Expenditures that substantially increase an asset's useful life are capitalized.

***Software and Website Development Costs***

Costs incurred to develop software for internal use are capitalized and amortized over the technology's estimated useful life, generally four years. When events or circumstances suggest an asset's life is different than initially estimated, management reassesses the useful life of the asset and recognizes future amortization prospectively over the revised life. Costs incurred related to the planning and post implementation phases of development are expensed as incurred. Costs associated with the platform content or the repair or maintenance, including transfer of data between existing platforms are expensed as incurred.

***Impairment of Long-lived Assets***

The Company reviews long-lived assets for indicators of impairment whenever events or changes in circumstances indicate that the carrying amounts of such assets may not be recoverable. An impairment of long-lived assets exists when the carrying amount of a long-lived asset group, exceeds its fair value. Such impairment arises in circumstances when such assets are assessed and determined to have no continuing or future benefit. Impairment losses are recorded when the carrying amount of the impaired asset group is not recoverable. Recoverability is determined by comparing the carrying amount of the asset or asset group to the undiscounted cash flows which are expected to be generated from its use. If the carrying amount of the asset group exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset or asset group exceeds its fair value. The Company did not record impairment losses related to long-lived assets in the years ended December 31,2018 and 2017. The company recorded impairment of $3.7 million during the year ended December 31, 2016. See Note 7 Property and Equipment for more details.

***Acquisitions, Goodwill and Intangible Assets***

The cost of an acquisition is allocated to the tangible and intangible assets acquired and liabilities assumed based on their fair values at the date of acquisition. Goodwill represents the excess cost over the fair value of net assets acquired in the acquisition and is not amortized, but rather is tested for impairment.

Definite lived intangible assets, consisting of client/broker contracts and relationships, trade names, technology, noncompete agreements and favorable lease arrangements, are stated at cost less accumulated amortization. All definite lived intangible assets are amortized on a straight-line basis over their estimated remaining economic lives, ranging generally from one to ten years. Amortization expense related to these intangible assets is included in amortization and impairment expense on the consolidated statements of income.

The Company performs a goodwill impairment test annually, and more frequently if events and circumstances indicate that the asset might be impaired. In 2018, we changed the date of our annual impairment test from December 31 to October 1. The change was made to more closely align the impairment testing date with our long-range planning and forecasting process, and does not represent a material change to a method of applying an accounting principle. The change in accounting principle related to changing our annual impairment testing date did not delay, accelerate, or avoid an impairment charge.

The following are examples of triggering events that could indicate that the fair value of a reporting unit has fallen below the unit's carrying amount:

- A significant adverse change in legal factors or in the business climate
- An adverse action or assessment by a regulator
- Unanticipated competition
- A loss of key personnel
- A more likely than-not expectation that a reporting unit or a significant portion of a reporting unit will be sold or otherwise disposed of

An impairment loss is recognized to the extent that the carrying amount exceeds the reporting unit's fair value. When reviewing goodwill for impairment, the Company assesses whether goodwill should be allocated to operating levels lower than the Company's single operating segment for which discrete financial information is available and reviewed for decision-making purposes. These lower levels are referred to as reporting units. The Company's chief operating decision maker, the Chief Executive Officer, does not allocate resources or assess performance at the individual healthcare, commuter, COBRA or other revenue stream level, but rather at the operating segment level. The Company's one reporting unit was determined to be the Company's one operating segment.

Whenever events or circumstances change, entities have the option to first make a qualitative evaluation about the likelihood of goodwill impairment. In assessing the qualitative factors, the Company assesses relevant events and circumstances that may impact the fair value and the carrying amount of the reporting unit. The identification of relevant events and circumstances and how these may impact a reporting unit's fair value or carrying amount involve significant judgments and assumptions. The judgment and assumptions include the identification of macroeconomic conditions, industry and market considerations, overall financial performance, Company specific events and share price trends and making the assessment on whether each relevant factor will impact the impairment test positively or negatively and the magnitude of any such impact.

The goodwill impairment analysis is a two-step process: first, the reporting unit's estimated fair value is compared to its carrying value, including goodwill. If the Company determines that the estimated fair value of the reporting unit is less than its carrying value, the Company moves to the second step to determine the implied fair value of the reporting unit's goodwill. If the carrying amount of the reporting unit's goodwill exceeds its implied fair value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of the reporting unit.

If impairment is deemed more likely than not, management would perform the two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. At October 1, 2018 and December 31, 2017, the Company completed its annual goodwill impairment assessments and management concluded that goodwill is not impaired. There were no events or changes in circumstances during the three months ended December 31, 2018 that caused the Company to perform an interim impairment assessment.

***Income Taxes***

The Company reports income taxes using an asset and liability approach. Deferred tax assets and liabilities arise from the differences between the tax basis of an asset or liability and its reported amount in the consolidated financial statements, as well as from net operating loss and tax credit carryforwards. Deferred tax amounts are determined by using the tax rates expected to be in effect when the taxes will actually be paid or refunds received, as provided under current enacted tax law. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance reduces the deferred tax assets to the amount that is more likely than not to be realized.

The Company records a valuation allowance to reduce the deferred tax assets to the amount that the Company believes is more likely than not to be realized based on its judgment of all available positive and negative evidence. The weight given to the potential effect of negative and positive evidence is commensurate with the extent to which the strength of the evidence can be objectively verified. This assessment, which is completed on a taxing jurisdiction basis, takes into account a number of types of evidence, including the following:

- The nature and history of current or cumulative financial reporting income or losses;
- Sources of future taxable income;
- The anticipated reversal or expiration dates of the deferred tax assets; and
- Tax planning strategies.

The Company takes a two-step approach to recognizing and measuring the financial statement benefit of uncertain tax positions. The first step is to evaluate the tax position for recognition by determining whether the weight of available evidence indicates that it is more likely than not that the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement of the audit. The Company classifies interest and penalties on unrecognized tax benefits as income tax expense or benefit.

***Customer Obligations Liability***

Many of our customer agreements include provisions whereby our customer remit funds to us which represent prefunds of employer / client and employee participant contributions related to FSA, HRA and commuter programs. The agreements do not represent restricted cash and accordingly the amounts received are included in cash and cash equivalents on our consolidated balance sheets with a corresponding liability recorded as customer obligations. Our customers generally provide us with prefunds for their FSA and HRA programs based on a percentage of projected spending by the employee participants for the plan year and other factors. In the case of our commuter program, at the beginning of each month we receive prefunds based on the employee participants' monthly elections. These prefunds are typically replenished throughout the year by our FSA, HRA and commuter clients as benefits are provided under these programs.

The Company offsets on a customer by customer basis non-trade accounts receivable and customer obligation balances for financial reporting presentation. Additionally, the Company offsets outstanding trade and non-trade receivables, including any debit or credit memos, against any prefund balances after plan year close or upon termination of services both based on the completion of a full reconciliation with the customer.

***Revenue Recognition***

*Policy from January 1, 2018*

On January 1, 2018, we adopted the requirements of Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASC 606") as discussed further in Recently Adopted Accounting Pronouncements below. ASC 606 establishes a principle for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected

consideration received in exchange for those goods or services. ASC 606 also includes Subtopic 340-40, Other Assets and Deferred Costs-Contracts with Customers, which requires the deferral of incremental costs of obtaining a contract with a customer. Collectively, references to ASC 606 used herein refer to both ASC 606 and Subtopic 340-40.

We account for revenue contracts with customers by applying the requirements of ASC 606, which include the following steps:

- Identification of the contract, or contracts, with the customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of the revenue when, or as, the Company satisfies a performance obligation.

Our revenues are derived primarily from benefit service administration, interchange fees, commissions revenue, and other revenue. Other revenue includes services related to enrollment and eligibility, non-healthcare, and employee account administration (i.e., tuition and health club reimbursements) and project-related professional services. We account for individual products and services separately if they are distinct-that is, if a product or service is separately identifiable from other items in the contract and if a customer can benefit from it on its own or with other resources that are readily available to the customer.

We account for a contract with a customer when there is approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable. We measure revenue based on the consideration specified in the contract with each customer, net of any sales incentives and taxes collected on behalf of government authorities. To the extent the transaction price includes variable consideration, and we are unable to apply the variable consideration allocation exception, we estimate the amount of variable consideration that should be included in the transaction price utilizing the expected value method based on term of billing arrangements and historical data. We recognize revenue in a manner that best depicts the transfer of promised goods or services to the customer, when control of the product or service is transferred to a customer. We make significant judgments when determining the appropriate timing of revenue recognition.

Based upon similar operational and economic characteristics, the Company’s revenues are disaggregated into Healthcare, Commuter, COBRA and Other revenue. The Company believes these revenue categories depict how the nature, amount, timing, and uncertainty of its revenue and cash flows are affected by economic factors.

- Healthcare and commuter programs include revenues generated from the monthly administration services based on employee participant levels and interchange and other commission revenues.
- COBRA revenue is generated from the administration of continuation of coverage services for participants who are no longer eligible for the employer’s health benefits, such as medical, dental, vision and for the continued administration of employee participants’ Health Reimbursement Arrangements (“HRAs”), and certain healthcare Flexible Spending Accounts (“FSAs”).
- Other revenue includes services related to enrollment and eligibility, non-healthcare, employee account administration (i.e., tuition and health club reimbursements).

Within our Healthcare and Commuter service lines, we have determined that our administration services are a single continuous service comprised of a series of distinct services that are substantially the same and that have the same pattern of transfer (i.e. distinct days of service). These services are consumed as they are received and the Company recognizes service revenue over time on a monthly basis as it satisfies its performance obligations. As such, the Company recognizes revenue in each month for the administration services provided in that month using the variable consideration allocation exception. The Company applies this exception because it concluded that the nature of its obligations and the variable payment terms are aligned and the uncertainty related to the consideration is resolved

on a monthly basis as the Company satisfies its obligations. The administration services are typically billed in the period in which services are performed.

COBRA requires employers to make health coverage available for terminated employees for a period of up to 36 months post-termination. Similar to our Healthcare and Commuter service lines, our COBRA administration services are a single continuous service. These services are consumed as they are received and the Company recognizes service revenue over time on a monthly basis as it satisfies its performance obligations. As such, the Company recognizes revenue in each month for the COBRA administration services provided in that month using the variable consideration allocation exception. The administration services are typically billed in the period in which services are performed.

We also recognize revenues that are generated from the use of debit cards used by employee participants related to the distribution, management and monitoring of such cards which are used by participants in connection with our benefits administration services for Healthcare and Commuter service lines. These related fees are known as interchange fees and are based upon a percentage of the amounts transacted on each card. We have determined that our performance obligation for interchange is a single continuous service, which is satisfied over time each month. Therefore, we recognize interchange revenue on a monthly basis based on the services provided and use the variable consideration allocation exception. The interchange revenues are typically billed in the period in which services are performed.

Professional services revenue consists of fees related to services provided to the Company’s employer clients to accommodate their reporting or administrative requirements. We recognize revenue from professional services as the services are performed or upon written acceptance from customers, if applicable, or acceptance provisions have lapsed assuming all other conditions for revenue recognition noted above have been met.

***Contract Assets*** Contract assets include amounts related to our enforceable right to consideration for completed performance obligations not yet invoiced. The contract assets are transferred to the receivables balance when the rights become unconditional.

***Contract Liabilities*** Contract liabilities are recorded as deferred revenues and include payments received in advance of performance under the contract. We generally invoice our customers for services as they are provided on a monthly basis, however in limited instances we may invoice in advance of services to be provided. Contract liabilities are recognized as revenue when the services are provided to the customer. Contract liabilities that are anticipated to be recognized during the succeeding twelve-month period are recorded as current deferred revenue and the remaining portion is recorded as noncurrent.

***Contract Costs*** ASC 606 requires the recognition of an asset for the incremental costs of obtaining a contract with a customer if the entity expects to recover such costs. Incremental costs are costs that would not have been incurred if the contract had not been obtained. Examples of contract costs are commissions paid to sales personnel. Sales commissions earned by the Company’s sales force are considered incremental and recoverable costs of obtaining a contract with a customer. Sales commissions for initial contracts are deferred and then amortized on a straight-line basis over a period of benefit that has been determined to be six years which approximates the transfer of benefits to customers. The Company determined the period of benefit by taking into consideration the length of customer contracts, useful life of developed technology, regulatory oversight the Company is subject to, and other factors. Amortization expense is included in sales and marketing expenses in the Consolidated Statements of Income.

*Revenue Recognition Policy before January 1, 2018*

The Company recognizes revenue when collectability is reasonably assured, service has been performed, persuasive evidence of an arrangement exists, and there is a fixed or determinable fee.

Benefit service fees are recognized on a monthly basis as services are rendered and earned under service arrangements where fees and commissions are fixed or determinable and collectability is reasonably assured. Benefit service fees are based on a fee for service model (e.g., monthly fee per participant) in which revenue is recognized on a monthly basis as services are rendered under price quotations or service agreements having stipulated terms and conditions, which do not require management to make any significant judgments or assumptions regarding any potential uncertainties.

Vendor and bank interchange revenues are attributed to revenue sharing arrangements the Company enters into with certain banks and card associations, whereby the Company shares a portion of the transaction fees earned by these financial institutions on debit cards the Company issues to its employee participants based on a percentage of total dollars transacted as reported on third-party reports.

Cost of revenue is presented on an aggregate basis because the Company provides for services at the client level and not by product.

***Stock-based Compensation***

Stock-based compensation expense is estimated at the grant date based on the award's fair value as calculated by the Black-Scholes or Monte Carlo option pricing model or the market value of the Company's stock on the grant date and is recognized as an expense over the requisite service period, which is generally the vesting period. The determination of the fair value of stock-based awards on the date of grant using an option pricing model is affected by our stock price as well as assumptions regarding a number of complex and subjective variables. These variables include the estimated volatility over the expected term of the awards, actual and projected employee stock option exercise behaviors, risk-free interest rates, estimated forfeitures, and expected dividends.

Restricted Stock Units ("RSUs"), Market-based performance RSUs, and Performance-based Stock Units ("PSUs") are measured based on the fair market values of the underlying stock on the dates of grant. The vesting of PSUs awarded is conditioned upon the attainment of performance objectives over a specified period and upon continued employment through the applicable vesting date. At the end of the performance period, shares of stock subject to PSUs vest based upon both the level of achievement of performance objectives within the performance period and continued employment through the applicable vesting date.

Stock-based compensation expense is calculated based on awards ultimately expected to vest and is reduced for estimated forfeitures at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The estimated annual forfeiture rates for stock options, RSUs, and PSUs are based on historical forfeiture experience.

The estimated fair value of stock options and RSUs are expensed on a straight-line basis over the vesting term of the grant and the estimated fair value of PSUs are expensed using an accelerated method over the term of the award once management has determined that it is probable that the performance objective will be achieved. Compensation expense is recorded over the requisite service period based on management's best estimate as to whether it is probable that the shares awarded are expected to vest. Management assesses the probability of the performance milestones being met on a continuous basis.

We estimate expected volatility based on the historical volatility of comparable companies from a representative peer-group as well as our own historical volatility. We estimate the expected term based on historical experience, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior such as exercises and forfeitures. We base the risk-free interest rate on zero-coupon yields implied from U.S. Treasury issues with remaining terms similar to the expected term of the options. We do not anticipate paying any cash dividends in the foreseeable future, and therefore, used an expected dividend yield of zero in the option pricing model. We estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. The estimated attainment of performance-based awards and related expense is based on the expectations of revenue and earnings before interest, tax and depreciation and amortization ("EBITDA") target achievement over a specified three year performance period. If we use different assumptions for estimating stock-based compensation expense in future periods, or if actual forfeitures differ materially from our estimated forfeitures, future stock-based compensation expense may differ significantly from what we have recorded in the current period and could materially affect our income from operations, net income and net income per share.

***Other Comprehensive Loss***

Other comprehensive loss includes certain changes in equity that are excluded from net income. As of December 31, 2018, accumulated other comprehensive loss includes a $1.0 million unrealized loss, net of $0.2 million of income taxes, related to unrealized gains/losses on marketable securities.

***Recent Accounting Pronouncements***

***Recently Adopted Accounting Guidance***

In March 2016, the FASB Issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting.* The new guidance requires excess tax benefits and tax deficiencies to be recorded in the income statement when an award vests or are settled. In addition, cash flows related to excess tax benefits will no longer be separately classified as financing activity but should be classified as operating activities. The standard also increases the amount of shares an employer can withhold for tax purposes without triggering liability

accounting, clarifies that all cash payments made on employee's behalf for withheld shares should be presented as a financing activity in the statements of cash flows, and provides an entity-wide accounting policy election to account for forfeitures as they occur.

The Company adopted this standard during the first quarter of 2017. As required by the standard, excess tax benefits recognized on stock-based compensation expense were reflected in our consolidated statements of income as a component of the provision for income taxes rather than additional paid-in capital on a prospective basis. The cumulative effect of this accounting change resulted in an increase of $3.7 million to deferred tax assets as of December 31, 2017 and an increase to the opening retained earnings of $3.7 million as of January 1, 2017. The Company recorded excess tax benefits in the amount of $0.4 million and $15.8 million within our provision for income taxes in the consolidated statements of income during the years ended December 31, 2018 and 2017, respectively.

For presentation requirements, the Company elected to prospectively apply the change in the presentation of excess tax benefits wherein excess tax benefits recognized on stock-based compensation expense were classified in operating activities on the consolidated statements of cash flows. Prior period classification of cash flows related to excess tax benefits were not adjusted.

The Company elected to retrospectively apply the ASU 2016-09 presentation requirements for cash flows related to employee taxes paid for withheld shares to be presented as financing activities. Consequently, on the consolidated statements of cash flows for the year ended December 31, 2016, the Company reclassified $6.1 million, to increase net cash provided by operating activities and decrease net cash provided by financing activities.

In May 2014, the Financial and Accounting Standards Board ("FASB") issued ASU No. 2014-09, "*Revenue from Contracts with Customers (Topic 606)"*, amending revenue recognition guidance and requiring more detailed disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. ASC 606 is effective for annual and interim reporting periods beginning after December 15, 2017, with early adoption permitted for public companies effective for annual and interim reporting periods beginning after December 15, 2016. We adopted ASC 606 on January 1, 2018 by applying the modified retrospective approach to all contracts that were not completed as of January 1, 2018. Results for the reporting period beginning January 1, 2018 are presented under ASC 606, while prior periods are not adjusted and continue to be reported under the accounting standards in effect for the prior period. We recorded an increase in total assets of $9.3 million and an increase in retained earnings of $6.9 million (net of tax effect) as of January 1, 2018 attributed to the deferral of commission cost. The tax impact resulted in an increase in deferred tax liabilities in the amount of $2.4 million with an offset to retained earnings upon adoption. See Note 2 Revenue for more details.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. ASU No. 2016-18 addresses diversity in practice from entities classifying and presenting transfers between cash and restricted cash as operating, investing or financing activities or as a combination of those activities in the statement of cash flows. The ASU requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the Statement of Cash Flows. As a result, transfers between such categories are no longer be presented in the Statement of Cash Flows. The Company adopted this standard on January 1, 2018 using the retrospective method. This amendment did not have a material impact on the Company's consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, "*Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*." This guidance principally affects accounting standards for equity investments, financial liabilities where the fair value option has been elected, and the presentation and disclosure requirements for financial instruments. Upon the effective date of the new guidance, all equity investments in unconsolidated entities, other than those accounted for using the equity method of accounting, will generally be measured at fair value through earnings. There will no longer be an available-for-sale classification and therefore, no changes in fair value will be reported in other comprehensive income (loss) for equity securities with readily determinable fair values. The Company adopted this standard on January 1, 2018. This amendment did not have a material impact on the Company's consolidated financial statements.

In March 2016, the FASB issued Accounting Standard Update No. 2016-04, *Recognition of Breakage for Certain Prepaid Stored-Value Products* ("ASU 2016-04"). The new guidance creates an exception under ASC 405-20, Liabilities-Extinguishments of Liabilities, to derecognize financial liabilities related to certain prepaid stored-value products using a revenue-like breakage model. The Company adopted this update on January 1, 2018. This amendment did not have a material impact on the Company's consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash flows: Classification of Certain Cash Receipts and Cash Payments*. The update provides specific guidance on a number of cash flow classification issues including contingent consideration payments made after a business combination, proceeds from settlement of insurance claims, proceeds from settlement of corporate-owned life insurance policies, including bank-owned life insurance policies, distributions received from equity method investees and separately identifiable cash flows and application of the predominance principle. The Company adopted this update on January 1, 2018. This amendment did not have a material impact on the Company's consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, *Compensation-Stock Compensation: Scope of Modification Accounting* ("ASU 2017-09"). The update amends the scope of modification accounting for shared-based payment arrangements to specify that modification accounting would not be applicable if the fair value, vesting conditions and classification of the shared-based awards are the same immediately before and after the modification. The Company adopted this update on January 1, 2018. This update did not have a material impact on the Company's consolidated financial statements.

***Recently Issued Accounting Pronouncements***

In February 2016, the FASB, issued ASU, No. 2016-02, *Leases (Topic 842)*, which requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases.

The Company will adopt the standard effective in the first quarter of 2019 and will not restate comparative periods upon adoption under the effective date method. The Company will elect a package of practical expedients for leases that commenced prior to January 1, 2019 and will not reassess: (i) whether any expired or existing contracts are or contain leases; (ii) lease classification for any expired or existing leases; and (iii) initial direct costs capitalization for any existing leases. The Company will make an accounting policy election to keep leases with an initial term of 12 months or less off of the balance sheet. The Company will recognize those lease payments in the consolidated statements of income on a straight-line basis over the lease term.

The Company currently expects that our operating lease commitments will be subject to the new standard and recognized as operating lease liabilities and right-of-use assets upon adoption of Topic 842, which will increase the total assets and total liabilities that were reported relative to such amounts prior to adoption. The Company expects to record a range from $25 million to $40 million of right of use assets and lease liabilities for operating and finance leases in the balance sheet in the first quarter of 2019. Refer to Note 15 for further information on operating lease commitments. The Company plans to adopt Topic 842 using the alternative modified retrospective approach with the cumulative effect of adoption recognized to retained earnings on January 1, 2019. The Company does not believe the new standard will have a material impact on the consolidated statements of income, nor will it have a notable impact on liquidity. The standard will also have no material impact on debt-covenant compliance under our current agreements.

In June 2016, the FASB issued ASU No. 2016-13, "*Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*," which amends the FASB's guidance on the impairment of financial instruments. The ASU adds to GAAP an impairment model (known as the "current expected credit loss model") that is based on expected losses rather than incurred losses. ASU 2016-13 is effective for annual reporting periods ending after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the timing and impact of adoption on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, "*Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.*" The amendments eliminate Step 2 from the goodwill impairment test. The annual, or interim, goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. In addition, income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit should be considered when measuring the goodwill impairment loss, if applicable. The amendments also eliminate the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The new standard is expected to be effective

for fiscal years beginning after December 15, 2019, with early adoption permitted. The Company is currently evaluating the timing and impact of adoption on the Company's consolidated financial statements.

In February 2018, the FASB issued ASU No. 2018-02, *"Income Statement - Reporting Comprehensive Income (Topic 220) - Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income"*. This standard allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act and requires certain disclosures about stranded tax effects and will be effective for the Company beginning January 1, 2019 and should be applied either in the period of adoption or retrospectively. Early adoption is permitted. The Company is currently evaluating the timing and impact of adoption on the Company's consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *"Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement."* The primary focus of ASU 2018-13 is to improve the effectiveness of the disclosure requirements for fair value measurements. The changes affect all companies that are required to include fair value measurement disclosures. In general, the amendments in this standard are effective for all entities for fiscal years and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. The Company is currently evaluating the timing and impact of adoption on the Company's consolidated financial statements.

In November 2018, the FASB issued ASU No. 2018-19, *"Codification Improvements to Topic 326, Financial Instruments-Credit Losses."* ASU 2018-19 clarifies that receivables arising from operating leases are not within the scope of the credit losses standard, but rather, should be accounted for in accordance with the leases standard. In general, the amendments in this standard are effective for public business entities that meet the definition of a SEC filer for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The Company is currently evaluating the timing and impact of adoption on the Company's consolidated financial statements.

## Note 2 Revenue

On January 1, 2018, we adopted ASC 606, applying the modified retrospective method to all contracts that were not completed as of that date. Results for reporting periods beginning after January 1, 2018 are presented under ASC 606, while prior period results are not adjusted and continue to be reported in accordance with Topic 605, Revenue Recognition. We generally invoice our customers at the beginning of the term on a monthly basis with a term of net 30-60 days. We applied the practical expedient provided by ASC 606 and did not evaluate contracts of one year or less for the existence of a significant financing component. Our policy is to exclude sales and other indirect taxes when measuring the transaction price. The primary impact of adopting ASC 606 relates to the deferral of incremental costs of obtaining customer contracts and the amortization of those costs over the period of benefit. We recorded an increase in total assets of $9.3 million and an increase in retained earnings of $6.9 million (net of tax effect) as of January 1, 2018. The tax impact resulted in an increase in deferred tax liabilities in the amount of $2.4 million with an offset to retained earnings upon adoption. The adoption of the preceding standard did not have a material impact on the Company's revenue for the year ended December 31, 2018.

*Disaggregation of Revenue*

The Company's primary categories of revenue are Healthcare, Commuter, COBRA and Other revenue and are disclosed in the consolidated statements of income. The following table provides information about disaggregated revenue from contracts with customers by the nature of the products and services (in thousands):

| | Year ended December 31, | |
|---|---|---|
| **(in thousands)** | **2018** | **2017** |
| Benefit Administration Service and COBRA | $ 401,340 | $ 407,476 |
| Interchange | 50,907 | 50,229 |
| Other revenue | 19,937 | 18,390 |
| Total | $ 472,184 | $ 476,095 |

*Contract Balances*

We generally do not recognize revenue in advance of invoicing our customers, however, we record a receivable when revenue is recognized prior to payment and we have unconditional right to payment. Alternatively, when payment precedes the related services, we record a contract liability, or deferred revenue, until our performance obligations are satisfied. Our deferred revenue as of December 31, 2018 and December 31, 2017 was $3.9 million and $3.4 million, respectively. The balances related to cash received in advance for a certain interchange revenue arrangement, other up-front fees and other commuter deferred revenue. The Company expects to satisfy its remaining obligations for these arrangements.

*Contract Costs*

Contract costs relate to incremental costs of obtaining a contract with a customer. Contract costs, which primarily consist of deferred sales commissions, were $8.8 million and $9.3 million as of December 31, 2018 and January 1, 2018, respectively and are included in other assets on the condensed consolidated balance sheets. Amortization expense for the deferred costs was $2.9 million for the year ended December 31, 2018. There was no impairment loss in relation to the costs capitalized for the periods presented. Deferred contract costs are amortized on a straight-line basis over the period of benefit, which is consistent with the pattern of transfer of the good or service to which the asset relates.

*Performance Obligations*

During the year ended December 31, 2018, the Company recognized the following revenues (in thousands):

| Revenue recognized in the period for: | Year Ended December 31, 2018 |
|---|---|
| Amounts included in contract liabilities at the beginning of the period: | |
| Performance obligations satisfied | $ 571 |
| Changes in the period: | |
| Changes in the estimated transaction price allocated to performance obligations satisfied in prior periods | (1,100) |
| Performance obligations satisfied from new activities in the period - contract revenue | 472,713 |
| Total revenue | $ 472,184 |

The following table includes estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period, in thousands. The Company applies the practical expedient to not disclose information about contracts with original expected durations of one year or less, amounts of variable consideration attributable to the variable consideration allocation exception, or contract renewals that are unexercised as of December 31, 2018 (in thousands):

| | As of December 31, 2018 |
|---|---|
| 2019 | $ 571 |
| 2020 | 571 |
| 2021 | 571 |
| 2022 and thereafter | 1,143 |
| Total | $ 2,856 |

### Impact on Financial Statements

In accordance with ASC 606, the disclosure of the impact of adoption to our consolidated statements of income and balance sheets was as follows (in thousands, except per share amounts):

| | Year Ended December 31, 2018 | | |
|---|---|---|---|
| | As reported | Adjustments | Balance without adoption of ASC 606 |
| Operating expenses: | | | |
| Sales and marketing | $ 73,092 | $ (543) | $ 72,549 |
| Total operating expenses | 427,800 | (543) | 427,257 |
| | | | |
| Income from operations | 44,384 | 543 | 44,927 |
| Income before income taxes | 40,115 | 543 | 40,658 |
| Income tax provision | (14,145) | (190) | (14,335) |
| Net income | 25,970 | 353 | 26,323 |
| | | | |
| Net income per share: | | | |
| Basic | $ 0.65 | $ 0.01 | $ 0.66 |
| Diluted | $ 0.64 | $ 0.01 | $ 0.65 |

| | December 31, 2018 | | |
|---|---|---|---|
| | As reported | Adjustments | Balance without adoption of ASC 606 |
| Assets | | | |
| Other assets | $ 33,324 | $ (8,776) | $ 24,548 |
| Total assets | 1,785,153 | (8,776) | 1,776,377 |
| Deferred tax assets, net | 1,482 | 2,198 | 3,680 |
| | | | |
| Liabilities and Stockholders' Equity | | | — |
| Retained earnings | 105,642 | 6,578 | 99,064 |
| Total stockholders' equity | $ 665,141 | $ 6,578 | $ 658,563 |

**Note 3. Net Income per Share**

The following table sets forth the computation of basic and diluted net income per share (in thousands, except per share amounts):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Numerator for basic net income per share: | | | |
| Net income | $ 25,970 | $ 54,387 | $ 15,902 |
| Denominator for basic net income per share: | | | |
| Weighted-average common shares outstanding | 39,846 | 38,447 | 36,404 |
| Basic net income per share | $ 0.65 | $ 1.41 | $ 0.44 |
| | | | |
| Numerator for diluted net income per share: | | | |
| Net income | $ 25,970 | $ 54,387 | $ 15,902 |
| Denominator for diluted net income per share: | | | |
| Weighted-average common shares outstanding | 39,846 | 38,447 | 36,404 |
| Dilutive stock options, restricted stock and performance restricted stock units and employee stock purchase plan shares | 588 | 968 | 806 |
| Diluted weighted-average common shares outstanding | 40,434 | 39,415 | 37,210 |
| Diluted net income per share | $ 0.64 | $ 1.38 | $ 0.43 |

Stock options and restricted stock units to purchase common stock are not included in the computation of diluted earnings per share if their effect would be anti-dilutive. There were 1.7 million, 0.8 million, and 0.9 million anti-dilutive shares for 2018, 2017 and 2016, respectively.

**Note 4. Acquisitions and Channel Partner Arrangements**

*Acquisition of the ADP CHSA/COBRA Business*

On November 28, 2016, the Company completed the Asset Purchase Agreement (“APA”) with ADP, a leading global provider of Human Capital Management solutions, to acquire ADP’s CHSA, COBRA, and direct bill businesses (together the “ADP CHSA/COBRA Business”) for approximately $235.0 million in cash. In connection with the APA, the Company borrowed $169.9 million against its then $250.0 million revolving credit facility which had a maturity date of June 5, 2020. See Note 10 Long-term Debt for updated credit facility terms.

*Purchase Price Consideration and Allocation for the ADP CHSA/COBRA Business*

In accordance with Accounting Standards Codification Topic 805, Business Combinations (“ASC 805”), the acquisition was accounted for under the acquisition method of accounting. Under the acquisition method of accounting, the total purchase consideration, assets acquired and the liabilities assumed are measured at fair value as of the date of acquisition when control is obtained. The fair value of the consideration transferred, the assets acquired and liabilities assumed was determined by the Company and in doing so estimated the fair value of the identifiable intangible assets acquired. The following table summarizes the fair value of total consideration transferred for the acquisition, the total fair value of net identifiable assets acquired and the goodwill recorded (in thousands):

Goodwill represents the excess of the purchase consideration over the fair value of the underlying net assets acquired and liabilities assumed (amounts in thousands):

| | | |
|---|---|---|
| Cash consideration | $ | 235,000 |
| Less: Fair value of net identifiable assets acquired | | (94,700) |
| Goodwill | $ | 140,300 |

The fair value of the identifiable assets acquired and liabilities assumed in the acquisition is based on management's best estimates and valuation assumptions. The following table summarizes the estimated fair value of assets acquired and liabilities assumed as of November 28, 2016:

| | Weighted Average Useful Life (in years) | | Amount (in thousands) |
|---|---|---|---|
| Cash | | $ | 1,035 |
| Accounts payable and accrued expenses | | | (1,035) |
| Intangible assets subject to amortization: | | | |
| Customer relationships | 10 | | 93,900 |
| Existing technology - CHSA | 3 | | 500 |
| Existing technology - COBRA | 3 | | 300 |
| Total fair value of net identifiable assets acquired | | $ | 94,700 |

*Unaudited Pro Forma Information*

The unaudited pro forma condensed combined statement of income of the Company and the ADP CHSA/COBRA Business for the year ended December 31, 2016 is presented below as if the acquisition had closed on January 1, 2016. The pro forma information was prepared based on the historical financial statements and related notes of the ADP CHSA/COBRA Business and the Company, as adjusted for the pro forma impact of applying the acquisition method of accounting in accordance with U.S. GAAP. The unaudited pro forma condensed combined statement of income was prepared using the acquisition method of accounting with the Company treated as the acquiring entity.

The following unaudited pro forma condensed combined financial statement has been presented for informational purposes only. The pro forma data does not purport to represent what the combined Company's results of operations actually would have been had the acquisition been completed as of the date indicated, nor is it indicative of future operating results of the combined Company.

| | Year Ended December 31, 2016 (In thousands, except per share data) (Unaudited) |
|---|---|
| Total revenue | $ 469,119 |
| Net income | $ 28,543 |
| Net income per share: | |
| Basic | $ 0.78 |
| Diluted | $ 0.77 |

*Ceridian Channel Partner Arrangement*

In July 2013, the Company entered into a channel partner arrangement with Ceridian, a global product and services company. Pursuant to the arrangement, Ceridian's CDB account administration business for FSA and HRA was fully transitioned to the Company as of January 2015 with a final purchase price of $13.5 million. The Company accounted for this client acquisition as an asset purchase. In conjunction with the transition, the Company also entered into a separate reseller arrangement with Ceridian.

In September 2015, the Company entered into another agreement with Ceridian to transition its COBRA and direct bill portfolio to the Company. In April 2016, the Company completed the transition of this portfolio. The total cash consideration paid in 2016 and 2015 was $21.1 million and $0.4 million, respectively, and was recorded as acquired intangible assets. This relationship also allows Ceridian as a channel partner to resell the Company's COBRA and direct bill services to their new and existing clients in addition to their full suite of healthcare and commuter products.

*Tango Acquisition*

In September 2017, the Company and Tango Health, Inc. ("Tango") entered into an Asset Purchase and Transition Agreement to acquire and transfer certain assets held by Tango related to benefits administration services for Health Savings Accounts for $4.1 million. The Company accounted for the Tango transaction as an asset purchase because it did not qualify as a business combination. The agreement contains a holdback obligation of $2.1 million which was paid in December 2017 upon completion of the transition of the intangible asset portfolio. Total cash consideration paid was recorded as acquired intangible assets which are amortized over seven years.

## Note 5. Investments and Fair Value Measurements

The following table summarizes the Company's investments in marketable securities and fair value measurements by investment category reported as cash equivalents and short-term investments at December 31, 2018 (in thousands):

| | Amortized Cost | Gross Unrealized Gain | Gross Unrealized Loss | Fair Value | Level 1 | Level 2 |
|---|---|---|---|---|---|---|
| Cash equivalents: | | | | | | |
| Money market funds | $ 41,027 | $ — | $ — | $ 41,027 | $ 41,027 | $ — |
| Commercial paper | 10,436 | 1 | — | 10,437 | — | 10,437 |
| Municipal bonds | 7,781 | — | — | 7,781 | — | 7,781 |
| Total cash equivalents | $ 59,244 | $ 1 | $ — | $ 59,245 | $ 41,027 | $ 18,218 |
| | | | | | | |
| Short-term investments: | | | | | | |
| U.S. government securities | $ 22,534 | $ — | $ (94) | $ 22,440 | $ 22,440 | $ — |
| U.S. government agency securities | 14,346 | — | (56) | 14,290 | — | 14,290 |
| Municipal bonds | 3,548 | — | (4) | 3,544 | — | 3,544 |
| Foreign government securities | 2,504 | — | (6) | 2,498 | — | 2,498 |
| Corporate debt securities | 134,003 | 37 | (685) | 133,355 | — | 133,355 |
| Commercial paper | 12,954 | — | (4) | 12,950 | — | 12,950 |
| Certificates of deposit | 1,258 | — | — | 1,258 | — | 1,258 |
| Asset-backed securities | 32,054 | — | (184) | 31,870 | — | 31,870 |
| Total short-term investments | $ 223,201 | $ 37 | $ (1,033) | $ 222,205 | $ 22,440 | $ 199,765 |
| Total cash equivalents and short-term investments | $ 282,445 | $ 38 | $ (1,033) | $ 281,450 | $ 63,467 | $ 217,983 |

The following table summarizes the Company’s investments in marketable securities and fair value measurements by investment category reported as cash equivalents and short-term investments at December 31, 2017 (in thousands):

| | Carrying Amount | Gross Unrealized Gain | Gross Unrealized Loss | Fair Value | Level 1 | Level 2 |
|---|---|---|---|---|---|---|
| Cash equivalents: | | | | | | |
| Money market funds | $ 58,953 | $ — | $ — | $ 58,953 | $ 58,953 | $ — |
| Commercial paper | 21,930 | — | (3) | 21,927 | — | 21,927 |
| Total cash equivalents | $ 80,883 | $ — | $ (3) | $ 80,880 | $ 58,953 | $ 21,927 |
| | | | | | | |
| Short-term investments: | | | | | | |
| U.S. government securities | $ 17,472 | $ — | $ (41) | $ 17,431 | $ 17,431 | $ — |
| U.S. government agency securities | 11,540 | — | (30) | 11,510 | — | 11,510 |
| Municipal bonds | 6,974 | 2 | (8) | 6,968 | — | 6,968 |
| Foreign government securities | 7,499 | — | (27) | 7,472 | — | 7,472 |
| Corporate debt securities | 105,144 | 3 | (273) | 104,874 | — | 104,874 |
| Commercial paper | 30,798 | 1 | (9) | 30,790 | — | 30,790 |
| Certificates of deposit | 1,255 | — | — | 1,255 | — | 1,255 |
| Asset-backed securities | 15,310 | — | (76) | 15,234 | — | 15,234 |
| Total short-term investments | $ 195,992 | $ 6 | $ (464) | $ 195,534 | $ 17,431 | $ 178,103 |
| Total cash equivalents and short-term investments | $ 276,875 | $ 6 | $ (467) | $ 276,414 | $ 76,384 | $ 200,030 |

As of December 31, 2018, the Company had no investments that were in an unrealized loss position for a period of twelve months or greater. The Company conducts a regular assessment of its debt securities with unrealized losses to determine whether securities have other-than-temporary impairment considering, among other factors, the nature of the securities, credit rating or financial condition of the issuer, the extent and duration of the unrealized loss, expected cash flows of underlying collateral, market conditions and whether the Company intends to sell or it is more likely than not that the Company will be required to sell the debt securities. The Company did not have any other-than-temporary impairment in its available-for-sale securities at December 31, 2018.

The following table summarizes the gross unrealized losses and fair values of investments in an unrealized loss position as of December 31, 2018, aggregated by investment category. No securities were in an unrealized loss position for a period of twelve months or greater.

| (In thousands) | Fair Value | Gross Unrealized Loss |
|---|---|---|
| Short-term investments: | | |
| U.S. government securities | $ 22,440 | $ (94) |
| U.S. government agency securities | 14,290 | (56) |
| Municipal bonds | 3,544 | (4) |
| Foreign government securities | 2,498 | (6) |
| Corporate debt securities | 125,192 | (685) |
| Commercial paper | 12,950 | (4) |
| Asset-backed securities | 31,870 | (184) |
| Total short-term investments in unrealized loss position | $ 212,784 | $ (1,033) |

The following table summarizes the gross unrealized losses and fair values of investments in an unrealized loss position as of December 31, 2017, aggregated by investment category. No securities were in an unrealized loss position for a period of twelve months or greater.

| (In thousands) | Fair Value | Gross Unrealized Loss |
|---|---|---|
| Cash equivalents: | | |
| Commercial paper | $ 19,982 | $ (3) |
| Total cash equivalents in unrealized loss position | $ 19,982 | $ (3) |
| | | |
| Short-term investments: | | |
| U.S. government securities | $ 17,431 | $ (41) |
| U.S. government agency securities | 11,510 | (30) |
| Municipal bonds | 5,767 | (8) |
| Foreign government securities | 7,472 | (27) |
| Corporate debt securities | 103,869 | (273) |
| Commercial paper | 27,930 | (9) |
| Asset-backed securities | 15,234 | (76) |
| Total short-term investments in unrealized loss position | $ 189,213 | $ (464) |
| Total cash equivalents and short-term investments in unrealized loss position | $ 209,195 | $ (467) |

Realized gains and losses on marketable securities are included in other income (expense), net on the Company's consolidated statements of income. Gross realized gains and losses on marketable securities for the years ended December 31, 2018 and December 31, 2017 were not significant.

The Company had no investments in marketable securities prior to 2017.

The Company uses inputs such as actual trade data, benchmark yields, quoted market prices from dealers or brokers, and other similar sources to determine the fair value of its investments. Accordingly, the Company classifies money market funds and U.S. treasury securities as Level 1 investments and other securities as Level 2. There were no transfers between Level 1 and Level 2 fair value categories during the periods presented.

The following table summarizes the estimated amortized cost and fair value of the Company's marketable securities by the contractual maturity date (in thousands):

| | December 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Due less than one year | $ 219,057 | $ 218,394 | $ 157,651 | $ 157,573 |
| Due in one to five years | 63,388 | 63,056 | 119,224 | 118,841 |
| Total | $ 282,445 | $ 281,450 | $ 276,875 | $ 276,414 |

## Note 6. Receivables

Receivables at December 31, 2018 and 2017 was comprised of the following (in thousands):

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Trade receivables | $ 52,525 | $ 58,067 |
| Unpaid amounts for benefit services | 52,380 | 52,054 |
| Receivables, gross | 104,905 | 110,121 |
| Less: allowance for doubtful accounts | (3,608) | (2,574) |
| Receivables, net | $ 101,297 | $ 107,547 |

The allowance for doubtful accounts roll forward is comprised of the following (in thousands):

| | Balance at Beginning of Fiscal Year | Charged to Operations | Recoveries (Deductions) | Balance at End of Fiscal Year |
|---|---|---|---|---|
| Year ended December 31, 2018 | $ 2,574 | $ 1,034 | $ — | $ 3,608 |
| Year ended December 31, 2017 | $ 2,016 | $ 558 | $ — | $ 2,574 |
| Year ended December 31, 2016 | $ 1,071 | $ 947 | $ (2) | $ 2,016 |

### Note 7. Property and Equipment

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Computers and equipment | $ 27,519 | $ 22,702 |
| Software and software development costs | 144,260 | 120,278 |
| Furniture and fixtures | 8,123 | 7,754 |
| Leasehold improvements | 28,883 | 25,097 |
| Property and equipment, gross | 208,785 | 175,831 |
| Less: accumulated depreciation and amortization | (131,865) | (107,089) |
| Property and equipment, net | $ 76,920 | $ 68,742 |

During the years ended December 31, 2018, 2017 and 2016, the Company capitalized software development costs of $21.9 million, $20.5 million, and $14.8 million, respectively. Amortization expense related to capitalized software development costs was $16.0 million, $12.1 million and $15.2 million for 2018, 2017 and 2016, respectively. These costs are included in amortization and impairment expense in the accompanying consolidated statements of income. At December 31, 2018, the unamortized capitalized software development costs included in property and equipment in the accompanying consolidated balance sheets was $40.3 million.

Total depreciation expense plus amortization of software and internally developed software for the years ended December 31, 2018, 2017 and 2016 was $30.0 million, $23.5 million, and $23.9 million, respectively.

As of December 31, 2018 and 2017, property and equipment acquired under capital lease obligations was $1.2 million and $1.7 million, respectively, and was classified as computers and equipment. Accumulated depreciation for assets acquired under capital lease obligations was $0.8 million and $1.1 million as of December 31, 2018 and 2017.

In 2016, the Company re-assessed the fair value of KP Connector which is an internal use software developed by the Company based on the specifications outlined in a client agreement. In the second quarter of 2016, the client notified the Company that it no longer required the services provided by the Company. Accordingly, the Company determined that KP Connector’s carrying value was considered unrecoverable as of June 30, 2016, and recorded a $3.7 million impairment charge to amortization and impairment expense in the consolidated statements of income and a corresponding reduction of property and equipment, net, in the consolidated balance sheets.

### Note 8. Goodwill and Intangible Assets

There was no change in the carrying amount of goodwill during the twelve months ended December 31, 2018 and 2017, respectively.

Acquired intangible assets at December 31, 2018 and 2017 were comprised of the following (in thousands):

| | December 31, 2018 | | | December 31, 2017 | | |
|---|---|---|---|---|---|---|
| | Gross carrying amount | Accumulated amortization | Net | Gross carrying amount | Accumulated amortization | Net |
| Amortizable intangible assets: | | | | | | |
| Client/broker contracts & relations | $ 237,430 | $ (108,834) | $ 128,596 | $ 237,221 | $ (84,581) | $ 152,640 |
| Trade names | 3,880 | (3,587) | 293 | 3,880 | (3,492) | 388 |
| Technology | 14,646 | (14,009) | 637 | 14,646 | (13,047) | 1,599 |
| Noncompete agreements | 2,232 | (2,084) | 148 | 2,232 | (2,013) | 219 |
| Favorable lease arrangements | 1,134 | (713) | 421 | 1,134 | (611) | 523 |
| Total | $ 259,322 | $ (129,227) | $ 130,095 | $ 259,113 | $ (103,744) | $ 155,369 |

In September 2017, the Company acquired certain intangible assets from Tango related to Tango's HSA product (see Note 4). This transaction was accounted for as an asset purchase.

Amortization expense of intangible assets totaled $25.5 million, $25.8 million and $21.9 million in 2018, 2017 and 2016, respectively. Acquired intangible assets are amortized on a straight-line basis generally over one to ten years.

The Company accelerated amortization of intangible assets for client contracts and broker relationships of $3.8 million, triggered in the second quarter of 2016, related to the termination of a significant customer relationship in the health insurance exchange business.

As of December 31, 2018, the expected future amortization expense for acquired intangible assets is as follows (in thousands):

| | |
|---|---|
| 2019 | $ 24,914 |
| 2020 | 22,749 |
| 2021 | 19,945 |
| 2022 | 17,509 |
| 2023 | 14,721 |
| Thereafter | 30,257 |
| Total | $ 130,095 |

**Note 9. Accounts Payable and Accrued Expenses**

Accounts payable and accrued expenses at December 31, 2018 and 2017 were comprised of the following (in thousands):

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Accounts payable and accrued liabilities | $ 32,771 | $ 23,788 |
| Payable to benefit providers and transit agencies | 30,148 | 32,469 |
| Accrued compensation and related benefits | 28,594 | 25,921 |
| Other accrued expenses | 5,834 | 5,275 |
| Deferred revenue | 2,507 | 2,524 |
| Accounts payable and accrued expenses | $ 99,854 | $ 89,977 |

**Note 10. Long-term Debt**

On August 1, 2016, the Company entered into a First Amended and Restated Credit Agreement (the “Amended Credit Agreement”) with MUFG Union Bank, N.A., as administrative agent (the “Agent”) to increase the revolving credit facility credit limit from $150.0 million to $250.0 million. The Amended Credit Agreement did not change the Company’s $15.0 million subfacility limit or its option to increase its commitments up to $100.0 million. The credit facility’s maturity date, June 5, 2020, and interest rate, London Interbank Offered Rate (“LIBOR”) plus a margin ranging from 1.25% to 1.75%, also remained unchanged. Subsequent to entering into the Amended Credit Agreement, the Company borrowed additional funds in the amount of $169.9 million from the revolving credit facility in connection with the acquisition of the ADP CHSA/COBRA Business. In connection with the Amended Credit Agreement, the Company incurred fees of approximately $0.2 million, which are being amortized over the term of the Amended Credit Agreement.

On April 4, 2017, the Company entered into a Second Amended and Restated Credit Agreement (the “Second Amended Credit Agreement”) with (the “Agent”). The Second Amended Credit Agreement amends and restates the Company’s existing Amended Credit Agreement, and increases the Company’s borrowing capacity under the revolving credit facility to $400.0 million, with a $15.0 million letter of credit subfacility. The Second Amended Credit Agreement contains an increase option permitting the Company, subject to certain conditions and requirements, to arrange with existing lenders and/or new lenders to provide up to an aggregate of $100.0 million in additional commitments. Loan proceeds may be used for general corporate purposes, including acquisitions as permitted under the Second Amended Credit Agreement. The Company may prepay loans under the Second Amended Credit Agreement in whole or in part at any time without premium or penalty. In connection with this Second Amended Credit Agreement, the Company incurred fees of approximately $1.9 million, which are being amortized over the term of the Second Amended Credit Agreement. The fees incurred are presented as a direct deduction from long-term debt in the consolidated balance sheets.

The loans bear interest, at the Company’s option, at either (i) a LIBOR determined in accordance with the Second Amended Credit Agreement, plus a margin ranging from 1.25% to 2.25%, or (ii) a base rate determined in accordance with the Second Amended Credit Agreement, plus a margin ranging from 0.25% to 1.25%, in either case with such margin determined based on the Company’s consolidated leverage ratio for the preceding four fiscal quarter period. Interest is due and payable in arrears quarterly for base rate loans and at the end of an interest period for LIBOR rate loans. Principal, together with all accrued and unpaid interest, is due and payable on April 4, 2022. The Company elected option (i) and, as of December 31, 2018, the interest rate applicable to the revolving credit facility was 3.89% per annum.

Amounts borrowed and outstanding letters of credit were as follows (in thousands):

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Revolving credit facility used | $ 249,830 | $ 249,830 |
| Less: Outstanding letters of credit | (2,830) | (2,830) |
| Outstanding revolving credit facility | 247,000 | 247,000 |
| Unamortized debt financing fees | (2,307) | (2,085) |
| Long-term debt | $ 244,693 | $ 244,915 |

The Company's obligations under the Second Amended Credit Agreement are secured by substantially all of the Company's assets. All of the Company's existing and future material subsidiaries are required to guarantee its obligations under the Second Amended Credit Agreement. The guarantees by future material subsidiaries are and will be secured by substantially all of the assets of such subsidiaries.

The Second Amended Credit Agreement contains financial and non-financial covenants including debt ratio and interest coverage ratio requirements. The Company is currently in compliance with all the covenants under the credit facility.

In 2017, the Company increased its outstanding letter of credit balance by $2.3 million as a result of growth in its business operations. As of December 31, 2018, the Company had $247.0 million outstanding under the revolving credit facility and $150.2 million unused revolving credit facility still available to borrow under the Second Amended Credit Agreement. The Company pays fees on the unused revolving credit balance.

The credit facility contains customary events of default including, among others, payment defaults, covenant defaults, inaccuracy of representations and warranties, cross-defaults to other material indebtedness, judgment defaults, a change of control default and bankruptcy, and insolvency defaults. Under certain circumstances, a default interest rate will apply on all obligations during the existence of an event of default under the loan agreement at a per annum rate of interest equal to 2.00% above the applicable interest rate. Upon an event of default, the lenders may terminate the commitments, declare the outstanding obligations payable by the Company to be immediately due and payable, and exercise other rights and remedies provided for under the credit facility.

On April 5, 2018, the Company's Board of Directors concluded the previously issued financial statements for (i) the quarterly periods ended September 30, June 30 and March 31, 2017, (ii) the annual period ended December 31, 2016 and (iii) the quarterly periods ended September 30 and June 30, 2016 should be restated and should no longer be relied upon. Consequently, the Company did not meet its obligation to provide its restated and delinquent financial statements to the Agent by the contractual delivery date. In March 2018, the Company entered into a Reporting Extension Agreement (the "Extension Agreement"), by and among the Company, the lenders party thereto and MUFG Union Bank, N.A., as administrative agent to extend the time period for delivery to Agent and the lenders of our delinquent financial statements to June 30, 2018. In June 2018, the Company entered into a Second Reporting Extension Agreement and paid the Agent $0.8 million to extend the delivery date of our delinquent financial statements to March 16, 2019. The fees incurred were added to loan financing fees to be amortized to interest expense over the remaining life of the loan.

In March 2019, the Company entered into a Third Reporting Extension Agreement and paid the Agent $0.1 million to extend the delivery date of any remaining delinquent financial statements to May 10, 2019. In May 2019, the Company entered into a Fourth Reporting Extension Agreement and paid the Agent $0.1 million to extend the delivery date of the 2018 Annual Report on Form 10-K to May 31, 2019.

## Note 11. Common Stock

### *Public Stock Offering*

On June 20, 2017, the Company closed a public stock offering and sold 1,954,852 shares of its common stock at $69.25 per share, for proceeds of approximately $130.8 million, net of underwriting discounts and commissions and other offering costs. Additionally, certain selling stockholders sold 545,148 shares of common stock in the offering for which the Company did not receive any proceeds. Selling stockholders received proceeds net of their proportionate share of the total underwriting discounts and commissions. The Company also

granted the underwriters a 30-day overallotment option to purchase up to an additional 375,000 shares of its common stock at $69.25 per share prior to the underwriting discount. The overallotment option expired unexercised.

***Share Repurchase Program***

On August 6, 2015, the Company's Board authorized a $100.0 million stock repurchase program for 3 years which commenced on November 5, 2015 and expired on November 4, 2018. There were no shares of common stock repurchased during the year ended December 31, 2018. In 2017, the Company repurchased 134,900 shares of its common stock for a total cost of $7.9 million, or an average price of $58.82 per share.

On March 11, 2019, the Company's Board of Directors authorized a $150 million stock repurchase program for 3 years which commenced on March 13, 2019 and expires on March 12, 2022. Stock repurchases may be made from time-to-time in open market transactions, privately negotiated transactions, through accelerated share repurchase programs, or by any combination of such methods. The timing of any repurchases and the actual number of shares repurchased will depend on a variety of factors, including our stock price, corporate and regulatory requirements, restrictions under our debt obligations and other market and economic conditions. No shares of common stock have been repurchased under this program to date.

**Note 12. Employee Benefit Plans**

Stock-based compensation is classified in the consolidated statements of income in the same expense line items as cash compensation. Amounts recorded as expense in the consolidated statements of income are as follows (in thousands):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Cost of revenue | $ 3,270 | $ 7,686 | $ 6,213 |
| Technology and development | 2,185 | 2,391 | 2,448 |
| Sales and marketing | 3,000 | 2,936 | 3,004 |
| General and administrative | 9,633 | 12,636 | 15,515 |
| Total | $ 18,088 | $ 25,649 | $ 27,180 |

In 2018 and 2017 the Company capitalized $0.3 million and $0.5 million, respectively, in stock-based compensation cost in connection with its capitalization of software development costs. No stock-based compensation cost was capitalized in 2016.

***(a) Employee Stock Option Plan***

On May 26, 2010, the Company adopted the 2010 Equity Incentive Plan ("2010 Plan"). Under the 2010 Plan, the Company can grant share-based awards to all employees, including executive officers, outside consultants and non-employee directors. As of December 31, 2018, the 2010 Plan has a total of 5.4 million common stock shares available for issuance.

The Company's 2000 Stock Option/Stock Issuance Plan adopted in June 2000, as amended and restated, ("2000 Plan"), provides for the issuance of options and other stock-based awards. As of December 31, 2018, the 2000 Plan has a total of 53,000 options outstanding. Any forfeitures or shares remaining under the plan are canceled and not available for reissuance. No further grants will be made under the 2000 Plan.

Options under the 2000 Plan and the 2010 Plan (together "the Plans") expire 10 years after the date of grant and generally vest over 4 years with 25% of the options vesting after one year and the balance vesting monthly over the remaining period. The Company issues new shares upon the exercise of stock options.

As of December 31, 2018, there was $7.7 million of total unrecognized stock-based compensation expense associated with stock options, adjusted for estimated forfeitures, related to non-vested stock-based awards which will be recognized over a weighted average period of approximately 1 year. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures.

On April 25, 2018, the Compensation Committee approved a modification to the 2010 Plan which extended the post-termination option exercise period for holders of Company stock options whose employment with the Company terminated between March 19, 2018 and the date on which the Company next files a registration statement on Form S-8 with the SEC until 30 days following the S-8 filing date. This modification resulted in $0.1 million of additional stock-based compensation expense in 2018 for non-executive employees due to the extension of the exercise period. In addition, the Compensation Committee approved accelerated vesting of stock options which had been granted but did not vest as of the termination date for certain executive officers who terminated in 2018. This resulted in the recognition of additional stock-based compensation expense of $1.2 million in 2018.

The following table summarizes the weighted-average fair value of stock options granted. There were no stock options granted in 2018.

| | Year Ended December 31, | |
|---|---|---|
| | 2017 | 2016 |
| Stock options granted (in thousands) | 632 | 825 |
| Weighted-average fair value at date of grant | $ 26.22 | $ 18.38 |

Stock option activity for the year ended December 31, 2018 is as follows (shares in thousands):

| | Shares | Weighted-average exercise price | Remaining contractual term (years) | Aggregate intrinsic value (dollars in thousands) |
|---|---|---|---|---|
| Outstanding at December 31, 2017 | 2,478 | $ 47.24 | 7.22 | $ 42,324 |
| Granted | — | — | | |
| Exercised | (54) | 26.10 | | |
| Forfeited | (205) | 60.70 | | |
| Outstanding as of December 31, 2018 | 2,219 | $ 46.50 | 5.11 | $ 4,321 |
| Vested and expected to vest at December 31, 2018 | 2,187 | $ 46.30 | 5.08 | $ 4,323 |
| Exercisable at December 31, 2018 | 1,849 | $ 43.74 | 4.61 | $ 4,323 |

The total intrinsic value of options exercised during the years ended December 31, 2018, 2017 and 2016, was $1.8 million, $41.6 million and $37.0 million, respectively. Cash received from option exercises was $1.4 million, $14.3 million and $16.1 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Stock-based compensation expense related to stock options was $12.0 million, $11.8 million and $9.8 million in 2018, 2017 and 2016, respectively.

***Valuation Assumptions***

The Company calculated the fair value of each option award on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions. There were no stock options granted during 2018.

| | Year Ended December 31, | |
|---|---|---|
| | 2017 | 2016 |
| Expected volatility | 39.79% | 42.63% |
| Risk-free interest rate | 1.86% | 1.17% |
| Expected term (in years) | 4.74 | 4.87 |
| Dividend yield | —% | —% |

Stock-based compensation expense is measured at the grant date based on the fair value of the award. The determination of the fair value of stock-based awards on the date of grant using an option pricing model is affected by the Company’s stock price as well as assumptions regarding a number of complex and subjective variables. Expected volatility is determined using weighted-average volatility of peer publicly traded companies as well as the Company’s own historical volatility. The Company has increased weighting of its own historical data and intends to continue in future periods as that history grows over time. The risk-free interest rate is determined by using published zero coupon rates on treasury notes for each grant date given the expected term on the options. The dividend yield of zero is based on the fact that the Company expects to invest cash in operations and has not paid cash dividends on its common stock. The Company estimates the expected term based on historical experience, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior such as exercises and forfeitures.

Stock-based compensation expense is recognized in the consolidated statements of income based on awards ultimately expected to vest, and is reduced for estimated pre-vest forfeitures. Forfeitures are estimated at the time of grant and are revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The estimate for pre-vest forfeitures is based on weighted average historical forfeiture rates.

***(b) Restricted Stock Units***

The Company grants restricted stock units (“RSU”) to certain employees, officers, and directors under the 2010 Plan. RSUs vest upon either performance-based, market-based or service-based criteria.

Performance-based RSUs vest based on the satisfaction of specific performance criteria. At each vesting date, the holder of the award is issued shares of the Company’s common stock. Compensation expense from these awards is equal to the fair market value of the Company’s common stock on the date of grant and is recognized over the remaining service period based on the probable outcome of achievement of the financial metrics used in the specific grant’s performance criteria. Management’s estimate of the number of shares expected to vest is based on the anticipated achievement of the specified performance criteria.

Market-based performance RSUs are granted such that they vest upon the achievement of certain per share price targets of the Company’s common stock during a specified performance period. The fair market values of market-based performance RSUs are determined using the Monte Carlo simulation method. The Monte Carlo simulation method is subject to variability as several factors utilized must be estimated including the future daily stock price of the Company’s common stock over the specified performance period, the Company’s stock price volatility and risk-free interest rate. The amount of compensation expense is equal to the per share fair value calculated under the Monte Carlo simulation multiplied by the number of market-based performance RSUs granted, recognized over the specified performance period.

Generally, service-based RSUs vest over a four year period in equal annual installments commencing upon the first anniversary date of the grant date.

The company granted no performance-based RSUs in 2018. In the first quarter of 2017, and 2016, the Company granted a total of 343,000, and 263,000, respectively, of performance-based RSUs to certain executive officers. Performance-based RSUs are typically granted such that they vest upon the achievement of certain revenue growth rates and other financial metrics during a specified three

year performance period. Participants have the ability to receive a percentage of the targeted number of shares originally granted which is up to a maximum of 200%, for 2017 and 2016, and 150%, for 2015.

On April 5, 2018, the Company's Board of Directors concluded that the previously issued financial statements for (i) the quarterly periods ended September 30, June 30 and March 31, 2017, (ii) the annual period ended December 31, 2016 and (iii) the quarterly periods ended September 30 and June 30, 2016 should be restated and should no longer be relied upon. As a result, the previously issued financial statements for the aforementioned reporting periods are considered not issued. The Company updates the stock-based compensation expense based on the number of performance-based RSUs it expects to vest as of each period end. During the Non-Reliance Period, the expected achievement for performance-based RSUs granted in 2017 and 2016 was reassessed based on the restated financial statement resulting in their expected achievement percentage being reduced from 130% to 81% for 2016 grants and from 130% to 56% for 2017 grants. In 2018, the expected achievement for performance-based RSUs granted in 2016 was adjusted to 72% based on the current period's financial results. No adjustments to the achievement percentage were necessary for awards granted in 2015 and 2017.

Stock-based compensation expense related to RSUs was $6.2 million, $13.6 million and $16.8 million in 2018, 2017 and 2016, respectively. Total unrecorded stock-based compensation expense at December 31, 2018 associated with RSUs was $9.5 million, which is expected to be recognized over a weighted-average period of approximately 1 year.

In May 2019, each of our executive officers (other than our Executive Chairman and CEO) entered into a change in control and severance agreement with us which entitles the executive to 100% vesting acceleration in the event of the executive's disability under the Prior Severance Agreement. Other material terms relating to equity compensation upon termination remained unchanged.

The following table summarizes information about RSUs issued to officers, directors, and employees under the 2010 Plan:

| | | | Weighted-average grant date fair value | |
|---|---|---|---|---|
| | Service-based RSUs | Performance-based RSUs | Service-based RSUs | Performance-based RSUs |
| | (shares in thousands) | | | |
| Unvested at December 31, 2017 | 304 | 725 | $ 61.61 | $ 60.21 |
| Granted | — | — | — | — |
| Vested | (105) | (257) | 60.40 | 58.98 |
| Forfeitures | (35) | (268) | 64.38 | 61.57 |
| Unvested at December 31, 2018 | 164 | 200 | $ 61.79 | $ 59.76 |

***(c) Employee Stock Purchase Plan***

In May 2012, the Company established the 2012 Employee Stock Purchase Plan ("ESPP") which is intended to qualify under Section 423 of the IRC. The Company issued 18,037 and 48,443 common stock shares for which it received $0.9 million and $2.7 million from employee contributions during 2018 and 2017, respectively. At December 31, 2018, a total of 2,234,942 shares of the Company's common stock are available for sale under the ESPP. In addition, the ESPP provides for annual increases in the number of shares available for issuance under the ESPP on the first day of each fiscal year, equal to the least of:

- 500,000 shares of common stock;
- 1% of the outstanding shares of the Company's common stock as of the last day of its immediately preceding fiscal year; or
- Such other amount as may be determined by the board of directors.

Under the ESPP, employees are eligible to purchase common stock through payroll deductions of up to 25% of their eligible compensation, subject to any plan limitations. The ESPP has four consecutive offering periods of approximately three months in length during the year and the purchase price of the shares is 85% of the lower of the fair value of the Company's common stock on the first

trading day of the offering period or on the last day of the offering period. Stock-based compensation expense related to the ESPP was $0.2 million in 2018 and $0.6 million in each of 2017 and 2016.

***(d) 401(k) Plan***

The Company participates in the WageWorks 401(k) Plan ("401(k) Plan"), a tax-deferred savings plan covering all of its employees working more than 1,000 hours per year. Employees become participants in the 401(k) Plan on the first day of any month following the first day of employment. Eligible employees may contribute up to 85% of their compensation to the 401(k) Plan, limited to the maximum allowed under the IRC. The Company, at its discretion, may match up to 40% of the first 6% of employees' contributions and may make additional contributions to the 401(k) Plan. The Company contributed approximately $2.8 million, $2.5 million, and $1.8 million in 2018, 2017, and 2016, respectively.

## Note 13. Organizational Efficiency Plan and Executive Severance

Starting in 2015, the Company initiated a plan ("2015 Plan") to integrate ancillary operations and consolidate certain positions resulting in employee headcount reduction and facility closures. As a result, the Company incurred employee termination and other charges consisting of severance and other employee termination costs, facility closure costs and other operational costs. During the years ended December 31, 2017 and 2016, the Company incurred employee termination and other charges under the 2015 Plan totaling $1.5 million and $1.1 million, respectively. The Company continually evaluates ways to improve business processes to ensure that its operations align with its strategy and vision for the future.

Changes in the Company's accrued liabilities for workforce reduction costs are as follows (dollars in thousands):

| | | Amount |
|---|---|---|
| Beginning balance as of January 1, 2016 | $ | 183 |
| Employee termination and other charges | | 1,147 |
| Releases | | (1,330) |
| Ending balance as of December 31, 2016 | $ | — |
| Employee termination and other charges | | 1,489 |
| Releases | | (1,489) |
| Ending balance as of December 31, 2017 | $ | — |

During 2018, the Company entered into transition agreements with certain executives as a result of changes to its management team. Total severance charges related to the transition agreements recorded in 2018 were $2.0 million, which are included in employee termination and other charges in the consolidated statements of income, of which $1.1 million was accrued at December 31, 2018.

## Note 14. Income Taxes

The Company reports income taxes using an asset and liability approach, under which deferred income taxes are provided based upon enacted tax laws and rates applicable to periods in which the taxes become payable. The Company is subject to income taxes in the U.S. federal and various state jurisdictions. Presently, there are no income tax examinations on-going in the jurisdictions where the Company operates.

The components of the provision for income taxes are as follows (in thousands):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Current: | | | |
| Federal | $ (4,791) | $ (159) | $ (13,290) |
| State | (2,946) | (925) | (1,501) |
| | (7,737) | (1,084) | (14,791) |
| Deferred: | | | |
| Federal | (6,437) | (8,389) | 5,175 |
| State | 29 | (110) | 687 |
| | (6,408) | (8,499) | 5,862 |
| Total provision for income taxes | $ (14,145) | $ (9,583) | $ (8,929) |

Reconciliation of the statutory federal income tax rate to the Company's effective tax rate for the years ended December 31, 2018, 2017 and 2016:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Tax provision at U.S. statutory rate | 21% | 35% | 35% |
| State income taxes, net of federal benefit | 6 | 2 | 2 |
| Permanent items - other | 1 | 1 | 2 |
| Research and development credits | (2) | (1) | (3) |
| Stock-based compensation | 9 | (22) | 1 |
| Other | (1) | (1) | (1) |
| Change in tax rate | 1 | 1 | — |
| Provision for tax | 35% | 15% | 36% |

Deferred tax assets (liabilities) consist of the following (in thousands):

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Deferred tax assets: | | |
| Net operating loss carryforwards | $ 443 | $ 1,716 |
| Stock-based compensation | 12,092 | 11,778 |
| Research and development and other credits | 2,170 | 6,961 |
| Reserves | 6,952 | 5,417 |
| Intangible assets | 2,141 | 947 |
| Gross deferred tax assets | 23,798 | 26,819 |
| Deferred tax liabilities: | | |
| Property and equipment | (4,644) | (3,874) |
| Goodwill | (17,672) | (12,802) |
| Gross deferred tax liabilities | (22,316) | (16,676) |
| Net deferred tax assets | $ 1,482 | $ 10,143 |

The income tax provision for the years ended December 31, 2018 and 2017, includes tax benefits of $0.4 million and $15.8 million, respectively, primarily due to the current year excess tax benefits on stock-based compensation pursuant to the adoption of ASU 2016-09.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act ("the Tax Act"). The Tax Act introduces tax reform that reduces the current corporate federal income tax rate from 35% to 21%, among other changes. The rate reduction is effective January 1, 2018. The Company has determined that the Tax Act requires a revaluation of its net deferred tax asset upon its enactment during the current quarter. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in years in which those temporary differences are expected to be recovered or settled. As changes in tax laws or rates are enacted, like the Tax Act, deferred tax assets and liabilities are adjusted through income tax expense. As a result of the reduction in the federal corporate income tax rate, the Company has recorded a non-cash charge to income tax expense of $0.3 million related to the revaluation of its net deferred tax assets.

The SEC staff issued Staff Accounting Bulletin No. 118 ("SAB 118"), which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under Accounting Standards Codification 740 ("ASC 740"). In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Act for which the accounting under ASC 740 is complete. To the extent that a company's accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, it must record a provision estimate in the financial statements. If a company cannot determine a provision estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act. The Company completed its analysis of the impacts of the Tax Act in the fourth quarter of 2018 and determined there were no significant adjustments to the provisional tax amounts recorded in the fourth quarter of 2017.

The Company's accounting for deferred taxes involves the evaluation of a number of factors concerning the realizability of the Company's deferred tax assets. Assessing the realizability of deferred tax assets is dependent upon several factors, including the likelihood and amount, if any, of future taxable income in relevant jurisdictions during the periods in which those temporary differences become deductible. The Company's management forecasts taxable income by considering all available positive and negative evidence including its history of operating income or losses and its financial plans and estimates which are used to manage the business. The Company has concluded there was sufficient positive evidence at the end of 2018 and 2017 to continue to support the position that the Company does not need to maintain a valuation allowance on deferred tax assets. These assumptions require significant judgment about

future taxable income. The amount of deferred tax assets considered realizable is subject to adjustment in future periods if estimates of future taxable income are reduced.

At December 31, 2018, unrecognized tax benefits were approximately $5.6 million, which would impact income tax expense if recognized. The Company does not anticipate that any adjustments would result in a material change to its financial position within the next twelve months. For the years ended December 31, 2018, 2017 and 2016, the Company did not recognize any interest or penalties related to unrecognized tax benefits.

A reconciliation of the beginning and ending balances of the total amounts of gross unrecognized tax benefits is as follows (in thousands):

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| Balance, beginning of year | $ 5,078 | $ 4,765 | $ 4,429 |
| Increase in tax positions for prior years | 130 | — | 201 |
| Increase in tax positions for current year | 370 | 313 | 271 |
| Other decreases | — | — | (136) |
| Balance, end of year | $ 5,578 | $ 5,078 | $ 4,765 |

The Company files income tax returns in the U.S. federal jurisdiction and various states jurisdictions. As a result of the Company's net operating loss carryforwards and tax credit carryforwards, the 2002 through 2018 tax years are open and may be subject to potential examination in one or more jurisdictions.

At December 31, 2018, the Company has state operating loss carryforwards of approximately $6.5 million available to offset future taxable income. The Company's state net operating loss carryforward is on a post-apportionment basis. The Company's state net operating loss carryforwards expire in the years 2018 through 2033.

In addition, the Company had federal and California and other state research and development credit carryforwards of approximately $0.7 million and $4.4 million, respectively. The federal research credit carryforwards expire beginning in 2038, if not fully utilized. The California state research credit carries forward indefinitely and other states begin to expire in years 2029 through 2034.

The Company's ability to utilize the net operating losses and tax credit carryforwards are subject to limitations in the event of an ownership change as defined in Section 382 of the Internal Revenue Code ("IRC") of 1986, as amended, and similar state tax law. In general, an ownership change occurs if the aggregate stock ownership of certain stockholders increases by more than 50 percentage points over such stockholders' lowest percentage ownership during the testing period (generally three years). The Company has considered Section 382 of the IRC and concluded that any ownership change would not diminish the Company's utilization of its net operating loss or its research and development credits during the carryover periods.

**Note 15. Commitments and Contingencies**

***(a) Operating Leases***

The Company leases office space and equipment under non-cancelable operating leases with various expiration dates through 2028. Future minimum lease payments under non-cancelable operating leases, excluding the contractual sublease income of $8.3 million which is expected to be received through February 2023, are as follows (in thousands):

| | As of December 31, 2018 |
|---|---|
| 2019 | $ 9,479 |
| 2020 | 9,685 |
| 2021 | 9,661 |
| 2022 | 6,536 |
| 2023 | 2,308 |
| Thereafter | 5,663 |
| Total future minimum lease payments | $ 43,332 |

Rent expense was $7.7 million, $7.6 million, and $7.1 million for 2018, 2017 and 2016, respectively. Sublease income was $1.9 million, $1.7 million, and $0.7 million for 2018, 2017 and 2016, respectively. As of December 31, 2018, the Company has $0.4 million in future minimum lease payments under capital leases.

***(b) Legal Matters***

The Company is pursuing affirmative claims against the OPM to obtain payment for services provided by the Company between March 1, 2016 and August 31, 2016 pursuant to our contract with OPM for the Government's Federal Flexible Account Program ("FSAFEDS"). The Company initially issued its invoice for these services in February 2017. On December 22, 2017, the Company received the Contracting Officer's "final decision" refusing payment of the invoiced amount and otherwise denying the Company's Certified Claim. As a result of this decision, and a related Certified Claim that OPM subsequently denied, on February 8, 2018, we filed an appeal to the Civilian Board of Contract Appeals ("CBCA") against OPM for services provided by the Company between March 1, 2016 and August 31, 2016. On August 3, 2018, we also filed an appeal to the CBCA of OPM's June 21, 2018 denial of a Request for Equitable Adjustment for extra work associated with a contract modification imposing new security and other requirements not part of the original scope of FSAFED's contract work. In connection with the Company's 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 our claim against OPM as a result. In March 2019, the Company filed a Motion for Summary Judgement with CBCA on the December 22nd denial by the OPM. OPM has moved to defer consideration of the Summary Judgment Motion to permit it further discovery. That Motion has been briefed and the case is on hold pending a ruling by the CBCA which could be handed down any day. In order to accelerate resolution of all matters before the CBCA, the Company's appeal of the June 21st denial by the OPM was withdrawn on April 9, 2019. The remaining claim related to the OPM's December 22nd denial, valued at approximately $6.2 million, is scheduled to go to trial in July 2019 if the pending Summary Judgment is denied by the CBCA. As with all legal proceedings, no assurance can be provided as to the outcome of these matters or if we will be successful in recovering the full claimed amount.

On March 9, 2018, a putative class action was filed in the United States 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 the Company, our former Chief Executive Officer and our 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 our June 19, 2017 common stock offering against those same defendants, as well as the members of our Board of Directors at the time of that offering and the underwriters of the offering.

On June 22, 2018 and September 6, 2018, two derivative lawsuits were filed against certain of our officers and directors and the Company (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 of our officers and directors and the Company (as nominal defendant) in the United States District Court for the Northern District of California (together, the "Derivative Suits"). The Derivative Suits purport to allege claims related to breaches of fiduciary duties, waste of corporate assets, and unjust enrichment.

In addition, the complaint in District Court includes a claim for abuse of control, and the complaint in Superior Court includes a claim to require the Company to hold an annual shareholder meeting. 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. In addition, the complaint in the Superior Court seeks for us to provide past operational reports and financial statements, to publish timely and accurate operational reports and financial statements going forward, to hold an annual shareholder meeting, and to take steps to improve its corporate governance and internal procedures.

Plaintiffs in the Superior Court action filed a Consolidated Complaint on May 2, 2019. As stipulated by the parties, and approved by the District Court, the District Court action is stayed. The parties in the District Court action are to notify the District Court within 15 days of (1) the dismissal of the Securities Class Action, (2) the denial of defendants' motion(s) to dismiss, or (3) a party giving notice that they no longer consent to the voluntary stay.

The Company voluntarily contacted the San Francisco office of the SEC Division of Enforcement regarding the restatement and independent investigation. The Company is providing information and documents to the SEC and will continue 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. The Company has provided documents and information to the U.S. Attorney's Office and will continue to cooperate with any inquiries by the U.S. Attorney's Office regarding the matter.

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 additional liabilities relating to other unresolved matters are probable or that the amount of any resulting loss is estimable. In addition, in accordance with the relevant authoritative guidance, for matters which the likelihood of material loss is at least reasonably possible, the Company provides disclosure of the possible loss or range of loss. If a reasonable estimate cannot be made, the Company will provide disclosure to that effect. 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 or cash flows for the period in which the unfavorable outcome occurs, and potentially in future periods.

The Company is 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 and the advice of counsel, that such litigation, proceedings and claims will not have a material impact on the Company's financial position or results of operations.

## Note 16. Related Party

The National Flex Trust ("the Trust"), established by one of the previously acquired entities of the Company, is to provide reimbursement of qualified expenses to plan participants under certain employer plans that have contracted with the Company to provide the plan services using a custodial account ("the Trust Account"). The client is responsible for maintaining the employer plan for their participants, including the establishment of eligibility and paying all eligible claim amounts owed to their participants. The Company is an independent contractor engaged to perform administration services.

The Company has a long-term receivable due from the Trust totaling $1.0 million which the Trust holds with its banks, as a security deposit for the settlement of participant claims. The Company has recorded this receivable within other assets on its consolidated balance sheets.

**Note 17. Selected Quarterly Financial Data (unaudited)**

| | Fiscal Quarter Ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | December 31, 2018 | September 30, 2018 | June 30, 2018 | March 31, 2018 | December 31, 2017 | September 30, 2017 | June 30, 2017 | March 31, 2017 |
| | (in thousands, except per share amounts) | | | | | | | |
| **Revenues:** | | | | | | | | |
| Healthcare | $ 65,376 | $ 66,125 | $ 68,104 | $ 75,256 | $ 66,046 | $ 65,893 | $ 68,202 | $ 74,674 |
| COBRA | 26,045 | 25,081 | 26,200 | 28,835 | 29,142 | 26,897 | 27,018 | 28,550 |
| Commuter | 19,426 | 18,785 | 18,847 | 18,878 | 18,508 | 17,987 | 17,836 | 18,543 |
| Other | 4,218 | 3,980 | 3,357 | 3,671 | 4,384 | 4,069 | 4,076 | 4,270 |
| Total revenues | 115,065 | 113,971 | 116,508 | 126,640 | 118,080 | 114,846 | 117,132 | 126,037 |
| **Operating expenses:** | | | | | | | | |
| Cost of revenues (excluding amortization of internal use software) | 39,533 | 33,886 | 36,143 | 45,242 | 43,223 | 39,031 | 43,319 | 48,088 |
| Technology and development, sales and marketing, general and administrative, and employee termination and other charges | 59,802 | 61,454 | 53,664 | 56,620 | 49,547 | 50,365 | 48,619 | 45,581 |
| Amortization | 10,772 | 10,502 | 10,191 | 9,991 | 9,858 | 9,402 | 9,393 | 9,237 |
| Total operating expenses | 110,107 | 105,842 | 99,998 | 111,853 | 102,628 | 98,798 | 101,331 | 102,906 |
| Income from operations | 4,958 | 8,129 | 16,510 | 14,787 | 15,452 | 16,048 | 15,801 | 23,131 |
| Other, net | (1,317) | (1,071) | (965) | (916) | (1,443) | (1,749) | (1,680) | (1,590) |
| Income before income taxes | 3,641 | 7,058 | 15,545 | 13,871 | 14,009 | 14,299 | 14,121 | 21,541 |
| Income tax (provision) benefit | (1,738) | (4,934) | (4,621) | (2,852) | (5,020) | (5,236) | 6,157 | (5,484) |
| **Net income** | $ 1,903 | $ 2,124 | $ 10,924 | $ 11,019 | $ 8,989 | $ 9,063 | $ 20,278 | $ 16,057 |
| Net income per share: | | | | | | | | |
| Basic | $ 0.05 | $ 0.05 | $ 0.27 | $ 0.28 | $ 0.23 | $ 0.23 | $ 0.54 | $ 0.43 |
| Diluted | $ 0.05 | $ 0.05 | $ 0.27 | $ 0.27 | $ 0.23 | $ 0.23 | $ 0.53 | $ 0.42 |
| Shares used in computing net income per share: | | | | | | | | |
| Basic | 39,853 | 39,853 | 39,853 | 39,823 | 38,447 | 39,641 | 37,419 | 37,025 |
| Diluted | 40,340 | 40,492 | 40,412 | 40,480 | 39,415 | 40,264 | 38,613 | 38,441 |

**Note 18. Subsequent Events**

On March 29, 2019, the Company reduced the long-term debt principal with a $60.0 million payment. On March 11, 2019, the Company's Board of Directors authorized a stock repurchase program. All the material terms of this program are disclosed in Note 11 Stockholders' Equity.

On March 19, 2019, WageWorks, Inc. (the "Company") received a notice from the New York Stock Exchange (the "NYSE") indicating that the Company is not in compliance with the NYSE's continued listing requirements under the timely filing criteria outlined in Section 802.01E of the NYSE Listed Company Manual as a result of the Company's failure to timely file its Annual Report on Form 10-K for the fiscal year ended December 31, 2018 (the "Form 10-K"). The NYSE informed the Company that, under the NYSE's rules, the

Company will have six months from March 1, 2019 to file the Form 10-K with the SEC. The Company can regain compliance with the NYSE continued listing requirements at any time before that date by filing the Form 10-K with the SEC. If the Company fails to file the Form 10-K before the NYSE's six-month compliance deadline, the NYSE may grant, at its sole discretion, an extension of up to six additional months for the Company to regain compliance, depending on the specific circumstances.

On April 29, 2019, the Company received an unsolicited, non-binding proposal from HealthEquity, Inc. (NASDAQ: HQY) to acquire all of the outstanding shares of the Company. The Company's Board, in consultation with its financial and legal advisors, will continue to carefully review the proposal in order to pursue the course of action that is in the best interests of all of the Company's shareholders. On May 23, 2019, each of our executive officers (other than our Executive Chairman and CEO) entered into a change in control and severance agreement. On May 23, 2019, each of our executive officers (other than our Executive Chairman and CEO) entered into a change in control and severance agreement.

EXHIBIT 99.2

**Interim unaudited condensed consolidated financial statements of WageWorks, Inc. as of March 31, 2019 and for the three months ended March 31, 2019 and 2018**

**WAGEWORKS, INC.**

**Condensed Consolidated Balance Sheets**
**(In thousands, except per share amounts)**

| | March 31, 2019 (Unaudited) | December 31, 2018 Derived from Audited Financial Statements |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 782,766 | $ 898,426 |
| Restricted cash | 333 | 333 |
| Short-term investments | 183,603 | 222,205 |
| Receivables, net | 114,426 | 101,297 |
| Prepaid expenses and other current assets | 30,822 | 23,662 |
| Total current assets | 1,111,950 | 1,245,923 |
| Property and equipment, net | 74,378 | 76,920 |
| Operating lease right-of-use assets | 24,095 | — |
| Goodwill | 297,409 | 297,409 |
| Acquired intangible assets, net | 123,762 | 130,095 |
| Deferred tax assets, net | 1,305 | 1,482 |
| Other assets | 33,300 | 33,324 |
| **Total assets** | **$ 1,666,199** | **$ 1,785,153** |
| **Liabilities and Stockholders' Equity** | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | $ 87,812 | $ 97,347 |
| Customer obligations | 660,437 | 762,100 |
| Short-term operating lease liabilities | 8,069 | — |
| Other current liabilities | 19,197 | 4,264 |
| Total current liabilities | 775,515 | 863,711 |
| Long-term debt, net of issuance costs | 184,769 | 244,693 |
| Long-term operating lease liabilities | 28,455 | — |
| Other long-term liabilities | 4,773 | 11,608 |
| Total liabilities | 993,512 | 1,120,012 |
| Commitments and Contingencies (Note 10) | | |
| Stockholders' Equity: | | |
| Common stock, par value $0.001 per share (1,000,000 shares authorized; 40,333 shares issued and 39,853 shares outstanding at March 31, 2019 and December 31, 2018) | 41 | 41 |
| Additional paid-in capital | 585,478 | 582,521 |
| Treasury stock at cost (480 shares at March 31, 2019 and December 31, 2018) | (22,309) | (22,309) |
| Accumulated other comprehensive loss | (222) | (754) |
| Retained earnings | 109,699 | 105,642 |
| Total stockholders' equity | 672,687 | 665,141 |
| **Total liabilities and stockholders' equity** | **$ 1,666,199** | **$ 1,785,153** |

**See accompanying notes to the condensed consolidated financial statements.**

**WAGEWORKS, INC.**
**Condensed Consolidated Statements of Income**
**(In thousands, except per share amounts)**
**(Unaudited)**

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| **Revenues:** | | |
| Healthcare | $ 71,974 | $ 75,256 |
| COBRA | 23,589 | 28,835 |
| Commuter | 19,340 | 18,878 |
| Other | 3,322 | 3,671 |
| Total revenues | 118,225 | 126,640 |
| **Operating expenses:** | | |
| Cost of revenues (excluding amortization of internal use software) | 39,258 | 45,242 |
| Technology and development | 16,340 | 13,033 |
| Sales and marketing | 18,331 | 18,338 |
| General and administrative | 27,909 | 25,249 |
| Amortization | 10,851 | 9,991 |
| Total operating expenses | 112,689 | 111,853 |
| Income from operations | 5,536 | 14,787 |
| Interest and other income, net | 2,649 | 1,266 |
| Interest expense | (2,709) | (2,182) |
| Income before income taxes | 5,476 | 13,871 |
| Income tax provision | (1,419) | (2,852) |
| **Net income** | $ 4,057 | $ 11,019 |
| Net income per share: | | |
| Basic | $ 0.10 | $ 0.28 |
| Diluted | $ 0.10 | $ 0.27 |
| Shares used in computing net income per share: | | |
| Basic | 39,853 | 39,823 |
| Diluted | 40,437 | 40,480 |

**See accompanying notes to the condensed consolidated financial statements.**

**WAGEWORKS, INC.**
**Condensed Consolidated Statements of Comprehensive Income**
**(In thousands) (Unaudited)**

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| **Net income** | $ 4,057 | $ 11,019 |
| Other comprehensive income (loss), net of tax: | | |
| Net unrealized gain (loss) on short-term investments, net of tax | 532 | (731) |
| Other comprehensive income (loss) | 532 | (731) |
| **Total comprehensive income** | $ 4,589 | $ 10,288 |

**See accompanying notes to the condensed consolidated financial statements.**

**WAGEWORKS, INC.**
**Condensed Consolidated Statements of Stockholders' Equity**
**(In thousands) (Unaudited)**

| | Three Months Ended March 31, 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Common stock | | Additional paid-in capital | Treasury stock at cost | Accumulated other comprehensive loss | Retained earnings | Total stockholders' equity |
| | Shares | Amount | | | | | |
| Balance at December 31, 2018 | 39,853 | $ 41 | $ 582,521 | $ (22,309) | $ (754) | $ 105,642 | $ 665,141 |
| Stock-based compensation expense | — | — | 2,904 | — | — | — | 2,904 |
| Capitalized stock-based compensation | — | — | 53 | — | — | — | 53 |
| Other comprehensive income, net of tax | — | — | — | — | 532 | — | 532 |
| Net income | — | — | — | — | — | 4,057 | 4,057 |
| Balance at March 31, 2019 | 39,853 | $ 41 | $ 585,478 | $ (22,309) | $ (222) | $ 109,699 | $ 672,687 |

| | Three Months Ended March 31, 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Common stock | | Additional paid-in capital | Treasury stock at cost | Accumulated other comprehensive loss | Retained earnings | Total stockholders' equity |
| | Shares | Amount | | | | | |
| Balance at December 31, 2017 | 39,771 | $ 41 | $ 562,131 | $ (22,309) | $ (354) | $ 72,741 | $ 612,250 |
| Exercise of stock options | 54 | — | 1,395 | — | — | — | 1,395 |
| Issuance of common stock under Employee Stock Purchase Plan | 18 | — | 869 | — | — | — | 869 |
| Issuance of restricted stock units, net of shares withheld for employee taxes | 10 | — | (281) | — | — | — | (281) |
| Stock-based compensation expense | — | — | 7,293 | — | — | — | 7,293 |
| Capitalized stock-based compensation | — | — | 191 | — | — | — | 191 |
| Other comprehensive loss, net of tax | — | — | — | — | (731) | | (731) |
| ASC 606 cumulative-effect adjustment | — | — | — | — | — | 6,955 | 6,955 |
| Net income | — | — | — | — | — | 11,019 | 11,019 |
| Balance at March 31, 2018 | 39,853 | $ 41 | $ 571,598 | $ (22,309) | $ (1,085) | $ 90,715 | $ 638,960 |

**WAGEWORKS, INC.**
**Condensed Consolidated Statements of Cash Flows**
**(In thousands) (Unaudited)**

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| **Cash flows from operating activities:** | | |
| Net income | $ 4,057 | $ 11,019 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 14,592 | 13,182 |
| Amortization of debt issuance costs | 176 | 120 |
| Amortization of contract costs | 725 | 780 |
| Stock-based compensation expense | 2,904 | 7,293 |
| Provision for doubtful accounts | 414 | 19 |
| Other | 233 | (1) |
| Changes in operating assets and liabilities: | | |
| Receivables | (13,543) | (18,688) |
| Prepaid expenses and other current assets | (7,160) | 5,600 |
| Other assets | (701) | (8,341) |
| Accounts payable and accrued expenses | (10,797) | (9,556) |
| Customer obligations | (101,663) | (35,766) |
| Other liabilities | 20,575 | 17,465 |
| Net cash used in operating activities | (90,188) | (16,874) |
| **Cash flows from investing activities:** | | |
| Purchases of property and equipment | (4,353) | (7,618) |
| Purchases of short-term investments | (4,966) | (99,564) |
| Proceeds from sales of short-term investments | 2,560 | — |
| Proceeds from maturities of short-term investments | 41,495 | 34,150 |
| Purchases of intangible assets | (60) | (70) |
| Net cash provided by (used in) investing activities | 34,676 | (73,102) |
| **Cash flows from financing activities:** | | |
| Proceeds from exercise of common stock options | — | 1,396 |
| Proceeds from issuance of common stock under Employee Stock Purchase Plan | — | 869 |
| Payments of debt modification costs | (100) | — |
| Payments of debt principal | (60,000) | — |
| Payment of finance lease obligations | (48) | (75) |
| Taxes paid related to net share settlement of stock-based compensation arrangements | — | (218) |
| Net cash (used in) provided by financing activities | (60,148) | 1,972 |
| Net decrease in cash and cash equivalents, unrestricted and restricted | (115,660) | (88,004) |
| Cash and cash equivalents at beginning of period, unrestricted and restricted | 898,759 | 779,677 |
| **Cash and cash equivalents at end of period, unrestricted and restricted** | **$ 783,099** | **$ 691,673** |
| | | |
| **Supplemental cash flow disclosure:** | | |
| Cash paid during the period for: | | |
| Interest | $ 2,483 | $ 1,961 |
| Income taxes | $ 268 | $ 113 |
| **Noncash financing and investing activities:** | | |
| Property and equipment, accrued but not paid | $ 1,262 | $ 4,063 |
| Property and equipment under finance lease | $ — | $ 142 |

**See accompanying notes to the condensed consolidated financial statements.**

## Notes to Condensed Consolidated Financial Statements
## (Unaudited)

### Note 1 Summary of Business and Significant Accounting Policies

***Business***

WageWorks, Inc., (together with its subsidiaries, "WageWorks" or the "Company") was incorporated in the state of Delaware in 2000. The Company is a leader in administering Consumer-Directed Benefits ("CDBs"), which empower employees to lower their healthcare related expenditures while also providing corporate tax advantages for employers.

The Company operates as a single reportable segment on an entity level basis, and considers itself to operate under one operating and reporting segment with healthcare, transit and other employer sponsored programs representing a group of similar products lines. The Company believes that it engages in a single business activity and operates in a single economic environment.

***Basis of Presentation***

The unaudited interim condensed consolidated financial statements and the related notes have been prepared on the same basis as the audited consolidated financial statements and reflect all adjustments that, in the opinion of management, are necessary for a fair presentation of the results for the interim periods presented in accordance with generally accepted accounting principles in the United States of America ("GAAP"). The results of the interim period presented herein are not necessarily indicative of the results of future periods or annual results for the year ending December 31, 2019.

These unaudited interim condensed consolidated financial statements and the related notes should be read in conjunction with the December 31, 2018 audited financial statements and related notes, together with management's discussion and analysis of financial condition and results of operations, included in the Company's Annual Report on Form 10-K. The December 31, 2018 consolidated balance sheet, included in this interim Quarterly Report on Form 10-Q, was derived from audited financial statements.

There have been no material changes to the Company's critical accounting estimates during the three months ended March 31, 2019. Other than the adoption of ASU 2016-02, *"Leases (Topic 842)"*, there have been no material changes to the Company's critical accounting policies during the three months ended March 31, 2019 from the items the Company disclosed in the its Annual Report on Form 10-K for the year ended December 31, 2018.

***Reclassifications***

Certain prior period amounts have been reclassified to conform to current period presentation including the reclassification of deferred revenue from accounts payable and accrued expenses to other current liabilities in the condensed consolidated balance sheet and statement of cash flows for the three months ending March 31, 2018. There was no impact on the condensed consolidated statements of income.

***Principles of Consolidation***

The unaudited condensed consolidated financial statements include the accounts of WageWorks, Inc. and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

***Use of Estimates***

In preparing the condensed consolidated financial statements and related disclosure in conformity with GAAP, and pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"), the Company must make estimates and judgments that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Estimates are used for, but not limited to revenue recognition, allowances for doubtful accounts, useful lives for depreciation and amortization, loss contingencies, income taxes, the assumptions used for stock-based compensation including attainment of performance-based awards, the assumptions used for software and web site development cost classification, and recoverability and impairments of goodwill and long-lived assets and average

customer life. Actual results may be materially different from those estimates. In making its estimates, the Company considers the current economic and legislative environment.

***Leases***

The Company leases office space under noncancelable operating leases. Operating lease right-of-use assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As the implicit rate is not readily determinable in most of the Company's lease agreements, the Company uses its estimated secured incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. Lease expense is recognized on a straight-line basis over the lease term. In addition, the Company made an accounting policy election to keep leases with an initial term of 12 months or less off of the balance sheet.

The Company determines if an arrangement is a lease or contains a lease at inception. The Company applied the short-term lease measurement and recognition exemption in which right-of-use ("ROU") assets and lease obligations are not recognized for short-term leases. The Company does not have lease agreements with residual value guarantees, sales leaseback terms or material restrictive covenants. The Company has one sublease for which the sublease income was recorded as a reduction to operating lease expense for the three months ended March 31, 2019 and 2018.

The Company has lease agreements that contain both lease and non-lease components. For real estate leases, the Company accounts for lease components together with non-lease components (e.g., common-area maintenance). Amounts recognized as ROU assets related to finance leases are included in property and equipment, net in the accompanying condensed consolidated balance sheets, while related lease liabilities are included in other current liabilities and other long-term liabilities.

***Recently Adopted Accounting Guidance***

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-02, Leases (Topic 842), which requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating lease.

The Company adopted Topic 842 prospectively during the first quarter of 2019. As part of its adoption, the Company elected a package of practical expedients for leases that commenced prior to January 1, 2019 and did not reassess: (i) whether any expired or existing contracts are or contain leases; (ii) lease classification for any expired or existing leases; and (iii) initial direct costs capitalization for any existing leases. The Company recognizes those lease payments in the consolidated statements of income on a straight-line basis over the lease term.

The adoption of Topic 842 resulted in the Company recording $25.5 million of right-of-use lease assets and $38.4 million of lease liabilities as of January 1, 2019. The new standard did not have a significant impact on the condensed consolidated statements of income. See Note 10, Commitments and Contingencies for additional information.

In February 2018, the FASB issued ASU No. 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220) - Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" (ASU 2018-02). This standard allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act and requires certain disclosures about stranded tax effects. The Company adopted ASU 2018-02 in January 1, 2019 and applied it in the period of adoption. The Company did not elect to reclassify any tax effects of the Tax Cuts and Jobs Act on items within accumulated other comprehensive income to retained earnings. The adoption of this standard did not have an effect on the Company's condensed consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15, *"Intangibles, Goodwill and Other (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract"* (ASU 2018-15). ASU 2018-15 requires implementation costs incurred by customers in cloud computing arrangements to be deferred, if those same costs would be capitalized by a customer in a software licensing arrangement under the internal-use software guidance in ASC 350-40. ASU 2018-15 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2019, with early adoption permitted. The Company elected to early adopt the new standard as of March 31, 2019. The adoption of this standard did not have a material effect on the Company's condensed consolidated financial statements.

***Recently Issued Accounting Pronouncements***

In June 2016, the FASB issued ASU No. 2016-13, "*Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments"* (ASU 2016-13), which amends the FASB's guidance on the impairment of financial instruments. The ASU adds to GAAP an impairment model (known as the "current expected credit loss model") that is based on expected losses rather than incurred losses. ASU 2016-13 is effective for annual reporting periods beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the timing and impact of adoption on its condensed consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, "*Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment"*. The amendments eliminate Step 2 from the goodwill impairment test. The annual, or interim, goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. In addition, income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit should be considered when measuring the goodwill impairment loss, if applicable. The amendments also eliminate the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The new standard is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The Company is currently evaluating the timing and impact of adoption on the Company's condensed consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, "*Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement"* (ASU 2018-13). The primary focus of ASU 2018-13 is to improve the effectiveness of the disclosure requirements for fair value measurements. The changes affect all companies that are required to include fair value measurement disclosures. In general, the amendments in this standard are effective for all entities for fiscal years and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. The Company is currently evaluating the timing and impact of adoption on its condensed consolidated financial statements.

In November 2018, the FASB issued ASU No. 2018-19, "*Codification Improvements to Topic 326, Financial Instruments-Credit Losses"*. ASU 2018-19 clarifies that receivables arising from operating leases are not within the scope of the credit losses standard, but rather, should be accounted for in accordance with the leases standard. In general, the amendments in this standard are effective for public business entities that meet the definition of a SEC filer for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The Company is currently evaluating the timing and impact of adoption on its 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 (in thousands, except per share data):

| | Three months ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| Numerator: | | |
| Net income | $ 4,057 | $ 11,019 |
| Denominator: | | |
| Basic weighted-average shares | 39,853 | 39,823 |
| Effect of potentially dilutive shares: | | |
| Weighted-average dilutive stock options, restricted stock and performance restricted stock units, and employee stock purchase plan shares | 584 | 657 |
| Diluted weighted-average shares | 40,437 | 40,480 |
| Net income per share: | | |
| Basic | $ 0.10 | $ 0.28 |
| Diluted | $ 0.10 | $ 0.27 |

For the three months ended March 31, 2019 and 2018, potential shares from stock options and restricted stock units totaling 1.9 million and 1.4 million, respectively, are not included in the computation of diluted earnings per share because their inclusion would have been anti-dilutive.

## Note 3 Revenue

The Company generally invoices its customers on a monthly basis with a term of net 30-60 days. The Company applies the practical expedient provided by ASC 606 and does not evaluate contracts of one year or less for the existence of a significant financing component. The Company's policy is to exclude sales and other indirect taxes when measuring the transaction price of its subscription agreements.

*Disaggregation of Revenue*

The Company’s primary categories of revenue are Healthcare, Commuter, COBRA and Other revenue and are disclosed in the condensed consolidated statements of income. The following table provides information about disaggregated revenue from contracts with customers by the nature of the products and services (in thousands):

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| Benefit administration services and COBRA | $ 95,960 | $ 104,440 |
| Interchange | 15,439 | 15,745 |
| Other revenue | 6,826 | 6,455 |
| Total | $ 118,225 | $ 126,640 |

*Contract Balances*

The Company generally does not recognize revenue in advance of invoicing its customers, however, it records a receivable when revenue is recognized prior to payment and it 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. The Company’s deferred revenue as of March 31, 2019 and December 31, 2018 was $17.1 million and $3.9 million, respectively.

The balances related to cash received in advance for a certain interchange revenue arrangement, other up-front fees and other commuter deferred revenue. The Company expects to satisfy its remaining obligations for these arrangements.

*Contract Costs*

Contract costs relate to incremental costs of obtaining a contract with a customer. Contract costs, which primarily consist of deferred sales commissions, were $8.7 million and $8.8 million as of March 31, 2019 and December 31, 2018, respectively and are included in other assets on the condensed consolidated balance sheets. Amortization expense for the deferred costs was $0.7 million and $0.8 million for the three months ended March 31, 2019 and 2018, respectively. There was no impairment loss in relation to the costs capitalized for the periods presented. Deferred contract costs are amortized on a straight-line basis over the period of benefit, which is consistent with the pattern of transfer of the good or service to which the asset relates.

*Performance Obligations*

During the three months ended March 31, 2019, the Company recognized the following revenues (in thousands):

| | | Three Months Ended March 31, 2019 |
|---|---|---|
| **Revenue recognized in the period for:** | | |
| Amounts included in contract liabilities at the beginning of the period: | | |
| Performance obligations satisfied | $ | 143 |
| Changes in the period: | | |
| Performance obligations satisfied from new activities in the period - contract revenue | | 118,082 |
| Total revenue | $ | 118,225 |

The following table includes estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The Company applies the practical expedient to not disclose information about contracts with original expected durations of one year or less, amounts of variable consideration attributable to the variable consideration allocation exception, or contract renewals that are unexercised as of March 31, 2019 (in thousands):

| | | March 31, 2019 |
|---|---|---|
| **2019 (remainder of year)** | $ | 429 |
| **2020** | | 571 |
| **2021** | | 571 |
| **2022 and thereafter** | | 1,143 |
| **Total** | $ | 2,714 |

**Note 4 Investments and Fair Value Measurements**

The following tables summarize the Company's investments in marketable securities and fair value measurements by investment category reported as cash equivalents and short-term investments as of March 31, 2019 and December 31, 2018 (in thousands):

| March 31, 2019 | Amortized Cost | Gross Unrealized Gain | Gross Unrealized Loss | Fair Value | Level 1 | Level 2 |
|---|---|---|---|---|---|---|
| Cash equivalents: | | | | | | |
| Money market funds | $ 40,171 | $ — | $ — | $ 40,171 | $ 40,171 | $ — |
| Commercial paper | 52,242 | — | (9) | 52,233 | — | 52,233 |
| Municipal bonds | 7,742 | — | — | 7,742 | — | 7,742 |
| Total cash equivalents | 100,155 | — | (9) | 100,146 | 40,171 | 59,975 |
| Short-Term Investments: | | | | | | |
| U.S. government securities | 19,501 | — | (45) | 19,456 | 19,456 | — |
| U.S. government agency securities | 10,826 | — | (27) | 10,799 | — | 10,799 |
| Municipal bonds | 2,345 | 1 | — | 2,346 | — | 2,346 |
| Foreign government securities | 2,514 | — | (1) | 2,513 | — | 2,513 |
| Corporate debt securities | 114,238 | 116 | (233) | 114,121 | — | 114,121 |
| Commercial paper | 4,975 | — | (1) | 4,974 | — | 4,974 |
| Certificates of deposit | — | — | — | — | — | — |
| Asset-backed securities | 29,481 | 1 | (88) | 29,394 | — | 29,394 |
| Total short-term investments | 183,880 | 118 | (395) | 183,603 | 19,456 | 164,147 |
| **Total cash equivalents and short-term investments** | $ 284,035 | $ 118 | $ (404) | $ 283,749 | $ 59,627 | $ 224,122 |

| December 31, 2018 | Amortized Cost | Gross Unrealized Gain | Gross Unrealized Loss | Fair Value | Level 1 | Level 2 |
|---|---|---|---|---|---|---|
| Cash equivalents: | | | | | | |
| Money market funds | $ 41,027 | $ — | $ — | $ 41,027 | $ 41,027 | $ — |
| Commercial paper | 10,436 | 1 | — | 10,437 | — | 10,437 |
| Municipal bonds | 7,781 | — | — | 7,781 | — | 7,781 |
| Total cash equivalents | 59,244 | 1 | — | 59,245 | 41,027 | 18,218 |
| | | | | | | |
| Short-Term Investments: | | | | | | |
| U.S. government securities | 22,534 | — | (94) | 22,440 | 22,440 | — |
| U.S. government agency securities | 14,346 | — | (56) | 14,290 | — | 14,290 |
| Municipal bonds | 3,548 | — | (4) | 3,544 | — | 3,544 |
| Foreign government securities | 2,504 | — | (6) | 2,498 | — | 2,498 |
| Corporate debt securities | 134,003 | 37 | (685) | 133,355 | — | 133,355 |
| Commercial paper | 12,954 | — | (4) | 12,950 | — | 12,950 |
| Certificates of deposit | 1,258 | — | — | 1,258 | — | 1,258 |
| Asset-backed securities | 32,054 | — | (184) | 31,870 | — | 31,870 |
| Total short-term investments | 223,201 | 37 | (1,033) | 222,205 | 22,440 | 199,765 |
| **Total cash equivalents and short-term investments** | $ 282,445 | $ 38 | $ (1,033) | $ 281,450 | $ 63,467 | $ 217,983 |

As of March 31, 2019, the Company’s unrealized losses on investments were deemed temporary in nature.

The following tables summarize the gross unrealized losses and fair values of investments in an unrealized loss position as of March 31, 2019 and December 31, 2018, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position (in thousands).

| | Less than 12 months | | 12 months or greater | | Total | |
|---|---|---|---|---|---|---|
| **March 31, 2019** | **Fair Value** | **Gross Unrealized Loss** | **Fair Value** | **Gross Unrealized Loss** | **Fair Value** | **Gross Unrealized Loss** |
| Cash equivalents: | | | | | | |
| Commercial paper | $ 52,233 | $ (9) | $ — | $ — | $ 52,233 | $ (9) |
| Total cash equivalents in unrealized loss position | 52,233 | (9) | — | — | 52,233 | (9) |
| Short-Term Investments: | | | | | | |
| U.S. government securities | — | — | 19,455 | (45) | 19,455 | (45) |
| U.S. government agency securities | 1,998 | (2) | 8,801 | (25) | 10,799 | (27) |
| Foreign government securities | — | — | 2,514 | (1) | 2,514 | (1) |
| Corporate debt securities | 10,055 | (23) | 71,741 | (210) | 81,796 | (233) |
| Commercial paper | 4,974 | (1) | — | — | 4,974 | (1) |
| Asset-backed securities | 3,884 | (8) | 22,155 | (80) | 26,039 | (88) |
| Total short-term investments in unrealized loss position | 20,911 | (34) | 124,666 | (361) | 145,577 | (395) |
| Total cash equivalents and short-term investments in unrealized loss position | $ 73,144 | $ (43) | $ 124,666 | $ (361) | $ 197,810 | $ (404) |

| | Less than 12 months | |
|---|---|---|
| **December 31, 2018** | **Fair Value** | **Gross Unrealized Loss** |
| Short-Term Investments: | | |
| U.S. government securities | $ 22,440 | $ (94) |
| U.S. government agency securities | 14,290 | (56) |
| Municipal bonds | 3,544 | (4) |
| Foreign government securities | 2,498 | (6) |
| Corporate debt securities | 125,192 | (685) |
| Commercial paper | 12,950 | (4) |
| Asset-backed securities | 31,870 | (184) |
| Total short-term investments in unrealized loss position | $ 212,784 | $ (1,033) |

Realized gains or losses on marketable securities are included in other income (expense), net on the Company's condensed consolidated statements of income. Gross realized losses on marketable securities for the three months ended March 31, 2019 and 2018 were not significant.

The Company uses inputs such as actual trade data, benchmark yields, quoted market prices from dealers or brokers, and other similar sources to determine the fair value of its investments. There were no transfers between Level 1 and Level 2 fair value categories during the periods presented.

The following tables summarize the estimated amortized cost and fair value of the Company's marketable securities by the contractual maturity date as of March 31, 2019 and December 31, 2018 (in thousands):

| March 31, 2019 | Amortized Cost | Fair Value |
|---|---|---|
| Due less than one year | $ 248,374 | $ 248,066 |
| Due in one to five years | 35,661 | 35,683 |
| Total | $ 284,035 | $ 283,749 |

| December 31, 2018 | Amortized Cost | Fair Value |
|---|---|---|
| Due less than one year | $ 219,058 | $ 218,395 |
| Due in one to five years | 63,387 | 63,055 |
| Total | $ 282,445 | $ 281,450 |

## Note 5 Receivables

Receivables at March 31, 2019 and December 31, 2018 were comprised of the following (in thousands):

| | March 31, 2019 | December 31, 2018 |
|---|---|---|
| Trade receivables | $ 66,974 | $ 52,525 |
| Unpaid amounts for benefit services | 51,474 | 52,380 |
| Receivables, gross | 118,448 | 104,905 |
| Less: allowance for doubtful accounts | (4,022) | (3,608) |
| Receivables, net | $ 114,426 | $ 101,297 |

## Note 6 Property and Equipment

Property and equipment at March 31, 2019 and December 31, 2018 were comprised of the following (in thousands):

| | March 31, 2019 | December 31, 2018 |
|---|---|---|
| Computers and equipment | $ 28,455 | $ 27,519 |
| Software and software development costs | 148,625 | 144,260 |
| Furniture and fixtures | 8,125 | 8,123 |
| Leasehold improvements | 28,895 | 28,883 |
| | 214,100 | 208,785 |
| Less: accumulated depreciation and amortization | (139,722) | (131,865) |
| Property and equipment, net | $ 74,378 | $ 76,920 |

As of March 31, 2019 and December 31, 2018, total right-of-use assets related to finance leases were $1.2 million and $1.2 million respectively, and were classified as computers and equipment. Accumulated depreciation for assets under finance leases was $0.9 million and $0.8 million at March 31, 2019 and December 31, 2018 respectively.

The Company capitalized software development costs of $4.4 million and $5.7 million for the three months ended March 31, 2019 and 2018, respectively. Amortization expense related to capitalized software development costs was $4.5 million and $3.6 million for the three months ended March 31, 2019 and 2018, respectively. These costs are included in amortization expense in the condensed consolidated statements of income. At March 31, 2019, the unamortized software development costs included in property and equipment in the condensed consolidated balance sheets were $40.3 million.

Total depreciation expense plus amortization of capitalized software development costs, for the three months ended March 31, 2019 and 2018 was $8.2 million and $6.8 million, respectively.

## Note 7 Goodwill and Intangible Assets

*Goodwill*

There is no change in the carrying amount of goodwill for the three months ended March 31, 2019.

*Intangible Assets*

Acquired intangible assets at March 31, 2019 and December 31, 2018 were comprised of the following (in thousands):

| | March 31, 2019 | | | December 31, 2018 | | |
|---|---|---|---|---|---|---|
| | Gross carrying amount | Accumulated amortization | Net | Gross carrying amount | Accumulated amortization | Net |
| Amortizable intangible assets: | | | | | | |
| Client/broker contracts and relationships | $ 237,490 | $ (114,920) | $ 122,570 | $ 237,430 | $ (108,834) | $ 128,596 |
| Trade names | 3,880 | (3,611) | 269 | 3,880 | (3,587) | 293 |
| Technology | 14,646 | (14,249) | 397 | 14,646 | (14,009) | 637 |
| Noncompete agreements | 2,232 | (2,102) | 130 | 2,232 | (2,084) | 148 |
| Favorable lease agreements | 1,134 | (738) | 396 | 1,134 | (713) | 421 |
| Total | $ 259,382 | $ (135,620) | $ 123,762 | $ 259,322 | $ (129,227) | $ 130,095 |

Amortization of intangible assets for both the three months ended March 31, 2019 and 2018 was $6.4 million.

The estimated amortization expense in future periods at March 31, 2019 is as follows (in thousands):

| | As of March 31, 2019 |
|---|---|
| Remainder of 2019 | $ 18,552 |
| 2020 | 22,758 |
| 2021 | 19,953 |
| 2022 | 17,518 |
| 2023 | 14,728 |
| Thereafter | 30,253 |
| Total | $ 123,762 |

## Note 8 Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses at March 31, 2019 and December 31, 2018 were comprised of the following (in thousands):

| | March 31, 2019 | December 31, 2018 |
|---|---|---|
| Payable to benefit providers and transit agencies | $ 26,952 | $ 32,771 |
| Accounts payable and accrued liabilities | 26,911 | 30,148 |
| Accrued compensation and related benefits | 29,064 | 28,594 |
| Other accrued expenses | 4,885 | 5,834 |
| Accounts payable and accrued expenses | $ 87,812 | $ 97,347 |

## Note 9 Long-term debt

As of March 31, 2019 and December 31, 2018, long-term debt consisted of the following (in thousands):

| | March 31, 2019 | December 31, 2018 |
|---|---|---|
| Revolving credit facility used | $ 189,830 | $ 249,830 |
| Less: Outstanding letters of credit | (2,830) | (2,830) |
| Outstanding revolving credit facility | 187,000 | 247,000 |
| Unamortized loan origination fees | (2,231) | (2,307) |
| Long-term debt | $ 184,769 | $ 244,693 |

On April 4, 2017, the Company entered into a Second Amended and Restated Credit Agreement (the “Credit Agreement”) with MUFG Union Bank, N.A., as administrative agent (“Agent”). The Credit Agreement amends and restates the Company’s existing Amended and Restated Credit Agreement, and increased the Company’s borrowing capacity under the revolving credit facility to $400.0 million, with a $15.0 million letter of credit sub-facility. The Credit Agreement contains an increase option permitting the Company, subject to certain conditions and requirements, to arrange with existing lenders and/or new lenders to provide up to an aggregate of $100.0 million in additional commitments. Loan proceeds may be used for general corporate purposes, including acquisitions permitted under the Credit Agreement. The Company may prepay loans under the Credit Agreement in whole or in part at any time without premium or penalty. The fees incurred in connection with this Credit Agreement are classified as a direct deduction from long-term debt in the condensed consolidated balance sheets. The Second Amended Credit Agreement contains financial and non-financial covenants including debt ratio and interest coverage ratio requirements. The Company is currently in compliance with all the covenants under the credit facility.

In the first quarter of 2019, the Company entered into a Third Reporting Extension Agreement and paid the Agent $0.1 million to extend the delivery date of the 2018 Annual Report on Form 10-K to May 10, 2019. In the second quarter of 2019, the Company entered into a Fourth Reporting Extension Agreement and paid the Agent $0.1 million to extend the delivery date of the 2018 Annual Report on Form 10-K to May 31, 2019. The fees incurred were added to loan financing fees to be amortized to interest expense over the remaining life of the loan. The 2018 Annual Report on Form 10-K was filed on May 29, 2019.

As of March 31, 2019, the Company had $187.0 million outstanding under the revolving credit facility and $210.0 million unused revolving credit facility still available to borrow under the Credit Agreement. As of March 31, 2019, the interest rate applicable to the revolving credit facility was 3.99% per annum.

## Note 10 Commitments and Contingencies

### *Operating Leases*

The Company leases office space under noncancelable operating leases and leases various office equipment under finance lease arrangements. The Company's leases have remaining lease terms of approximately 1 to 9 years, which may include the option to extend the lease when it is reasonably certain the Company will exercise that option. The exercise of lease renewal options is at the Company's sole discretion. The components of operating lease expense were as follows (in thousands):

| | Three Months Ended March 31, 2019 |
|---|---|
| Operating lease cost | $ 1,814 |
| Sublease income | (468) |
| Net lease cost | $ 1,346 |

Rent expense under operating lease agreements was $1.5 million for the three months ended March 31, 2018.

Amortization and interest expense related to finance leases were not material during the three months ended March 31, 2019.

As of March 31, 2019, weighted-average remaining lease term and discount rate for the Company's operating leases are 5.1 years and 4.6%, respectively.

As of March 31, 2019, maturities of lease liabilities by fiscal year for the Company's operating leases, excluding the future contractual sublease income of $7.8 million, are as follows (in thousands):

| Years Ending December 31, | Operating Leases |
|---|---|
| 2019 (remainder of year) | $ 7,154 |
| 2020 | 9,700 |
| 2021 | 9,696 |
| 2022 | 6,536 |
| 2023 | 2,308 |
| Thereafter | 5,663 |
| Total minimum lease payments | 41,057 |
| Less: imputed interest | (4,533) |
| Present value of net minimum lease payments | 36,524 |
| Less: current portion | 8,069 |
| Long-term operating lease liabilities | $ 28,455 |

Prior to the adoption of the new leases standard, future minimum lease payments under non-cancelable operating leases, excluding the contractual sublease income of $8.3 million which is expected to be received through February 2023, were as follows as of December 31, 2018 (in thousands):

| Years Ending December 31, | | Operating Leases |
|---|---|---|
| 2019 | $ | 9,479 |
| 2020 | | 9,685 |
| 2021 | | 9,661 |
| 2022 | | 6,536 |
| 2023 | | 2,308 |
| Thereafter | | 5,663 |
| Total future minimum lease payments | $ | 43,332 |

Operating cash flows from operating leases were $2.3 million for the three months ended March 31, 2019.

During the second quarter of 2019, the Company entered into an approximately 10-year lease agreement to occupy 150,000 square feet of new office space in Mesa, AZ. The base rent obligation is expected to commence in the second quarter of 2020. In addition to the base rent payments, the Company will be obligated to pay certain customary amounts for its share of operating expenses and tax obligation. The Company has the option to extend the term of the lease for two additional five-year periods.

***Legal Matters***

The Company is pursuing affirmative claims against the Office of Personnel Management (OPM) to obtain payment for services provided by the Company between March 1, 2016 and August 31, 2016 pursuant to its contract with OPM for the Government's Federal Flexible Account Program ("FSAFEDS"). The Company initially issued its invoice for these services in February 2017. On December 22, 2017, the Company received the Contracting Officer's "final decision" refusing payment of the invoiced amount and otherwise denying the Company's Certified Claim. As a result of this decision, and a related Certified Claim that OPM subsequently denied, on February 8, 2018, the Company filed an appeal to the Civilian Board of Contract Appeals ("CBCA") against OPM for services provided by the Company between March 1, 2016 and August 31, 2016. On August 3, 2018, the Company also filed an appeal to the CBCA of OPM's June 21, 2018 denial of a Request for Equitable Adjustment for extra work associated with a contract modification imposing new security and other requirements not part of the original scope of FSAFED's contract work. In connection with the Company's 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 the Company's claim against OPM as a result. In March 2019, the Company filed a Motion for Summary Judgement with CBCA on the December 22nd denial by the OPM. OPM has moved to defer consideration of the Summary Judgment Motion to permit it further discovery. That Motion has been briefed and the case is on hold pending a ruling by the CBCA which could be handed down any day. In order to accelerate resolution of all matters before the CBCA, the Company's appeal of the June 21st denial by the OPM was withdrawn on April 9, 2019. The remaining claim related to the OPM's December 22nd denial, valued at approximately $6.2 million, is scheduled to go to trial in July 2019 if the pending Summary Judgment is denied by the CBCA. As with all legal proceedings, no assurance can be provided as to the outcome of these matters or if the Company will be successful in recovering the full claimed amount.

On March 9, 2018, a putative class action was filed in the United States 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 the Company, 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 the Company’s 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 and the underwriters of the offering.

On June 22, 2018 and September 6, 2018, two derivative lawsuits were filed against certain of our officers and directors and the Company (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 of our officers and directors and the Company (as nominal defendant) in the United States District Court for the Northern District of California (together, the “Derivative Suits”).

The Derivative Suits purport to allege claims related to breaches of fiduciary duties, waste of corporate assets, and unjust enrichment. In addition, the complaint in District Court includes a claim for abuse of control, and the complaint in Superior Court includes a claim to require the Company to hold an annual shareholder meeting. 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. In addition, the complaint in the Superior Court seeks for us to provide past operational reports and financial statements, to publish timely and accurate operational reports and financial statements going forward, to hold an annual shareholder meeting, and to take steps to improve its corporate governance and internal procedures.

Plaintiffs in the Superior Court action filed a Consolidated Complaint on May 2, 2019. As stipulated by the parties, and approved by the District Court, the District Court action is stayed. The parties in the District Court action are to notify the District Court within 15 days of (1) the dismissal of the Securities Class Action, (2) the denial of defendants’ motion(s) to dismiss, or (3) a party giving notice that they no longer consent to the voluntary stay.

The Company voluntarily contacted the San Francisco office of the SEC Division of Enforcement regarding the restatement and independent investigation. The Company is providing information and documents to the SEC and will continue 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. The Company has provided documents and information to the U.S. Attorney’s Office and will continue to cooperate with any inquiries by the U.S. Attorney’s Office regarding the matter.

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 additional liabilities relating to other unresolved matters are probable or that the amount of any resulting loss is estimable. In addition, in accordance with the relevant authoritative guidance, for matters which the likelihood of material loss is at least reasonably possible, the Company provides disclosure of the possible loss or range of loss. If a reasonable estimate cannot be made, the Company will provide disclosure to that effect. 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 or cash flows for the period in which the unfavorable outcome occurs, and potentially in future periods.

The Company is 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 and the advice of counsel, that such litigation, proceedings and claims will not have a material impact on the Company’s financial position or results of operations.

**Note 11 Stockholders’ Equity**

***Share Repurchase Program***

On August 6, 2015, the Company’s Board of Directors authorized a $100 million stock repurchase program for 3 years which commenced on November 5, 2015 and expired on November 4, 2018. There were no shares of common stock repurchased during the three months ended March 31, 2018.

On March 11, 2019, the Company's Board of Directors authorized a $150 million stock repurchase program for 3 years which commenced on March 13, 2019 and expires on March 12, 2022. Stock repurchases may be made from time-to-time in open market transactions, privately negotiated transactions, through accelerated share repurchase programs, or by any combination of such methods. The timing of any repurchases and the actual number of shares repurchased will depend on a variety of factors, including the Company's stock price, corporate and regulatory requirements, restrictions under its debt obligations and other market and economic conditions. No shares of common stock have been repurchased under this program to date.

**Note 12 Employee Benefit Plans**

***Stock-based compensation***

Stock-based compensation is classified in the condensed consolidated statements of income in the same expense line items as cash compensation. Amounts recorded as expense in the condensed consolidated statements of income were as follows (in thousands):

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| Cost of revenues | $ 525 | $ 1,667 |
| Technology and development | 515 | 575 |
| Sales and marketing | 631 | 978 |
| General and administrative | 1,233 | 4,073 |
| Total | $ 2,904 | $ 7,293 |

***(a) Employee Stock Option Plan***

In May 2010, the Company adopted the 2010 Equity Incentive Plan ("2010 Plan"). Under the 2010 Plan, the Company can grant share-based awards to all employees, including executive officers, outside consultants and non-employee directors. Options under 2010 Plan generally has a term of 10 years and vest over 4 years with 25% vesting after one year of service and monthly vesting over the remaining period. As of March 31, 2019, the 2010 Plan has a total of 5.4 million common stock shares available for issuance.

There were no stock options granted in the first quarter of 2018 or 2019.

Stock option activity for the three months ended March 31, 2019 was as follows (shares in thousands):

| | Shares | Weighted-average exercise price | Remaining contractual term (in years) | Aggregate intrinsic value (in thousands) |
|---|---|---|---|---|
| Outstanding at December 31, 2018 | 2,219 | $ 46.50 | 5.11 | $ 4,321 |
| Granted | — | | | |
| Exercised | — | | | |
| Forfeited and cancelled | (4) | $ 53.47 | | |
| Outstanding as of March 31, 2019 | 2,215 | $ 46.49 | 4.82 | $ 8,892 |
| Vested and expected to vest at March 31, 2019 | 2,189 | $ 46.32 | 4.79 | $ 8,895 |
| Exercisable at March 31, 2019 | 1,914 | $ 44.16 | 4.43 | $ 8,895 |

As of March 31, 2019, there was $6.3 million of total unrecognized stock-based compensation expense associated with stock options which will be recognized over a weighted-average period of approximately 1 year. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures.

***(b) Restricted Stock Units***

The Company grants restricted stock units ("RSU") to certain employees, officers, and directors under the 2010 Plan. Restricted stock units vest upon performance-based or service-based criteria.

During the three months ended March 31, 2019 and 2018, the company granted zero performance-based restricted stock units. Performance-based restricted stock units are typically granted such that they vest upon the achievement of certain revenue growth rates and other financial metrics during a specified performance period for which participants have the ability to receive up to 200% of the target number of shares originally granted, depending on terms of the grant agreement.

Stock-based compensation expense related to restricted stock units was $1.5 million and $4.1 million for the three months ended March 31, 2019 and 2018, respectively. Total unrecorded stock-based compensation expense at March 31, 2019 associated with restricted stock units was estimated at $7.9 million, which is expected to be recognized over a weighted-average period of approximately 1 year.

The following table summarizes information about restricted stock units issued to officers, directors and employees under the 2010 Plan (shares in thousands):

| | | | Weighted-average grant date fair value | |
|---|---|---|---|---|
| | Service-based RSUs | Performance-based RSUs | Service-based RSUs | Performance-based RSUs |
| Unvested at December 31, 2018 | 164 | 200 | $ 61.79 | $ 59.76 |
| Granted | — | — | — | — |
| Vested | (11) | (88) | $ 55.86 | $ 43.63 |
| Forfeited and cancelled | (4) | — | $ 60.58 | $ — |
| Unvested at March 31, 2019 | 149 | 112 | $ 62.26 | $ 72.30 |

As of March 31, 2019, there were 0.1 million and 0.4 million cumulative vested Service-based and Performed-based RSUs which were not yet released due to the Company's delay in filing its SEC reports.

**Note 13 Income Taxes**

The Company reports income taxes using an asset and liability approach, under which deferred income taxes are provided based upon enacted tax laws and rates applicable to periods in which the taxes become payable. The Company is subject to income taxes in the U.S. federal and various state jurisdictions. Presently, there are no income tax examinations on-going in the jurisdictions where the Company operates.

The Company's effective tax rate was 25.9% and 20.6% for the three months ended March 31, 2019 and 2018, respectively. The income tax provision for the three months ended March 31, 2019 and 2018 was $1.4 million and $2.9 million, respectively.

As of March 31, 2019, the Company remains in a net deferred tax asset position. The realization of the Company's deferred tax assets depends primarily on its ability to generate sufficient U.S. taxable income in future periods. The amount of deferred tax assets considered realizable may increase or decrease in subsequent quarters as management reevaluates the underlying basis for the estimates of future domestic taxable income.

**Note 14 Subsequent Events**

On June 27, 2019, the Company announced that it entered into a definitive agreement under which HealthEquity, Inc. will acquire all of its issued and outstanding shares of common stock for $51.35 per share in cash.

On May 23, 2019, each of our executive officers (other than our Executive Chairman and CEO) entered into a change in control and severance agreement.

In June 2019, the Board of Directors approved a grant of 728,297 RSUs to directors, executives, and employees of the Company.

# Management's Discussion and Analysis of Financial Condition and Results of Operations of WageWorks, Inc. for the year ended December 31, 2018

*This management's discussion and analysis provides a review of the results of operations, financial condition and liquidity and capital resources of WageWorks, Inc. ("WageWorks", "we", "us", "our" or the "Company" refer to WageWorks, Inc. and its wholly owned subsidiaries) and outlines the factors that have affected recent results, as well as those factors that may affect future results. Our actual results in the future may differ materially from those anticipated in these forward looking statements as a result of many factors, including those set forth under "Risk Factors," "Forward Looking Statements" and elsewhere in WageWorks's Annual Report on Form 10-K for the year ended December 31, 2018. The following discussion and analysis should be read in conjunction with WageWorks's Consolidated Financial Statements and related notes included in Exhibit 99.1 to this Current Report on Form 8-K.*

## Overview

### Our Business

We are a leader in administering CDBs which empower employees to save money on taxes while also providing corporate tax advantages for employers. We are solely dedicated to administering CDBs, including pre-tax spending accounts such as HSAs, health and dependent care FSAs, HRAs, as well as commuter benefit services, including transit and parking programs, wellness programs, COBRA and other employee benefits in the United States.

In September 2015, we entered into our second partner arrangement with Ceridian to transition their COBRA and direct bill portfolio to WageWorks. This relationship also allows Ceridian to resell the Company's COBRA and direct bill services to their new and existing clients, in addition to the full suite of healthcare and commuter products they have been selling. Pursuant to the arrangement, transition of the portfolio was completed by the second quarter of 2016.

In March 2016, we were selected by the OPM to administer its FSAFEDS. This relationship provides eligible federal employees access to our advanced technology platform and premium service capabilities.

On November 28, 2016, we completed the transaction with ADP, a leading global provider of Human Capital Management solutions, to acquire the "the ADP CHSA/COBRA Business" for approximately $235.0 million in cash.

## Critical Accounting Policies and Significant Management Estimates

Our consolidated financial statements are prepared in accordance with U.S. GAAP. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, costs and expenses and related disclosures. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. In many instances, we could have reasonably used different accounting estimates, and in other instances, changes in the accounting estimates are reasonably likely to occur from period-to-period. Accordingly, actual results could differ significantly from the estimates made by our management. To the extent that there are material differences between these estimates and actual results, our future financial statement presentation, financial condition, results of operations and cash flows will be affected.

In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require management's judgment in its application, while in other cases, management's judgment is required in selecting among available alternative accounting standards that allow different accounting treatment for similar transactions. We believe that there are several accounting policies that are critical to understanding our business and prospects for future performance, as these policies affect the reported amounts of revenues and other significant areas that involve management's judgment and estimates. These significant policies and our procedures related to these policies are described in detail below. In addition, please refer to Note 1. Summary of Business and Significant Accounting Policies, in the Notes to Consolidated Financial Statements of this Annual Report Form 10-K for further discussion of our accounting policies.

**Revenue Recognition**

On January 1, 2018, we adopted the requirements of Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASC 606") as discussed further in Recently Adopted Accounting Pronouncements below. ASC 606 establishes a principle for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. ASC 606 also includes Subtopic 340-40, Other Assets and Deferred Costs-Contracts with Customers, which requires the deferral of incremental costs of obtaining a contract with a customer. Collectively, references to ASC 606 used herein refer to both ASC 606 and Subtopic 340-40.

We account for revenue contracts with customers by applying the requirements of ASC 606, which include the following steps:

- Identification of the contract, or contracts, with the customer;

- Identification of the performance obligations in the contract;

- Determination of the transaction price;

- Allocation of the transaction price to the performance obligations in the contract; and

- Recognition of the revenue when, or as, the Company satisfies a performance obligation.

Our revenues are derived primarily from benefit service administration, interchange fees, commissions revenue, and other revenue. Other revenue includes services related to enrollment and eligibility, non-healthcare, and employee account administration (i.e., tuition and health club reimbursements) and project-related professional services. We account for individual products and services separately if they are distinct-that is, if a product or service is separately identifiable from other items in the contract and if a customer can benefit from it on its own or with other resources that are readily available to the customer.

We account for a contract with a customer when there is approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable. We measure revenue based on the consideration specified in the contract with each customer, net of any sales incentives and taxes collected on behalf of government authorities. To the extent the transaction price includes variable consideration, and we are unable to apply the variable consideration allocation exception, we estimate the amount of variable consideration that should be included in the transaction price utilizing the expected value method based on term of billing arrangements and historical data. We recognize revenue in a manner that best depicts the transfer of promised goods or services to the customer, when control of the product or service is transferred to a customer. We make significant judgments when determining the appropriate timing of revenue recognition.

Based upon similar operational and economic characteristics, the Company's revenues are disaggregated into Healthcare, Commuter, COBRA and Other revenue. The Company believes these revenue categories depict how the nature, amount, timing, and uncertainty of its revenue and cash flows are affected by economic factors.

- Healthcare and commuter programs include revenues generated from the monthly administration services based on employee participant levels and interchange and other commission revenues.

- COBRA revenue is generated from the administration of continuation of coverage services for participants who are no longer eligible for the employer's health benefits, such as medical, dental, vision and for the continued administration of employee participants' Health Reimbursement Arrangements ("HRAs"), and certain healthcare Flexible Spending Accounts ("FSAs").

- Other revenue includes services related to enrollment and eligibility, non-healthcare, employee account administration (i.e., tuition and health club reimbursements).

Within our Healthcare and Commuter service lines, we have determined that our administration services are a single continuous service comprised of a series of distinct services that are substantially the same and that have the same pattern of transfer (i.e. distinct days of service). These services are consumed as they are received and the Company recognizes service revenue over time on a monthly basis as it satisfies its performance obligations. As such, the Company recognizes revenue in each month for the administration services provided in that month using the variable consideration allocation exception. The Company applies this exception because it concluded that the nature of its obligations and the variable payment terms are aligned and the uncertainty related to the consideration is resolved on a monthly basis as the Company satisfies its obligations. The administration services are typically billed in the period in which services are performed.

COBRA requires employers to make health coverage available for terminated employees for a period of up to 36 months post-termination. Similar to our Healthcare and Commuter service lines, our COBRA administration services are a single continuous service. These services are consumed as they are received and the Company recognizes service revenue over time on a monthly basis as it satisfies its performance obligations. As such, the Company recognizes revenue in each month for the COBRA administration services provided in that month using the variable consideration allocation exception. The administration services are typically billed in the period in which services are performed.

We also recognize revenues that are generated from the use of debit cards used by employee participants related to the distribution, management and monitoring of such cards which are used by participants in connection with our benefits administration services for Healthcare and Commuter service lines. These related fees are known as interchange fees and are based upon a percentage of the amounts transacted on each card. We have determined that our performance obligation for interchange is a single continuous service, which is satisfied over time each month. Therefore, we recognize interchange revenue on a monthly basis based on the services provided and use the variable consideration allocation exception. The interchange revenues are typically billed in the period in which services are performed.

Professional services revenue consists of fees related to services provided to the Company’s employer clients to accommodate their reporting or administrative requirements. We recognize revenue from professional services as the services are performed or upon written acceptance from customers, if applicable, or acceptance provisions have lapsed assuming all other conditions for revenue recognition noted above have been met.

***Contract Assets*** Contract assets include amounts related to our enforceable right to consideration for completed performance obligations not yet invoiced. The contract assets are transferred to the receivables balance when the rights become unconditional.

***Contract Liabilities*** Contract liabilities are recorded as deferred revenues and include payments received in advance of performance under the contract. We generally invoice our customers for services as they are provided on a monthly basis, however in limited instances we may invoice in advance of services to be provided. Contract liabilities are recognized as revenue when the services are provided to the customer. Contract liabilities that are anticipated to be recognized during the succeeding twelve-month period are recorded as current deferred revenue and the remaining portion is recorded as noncurrent.

***Contract Costs*** ASC 606 requires the recognition of an asset for the incremental costs of obtaining a contract with a customer if the entity expects to recover such costs. Incremental costs are costs that would not have been incurred if the contract had not been obtained. Examples of contract costs are commissions paid to sales personnel. Sales commissions earned by the Company’s sales force are considered incremental and recoverable costs of obtaining a contract with a customer. Sales commissions for initial contracts are deferred and then amortized on a straight-line basis over a period of benefit that has been determined to be six years which approximates the transfer of benefits to customers. The Company determined the period of benefit by taking into consideration the length of customer contracts, useful life of developed technology, regulatory oversight the Company is subject to, and other factors. Amortization expense is included in sales and marketing expenses in the Consolidated Statements of Income.

***Stock-based Compensation***

Stock-based compensation expense is estimated at the grant date based on the award's fair value as calculated by the Black-Scholes or Monte Carlo option pricing model or the market value of our stock on the grant date and is recognized as an expense over the requisite service period, which is generally the vesting period. The determination of the fair value of stock-based awards on the date of grant using an option pricing model is affected by our stock price as well as assumptions regarding a number of complex and subjective variables. These variables include the estimated volatility over the expected term of the awards, actual and projected employee stock option exercise behaviors, risk-free interest rates, estimated forfeitures and expected dividends.

RSUs and Performance-contingent Stock Units ("PSUs") are measured based on the fair market values of the underlying stock on the dates of grant. The vesting of PSUs awarded is conditioned upon the attainment of performance objectives over a specified period and upon continued employment through the applicable vesting date. At the end of the performance period, shares of stock subject to PSUs vest based upon both the level of achievement of performance objectives within the performance period and continued employment through the applicable vesting date.

Stock-based compensation expense is calculated based on awards ultimately expected to vest and is reduced for estimated forfeitures at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The estimated annual forfeiture rates for stock options, RSUs, and PSUs are based on historical forfeiture experience.

The estimated fair value of stock options and RSUs are expensed on a straight-line basis over the vesting term of the grant and the estimated fair value of PSUs are expensed using an accelerated method over the term of the award once management has determined that it is probable that the performance objective will be achieved. Compensation expense is recorded over the requisite service period based on management's best estimate as to whether it is probable that the shares awarded are expected to vest. Management assesses the probability of the performance milestones being met on a continuous basis.

We estimate expected volatility based on the historical volatility of comparable companies from a representative peer-group as well as our own historical volatility. We estimate expected term based on historical experience, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior such as exercises and forfeitures. We based the risk-free interest rate on zero-coupon yields implied from U.S. Treasury issues with remaining terms similar to the expected term on the options. We do not anticipate paying any cash dividends in the foreseeable future, and therefore, used an expected dividend yield of zero in the option pricing model. We estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. The estimated attainment of performance-based awards and related expense is based on the expectations of revenue and earnings before interest, tax and depreciation and amortization ("EBITDA") target achievement over a specified three year performance period. If we use different assumptions for estimating stock-based compensation expense in future periods, or if actual forfeitures differ materially from our estimated forfeitures, future stock-based compensation expense may differ significantly from what we have recorded in the current period and could materially affect our income from operations, net income and net income per share.

***Cash, Cash Equivalents, and Restricted Cash***

The Company considers all highly liquid investments with an original maturity of 90 days or less to be cash equivalents. Cash and cash equivalents, consist of cash on deposit with banks and money market funds, stated at cost, as well as commercial paper with an original maturity of less than 90 days as further described under *Marketable Securities* below. To the extent the Company's contracts do not provide for any restrictions on the Company's use of cash that it receives from clients, the cash is recorded as cash and cash equivalents.

The majority of the Company's cash represents funding and pre-funding balances received from customers for which the Company has a corresponding current obligation. In all cases where we have collected cash from a customer but not fulfilled services (the payment of participant healthcare claims or commuter benefits), the Company recognizes a related liability to its customers, classified as customer obligations in the accompanying consolidated balance sheets.

Restricted cash represents cash used to collateralize standby letters of credit which were issued to the benefit of a third party to secure a contract with the Company.

***Marketable Securities***

The Company determines the classification of its investments in marketable securities at the time of purchase and accounts for them as available-for-sale. Marketable securities of highly liquid investments with stated maturities of three months or less when purchased are classified as cash equivalents and those with stated maturities of between three months and one year as short-term investments. Marketable securities with maturities beyond twelve months are also included in short-term investments within current assets as the Company intends for its investments to support current operations and other strategic initiatives. These securities are reported at fair value, which includes the accrued interest of interest-bearing securities. Unrealized gains and losses, net of taxes, are included in accumulated other comprehensive loss as a component of stockholders' equity, except for unrealized losses determined to be other-than-temporary which will be recorded within other income (expense). Realized gains and losses on the sale of marketable securities are recorded in other income (expense).

***Receivables***

Receivables represent both trade receivables from customers in relation to fees for the Company's services and unpaid amounts for benefit services provided by third-party vendors, such as transit agencies and healthcare providers for which the Company records a receivable for funding and a corresponding customer obligations liability until the Company disburses the balances to the vendors. The Company provides for an allowance for doubtful accounts by specifically identifying accounts with a risk of collectability and providing an estimate of the loss exposure. The Company reviews its allowance for doubtful accounts on a quarterly basis. Account balances are written off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

The Company offsets on a customer by customer basis unpaid amounts for benefit services and customer obligation balances for financial reporting presentation. Additionally, the Company offsets outstanding trade and non-trade receivables, including any debit or credit memos, against any prefund balances after plan year close or upon termination of services both based on the completion of a full reconciliation with the customer.

***Impairment of Long-lived Assets***

The Company reviews long-lived assets for indicators of impairment whenever events or changes in circumstances indicate that the carrying amounts of such assets may not be recoverable. An impairment of long-lived assets exists when the carrying amount of a long-lived asset group, exceeds its fair value. Impairment losses are recorded when the carrying amount of the impaired asset group is not recoverable. Recoverability is determined by comparing the carrying amount of the asset or asset group to the undiscounted cash flows which are expected to be generated from its use. If the carrying amount of the asset group exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset or asset group exceeds its fair value.

***Acquisitions, Goodwill and Definite lived Intangible Assets***

The cost of an acquisition is allocated to the tangible assets and definite lived intangible assets acquired and liabilities assumed based on their fair value at the date of acquisition. Goodwill represents the excess cost over the fair value of net assets acquired in the acquisition and is not amortized, but rather is tested for impairment.

Definite lived intangible assets, consisting of client/broker contracts and relationships, trade names, technology, noncompete agreements and favorable lease arrangements, are stated at cost less accumulated amortization. All definite lived intangible assets are amortized on a straight-line basis over their estimated remaining economic lives, generally ranging from one to ten years. Amortization expense related to these intangible assets is included in amortization expense on the consolidated statements of income.

The Company performs a goodwill impairment test at least annually and more frequently if events and circumstances indicate that the asset might be impaired. In 2018, we changed the date of our annual impairment test from

December 31 to October 1. The change was made to more closely align the impairment testing date with our long-range planning and forecasting process, and does not represent a material change to a method of applying an accounting principle. The change in accounting

principle related to changing our annual impairment testing date did not delay, accelerate, or avoid an impairment charge.

The following are examples of triggering events that could indicate that the fair value of a reporting unit has fallen below the unit's carrying amount:

- A significant adverse change in legal factors or in the business climate
- An adverse action or assessment by a regulator
- Unanticipated competition
- A loss of key personnel
- A more-likely than-not expectation that a reporting unit or a significant portion of a reporting unit will be sold or otherwise disposed of

An impairment loss is recognized to the extent that the carrying amount exceeds the reporting unit's fair value. When reviewing goodwill for impairment, the Company assesses whether goodwill should be allocated to operating levels lower than the Company's single operating segment for which discrete financial information is available and reviewed for decision-making purposes. These lower levels are referred to as reporting units. The Company's chief operating decision maker, the Chief Executive Officer, does not allocate resources or assess performance at the individual healthcare, commuter, COBRA or other revenue stream level, but rather at the operating segment level. Discrete financial information is therefore not maintained at the revenue stream level. The Company's one reporting unit was determined to be the Company's one operating segment.

The goodwill impairment analysis is a two-step process: first, the reporting unit's estimated fair value is compared to its carrying value, including goodwill. If the Company determines that the estimated fair value of the reporting unit is less than its carrying value, the Company moves to the second step to determine the implied fair value of the reporting unit's goodwill. If the carrying amount of the reporting unit's goodwill exceeds its implied fair value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of the reporting unit in a manner similar to a purchase price allocation.

Whenever events or circumstances change, entities have the option to first make a qualitative evaluation about the likelihood of goodwill impairment. If impairment is deemed more likely than not, management would perform the two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. In assessing the qualitative factors, the Company assesses relevant events and circumstances that may impact the fair value and the carrying amount of the reporting unit. The identification of relevant events and circumstances and how these may impact a reporting unit's fair value or carrying amount involve significant judgments and assumptions. The judgment and assumptions include the identification of macroeconomic conditions, industry and market considerations, overall financial performance, Company specific events and share price trends and making the assessment on whether each relevant factor will impact the impairment test positively or negatively and the magnitude of any such impact.

***Customer Obligations Liability***

Many of our customer agreements include provisions whereby our customer remit funds to us which represent prefunds of employer / client and employee participant contributions related to FSA, HRA and commuter programs. The agreements do not represent restricted cash and accordingly the amounts received are included in cash and cash equivalents on our consolidated balance sheets with a corresponding liability recorded as customer obligations. Our customers generally provide us with prefunds for their FSA and HRA programs based on a percentage of projected spending by the employee participants for the plan year and other factors. In the case of our commuter program, at the

beginning of each month we receive prefunds based on the employee participants' monthly elections. These prefunds are typically replenished throughout the year by our FSA, HRA and commuter clients as customers are provided benefits under these programs.

The Company offsets on a customer by customer basis unpaid amounts for benefit services and customer obligation balances for financial reporting presentation. Additionally, the Company offsets outstanding trade and non-trade receivables, including any debit or credit memos, against any prefund balances after plan year close or upon termination of services both based on the completion of a full reconciliation with the customer.

***Business Combination***

We record acquisitions using the acquisition method of accounting. All of the assets acquired and liabilities assumed, are recognized at their fair value as of the acquisition date. The excess of the purchase price over the estimated fair values of the net tangible and net intangible assets acquired is recorded as goodwill. The application of the acquisition method of accounting for business combinations requires management to make significant judgments, estimates and assumptions in the determination of the fair value of assets acquired and liabilities assumed in order to allocate purchase price consideration. Our estimates are based on historical experience, information obtained from the management of the acquired companies and, assistance from independent third-party appraisal firms. Our significant assumptions and estimates include, but are not limited to, the cash flows for customer relationships, developed technology, the estimated cost of capital, and the cost savings expected to be derived from acquiring an asset. These estimates are inherently uncertain and unpredictable. In addition, unanticipated events and circumstances may occur which may affect the accuracy or validity of such estimates. See Note 4, Acquisitions and Channel Partner Arrangements in the Notes to our Consolidated Financial Statements included in this Annual Report on Form 10-K.

***Recent Accounting Pronouncements***

See Note 1, Summary of Business and Significant Accounting Policies in the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for the impact of certain recent accounting pronouncements on our consolidated financial statements.

**Results of Operations**

***Revenues***

| | Year Ended December 31, | | | | | | Change from prior year | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | % of Revenue | 2017 | % of Revenue | 2016 | % of Revenue | 2018 | 2017 |
| | (in thousands) | | | | | | | |
| **Revenues:** | | | | | | | | |
| Healthcare | $ 274,861 | 58% | $ 274,815 | 58% | $ 195,108 | 55% | $ 46 | $ 79,707 |
| COBRA | 106,161 | 23% | 111,607 | 23% | 73,765 | 21% | (5,446) | 37,842 |
| Commuter | 75,936 | 16% | 72,874 | 15% | 70,215 | 20% | 3,062 | 2,659 |
| Other | 15,226 | 3% | 16,799 | 4% | 16,473 | 4% | (1,573) | 326 |
| Total revenues | $ 472,184 | 100% | $ 476,095 | 100% | $ 355,561 | 100% | $ (3,911) | $ 120,534 |

*Healthcare Revenue*

We derive our healthcare revenue primarily from the service fees paid by our employer clients for the administration services we provide in connection with their employee participants' FSAs, HRAs and HSAs. We also earn interchange revenue paid by financial institutions related to transaction fees on debit cards used by employee participants in connection with all of our healthcare programs and through our wholesale card program, and revenue from self-service plan kits called Premium Only Plan kits.

The increase in healthcare revenue from 2017 to 2018 was driven by an increase in HSA clients and custodial interest, partially offset by a reduction in FSA clients.

The $79.7 million, or 41% increase in healthcare revenue from 2016 to 2017 was driven by an increase in FSA and HSA revenue due to the addition of new clients, including FSAFEDS, and growth in employee participation in the programs. The increase in healthcare revenue was also driven by the ADP CHSA Business acquired in November 2016 which includes interchange services. The acquired ADP business contributed approximately $55.8 million of additional revenue during the year ended December 31, 2017.

*COBRA Revenue*

COBRA revenue is derived from administration services we provide to employer clients for continuation of coverage for participants who are no longer eligible for the employer's health benefits, such as medical, dental and vision, and for the continued administration of the employee participants' HRAs and certain healthcare FSAs.

The $5.4 million, or 5% decrease in COBRA revenue from 2017 to 2018 was driven by a decrease in clients due to a combination of partnership termination and ADP platform losses, partially offset by an increase in annual notice fees.

The $37.8 million, or 51% increase in COBRA revenue from 2016 to 2017 was driven primarily by the ADP COBRA Business acquired in November 2016. Additionally, COBRA revenue increased as a result of revenue generated from our Ceridian business with customers joining throughout the first half of 2016. The acquired ADP business contributed approximately $33.4 million of additional revenue during the year ended December 31, 2017.

*Commuter Revenue*

We derive our commuter revenue from monthly service fees paid by our employer clients, interchange revenue paid by financial institutions related to transaction fees on debit cards used by employee participants in connection with our commuter solutions and commissions from the sale of transit passes used in our commuter solutions which we purchase from various transit agencies on behalf of employee participants.

The $3.1 million, or 4% increase in commuter revenue from 2017 to 2018 was primarily due to the addition of clients, growth in the number of employee participants and an increase in interchange fee revenue.

The $2.7 million, or 4% increase in commuter revenue from 2016 to 2017 was primarily due to the addition of clients, growth in the number of employee participants and an increase in interchange fee revenue.

*Other Revenue*

Other revenue includes enrollment and eligibility services, employee account administration (i.e., tuition and health club reimbursements) and project-related professional fees.

The $1.6 million, or 9% decrease in other revenue from 2017 to 2018 was driven by a decrease in enrollment and eligibility services.

The $0.3 million, or 2% increase in other revenue from 2016 to 2017 is not significant.

***Cost of Revenues***

| | Year Ended December 31, (in thousands) | | | Change from prior year | |
|---|---|---|---|---|---|
| | 2018 | 2017 | 2016 | 2018 | 2017 |
| Cost of revenues (excluding amortization of internal use software) | $ 154,804 | $ 173,661 | $ 129,046 | $ (18,857) | $ 44,615 |
| Percentage of revenue | 33% | 36% | 36% | | |

Cost of revenues consist of direct expenses for claims processing, product support and customer service personnel, outsourced and temporary labor, check/ACH payment processing services, debit card processing services, shipping and handling, passes and employee participant communications.

The $18.9 million, or 11% decrease in cost of revenues from 2017 to 2018 was driven by lower outside service provider costs due to lower transitional costs and lower employee and office/facilities costs, partially offset by higher technology costs.

The $44.6 million or 35% increase in cost of revenues from 2016 to 2017 was primarily due to increases in outsourced services and compensation costs for headcount to support the ADP CHSA/COBRA Business acquired in November 2016. We also incurred additional compensation costs to administer FSAFEDS.

Cost of revenues will continue to be affected by our portfolio purchases, acquisitions and channel partner arrangements. Prior to migrating to our proprietary technology platforms, these new portfolios often operate with higher service delivery costs that result in increased cost of revenues until we are able to complete the migration process, which typically occurs over the 12 to 24 month period following closing of the portfolio purchase or acquisition.

***Technology and Development***

| | Year Ended December 31, | | | Change from prior year | |
|---|---|---|---|---|---|
| | 2018 | 2017 | 2016 | 2018 | 2017 |
| | (in thousands) | | | | |
| Technology and development | $ 53,079 | $ 56,362 | $ 44,719 | $ (3,283) | $ 11,643 |
| Percent of revenue | 11% | 12% | 13% | | |

Technology and development expenses consist of personnel and related expenses, outsourced programming services, on-demand technology infrastructure, and expenses associated with equipment and software development.

The $3.3 million, or 6% decrease in technology and development expenses from 2017 to 2018 was driven by a decrease in outside service provider costs, partially offset by increased software expenses and depreciation.

The $11.6 million, or 26% increase in technology and development expenses from 2016 to 2017 was primarily due to an increase in compensation costs to support the ADP CHSA/COBRA Business and to administer FSAFEDS. We also incurred additional compensation costs to service clients acquired from Ceridian. Additionally, our outsourced service costs also increased to support the ADP CHSA Business acquired in November 2016.

We intend to continue enhancing the functionality of our software platform and increase investment in research and development as part of our continuous effort to improve our employer client and employee participant experience and to maintain and enhance our control and compliance environment. The timing of development and enhancement projects, including the nature of expenditures as well as the phase of the project that could require capitalization or expense treatment, will significantly affect our technology and development expense both in dollar amount and as a percentage of revenues.

***Sales and Marketing***

| | Year Ended December 31, | | | Change from prior year | |
|---|---|---|---|---|---|
| | 2018 | 2017 | 2016 | 2018 | 2017 |
| | (in thousands) | | | | |
| Sales and marketing | $ 73,092 | $ 64,111 | $ 57,083 | $ 8,981 | $ 7,028 |
| Percent of revenue | 15% | 13% | 16% | | |

Sales and marketing expenses consist primarily of compensation and related benefit costs for our sales, client services and marketing staff, including sales commissions for our direct sales force and external agents and brokers, as well as communication, promotional, public relations and other marketing expenses.

The $9.0 million or 14% increase in sales and marketing expense from 2017 to 2018 was driven by increased employee costs, partially offset by decreased outside service provider costs.

The $7.0 million or 12% increase in sales and marketing expense from 2016 to 2017 was primarily due to an increase in compensation and related benefit costs to support client relationships, attributed primarily to increased costs after the ADP acquisition.

We continue to invest in sales, client services and marketing by hiring additional personnel and continuing to build our broker and channel relationships. We also promote our brand through a variety of marketing and public relations activities. As a result, we expect our sales and marketing expenses to increase in dollar amounts in future periods.

***General and Administrative***

| | Year Ended December 31, | | | Change from prior year | |
|---|---|---|---|---|---|
| | 2018 | 2017 | 2016 | 2018 | 2017 |
| | (in thousands) | | | | |
| General and administrative | $ 101,577 | $ 72,150 | $ 60,324 | $ 29,427 | $ 11,826 |
| Percent of revenue | 22% | 15% | 17% | | |

General and administrative expenses include personnel and related expenses and professional fees incurred by our executive, finance, legal, human resources and facilities departments.

The $29.4 million, or 41% increase in general and administrative expenses from 2017 to 2018 was driven by an increase in professional fees attributed to the restatement and audit committee investigations, partially offset by a decrease in stock-based compensation expense due to executive departures and a decline in stock price.

The $11.8 million, or 20% increase in general and administrative expenses from 2016 to 2017 was primarily due to an increase in headcount and related benefit costs including stock-based compensation expense. As a result of our growth, we increased headcount, incurred additional client costs and increased various outsourced administrative services. Additionally, our facility costs increased as we expanded our operations.

As we continue to grow, we expect our general and administrative expenses to increase in absolute dollars as we expand general and administrative headcount to support our continued growth. In addition, we expect the expenses to remain at the elevated levels in the future as a result of professional fees in connection with our restatement and control remediation activities.

***Amortization and Impairment***

| | Year Ended December 31, | | | Change from prior year | |
|---|---|---|---|---|---|
| | 2018 | 2017 | 2016 | 2018 | 2017 |
| | (in thousands) | | | | |
| Amortization and impairment | $ 41,456 | $ 37,890 | $ 37,175 | $ 3,566 | $ 715 |
| Percent of revenue | 9% | 8% | 10% | | |

Our amortization consists of two components: amortization of internal use software and amortization of acquired intangible assets. We capitalize our software development costs related to the development and enhancement of our business solution. When the technology is available for its intended use, the capitalized costs are amortized over the technology's estimated useful life, which is generally four years. Acquisition-related intangible assets are also amortized over their estimated useful lives.

The $3.6 million or 9% increase in amortization from 2017 to 2018 was driven by an increase in amortization of internal use software due to increased investment in software development projects.

The $0.7 million or 2% increase in amortization from 2016 to 2017 was driven primarily by the amortization of intangible assets acquired in November 2016 in connection with the ADP CHSA/COBRA Business combination, partially offset by a decrease in amortization expense related to two one-time events that occurred in 2016. In 2016, we terminated a significant customer relationship in our health insurance exchange business resulting in a $3.8 million acceleration of amortization expense. Additionally, in 2016, we recorded a $3.7 million impairment charge for KP Connector, as discussed in Note 7 Property and Equipment.

***Employee Termination and Other Charges***

| | Year Ended December 31, | | | Change from prior year | |
|---|---|---|---|---|---|
| | 2018 | 2017 | 2016 | 2018 | 2017 |
| | (in thousands) | | | | |
| Employee termination and other charges | $ 3,792 | $ 1,489 | $ 1,147 | $ 2,303 | $ 342 |

The $2.3 million or 155% increase from 2017 to 2018 was driven by executive departures in 2018.

The $0.3 million or 30% increase from 2016 to 2017 is not significant.

***Other Income (Expense)***

| | Year Ended December 31, | | | Change from prior year | |
|---|---|---|---|---|---|
| | 2018 | 2017 | 2016 | 2018 | 2017 |
| | (in thousands) | | | | |
| Interest income | $ 5,849 | $ 1,147 | $ 406 | $ 4,702 | $ 741 |
| Interest expense | (10,087) | (7,293) | (2,717) | (2,794) | (4,576) |
| Other income (expense) | (31) | (316) | 1,075 | 285 | (1,391) |

The $4.7 million, or 410% increase in interest income from 2017 to 2018 was driven by a full year of investing activity during 2018 as we commenced our investment program during the third quarter of 2017. Additionally, during 2018, we continued to add to the size of our investment portfolio.

The $0.7 million, or 183% increase in interest income from 2016 to 2017 was driven by an increase in interest rates in 2017.

The $2.8 million, or 38% increase in interest expense from 2017 to 2018 was driven by increased borrowings on our revolving credit facility in 2017.

The $4.6 million, or 168% increase in interest expense from 2016 to 2017 was due to a significant increase in our debt at the end of 2016 that remained outstanding throughout 2017. In November 2016, we borrowed approximately $169.9 million to acquire the ADP CHSA/COBRA Business. This debt remained outstanding in 2017 resulting in an increase in interest expense.

The $0.3 million, or 90% change in other income (expense) from 2017 to 2018 was not significant.

The $1.4 million or 129% change in other income (expense) from 2016 to 2017 was driven by insurance settlement proceeds received in 2016 related to an insurance claim in 2015.

***Income Taxes***

We are subject to income taxes in the United States. Significant judgments are required in evaluating our uncertain tax positions and determining our provision for income taxes.

We use the asset and liability method to account for income taxes. 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 and net operating loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established, when necessary, to reduce deferred tax assets to an amount whose realization is more likely than not.

Management periodically evaluates if it is more likely than not that some or all of the deferred tax assets will be realized. In making such determination, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial performance. In order to support a conclusion that a valuation allowance is not needed, positive evidence of sufficient quantity and quality (objective compared to subjective) is necessary to overcome negative evidence.

During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. As a result, we recognize tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognized when, despite the belief that our tax return positions are supportable, we believe that certain positions may not be more likely than not of being sustained upon review by tax authorities. As of December 31, 2018, our unrecognized tax benefits approximated $5.6 million and we have no uncertain tax positions that would be reduced as a result of a lapse of the applicable statute of limitations. We believe that our accruals for tax liabilities are adequate for all open audit years based on our assessment of many factors, including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. We do not anticipate any adjustments would result in a material change to our financial position. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact income tax expense in the period in which such determination is made. We recognize accrued interest and penalties related to unrecognized tax benefits as a component of income tax expense.

In the future, if there is a significant negative change in our operating results or the other factors that were considered in making this determination, we could be required to record a valuation allowance against our deferred tax assets. Any subsequent increases in the valuation allowance will be recognized as an increase in deferred tax expense. Any decreases in the valuation allowance will be recorded as a reduction of the income tax provision.

| | Year Ended December 31, | | | Change from prior year | |
|---|---|---|---|---|---|
| | 2018 | 2017 | 2016 | 2018 | 2017 |
| | (in thousands) | | | | |
| Income before income taxes | $ 40,115 | $ 63,970 | $ 24,831 | | |
| Income taxes provision | (14,145) | (9,583) | (8,929) | $ (4,562) | $ (654) |
| Effective tax rate | 35.26% | 14.98% | 35.96% | | |

On December 22, 2017, the U.S. government enacted the Tax Act. The Tax Act introduces tax reform that reduces the current corporate federal income tax rate from 35% to 21%, among other changes. The rate reduction is effective January 1, 2018. We have determined that the Tax Act requires a revaluation of our net deferred tax asset upon its enactment during the quarter ended December 31, 2017 and recorded a charge to income tax expense of $0.3 million.

The $4.6 million or 48% increase in the provision for income taxes from 2017 to 2018 was primarily driven by the effect of the covered employee compensation limitation pursuant to the Tax Act, State tax expense and stock based compensation.

The $0.7 million or 7% increase in the provision for income taxes from 2016 to 2017 was primarily due to the recognition of excess tax benefits on stock-based compensation pursuant to the adoption of ASU 2016-09 offset by the increase in provisional income tax expense related to the revaluation of net deferred tax assets as a result of the Tax Act and increase in income before taxes.

**Liquidity and Capital Resources**

At December 31, 2018, our principal sources of liquidity were cash and cash equivalents totaling $898.4 million and short-term investments totaling $222.2 million comprised primarily of funding by clients of amounts to be paid on behalf of employee participants as well as other cash flows from operating activities. For the year ended December 31, 2018, our cash flow from operating activities provided $178.7 million.

We believe that our existing cash and cash equivalents, short-term investments, available credit from our revolving credit facility and expected cash flow from operations will be sufficient to meet our working capital, debt, capital expenditures and stock repurchase needs, as well as anticipated cash requirements for potential future portfolio purchases, over at least the next 12 months. We have historically been able to fulfill our obligations as incurred and expect to continue to fulfill our obligations in the future. Our expectation is based on our current and anticipated client retention rates and our continuing funding model in which the vast majority of our enterprise clients provide us with prefunds as more fully described below under "—*Prefunds*." To the extent these current and anticipated future sources of liquidity are insufficient to fund our future business activities and requirements, including any potential portfolio purchases, we may need to raise additional funds through public or private equity or debt financing. We cannot provide assurance that we will be able to raise additional funds on favorable terms, if at all.

***Prefunds***

Under our contracts with the vast majority of our employer clients, we receive prefunds that have been and are expected to continue to be a significant source of cash flows from operating activities. Our client contracts do not contain restrictions on our use of client prefunds and, as a result, each prefund is reflected in cash and cash equivalents on our consolidated balance sheets with an equivalent customer obligation recorded as a liability as the prefund is received. Changes in these prefunds and the corresponding customer obligations are reflected in our cash flows from operating activities. The timing of when employer clients make their prefunds as well as the timing of when we make payments on behalf of employee participants can significantly affect our cash flows.

The operation of these prefunds for our employer clients throughout the year typically is as follows: at the beginning of a plan year, these employer clients provide us with prefunds for their FSA and HRA programs based on a percentage of projected spending by the employee participants for the plan year and other factors. In the case of our commuter program, at the beginning of each month we receive prefunds based on the employee participants' monthly elections. These prefunds are typically replenished on a weekly basis by our FSA and HRA employer clients and on a monthly basis by our commuter employer clients, in each case, after we have advanced the funds necessary to process employee participants' FSA and HRA claims as they are submitted to us and to pay vendors relating to our commuter programs. As a result, our cash balances can vary significantly depending upon the timing of invoicing, the date payment is received from our employer clients of reimbursement for payments we have made on behalf of employee participants. This prefunding activity covers our estimate of approximately one week of spending on behalf of the employer client's employee participants. We do not require a prefund to administer any of our HSA programs because employee participants in these programs only have access to funds they have previously contributed.

***Revolving Credit Facility (Credit Agreement)***

On August 1, 2016, we entered into a First Amended and Restated Credit Agreement (the "Amended Credit Agreement") with MUFG Union Bank, N.A., as administrative agent ("Agent") to increase the revolving credit facility credit limit from $150.0 million to $250.0 million. The Amended Credit Agreement did not change our $15.0 million subfacility limit or our option to increase our commitments up to $100.0 million. The credit facility's maturity date, June 5, 2020, and interest rate, London Interbank Offered Rate ("LIBOR") plus a margin ranging from 1.25% to 1.75%, also remained unchanged. Subsequent to entering the Amended Credit Agreement, we borrowed additional funds in the amount of $169.9 million from the revolving credit facility in connection with the acquisition of the ADP CHSA/COBRA Business. In connection with the Amended Credit Agreement, we incurred fees of approximately $0.2 million, which are being amortized over the term of the amendment.

On April 4, 2017, we entered into a Second Amended and Restated Credit Agreement (the "Second Amended Credit Agreement") with the Agent. The Second Amended Credit Agreement amended and restated our existing Amended Credit Agreement, and increased our borrowing capacity under the revolving credit facility to $400.0 million, with a

$15.0 million letter of credit subfacility. The Second Amended Credit Agreement contains an increase option permitting us, subject to certain conditions and requirements, to arrange with existing lenders and/or new lenders to provide up to an aggregate of $100.0 million in additional commitments. Loan proceeds may be used for general corporate purposes, including acquisitions permitted under the Second Amended Credit Agreement. We may prepay loans under the Second Amended Credit Agreement in whole or in part at any time without premium or penalty. In connection with this Second Amended Credit Agreement, we incurred fees of approximately $1.9 million, which are being amortized over the term of the Second Amended Credit Agreement. The fees incurred are presented as a direct deduction from long-term debt in the consolidated balance sheets.

The loans bear interest, at our option, at either (i) LIBOR determined in accordance with the Second Amended Credit Agreement, plus a margin ranging from 1.25% to 2.25%, or (ii) a base rate determined in accordance with the Second Amended Credit Agreement, plus a margin ranging from 0.25% to 1.25%, in either case with such margin determined based on our consolidated leverage ratio for the preceding fourth fiscal quarter period. Interest is due and payable in arrears quarterly for base rate loans and at the end of an interest period for LIBOR rate loans. Principal, together with all accrued and unpaid interest, is due and payable on April 4, 2022. Our obligations under the Second Amended Credit Agreement are secured by substantially all of our assets, and our existing and future material subsidiaries are also required to guarantee our obligations under the Second Amended Credit Agreement. We elected option (i) and, as of December 31, 2018, the interest rate applicable to the revolving credit facility was 3.89%. As of December 31, 2018, we had $247.0 million outstanding under the revolving credit facility and $150.2 million unused revolving credit facility still available to borrow under the Second Amended Credit Agreement. We are currently in compliance with all financial and non-financial covenants under the credit facility after considering the reporting extension agreement described below.

***Reporting Extension Agreements***

On April 5, 2018, our Board concluded the previously issued financial statements for (i) the quarterly periods ended September 30, June 30 and March 31, 2017, (ii) the annual period ended December 31, 2016 and (iii) the quarterly periods ended September 30 and June 30, 2016 should be restated and should no longer be relied upon. Consequently, we did not meet our obligation to provide our financial statements to the Agent by the contractual delivery date. In March 2018, we entered into a Reporting Extension Agreement (the “Extension Agreement”), by and among the Company, the lenders party thereto and MUFG Union Bank, N.A., as administrative agent to extend the time period for delivery to Agent and the lenders our delinquent financial statements to June 30, 2018. In June 2018, we entered into a Second Reporting Extension Agreement and paid the Agent $0.8 million to extend the delivery date of our delinquent financial statements to March 16, 2019. In March 2019, the Company entered into a Third Reporting Extension Agreement and paid the Agent $0.1 million to extend the delivery date of any remaining delinquent financial statements to May 10, 2019. In May 2019, the Company entered into a Fourth Reporting Extension Agreement and paid the Agent $0.1 million to extend the delivery date of the 2018 Annual Report on Form 10-K to May 31, 2019.

***Public Stock Offering***

On June 20, 2017, we closed a public stock offering and sold 1,954,852 shares of our common stock at $69.25 per share, for proceeds of approximately $130.8 million, net of underwriting discounts and commissions and other offering costs. Certain selling stockholders sold 545,148 shares of common stock in the offering for which we did not receive any proceeds. Selling stockholders received proceeds net of their proportionate share of the total underwriting discounts and commissions. We also granted the underwriters a 30-day overallotment option to purchase up to an additional 375,000 shares of our common stock at $69.25 per share prior to the underwriting discount. The overallotment option expired unexercised.

***Share Repurchase Program***

On August 6, 2015, our Board authorized a $100.0 million stock repurchase program for 3 years which commenced on November 5, 2015 and expired on November 4, 2018. There were no shares of common stock repurchased during the year ended December 31, 2018. In 2017, we repurchased 134,900 shares of our common stock for a total cost of $7.9 million, or an average price of $58.82 per share.

On March 11, 2019, the Company's Board of Directors authorized a $150 million stock repurchase program for 3 years which commenced on March 13, 2019 and expires on March 12, 2022. Stock repurchases may be made from time-to-time in open market transactions, privately negotiated transactions, through accelerated share repurchase programs, or by any combination of such methods. The timing of any repurchases and the actual number of shares repurchased will depend on a variety of factors, including our stock price, corporate and regulatory requirements, restrictions under our debt obligations and other market and economic conditions. No shares of common stock have been repurchased under this program to date.

***Cash Flows***

The following table presents information regarding our cash flows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| | (in thousands) | | |
| Net cash provided by operating activities | $ 178,655 | $ 217,809 | $ 268,942 |
| Net cash used in investing activities | (60,457) | (237,203) | (283,404) |
| Net cash provided by financing activities | 884 | 126,130 | 186,153 |
| Net increase in cash and cash equivalents | $ 119,082 | $ 106,736 | $ 171,691 |

***Cash Flows from Operating Activities***

Net cash provided by operating activities decreased in 2018 as compared to 2017 by $39.2 million. Cash provided by operating activities in 2018 is comprised of net income of $26.0 million, adjusted upward for non-cash items related to depreciation, amortization and impairment of $56.0 million, stock-based compensation expense of $18.1 million, amortization of deferred sales commissions of $2.8 million and other non-cash items of $7.3 million in aggregate, and changes in operating assets and liabilities providing a net increase of $68.5 million.

Net cash provided by operating activities decreased in 2017 as compared to 2016 by $51.1 million. Cash provided by operating activities in 2017 was composed of net income of $54.4 million, adjusted upward for non-cash items related to depreciation, amortization and impairment of $49.7 million, stock-based compensation of $25.6 million, deferred taxes of $9.3 million and other non-cash upward adjustments of $0.4 million in aggregate, and changes in operating assets and liabilities providing a net increase of $78.3 million.

***Cash Flows from Investing Activities***

Net cash used in investing activities decreased by $176.7 million from 2017 to 2018. Cash used in investing activities in 2018 was composed of net purchases of investments of $26.7 million, capital expenditures of $33.5 million, and purchases of intangible assets of $0.2 million.

Net cash used in investing activities decreased by $46.2 million from 2016 to 2017. Cash used in investing activities in 2016 was composed of net purchases of investments of $195.8 million, capital expenditures of $36.8 million, and purchases of intangible assets of $4.7 million.

***Cash Flows from Financing Activities***

Net cash provided by financing activities decreased by $125.2 million from 2017 to 2018. Cash used in financing activities in 2018 was composed of proceeds from common stock exercises and issuances under the Employee Stock Purchase Plan of $2.3 million, payments of debt issuance costs related to the Reporting Extension Agreement of $0.8 million, and other financing cash outflows of $0.6 million in aggregate.

Net cash provided by financing activities decreased by $60.0 million from 2016 to 2017 as we received $130.8 million in proceeds from our public stock offering in 2017 as compared to 2016 when we received $169.9 million in net proceeds from our debt issuance.

***Contractual Obligations***

The following table describes our contractual obligations as of December 31, 2018:

| | Total | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
|---|---|---|---|---|---|
| | | | (in thousands) | | |
| Long-term debt obligations (1) | $ 247,000 | $ — | $ — | $ 247,000 | $ — |
| Interest on long-term debt obligations (2) | 31,682 | 9,601 | 19,201 | 2,880 | — |
| Operating lease obligations (3) | 43,332 | 9,479 | 19,346 | 8,844 | 5,663 |
| Other contractual obligations (4) | 175 | 175 | — | — | — |
| **Total** | $ 322,189 | $ 19,255 | $ 38,547 | $ 258,724 | $ 5,663 |

(1) As of December 31, 2018, maximum total borrowings under the revolving credit facility is $400.0 million with a base interest rate determined in accordance with the Second Amended Credit Agreement terms: LIBOR plus a spread of 1.25% to 2.25% per annum. The debt maturity date is April 4, 2022. As of December 31, 2018, our outstanding principal of $247.0 million is presented net of debt issuance costs on our consolidated balance sheets. The debt issuance costs are not included in the table above.

(2) Estimated interest payments assume the interest rate applicable as of December 31, 2018 of 3.89% per annum on a $247.0 million outstanding principal amount.

(3) We lease facilities under non-cancelable operating leases expiring at various dates through 2028.

(4) Other contractual obligations consist of vendor obligations related to our data centers.

Future minimum lease payments under capital lease obligations are not included in the table above. As of December 31, 2018, there were $0.4 million of future capital lease obligation payments. The Company has no future minimum lease payments under capital leases obligations extending beyond 2020.

**Off-Balance Sheet Arrangements**

Other than outstanding letters of credit issued under our revolving credit facility, we do not have any off-balance sheet arrangements. The majority of the standby letters of credit mature in 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 consolidated balance sheets.

**EXHIBIT 99.4**

## Management's Discussion and Analysis of Financial Condition and Results of Operations of WageWorks, Inc. for the three months ended March 31, 2019 and 2018

*This management's discussion and analysis provides a review of the results of operations, financial condition and liquidity and capital resources of WageWorks, Inc. ("WageWorks", "we", "us", "our" or the "Company" refer to WageWorks, Inc. and its wholly owned subsidiaries) and outlines the factors that have affected recent results, as well as those factors that may affect future results. Our actual results in the future may differ materially from those anticipated in these forward looking statements as a result of many factors, including those set forth under "Risk Factors," "Forward Looking Statements" and elsewhere in WageWorks's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2019. The following discussion should be read in conjunction with WageWorks's unaudited condensed consolidated financial statements and related notes appearing in Exhibit 99.2 to this Current Report on Form 8-K, as well as management's discussion and analysis and consolidated financial statements for the year ended December 31, 2018 included in Exhibits 99.3 and 99.1, respectively, to this Current Report on Form 8-K.*

### Overview

We are a leader in administering Consumer-Directed Benefits ("CDBs"), which empower employees to lower their healthcare related expenditures while also providing corporate tax advantages for employers. We are solely dedicated to administering CDBs, including pre-tax spending accounts such as Health Savings Accounts ("HSAs"), health and dependent care Flexible Spending Accounts ("FSAs"), Health Reimbursement Arrangements ("HRAs"), as well as Commuter Benefit Services, including transit and parking programs, wellness programs, Consolidated Omnibus Budget Reconciliation Act ("COBRA"), and other employee benefits in the United States.

We deliver CDB programs through a highly scalable delivery model that employer clients and their employee participants may access through a standard web browser on any internet-enabled device, including computers, smart phones, and other mobile devices such as tablet computers. Our on-demand delivery model eliminates the need for our employer clients to install and maintain hardware and software in order to support CDB programs and enables us to rapidly implement product enhancements across our entire user base.

Our CDB programs assist employees and their families in saving money by using pre-tax dollars to pay for certain portions of their healthcare, dependent care, and commuter expenses. Employers financially benefit from our programs through reduced payroll taxes, the benefits of which are realized even after factoring in our fees. Under the FSA, HSA, and commuter programs, employee participants contribute funds from their pre-tax income to pay for qualified out-of-pocket healthcare expenses, not fully covered by insurance, such as co-pays, deductibles, and over-the-counter medical products or for commuting costs.

Our services are priced based on the estimated number and types of claims, whether payment processing and client support activities will be provided within or outside of the United States, the estimated number of calls to our customer support center, and any specific client requirements. In addition, we derive a portion of our revenues from interchange fees that we receive when employee participants use the prepaid debit cards we provide to them for healthcare and commuter expenses.

**Results of Operations**

***Revenues***

Revenue and changes in revenue by product for the three months ended March 31, 2019 and 2018 were as follows:

| (In thousands except percentage) | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 | $ Change | % Change |
|---|---|---|---|---|
| **Revenues:** | | | | |
| Healthcare | $ 71,974 | $ 75,256 | $ (3,282) | (4)% |
| COBRA | 23,589 | 28,835 | (5,246) | (18)% |
| Commuter | 19,340 | 18,878 | 462 | 2% |
| Other | 3,322 | 3,671 | (349) | (10)% |
| Total revenues | $ 118,225 | $ 126,640 | $ (8,415) | (7)% |

*Healthcare Revenue*

We derive our healthcare revenue from the service fees paid by our employer clients for the administration services we provide in connection with their employee participants' FSAs, HRAs, and HSAs. We also earn interchange revenue paid by financial institutions related to transaction fees on debit cards used by employee participants in connection with all of our healthcare programs and through our wholesale card program and revenue from self-service plan kits called Premium Only Plan kits, or POP revenue.

Healthcare revenue decreased by $3.3 million, or 4% for the three months ended March 31, 2019, as compared to the same period in 2018, primarily due to (FSA) ADP portfolio attrition.

*COBRA Revenue*

COBRA revenue is derived from administration services we provide to employer clients for continuation of coverage for participants who are no longer eligible for the employer's health benefits, such as medical, dental, and vision, and for the continued administration of the employee participants' HRAs and certain healthcare FSAs.

COBRA revenue decreased by $5.2 million, or 18% for the three months ended March 31, 2019, as compared to the same period in 2018. The decrease was primarily due to ADP portfolio attrition, the termination of the Alight partnership, and generally lower COBRA activity.

*Commuter Revenue*

We derive our commuter revenue from monthly service fees paid by our employer clients, interchange revenue paid by financial institutions related to transaction fees on debit cards used by employee participants in connection with our commuter solutions, and commissions from the sale of transit passes used in our commuter solutions which we purchase from various transit agencies on behalf of employee participants.

Commuter revenue increased by $0.5 million, or 2% for the three months ended March 31, 2019, as compared to the same period in 2018. The increases were primarily due to increased participants.

*Other Revenue*

Other revenue includes enrollment and eligibility services, employee account administration (i.e., tuition and health club reimbursements), project-related professional fees and other program incentives.

Other revenue decreased by $0.3 million or 10% for the three months ended March 31, 2019, as compared to the same period in 2018. The decrease was primarily due to a decrease in Direct Bill participants.

***Cost of Revenues***

| (In thousands except percentage) | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 | $ Change | % Change |
|---|---|---|---|---|
| Cost of revenues (excluding amortization of internal use software) | $ 39,258 | $ 45,242 | $ (5,984) | (13)% |
| Percentage of revenue | 33% | 36% | | |

Cost of revenues consist of direct expenses for claims processing, product support, and customer service personnel, outsourced and temporary labor, check/ACH payment processing services, debit card processing services, shipping and handling, passes, and employee participant communications.

Cost of revenues decreased by $6.0 million or 13% for the three months ended March 31, 2019, as compared to the same period in 2018. The decreases were primarily due to lower outsourced services & printing and fulfillment costs, as well as lower stock-based compensation expense due to the suspension of stock award grants, partially offset by higher Technology costs.

Cost of revenues will continue to be affected by our portfolio purchases, acquisitions and channel partner arrangements. Prior to migrating to our proprietary technology platforms, new portfolios often operate with higher service delivery costs that result in increased cost of revenues until we are able to complete the migration process, which is targeted to occur within 12 to 24 months of the portfolio acquisition date.

***Operating Expenses***

***Technology and Development***

| (In thousands except percentage) | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 | $ Change | % Change |
|---|---|---|---|---|
| Technology and development | $ 16,340 | $ 13,033 | $ 3,307 | 25% |
| Percentage of revenue | 14% | 10% | | |

Technology and development expenses consist of personnel and related expenses, outsourced programming services, on-demand technology infrastructure, and expenses associated with equipment and software development and licenses.

Technology and development expenses increased by $3.3 million, or 25% for the three months ended March 31, 2019, as compared to the same period in 2018. The increase was primarily due to increased outside services, technology, and depreciation.

We intend to continue enhancing the functionality of our software platform as part of our continuous effort to improve our employer client and employee participant experience and to maintain and enhance our control and compliance environment. The timing of development and enhancement projects, including the nature of expenditures as well as the phase of the project that could require capitalization or expense treatment, will significantly affect our technology and development expense both in dollar amount and as a percentage of revenues.

***Sales and Marketing***

| | Three Months Ended March 31, | | | |
|---|---|---|---|---|
| (In thousands except percentage) | 2019 | 2018 | $ Change | % Change |
| Sales and marketing | $ 18,331 | $ 18,338 | $ (7) | —% |
| Percentage of revenue | 16% | 14% | | |

Sales and marketing expenses consist primarily of compensation and related expenses for our sales, client services, and marketing staff, including sales commissions for our direct sales force and external agent/broker commission expense, as well as communication, promotional, public relations, and other marketing expenses.

Sales and marketing expenses were consistent for the three months ended March 31, 2019, as compared to the same period in 2018.

We will continue to invest in sales, client services, and marketing by hiring additional personnel and continuing to build our broker and channel relationships. We will also promote our brand through a variety of marketing and public relations activities. As a result, we expect our sales and marketing expenses to increase in future periods.

***General and Administrative***

| | Three Months Ended March 31, | | | |
|---|---|---|---|---|
| (In thousands except percentage) | 2019 | 2018 | $ Change | % Change |
| General and administrative | $ 27,909 | $ 25,249 | $ 2,660 | 11% |
| Percentage of revenue | 24% | 20% | | |

General and administrative expenses include personnel and related expenses and professional fees incurred by our executive, finance, legal, human resources, and facilities departments.

General and administrative expenses increased by $2.7 million or 11% for the three months ended March 31, 2019, as compared to the same period in 2018. The increase was primarily due to higher professional fees attributed to excess restatement and audit related costs partially offset by lower stock-based compensation expense due to the suspension of stock award grants.

We expect that general and administrative expenses will continue to increase in absolute dollars in order to support our continued growth as we expand general and administrative headcount.

***Amortization***

| (In thousands except percentage) | Three Months Ended March 31, 2019 | 2018 | $ Change | % Change |
|---|---|---|---|---|
| Amortization | $ 10,851 | $ 9,991 | $ 860 | 9% |
| Percentage of revenue | 9% | 8% | | |

Our amortization consists of two components: amortization of internal use software and amortization of acquired intangible assets. We capitalize our software development costs related to the development and enhancement of our business solutions. When the technology is available for its intended use, the capitalized costs are amortized over the technology's estimated useful life, which is generally four years. Acquisition-related intangible assets are also amortized over their estimated useful lives.

Amortization increased by $0.9 million or 9% for the three months ended March 31, 2019 as compared to the same periods in 2018. The increase was primarily driven by an increase in amortization resulting from internal use software due to increased investment in software development projects.

***Other Income (Expense), net***

| (In thousands except percentage) | Three Months Ended March 31, 2019 | 2018 | $ Change | % Change |
|---|---|---|---|---|
| Interest and other income, net | $ 2,649 | $ 1,266 | $ 1,383 | 109% |
| Interest expense | $ (2,709) | $ (2,182) | $ (527) | 24% |

Interest and other income increased by $1.4 million or 109% for the three months ended March 31, 2019. The increase was primarily due to an optimization of cash management and investment practices.

Interest expense increased by $0.5 million or 24% for the three months ended March 31, 2019 as compared to the same period in 2018. The increase in interest expense was primarily due to an increase in interest rates.

***Income Taxes***

| (In thousands except percentage) | Three Months Ended March 31, 2019 | 2018 | $ Change | % Change |
|---|---|---|---|---|
| Income before income taxes | $ 5,476 | $ 13,871 | | |
| Income tax benefit (provision) | $ (1,419) | $ (2,852) | $ 1,433 | (50)% |
| Effective tax rate | 26% | 21% | | |

Income tax provision decreased by $1.4 million or 50% for the three months ended March 31, 2019, as compared to the same period in 2018. The decrease in the income tax provision for the three months ended March 31, 2019 as compared to the same period in 2018 is primarily a result of the tax effect from the reduction of income before tax offset by the impact of increase in the effective tax rate due to increase in state income taxes.

**Liquidity and Capital Resources**

As of March 31, 2019, our principal sources of liquidity were cash and cash equivalents totaling $782.8 million and short-term investments totaling $183.6 million comprised primarily of funding by clients of amounts to be paid on behalf of employee participants, as well as other cash flows from operating activities.

We believe that our existing cash and cash equivalents, short-term investments, and the available credit from our revolving credit facility will be sufficient to meet our working capital, debt, and capital expenditures, as well as anticipated cash requirements for potential future portfolio purchases over at least the next 12 months. We have historically been able to fulfill our obligations as incurred and expect to continue to fulfill our obligations in the future. Our expectation is based on our current and anticipated client retention rates and our continuing funding model in which the vast majority of our enterprise clients provide us with prefunds as more fully described below under "*Prefunds*". To the extent these current and anticipated future sources of liquidity are insufficient to fund our future business activities and requirements, including any potential portfolio purchases, we may need to raise additional funds through public or private equity or debt financing. We cannot provide assurance that we will be able to raise additional funds on favorable terms, if at all.

***Prefunds***

Under our contracts with the vast majority of our employer clients, we receive prefunds that have been and are expected to continue to be a significant source of cash flows from operating activities. Our client contracts do not contain restrictions on our use of client prefunds and, as a result, each prefund is reflected in cash and cash equivalents on our consolidated balance sheet with an equivalent customer obligation recorded as a liability as the prefund is received. Changes in these prefunds and the corresponding customer obligations are reflected in our cash flows from operating activities. The timing of when employer clients make their prefunds as well as the timing of when we make payments on behalf of employee participants can significantly affect our cash flows.

The operation of these prefunds for our employer clients throughout the year typically is as follows: at the beginning of a plan year, these employer clients provide us with prefunds for their FSA and HRA programs based on a percentage of projected spending by the employee participants for the plan year and other factors. In the case of our commuter program, at the beginning of each month we receive prefunds based on the employee participants' monthly elections. These prefunds are typically replenished on a weekly basis by our FSA and HRA employer clients and on a monthly basis by our commuter employer clients, in each case, the replenishment occurs after we have advanced the funds necessary to process employee participants' FSA and HRA claims as they are submitted to us and to pay vendors relating to our commuter programs. As a result, our cash balances can vary significantly depending upon the timing of invoicing and the date payment is received from our employer clients for reimbursement of payments we have made on behalf of employee participants.

***Revolving Credit Facility (Credit Agreement)***

On April 4, 2017, we entered into a Second Amended and Restated Credit Agreement (the "Credit Agreement") with MUFG Union Bank, N.A., as administrative agent ("Agent"). The Credit Agreement amends and restates our existing Amended and Restated Credit Agreement, and increased our borrowing capacity under the revolving credit facility to $400.0 million, with a $15.0 million letter of credit sub-facility. The Credit Agreement contains an increase option permitting us, subject to certain conditions and requirements, to arrange with existing lenders and/or new lenders to provide up to an aggregate of $100.0 million in additional commitments. Loan proceeds may be used for general corporate purposes, including acquisitions permitted under the Credit Agreement. We may prepay loans under the Credit Agreement in whole or in part at any time without premium or penalty. The fees incurred in connection with this Credit Agreement are classified as a direct deduction from long-term debt in the condensed consolidated balance sheets. The Second Amended Credit Agreement contains financial and non-financial covenants including debt ratio and interest coverage ratio requirements. The Company is currently in compliance with all the covenants under the credit facility.

In the first quarter of 2019, we entered into a Third Reporting Extension Agreement and paid the Agent $0.1 million to extend the delivery date of the 2018 Annual Report on Form 10-K to May 10, 2019. In the second quarter of 2019, we entered into a Fourth Reporting Extension Agreement and paid the Agent $0.1 million to extend the delivery date of the 2018 Annual Report on Form 10-K to May 31, 2019. The fees incurred were added to loan financing fees to be amortized to interest expense over the remaining life of the loan.

As of March 31, 2019, we had $187.0 million outstanding under the revolving credit facility and $210.0 million unused revolving credit facility still available to borrow under the Credit Agreement. As of March 31, 2019, the interest rate applicable to the revolving credit facility was 3.99% per annum.

***Cash Flows***

The following table presents information regarding our cash flow activities:

| | Three Months Ended March 31, | | |
|---|---|---|---|
| **(in thousands)** | **2019** | **2018** | **$ Change** |
| Net cash used in operating activities | $ (90,188) | $ (16,874) | $ (73,314) |
| Net cash provided by (used in) investing activities | 34,676 | (73,102) | 107,778 |
| Net cash (used in) provided by financing activities | (60,148) | 1,972 | (62,120) |
| Net change in cash and cash equivalents, unrestricted and restricted | $ (115,660) | $ (88,004) | $ (27,656) |

***Cash Flows from Operating Activities***

Net cash used in operating activities increased for the three months ended March 31, 2019 as compared to the same period of 2018 by $73.3 million. The increase in cash used in operating activities for the three months ended March 31, 2019 was primarily due to changes in working capital largely driven by timing of prefunding and employer client payments.

***Cash Flows from Investing Activities***

Net cash provided by investing activities was $34.7 million for the three months ended March 31, 2019, primarily due to $39.1 million of net proceeds from sales and purchases of investments, offset by $4.4 million of investment in capital expenditures.

Net cash used in investing activities was $73.1 million for the three months ended March 31, 2018, primarily due to $65.4 million net purchases of investments and $7.6 million of investment in capital expenditures.

***Cash Flows from Financing Activities***

Net cash used in financing activities was $60.1 million for the three months ended March 31, 2019, primarily due to a repayment of debt principal in the amount of $60.0 million.

Net cash provided by financing activities was $2.0 million for the three months ended March 31, 2018 which consisted of approximately $2.3 million in proceeds from exercises of stock options and sale of stock under the 2012 Employee Stock Purchase Plan, partially offset by a $0.2 million payment of taxes related to net share settlement of stock-based compensation arrangements.

**Contractual Obligations**

There were no material changes, outside of the ordinary course of business, in our contractual obligations from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2018.

**Critical Accounting Policies and Significant Management Estimates**

There have been no material changes to the Company's critical accounting estimates during the three months ended March 31, 2019. Other than the adoption of ASU 2016-02, *"Leases (Topic 842)"*, there have been no material changes to the Company's critical accounting policies during the three months ended March 31, 2019 compared to the policies disclosed in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report on Form 10-K for the year ended December 31, 2018.

**Off-Balance Sheet Arrangements**

Other than outstanding letters of credit issued under our revolving credit facility, we do not have any off-balance sheet arrangements. The majority of the standby letters of credit expire in 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.

The following sets forth (i) the Risk Factors discussion of WageWorks, Inc. (“WageWorks”) described in Part I, Item 1A in WageWorks’s Annual Report on Form 10-K for the year ended December 31, 2018 (the “Annual Report), and filed with the Securities and Exchange Commission on May 30, 2019 and (ii) information related to material pending litigation contained in Part I, Item 3 in the Annual Report.

As used herein, “WageWorks,” “we,” “us” and “our” and similar terms include WageWorks, Inc. and its wholly-owned subsidiaries, unless the context indicates otherwise.

**Risk Factors**

*You should carefully consider the risks described below together with the other information set forth in this Annual Report on Form 10-K, which could materially affect our business, financial condition and future results. The risks described below are not the only risks facing our company. Risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and operating results. If any of the following risks is realized, our business, financial condition, results of operations and prospects could be materially and adversely affected. In that event, the trading price of our common stock could decline.*

***The restatement of our previously issued financial statements has been time-consuming and expensive and could expose us to additional risks that could materially adversely affect our financial position, results of operations and cash flows.***

As discussed in the Explanatory Note to the 2017 Annual Report on Form 10-K and in Note 2, “Restatement” to the Notes to our Consolidated Financial Statements included in the 2017 Annual Report, we have restated our previously issued financial statements for (i) the quarterly and year-to-date periods ended June 30 and September 30, 2016, (ii) the year ended December 31, 2016 and (iii) the quarterly and year-to-date periods ended March 31, June 30 and September 30, 2017. These restatements, and the remediation efforts we have undertaken and are continuing to undertake, have been time-consuming and expensive and could expose us to a number of additional risks that could materially adversely affect our financial position, results of operations and cash flows.

In particular, we have incurred significant expenses, including audit, legal, consulting and other professional fees and lender and noteholder consent fees, in connection with the restatement of our previously issued financial statements and the ongoing remediation of material weaknesses in our internal control over financial reporting. We have taken a number of steps, including adding significant internal resources and implementing a number of additional procedures, in order to strengthen our accounting function and attempt to reduce the risk of additional misstatements in our financial statements. To the extent these steps are not successful, we could be forced to incur additional time and expense. Our management’s attention has also been diverted from the operation of our business in connection with the restatements and ongoing remediation of material weaknesses in our internal controls.

We are also subject to a securities class action and shareholder derivative suits and investigations arising out of the misstatements in our financial statements, including investigations by the Securities and Exchange Commission (the “SEC”) and the U.S. Attorney’s Office for the Northern District of California (the “USAO”). For additional discussion see Item 3. Legal Proceedings and “Legal Matters” in Note 15 to our Consolidated Financial Statements.

***The restatement of our previously issued financial results has resulted in securities class action and shareholder litigation, as well as government investigations that could result in government enforcement actions that could have a material adverse impact on our results of operations, financial condition, liquidity and cash flows.***

We are subject to securities class action and shareholder litigation relating to our previous public disclosures. In addition, we are subject to government investigations arising out of the misstatements in our previously issued financial statements. For additional discussion see Item 3. Legal Proceedings and “Legal Matters” in Note 15 to our Consolidated Financial Statements.

On March 9, 2018, a putative class action - captioned *Government Employees’ Retirement System of the Virgin Islands v. WageWorks, Inc., et al., No. 4:18-cv-01523-JSW* - was filed in the United States District Court for the Northern District of California (the “Securities Class Action”) against the Company, our former Chief Executive Officer, and

our former Chief Financial Officer. The complaint asserts claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, on behalf of persons and entities that acquired WageWorks securities between May 6, 2016 and March 1, 2018, and alleges, among other things, that the defendants issued false and misleading financial statements.

On June 22, 2018 and September 6, 2018, two derivative lawsuits were filed against certain of our officers and directors and the Company (as nominal defendant) in the Superior Court of the State of California, County of San Mateo. Pursuant to the parties' stipulation, which was approved by the Superior Court, the actions were consolidated. On July 23, 2018, a similar derivative lawsuit was filed against certain of our officers and directors and the Company (as nominal defendant) in the United States District Court for the Northern District of California (together, the "Derivative Suits").

Furthermore, the Company voluntarily contacted the San Francisco office of the SEC Division of Enforcement regarding the restatement and independent investigation, is providing information and documents to the SEC and will continue 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. The Company has provided documents and information to the U.S. Attorney's Office and will continue to cooperate with any inquiries by the U.S. Attorney's Office regarding the matter. For additional discussion of these matters, see Note 15, "Commitments and Contingencies," in the Notes to our consolidated financial statements included in this Annual Report on Form 10-K.

We could become subject to additional private litigation or investigations, or one or more government enforcement actions, arising out of the misstatements in our previously issued financial statements. Our management may be required to devote significant time and attention to these matters, and these and any additional matters that arise could have a material adverse impact on our results of operations, financial condition, liquidity and cash flows. While we cannot estimate our potential exposure to these matters at this time, we have already expended significant amounts investigating the claims underlying and defending this litigation and expect to continue to need to expend significant amounts to defend this litigation.

***We have identified material weaknesses in our internal control over financial reporting which could, if not remediated, adversely affect our ability to report our financial condition and results of operations in a timely and accurate manner, which may adversely affect investor confidence in our company and, as a result, the value of our common stock.***

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting, as defined in Rule 13a-15(f) under the Exchange Act. In Item 9A, "Controls and Procedures" of this Annual Report, management identified material weaknesses in our internal control over financial reporting.

As a result of the material weaknesses, our management concluded that our internal control over financial reporting was not effective as of December 31, 2018 and 2017. The assessment was based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. We are actively engaged in developing a remediation plan designed to address the material weaknesses, but our remediation efforts are not complete and are ongoing. If our remedial measures are insufficient to address the material weaknesses, or if additional material weaknesses or significant deficiencies in our internal control are discovered or occur in the future, it may materially adversely affect our ability to report our financial condition and results of operations in a timely and accurate manner. If we are unable to report our results in a timely and accurate manner, we may not be able to comply with the applicable covenants in our financing arrangements, and may be required to seek additional waivers or repay amounts under these financing arrangements earlier than anticipated, which could adversely impact our liquidity and financial condition. Although we continually review and evaluate internal control systems to allow management to report on the sufficiency of our internal controls over financial reporting, we cannot assure you that we will not discover additional weaknesses in our internal control over financial reporting. The next time we evaluate our internal control over financial reporting, if we identify one or more new material weaknesses or are unable to timely remediate our existing material weaknesses, we may be unable to assert that our internal controls are effective. If we are unable to assert that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to express an unqualified opinion or expresses an adverse opinion on the effectiveness of our internal controls, we could lose investor confidence in the accuracy and completeness of our financial reports, which would have a material adverse effect on the price of our

common stock and possibly impact our ability to obtain future financing on acceptable terms. We may also lose assets if we do not maintain adequate internal controls.

***If our internal controls are not effective, there may be errors in our financial information that could require a restatement or delay our SEC filings. Such material weaknesses could materially and adversely affect our operations, financial condition, reputation and stock price.***

We have, in the past, experienced issues with our internal control over financial reporting related to managing change and assessing risk in the areas of non-routine and complex transactions, tone at the top, and commitment to competencies in the areas of non-routine and complex transactions. It is possible that we may discover significant deficiencies or material weaknesses in our internal control over financial reporting in the future. Any failure to maintain or implement required new or improved controls, or any difficulties we encounter in their implementation, could cause us to fail to meet our periodic reporting obligations, or result in material misstatements in our financial information. If we are unable to effectively remediate and adequately manage our internal control over financial reporting in the future, we may be unable to produce accurate or timely financial information. As a result, we may be unable to meet our ongoing reporting obligations or comply with applicable legal requirements, which could lead to the imposition of sanctions or further investigation by regulatory authorities. Any such action or other negative results caused by our inability to meet our reporting requirements or comply with legal and regulatory requirements could lead investors and others to lose confidence in our financial data and could adversely affect our business and our stock price. Significant deficiencies or material weaknesses in our internal control over financial reporting could also reduce our ability to obtain financing or could increase the cost of available financing. Internal control over financial reporting may not prevent or detect all errors or acts of fraud.

Internal control over financial reporting may not achieve, and in some cases have not achieved, their intended objectives. Control processes that involve human diligence and compliance, such as our disclosure controls and procedures and internal control over financial reporting, are subject to lapses in judgment and breakdowns resulting from human failures. Controls can also be circumvented by collusion or improper management override of such controls. Because of such limitations, there are risks that material misstatements due to error or fraud may not be prevented or detected, and that information may not be reported on a timely basis. The failure of our controls to be effective could have a material adverse effect on our business, financial condition, results of operations, and market for our common stock, and could subject us to regulatory scrutiny and penalties.

***Matters relating to or arising from our Special Committee and Audit Committee investigations, including regulatory investigations and proceedings, litigation matters and potential additional expenses, may adversely affect our business and results of operations.***

We have incurred, and may continue to incur, significant expenses related to legal, accounting, and other professional services in connection with the Special Committee and Audit Committee investigations and related legal matters, as previously disclosed in our public filings, including the review of our accounting, the audit of our financial statements and the ongoing remediation of deficiencies in our internal control over financial reporting. As described in Item 9A., “Controls and Procedures,” of this report, we have taken a number of steps in order to strengthen our accounting function and attempt to reduce the risk of future recurrence and errors in accounting determinations. The validation of the efficacy of these remedial steps will result in us incurring near term expenses, and to the extent these steps are not successful, we could be forced to incur significant additional time and expense. The incurrence of significant additional expense, or the requirement that management devote significant time that could reduce the time available to execute on our business strategies, could have a material adverse effect on our business, results of operations and financial condition. These expenses, the delay in timely filing our periodic reports, and the diversion of the attention of the management team that has occurred, and is expected to continue, has adversely affected, and could continue to adversely affect, our business and financial condition. As a result, we are exposed to greater risks associated with litigation, regulatory proceedings and government enforcement actions. Any future investigations or additional lawsuits may adversely affect our business, financial condition, results of operations and cash flows.

***We have not been in compliance with NYSE's requirements for continued listing and as a result our common stock may be delisted from trading on the NYSE, which would have a material effect on us and our stockholders.***

We are currently delinquent in the filing of certain of our periodic reports with the SEC, and have been delinquent in our filings in the past. We have also not convened an Annual Meeting of Stockholders since 2017. As a result, we are not in compliance with listing requirements of Section 802.01E of the NYSE Listed Company Manual which requires timely filing of periodic financial reports with the SEC. The NYSE informed the Company that, under the NYSE's rules, the Company will have six months from March 1, 2019 to regain compliance. If the Company fails to meet the NYSE's six-month compliance deadline, the NYSE may grant, at its sole discretion, an extension of up to six additional months for the Company to regain compliance, depending on the specific circumstances.

Our failure to file our periodic reports with the SEC in a timely manner or within any extension periods prescribed by the NYSE, may subject our common stock to delisting by the NYSE. If our common stock is delisted, there can be no assurance whether or when it would again be listed for trading on NYSE or any other exchange. If our common stock is delisted, the market price of our shares will likely decline and become more volatile, and our stockholders may find that their ability to trade in our stock will be adversely affected. Furthermore, institutions whose charters do not allow them to hold securities in unlisted companies might sell our shares, which could have a further adverse effect on the price of our stock. In addition, our ability to hire and retain key personnel and employees may be adversely affected by volatility or reductions in the price of our common stock, since these employees are generally granted equity-based awards. We have previously experienced and may continue to experience employee attrition and difficulty attracting talent as a result of these issues. We may not be successful in attracting, integrating, or retaining qualified personnel to fulfill our current or future needs, nor may we be successful in keeping the qualified personnel we currently have.

***The delayed filing of some of our periodic SEC reports has made us currently ineligible to use a registration statement on Form S-3 to register the offer and sale of securities, which could adversely affect our ability to raise future capital or complete acquisitions.***

As a result of the delayed filing of some of our periodic reports with the SEC, we will not be eligible to register the offer and sale of our securities using a registration statement on Form S-3 until one year from the date we regained and maintain status as a current filer. Should we wish to register the offer and sale of our securities to the public prior to the time we are eligible to use Form S-3, both our transaction costs and the amount of time required to complete the transaction could increase, making it more difficult to execute any such transaction successfully and potentially harming our financial condition.

Furthermore, the Company has several employee and director equity plans that are registered under the Securities Act of 1933, as amended, pursuant to Form S-8. Under SEC regulations, the Company's failure to timely file its periodic and annual reports with the SEC resulted in the suspension of the availability of these insider equity plans, including the Company's Profit Sharing Plan. For that reason, employees and directors have not been permitted to liquidate any preexisting holdings of the Company's common stock, nor has the Company been able to issue equity retention or incentive awards since early 2018.

***Our business operations are dependent upon our new senior management team and the ability of our other new employees to learn their new roles.***

Within the past two years, we have substantially changed our senior management team and have replaced many of the other employees performing key functions at our corporate headquarters. Our Chief Executive Officer is new to that role and we have a new Executive Chairman, Chief Financial Officer, General Counsel and other members of our senior management team. As new employees gain experience in their roles, we could experience inefficiencies or a lack of business continuity due to loss of historical knowledge and a lack of familiarity of new employees with business processes, operating requirements, policies and procedures, some of which are new, and key information technologies and related infrastructure used in our day-to-day operations and financial reporting and we may experience additional costs as new employees learn their roles and gain necessary experience. It is important to our success that these key employees quickly adapt to and excel in their new roles. If they are unable to do so, our business and financial results could be materially adversely affected. In addition, if we were to lose the services of any one or more key employees,

whether due to death, disability or termination of employment, our ability to successfully implement our business strategy, financial plans, marketing and other objectives, could be significantly impaired.

***Our business is dependent upon the availability of tax-advantaged Consumer-Directed Benefits to employers and employees and any diminution in, elimination of, or change in the availability of these benefits would materially adversely affect our results of operations, financial condition, business and prospects.***

Our business fundamentally depends on employer and employee demand for tax-advantaged CDBs. Any diminution in or elimination of the availability of CDBs for employees would materially adversely affect our results of operations, financial condition, business and prospects. In addition, incentives for employers to offer CDBs may also be reduced or eliminated by changes in laws that result in employers no longer realizing financial gain from the implementation of these benefits. If employers cease to offer CDB programs or reduce the number of programs they offer to their employees, our results of operations, financial condition, business and prospects would also be materially adversely affected. We are not aware of any reliable statistics on the growth of CDB programs and cannot assure you that participation in CDB programs will grow.

The Tax Act generally disallows a deduction for expenses with respect to Qualified Transportation Fringe Benefits (“QTF(s)”) provided by employer taxpayers to their employees, and generally provides that a tax-exempt organization’s Unrelated Business Tax Income is increased by the amount of the QTF expense that is nondeductible. This means our revenue may decline and our results of operations, financial condition, business and prospects may be materially adversely affected.

In addition, if the payroll tax savings employers currently realized from their employees’ utilization of CDBs become reduced or unavailable, employers may be less inclined to offer these programs to their employees. If the tax savings currently realized by employee participants by utilizing CDBs were reduced or unavailable, we expect employees would correspondingly reduce or eliminate their participation in such CDB plans. Any such reduction in employer or employee incentives would materially adversely affect our results of operations, financial condition, business and prospects.

***Future acquisitions are an important aspect of our growth strategy, and any failure to successfully identify, acquire or integrate acquisitions could materially adversely affect our ability to grow our business. In addition, costs of integrating acquisitions may adversely affect our results of operations in the short term.***

Our recent growth has been, and our future growth will be, substantially dependent on our ability to continue to make and integrate acquisitions in order to expand our employer client base and service offerings. Since 2007, we have completed eleven significant transactions that involved the acquisition of client relationships, contracts and revenues. These acquisitions varied significantly in type and structure and were designed to accommodate each seller’s circumstances and to optimize our potential financial returns and manage risks. We expect our future acquisitions (with their attendant risks) will vary similarly as opportunities warrant.

Our successful integration of these acquisitions into our operations on a cost-effective basis is critical to our future financial performance, especially as it relates to our acquisition of ADP’s Consumer Health Spending Account (“CHSA”), COBRA, and direct bill businesses (together defined as the “ADP CHSA/COBRA Business”). Our inability to successfully continue and maintain the integration of the ADP CHSA/COBRA Business has resulted in the attrition of ADP’s clients, which may continue to occur. As a result, our revenue may decline and our results of operations, financial condition, business and prospects may be materially adversely affected. While we believe that there are numerous potential acquisitions that would add to our employer client base and service offerings, we cannot assure you that we will be able to successfully make a sufficient number of such acquisitions in a timely and effective manner in order to support our growth objectives. In addition, the process of integrating acquisitions may create unforeseen difficulties and expenditures. We face various risks in making any acquisitions and entering into strategic relationships, including:

- our ability to retain acquired employer clients and their associated revenues;
- diversion of management's time and focus from operating our business to address integration challenges;
- our ability to retain or replace key employees that come to us from acquisitions we acquire;
- our ability to integrate the combined products, services and technology;
- our ability to cross-sell additional CDB programs to acquired employer clients;
- our ability to realize expected synergies;
- the need to implement or improve internal controls, procedures and policies appropriate for a public company at businesses that, prior to the acquisition, may have lacked effective controls, procedures and policies, including, but not limited to, processes required for the effective and timely reporting of the financial condition and results of operations of the acquired business, both for historical periods prior to the acquisition and on a forward-looking basis following the acquisition;
- possible write-offs or impairment charges that result from acquisitions;
- unanticipated or unknown liabilities that relate to purchased businesses;
- the potential need to implement or improve internal controls relating to privacy, security and data protection;
- the need to integrate purchased businesses' accounting, management information, human resources, and other administrative systems to permit effective management; and
- any change in one of the many complex international, federal or state laws or regulations that govern any aspect of the financial or business operations of our business and businesses we acquire, such as state escheatment laws.

Acquisitions may also have a short-term material adverse impact on our results of operations, including a potential material adverse impact on our cost of revenues, as we seek to migrate acquired employer clients to our proprietary technology platforms, typically 12 to 24 months after transaction close, in order to achieve additional operating efficiencies. Additionally, from time to time, we may incur material costs and charges related to consolidating our operations following our acquisitions.

***If we are unable to retain and expand our employer client base, establish new partnerships and exchange relationships, our results of operations, financial condition, business and prospects would be materially adversely affected.***

Most of our revenue is derived from the long term, multi-year agreements that we typically enter into with our employer clients. The initial subscription period is typically three years for our enterprise clients and one to three years for our SMB and mid-market clients. We also derive revenue from our partner agreements with Aflac Incorporated, Ceridian Corporation ("Ceridian"), the referral and reseller agreements with ADP, and we anticipate in the future establishing new partnerships with other companies. Our employer clients, however, have no obligation to renew their agreements with us after the initial term and we cannot assure you that these employer clients will continue to renew their agreements at the same rate, if at all. In addition, employer clients transitioning to us from a partner have no obligation to enter into agreements with us and, if they do, there is no guarantee that they will renew their agreements with us after the initial transition period.

Moreover, most of our employer clients have the right to cancel their agreements for convenience, including the OPM, subject to certain notice requirements. While few employer clients have terminated their agreements with us for

convenience, some of our employer clients have elected not to renew their agreements with us. Our employer clients' renewal rates may decline or fluctuate as a result of a number of factors, including the prices of competing products or services, reductions in our employer clients' spending levels, disruptions in connection with the migration of accounts from one platform to another and in-house development of CDB services by our employer clients. Our employer client retention rate may further decline as a result of the audit and restatement.

Another important aspect of our growth strategy depends upon our ability to maintain our existing carrier, partner, and exchange relationships and develop new relationships. No assurance can be given that new carrier, partners, or exchange opportunities will be found, that any such new relationships will be successful when they are in place, or that business with our current partners or exchange opportunities will increase at the level necessary to support our growth objectives. If our employer clients do not renew their agreements with us, and we are unable to attract new employer clients or partners, our revenue may decline and our results of operations, financial condition, business and prospects may be materially adversely affected.

***The market for our services and our business may not grow if our marketing efforts do not successfully raise awareness among employers and employees about the advantages of adopting and participating in CDB programs.***

Our revenue model is substantially based on the number of employee participants enrolled in the CDB programs that we administer. We devote significant resources to educating both employers and their employees on the potential cost savings and other financial benefits available to them from utilizing CDB programs. We have created various marketing, educational and awareness tools to inform employers about the benefits of offering CDB programs to their employees and how our services allow them to offer these benefits in an efficient and cost effective manner. We also provide marketing information to employees that inform them about the potential tax savings they can achieve by utilizing CDB programs to pay for their healthcare, commuter and other benefit needs. However, if more employers and employees do not become aware of or understand these potential cost savings and other financial benefits and do not choose to adopt CDB programs, our results of operations, financial condition, business and prospects may be materially adversely affected.

In addition, there is no guarantee that the market for our services will grow as we expect. For example, the value of our services is directly related to the complexity of administering CDB programs. Government action that significantly reduces or simplifies these requirements could reduce demand or pricing for our services. Further, employees may not participate in CDB programs because they have insufficient funds to set aside into such programs, find the rules regarding the use of such programs too complex, or otherwise. If the market for our services declines or develops more slowly than we expect, or the number of employer clients that select us to provide CDB programs to their employee participants declines or fails to increase as we expect, our results of operations, financial condition, business and prospects could be materially adversely affected.

***Our business and prospects may be materially adversely affected if we are unable to cross-sell our products and services.***

One component of our growth strategy is the increased cross-selling of products and services to current and future employer clients. In particular, many of our employer clients use only one of our products so we expect our ability to cross-sell our commuter programs to our healthcare program clients and our healthcare programs to our commuter employer clients to be an important part of this strategy. We may not be successful in cross-selling our products and services if our employer clients find our additional products and services to be unnecessary or unattractive. Any failure to sell additional products and services to current and future clients could materially adversely affect our results of operations, financial condition, business and prospects.

***The misuse or theft of information we possess, including as a result of cyber security breaches, could harm our brand, reputation or competitive position and give rise to material liabilities.***

We regularly possess, store and handle non-public information about millions of individuals and businesses, including both credit and debit card information and other sensitive and confidential personal information. In addition, our customers regularly transmit confidential information to us via the internet and through other electronic means. Despite the security measures we currently have in place, our facilities and systems and those of our third-party service providers may contain defects in design or manufacture or other problems that could unexpectedly compromise

information security. Unauthorized parties may also attempt to gain access to our systems or facilities, or those of third parties with whom we do business, through fraud, trickery, or other forms of deception of our employees or contractors. Many of the techniques used to obtain unauthorized access, including viruses, worms and other malicious software programs, are difficult to anticipate until launched against a target and we may be unable to implement adequate preventative measures. Our failure to maintain the security of that data, whether as the result of our own error or the malfeasance or errors of others, could harm our reputation, interrupt our operations, result in governmental investigations and give rise to a host of civil or criminal liabilities. Any such failure could lead to lower revenues, increased remediation, prevention and other costs and other material adverse effects on our results of operations.

***Failure to ensure and protect the confidentiality and security of participant data could lead to legal liability, adversely affect our reputation and have a material adverse effect on our results of operations, business or financial condition.***

We must collect, store and use employee participants' confidential information and transmit that data to third parties, to provide our services. For example, we collect names, addresses, and other personally identifiable information from employee participants which may include social security numbers (i.e., partial or, in some cases, full). We also collected personal health information ("PHI"), including information about employee participants' health plans and insurance coverage. In addition, we facilitate the issuance and funding of prepaid debit cards and, in some cases, collect bank routing information, account numbers and personal credit card information for purposes of funding an account or issuing a reimbursement. Because of the types of data we collect, we are subject to numerous state data breach laws as well as the Health Insurance Portability and Accountability Act of 1996 (HIPAA), the Health Information Technology for Economic and Clinical Health (HITECH) Act, and other legal and contractual obligations.

We utilize a number of third-party platforms and outsource a portion of customer support center services and claims processing services to third-party service providers to whom we transmit certain confidential information of our employee participants. We have security measures in place with each of these service providers to help protect this confidential information, including written agreements that outline how protected health information will be handled and shared. We cannot, however, verify the security procedures and protections of these third-party platforms or vendors are adequate. Furthermore, there are no assurances that the security measures and agreements we have in place with these service providers, or any additional security measures that our service providers may have in place, will be sufficient to protect this outsourced confidential information from unauthorized security breaches.

We have taken numerous measures to secure the data we collect; however, we cannot assure you that we will not be subject to a security incident or other data breach or that this data will not be compromised. We may be required to expend significant capital and other resources to protect against security breaches or to alleviate problems caused by security breaches, or to pay penalties as a result of such breaches. Despite our implementation of security measures, techniques used to obtain unauthorized access or to sabotage systems change frequently. As a result, we may be unable to anticipate these techniques or implement adequate preventative measures to protect this data. In addition, security breaches can also occur as a result of non-technical issues, including intentional or inadvertent breaches by our employees or service providers or by other persons or entities with whom we have commercial relationships. Any compromise or perceived compromise of our security could damage our reputation with our clients, brokers and partners, and could subject us to significant liability, as well as regulatory action, including financial penalties, which would materially adversely affect our brand, results of operations, financial condition, business and prospects.

***We have incurred, and expect to continue to incur, significant costs to protect against and respond to security breaches. We may incur significant additional costs in the future to address problems caused by any actual or perceived security breaches.***

Breaches of our security measures or those of our third-party service providers could result in unauthorized access to our sites, networks and systems; unauthorized access to, misuse or misappropriation of employer client or employee participants' information, including personally identifiable information, or other confidential or proprietary information of ourselves or third parties; viruses, worms, spyware or other malware being served from our sites, networks or systems; deletion or modification of content or the display of unauthorized content on our sites; interruption, disruption or malfunction of operations or destruction of data, such as through ransomware; fraud; costs relating to notification of individuals, or other forms of breach remediation; deployment of additional personnel and protection technologies; response to governmental investigations and media inquiries and coverage; engagement of

third-party experts and consultants; litigation, regulatory investigations, prosecutions, and other actions, and other potential liabilities. If any of these events occurs, or is believed to have occurred, our reputation and brand could be damaged, our business may suffer, we could be required to expend significant capital and other resources to alleviate problems caused by such actual or perceived breaches, we could be exposed to a risk of loss, litigation or regulatory action and possible liability, and our ability to operate our business, including our ability to provide access, usage or maintenance and support services to our customers, may be impaired. If current or prospective employer clients or employee participants believe that our systems and solutions do not provide adequate security for the storage of personal or other sensitive information or its transmission over the internet, our business and our financial results could be harmed. Additionally, actual, potential or anticipated attacks may cause us to incur increasing costs, including costs to deploy additional personnel and protection technologies, train employees and engage third-party experts and consultants.

Although we maintain privacy, data breach and network security liability insurance, we cannot be certain that our coverage will be adequate for liabilities actually incurred or that insurance will continue to be available to us on economically reasonable terms, or at all. Any actual or perceived compromise or breach of our security measures, or those of our service providers, or any unauthorized access to, misuse or misappropriation of consumer information or other confidential business information, could violate applicable laws and regulations, contractual obligations or other legal obligations and cause significant legal and financial exposure, adverse publicity and a loss of confidence in our security measures, any of which could have a material adverse effect on our business, financial condition and operating results.

***Our business is subject to a variety of laws and regulations, including those regarding privacy, data protection and information security, and our customers, partners and service providers are subject to regulations related to the handling and transfer of certain types of sensitive and confidential information. Any failure of our infrastructure, our platform, third-party platforms that we utilize, or our solutions to enable us or our customers, partners and service providers to comply with applicable laws and regulations would harm our business, financial condition and operating results.***

As part of our business, we collect employee participants' personal data for the purpose of processing their benefits. Our services and solutions are subject to privacy- and data protection-related laws and regulations that impose obligations in connection with the collection, processing and use of personally identifiable information, financial data, health data or other similar data. Among other things, we have access to, and our employer clients and employee participants are able to use our solutions to handle and transfer, personally identifiable information and other data of our current and prospective employee participants and others. The U.S. federal and various state and other jurisdictional governments have adopted or proposed limitations on, or requirements regarding, the collection, distribution, use, security and storage of personally identifiable information and other data, and the Federal Trade Commission and numerous state attorneys general are applying federal and state consumer protection laws to impose standards on the online collection, use and dissemination of data, and to the security measures applied to such data. In addition, we may find it necessary or desirable to join industry or other self-regulatory bodies or other privacy- or data protection-related organizations that require compliance with their rules pertaining to privacy, data protection, and data security, or may find it necessary or desirable to align our practices with, or certify under, other industry standards. We also are and routinely become bound by contractual obligations relating to our collection, use and disclosure of personal, financial and other data. Although we work to comply with applicable laws, regulations, industry standards, contractual obligations and other legal obligations that apply to us, these are constantly evolving and may be modified, may be interpreted and applied in an inconsistent manner from one jurisdiction to another, and may conflict with one another, other requirements or legal obligations or our practices.

In addition, various federal, state and other legislative or regulatory bodies have in place and may enact new or additional laws and regulations mandating certain disclosures, including disclosures of personally identifiable information, to domestic enforcement bodies, which could adversely impact our business, our brand or our reputation with employer clients and employee participants. Despite our efforts to protect customer data, perceptions that the privacy of personal information is not satisfactorily protected in connection with our products or services could inhibit sales of our products or services, could limit adoption of our services by consumers, businesses, and government entities, and could expose us to claims or litigation. Additional privacy- or data security-related measures we may take to address such customer concerns, constraints on our flexibility to determine how to respond to customer expectations

or governmental rules or actions, or costs associated with compliance with law enforcement or other regulatory authority demands or requests may adversely affect our business and operating results.

Any failure or perceived failure by us to comply with applicable laws, regulations, policies, industry standards, contractual obligations or other legal obligations relating to privacy or data security, or any actual or perceived security incident resulting in unauthorized access to, or acquisition, release or transfer of, personally identifiable information or other customer data may result in governmental or regulatory investigations, inquiries, enforcement actions and prosecutions, private litigation, fines and penalties or adverse publicity and could cause our employer clients, employee participants, and others to lose trust in us, which could have an adverse effect on our reputation, business, financial condition and results of operations.

Our services and solutions are subject to numerous laws and regulations related to the privacy and security of personal health information, including those promulgated pursuant to HIPAA, as well as HITECH, which was enacted as part of the American Recovery and Reinvestment Act of 2009, which require the implementation of administrative, physical and technological safeguards to ensure the confidentiality and integrity of individually identifiable health information in electronic form. Further, our services and solutions are subject to Payment Card Industry, or ("PCI"), data security standards that impose requirements regarding the storage and processing of payment card information. If we cannot comply with, or if we incur a violation of, any of these obligations, we could incur significant liability or our growth could be adversely impacted, either of which could have an adverse effect on our reputation, business, financial condition and operating results.

We expect that there will continue to be new proposed laws, regulations, industry standards, contractual obligations and other obligations concerning privacy, data protection and information security and we cannot yet determine the impact of such future laws, regulations, standards and obligations may have on our business. Future laws, regulations, standards and other obligations, or changed interpretations of the foregoing, could, for example, impair our ability to collect, use or store information that we utilize to provide our services, thereby impairing our ability to maintain and grow our total customer base and increase revenues. New laws, amendments to or re-interpretations of existing laws and regulations, industry standards, contractual obligations and other obligations may impact our business and practices. We may be required to expend significant resources to modify our solutions and otherwise adapt to these changes, which we may be unable to do on commercially reasonable terms or at all, and our ability to develop new solutions and features could be limited. These developments could harm our business, financial condition and results of operations.

Any such new laws, regulations, industry standards, or other legal obligations or any changed interpretation of existing laws, regulations, industry standards, or other obligations may require us to incur additional costs and restrict our business operations.

The European General Data Protection Regulation ("GDPR") took effect in May 2018. We have conducted an analysis regarding whether and how the GDPR may impact our organization and we have determined that we and our services are not subject to the GDPR at this time. Notwithstanding, we are aware that the scope of the GDPR may implicate certain organizations in the U.S., including some of our clients, partners and other entities with which we do business. We continue to monitor this regulation, and as necessary, will update any necessary processes, policies and systems.

California recently enacted legislation, the California Consumer Privacy Act ("CCPA"), which will become effective January 1, 2020. The CCPA gives California residents expanded rights to access and delete their personal information, opt out of certain personal information sharing, and receive detailed information about how their personal information is used. The CCPA provides for civil penalties for violations, as well as a private right of action for data breaches that is expected to increase data breach litigation. As required by the CCPA, the Attorney General must adopt certain regulations on or before July 1, 2020. It remains unclear the extent of the modifications that will be made to the CCPA, or how such modifications will be interpreted. The effects of the CCPA potentially are significant and may require us to modify our data processing practices and policies and to incur substantial costs and expenses in an effort to comply.

If our privacy or data security measures fail or are perceived to fail to comply with current or future laws, regulations, policies, legal obligations or industry standards, or any changed interpretations of the foregoing, we may be subject to litigation, regulatory investigations, enforcement actions, inquiries, prosecutions, fines or other liabilities, as well as negative publicity and a potential loss of business. Moreover, if future laws, regulations, industry standards, or other

legal obligations, or any changed interpretations of the foregoing, limit the ability of our customers, partners or service providers to use and share personally identifiable information or other data or our ability to store, process and share personally identifiable information or other data, demand for our solutions could decrease, our costs could increase and our business, financial condition and operating results could be harmed. Even the perception of privacy or data protection concerns, whether or not valid, may inhibit market adoption, effectiveness or use of our applications.

***A breach of our IT security, loss of customer data or system disruption could have a material adverse effect on our results of operations, business or financial condition and reputation.***

Our business is dependent on our transaction, financial, accounting and other data processing systems, as well as instances of third-party service provider systems that we use to provide our services. We rely on these systems to process, on a daily basis, a large number of complicated transactions. Any security breach in our business processes and/or systems, or those third-party systems that we use, has the potential to impact our customer information and our financial reporting capabilities which could result in the potential loss of business and our ability to accurately report information. If any of these systems fail to operate properly or become disabled even for a brief period of time, we could potentially lose control of customer data and we could suffer financial loss, a disruption of our businesses, liability to clients, regulatory intervention or damage to our reputation. In addition, any issue of data privacy as it relates to unauthorized access to or loss of employer client and/or employee participant information could result in the potential loss of business, damage to our market reputation, litigation and regulatory investigation and penalties. Our continued investment in the security of our IT systems, continued efforts to improve the controls within our IT systems and those of any service providers that we use to provide our services, business processes improvements, and the enhancements to our culture of information security may not successfully prevent attempts to breach our security or unauthorized access to confidential, sensitive or proprietary information.

In addition, we depend on information technology networks and systems to collect, process, transmit and store electronic information and to communicate among our locations and with our partners, service providers, employer clients and employee participants. Security breaches could lead to shutdowns or disruptions of our systems and potential unauthorized disclosure of confidential information. We also are required at times to manage, utilize and store sensitive or confidential employer client and employee participant data, as well as our own employee data in the regular course of business. As a result, we are subject to numerous laws and regulations designed to protect this information, including various U.S. federal and state laws governing the protection of health or other individually identifiable information. If any person, including any of our personnel, fails to comply with, disregards or intentionally breaches our established controls with respect to such data or otherwise mismanages or misappropriates that data, we could be subject to monetary damages, fines or criminal prosecution. Unauthorized disclosure of sensitive or confidential data, whether through systems failure, accident, employee negligence, fraud or misappropriation, could damage our reputation and cause us to lose customers. Similarly, unauthorized access to or through our information systems or those we develop or utilize in connection with our provision of services, whether by our personnel or third parties, could result in significant additional expenses (including expenses relating to notification of data security breaches and costs of credit monitoring services), negative publicity, legal liability and damage to our reputation, as well as require substantial resources and effort of management, thereby diverting management’s focus and resources from business operations.

***We may be unable to compete effectively against our current and future competitors.***

The market for our products and services is highly competitive, rapidly evolving and fragmented. We have numerous competitors, including health insurance carriers, human resources consultants and outsourcers, payroll providers, national CDB specialists, regional third party administrators and commercial banks. Many of our competitors, including health insurance carriers, have longer operating histories and significantly greater financial, technical, marketing and other resources than we have. As a result, some of these competitors may be in a position to devote greater resources to the development, promotion, sale and support of their products and services.

For example, we may face increased competition in the FSA and HSA markets, which could result in a lower rate of account growth, service fees paid by our employer clients, and interchange fees paid by financial institutions related to transaction fees on debit cards used by employee participants. In addition, we may face competition between our internal product offerings to the extent that our employer clients choose to discontinue participation in our FSA program and instead enroll in our HSA program or otherwise. We are also challenged to maintain and increase the

employee participation rates in all our CDB programs, and if we fail to successfully do so, our results of operations, business and prospects could be materially adversely affected.

In addition, if one or more of our competitors were to merge or partner with another of our competitors, the change in the competitive landscape could materially adversely affect our ability to compete effectively. Our competitors may also establish or strengthen cooperative relationships with our current or future strategic brokers, insurance carriers, payroll services companies, private exchanges, third-party advisors or other parties with which we have relationships, thereby limiting our ability to promote our CDB programs with these parties and limiting the number of brokers available to sell or market our programs. This competitive environment is further magnified by relatively low customer switching costs between providers. If we are unable to compete effectively with our competitors for any of the foregoing or other reasons, our results of operations, financial condition, business and prospects could be materially adversely affected.

***Changes in healthcare, security and privacy laws and other regulations applicable to our business may constrain our ability to offer our products and services.***

Changes in healthcare or other laws and regulations applicable to our business may occur that could increase our compliance and other costs of doing business, require significant systems enhancement, or render our products or services less profitable or obsolete, any of which could have a material adverse effect on our results of operations. We may also be subject to additional obligations relating to personal data by contract that industry standards apply to our practices.

The Patient Protection and Affordable Care Act ("PPACA") signed into law on March 23, 2010 and related regulations or regulatory actions could adversely affect our ability to offer certain of our CDBs in the manner that we do today or may make CDBs less attractive to some employers. For example, any new laws that increase reporting and compliance burdens on employers may make them less likely to offer CDBs to their employees and instead offer employees benefit coverage through public exchanges. In addition, it is unclear whether the "Cadillac Tax", now delayed until 2022, will be modified so that employee contributions to FSAs and HSAs are excluded from the calculation or if the entire tax will be repealed. If employers are less incentivized to offer our CDB programs to employees because of the Cadillac Tax, the resulting increased regulatory burdens, costs or other impacts, could materially adversely affect our results of operations and financial condition, business and prospects.

In addition, the numerous federal and state laws and regulations related to the privacy and security of personal health information, in particular those promulgated pursuant to HIPAA require the implementation of administrative, physical and technological safeguards to ensure the confidentiality and integrity of individually identifiable health information in electronic form. We are required to enter into written agreements with all of our employer clients known as Business Associate Agreements. Pursuant to these agreements, and as our employer client's "Business Associate" thereunder, we are required to safeguard all individually identifiable health information of their participating employees and are restricted in how we use and disclose such information. These agreements also contain data security breach notification requirements which, in some circumstances, may be more stringent than HIPAA requirements. As we are unable to predict what changes to HIPAA or other privacy and security laws or regulations might be made in the future, we can't be certain how those changes could affect our business or the costs of compliance.

***We plan to extend and expand our products and services and introduce new products and services, and we may not accurately estimate the impact of developing and introducing these products and services on our business.***

We intend to continue to invest in technology and development to create new and enhanced products and services to offer our employer clients and their participating employees. Scalability of our platforms remains an on-going focus as our platform volume increases. We continue to make investments in technology upgrades to ensure stability and performance of our applications for our clients and participants. Despite quality testing of technology prior to use, it may contain errors that impact its function and performance and this may result in negative consequences. We may not be able to anticipate or manage new risks and obligations or legal, compliance or other requirements that may arise. The anticipated benefits of such new and improved products and services may not outweigh the costs and resources associated with their development.

Our ability to attract and retain new employer clients and increase revenue from existing employer clients will depend in large part on our ability to enhance and improve our existing products and services and to introduce new products and services. The success of any enhancement or new product or service depends on several factors, including the timely completion, introduction and market acceptance of the enhancement or new product or service. Any new product or service we develop or acquire may not be introduced in a timely or cost-effective manner and may not achieve the broad market acceptance necessary to generate significant revenue. If we are unable to successfully develop or acquire new products or services or enhance our existing products or services to meet client requirements, our results of operations, financial condition, business or prospects may be materially adversely affected.

***Our future results will depend on our ability to continue to focus our resources and manage costs effectively.***

We are continually implementing productivity measures and focusing on measures intended to further improve cost efficiency. We may be unable to realize all expected cost savings in connection with these efforts within the expected time frame, or at all and we may incur additional and/or unexpected costs to realize them. Further, we may not be able to sustain any achieved savings in the future. Future results will depend on the success of these efforts.

If we are unable to control costs, we may incur losses, which could decrease our operating margins and significantly reduce or eliminate our profits. Our future profitability will depend on our ability to manage costs or increase productivity. An inability to effectively manage costs could adversely impact our business, results of operations, or financial condition.

***If we fail to manage future growth effectively, we may not be able to market and sell our products and services successfully.***

We have expanded our operations significantly in recent years and anticipate that further expansion will be required in order for us to grow our business. If we do not effectively manage our growth, the quality of our services could suffer, which could materially adversely affect our results of operations, financial condition, business and prospects, and damage our brand and reputation among existing and prospective clients. In order to manage our future growth, we will need to hire, integrate and retain highly skilled and motivated employees. We will also be required to continue to improve our existing systems for operational and financial information management, including our reporting systems, procedures, controls, and regulatory compliance processes. These improvements may require significant capital expenditures and will place increasing demands on our management. We may not be successful in managing or expanding our operations, or in maintaining adequate operating and financial information systems and controls. If we are not successful in implementing improvements in these areas, our results of operations, financial condition, business and prospects would be materially adversely affected.

***General economic and other conditions may adversely affect trends in employment and hiring patterns, which could result in lower employee participation in CDB programs, which would materially adversely affect our results of operations, financial condition, business and prospects.***

Our revenue is attributable to the number of employee participants at each of our employer clients, which in turn is influenced by the employment and hiring patterns of our employer clients. To the extent our employer clients freeze or reduce their headcount or wages paid because of general economic or other conditions, demand for our programs may decrease, which could materially adversely affect our results of operations, financial condition, business and prospects.

***A decline in interest rate levels may reduce our ability to generate income from custodial cash assets that we administer, which would adversely affect our profitability.***

We partner with our FDIC-insured custodial depository bank partners to hold and invest custodial cash assets of participants. A decline in prevailing interest rates may negatively affect our business by reducing the commissions we earn from bank partners’ custodial cash assets and such scenario could materially and adversely affect our business and results of operations.

***We rely on our FDIC-insured custodial depository bank partners for certain custodial account services from which we generate interest income and fees. A business failure in any FDIC-insured custodial depository bank partner would materially and adversely affect our business.***

We rely on our FDIC-insured custodial bank partners to hold and invest our custodial cash assets. If any material adverse event affected one of our FDIC-insured custodial depository bank partners, including a significant decline in its financial condition, a decline in the quality of its service, loss of deposits, its inability to comply with applicable banking and financial services regulatory requirements, systems failure, or any sort of cybersecurity incident, our business, financial condition and results of operations could be materially and adversely affected. If we were required to change custodial depository banking partners, we could not accurately predict the success of such change or that the terms of our agreement with a new banking partner would be as favorable to us as those in our current agreements.

***Restrictive covenants in our Credit Agreement may restrict our ability to pursue our business strategies.***

Our existing Credit Agreement contains a number of restrictive covenants that impose significant operating and financial restrictions on us, and may limit our ability to engage in acts that may be in our long-term best interests. These include covenants restricting, among other things, our (and our subsidiaries') ability:

- to incur additional indebtedness;
- to grant liens;
- to enter into burdensome agreements with negative pledge clauses or restrictions on subsidiary distributions;
- to pay dividends or make other distributions in respect of equity;
- to make investments, including acquisitions, loans, and advances;
- to consolidate, to merge, to liquidate, or to dissolve;
- to sell, to transfer, or to otherwise dispose of assets;
- to engage in certain transactions with affiliates; and
- to materially alter the business that we conduct.

Our Credit Agreement also requires that we maintain compliance with a maximum leverage ratio and a minimum interest coverage ratio. The terms of these covenants may limit our ability to obtain, or increase the costs of obtaining, additional financing to fund working capital, capital expenditures, acquisitions or general corporate requirements. This in turn may have the impact of reducing our flexibility to respond to changing business and economic conditions, thereby placing us at a relative disadvantage compared to competitors that have less indebtedness, or fewer or less onerous covenants associated with such indebtedness, and making us more vulnerable to general adverse economic and industry conditions.

***The financing incurred under our Second Amended Credit Agreement could adversely affect our liquidity and financial condition.***

As of December 31, 2018, we had outstanding revolving loans of $247.0 million under our Second Amended Credit Agreement and $150.2 million of undrawn letters of credit. Our ability to meet our payment obligations and satisfy the covenants under the Second Amended Credit Agreement, including the financial ratios, depends on our ability to generate sufficient cash flow and can be affected by events beyond our control. We cannot assure you that we will be able to meet these ratios and our other obligations under the Second Amended Credit Agreement. If we are not able to generate sufficient cash flow from operations to service our obligations under our Second Amended Credit

Agreement, we may have to take actions such as selling assets, seeking additional equity or reducing or delaying capital expenditures, strategic acquisitions, investments and alliances, any of which could impede the implementation of our business strategy or prevent us from entering into transactions that would otherwise benefit our business. Additionally, we may not be able to effect such actions or refinance any of our debt, if necessary, on commercially reasonable terms, or at all.

A breach of any covenant or restriction contained in the Second Amended Credit Agreement could result in a default under the Second Amended Credit Agreement. Upon the occurrence of an event of default, the lenders could elect to declare some or all outstanding borrowings, together with accrued and unpaid interest and other amounts payable thereunder, to be immediately due and payable and to terminate any commitments they have to provide further borrowings. Further, following an event of default, the lenders will have the right to proceed against the collateral granted to them to secure that debt, including substantially all of our assets. If the debt under the Second Amended Credit Agreement was to be accelerated, we may not have sufficient funds to repay our existing debt and our assets may not be sufficient to repay in full that debt or any other debt that may become due as a result of that acceleration. Any such default could have a material adverse effect on our liquidity and financial condition.

***Failure to effectively develop and expand our direct and indirect sales channels may materially adversely affect our results of operations, financial condition, business and prospects and reduce our growth.***

We will need to continue to expand our sales and marketing infrastructure in order to grow our employer client base and our business. We rely on our enterprise sales force to target new Fortune 1000 client accounts and sell into carriers, partnership, and private exchanges, as well as to cross-sell additional products and services to our existing enterprise clients. Effectively training our sales personnel requires significant time, expense and attention. In addition, we utilize various partners, brokers, insurance agents, benefits consultants, regional and national insurance carriers, health plans, payroll companies, banks and regional third party administrators, to sell and market our programs to employers. Furthermore, we are investing more marketing and advertising spend to increase our HSA accounts. If we are unable to develop and expand our direct sales team, our indirect sales channels, or become a partner to more carriers and private exchanges, our ability to attract new employer clients may be negatively impacted and our growth opportunities will be reduced, each of which would materially adversely affect our results of operations, financial condition, business and prospects.

We may incur significant expenses in connection with the development and expansion of our sales and marketing efforts. If our efforts to develop and expand our direct and indirect sales channels do not generate a corresponding increase in revenue, our business may be materially adversely affected. In particular, if we are unable to effectively train our sales personnel or if our direct sales personnel are unable to achieve expected productivity levels in a reasonable period of time, we may not be able to increase our revenue and grow our business.

***Long sales cycles make the timing of our long-term revenues difficult to predict.***

Our average sales cycle ranges from approximately two months for small opportunities to over a year for large and significant new indirect business. Factors that may influence the length of our sales cycle include:

- the need to educate potential employer clients about the uses and benefits of our CDB programs;
- the relatively long duration of the commitment clients make in their agreements;
- the discretionary nature of potential employer clients’ purchasing and budget cycles and decisions;
- the competitive nature of potential employer clients’ evaluation and purchasing processes;
- fluctuations in the CDB program needs of potential employer clients; and
- lengthy purchasing approval processes of potential employer clients.

If we are unable to close an expected significant transaction with one or more of these potential clients in the anticipated period, our operating results for that period, and for any future periods in which revenue from such transaction would otherwise have been recognized, would be harmed.

***Our business and operational results are subject to seasonality as a result of open enrollment for CDB programs and decreased use of commuter program offerings during typical vacation months.***

Typically, our revenue is greatest during our first calendar quarter. This is primarily due to two factors. First, new employer clients and their employee participants typically begin service on January 1. Second, during the first calendar quarter, we are also servicing the end of plan year activity for existing clients, including assisting our clients with initiating the deduction of healthcare premiums on a tax deferred basis, and employee participants who do not continue participation into the next plan year.

Generally, in comparison to other quarters, our SMB revenue is highest in the first quarter and lowest in the second and third quarters. Thereafter, our SMB revenue generally grows gradually in the fourth quarter as our employer clients hire new employees who then elect to participate in our programs, thereby increasing our monthly minimum billing amount. The minimum billing amount is not, however, generally subject to downward revision when employees leave their employers because we continue to administer those former employee participants' accounts for the remainder of the plan year while there is an available balance. Revenue from commuter programs may vary from month-to-month because employees may elect to participate in our commuter programs at any time during the year and may change their election to participate or the amount of their contribution on a monthly basis; however, participation rates in our commuter business typically slow during the summer as people take vacations and do not purchase transit passes or parking passes during that time.

Our operating expenses increase during the fourth quarter because of increased debit card production and because we increase our customer support center capacity to answer questions from employee participants during the open enrollment periods related to their CDB participation decisions. The cost of providing services peaks in the first quarter as new employee participants contact us for information about their CDBs, and as terminating employee participants submit their final claims for reimbursement.

***Our revenue growth rate in recent periods may not be indicative of our future performance.***

Our revenue growth rate in recent periods may not be indicative of our future performance. Factors that may contribute to declines in our growth rates include challenges in the selling environment and a mid-year phase-out of a partner that migrated to their own platform. You should not rely on our revenue for any prior quarterly or annual period as an indication of our future revenue or revenue growth. If we are unable to maintain consistent revenue or revenue growth, our business, financial condition, results of operations and prospects could be materially adversely affected and our stock price could be volatile.

***Our operating results can fluctuate from period to period, which could cause our share price to fluctuate.***

Fluctuations in our quarterly operating results could cause our stock price to decline rapidly, may lead analysts to change their long-term models for valuing our common stock, could cause short-term liquidity issues, may impact our ability to retain or attract key personnel or cause other unanticipated issues. If our quarterly operating results or guidance fall below the expectations of research analysts or investors, the price of our common stock could decline substantially. Our quarterly operating expenses and operating results may vary significantly in the future and period-to-period comparisons of our operating results may not be meaningful. You should not rely on the results of one quarter as an indication of future performance.

***If employee participants do not continue to utilize our prepaid debit cards or choose another payment method other than signature enabled prepaid debit cards, our results of operations, business and prospects could be materially adversely affected.***

We derive a portion of our revenue from interchange fees that are paid to us when employee participants utilize our prepaid debit cards to pay for certain healthcare and commuter expenses under our CDB programs. These fees

represent a percentage of the expenses transacted on each debit card and are paid to the Company by the financial institutions that issue the cards and hold the associated participant funds. If our employer clients do not adopt these prepaid debit cards as part of the benefits programs they offer, if the employee participants do not use them at the rate we expect, if employee participants choose to process their transactions over PIN networks rather than signature networks or if other alternatives to prepaid tax-advantaged benefit cards develop, our results of operations, business and prospects could be materially adversely affected.

***If we are unable to maintain and enhance our brand and reputation, our ability to sustain and grow our business may be materially adversely affected.***

Maintaining and strengthening our brand is critical to attracting new clients and growing our business. Our ability to maintain and strengthen our brand and reputation will depend heavily on our capacity to continue to provide high levels of customer service to our employer clients and their employee participants at cost effective and competitive prices, which we may not do successfully. In addition, our continued success depends, in part, on our reputation as an industry leader in promoting awareness and understanding of the positive impact of CDBs among employers and employees. If we fail to successfully maintain and strengthen our brand, our results of operations, financial condition, business and prospects will be materially adversely affected.

***If our customers are not satisfied with the implementation and professional services provided by us or our partners, it could have a material adverse effect on our business, financial condition, and results of operations.***

Our business depends on our ability to implement our solutions on a timely, accurate, and cost-efficient basis and to provide professional services demanded by our customers. Implementation and other professional services may be performed by our own staff, by a third party, or by a combination of the two. Although we perform the majority of our implementations and other professional services with our staff, in some instances we work with third parties to increase the breadth of capability and depth of capacity for delivery of certain services to our customers. If a customer is not satisfied with the quality of work performed by us or a third party or with the implementation or type of professional services or applications delivered, or there are inaccuracies or errors in the work delivered by the third party, then we could incur additional costs to address the situation, the profitability of that work might be impaired, and the customer’s dissatisfaction with such services could damage our ability to expand the number of applications subscribed to by that customer or we could be liable for loss or damage suffered by the customer as a result of such third party’s actions or omissions, any of which could have a material adverse effect on our business, financial condition, and results of operations. If a new customer is dissatisfied with professional services, either performed by us or a third party, the customer could refuse to go-live, which could result in a delay in our collection of revenue or could result in a customer seeking repayment of its implementation fees or suing us for damages, or could force us to enforce the termination provisions in our customer contracts in order to collect revenue. In addition, negative publicity related to our customer relationships, regardless of its accuracy, may affect our ability to compete for new business with current and prospective customers, which could also have a material adverse effect on our business, financial condition, and results of operations.

***Some plan providers with which we have relationships also provide, or may provide, competing services.***

We face competitive risks in situations where some of our strategic partners are also current or potential competitors. For example, certain of the banks we utilize as custodians of the funds for our HSA employee participants also offer their own HSA products. To the extent that these partners choose to offer competing products and services that they have developed or in which they have an interest to attract our current or potential clients, our results of operations, business and prospects could be materially adversely affected to a material degree.

***We are subject to complex regulation, and any compliance failures or regulatory action could materially adversely affect our business.***

The plans we administer and, as a result, our business are subject to extensive, complex and continually changing federal and state laws and regulations, including IRS, Health and Human Services (“HHS”), and Department of Labor (“DOL”) regulations; ERISA, HIPAA, HITECH and other privacy and data security regulations; and the PPACA. If we fail to comply with any applicable law, rule or regulation, we could be subject to fines and penalties,

indemnification claims by our clients, or become the subject of a regulatory enforcement action, each of which would materially adversely affect our business and reputation.

We may also become subject to additional regulatory and compliance requirements as a result of changes in laws or regulations, or as a result of any expansion or enhancement of our existing products and services or the development of any new products or services in the future. For example, if we expand our product and service offerings into the health insurance market in the future, we would become subject to state Department of Insurance regulations. Compliance with any new regulatory requirements may divert internal resources and take significant time and effort.

Any claims of noncompliance brought against us, regardless of merit or ultimate outcome, could subject us to investigation by the Department of Labor, the IRS, the Centers for Medicare and Medicaid Services, the U.S. Department of the Treasury or other federal and state regulatory authorities, which could result in substantial costs to us and divert management’s attention and other resources away from our operations. In addition, investor perceptions of us may suffer and could cause a decline in the market price of our common stock. Our compliance processes may not be sufficient to prevent assertions that we failed to comply with any applicable law, rule or regulation.

***The occurrence of natural or man-made disasters could result in declines in business and increases in claims that could adversely affect our financial condition and results of operations.***

We are exposed to various risks arising out of natural disasters, including earthquakes, hurricanes, fires, floods, tornadoes, climate events or weather patterns, and pandemic health events, as well as man-made disasters, including acts of terrorism, military actions and cyber-terrorism. The continued threat of terrorism and ongoing military actions may cause significant volatility in global financial markets, and a natural or man-made disaster could trigger an economic downturn in the areas directly or indirectly affected by the disaster. These consequences could, among other things, result in a decline in business in the area affected by the event. Disasters also could disrupt public and private infrastructure, including communications and financial services, which could disrupt our normal business operations.

***Our inability to successfully recover should we experience a disaster or other business continuity problem could cause material financial loss, loss of human capital, breach of confidential information, regulatory actions, reputational harm or legal liability.***

Should we experience a disaster or other business continuity problem, either natural or man-made, our ability to protect our infrastructure, including customer data, and maintain ongoing operations will depend, in part, on the availability of our personnel, our office facilities, and the proper functioning of our computer, telecommunication and other related systems and operations. In such an event, we could experience near-term operational challenges with regard to particular areas of our operations.

In particular, our ability to recover from any disaster or other business continuity problem will depend on our ability to protect our technology infrastructure against damage from business continuity events that could have a significant disruptive effect on our operations. Our business continuity plan may not be successful in mitigating the effects of a disaster or other business continuity problem. We could potentially lose client data, experience a breach of security or confidential information, or experience material adverse interruptions to our operations or delivery of services to our clients in a disaster.

We will continue to regularly assess and take steps to improve upon our business continuity plans. However, a disaster on a significant scale or affecting certain of our key operating areas within or across regions, or our inability to successfully recover should we experience a disaster or other business continuity problem, could materially interrupt our business operations and cause material financial loss, loss of human capital, breach of confidential information, regulatory actions, reputational harm, damaged client relationships and legal liability.

***A disruption of our data centers could have a materially adverse effect on our business.***

We host our applications and serve our clients from data centers that we operate and from data centers operated by third-party vendors. If any of our or our third-party vendors’ data centers fail or become disabled, even for a limited period of time, our businesses could be disrupted and we could suffer financial loss, liability to clients, loss of clients,

regulatory intervention, or damage to our reputation, any of which could have a material adverse effect on our results of operation or financial condition. In addition, our third-party vendors may cease providing data center facilities or services, elect to not renew their agreements with us on commercially reasonable terms or at all, breach their agreements with us or fail to satisfy our expectations, which could disrupt our operations and require us to incur costs which could materially adversely affect our results of operation, financial condition or cash flow.

***If our applications fail to perform properly, our reputation could be adversely affected, our market share could decline, and we could be subject to liability claims.***

Our applications are inherently complex and may contain material defects or errors. Any defects in functionality or that cause interruptions in the availability of our applications could result in:

- loss or delayed market acceptance and sales;
- legal claims, including breach of warranty claims;
- issuance of refunds or service credits to customers for prepaid and unused subscription services;
- loss of customers;
- diversion of development and customer service resources; and
- injury to our reputation.

The costs incurred in correcting any material defects or errors might be substantial and could adversely affect our operating results.

Because of the large amount of data that we collect and process, it is possible that hardware failures or errors in our systems could result in data loss or corruption, or cause the information that we collect to be incomplete or contain inaccuracies that our clients and their employee participants regard as significant. Furthermore, the availability or performance of our applications could be adversely affected by a number of factors, including our clients and their employee participants' inability to access the Internet, the failure of our network or software systems, security breaches, or variability in user traffic for our services. For example, our clients and their employee participants access our applications through their Internet service providers. If a service provider fails to provide sufficient capacity to support our applications or otherwise experiences service outages, such failure could interrupt access to our applications, which could adversely affect our clients and their participants' perception of our applications' reliability and our revenues. We may be required to issue credits or refunds to our clients or otherwise be liable to our clients and/or their employee participants for damages they may incur resulting from certain of these events. In addition to potential liability, if we experience interruptions in the availability of our applications, our reputation could be adversely affected and we could lose customers.

Our errors and omissions insurance may be inadequate or may not be available in the future on acceptable terms, or at all. In addition, our policy may not cover all claims made against us and defending a suit, regardless of its merit, could be costly and divert management's attention.

***If we fail to upgrade, enhance and expand our technology and services to meet client needs and preferences, the demand for our solutions and services may diminish.***

Our businesses operate in industries that are subject to rapid technological advances and changing client needs and preferences. In order to remain competitive and responsive to client demands, we continually upgrade, enhance, and expand our existing solutions and services. If we fail to respond successfully to technology challenges and client needs and preferences, the demand for our solutions and services may diminish.

***We employ third party software for use in or with both our applications and our internal operations, and the inability to maintain these licenses or errors in the software we license could result in increased costs, or reduced service levels, which could have a material adverse effect on our business, financial condition, and results of operations.***

Our applications incorporate certain third party software obtained under licenses from other companies. Additionally, we are reliant on third party software licenses for our internal operational applications. We anticipate that we will continue to rely on such third party software and development tools from third parties in the future. Although we believe that there are commercially reasonable alternatives to the third party software we currently license, this may not always be the case, or it may be difficult or costly to replace, and our failure to migrate off end of life software may significantly impact our customer's ability to operate. In addition, integration of the software used in our applications and in our operations with new third party software may require significant work and require substantial investment of our time and resources. Also, our use of additional or alternative third party software would require us to enter into license agreements with third parties.

Additionally, if the quality of our third party software declines, the overall quality of our products may be negatively impacted. To the extent that our applications depend upon the successful operation of third party software in conjunction with our software, any undetected errors or defects in this third party software could prevent the deployment or impair the functionality of our applications, delay new application introductions, and result in a failure of our applications, which could have a material adverse effect on our business, financial condition, and results of operations.

***Any failure to offer high-quality technical support services may adversely affect our relationships with our customers and could have a material adverse effect on our business, financial condition, and results of operations.***

Once our applications are deployed, our customers depend on our support organization to resolve technical issues relating to our applications. We may be unable to respond quickly enough to accommodate short-term increases in customer demand for support services. We also may be unable to modify the format of our support services to compete with changes in support services provided by our competitors. Increased customer demand for these services, without corresponding revenues, could increase costs and have an adverse effect on our results of operations. In addition, our sales process is highly dependent on our applications and business reputation and on positive recommendations from our existing customers. Any failure to maintain high-quality technical support, or a market perception that we do not maintain high-quality support, could adversely affect our reputation and our ability to sell our applications to existing and prospective customers, which could have a material adverse effect on our business, financial condition, and results of operations.

***Our future success depends on our ability to recruit and retain qualified employees, including our executive officers and directors.***

Our success is substantially dependent upon the performance of our senior management, such as our Chief Executive Officer. Our management and employees may terminate their employment at any time, and the loss of the services of any of our executive officers could materially adversely affect our business. Our success is also substantially dependent upon our ability to attract additional personnel for all areas of our organization. Competition for qualified personnel is increasingly intense, and we may not be successful in attracting and retaining such personnel on a timely basis, on competitive terms or at all. Additionally, it may be more difficult for us to attract and retain qualified individuals to serve on our Board or as our executive officers due to potential liability concerns related to serving on a public company. If we are unable to attract and retain the necessary personnel, our results of operations, financial condition, business and prospects would be materially adversely affected.

***Changes in credit card association or other network rules or standards set by Visa or MasterCard, or changes in card association and debit network fees or products or interchange rates, could materially adversely affect our results of operations, business and financial position.***

We, and the banks that issue our prepaid debit cards, are subject to Visa and MasterCard association rules that could subject us to a variety of fines or penalties that may be levied by the card associations or networks for acts or omissions by us or businesses that work with us, including card processors, such as Alegeus. The termination of the card association registrations held by us or any of the banks that issue our cards, or any changes in card association or other debit network rules or standards, including interpretation and implementation of existing rules, participants deciding to use PIN networks, standards or guidance that increase the cost of doing business or limit our ability to provide our products and services, or limit our ability to receive interchange fees, could have a material adverse effect on our results of operations, financial condition, business and prospects. In addition, from time-to-time, card associations increase the organization or processing fees that they charge, which could increase our operating expenses, reduce our profit margin and materially adversely affect our results of operations, financial condition, business and prospects.

***We have entered into outsourcing and other agreements with third parties related to certain of our business operations, and any difficulties experienced in these arrangements could result in additional expense, loss of revenue or an interruption of our services.***

We have entered into outsourcing agreements with third parties to provide certain customer service and related support functions to our employer clients and their employee participants. As a result, we rely on third parties over which we have limited control. If these third parties are unable to perform to our requirements or to provide the level of service required or expected by our employer clients, including ensuring the privacy and integrity of individually identifiable health information that they may be privy to as a result of the services they perform for our employer clients and their employee participants, our operating results, financial condition, business, prospects and reputation may be materially harmed. In addition, we may be forced to pursue alternative strategies to provide these services, which could result in delays, interruptions, additional expenses and loss of clients and related revenues.

***If our intellectual property and technology are not adequately protected to prevent use or appropriation by our competitors, our business and competitive position could be materially adversely affected.***

We rely on a combination of patent, copyright, trademark and trade secret laws, as well as confidentiality procedures and contractual provisions, to establish and protect our intellectual property rights in the United States.

The efforts we have taken to protect our intellectual property may not be sufficient or effective, and our patents, trademarks and copyrights may be held invalid or unenforceable. We may not be effective in policing unauthorized use of our intellectual property, and even if we do detect violations, litigation may be necessary to enforce our intellectual property rights. Any enforcement efforts we undertake, including litigation, could be time consuming and expensive, could divert our management’s attention and may result in a court determining that our intellectual property rights are unenforceable. If we are not successful in cost-effectively protecting our intellectual property rights, our results of operations, financial condition, business and prospects could be materially adversely affected.

***We may be required to record goodwill or other long-lived asset impairment charges, which could result in a significant charge to earnings, which could have a material adverse non-cash impact on our results of operations.***

Under U.S. GAAP, we review our long-lived assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is assessed for impairment at least annually. Factors that may be considered in assessing whether goodwill or other long-lived assets may not be recoverable include a decline in our share price or market capitalization, reduced estimates of future cash flows and slower growth rates in our industry. We may experience unforeseen circumstances that adversely affect the value of our goodwill or other long-lived assets and trigger an evaluation of the recoverability of the recorded goodwill and other long-lived intangible assets. Future goodwill or other long-lived asset impairment charges could have a material adverse non-cash impact on our results of operations.

***Changes in our accounting estimates and assumptions could negatively affect our financial position and results of operations.***

We prepare our consolidated financial statements in accordance with U.S. GAAP. These accounting principles require us to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of our financial statements. We are also required to make certain judgments that affect the reported amounts of revenues and expenses during each reporting period. We periodically evaluate our estimates and assumptions including, but not limited to, those relating to revenue recognition, restructuring, recoverability of assets including customer receivables, valuation of goodwill and intangibles, contingencies, share-based payments, and income taxes. We base our estimates on historical experience and various assumptions that we believe to be reasonable based on specific circumstances. These assumptions and estimates involve the exercise of judgment and discretion, which may evolve over time in light of operational experience, regulatory direction, developments in accounting principles, and other factors. Actual results could differ from these estimates, or changes in assumptions, estimates, policies, or developments in the business may change our initial estimates, which could materially affect our financial position, the Consolidated Statements of Income, Comprehensive Income, Stockholders' Equity and Cash Flows.

***Our ability to use net operating losses and income tax credits carryforwards to offset future taxable income may be limited.***

As of December 31, 2018, we had $6.5 million of state net operating loss carryforwards available to offset future taxable income. The state net operating loss carryforwards have been prepared on a post-apportionment basis. These net operating loss carryforwards will begin to expire in the year 2018 through 2033 for state income tax purposes, if not fully utilized. In addition, we have federal and state research and development credit carryforwards of approximately $0.7 million and $4.4 million, respectively. The federal research credit carryforwards expire beginning in 2038, if not fully utilized. The California state research credit carries forward indefinitely and other states begin to expire in years 2029 through 2034. Our ability to utilize net operating losses and tax credit carryforwards are subject to restrictions, including limitations in the event of past or future ownership changes as defined in Section 382 of the Internal Revenue Code, or IRC, of 1986, as amended ("IRC"), and similar state tax laws. In general, an ownership change occurs if the aggregate stock ownership of certain stockholders increases by more than 50 percentage points over such stockholders' lowest percentage ownership during the testing period (generally three years). We have considered Section 382 of the IRC and concluded that any ownership change would not diminish our utilization of our net operating loss carryforwards or our research and development credits during the carryover periods.

***If one or more jurisdictions successfully assert that we should have collected or in the future should collect additional sales and use taxes on our fees, we could be subject to additional liability with respect to past or future sales and the results of our operations could be adversely affected.***

Sales and use tax laws and rates vary by jurisdiction and such laws are subject to interpretation. In those jurisdictions where we believe sales taxes are applicable, we collect and file timely sales tax returns. Currently, such taxes are minimal. Jurisdictions in which we do not collect sales and use taxes may assert that such taxes are applicable, which could result in the assessment of such taxes, interest and penalties, and we could be required to collect such taxes in the future. This additional sales and use tax liability could adversely affect our results of operations.

***Some of our applications may link to or utilize open source software, and any failure to comply with the terms of one or more of these open source licenses could negatively affect our business.***

Some of our applications may incorporate software covered by open source licenses. The terms of various open source licenses have not been interpreted by United States courts, and there is a risk that such licenses could be construed in a manner that imposes unfavorable conditions on us. For example, by the terms of certain open source licenses, we could be required to offer our platforms that incorporate the open source software for no cost, that we make publicly-available source code for modifications or derivative works that we created based upon, incorporating or using the open source software, and/or that we license such modifications or derivative works under the terms of the particular open source license. If portions of our proprietary software are determined to be subject to an open source license, then the value of our technologies and services could be reduced. In addition to risks related to license requirements,

usage of open source software may be riskier than use of third-party commercial software, as open source licensors generally do not provide warranties or controls on the origin of the software. Many of the risks associated with usage of open source software cannot be eliminated and could negatively affect our business.

***Third parties may assert intellectual property infringement claims against us, or our services may infringe the intellectual property rights of third parties, which may subject us to legal liability and materially adversely affect our reputation.***

Assertion of intellectual property infringement claims against us could result in litigation. We might not prevail in any such litigation or be able to obtain a license for the use of any infringed intellectual property from a third party on commercially reasonable terms, or at all. Even if obtained, we may be unable to protect such licenses from infringement or misuse, or prevent infringement claims against us in connection with our licensing efforts. Any such claims, regardless of their merit or ultimate outcome, could result in substantial cost to us, divert management's attention and our resources away from our operations and otherwise adversely affect our reputation. Our process for controlling our own employees' use of third-party proprietary information may not be sufficient to prevent assertions of intellectual property infringement claims against us.

***We rely on insurance to mitigate some risks of our business and, to the extent the cost of insurance increases or we maintain insufficient coverage, our results of operations, business and financial condition may be materially adversely affected.***

We contract for insurance to cover a portion of our potential business risks and liabilities. In the current environment, insurance companies are increasingly specific about what they will and will not insure. It is possible that we may not be able to obtain sufficient insurance to meet our needs, may have to pay very high prices for the coverage we do obtain or may not acquire any insurance for certain types of business risk. This could leave us exposed, and to the extent we incur liabilities and expenses for which we are not adequately insured, our results of operations, cash flow, business and financial condition could be materially adversely affected. Also, to the extent the cost of maintaining insurance increases, our operating expenses will rise, which could materially adversely affect our results of operations, financial condition, business and prospects.

***Substantial sales of our common stock by our stockholders could depress the market price of our common stock regardless of our operating results.***

Sales of substantial amounts of our common stock in the public market, or the perception that these sales could occur, could adversely affect the market price of our common stock and impair our ability to raise capital through offerings of our common stock. Under SEC regulations, the failure to file with the SEC our required annual report on Form 10-K for 2017 and quarterly reports on Form 10-Q for 2018 resulted in the suspension of the availability of our employee and director stock benefit plans, including the Company's 401(k) and Profit Sharing Plan, to allow our employees to exercise any Company stock options that they hold or to choose to invest in our common stock under the 401(k) and Profit Sharing Plan. However, once we become current with our SEC reporting requirements, substantially all of our outstanding common stock will be eligible for sale, subject to Rule 144 volume limitations for holders affected by such limitations, as will be common stock issuable under vested and exercisable options. Rule 144 allows public resale of restricted and control securities if certain conditions are met. If our existing stockholders sell a large number of common stock or the public market perceives that existing stockholders might sell our common stock, the market price of our common stock could decline significantly. These sales might also make it more difficult for us to sell equity securities at a time and price that we deem appropriate.

***Our business could be negatively impacted by unsolicited takeover proposals, by shareholder activism or by proxy contests relating to a potential change of control of us.***

The Company's business could be negatively affected as a result of an unsolicited takeover proposal or a proxy contest. In April 2019, the Company received an unsolicited, non-binding proposal to acquire all of the outstanding shares of the Company. The Company's business could be adversely affected by any such unsolicited proposal, and by any shareholder activism or proxy contests related to or resulting from such proposal, for a number of factors including but not limited to:

- responding to unsolicited takeover proposals and other related actions can be costly (resulting in significant professional fees and proxy solicitation expenses) and time-consuming, disrupting operations and diverting the attention of our Board, management and employees which could interfere with our ability to execute our strategic plan;

- perceived uncertainties as to the Company's future direction may result in the loss of potential business opportunities and may make it more difficult to attract and retain qualified personnel and business partners; and

- if completed, a takeover may result in a change-in-control under certain of the Company's long-term indebtedness agreements, and may require it to repurchase certain outstanding debt securities or result in an acceleration of certain indebtedness.

***Our stock price has fluctuated and may continue to do so and may even decline regardless of our financial performance.***

The market price of our common stock has fluctuated and may continue to fluctuate significantly in response to numerous factors, many of which are beyond our control, including:

- actual or anticipated fluctuations in our financial results;

- a takeover proposal;

- changes in the financial projections we provide to the public or our failure to meet these projections;

- failure of securities analysts to initiate or maintain coverage of our company, changes in financial estimates by any securities analysts who follow our company, or our failure to meet these estimates or the expectations of investors;

- ratings change by any securities analysts who follow our company;

- announcements by us or our competitors of significant technical innovations, acquisitions, strategic relationships, partnerships or capital commitments;

- changes in operating performance and stock market valuations of other newly public companies generally, or those in our industry in particular;

- changes brought about by health care reform and the emergence of federal, state and private exchanges;

- price and volume fluctuations in the overall stock market, including as a result of trends in the global economy;

- any major change in our Board or management;

- government investigations and lawsuits threatened or filed against us; and

- other events or factors, including those resulting from a data security breach, war, incidents of terrorism or responses to these events.

In addition, in the past, following periods of volatility in the overall market and the market price of a particular company's securities, securities class action litigation has often been instituted against such a company. A Securities Class Action as well as Derivative Suits have been filed against us and a number of our current and former officers and directors. See Item 3. Legal Proceedings and "Legal Matters" in Note 15 to our Consolidated Financial Statements. That litigation, or future securities litigation could result in substantial costs and divert our management's attention

and resources from our business. This could have a material adverse effect on our business, results of operations, financial condition and cash flow.

***Anti-takeover provisions contained in our amended and restated certificate of incorporation and amended and restated bylaws, as well as provisions of Delaware law, could impair a takeover attempt.***

Our amended and restated certificate of incorporation, amended and restated bylaws and Delaware law contain provisions that could have the effect of delaying, preventing or rendering more difficult an acquisition of us if such acquisition is deemed undesirable by our Board. Our corporate governance documents include provisions that:

- create a classified Board whose members serve staggered three-year terms;
- authorize “blank check” preferred stock, which could be issued by the Board without stockholder approval and may contain voting, liquidation, dividend and other rights superior to our common stock;
- limit the ability of our stockholders to call and bring business before special meetings;
- require advance notice of stockholder proposals for business to be conducted at meetings of our stockholders and for nominations of candidates for election to our Board;
- control the procedures for the conduct and scheduling of Board and stockholder meetings; and
- provide the Board with the express power to postpone previously scheduled annual meetings and to cancel previously scheduled special meetings.

These provisions, alone or together, could delay or prevent unsolicited takeovers and changes in control or changes in our management.

As a Delaware corporation, we are also subject to provisions of Delaware law, including Section 203 of the Delaware General Corporation Law, which prevents some stockholders holding more than 15% of our outstanding common stock from engaging in certain business combinations without approval of the holders of substantially all of our outstanding common stock.

Any provision of our amended and restated certificate of incorporation or amended and restated bylaws or Delaware law that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock and could also affect the price that some investors are willing to pay for our common stock.

***While we have adopted a stock repurchase program to repurchase shares of our common stock, any future decisions to reduce or discontinue repurchasing our common stock pursuant to our previously announced repurchase program could cause the market price for our common stock to decline.***

Although the Company’s Board of Directors has authorized a share repurchase program, any determination to execute our stock repurchase program will be subject to, among other things, our financial position and results of operations, available cash and cash flow, capital requirements, and other factors, as well as the Company’s Board of Director’s continuing determination that the repurchase program is in the best interests of our stockholders and is in compliance with all laws and agreements applicable to the repurchase program. Our stock repurchase program does not obligate us to acquire any common stock. If we fail to meet any expectations related to stock repurchases, the market price of our common stock could decline, and could have a material adverse impact on investor confidence. Additionally, price volatility of our common stock over a given period may cause the average price at which we repurchase our common stock to exceed the stock’s market price at a given point in time.

We may further increase or decrease the amount of repurchases of our common stock in the future. Any reduction or discontinuance by us of repurchases of our common stock pursuant to our current share repurchase authorization

program could cause the market price of our common stock to decline. Moreover, in the event repurchases of our common stock are reduced or discontinued, our failure or inability to resume repurchasing common stock at historical levels could result in a lower market valuation of our common stock.

***We do not expect to declare any dividends in the foreseeable future.***

We do not anticipate declaring any cash dividends to holders of our common stock in the foreseeable future. Any future financing agreements may prohibit us from paying any type of dividends. Consequently, investors may need to rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment. Investors seeking cash dividends should not purchase our common stock.

**Legal Proceedings**

The Company is pursuing affirmative claims against the OPM to obtain payment for services provided by the Company between March 1, 2016 and August 31, 2016 pursuant to our contract with OPM for the Government's Federal Flexible Account Program ("FSAFEDS"). The Company initially issued its invoice for these services in February 2017. On December 22, 2017, the Company received the Contracting Officer's "final decision" refusing payment of the invoiced amount and otherwise denying the Company's Certified Claim. As a result of this decision, and a related Certified Claim that OPM subsequently denied, on February 8, 2018, we filed an appeal to the Civilian Board of Contract Appeals ("CBCA") against OPM for services provided by the Company between March 1, 2016 and August 31, 2016. On August 3, 2018, we also filed an appeal to the CBCA of OPM's June 21, 2018 denial of a Request for Equitable Adjustment for extra work associated with a contract modification imposing new security and other requirements not part of the original scope of FSAFED's contract work. In connection with the Company's 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 our claim against OPM as a result. In March 2019, the Company filed a Motion for Summary Judgement with CBCA on the December 22nd denial by the OPM. OPM has moved to defer consideration of the Summary Judgment Motion to permit it further discovery. That Motion has been briefed and the case is on hold pending a ruling by the CBCA which could be handed down any day. In order to accelerate resolution of all matters before the CBCA, the Company's appeal of the June 21st denial by the OPM was withdrawn on April 9, 2019. The remaining claim related to the OPM's December 22nd denial, valued at approximately $6.2 million, is scheduled to go to trial in July 2019 if the pending Summary Judgment is denied by the CBCA. As with all legal proceedings, no assurance can be provided as to the outcome of these matters or if we will be successful in recovering the full claimed amount.

On March 9, 2018, a putative class action was filed in the United States 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 the Company, our former Chief Executive Officer and our 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 our June 19, 2017 common stock offering against those same defendants, as well as the members of our Board of Directors at the time of that offering and the underwriters of the offering.

On June 22, 2018 and September 6, 2018, two derivative lawsuits were filed against certain of our officers and directors and the Company (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 of our officers and directors and the Company (as nominal defendant) in the United States District Court for the Northern District of California (together, the "Derivative Suits"). The Derivative Suits purport to allege claims related to breaches of fiduciary duties, waste of corporate assets, and unjust enrichment. In addition, the complaint in District Court includes a claim for abuse of control, and the complaint in Superior Court includes a claim to require the Company to hold an annual shareholder meeting. 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. In addition, the complaint in the Superior Court seeks for us to provide past operational reports and financial statements, to publish timely and accurate operational reports and financial statements going forward, to hold an annual shareholder meeting, and to take steps to improve its corporate governance and internal procedures.

Plaintiffs in the Superior Court action filed a Consolidated Complaint on May 2, 2019. As stipulated by the parties, and approved by the District Court, the District Court action is stayed. The parties in the District Court action are to notify the District Court within 15 days of (1) the dismissal of the Securities Class Action, (2) the denial of defendants' motion(s) to dismiss, or (3) a party giving notice that they no longer consent to the voluntary stay.

The Company voluntarily contacted the San Francisco office of the SEC Division of Enforcement regarding the restatement and independent investigation. The Company is providing information and documents to the SEC and will continue 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. The Company has provided documents and information to the U.S. Attorney's Office and will continue to cooperate with any inquiries by the U.S. Attorney's Office regarding the matter.

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 additional liabilities relating to other unresolved matters are probable or that the amount of any resulting loss is estimable. In addition, in accordance with the relevant authoritative guidance, for matters which the likelihood of material loss is at least reasonably possible, the Company provides disclosure of the possible loss or range of loss. If a reasonable estimate cannot be made, the Company will provide disclosure to that effect. 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 or cash flows for the period in which the unfavorable outcome occurs, and potentially in future periods.

The Company is 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 and the advice of counsel, that such litigation, proceedings and claims will not have a material impact on the Company's financial position or results of operations.

Information with respect to this Item may be found under the heading "Legal Matters" in Note 15 Commitments and Contingencies, in the Notes to Consolidated Financial Statements in Exhibit 99.1 to this Current Report on Form 8-K.

**Exhibit 99.6**

The following sets forth the Business discussion of WageWorks, Inc. (“WageWorks”) and its subsidiaries described in Part I, Item 1 in WageWorks’s Annual Report on Form 10-K for the year ended December 31, 2018 and filed with the Securities and Exchange Commission on May 30, 2019.

In this Exhibit 99.6, “we”, “our”, “us”, and “the Company” refer to Aetna and its subsidiaries.

## Overview

We are a leader in administering Consumer-Directed Benefits (“CDBs”) which empower employees to lower their tax expense and provide healthcare related tools for employers to provide to their employees. We lead by providing companies with the technology, tools and a comprehensive understanding of current regulations, and we are dedicated to administering CDBs. These include pre-tax spending accounts, such as Health Savings Accounts (“HSAs”), health and dependent care Flexible Spending Accounts, (“FSAs”), Health Reimbursement Arrangements, (“HRAs”), plus commuter benefit services, including transit and parking programs, wellness programs, Consolidated Omnibus Budget Reconciliation Act, (“COBRA”), and other employee benefits.

Our CDB programs assist employees and their families in saving money by using pre-tax dollars to pay for certain expenses related to their healthcare, dependent care and commuter expenses. Employers financially benefit from our programs through reduced payroll taxes. Under our FSA, HSA and commuter programs, employee participants contribute funds from their pre-tax income to pay for qualified out-of-pocket healthcare expenses not fully covered by insurance, such as co-pays, deductibles and over-the-counter medical products or for commuting costs.

We price our services based on a number of variables including but not limited to the estimated number and types of claims, whether payment processing and client support activities will be provided within or outside of the United States, the estimated number of calls to our customer support center and any specific client requirements. In addition, we derive a portion of our revenues from interchange fees from financial institutions that we receive when employee participants use the prepaid debit cards we provide to them for healthcare and commuter expenses as well as interest income or fee income associated with HSA related balances deposited with the financial institutions.

At January 31, 2019, we had approximately 7.9 million participant accounts from approximately 75,000 employer clients. In 2018, employee participants used approximately 5.9 million WageWorks prepaid debit cards. Our participant counts do not include our TransitChek Basic program participants, as that fare media is shipped directly to employers who then distribute the products to their employees based on demand. We believe that January 31 is the most appropriate point-in-time measurement date for annual plan metrics. Although plan changes and the entry and exit of employers and participants from our programs are usually decided late in the calendar year during open enrollment to be effective on January 1, it is not unusual for employers to submit updated participant files in early January. While updates can be delayed past January, any changes from such late updates are usually minimal. Consequently, we believe the January 31 point-in-time measurement date is the most appropriate date to use as a baseline to report these metrics.

## Our Services

### *Health Savings Accounts (HSAs)*

We administer HSAs for employers that allow employee participants to invest funds to be used for qualified healthcare expenses at any time without federal tax liability or penalty. In order to be eligible for an HSA, an employee must be enrolled in a qualified High Deductible Health Plan (“HDHP”) that is HSA-compatible and not have any other impermissible coverage. The funds in the HSAs are exempt from payroll taxes for employers and both employees and employers can make contributions to an HSA. Withdrawals for non-medical expenses are treated similarly to those in an individual retirement account, specifically, such withdrawals may provide tax advantages if taken after retirement age, and may incur penalties if taken earlier. HSA funds are held by a custodian, which accumulate year-to-year if not spent and are portable if a participant leaves his or her employer. Our HSA programs are designed to offer employers a choice of third-party custodian as well as a variety of investment options within each custodial offering that enables employers the opportunity to explore a broader assortment of funds to offer their employees. At

January 31, 2019, we administered approximately 0.7 million HSA accounts holding $1.4 billion in assets with multiple custodians. Effective December 2017, we became a non-bank custodian and therefore can be another option for our clients for HSA custodian services. We do not hold any accounts as a non-bank custodian as of January 31, 2019.

***Flexible Spending Accounts (FSAs)***

*Healthcare*

We also offer FSAs, which are employer-sponsored CDBs that enable employees to set aside pre-tax dollars to pay for eligible healthcare expenses that are not generally covered by insurance, such as co-pays, deductibles and over-the-counter medical products, as well as vision expenses, orthodontia, medical devices and autism treatments. Employers benefit from payroll tax savings on the pre-tax FSA contributions made by employees. As an example, based on our average employee participant's annual FSA contribution of approximately $1,430 and an assumed personal combined federal and state income tax rate of 35%, an employee participant will reduce his or her taxes by approximately $501 per year by participating in an FSA. Our employer clients also realize payroll tax (i.e., FICA and Medicare) savings on the pre-tax contributions made by their employees. In the above FSA example, an employer client would save approximately $59 per participant per year, even after the payment of our fees.

The IRS imposes a limit, indexed to inflation, on pre-tax dollar employee contributions made to a healthcare FSAs. The IRS also allows a carryover of up to $500 that does not count against or otherwise affect the indexed salary reduction limit applicable to each plan year. Employers are able to contribute additional amounts in excess of this statutory limit, and may choose to do so in an effort to mitigate the impact of rising healthcare costs on their employees.

*Dependent Care*

We also administer FSA programs for dependent care plans. These plans allow employees to set aside pre-tax dollars to pay for eligible dependent care expenses, which typically include child care or day care expenses but may also include expenses incurred from adult and elder care. Current laws and regulations impose a statutory limit on the amount of pre-tax dollars employees can contribute to dependent care FSAs with no carryover allowed. Like healthcare FSAs, employers can also contribute funds to employees' dependent care FSAs, subject to the statutory annual limit on total contributions. As with healthcare FSAs, employers realize payroll tax savings on the pre-tax dependent care FSA contributions made by their employees.

***Health Reimbursement Arrangements (HRAs)***

We offer employer-funded HRAs. Under HRAs, employers provide their employees with a specified amount of reimbursement funds that are available to help employees defray their out-of-pocket healthcare expenses, such as deductibles, co-insurance and co-payments. HRAs may only be funded by employers and, while there is no limitation on how much employers may contribute, employers are required to establish the programs in such a way as to prevent discrimination in favor of highly compensated employees. HRAs must either be considered an excepted benefit (for example, a dental-only HRA or a vision-only HRA), a retiree HRA or be integrated with another group health plan. HRAs can be customized by employers so employers have the freedom to determine what expenses are eligible for reimbursement under these arrangements. At the end of the plan year, employers have the option to allow all or a portion of the unused funds to roll over and accumulate year-to-year if not spent. All amounts paid by employers into HRAs are deductible for tax purposes by the employer and tax-free to the employee.

***COBRA***

We offer COBRA continuation services to employer clients to meet the employer's obligation to make available continuation of coverage for participants who are no longer eligible for the employer's COBRA covered benefits, which include medical, dental, vision, HRAs and certain healthcare FSAs. COBRA requires employers to make health coverage available for terminated employees for a period of up to 36 months post-termination. As part of our COBRA program, we offer a direct billing service where former employee participants pay WageWorks directly versus to their

employers for coverage they elect to continue. We handle the accounting and customer services for such terminated employees, as well as interfacing with the carrier regarding the employees' eligibility for participation in the COBRA program.

***Commuter Programs***

We administer pre-tax commuter benefit programs. In 2018, employers were permitted to provide employees with commuter benefits including qualified parking, transit passes and vanpooling. The maximum monthly federal (and sometimes state) tax free exclusion is adjusted for inflation. The maximum pre-tax monthly limit for transit passes, vanpooling and qualified parking was $260 for 2018. On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act") that eliminated the bicycle commuting reimbursement effective January 1, 2018.

***Non-Bank Custodian***

The Medicare Modernization Act of 2003 created HSAs a tax-exempt trust or custodial account managed by a custodian that is a bank, an insurance company, or a non-bank custodian specifically authorized by the U.S. Department of the Treasury as meeting certain ownership, capitalization, expertise and governance requirements. Effective December 2017, we received approval from the Internal Revenue Services ("IRS") to become an approved non-bank custodian of our members' HSAs.

**Our Clients**

As of January 31, 2019, we had approximately 75,000 employer clients across a broad range of industries with approximately 7.9 million participant accounts in all 50 states. Our employer clients include many of the Fortune 100 and Fortune 500 companies.

In addition, in March 2016 we were selected by the United States Office of Personnel Management ("OPM") to administer its Federal Flexible Spending Account Program ("FSAFEDS"). This relationship provides eligible federal government employees access to our advanced technology platform and premium service capabilities. FSAFEDS had started and transition of all participants was completed during the third quarter of 2016. In addition, the United States Postal Service became a member of the OPM contract during the first quarter of 2017.

**Our Technology Platforms**

We run our services primarily on a number of platforms which have been designed to be highly scalable based on an on-demand delivery model that employer clients and their employee participants may access through a standard web browser on any internet-enabled device, including computers, smart phones, and other mobile devices such as tablet computers. Our on-demand delivery model eliminates the need for our employer clients to install and maintain hardware and software in order to support CDB programs and enables us to rapidly implement product enhancements across our entire user base. We closely monitor utilization of all aspects of our platforms for capacity planning purposes. Our existing infrastructure has been designed with sufficient capacity to meet our current and planned future needs.

The majority of our accounts run on our proprietary platform, which we call our Enterprise platform. We generally use our Enterprise platform for medium-sized and enterprise clients to administer a wide range of CDB programs (FSA, Limited FSA, HRA, Limited HRA, HSA, Commuter, and other programs). Our Enterprise platform supports all account administrative functions and provides integration with the systems used by employer clients, payment networks, health plans and key suppliers. Our Enterprise platform features a flexible, rules-based engine that includes multi-wallet functionality and is highly configurable to accommodate custom client plan designs and service requests. This multi-wallet functionality allows us to include more than one type of healthcare account (FSA, HRA and HSA) on one participant's card, and helps ensure that funds that are otherwise subject to forfeiture at the end of a plan year are used first to pay for eligible expenses.

We also operate a technology platform known as WinFlexOne, which has been specifically designed and enhanced to address the needs of small-and medium-sized business (“SMBs”). While the overall features and capabilities of WinFlexOne are comparable to Enterprise, WinFlexOne utilizes a simpler set of interfaces and product configurations that better accommodate the more limited administrative capabilities and needs of small employers.

Our third primary technology platform, known as CSAM, is used to provide a full suite of CDB programs to our enterprise clients. CSAM is integrated with Automatic Data Processing Inc.’s (“ADP”) Health and Welfare (“H/W”) and ADP payroll platforms and is designed to support large and small market clients. CSAM supports the overall features and capabilities of the Enterprise platform.

Our fourth technology platform, known as Complink, is used to provide COBRA and direct bill services to our SMB and enterprise clients. This integrated platform automates COBRA and direct bill administration activities and operations, and helps to ensure the administration of these programs is in compliance with applicable laws.

Our last primary technology platform, known as CASPro, is used to provide COBRA services to our enterprise clients. CASPro is integrated with ADP H/W and ADP payroll platforms and helps to ensure that the administration of these programs is in compliance with applicable laws.

In 2018, we continued to develop and implement new features to enhance the participant and client user experience on our enterprise platform. These efforts touched several areas, including the participant website, mobile application, or mobile app, client website, reporting, plan design and administration.

**Operations**

***Operation Support Services***

We provide operational support services to our clients and our cross-functional teams including customer support and claims processing. We believe our strict quality standards differentiate us from our competitors and enable us to attract and maintain a broad base of loyal customers. Our client support groups include: customer support, claims servicing, operations support and professional services teams.

Our customer support team handles all incoming interactions from our employee participants and is responsible for resolving any issues they may encounter. The team serviced approximately 6.2 million calls in 2018. Our claims servicing team works directly with providers or participants and reviews, adjudicates and processes claims for payment or reimbursement. In 2018, the claims servicing team handled more than 17.1 million claims and card use verification forms.

Our operations support team processes and coordinates activities, delivers healthcare and commuter cards to participants and ensures that prepaid funds and reimbursement payments are accurate. In 2018, our operations team serviced approximately 5.9 million healthcare and commuter prepaid debit cards and fulfilled over 14.5 million commuter orders during the calendar year.

Lastly, our professional services team is responsible for coordinating all activities related to the implementation, transition and on-boarding of new employer clients, assisting our existing clients with the addition of new services to their accounts and transitioning clients that we acquire from portfolio purchases to our platforms.

***Employer Relationship Management***

Each employer client, based on size and complexity, is assigned to an account team with an experienced relationship manager. Our relationship managers act as a client’s single point of contact and are trained on all of our account offerings, working closely with our internal partners and subject matter experts to understand how regulatory or operational changes may impact a particular program or procedure.

We enhance the employer client enrollment process by providing tools such as educational information, webinars and onsite support to help facilitate open enrollment and drive employee participation. We also provide consultation services to employer clients which include providing robust data regarding spend patterns, participation and service utilization, online claims submissions and participant feedback.

Our Employer Relationship Management team also ensures that any platform or product changes, such as website or service enhancements, online claims processing, or the launch of our mobile application are properly communicated and adopted by our clients. The team also works to keep our commuter clients' employee participants well informed about any rate changes, new pricing schemes or new technologies as we have relationships with a significant number of regional transit authorities.

**Sales and Business Development**

We grow our employer client base through our various sales channels and through other business development efforts.

***Sales***

We sell our CDB programs to our employer clients through direct and indirect sales channels. Each of these approaches targets a distinct group of clients. Our average sales cycle ranges from approximately two months for smaller opportunities to over a year for large institutional clients and significant new indirect business.

Our direct sales force targets Fortune 1000 companies, which we refer to as enterprise clients, and generates new large account relationships through employer prospecting. Our indirect sales channel consists of carriers, channel partnerships, private exchange partners, institutional brokers and other third parties who refer or resell our CDB programs.

Our channel partnerships usually involve an existing provider agreeing to transition its CDB clients to us over a defined period of time for an agreed upon purchase price. These channel partnerships also have a resale and referral component to them so we stand to derive additional opportunities from these arrangements. The private exchange marketplace offers another opportunity for us to sell our CDB programs to companies of all sizes that participate in such exchanges. Our broker relationships provide another avenue for us to market and sell our CDB programs.

***Business Development***

In addition to our sales channels, we utilize portfolio purchases as a business development strategy to broaden our employer client base and to acquire new employer clients. Since 2007, we have purchased CDB portfolios of eight third-party administrators ("TPAs"), and completed three acquisitions. In connection with these portfolio purchases, we have leveraged the ease of integration and efficiencies afforded by our on-demand software platforms and cross-sold additional CDB products and services to many acquired employer clients. There are many regional TPA portfolios that we continually monitor and evaluate in order to maintain a robust pipeline of potential candidates for purchase.

**Government Regulation**

Our business is subject to extensive, complex and rapidly changing federal and state laws and regulations. We have implemented and continue to enhance compliance programs and policies to monitor and address the legal and regulatory requirements applicable to our operations, including dedicated compliance personnel and training programs. For additional information regarding laws and regulations impacting our business, refer to Part I, Item 1A, "Risk Factors," of this Annual Report on Form 10-K.

## Competition

The market for CDBs, as well as COBRA and direct bill services is highly competitive, rapidly evolving and fragmented. Key categories of competitors include national CDB specialists, health insurance carriers, human resource consulting firms, payroll providers, small regional TPAs, and commercial banks.

We believe our focus on CDB and benefit continuation programs, our high quality service and our highly scalable delivery model are our key competitive advantages in the market.

## Intellectual Property

Our success depends in part on our ability to protect our core technology and intellectual property. To accomplish this, we rely on a combination of patent laws, trade secrets, including know-how, employee and third-party nondisclosure agreements, copyright laws, trademarks, intellectual property licenses and other contractual rights to establish and protect our proprietary rights in our technology. We have two issued patents which expire in 2023 and 2030.

Despite our efforts to preserve and protect our proprietary and intellectual property rights, unauthorized third parties may attempt to copy, reverse engineer, or otherwise obtain portions of our products. Competitors may attempt to develop similar products that could compete in the same market as our products. Unauthorized disclosure of our confidential information by our employees or third parties could occur.

Third-party infringement claims are also possible in our industry, especially as software functionality and features expand, evolve, and overlap with other industry segments. Current and future competitors, as well as non-practicing patent holders, could claim at any time that some or all of our products infringe on patents they now hold or might obtain, or be issued in the future.

## Employees

On December 31, 2018, we had 2,204 employees, including 1,955 full-time employees, 6 part-time employees and 243 temporary or seasonal employees. There are 108 employees located in our Northern California headquarters and the remainder are located in our various other offices throughout the U.S. or work remotely from various locations. We also have meaningful office locations in Irving, TX, Milwaukee, WI, Tempe, AZ, Louisville, KY and Alpharetta, GA. None of our employees are currently represented by labor unions or are covered by a collective bargaining agreement with respect to his or her employment. To date, we have not experienced any work stoppages, and we consider our relationship with our employees to be good.

## UNAUDITED PRO FORMA COMBINED CONDENSED FINANCIAL INFORMATION OF HEALTHEQUITY

On June 26, 2019, HealthEquity, Inc. (“HealthEquity”, “we”, “us”, “our”), our wholly owned subsidiary Pacific Merger Sub Inc. (“Merger Sub”) and WageWorks, Inc. (“WageWorks”) entered into an agreement and plan of merger (the “Merger Agreement”), pursuant to which, on the terms and subject to the conditions set forth in the Merger Agreement, Merger Sub will merge with and into WageWorks, with WageWorks being the surviving entity and continuing as our wholly owned subsidiary (the “Merger”). The following unaudited pro forma combined condensed financial information of HealthEquity presents the unaudited pro forma combined condensed balance sheet of HealthEquity as of April 30, 2019, and the unaudited pro forma combined condensed statements of operations of HealthEquity for the three months ended April, 2019 and the year ended January 31, 2019.

The unaudited pro forma combined condensed balance sheet as of April 30, 2019 combines the historical unaudited consolidated balance sheet of HealthEquity as of April 30, 2019 and the unaudited condensed consolidated balance sheet of WageWorks as of March 31, 2019, and gives effect to the Merger, potential debt financing (the “Financing Transactions”) further discussed herein and a potential offering of equity securities in an amount of $410,000 (the “offering”), as if each occurred on April 30, 2019.

The unaudited pro forma combined condensed statements of operations for the three months ended April 30, 2019 and the fiscal year ended January 31, 2019, combine the unaudited historical statements of operations of HealthEquity for the three months ended April, 30, 2019 and the fiscal year ended January 31, 2019 and the unaudited statement of income data for WageWorks for the three months ended March 31, 2019 and the fiscal year ended December 31, 2018, and give effect to the Merger, the Financing Transactions and the offering as if each occurred on February 1, 2018, the first day of the fiscal year ended January 31, 2019.

The historical financial information has been adjusted to give effect to pro forma adjustments that are (i) directly attributable to the Merger, (ii) factually supportable, and (iii) with respect to the unaudited consolidated condensed statements of income, expected to have a continuing impact on the consolidated entity’s condensed results. The unaudited pro forma combined financial statements are based upon the historical consolidated financial data of HealthEquity and WageWorks, after giving effect to the Merger, the Financing Transactions and the offering as of the dates and for the periods indicated. The unaudited pro forma combined financial statements should be read in conjunction with the financial statements presented, or incorporated by reference, in this Form 8-K.

The unaudited pro forma combined financial statements do not reflect the costs of any integration activities, possible or pending asset dispositions, the benefits that may result from realization of future cost savings from operating efficiencies or revenue synergies that may result from the Merger.

The unaudited pro forma combined financial statements are presented for informational purposes only and do not purport to represent what the results of operations or financial condition would have been had the Merger, the Financing Transactions and the offering actually occurred on the dates indicated, nor do they purport to project the results of operations or financial condition of the consolidated company for any future period or as of any future date. The unaudited pro forma combined financial statements have been prepared in advance of the close of the Merger, the Financing Transactions and the offering, and the final amounts recorded upon the closing of the foregoing may differ materially from the information presented. The actual debt financing in connection with the Merger may be in a different form than as described herein and pursuant to the terms of a commitment letter, the first $300 million of the gross cash proceeds from the offering will reduce the commitments in respect of a bridge facility, and the remainder of the gross cash proceeds will reduce the commitments in respect of the term loan facility, in each case, on a dollar-for-dollar basis.

The unaudited pro forma combined financial statements have been prepared using the acquisition method of accounting under U.S. generally accepted accounting principles, which are subject to change and interpretation. The acquisition method of accounting is dependent upon certain valuations and other studies that have yet to be completed (see Note 4 below). Accordingly, the pro forma adjustments contained herein are preliminary and have been made solely for the purpose of providing unaudited pro forma combined financial statements. Differences between these preliminary estimates and the final acquisition accounting will occur and these differences could have a material impact on the accompanying unaudited pro forma combined financial statements and the combined company’s future results of operations and financial position.

**HealthEquity, Inc.**

**Unaudited Pro Forma Combined Condensed Balance Sheet**

**As of April 30, 2019**

| (In thousands) | As of 4/30/2019 Historical HealthEquity | As of 3/31/2019 Historical WageWorks (Note 3) | Offering-Related Adjustments (Note 5) | | Financing-Related Adjustments (Note 6) | | Merger-Related Adjustments (Note 7) | | Pro Forma |
|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | |
| Current Assets | | | | | | | | | |
| Cash and cash equivalents | $ 329,310 | $ 783,099 | $ 396,700 | (a) | $ 1,270,100 | (a) | $ (2,087,960) | (a) | $ 691,249 |
| Short-term investments | — | 183,603 | | | | | (183,603) | (a) | — |
| Accounts Receivable, net | 27,022 | 114,426 | | | | | | | 141,448 |
| Other Current Assets | 8,244 | 30,822 | | | | | | | 39,066 |
| **Total Current Assets** | 364,576 | 1,111,950 | 396,700 | | 1,270,100 | | (2,271,563) | | 871,763 |
| Other investments | 78,065 | — | | | | | (77,400) | (b) | 665 |
| Property and Equipment, net | 8,481 | 74,378 | | | | | | | 82,859 |
| Operating lease right-of-use assets | 37,367 | 24,095 | | | | | | | 61,462 |
| Intangible Assets, net | 81,437 | 123,762 | | | | | 576,238 | (c) | 781,437 |
| Goodwill | 4,651 | 297,409 | | | | | 995,251 | (d) | 1,297,311 |
| Deferred TaxAsset | 551 | 1,305 | | | | | (1,305) | (e) | 551 |
| Other Assets | 21,511 | 33,300 | | | | | | | 54,811 |
| **Total Assets** | $ 596,639 | $ 1,666,199 | $ 396,700 | | $ 1,270,100 | | $ (778,779) | | $ 3,150,859 |
| **Liabilities and Stockholders' Equity** | | | | | | | | | |
| Current Liabilities | | | | | | | | | |
| Accounts payable | $ 1,964 | $ 53,863 | | | | | | | $ 55,827 |
| Accrued compensation | 8,501 | 29,064 | | | | | | | 37,565 |
| Accrued liabilities | 9,127 | 4,885 | | | | | | | 14,012 |
| Customer obligations | — | 660,437 | | | | | | | 660,437 |
| Operating lease liabilities | 3,786 | 8,069 | | | | | | | 11,855 |
| Other current liabilities | — | 19,197 | | | | | | | 19,197 |
| **Total Current Liabilities** | 23,378 | 775,515 | — | | — | | — | | 798,893 |
| Long-term debt, net of issuance costs | — | 184,769 | | | 1,270,100 | (a) | (184,769) | (f) | 1,270,100 |
| Operating lease liabilities, non-current | 36,243 | 28,455 | | | | | | | 64,698 |
| Deferred TaxLiability | 7,332 | — | | | | | 136,992 | (e) | 144,324 |
| Other Long-Term Liability | 387 | 4,773 | | | | | | | 5,160 |
| **Total Liabilities** | 67,340 | 993,512 | — | | 1,270,100 | | (47,777) | | 2,283,175 |
| **Stockholders' Equity** | | | | | | | | | |
| Preferred Stock | — | — | | | | | | | — |
| Common Stock | 6 | 41 | 1 | (a) | | | (41) | (g) | 7 |
| Additional Paid in Capital | 315,621 | 585,478 | 396,699 | (a) | | | (585,478) | (g) | 712,320 |
| Treasury stock at cost | — | (22,309) | | | | | 22,309 | (g) | — |
| Accumulated Other Comprehensive Loss | | (222) | | | | | 222 | (g) | — |
| Accumulated Earnings | 213,672 | 109,699 | | | | | (168,014) | (g) | 155,357 |
| **Total Stockholders' Equity** | 529,299 | 672,687 | 396,700 | | — | | (731,002) | | 867,684 |
| **Total Liabilities and Stockholders' Equity** | $ 596,639 | $ 1,666,199 | $ 396,700 | | $ 1,270,100 | | $ (778,779) | | $ 3,150,859 |

The accompanying notes are an integral part of these unaudited pro forma combined condensed financial statements.

**HealthEquity, Inc.**

**Unaudited Pro Forma Combined Condensed Statements of Income**

**For the Year Ended January 31, 2019**

| (In thousands, except per share amounts) | For the year ended 1/31/2019<br>Historical HealthEquity | For the year ended 12/31/2018<br>Historical WageWorks (Note 3) | Offering-Related Adjustments (Note 5) | | Financing-Related Adjustments (Note 6) | | Merger-Related Adjustments (Note 8) | | Pro Forma |
|---|---|---|---|---|---|---|---|---|---|
| Revenue: | | | | | | | | | |
| Service revenue | $ 100,564 | | | | | | | | $ 100,564 |
| Custodial revenue | 126,178 | | | | | | | | 126,178 |
| Interchange revenue | 60,501 | | | | | | | | 60,501 |
| WageWorks Revenue | | 472,184 | | | | | | | 472,184 |
| Total revenue | 287,243 | 472,184 | — | | — | | — | | 759,427 |
| Cost of revenue: | | | | | | | | | |
| Service costs | 76,858 | | | | | | 1,125 | (a) | 77,983 |
| Custodial costs | 14,124 | | | | | | | | 14,124 |
| Interchange costs | 15,068 | | | | | | | | 15,068 |
| WageWorks Cost of revenue | — | 154,804 | | | | | | | 154,804 |
| Total cost of revenue | 106,050 | 154,804 | — | | — | | 1,125 | | 261,979 |
| Gross profit | 181,193 | 317,380 | | | | | (1,125) | | 497,448 |
| Operating expenses: | | | | | | | | | |
| Sales and marketing | 29,498 | 73,092 | | | | | 1,402 | (a) | 103,992 |
| Technology and development | 35,057 | 53,079 | | | | | 2,029 | (a) | 90,165 |
| General and administrative | 33,039 | 101,577 | | | | | 3,794 | (a) | 138,410 |
| Amortization of acquired intangible assets | 5,929 | 41,456 | | | | | 28,544 | (b) | 75,929 |
| Employee termination & other charges | — | 3,792 | | | | | | | 3,792 |
| Total operating expenses | 103,523 | 272,996 | — | | — | | 35,769 | | 412,288 |
| Income from operations | 77,670 | 44,384 | | | | | (36,894) | | 85,160 |
| Other income (expense), net | (1,852) | (4,269) | | | (63,936) | (b) | 10,087 | (c) | (59,970) |
| Income before income taxes | 75,818 | 40,115 | — | | (63,936) | | (26,807) | | 25,190 |
| Income tax provision (benefit) | 1,919 | 14,145 | | | (15,345) | (c) | (6,434) | (d) | (5,714) |
| Net income and comprehensive income | $ 73,899 | $ 25,970 | $ — | | $ (48,591) | | $ (20,373) | | $ 30,904 |
| (Note 9) | | | | | | | | | |
| Net income per share: | | | | | | | | | |
| Basic | $ 1.20 | $ 0.65 | | | | | | | $ 0.45 |
| Diluted | $ 1.17 | $ 0.64 | | | | | | | $ 0.44 |
| Weighted-average number of shares used in computing net income per share: | 61,836 | 39,846 | 6,308 | (a) | | | (39,846) | (b) | 68,144 |
| Basic | | | | | | | | | |
| Diluted | 63,370 | 40,434 | 6,308 | (a) | | | (40,434) | (b) | 69,678 |

The accompanying notes are an integral part of these unaudited pro forma combined condensed financial statements.

**HealthEquity, Inc.**

**Unaudited Pro Forma Combined Condensed Statements of Income**

**For the Three Months Ended April 30, 2019**

| (In thousands, except per share amounts) | For the three months ended 4/30/2019<br>Historical HealthEquity | For the three months ended 3/31/2019<br>Historical WageWorks (Note 3) | Offering-Related Adjustments (Note 5) | | Financing-Related Adjustments (Note 6) | | Merger-Related Adjustments (Note 8) | | Pro Forma |
|---|---|---|---|---|---|---|---|---|---|
| Revenue: | | | | | | | | | |
| Service revenue | $ 26,808 | | | | | | | | $ 26,808 |
| Custodial revenue | 41,952 | | | | | | | | 41,952 |
| Interchange revenue | 18,292 | | | | | | | | 18,292 |
| WageWorks Revenue | | 118,225 | | | | | | | 118,225 |
| Total revenue | 87,052 | 118,225 | — | | — | | — | | 205,277 |
| Cost of revenue: | | | | | | | | | |
| Service costs | 20,649 | | | | | | 281 | (a) | 20,930 |
| Custodial costs | 4,123 | | | | | | | | 4,123 |
| Interchange costs | 4,527 | | | | | | | | 4,527 |
| WageWorks Cost of revenue | — | 39,258 | | | | | | | 39,258 |
| Total cost of revenue | 29,299 | 39,258 | — | | — | | 281 | | 68,838 |
| Gross profit | 57,753 | 78,967 | | | | | (281) | | 136,439 |
| Operating expenses: | | | | | | | | | |
| Sales and marketing | 8,970 | 18,331 | | | | | 351 | (a) | 27,652 |
| Technology and development | 10,905 | 16,340 | | | | | 507 | (a) | 27,752 |
| General and administrative | 8,709 | 27,909 | | | | | 948 | (a) | 37,566 |
| Amortization of acquired intangible assets | 1,491 | 10,851 | | | | | 6,649 | (b) | 18,991 |
| Total operating expenses | 30,075 | 73,431 | — | | — | | 8,455 | | 111,961 |
| Income from operations | 27,678 | 5,536 | — | | — | | (8,737) | | 24,478 |
| Other income (expense), net | 23,600 | (60) | | | (16,046) | (b) | (19,618) | (c) | (12,124) |
| Income before income taxes | 51,278 | 5,476 | — | | (16,046) | | (28,355) | | 12,354 |
| Income tax provision (benefit) | 9,456 | 1,419 | | | (3,851) | (c) | (6,805) | (d) | 219 |
| Net income and comprehensive income | $ 41,822 | $ 4,057 | $ — | | $ (12,195) | | $ (21,549) | | $ 12,135 |
| (Note 9) | | | | | | | | | |
| Net income per share: | | | | | | | | | |
| Basic | $ 0.67 | $ 0.10 | | | | | | | $ 0.18 |
| Diluted | $ 0.65 | $ 0.10 | | | | | | | $ 0.17 |
| Weighted-average number of shares used in computing | | | | | | | | | |
| Basic | 62,326 | 39,853 | 6,308 | (a) | | | (39,853) | (b) | 68,634 |
| Diluted | 63,901 | 40,437 | 6,308 | (a) | | | (40,437) | (b) | 70,209 |

The accompanying notes are an integral part of these unaudited pro forma combined condensed financial statements.

## Notes to Unaudited Pro Forma Combined Financial Statements

### 1. Description of Merger

On June 26, 2019, HealthEquity entered into an Agreement and Plan of Merger, referred to herein as the Merger Agreement, to acquire all of the outstanding shares of common stock of WageWorks for cash. Pursuant to the terms of the Merger Agreement, a wholly owned subsidiary of HealthEquity will be merged with and into WageWorks, with WageWorks surviving the merger as a wholly owned subsidiary of HealthEquity, which transaction is referred to herein as the Merger. WageWorks stockholders will receive $51.35 per share in cash for each WageWorks share.

Under the Merger Agreement, at the effective time of the Merger, each issued and outstanding share of WageWorks common stock (other than shares (i) owned in treasury by WageWorks, (ii) owned by HealthEquity, Merger Sub or any other direct or indirect wholly owned subsidiary of HealthEquity, and (iii) held by WageWorks stockholders who perfect their appraisal rights with respect to the Merger) will be cancelled and automatically converted into the right to receive $51.35 in cash, without interest (the “Merger Consideration”).

Under the Merger Agreement, at the effective time of the Merger, (x) each outstanding WageWorks stock option (whether vested or unvested) will be cancelled and, if the exercise price per share of such stock option is less than $51.35, will be exchanged for an amount of cash, without interest, equal to (1) the Merger Consideration less the applicable exercise price per share with respect to such stock option multiplied by (2) the number of shares covered by such stock option, (y) each outstanding award of WageWorks RSUs subject to only time-based vesting conditions (1) granted prior to June 26, 2019 will fully vest and be entitled to receive the Merger Consideration for each share covered by such award or (2) granted on or after June 26, 2019, will, as of the effective time of the Merger, be assumed by HealthEquity and converted automatically into an award of RSUs covering an adjusted (based on the ratio of the Merger Consideration to the volume weighted average price of a share of common stock of HealthEquity for the 20 trading days ending with the trading day immediately preceding the date of the closing of the Merger) number of shares of common stock of HealthEquity and will be subject to the same terms and conditions applicable to such RSUs immediately prior to the Effective Time, and (z) each outstanding award of WageWorks RSUs granted prior to June 26, 2019 and subject to performance-based vesting conditions (each, a “Performance Unit”) will (1) in the case of any Performance Unit for which the performance period is complete but for which the board of directors of WageWorks has not determined the achievement of the underlying performance goals, vest based on actual performance, (2) in the case of any Performance Unit for which the performance period is incomplete, vest based on target performance, and (3) in the case of any Performance Unit that does not vest in accordance with clause (1) or (2), be cancelled for no consideration. Each Performance Unit that vests according to the previous sentence will be cancelled in exchange for an amount of cash, without interest, equal to the Merger Consideration multiplied by the number of shares covered by such vested Performance Unit.

In connection with the Merger, on June 26, 2019, we entered into a commitment letter, referred to herein as the Commitment Letter, with Wells Fargo Bank, National Association, and Wells Fargo Securities, LLC, referred to herein as the Commitment Parties, pursuant to which the Commitment Parties committed to provide senior credit facilities in an aggregate principal amount of $1.91 billion, consisting of (i) a senior secured revolving credit facility in an aggregate principal amount of $200 million, referred to herein as the Revolving Credit Facility, (ii) a senior secured term loan facility in an aggregate principal amount of $1.41 billion, referred to herein as the Term Loan Facility and together with the Revolving Credit Facility, the Senior Facilities, and (iii) a senior unsecured bridge facility in an aggregate principal amount of $300 million, referred to herein as the Bridge Facility and together with the Senior Facilities, the Facilities. Pursuant to the terms of the Commitment Letter, the first $300 million of the gross cash proceeds from the offering will reduce the commitments in respect of the Bridge Facility, and the remainder of the gross cash proceeds will reduce the commitments in respect of the Term Loan Facility, in each case, on a dollar-for-dollar basis.

Because the first $300 million of the gross cash proceeds from the offering will reduce the commitments in respect of the Bridge Facility on a dollar-for-dollar basis, we have assumed for purposes of these unaudited pro forma combined condensed financial statements, that no amounts will be drawn under the Bridge Facility; furthermore, we have assumed for purposes of these unaudited pro forma combined condensed financial statements that no amounts will be drawn under our Revolving Credit Facility.

Because these unaudited pro forma combined condensed financial statements have been prepared in advance of the closing of the Merger and the Financing Transactions, the actual debt financing in connection with the Merger may be in a different form than as described herein. See "Summary — Merger with WageWorks — Financing Transactions."

**2. Basis of Presentation**

The Merger will be accounted for as a business combination by HealthEquity using the acquisition method of accounting under the provisions of Accounting Standards Codification ("ASC") Topic 805, Business Combinations, under GAAP. Under the acquisition method of accounting, the total estimated purchase price of an acquisition is allocated to the net tangible and intangible assets acquired and liabilities assumed based on their estimated fair values. Such valuations are based on available information and certain assumptions that management believes are reasonable. The preliminary allocation of the estimated purchase price to the net tangible and intangible assets acquired and liabilities assumed is based on various preliminary estimates. Accordingly, the pro forma adjustments contained in this herein are preliminary and have been made solely for the purpose of providing these unaudited pro forma combined condensed financial statements. Differences between these preliminary estimates and the final acquisition accounting may occur and these differences could be material. The differences, if any, could have a material impact on the unaudited pro forma combined condensed financial statements presented herein and HealthEquity's future results of operations and financial position.

HealthEquity performed a review of WageWorks's accounting policies for the purpose of identifying any material differences in significant accounting policies and any accounting adjustments that would be required in connection with adopting uniform policies. Management is not aware of any differences in the accounting policies that could result in material adjustments to the pro forma consolidated financial statements of HealthEquity as a result of conforming the accounting policies except for the presentation of certain financial statement line items as discussed below. However, this assessment is ongoing and these adjustments reflect HealthEquity's best estimates based upon the information available to date and are preliminary and subject to change once more detailed information is obtained.

The final structure and terms of the Facilities will be subject to market conditions and may change materially from the assumptions described above. Changes in the assumptions described above would result in changes to various components of the unaudited pro forma combined condensed balance sheet, including cash and cash equivalents, long-term debt and additional paid-in capital, and various components of the unaudited pro forma combined condensed statements of income, including interest expense, earnings per share and weighted-average shares outstanding. Depending upon the nature of the changes, the impact on the unaudited pro forma combined financial statements could be material.

The unaudited pro forma combined condensed financial statements are presented for informational purposes only and does not purport to represent what our results of operations or financial condition would have been had the Merger, the Financing Transactions and the offering actually occurred on the date indicated, nor do they purport to project our results of operations or financial condition for any future period or as of any future date.

## 3. Reclassifications

Certain reclassifications were made to the historical financial statements of WageWorks to conform WageWorks's financial statement line item presentation to HealthEquity's presentation. This assessment is ongoing, and these adjustments reflect HealthEquity's best estimates based upon the information available to date and are preliminary and subject to change once more detailed information is obtained. The reclassification identified to date include the following:

WageWorks reclassifications in the unaudited pro forma combined condensed balance sheet as of March 31, 2019

| (in thousands) | Before Reclassification | Reclassification | After Reclassification |
|---|---|---|---|
| AP and accruals | 53,863 | (53,863)(a) | — |
| Accounts payable | | 53,863(a) | 53,863 |
| AP and accruals | 29,064 | (29,064)(b) | — |
| Accrued compensation | | 29,064(b) | 29,064 |
| AP and accruals | 4,885 | (4,885)(c) | — |
| Accrued liabilities | | 4,885(c) | 4,885 |
| Restricted cash | 333 | (333)(d) | — |
| Cash and cash equivalents | | 333(d) | 333 |

(a) Represents the reclassification of Accounts payable to providers classified as Accounts payable and Accrued expenses on WageWorks's balance sheet into Accounts payable to conform to HealthEquity's balance sheet presentation.

(b) Represents the reclassification of Accrued compensation classified as Accounts payable and Accrued expenses on WageWorks's balance sheet into Accrued compensation to conform to HealthEquity's balance sheet presentation.

(c) Represents the reclassification of Other accruals classified as Accounts payable and Accrued expenses on WageWorks's balance sheet into Accrued liabilities to conform to HealthEquity's balance sheet presentation.

(d) Represents the reclassification of Restricted cash on WageWorks's balance sheet into Cash and cash equivalents to conform to HealthEquity's balance sheet presentation.

WageWorks reclassifications in the unaudited pro forma combined condensed statements of income for the year ended December 31, 2018

| (in thousands) | Before Reclassification | Reclassification | After Reclassification |
|---|---|---|---|
| Healthcare revenue | 274,861 | (274,861)(e) | — |
| COBRA revenue | 106,161 | (106,161)(e) | — |
| Commuter revenue | 75,936 | (75,936)(e) | — |
| Other revenue | 15,226 | (15,226)(e) | — |
| WageWorks Revenue | | 472,184(e) | 472,184 |
| Interest income | 5,849 | (5,849)(e) | — |
| Interest expense | (10,087) | 10,087(e) | — |
| Other income (expense), net | | (4,238)(e) | (4,238) |

(e) Represents the reclassification of Healthcare, COBRA, Commuter, and Other revenue on WageWorks's statement of income into the single line item WageWorks Revenue.

(f) Represents the reclassification of a portion of interest income and interest expense on WageWorks's statement of income into Other income (expense), net, to conform to HealthEquity's statement of income presentation.

WageWorks reclassifications in the unaudited pro forma combined condensed statements of income for the three months ended March 31, 2019

| (in thousands) | Before Reclassification | Reclassification | After Reclassification |
|---|---|---|---|
| Healthcare revenue | 71,974 | (71,974)(g) | — |
| COBRA revenue | 23,589 | (23,589)(g) | — |
| Commuter revenue | 19,340 | (19,340)(g) | — |
| Other revenue | 3,322 | (3,322)(g) | — |
| WageWorks Revenue | | 118,225(g) | 118,225 |
| Interest expense | (2,709) | 2,709(f) | — |
| Other income, net | 2,649 | (2,649)(f) | — |
| Other income (expense), net | | (60)(f) | (60) |

(g) Represents the reclassification of Healthcare, COBRA, Commuter, and Other revenue on WageWorks's statement of income into the single line item WageWorks Revenue.

(h) Represents the reclassification of a portion of interest income and interest expense on WageWorks's statement of income into Other income (expense), net, to conform to HealthEquity's statement of income presentation.

As our assessment of the WageWorks historical accounting policies and presentation is ongoing, we are currently unable to accurately allocate WageWorks's revenue line items to HealthEquity's historical presentation. In addition, WageWorks has historically reported a single cost of sales line item, and as our assessment of WageWorks's historical accounting policies and presentation is ongoing, we are unable at this time to allocate this single line item between HealthEquity's line items for service costs, custodial costs and interchange costs. As a result, for purposes of these unaudited pro forma combined condensed statements of operations, we have presented WageWorks's revenue and cost of sales as separate line items. We expect to finalize our assessment of WageWorks's historical accounting policies and presentation subsequent to the closing date of the Merger, referred to herein as the Closing Date.

**4. Preliminary Purchase Price Allocation**

These pro forma adjustments include a preliminary allocation of the estimated purchase price required under the Merger Agreement to the estimated fair value of assets acquired and liabilities assumed at the Closing Date, with the excess recorded as Goodwill; however, a detailed analysis has not been completed and actual results may differ from these estimates. The final allocation of the purchase price required under the Merger Agreement could differ materially from the preliminary allocation primarily because market prices, interest rates and other valuation variables will fluctuate over time and be different at the Closing Date compared to the amounts assumed for these pro forma adjustments.

The following is a summary of the estimated purchase price required under the Merger Agreement and preliminary purchase price allocation giving effect to the Merger as if it had been completed on April 30, 2019:

| (in thousands) | | As of Apr. 30, 2019 |
|---|---|---|
| Estimated cash consideration for Merger | $ | 2,028,479 |
| Fair value of existing equity investment in WageWorks | | 77,400 |
| Estimated purchase consideration | $ | 2,105,879 |
| Cash | $ | 598,330 |
| Short-term investments | | 183,603 |
| Trade receivables, net | | 114,426 |
| Other current assets | | 30,822 |
| Property, plant and equipment, net | | 74,378 |
| Operating lease ROU assets | | 24,095 |
| Intangible assets, net | | 700,000 |
| Goodwill | | 1,292,660 |
| Other assets | | 33,300 |
| Total assets acquired | | 3,051,614 |
| Accounts payable, accrued expenses and other current liabilities | | (107,009) |
| Operating lease liabilities | | (36,524) |
| Customer obligations | | (660,437) |
| Deferred tax liability | | (136,992) |
| Other long-term liabilities | | (4,773) |
| **Fair value of net assets acquired** | $ | 2,105,879 |

WageWorks's long-term debt includes change-of-control provisions and therefore will be paid off prior to the Closing Date and will not be assumed by HealthEquity.

## 5. Offering Pro Forma Adjustments

Gross proceeds from the offering are estimated to be $410.0 million, calculated as the sale of approximately 6.3 million shares of our common stock at a price of approximately $65.00 per share, adjusted for issuance costs as follows:

(a) Adjustment to cash consists of the following:

| (in thousands) | | As of Apr 30, 2019 |
|---|---|---|
| Gross proceeds raised from the offering | $ | 410,000 |
| Cash paid for fees related to the offering | | (13,300) |
| Estimated net proceeds from the offering | $ | 396,700 |

The estimated price per share of $65.00 was estimated based on HealthEquity's closing price per share on July 5, 2019. The actual proceeds from the offering may differ from the amount presented in the table above. A hypothetical $2 change in the price per share of HealthEquity's common stock, all other factors remaining constant, would result in a corresponding increase or decrease in the total gross proceeds of approximately $13 million.

**6. Term Loan Financing Related Pro Forma Adjustments**

(a) Adjustment to cash consists of the following:

| (in thousands) | | As of Apr 30, 2019 |
|---|---|---|
| Amounts borrowed under the Five Year Term Loan | | 1,300,000 |
| Cash paid for financing fees related to the Five Year Term Loan | | (29,900) |
| Estimated net proceeds from the Financing | $ | 1,270,100 |

(b) Using an assumed effective interest rate of 4.94%, we estimated interest expense of $63.9 million for the year ended January 31, 2019 and $16.0 million three months ended April 30, 2019.

The adjustment to interest expense assumes the principal, stated amount, assumed rates on the Term Loan Facility do not change from those assumed; however, a 0.125% change in the respective variable interest rate of the Term Loan Facility would result in an increase or decrease in pro forma interest expense of approximately $1.6 million for the year ended January 31, 2019 and approximately $0.4 million for the three months ended April 30, 2019.

(c) Adjustment to record the income tax impacts of the Term Loan Facility related pro forma adjustments using an assumed statutory tax rate of 24.0% for the year ended January 31, 2019 and three months ended April 30, 2019. These rates do not reflect HealthEquity’s effective tax rate, which includes other items and may differ from the rates assumed for purposes of preparing these pro forma combined condensed financial statements.

The actual debt financing in connection with the Merger may be in a different form than as described herein, and the actual amount of the Term Loan Facility funded in connection with the Merger may be less than as described, which would reduce the interest expense in connection such debt financing.

**7. Merger Related Pro Forma Combined Condensed Balance Sheet Adjustments**

(a) Adjustment to cash consists of the following:

| (in thousands) | | As of Apr. 30, 2019 |
|---|---|---|
| Base Merger Cash Consideration | $ | 2,028,479 |
| Plus: Repayment of WageWorks debt subject to change-of-control provisions | $ | 184,769 |
| Plus: Other estimated transaction fees and expenses | | 58,315 |
| Plus: Cash from liquidation of WageWorks short-term investments | | (183,603) |
| Merger related adjustments to cash | $ | 2,087,960 |

The estimated Merger Consideration is preliminary and may differ from the estimates presented herein based on movements in WageWorks working capital balances and other account movements.

(b) Adjustment to eliminate HealthEquity’s $77.4 million equity investment in WageWorks.

(c) Adjustment to eliminate WageWorks’ historical intangible assets, net of $123.8 million and to recognize the estimated fair value of intangible assets acquired consisting of $700.0 million in customer relationships.

(d) Adjustment to eliminate WageWorks’ historical goodwill of $297.4 million and to recognize goodwill of the proposed WageWorks acquisition of $1,292.7 million. Goodwill is calculated as the difference between the estimated purchase price and the fair value of identifiable tangible and intangible assets acquired, net of liabilities assumed. The adjustment is preliminary and

subject to change based upon final determination of the fair value of assets acquired and liabilities assumed and finalization of the purchase price.

The fair value of acquired customer relationships was determined using benchmark data from similar transactions in similar industries. The above fair value estimate is preliminary and subject to change and could vary materially from the actual adjustment on the consummation date.

(e) Adjustment to deferred tax liability is as follows:

| (in thousands) | | As of Apr. 30, 2019 |
|---|---|---|
| Incremental increase to intangible assets that do not have tax basis | $ | 138,297 |
| Reclassification of WageWorks historical deferred tax asset | | (1,305) |
| Total adjustment to deferred tax liability | $ | 136,992 |

(f) Adjustment to eliminate $184.8 million of WageWorks' long-term debt that pursuant to change-of-control provisions will be repaid at time of merger and not assumed by HealthEquity.

(g) Adjustment to total equity consists of the following:

| (in thousands) | | As of Apr. 30, 2019 |
|---|---|---|
| Eliminate WageWorks' historical equity | $ | (672,687) |
| Adjustment to accrue for estimated transaction fees and expenses incurred | | (58,315) |
| Total adjustment to equity | $ | (731,002) |

**8. Merger Related Pro Forma Combined Condensed Statements of Income Adjustments**

(a) Adjustment represents the increase in stock compensation expense related to $33.4 million of WageWorks restricted share unit awards promised but not granted prior to the Merger Agreement that HealthEquity will grant pursuant to the Merger Agreement. The shares granted under the award will be determined based on the closing price on the date of grant. For purposes of the pro forma combined condensed statements of income, estimated stock compensation expense was recorded on a straight-line basis over an estimated four year term of the awards.

(b) Adjustment represents the increase in the amortization of intangible assets associated with the respective step-up in the fair value of acquired identifiable intangible assets. For purposes of the pro forma combined condensed statements of income, estimated amortization expense was recorded on a straight-line basis over the assumed 10 year useful life of the acquired intangible assets.

If the estimated fair value of the intangible assets acquired would increase or decrease from the preliminary estimate by $100 million, annual amortization expense would increase or decrease by $10 million, if amortized on straight line basis over the estimated life of the acquired intangible assets.

(c) Adjustments for the three months ended April 30, 2019 include the elimination of (i) of $2.7 million of interest expense related to historical WageWorks indebtedness that for pro forma purposes is assumed to be immediately repaid by HealthEquity upon close of the Merger, and (ii) $1.2 million of merger related costs incurred by HealthEquity in the quarter ended April 30, 2019, offset by (iii) the elimination of $23.5 million unrealized gain on the HealthEquity investment in WageWorks. Adjustments for the year ended January 31, 2019

include the elimination of $10.1 million of interest expense related to historical WageWorks indebtedness that is assumed to be repaid for pro forma purposes.

(d) Adjustment to record the income tax impacts of the pro forma adjustments using an assumed statutory tax rate of 24.0% for the year ended January 31, 2019 and the three months ended April 30, 2019. These rates do not reflect HealthEquity's effective tax rate, which includes other items and may differ from the rates assumed for purposes of preparing these statements.

## 9. Earnings Per Share

The unaudited pro forma combined basic and diluted earnings per share ("EPS") for the year ended January 31, 2019 and the three months ended April 30, 2019 are based on pro forma income reflecting the adjustments discussed above *divided by* the basic and diluted pro forma weighted-average number of common shares outstanding.

The unaudited pro forma basic EPS are calculated as follows:

| (in thousands, except per share amounts) | Year ended January 31, 2019 | Three months ended Apr. 30, 2019 |
|---|---|---|
| Pro forma net income | $ 30,904 | $ 12,135 |
| Pro forma basic weighted-average common shares outstanding | 68,144 | 68,634 |
| Pro forma basic EPS | $ 0.45 | $ 0.18 |

Should the underwriters fully exercise their option to purchase additional shares of common stock, which is limited to a maximum million additional shares, our pro forma weighted-average shares outstanding would increase by such amount, and would increase pro forma basic earnings per share from continuing operations by $0.01 per share for the year ended January 31, 2019 and decrease by $0.01 per share for the three months ended April 30, 2019, respectively.

The unaudited pro forma diluted EPS are calculated as follows:

| (in thousands, except per share amounts) | Year ended January 31, 2019 | Three months ended Apr. 30, 2019 |
|---|---|---|
| Pro forma net income | $ 30,904 | $ 12,135 |
| Pro forma diluted weighted-average common shares outstanding | 69,678 | 70,209 |
| Pro forma diluted EPS | $ 0.44 | $ 0.17 |

Should the underwriters fully exercise their option to purchase additional shares of common stock, which is limited to a maximum million additional shares, our pro forma weighted-average shares outstanding would increase by such amount, and would increase pro forma diluted earnings per share from continuing operations by $0.01 per share for the year ended January 31, 2019 and decrease by $0.01 per share for the three months ended April 30, 2019, respectively.

For pro forma purposes, the assumed grant of $33.4 million in restricted share units were not included in the calculation of weighted average number of shares as the assumed number of vested restricted share units do not have a material effect on the basic or diluted pro forma net income per share.